

# Project Administration Manual

Project Number: 47305-004

Loan Number: 3471-UZB (Additional Financing)

May 2018

## Uzbekistan: Horticulture Value Chain Development Project (Additional Financing)

**Important Note:** This Project Administration Manual is an active document. It will be updated and revised progressively as and when necessary during each review mission. The contents herein are intended to assist and facilitate project management and implementation. If there is any conflict with any other legal agreement(s) related to this project, the provisions in the legal agreements will prevail.

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBU	–	Central Bank of Uzbekistan
ESMS	–	environmental and social management system
GAP	–	gender action plan
HVCDP-AF	–	Horticulture Value Chain Development Project – Additional Financing
IFRS	–	International Financial Reporting Standards
MOF	–	Ministry of Finance
NPL	–	non-performing loans
PFI	–	participating financial institution
PIU	–	project implementation unit
PMO	–	project management office
RRA	–	Rural Restructuring Agency
RRP	–	Report and Recommendation of the President to the Board of Directors
SLA	–	subsidiary loan agreement
SOE	–	statement of expenditure

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### **Project Administration Manual Purpose**

The project administration manual (PAM) describes essential requirements for the Ministry of Finance, Rural Restructuring Agency (RRA) – the executing agency, and the participating financial institutions (PFIs) – implementing agencies to carry out the project in accordance with the loan and project agreements of the government of Uzbekistan and the PFIs and Asian Development Bank (ADB). The PAM provides relevant reporting requirements and instructions either through linkages to relevant URLs or direct reference.

The MOF, RRA and PFIs are wholly responsible for the implementation of the ADB-financed project, in accordance with the loan and project agreements entered into by the government and ADB and each PFI. ADB staff is responsible for supporting implementation including monitoring compliance by MOF, RRA, and each PFI.

At loan negotiations, the Government of Uzbekistan and ADB shall agree to the PAM and ensure consistency with the loan and project agreement. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the PAM and the loan and project agreements, the provisions of the loan and project agreements shall prevail.

After ADB Board approval of the project, changes in implementation arrangements are subject to agreement and approval by the Government of Uzbekistan, the PFIs and ADB and upon such approval, such changes will be incorporated in the updated PAM.

## I. PROJECT DESCRIPTION

1. The proposed additional financing will help the Government of Uzbekistan to scale up the existing project's support to horticulture value chain development in all 12 regions nationwide and the Republic of Karakalpakstan. It will increase the outreach of participating financial institutions (PFIs) and improve access to market-based bank finance for horticulture enterprises (farmers, agro-processing enterprises, owners and operators of cold storage facilities, and trading and logistics service suppliers). These will include both additional enterprises not financed under the existing project and enterprises already financed under the existing project to enable them to expand operations. The additional financing will enhance the impact of the existing project and further increase farm productivity, improve processing and storage capacity, and reduce post-harvest losses through upgrading and establishing intensive orchards, modern and efficient greenhouses, and processing, storage, and refrigeration facilities. This will, in turn, promote long-term economic and environmental sustainability, and enhance profitability for farmers and agribusiness enterprises.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

**Table 1: Project Readiness Activities<sup>a</sup>**

Indicative Activities	2018					Responsible
	May 18	Jun 18	Jul 18	Aug 18	Sep 18	
National feasibility study finalization <sup>b</sup>	▲					ADB and RRA
National feasibility study review by the government		▲				RRA
Government approval (issuance of government resolution)			▲			MOF
Loan and project agreements signing			▲			ADB, MOF, PFIs
Government legal opinion provided				▲		MOF and MOJ
Government budget inclusion				▲		MOF
Signing of the subsidiary loan agreements between MOF-RRA and PFIs				▲		MOF, PFIs
Loan effectiveness					▲	ADB

<sup>a</sup> Assuming Board approval in June 2018.

<sup>b</sup> The additional financing project will not require consulting service recruitment. The existing team under the original project will cover both the original and additional financing projects.

ADB = Asian Development Bank, MOF = Ministry of Finance, MOJ = Ministry of Justice, PFI = participating finance institution, RRA = Rural Restructuring Agency.

Source: Asian Development Bank staff estimates.

## B. Overall Project Implementation Plan

**Table 2: Project Implementation Plan**

Indicative Activities	2018				2019				2020				2021				2022			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
ADB executes loan agreement with the government and project agreements with the PFIs.																				
ADB starts disbursing project loan proceeds to PFIs																				
PFIs disburse subloans to qualified subborrowers																				
<b>Project Management Activities</b>																				
ADB review missions																				
Submission of quarterly progress reports																				
Submission of Project Completion Report																				

ADB = Asian Development Bank, ESMS = Environmental and social management system, PFI = participating financial institution; Q = quarter.

Source: Asian Development Bank.

## III. PROJECT MANAGEMENT ARRANGEMENTS

### A. Project Implementation Organizations: Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
Rural Restructuring Agency (Executing Agency)	<ul style="list-style-type: none"> <li>➤ Together with the Ministry of Finance, execute subsidiary loan agreements with the PFIs</li> <li>➤ Monitor PFIs' performance and compliance with project agreements against design and monitoring framework (DMF) targets</li> <li>➤ Coordinate capacity development activities with regard to PFIs and subborrowers</li> <li>➤ Monitor timely disbursement of ADB loan funds to PFIs</li> <li>➤ Monitor and ensure PFIs' compliance with eligibility criteria</li> <li>➤ Submit project completion report to ADB within 6 months from project closing date</li> </ul>
Participating financial institutions (PFIs) (Implementing Agencies)	<ul style="list-style-type: none"> <li>➤ Carry out credit origination in line with sound banking principles;</li> <li>➤ Monitor and ensure compliance with eligibility criteria for subborrowers, subprojects, and subloans</li> <li>➤ Select subloans in accordance with eligibility criteria set out in the project agreements</li> <li>➤ Establish environmental and social management systems and ensure that subborrowers comply with ADB's Safeguard Policy Statement (SPS) and applicable environmental, health and safety and social laws and regulations of the Republic of Uzbekistan</li> <li>➤ Manage financial reporting, accounting, and auditing of project-related activities</li> <li>➤ Designate dedicated staff for project implementation unit</li> <li>➤ Implement Gender Action Plan</li> <li>➤ Submit to ADB annual audited financial statements that include an audit management letter and an audit opinion on the use of loan proceeds, and the statement of the advance account</li> <li>➤ Submit to ADB quarterly progress reports within 30 days from the end of each quarter, and respond to other information requests</li> </ul>

Project implementation organizations	Management Roles and Responsibilities
	➤ Submit to ADB annual safeguards monitoring report in February each year
Asian Development Bank (ADB)	➤ Monitor project achievements as described in the DMF and compliance of MOF and the PFIs with covenants and safeguards as set out in loan and project agreements ➤ Conduct field reviews of implementation twice a year

## B. Key Persons Involved in Implementation

Executing Agency	
Ministry of Finance	Officer's Name: Nodir Khusanov Position: Head Foreign Assets and Liabilities Management Department Telephone: (+998 71) 239 1128 Email address: <a href="mailto:nkhusanov@mf.uz">nkhusanov@mf.uz</a> Office Address: 29, Istiqlol str., Tashkent 100017, Republic of Uzbekistan
Rural Restructuring Agency	Officer's Name: Ulugbek Matkarimov Position: Director General Telephone: (+998 71) 241 2002 Email address: <a href="mailto:info@rra.uz">info@rra.uz</a> Officer's Name: Bakhtiyor Kamalov Position: Deputy General Director Telephone: (+998 71) 241 2002 Email address: <a href="mailto:hvp@rra.uz">hvp@rra.uz</a> Office Address: 1A, Labzak str., Tashkent, 100004, Republic of Uzbekistan

Implementing Agencies	
Joint-Stock Innovation Commercial Bank "Ipak Yuli"	Officer's Name: Saidabror Saydakhmedov Position: Chairman of the Management Board Telephone: (+998 71) 140 6901 Email address: <a href="mailto:s.saidahmedov@ipakyulibank.uz">s.saidahmedov@ipakyulibank.uz</a> Officer's Name: Tursun Makhkamov Position: Head of Risk Management Telephone: (+998 71) 140 7804 Email address: <a href="mailto:t.makhkamov@ipakyulibank.uz">t.makhkamov@ipakyulibank.uz</a> Office Address: 2, A. Qodiriy Str., Yunusabad District 100017 Tashkent, Republic of Uzbekistan
Private Joint-Stock Commercial Bank "DAVR BANK"	Officer's Name: Shahruh Hakimov Position: Deputy Chairman of the Management Board Telephone: (+998 71) 248 3430 Email address: <a href="mailto:hakimovsh@davrbank.uz">hakimovsh@davrbank.uz</a> Office Address: Block A, Navoi-Zarqaynar Street., Tashkent, 100011, Republic of Uzbekistan
The National Bank for Foreign Economic Activity of the Republic of Uzbekistan (NBU)	Officer's Name: Bakhodir Djalilov Position: Deputy Chairman of the Management Board Telephone: (+998 71) 238 5672 Email address: <a href="mailto:bdjalilov@central.nbu.com">bdjalilov@central.nbu.com</a> Officer's Name: Obid Akhmedov Position: Head of Division on Coordination of Projects and Recording Credit Lines for Small Business Telephone: (+998 71) 234 4533, 234 0453 Email address: <a href="mailto:oahmedov@central.nbu.com">oahmedov@central.nbu.com</a>

