



Article

Analysis of Foreign Credit Lines of Business Development Bank JSCB

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Abstract: This study examines foreign credit lines extended through JSCB “Business Development Bank” of Uzbekistan with participation from the World Bank, Islamic Development Bank (IsDB), and European Investment Bank (EIB). The research employs a comparative case study methodology to analyze the financial structures, sectoral allocation, institutional requirements, and risk characteristics of these credit facilities. The findings reveal significant differences across the three financing models: the World Bank credit line features the longest maturity (10 years) and lowest foreign currency interest rate (11.4%), with a strategic focus on agricultural diversification; the IsDB credit line offers the highest financing ceiling (USD 3 million) but operates under Sharia-compliant principles prohibiting interest-based transactions; the EIB credit line provides the most flexible sectoral applicability with a moderate interest rate (12.4%). International experience demonstrates that the effectiveness of credit lines depends critically on proper design, monitoring frameworks, and institutional capacity. The study contributes to the literature on development finance by providing a systematic comparative analysis of three distinct international financing models operating in the same national context. The findings offer practical insights for policymakers and financial institutions seeking to optimize the utilization of foreign credit resources for sustainable economic development.

Keywords: foreign credit lines, international financial institutions, World Bank, Islamic Development Bank, European Investment Bank, financial intermediation, transition economy, Uzbekistan, development finance, credit assessment, Sharia-compliant financing, agricultural modernization.

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1. Introduction

In the context of globalization and increasing financial integration, the role of foreign credit lines has become critically important for supporting sustainable economic development, particularly in transition economies such as Uzbekistan. The modernization of the national economy, diversification of production, and strengthening of private sector activity require stable and long-term financial resources, which are often facilitated through international financial institutions and development banks.

In recent years, Uzbekistan has undertaken significant reforms aimed at liberalizing the financial sector and improving access to credit. As noted by G'ulomov S.S. in his research on financial system transformation, the expansion of external financing mechanisms plays a key role in enhancing investment activity and accelerating structural changes in the economy. Similarly, Abdullayev Yo.A. emphasizes that foreign credit lines serve as an essential instrument for bridging the gap between domestic savings and investment demand, particularly in developing economies.

Foreign credit lines provided through institutions such as the World Bank, Islamic Development Bank, and European Investment Bank contribute not only to capital inflows but also to the transfer of institutional practices, risk management standards, and financial discipline. According to Karimov I.A., sustainable economic growth in Uzbekistan is closely linked with the effective attraction and rational use of foreign investments, particularly in priority sectors of the economy.

From the standpoint of financial and credit theory, foreign credit lines can be interpreted as instruments of financial intermediation that facilitate the redistribution of international capital into productive sectors. As highlighted in the work of G'ozibekov D.G. and Nosirov E.I., the effectiveness of such financial instruments depends on their alignment with national development priorities, institutional capacity, and risk management mechanisms.

Despite the growing importance of foreign credit lines, there remains a need for a comprehensive analytical assessment of their conditions, sectoral focus, and economic implications. In particular, differences in interest rates, maturity structures, eligibility criteria, and underlying financial principles require systematic evaluation.

Therefore, this study aims to analyze the key characteristics of foreign credit lines provided through leading international financial institutions operating in Uzbekistan, assess their economic efficiency, and identify their role in supporting sustainable development and financial sector deepening.

Literature Review

Foreign credit lines as instruments of financial intermediation have been examined in contemporary financial literature. Altman and Saunders (1998) established fundamental principles of credit assessment, emphasizing that effective evaluation requires both quantitative and qualitative analysis.

The World Bank's approach to credit lines has been documented in institutional evaluations. The Independent Evaluation Group (IEG) found that while such instruments have significant development potential, their effectiveness depends critically on proper design and monitoring frameworks.

The Islamic Development Bank represents an alternative financing paradigm operating under Sharia-compliant principles. Unlike conventional mechanisms, Islamic finance prohibits interest-based transactions and employs profit-sharing arrangements (*mudaraba*) and cost-plus financing (*murabaha*).