	Office Address: 101, Amir Temur str., Yunusabad District, Tashkent, 100084, Republic of Uzbekistan
<b>Joint Stock Commercial Bank “Asaka”</b>	<p>Officer’s Name: Kakhramon Mullajanov  Position: Chairman of the Management Board  Telephone: (+998 71) 120 26 26, (+998 71) 120 8111  Email address: <a href="mailto:office@asakabank.uz">office@asakabank.uz</a></p> <p>Officer’s Name: Muzaffar Zaripov  Position: Head of Sector of Department for Foreign Economic Activity  Telephone: (+998 71) 120 26 97, (+998 71) 120 8167  Email address: <a href="mailto:ifiteam@asakabank.uz">ifiteam@asakabank.uz</a></p> <p>Office Address: 67, Nukus str., Mirabad District, Tashkent, 100015, Republic of Uzbekistan</p>
<b>Joint Stock Commercial Bank “Uzbek Industrial and Construction Bank” (Uzpromstroybank)</b>	<p>Officer’s Name: Shukhrat Yakubov  Position: Deputy Chairman of the Management Board  Telephone: (+998 71) 120 4595  Email address: <a href="mailto:info@uzpsb.uz">info@uzpsb.uz</a> , <a href="mailto:sh.yakubov.uz@gmail.com">sh.yakubov.uz@gmail.com</a></p> <p>Officer’s Name: Abdumajidov Abdurasul  Position: Head of Investment Projects Financing Division  Telephone: (+998 71) 120 4531, 120 4500 (ext.1109)  Email address: <a href="mailto:a.abdumajidov@uzpsb.uz">a.abdumajidov@uzpsb.uz</a></p> <p>Officer’s Name: Olim Bolgaev  Position: Head of Unit on Work with Financial Institutions  Telephone: (+998 71) 120 3571, 120 4500 (ext.1105)  Email address: <a href="mailto:o.bolgaev@uzpsb.uz">o.bolgaev@uzpsb.uz</a></p> <p>Office Address: 3, Shahrizabzskaya str., Yunusabad District, Tashkent, 100000, Republic of Uzbekistan</p>
<b>Joint Stock Commercial Mortgage Bank “Ipoteka Bank”</b>	<p>Officer’s Name: Sur’at Zakirov  Position: First Deputy Chairman of the Management Board  Telephone: (+998 71) 150 4888  Email address: <a href="mailto:info@ipotekabank.uz">info@ipotekabank.uz</a></p> <p>Officer’s Name: Ilkhom Mannonov  Position: Head of Project Finance Division  Telephone: (+998 71) 150 8961  Email address: <a href="mailto:ilxom.mannonov@ipotekabank.uz">ilxom.mannonov@ipotekabank.uz</a></p> <p>Office Address: 30, Shahrizabzskaya str., Mirzo Ulugbek District, Tashkent, 100000, Republic of Uzbekistan</p>
<b>Joint Stock Commercial Bank “Turon Bank”</b>	<p>Officer’s Name: Chori Mirzaev  Position: Chairman of the Management Board  Telephone: (+998 71) 244 3232  Email address: <a href="mailto:mirzaev_ch@turonbank.uz">mirzaev_ch@turonbank.uz</a></p> <p>Officer’s Name: Sultan Kaldibaev  Position: Director of Project Finance Department  Telephone: (+998 71) 202 0101 (ext.218), (+998 71) 244 27 95  Email address: <a href="mailto:kaldibaev_s@turonbank.uz">kaldibaev_s@turonbank.uz</a></p> <p>Office Address: 4A, Abay str, Shayhontohur District, Tashkent, 100011, Republic of Uzbekistan</p>

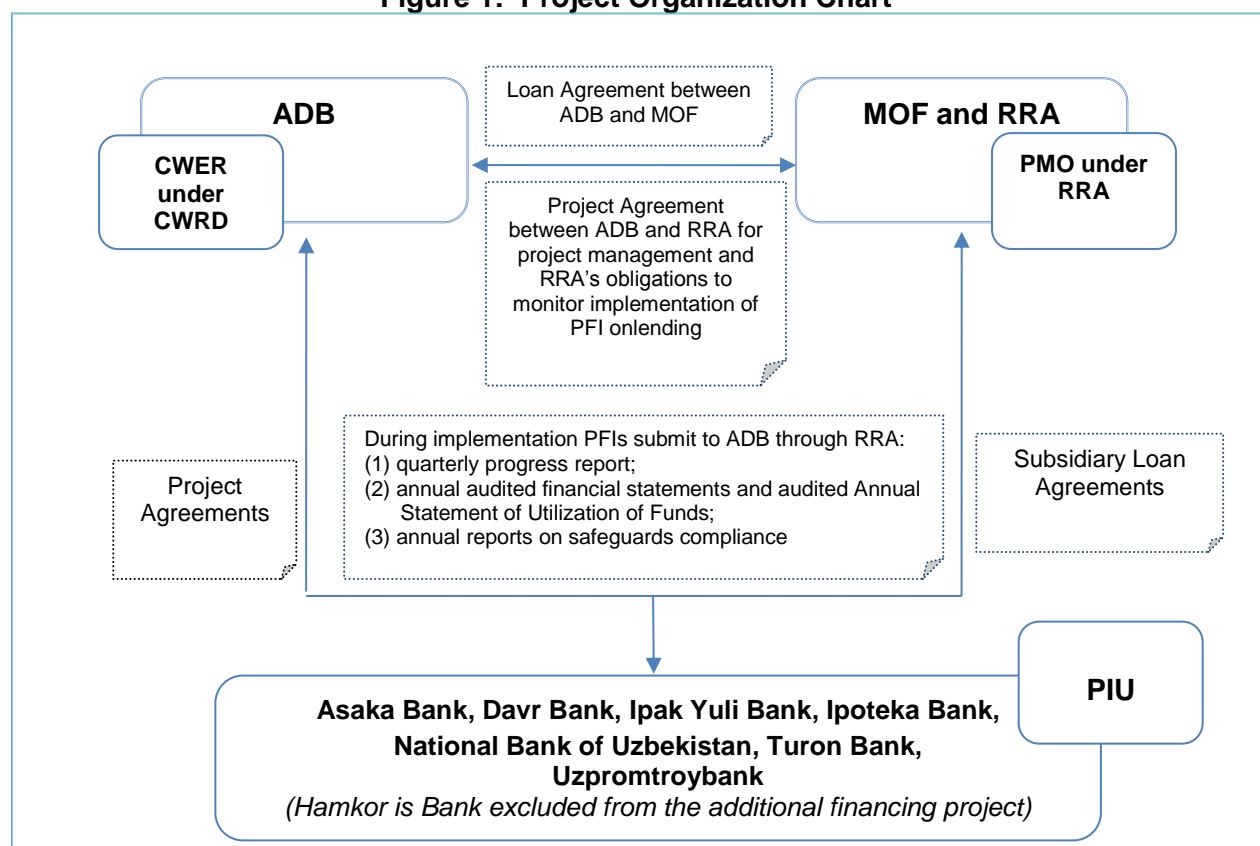
<b>Asian Development Bank</b>	
Environment, Natural Resources, and Agriculture Division (CWER); Central and West Asia Department	Natsuko Totsuka, Officer-in-Charge Telephone: +632 632 6234 Email address: <a href="mailto:ntotsuka@adb.org">ntotsuka@adb.org</a>
Project Team Leader	Bui Minh Giap, Senior Natural Resources and Agriculture Economist Telephone: +632 632 6900 Email address: <a href="mailto:buigm@adb.org">buigm@adb.org</a>



## C. Project Organization Structure

2. The project will follow the same organization structure as in the ongoing project such that for both the ongoing and additional financing projects the: (i) executing agency will be the Rural Restructuring Agency (RRA);<sup>1</sup> and (ii) project management office (PMO) established under the RRA will continue to assume the management and implementation function for the additional financing. The current PMO staff and operational budget is sufficient for monitoring the project implementation, including training, capacity development, and providing technical support to PFIs. PMO staff listed in Table 3 have been engaged for project management and implementation. These staff members will continue implementing the additional financing. Each PFI has established a project implementation unit (PIU) under its existing structure to oversee the implementation of the credit line activities at the respective PFIs. The project organization chart is in Figure 1.