The European Investment Bank has played a significant role in transition economies. Kersan-Škabić and Krtalić (1998) analyzed EIB lending for countries undergoing economic restructuring, highlighting its flexible, market-oriented approach.

The African Development Bank's Independent Development Evaluation (IDEV) conducted a synthesis of lines of credit operations (2010-2017), identifying that design is often not underpinned by sufficient analytical work and effectiveness is compromised by lack of reliable information.

Mardonova (2025) examined how IFIs evaluate borrower creditworthiness using indicators such as debt sustainability, fiscal performance, and governance quality.

2. Materials and Methods

This study employs a comparative case study approach, examining three foreign credit lines extended through JSCB "Business Development Bank" with participation from the World Bank, Islamic Development Bank, and European Investment Bank.

Data sources include official project documentation, credit line agreements, and publicly available information from participating international financial institutions.

Analytical framework evaluates credit lines across five dimensions: (1) financial structure, (2) sectoral allocation, (3) institutional requirements, (4) risk assessment, and (5) development alignment.

3. Results and Discussion

The effectiveness of foreign credit lines provided by international financial institutions and their impact on the economies of developing countries have been extensively studied in global academic literature. Research on credit risk assessment and

management has demonstrated that effective credit analysis requires a combination of quantitative and qualitative factors to determine a borrower's creditworthiness [1].

International experience shows that the development impact of credit lines is closely linked to their design, monitoring frameworks, and institutional environment. Evaluations conducted by the World Bank have found that while credit lines possess significant development potential, their effectiveness critically depends on proper design and monitoring mechanisms [2].

An examination of global experience with credit lines based on Islamic finance principles reveals that this financing model, unlike conventional credit mechanisms, operates on interest-free transactions and employs instruments such as profit-sharing (mudaraba) and cost-plus financing (murabaha) [3].

Research on the role of European Investment Bank (EIB) credits in transition economies demonstrates that this financial institution's flexible and market-oriented approach serves as an important factor in stimulating investment activity across various sectors [4].

A synthesis analysis of credit line operations conducted by the African Development Bank between 2010 and 2017 reveals that the design of credit lines is often not supported by sufficient analytical work, and their effectiveness is compromised by the lack of reliable information at the end-beneficiary level [5].

Local research has also examined the role of foreign credit lines in transition economies. It has been emphasized that international financial institutions consider factors such as debt sustainability, fiscal performance, and governance quality when assessing borrower creditworthiness [6].

Table 1. Project “Modernization of Agriculture of the Republic of Uzbekistan” with the participation of the World Bank (№9052-UZ, №6550-UZ)[7]

	Description
Purpose of Credit Line	Financing all sectors of agriculture across the Republic (excluding cotton and grain production)
Geographical Coverage	All regions of the Republic of Uzbekistan
Currency	Uzbek soum (UZS), US dollars (USD)
Loan Amount	- Up to USD 500,000 equivalent – for newly established enterprises - Up to USD 1,000,000 equivalent – for existing enterprises
Loan Term	Up to 10 years
Grace Period	Up to 3 years
Interest Rate	- In UZS: 20% - In USD: 11.4%
Source of Financing	With participation of the World Bank
Borrower Requirement	Must have a primary and/or secondary account at JSCB “Business Development Bank”
Debt Burden Requirement	Not exceeding 100%

The presented credit line, implemented with the participation of the World Bank, reflects a strategic approach to accelerating structural transformation in Uzbekistan's agricultural sector. Within the framework of financial intermediation, such credit mechanisms serve not only as a source of capital but also as an instrument for institutional modernization and efficiency enhancement [8].

From the perspective of financial economics, the design of this credit line demonstrates a targeted allocation of resources aimed at mitigating market imperfections, particularly capital constraints faced by small and medium-sized enterprises (SMEs). By excluding traditional sectors such as cotton and grain production, the program prioritizes

diversification and value-added agricultural activities, thereby aligning with broader economic reforms focused on reducing monoculture dependency.

The differentiation in loan ceilings—USD 500,000 for newly established enterprises and USD 1,000,000 for existing businesses—indicates a risk-adjusted financing model. This structure reflects the principle of asymmetric information, where established enterprises are perceived as less risky due to their operational history. At the same time, the relatively long maturity period (up to 10 years) combined with a grace period of 3 years enhances investment feasibility, particularly for capital-intensive agricultural projects with delayed returns [9], [10], [11].

Interest rate differentiation between national and foreign currency loans (20% in UZS versus 11.4% in USD) illustrates the impact of macroeconomic factors such as inflation expectations and currency risk. While lower USD-denominated rates may appear attractive, they introduce exchange rate risk for borrowers, which must be carefully managed within the framework of financial risk assessment.

Furthermore, the requirement that borrowers maintain accounts within the participating bank ensures transparency and strengthens financial discipline. The debt burden limitation (not exceeding 100%) acts as a prudential safeguard, preventing excessive leverage and contributing to the stability of both borrowers and the banking system.

This foreign credit line represents a comprehensive financial instrument that integrates development finance principles with market-based mechanisms. Its structure supports sustainable agricultural development, promotes efficient capital allocation, and enhances the resilience of the financial system. Such initiatives play a crucial role in deepening financial intermediation and fostering long-term economic growth in transition economies like Uzbekistan [12], [13].

Table 2. Credit Line under the Islamic Development Bank Participation

Indicator	Description
Purpose of Credit Line	Financing is strictly allocated to Sharia-compliant projects; funds are not provided for interest-based (riba), gambling (qimar), or working capital replenishment purposes
Geographical Coverage	All regions of the Republic of Uzbekistan
Currency	Uzbek soum (UZS), US dollars (USD)
Loan Amount	Up to USD 3,000,000 equivalent
Loan Term	Up to 7 years
Grace Period	Up to 3 years
Markup / Profit Rate	- In UZS: Not specified - In foreign currency: 11.2%
Source of Financing	With participation of the Islamic Development Bank
Borrower Requirement	Must have a primary account with JSCB "Business Development Bank"
Debt Burden Requirement	Not exceeding 100%

The credit line implemented with the participation of the Islamic Development Bank represents a distinct model of development financing grounded in Sharia-compliant principles. Unlike conventional credit mechanisms, this financing structure prohibits interest-based transactions (riba) and instead relies on profit-sharing or markup-based arrangements, thereby introducing an alternative paradigm in the financial intermediation process.

From the standpoint of financial and credit economics, this credit line contributes to the diversification of funding sources within the banking system of Uzbekistan. It expands access to finance for economic agents who adhere to Islamic financial principles, thus enhancing financial inclusion and broadening the institutional framework of the credit market.

The restriction of financing exclusively to Sharia-compliant projects ensures that resources are allocated to ethically and economically sustainable activities. By excluding speculative operations such as gambling and interest-based activities, the credit line aligns financial flows with real sector development. This reflects the theoretical concept of asset-backed financing, where financial transactions are closely linked to tangible economic activities, reducing systemic risk and speculative bubbles.

The relatively high financing ceiling (up to USD 3 million) indicates the orientation toward medium and large-scale investment projects, which can generate substantial economic value. However, the shorter maturity period (up to 7 years) compared to other international credit lines may impose stricter repayment discipline on borrowers. The presence of a grace period (3 years) partially mitigates this constraint by allowing projects to reach initial profitability before repayment obligations begin [14], [15], [16].

The markup rate of 11.2% in foreign currency reflects the cost of Islamic financing instruments in international markets. Unlike conventional interest rates, this markup is structured within trade-based or partnership contracts, which redistribute risk between the financial institution and the borrower. Such risk-sharing mechanisms are considered a key advantage of Islamic finance, as they promote greater financial stability and align incentives between parties.

Furthermore, prudential requirements such as maintaining a banking relationship with the participating institution and limiting the debt burden to 100% serve as important safeguards. These measures ensure creditworthiness, enhance monitoring, and reduce the likelihood of default, thereby supporting the overall resilience of the banking sector.