**Figure 1: Project Organization Chart**



ADB = Asian Development Bank, CWER = Environment, Natural Resources, and Agriculture Division, CWRD = Central and West Asia Department, MOF = Ministry of Finance, PFI = participating financial institution, PIU = project implementation unit, PMO = project management office, and RRA = Rural Restructuring Agency.

Source: Asian Development Bank.

<sup>1</sup> RRA was established under the Ministry of Agriculture and Water Resources (MAWR) in the form of an incorporated agency as part of the government to facilitate the implementation of certain agriculture projects. As part of the ongoing reforms, MAWR was divided into the Ministry of Agriculture, and the Ministry of Water Resources in February 2018. The government issued a decree on 17 April 2018, which decides, among other things, to reorganize the RRA. Specifically, effective from 1 July 2018, the RRA and Center for Implementation of Investment Projects in Agriculture and Water Sectors will be merged to form the "Agency for Implementation of Projects in Agro-Industrial and Food Sectors". The newly-established agency will be under the Cabinet of Ministers of the Republic of Uzbekistan. The decree also states that the new agency will be the legal successor of the RRA and the Center for Implementation of Investment Projects in Agriculture and Water Sectors on their rights, obligations and contracts.

3. The PMO staff list is in Table 3.

**Table 3: Staff List of the Project Management Office**

<b>Staff Category/Title</b>	<b>Number of Staff</b>	<b>Person Month</b>	<b>Total Person-Months</b>
<b>A. Management staff</b>			
Director General (incremental)	1	6	<b>6</b>
Project Manager	1	60	<b>60</b>
Chief Accountant	1	60	<b>60</b>
Financial Specialist	1	60	<b>60</b>
Logistics Specialist/Economist	1	60	<b>60</b>
Marketing Specialist	1	60	<b>60</b>
Procurement Specialist	1	60	<b>60</b>
Credit Line Coordinator	1	60	<b>60</b>
Credit Specialist	1	60	<b>60</b>
Subprojects Monitoring Specialist	1	60	<b>60</b>
Monitoring and Evaluation Specialist	1	60	<b>60</b>
Environmental Specialist	1	60	<b>60</b>
Social Development and Gender Specialist	1	60	<b>60</b>
Legal Counsel	1	60	<b>60</b>
<b>Subtotal (A)</b>			<b>786</b>
<b>B. Support Staff</b>			
Interpreter	1	60	<b>60</b>
Office Manager/Secretary	1	60	<b>60</b>
Driver (2 persons)	2	60	<b>120</b>
Security Staff	1	60	<b>60</b>
Cleaner	1	60	<b>60</b>
<b>Subtotal (B)</b>			<b>360</b>
<b>Grand Total (A+B)</b>			<b>1,146</b>

Source: Asian Development Bank and Rural Restructuring Agency.

## **D. Eligibility Criteria for PFIs, Subborrowers, Subprojects and Subloans**

### **1. Eligibility Criteria for Participating Financial Institutions (PFI)**

#### **a. Introduction**

4. A financial institution wishing to participate in the implementation of the ADB-financed Horticulture Value Chain Development Project Additional Financing (HVCDP-AF) is required to qualify as a participating financial institution (PFI) by satisfying eligibility criteria specified in ADB's Operations Manual Bank Policies (OM D6/BP) of 2003, and undergoing a due diligence assessment based on operational, financial and management criteria defined in this document and incorporated into associated project documents. A PFI will also be required to sign a tripartite Subsidiary Loan Agreement (SLA) with the Ministry of Finance (MOF), Republic of Uzbekistan, and RRA. A PFI is required to satisfy the specified eligibility criteria both on commencement of and on an ongoing basis throughout the implementation of the project. Each PFI will be required to provide to RRA information to enable it to monitor its continued eligibility during implementation. ADB reserves the right to disallow disbursements from the credit facility to any PFI not conforming with any of the specified criteria until such time that the PFI is able to satisfy the criteria. The PFI will be required to remedy any noncompliance with eligibility criteria within 6 months of default and, in any event, within the disbursement period of the project. Terms and conditions of the SLA will take precedence over eligibility criteria defined in this document.

5. PFIs shall be assessed through a due diligence procedure in accordance with the requirements of ADB. During the detailed due diligence assessment, particular attention shall be given to the overall lending capabilities, and financial and loan portfolio performance. The PFI shall be required to have satisfactory financial and management structure, a satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, and the organization, management and technical staff and other resources required for the efficient operation of a financial institution.

#### **b. General Criteria**

6. In order to be eligible to access the project credit line, a PFI will be required at the time of accessing the facility and on an ongoing basis to:

- (i) be in compliance with all banking laws of Uzbekistan and prudential regulations of the Central Bank of Uzbekistan (CBU), including laws and regulations on anti-money laundering and combating the financing of terrorism;
- (ii) have sound, profitable performance in the three years preceding participation in the project credit line in the delivery of credit to clients engaged in the agriculture value chain, namely pre-production (farm technology, input and service supply), production, and post-harvest (storage, processing, marketing, etc.) of horticultural produce, defined as fruit, vegetables, nuts, and spices;
- (iii) have in place or be prepared to put in place lending policies and a strategy for lending to horticulture clients;
- (iv) be committed to onlending funds from the credit line to eligible clients (subborrowers), who are engaged in horticulture;
- (v) have or be willing to open branches in the districts covered by the project or to be able to ensure other ways of servicing potential subborrowers in those districts;
- (vi) have or be willing to engage and/or develop the necessary staff, knowledge, physical, and other resources to implement the project credit line; and
- (vii) undergo an annual audit that is conducted in accordance with the International

Standards of Auditing by an audit company acceptable to ADB for purposes of auditing financial institutions. Eligibility will depend upon the audit resulting in an unqualified audit opinion.

**c. Prudential Standards and Financial Performance Criteria**

7. In order to be eligible to access the project credit line, a PFI will ensure that it remains financially sound throughout the project implementation period.

**(i) Prudential Standards**

8. Specifically, it will be required at the time of accessing the credit line and on an ongoing basis to:

- (i) comply with the prudential regulations issued by CBU; and
- (ii) comply with CBU's measures for corporate governance of financial institutions, which include (a) corporate governance structures that promote effective identification, monitoring, and management of all material business risks, (b) systems for ensuring compliance with all statutory and regulatory requirements, (c) implementation of financial disclosure requirements for market participants and observers, and (d) setting of corporate governance objectives, strategies, and techniques.

**(ii) Financial Performance**

9. Specifically, it will be required at the time of accessing the facility and on an ongoing basis to:

- (i) comply with the prudential regulations issued by CBU with regard to capital adequacy;
- (ii) maintain a return on average assets ratio of not less than 1%, where the return on average assets ratio is defined as net income after tax divided by its average total assets in a financial year;
- (iii) maintain a cost to income ratio of under 75%, where the cost to income ratio is calculated as the total of operating expenses plus non-operating expenses divided by the total of operating income plus non-operating income;
- (iv) maintain a maximum ratio of the value of net non-performing loans (NPLs) to the total value of loans outstanding of 5%, where net NPLs are defined as total NPLs minus reserves, and an NPL is any loan for which a repayment of principal or payment of interest has been overdue for a period of more than 90 days after the due date;
- (v) maintain a maximum limit on exposure to a single borrower or group of related borrowers of 25%, where the limit is calculated as an individual exposure divided by the total value of outstanding loans;
- (vi) maintain a maximum limit on the portfolio exposure to one insider (defined as members of the Supervisory Board and the Management Board of a PFI, employees in management position and shareholders with voting rights in excess of 10%) of 25% and an aggregate portfolio exposure to all insiders of 100% of Tier 1 capital as defined by CBU regulations; and
- (vii) have a positive net income for the current and two immediately preceding financial years.

10. The financial ratios specified above will be as reported in the PFIs management accounts

in accordance with the International Financial Reporting Standards (IFRS), and the capital adequacy ratio in accordance with the Basel Committee on Banking Supervision (Basel III) methodology.

#### **d. Governance and Management Criteria**

11. In order to be eligible to access the project credit line, a PFI will be required at the time of accessing the facility and on an ongoing basis, as assessed by ADB, to:

- (i) have a Supervisory Board responsible for setting the overall bank policy and performing appropriate oversight of the PFI's operations;
- (ii) have a qualified and capable management team;
- (iii) have a sound business plan and appropriate budgeting and budget control procedures;
- (iv) have an acceptable asset quality and management policies, procedures, and staff capacity;
- (v) have sound lending policies and procedures in respect of the entire credit cycle, problem loan management, write-off of assets, credit approval authority, etc.;
- (vi) have effective risk management and adequate processes and/or procedures (e.g., credit risk manual) that cover the credit and market (e.g., interest rate and foreign exchange) risks, asset-liability risk, and operational risk. The PFI should have the control structure and capacity to systematically evaluate and/or conduct risk appraisal, asset-liability management, internal control, and compliance;
- (vii) have satisfactory internal control and audit procedures, including accounting principles and procedures, financial documents, internal controls and reporting, and operational controls, confirmed by an audit company acceptable to ADB for purposes of auditing financial institutions;
- (viii) not to be exposed to undue interest rate risk, as confirmed by the annual financial statements audited by an audit company acceptable to ADB for purposes of auditing financial institutions;
- (ix) have an internal reporting and management information system capable of providing sufficient information necessary for managing the PFI's operations, performance, and risks;
- (x) have an environmental and social management system (ESMS) in place in compliance with ADB's Safeguard Policy Statement (2009);
- (xi) ensure that the ESMS incorporates (a) third party monitoring of subprojects, (b) guidelines for site visits to subproject sites, and (c) a tracking system of subprojects;
- (xii) ensure that adequately qualified and trained staff are designated to manage the ESMS; and
- (xiii) monitor and supervise the implementation of subborrowers' subprojects financed through the credit facility.

#### **2. Eligibility Criteria for Subborrowers**

12. It will be the responsibility of the PFI to ensure that subborrowers at all times satisfy the criteria defined below. Where a subborrower during the term of a subloan fails to comply with the specified criteria, the PFI will take appropriate steps to ensure immediate compliance. Where noncompliance continues, the PFI will implement measures in accordance with the SLA.

13. In order to be eligible to access subloans through a PFI, a subborrower will be required at the time of accessing the credit facility and on an ongoing basis to:

- (i) be an entity of entrepreneurial activities established and registered in accordance with applicable laws of Uzbekistan, and be in compliance with all laws and regulations of Uzbekistan; and
- (ii) not be a related party with respect to the PFI under the laws of Uzbekistan and the regulations of CBU.

14. A PFI will be responsible for conducting due diligence on prospective subborrowers in accordance with the PFI's prevailing credit and risk management policies and procedures, and following appropriate commercial banking criteria together with past and ongoing environmental performance. In the event that such due diligence is not undertaken or is not undertaken in with appropriate degree of rigor, the subborrower may be required to immediately repay to the PFI any funds disbursed and the PFI to repay such funds to MOF, in accordance with the terms of the SLA.

### **3. Eligibility Criteria for Subprojects**

15. Subprojects to be financed by subloans will be required to meet the following criteria:
- (i) relate to one of the following: (a) manufacture and/or supply of farm technology, machinery and infrastructure, and the supply of farm inputs and services appropriate to the production of horticultural produce; (b) production of horticultural produce; or (c) post-harvest handling, storage, processing, and marketing of horticultural produce;
  - (ii) do not involve in any involuntary resettlement or indigenous peoples impacts, all within the meaning of the SPS;
  - (iii) do not involve any environmental impacts, which can be categorized as Category A, all within the meaning of the SPS or class 1 or 2 of all applicable laws and regulations of the borrower relating to the environment;
  - (iv) are not included in the list of prohibited investment activities set out in Appendix 5 of the SPS; and
  - (v) do not involve mining or genetically modified organisms.

### **4. Eligibility Criteria for Subloans**

16. Subloans to be provided under the credit facility will be required to meet the following criteria:
- (i) does not exceed the maximum subloan amount of \$5,000,000 equivalent;
  - (ii) is used for investment purposes (being purchase of capital assets) only and not for financing of working capital;
  - (iii) has a maximum tenor of 10 years;
  - (iv) carries interest at a market-based rate as determined by the relevant PFI based on its prevailing risk management policies and procedures;
  - (v) is secured or collateralized with realizable and otherwise unencumbered assets with a value of at least 125% of the subloan; and
  - (vi) requires a minimum debt service coverage ratio of 1.2.

## **E. Qualified Participating Financial Institutions**

17. The following ADB eligibility criteria have been used for selection of PFIs: (i) financial soundness as evidenced by adequate capital, asset quality, liquidity, and profitability; (ii) adequate credit and risk management policies, operating systems, and procedures; (iii) compliance with

prudential regulations, including exposure limits; (iv) acceptable corporate and financial governance and management practices including, among other things, transparent financial disclosure policies and practices; (v) sound business objectives and strategy and/or plan; (vi) autonomy in lending and pricing decisions; and (vii) adequate policies, systems, and procedures to assess and monitor the economic, social, and environmental impact of subprojects in accordance with parameters established by ADB.

18. Seven (7) of eight (8) PFIs implementing the ongoing project expressed their interest in participating the project. They are (i) Asaka Bank, (ii) Davr Bank, (iii) Ipak Yuli Bank, (iv) Ipoteka Bank, (v) National Bank of Uzbekistan, (iv) Turon Bank, and (vii) Uzpromstroybank.<sup>2</sup> Based on detailed eligibility criteria for PFIs in Section D.1 (above) and seven (7) criteria set forth in ADB's OM D6/BP,<sup>3</sup> these PFIs underwent comprehensive due diligence by ADB, and for the most part comply with CBU prudential regulations and meet ADB's eligibility requirements for financial intermediaries and ADB-determined financial covenants. To address areas of minor noncompliance, PFIs will be required to implement action plans for financial covenants, as indicated in the financial management section of the PAM. During the project implementation period, other financial institutions may participate in the project subject to detailed financial and integrity due diligence, eligibility, and availability of fund.

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<sup>2</sup> Hamkorbank declined to participate in the additional financing for horticulture since, prior to the proposal for additional financing, it had entered into agreements with other international financial institutions to access funding under new projects. As such, the bank was concerned that participation in the ADB additional financing may undermine its compliance with CBU regulations and ADB financial covenants. There is no indication that this decision was based on any deterioration in its financial status.

<sup>3</sup> Seven (7) eligibility criteria for selection of a PFI are set out in para. 8 of ADB. 2008. Financial Intermediation Loans. *Operations Manual*. OM D6/BP. Manila.

## IV. COSTS AND FINANCING

### A. Allocation and Withdrawal of Loan Proceeds

19. The government has requested a concessional loan of \$198 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements. Subborrowers will contribute \$60 million as their equity contribution for subprojects financed by the loan, and the government will contribute \$68 million, including \$60 million through exemptions of taxes and duties for imported goods, and \$8 million for interest charges during implementation.<sup>4</sup>

20. The government will onlend the loan proceeds in United States (US) dollars to PFIs through subsidiary loan agreements that satisfy ADB's eligibility criteria set out in the PAM and the loan and project agreements.<sup>5</sup> The government is expected to onlend the loan proceeds to PFIs for a tenure of 20 years and a grace period of 3 years. The government's onlending rate will be the interest rate charged by ADB for the loan plus an appropriate margin to cover administrative and risk costs.<sup>6</sup>

21. PFIs' subloans may be issued in US dollars and/or local currency, and priced by PFIs at market rates that cover risks related to foreign exchange, credit, maturity, and interest rates. Subloan repayment may be in US dollars and/or local currency subject to the subborrowers' demand and subprojects' revenue streams, as well as specific agreements between PFIs and subborrowers. Subloans extended by PFIs will have a tenor of up to 10 years. PFIs will revolve subloan repayments to finance additional subloans during the 20-year tenor of loans received from the government. PFIs will determine the creditworthiness of subborrowers and assume the full credit risk. The maximum subloan size will be \$5 million based on prospective demand of PFIs' clientele. Allocation of loan proceeds is in Table 4.

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<sup>4</sup> PFIs will determine subborrower equity contributions based on the nature of the credit risk, which, depending on each PFI's credit policy, would be equivalent to at least 25% of the subproject cost.

<sup>5</sup> Based on each PFI absorptive capacity, tentative allocation of loan proceeds is as follows: Asaka Bank (\$40 million), Davr Bank (\$6 million), Ipak Yuli Bank (\$20 million), Ipoteka Bank (\$22 million), National Bank of Uzbekistan (\$50 million), Turon Bank (\$40 million), and Uzpromstroybank (\$20 million).