The Islamic Development Bank credit line introduces an alternative and complementary financing model that strengthens the diversity and stability of the financial system. Its emphasis on ethical financing, risk-sharing, and real-sector linkage makes it a significant instrument for sustainable economic development and effective credit allocation in Uzbekistan's evolving financial landscape.

Table 3. Credit Line under the European Investment Bank

Indicator	Description
Purpose of Credit Line	Financing for all purposes
Geographical Coverage	All regions of the Republic of Uzbekistan
Currency	Uzbek soum (UZS), US dollars (USD)
Loan Amount	Up to USD 3,000,000 equivalent
Loan Term	Up to 7 years
Grace Period	Up to 3 years
Interest Rate	- In UZS: Not specified - In foreign currency: 12.4%
Source of Financing	With participation of the European Investment Bank
Borrower Requirement	Must have a primary account with JSCB "Business Development Bank"
Debt Burden Requirement	Not exceeding 100%

The credit line implemented with the participation of the European Investment Bank represents a flexible and market-oriented financing instrument aimed at supporting broad-based economic development. Unlike more targeted or sector-specific credit lines, this mechanism is characterized by its universal applicability, allowing financing for all

types of economic activities. This approach reflects a liberalized model of financial intermediation, where resource allocation is primarily driven by market demand and investment viability [3], [17], [18].

From the perspective of financial and credit economics (specialization 08.00.07), this credit line enhances the efficiency of capital allocation by minimizing sectoral restrictions. Such flexibility enables enterprises across various industries to access financial resources, thereby fostering competition, innovation, and diversification within the economy. In contrast to more narrowly focused development programs, this model supports a wider range of investment projects, including industrial modernization, services, and infrastructure development.

The relatively high financing ceiling (up to USD 3 million) indicates a strategic focus on medium and large-scale enterprises capable of generating substantial economic returns. At the same time, the loan maturity of up to 7 years, combined with a 3-year grace period, creates a balanced financial framework that accommodates both investment needs and repayment capacity. This structure is particularly suitable for projects with medium-term payback periods.

The interest rate of 12.4% in foreign currency reflects prevailing international financial market conditions and risk assessments associated with lending in transition economies. Compared to other international credit lines, this rate may be considered moderately higher, suggesting a stronger emphasis on risk pricing and financial sustainability. Additionally, the absence of a specified rate in national currency indicates a possible reliance on market-based determination or supplementary agreements between the bank and borrowers.

Institutional requirements, such as maintaining a primary account with the participating bank and adhering to a debt burden limit of 100%, function as key risk management tools. These measures ensure borrower discipline, improve monitoring mechanisms, and reduce credit risk exposure within the banking system.

The European Investment Bank credit line embodies a market-driven and flexible approach to development financing. Its broad applicability, combined with relatively standardized financial conditions, makes it an effective instrument for stimulating investment activity across multiple sectors. Within the evolving financial system of Uzbekistan, such credit lines play a crucial role in strengthening financial intermediation, promoting private sector development, and supporting sustainable economic growth.

4. Conclusion

This study analyzed foreign credit lines extended through JSCB "Business Development Bank" of Uzbekistan with participation from the World Bank, Islamic Development Bank (IsDB), and European Investment Bank (EIB).

The findings reveal three distinct financing models. The World Bank credit line offers the longest maturity (10 years) and lowest foreign currency rate (11.4%), focusing on agricultural diversification. The IsDB credit line provides the highest ceiling (USD 3 million) under Sharia-compliant principles prohibiting interest-based transactions. The EIB credit line features the most flexible sectoral applicability with a moderate rate (12.4%).

International experience demonstrates that credit line effectiveness depends critically on proper design, monitoring frameworks, and institutional capacity.

Based on the analysis, the following recommendations are offered: strengthening monitoring and evaluation frameworks, expanding borrower capacity building programs, enhancing coordination among IFIs, and diversifying Islamic financing instruments.

Future research should assess actual development outcomes at the end-beneficiary level.

In conclusion, foreign credit lines represent a vital instrument for sustainable economic development in Uzbekistan. The diversity of financing models provides enterprises with multiple pathways to access international capital.

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