<sup>6</sup> The government will charge the interest on the ADB loan plus 1% per year to the PFIs. The PFIs' interest rates carry the cost for (i) loan origination, (ii) provision of foreign exchange to service ADB loan, and (iii) credit risk and related capital charges.



**Table 4: Allocation and Withdrawal of Loan Proceeds**

		CATEGORY		ADB COL FINANCING
Number	Item	Amount Allocated [\$]		Percentage and Basis for Withdrawal from the Loan Account
		Category	Sub- Category	
1	Credit Lines to Participating Financial Institutions	198,000,000		
1A	Financing of Subloans– National Bank of Uzbekistan <sup>a</sup>		50,000,000	100 percent of total expenditure claimed
1B	Financing of Subloans– Uzpromstroybank <sup>a</sup>		20,000,000	100 percent of total expenditure claimed
1C	Financing of Subloans– Asaka Bank <sup>a</sup>		40,000,000	100 percent of total expenditure claimed
1D	Financing of Subloans– Ipoteka Bank <sup>a</sup>		22,000,000	100 percent of total expenditure claimed
1E	Financing of Subloans– Ipak Yuli Bank <sup>a</sup>		20,000,000	100 percent of total expenditure claimed
1F	Financing of Subloans– Turon Bank <sup>a</sup>		40,000,000	100 percent of total expenditure claimed
1G	Financing of Subloans– Davv Bank <sup>a</sup>		6,000,000	100 percent of total expenditure claimed
	<b>Total</b>	<b>198,000,000</b>		

COL = ordinary capital resources (concessional loan), PFI = participating financial institution.

<sup>a</sup>Subject to the disbursement conditions set forth in Schedule 2 of the Loan Agreement and the Schedule of the project agreements with PFIs.

Source: Asian Development Bank estimates.

22. Table 4 also presents preliminary credit line allocations to each qualified PFI based on the ability to absorb the ADB's loan fund and the capacity to disburse subloans among others. The Loan Agreement provides that the government shall reallocate the funds among the PFIs in a manner acceptable to ADB should there be a change in the composition of the PFIs or a need to reallocate the proceeds of the ADB loan.

## B. Detailed Cost Estimates

**Table 5: Detailed Cost Estimates by Financier**

Unit: \$'000

	ADB COL /c		The Government		Subborrowers		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>I. Investment Costs</b>								
A. Credit Lines to PFIs /a	198,000.0	100.0	0.0	0.0	0.0	0.0	198,000.0	62.3
B. Subborrower's Contribution	0.0	0.0	0.0	0.0	60,000.0	100.0	60,000.0	18.9
C. Government's Contribution	0.0	0.0	60,000.0	100.0	0.0	0.0	60,000.0	18.9
<b>Total Investment Costs</b>	<b>198,000.0</b>	<b>62.3</b>	<b>60,000.0</b>	<b>18.9</b>	<b>60,000.0</b>	<b>18.9</b>	<b>318,000.0</b>	<b>97.5</b>
<b>II. Recurrent Costs /b</b>								
A. Incremental Staff	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Office Operation and Transportation Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Training and Technical Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Allocations for Follow-on Project Preparation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Recurrent Costs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Interest During Implementation	0.0	0.0	8,000.0	0.0	0.0	0.0	8,000.0	2.5
<b>Total PROJECT COSTS</b>	<b>198,000.0</b>	<b>60.7</b>	<b>68,000.0</b>	<b>20.9</b>	<b>60,000.0</b>	<b>18.4</b>	<b>326,000.0</b>	<b>100.0</b>

/a Participating Financial Institutions

/b The project will utilize recurrent budget allocation of the current project

/c Ordinary capital resources (concessional loan)

Source: ADB estimates

## C. Contract Awards and Disbursement S-Curves

23. The initial allocation of the ADB loan to PFIs is presented in Table 4 (under Allocation and Withdrawal of Loan Proceeds). The Loan Agreement provides that the government shall reallocate the funds among the PFIs in a manner acceptable to ADB should there be a change in the composition of the PFIs or a need to reallocate the proceeds of the ADB loan. The projected disbursement and contract awards will be confirmed with the MOF, RRA, and PFIs during the ADB inception mission and the PAM will be updated accordingly. The contract awards and disbursement S-curves are in Table 6.

**Table 6: Projections for Contract Awards and Disbursement**

ADB's Concessional OCR Loan (\$ million)										
Projections for Contract Awards						Projections for Disbursement				
Year	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2018	0.0	0.0	0.0	0.0	<b>0.0</b>	0.0	0.0	0.0	9.9	<b>9.9</b>
2019	4.0	8.0	10.0	15.0	<b>37.0</b>	20.0	20.0	10.0	29.2	<b>79.2</b>
2020	50.0	40.0	14.0	11.0	<b>115.0</b>	20.0	20.0	10.0	19.3	<b>69.3</b>
2021	8.0	8.0	8.0	8.0	<b>32.0</b>	20.0	10.0	9.6	0.0	<b>39.6</b>
2022	6.0	5.0	3.0	0.0	<b>14.0</b>	0.0	0.0	0.0	0.0	<b>0.0</b>
<b>Total</b>	<b>68.0</b>	<b>61.0</b>	<b>35.0</b>	<b>34.0</b>	<b>198.0</b>	<b>60.0</b>	<b>50.0</b>	<b>29.6</b>	<b>58.4</b>	<b>198.0</b>

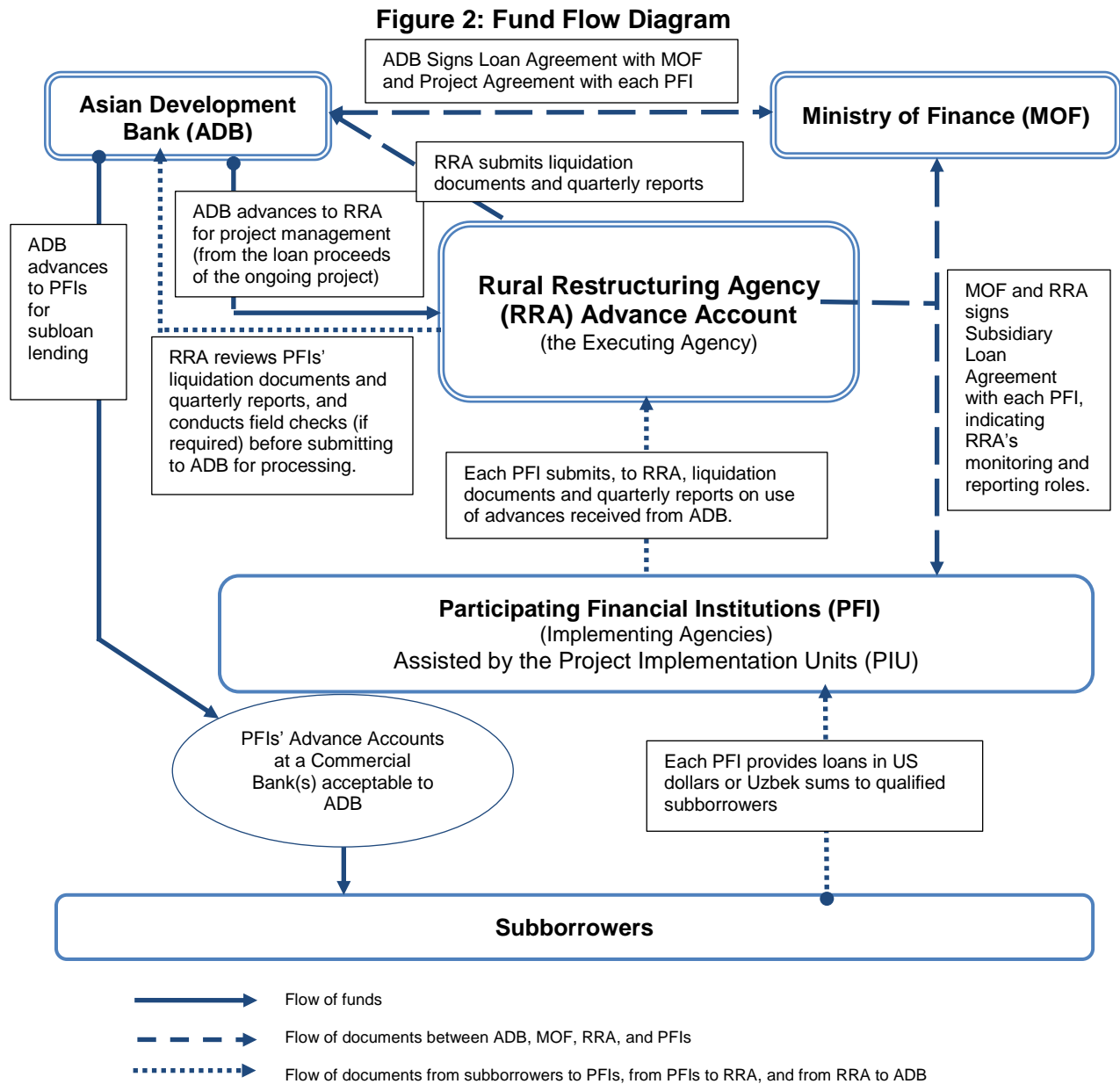
  

\$ million

Year

Note: The contract award curve runs under the disbursement curve since "contract awards" correspond to subloan liquidation [i.e., after fund advance (disbursement) to participating financial institutions].  
Source: ADB estimates

D. Fund Flow Diagram



ADB = Asian Development Bank, MOF = Ministry of Finance, PFI = participating financial institution, PIU = project implementation unit, PMO = project management office, RRA = Rural Restructuring Agency.

## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

#### 1. Implementation of Financial Management Action Plans under the Ongoing Project

24. A number of actions were proposed to be undertaken during implementation of the ongoing project to address each PFI's and RRA's financial management limitations identified during the preparation of the project. The status of compliance with the proposed actions as of 31 December 2017 is provided in Table 7. The status will be updated in October 2018.

**Table 7: Financial Management Action Plans under the Ongoing Project**

Participating Financial Institution and Actions	Original Date for Compliance	Status of Compliance (as of 31 December 2017)
<b>National Bank of Uzbekistan</b>		
Recruit qualified accounting staff with IFRS experience	Q1 2018	Not yet due; ongoing.
Develop and implement IFRS training	Q1 2018	Complied. External IFRS training is conducted twice a year through the Singapore Institute of Management, Banking and Finance Academy, Regional Banking Training Center.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Develop and implement internal audit training	Q1 2018	Not yet due; ongoing.
Procure/implement risk management software	Q1 2018	Not yet due; ongoing. The bank will install Systems, Applications and Products (SAP) software to replace internally-developed software.
<b>Uzpromstroybank</b>		
Recruit qualified accounting staff with IFRS experience	Q1 2018	Not yet due; ongoing.
Develop and implement IFRS training	Q1 2018	Not yet due; ongoing.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Develop and implement internal audit training	Q1 2018	Not yet due; ongoing.
<b>Asaka Bank</b>		
Improve monitoring of foreign currency positions	Q1 2018	Complied. Open foreign currency position is in compliance with CBU maximum.
Recruit qualified accounting staff with IFRS experience	Q1 2018	Not yet due; ongoing

<b>Participating Financial Institution and Actions</b>	<b>Original Date for Compliance</b>	<b>Status of Compliance (as of 31 December 2017)</b>
Develop and implement IFRS training	Q1 2018	Not yet due; ongoing. The bank has started the process of hiring one of the Big Four accounting firms in January 2018 to undertake staff IFRS training, after evaluation of bids.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Develop and implement internal audit training	Q1 2018	Not yet due; ongoing The bank plans to send staff for internal audit training and certification within Q1 2018.
<b>Ipoteka Bank</b>		
Recruit staff in key credit, accounting and financial reporting areas	Q1 2018	Complied. Credit staff increased from 491 in 2015 to 675 in 2017 Accounting staff increased from 467 in 2015 to 502 in 2017.
Improve monitoring for foreign currency positions	Q1 2018	Complied. Open foreign currency position is in compliance with CBU maximum.
Expand IFRS training	Q1 2018	Not yet due; ongoing.
<b>Hamkorbank<sup>a</sup></b>		
Improve foreign currency risk management	Q1 2018	Complied. Open foreign currency position is in compliance with CBU maximum.
Develop and implement IFRS training	Q1 2018	Not yet due; ongoing.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Complied. Two staff in risk management have Global Association of Risk Professionals (GARP) certification.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Complied. 22 internal audit staff attended the Ernst & Young's training course "Internal Audit I: Risk-based approach" and obtained certificates One risk management staff passed the Financial Risk Manager GARP course and will receive Financial Risk Manager certification in 2018 One risk management staff passed the GARP "Risk Certification Program" course.
<b>Ipak Yuli Bank</b>		
Recruit qualified accounting staff with IFRS experience	Q1 2018	Not yet due; ongoing.

<b>Participating Financial Institution and Actions</b>	<b>Original Date for Compliance</b>	<b>Status of Compliance (as of 31 December 2017)</b>
Develop and implement training in IFRS	Q1 2018	Complied. Accounting staff participated in courses organized by the Singapore Institute of Management, Banking and Finance Academy, Regional Banking Training Center and by the Big Four accounting firms in Tashkent Risk management staff participate in Certified Accountant Practitioner (CAP) and Certified International Professional Accountant (CIPA) certification programs.
Develop and implement training in risk management	Q1 2018	Partially complied; ongoing. The bank is installing SAP software for which risk management staff undergo training.
<b>Turon Bank</b>		
Separate the functions currently assigned to the risk management department to enhance risk management	Q1 2018	Not yet due; ongoing.
Develop and implement IFRS training	Q1 2018	Not yet due; ongoing. The bank plans to send staff for IFRS training at the National Association of Accountants and Auditors in Q1 2018.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
<b>Davr Bank</b>		
Separate the functions currently assigned to the risk management department to enhance risk management	Q1 2018	Complied.
Develop and implement training in IFRS	Q1 2018	Complied. 12 staff of the Accounting and Internal Audit departments attended IFRS training organized by the National Association of Accountants and Auditors 2 staff participated in a CAP/CIPA certification program In addition, a special unit on IFRS issues has been established within the Accounting Department.
Recruit staff with internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.
Support existing staff to obtain internal audit and risk management qualification/certification	Q1 2018	Not yet due; ongoing.

Participating Financial Institution and Actions	Original Date for Compliance	Status of Compliance (as of 31 December 2017)
<b>Rural Restructuring Agency</b>		
Include comparison of actual and budgeted expenditure in the accounting system	Q1 2018	Not yet due; ongoing. Planned for completion in Q2 2018
Recruit IPSAS qualified accounting staff and/or support existing accounting staff to obtain IPSAS qualification/certification	Q1 2018	Not yet due; ongoing.
Develop and implement training plan for external and internal training on IPSAS for accounting staff	Q1 2018	Not yet due; ongoing.

CBU = Central Bank of Uzbekistan, IFRS = International Financial Reporting Standards, IPSAS = International Public-Sector Accounting Standards, Q = quarter.

<sup>a</sup> Hamkorbank will not participate in the proposed additional financing.

Source: Asian Development Bank.

## 2. Financial Management Assessment for Additional Financing Project

25. A financial management assessment (FMA) of RRA and PFIs for HVCDP-AF was conducted between October and November 2017 in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects,<sup>7</sup> ADB's Financial Due Diligence: A Methodology Note,<sup>8</sup> and ADB's Technical Guidance Note on Financial Management Assessment.<sup>9</sup> The FMA covered the role of RRA as the executing agency for the project and seven (7) PFIs as implementing agencies for the additional financing project, namely, (i) National Bank of Uzbekistan, (ii) Uzpromstroybank, (iii) Asaka Bank, (iv) Ipoteka Bank, (v) Ipak Yuli Bank, (vi) Turon Bank, and (vii) Davr Bank. The assessment concluded that RRA and all PFIs have adequate capacity to administer advance account procedures with the 6 month-expenditure limit proposed and the Statement of Expenditure (SOE) procedures with the proposed ceiling for individual transaction limit as described in the disbursement procedure.

26. No new financial management actions are required for the additional financing project, other than those indicated as "not yet due" in Table 7. The assessment of (non-) compliances and ongoing required actions have been discussed and agreed with each related PFI and RRA, which have committed to implement these actions by end Q2 2018.

27. **Rural Restructuring Agency.** Based on the assessment of RRA, there are no significant financial management risks in respect of RRA's proposed role in project management under HVCDP-AF. RRA has significant experience in the implementation of projects financed by ADB, the World Bank, and other international financial institutions. The financial management arrangements in place for those projects are appropriate for HVCDP-AF. RRA is institutionally capable and familiar with projects of a similar nature. Based on lessons learnt from previous ADB-financed projects with RRA as the executing agency, the following features have been included in the project design to preempt potential procurement issues: (i) 100% of the loan proceeds will be channeled directly to PFIs through advance accounts established at commercial banks acceptable to ADB, and not through RRA; (ii) RRA is only tasked with project management and implementation activities to monitor subblending, compliance with safeguards, gender, financial covenants, financial auditing, and capacity building and technical support to PFIs and subborrowers. There is no new fund allocation to RRA for project management and

<sup>7</sup> ADB. 2005. *Guidelines for the Financial Management and Analysis of Project*. Manila.

<sup>8</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>9</sup> ADB. 2015. *Financial Management Technical Guidance Note*. Manila.



implementation activities since the corresponding budget of the ongoing project is sufficient for such activities; and (iii) the Borrower covenants were included in the loan agreement of the ongoing project to ensure that RRA has sufficient funds to satisfy its liabilities arising from any goods and/or consulting services contracts.

28. **Participating Financial Institutions.** No key financial management risks exist in relation to the proposed PFIs that would undermine implementation of the project. Several of the PFIs have limitations in staffing in respect of accounting, internal audit, and risk management. Some PFIs also have other minor financial management limitations. However, these limitations have not adversely affected the implementation of other projects or the delivery of credit funds financed by government or international financial institutions. No specific actions are required to address PFIs' financial management limitations prior to the withdrawal of funds by PFIs.

29. In addition to financial management action plans, PFIs must comply with all CBU prudential regulations,<sup>10</sup> ADB eligibility criteria for financial intermediaries, and ADB loan financial covenants throughout project implementation. The assessment of compliance will be based on a PFI's CBU call reports and financial statements prepared according to IFRS for the year ending 31 December. For specific PFIs which have operational and/or regulatory indicators that are not fully compliant with CBU prudential regulations and/or ADB financial covenants as of end Q4 2017, actions planned to ensure compliance by end Q2 2018 are in Table 8.

**Table 8: PFI's Action Plans to Achieve Compliance with Central Bank of Uzbekistan Prudential Regulations and ADB Loan Financial Covenants**

<b>PFI</b>	<b>Non-compliance Issue at end Q4 2017</b>	<b>Action(s) Proposed<sup>a</sup></b>
Uzpromstroybank	Return on assets at 0.6% is below the ADB requirement of 1.0%	Increase share of deposits in total funding and reduce staff costs by end Q2 2018 so that return on assets reaches 1.0% by end Q2 2018.
Asaka Bank	Return on assets at 0.8% is below the ADB requirement of 1.0%	Increase share of deposits in total funding and reduce staff costs by end Q2 2018 so that return on assets reaches 1.0% by end Q2 2018.
Turon Bank	Cost to income ratio is 80.5% compared with the ADB requirement of a maximum of 75.0%	Increase share of loan portfolio (earning assets) in total assets from 58% (end Q3 2017) to at least 65% (end Q2 2018) to comply with ADB requirement for a maximum cost to income ratio of 75% by end Q2 2018.
Davr Bank	Provisioning of substandard loans is 7.6% compared with the CBU minimum of 10.0%	This ratio reporting was due to an internal software error which incorrectly accrues loan loss provisions. This error has been addressed and compliance was achieved on 31 January 2018.

<sup>a</sup> Action(s) proposed have been discussed and agreed with each related participating financial institution.

Source: Asian Development Bank.

<sup>10</sup> CBU prudential regulations are presented in Supplementary Document 20B (Annex Table A1), available on request.

## B. Disbursement

30. In order to expedite the disbursement process for the proposed project, the ADB's SOE procedures for financial intermediary (FI) loans will be applied. The disbursement arrangements are described below, and the fund flow diagram is in Figure 2.

31. **Disbursement Processing Sequence.** The following disbursement sequence will be followed:

- (i) PFI prepares the six-month's disbursement projections (based on estimates of market demand for potential horticulture-related subloans) for ADB's project division (CWER) endorsement;
- (ii) PFI submits a withdrawal application for advance after confirming that all the disbursement conditions have been met, and the six-month's disbursement projections to RRA for checking and transmission to ADB;
- (iii) ADB reviews the withdrawal application and makes necessary advance to PFI's advance account opened at a commercial bank acceptable to ADB;<sup>11</sup> and
- (iv) PFI disburses subloans.

32. The ADB's loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. The PFIs will be responsible for preparing disbursement projections; collecting and retaining supporting documents; and preparing and sending the list of approved subloans and withdrawal applications to RRA. RRA will be responsible for checking and submitting the PFIs' disbursement projections and PFIs' withdrawal applications to ADB. In addition, RRA will be responsible for preparing disbursement projections related to project management expenses; collecting, and retaining supporting documents; and preparing and sending withdrawal applications related to project management expenses to ADB.

33. PFIs will disburse subloans based on the six-month disbursement projections approved by ADB. PFIs are required to submit the first three subloan applications to RRA for checking and forwarding for ADB's review and approval. Before submitting a PFI's withdrawal application to ADB, RRA may request the respective PFI to provide full set of documents for subloans already approved by the respective PFI. Within 7 working days from receipt of subloan documents, RRA will check the subloan documents to ensure that such approved subloans meet all eligibility criteria set forth in the PAM. In case a subloan does not meet all eligibility criteria, RRA will request the respective PFI to (i) remove such an ineligible subloan from its list of subloans, (ii) make refund to the advance account, if disbursement is made from the advance account; and (iii) adjust the withdrawal application accordingly before RRA's onward submission of the list of subloans and withdrawal application to ADB. RRA reserves the right to conduct checking of activities either for all approved subloans or a specific number of approved subloans on a sample basis.

34. **Advance fund procedure.** ADB's advance fund and SOE procedures will be used for disbursement under the ADB's loan.<sup>12</sup> RRA and each PFI will open one US dollar advance account at a commercial bank(s) acceptable to ADB to facilitate disbursements. RRA and each PFI will establish an advance account in its name and shall be accountable and responsible for

<sup>11</sup> All seven selected PFIs are capable of (i) executing foreign exchange and local currency transactions; (ii) handling a large volume of transactions; and (iii) issuing detailed monthly bank statements promptly. Therefore, these PFIs can open separate accounts and/or sub-ledgers for ADB funds in their own accounting systems for the project purpose.

<sup>12</sup> Details about SOE procedures are available at [http://www.adb.org/documents/handbooks/loan\\_disbursement/default.asp](http://www.adb.org/documents/handbooks/loan_disbursement/default.asp).

proper use of advances to the advance account.<sup>13</sup> The outstanding advance to the advance account under RRA's name will not exceed RRA's estimated six-month budget required for project management expenses. The outstanding advance to the respective advance account under each PFI's name will not exceed each PFI's estimated six-month budget required for payments to be made to eligible subborrowers. The request for initial and additional advances to the advance account should be accompanied by an Estimate of Expenditure Sheet detailing (i) the estimated expenditure for project management for the forthcoming six (6) months in the case of RRA, and (ii) the estimated subloans for the forthcoming six (6) months in the case of PFI. The ADB's project division (CWER) responsible for project administration will review the reasonableness of the 6-month estimates provided by RRA and each PFI.

35. **Statement of expenditure procedure.**<sup>14</sup> The SOE procedure will be used for reimbursement of eligible expenditures or liquidation of advances to the advance account(s). RRA and PFIs are required to ensure that supporting documents and records for the ADB's loan amounts claimed under the SOE procedure are maintained and made available for review by ADB's disbursement and review missions, upon ADB's requests for submission of supporting documents on a sampling basis, and for independent audit.

36. Before submission of the first withdrawal application, the RRA and each PFI will submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is set in accordance with the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below this amount should be paid by each PFI and subsequently claimed from ADB (i) through reimbursement; or (ii) from the advance account, unless otherwise accepted by ADB.

37. Each liquidation report financed from the ADB's loan will include (i) withdrawal application for liquidation of advance, (ii) statement of expenditures on the ADB's loan, (iii) bank statement for the advance account, (iv) the Advance Account Reconciliation Statements (AARs) required to reconcile all bank statements against the RRA's and PFIs' records.

38. Supporting documents should be submitted to ADB or retained by RRA and PFIs in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance accounts.

39. **Conditions for Loan Disbursement applicable to all PFIs.** All seven (7) qualified PFIs have met required conditions for withdrawal from the loan. No further compliance is needed, except for new PFIs to be considered for participation (if any).

### C. Accounting

40. The PFIs will maintain separate records relating to all subloans financed out of ADB's loan proceeds relating to the ongoing project and the additional financing project. The PFIs will prepare and submit to ADB (through RRA) in the English language within six (6) months of the end of each financial year the audited Annual Statement of Utilization of Funds for subloans approved and reimbursed by ADB ("Annual Statement of Utilization of Funds"). RRA will maintain separate

<sup>13</sup> In addition to advance accounts being used for the ongoing project, the RRA and PFIs shall open a new advance accounts for the proposed additional financing project.

<sup>14</sup> SOE forms are available in Appendix 7B and 7C of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

records relating to all project management expenses financed out of ADB's loan proceeds relating to the project. RRA will prepare and submit to ADB in the English language within six (6) months of the end of each financial year the audited Annual Statement of Utilization of Funds for project management approved and reimbursed by ADB ("Annual Statement of Utilization of Funds").

#### **D. Auditing and Public Disclosure**

41. RRA and PFIs shall (i) maintain separate accounts and records for the ongoing project and the additional financing project; (ii) prepare annual financial statements for the project and annual statements of utilization of funds for the Project in accordance with the accounting principles acceptable to ADB; (iii) have such statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each audit, the auditors have to prepare a report, which includes the auditors' opinion(s) on the statements and the use of the loan proceeds, and a management letter (which sets out the deficiencies in the internal controls of the project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than six (6) months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report, and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall, from time to time, reasonably request.

42. PFIs shall (i) provide their annual financial statements prepared in accordance with IFRS; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Project Agreement; and (iv) furnish to ADB, no later than six (6) months after the close of the financial year, copies of such audited financial statements and auditors' opinion(s), all in the English language, and such other information concerning these documents and the audit thereof as ADB shall, from time to time, reasonably request.

43. RRA and PFIs shall enable ADB, upon ADB's request, to discuss the statements of utilization of funds for the project and the financial statements of the PFIs and its financial affairs where they relate to the project with the auditors appointed by the PFIs and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. RRA and PFIs shall enable ADB's representatives to inspect any Qualified Subborrower, any Qualified Subproject, and any relevant records and documents.

44. The government, the executing agency (RRA), and the implementing agencies (PFIs) have been made aware of the ADB's approach to delayed submission, and requirements for satisfactory and acceptable quality of the audited annual Statements of Utilization of Funds.<sup>15</sup> ADB reserves the right to request a change in the auditor, or request for additional support to be provided to the auditor, if the audits are not satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that ADB's financing is used in accordance with ADB's policies and procedures.

45. Public disclosure of the annual audited financial statements for the project, including the

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<sup>15</sup> Delayed submission of audited statements (i) of utilization of funds or (ii) financials will trigger the following: (a) ADB will remind the executing agency that statements are overdue; and (b) If the delay exceeds six (6) months, ADB will discontinue disbursements and inform the executing agency that the loan may be suspended if the audit documents are not received within 12 months after the due date.

auditor's opinion on the statements, will be guided by ADB's Public Communications Policy 2011.<sup>16</sup> After the review, ADB will disclose the audited financial statements for the project and the opinion of the auditors no later than 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website. The auditors may not restrict the publication of their opinion. The management letter and audited entity financial statements will not be disclosed.

## **VI. PROCUREMENT AND CONSULTING SERVICES**

### **A. Advance Contracting and Retroactive Financing**

46. Not applicable.

### **B. Procurement of Goods, Works, and Consulting Services**

47. No procurement is envisaged for project management and implementation activities since relevant packages were included in the ongoing project which will support the activities on the additional financing project.

48. Procurement of subloan-financed goods and works will be undertaken by subborrowers based on commercial practices. PFIs will monitor the subloan utilization based on their existing regulations. Due diligence of PFIs indicated that PFIs' loan monitoring procedures are adequate in ensuring that utilization of loan funds is for the purpose(s) agreed with PFIs. All procurement of goods and works will be undertaken in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

49. It is noted that potential subborrowers are likely to utilize subloan proceeds for procurement of materials, processing equipment, machinery and other goods, works, and consulting services from both ADB and non-ADB member countries, based on market nature of the project investments, subborrowers' demand, and procurement history in projects and programs of similar nature. ADB's Board approval pursuant to Article 14(ix) of the Agreement Establishing the Asian Development Bank, will be sought to allow procurement of goods, works, and consulting services from non-ADB member countries.

### **C. Procurement Plan**

50. Not applicable.

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<sup>16</sup> Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>.

## VII. SAFEGUARDS

51. ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth in Appendix 5 of the SPS, and the Project Prohibited Investment Activities List (Appendix 1b of the ESMS).<sup>17</sup> Subprojects categorized A for environment within the meaning of ADB's SPS (2009) or Class 1 or 2 under the government environmental impact assessment requirement (Appendix 3 of ESMS) or fall under the Environmental Exclusion List (Appendix 2b of ESMS) or having involuntary resettlement impacts or impacts on indigenous peoples will not be eligible for financing under this project. This project is categorized as FI for environment and FI (treated as C) for involuntary resettlement, and indigenous peoples safeguards since there are no indigenous people's communities in Uzbekistan.

52. An initial safeguard review was conducted during 20–25 November 2017 for the ongoing project as part of Uzbekistan's country safeguard review undertaken by ADB (CWOD-PSG). The review mission confirmed that under the ongoing project (i) each PFI has had an ESMS maintained as part of its overall management system to meet Uzbekistan's national laws and regulations and ADB's SPS, and (ii) eligible subprojects have complied with Uzbekistan national environmental regulations.<sup>18</sup> However, given their high staff turnover, the mission requested that (i) all PFIs strengthen their internal staff resources and capacity in implementing ESMS, and (ii) training programs at the head office and branch level need to be in place to ensure seamless ESMS implementation. To address these recommendations, ADB (CWER) has requested RRA to recruit a national consulting firm to be financed under the original project (in addition to the RRA's in-house environmental expertise) to provide technical support in horticulture subloan appraisal, monitoring, and ESMS training, and implementation, to all PFIs on both the ongoing project and additional financing project. The consultant is expected to be mobilized in October 2018.

53. The government shall cause each PFI to ensure that the preparation, design construction, implementation, operation, and decommissioning of each qualified subproject comply with (i) all applicable laws and regulations of the government relating to environment, health, and safety; (ii) the Environment Safeguards; and (iii) the ESMS, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

54. PFIs shall ensure that each subproject comply with (i) all applicable laws and regulations of the government relating to environment, health, and safety; (ii) ADB's SPS (2009); (iii) its ESMS; and (iv) any corrective or preventative actions set forth in an annual Environmental and Social Performance Report. PFIs shall use their ESMSs for subproject screening, credit appraisal and approval, supervision, and monitoring of subproject implementation.

## VIII. GENDER AND SOCIAL DIMENSIONS

55. The additional financing project is categorized as "effective gender mainstreaming" as in the ongoing project. With the additional financing, the overall project's gender action plan (GAP) have been designed to enhance impacts of the actions proposed for the ongoing project.<sup>19</sup> Initial

<sup>17</sup> Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2 of the RRP).

<sup>18</sup> Summary of initial safeguard review findings for the ongoing project are Appendix 12 of the ESMS linked document (accessible from the list of linked documents in Appendix 2 of the RRP). The ESMS arrangements approved under the ongoing Horticulture Value Chain Development Project remain unchanged. Actual sets of PFI-approved ESMS are available upon request.

<sup>19</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2 of the RRP).

implementation results of the ongoing project has been very positive and encouraging. These are remarked under the Performance Targets/Indicators column of the GAP. The RRA and PFIs will continue with the implementation and monitoring of the progress of gender and social dimensions as described in the gender action plan.

56. To ensure the synergy and continuation, the overall project's GAP maintains its nine (9) gender actions, six (6) associated with the project output and three (3) related to project management and implementation. For the project output, these actions are to: (i) ensure that horticulture-related subprojects financed by PFIs' subloans prioritize utilization of female workers; (ii) set up Association of Women Farmers and *Dehkans* in five (5) regions (Bukhara, Fergana, Sirdarya, Surkhandarya, and Tashkent); (iii) set up Women's Groups (Ustoz-Shogird)<sup>20</sup> to promote new farms and agribusiness enterprises; (iv) disseminate success stories of Women's Groups and Associations of Women Farmers and *Dehkans*; and (v) conduct gender awareness seminars/training for main stakeholders and beneficiaries (RRA, Council of Farmers, PFIs at the regional level, and representatives of agribusiness processing entrepreneurship) of the project in the five (5) regions. For project management and implementation, these actions are to: (i) recruit national social development and gender specialist in the project implementation office; (ii) ensure collection of sex-disaggregated baseline and end-line information; (iii) identify gender and development focal persons at each PFI for adequate implementation and monitoring gender indicators/targets; and (iv) conduct capacity development training and consultation with project management office, and project implementation units on the implementation of the gender action plan.

## **IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION**

### **A. Project Design and Monitoring Framework**

57. The key monitoring indicators for the ongoing project, the additional financing, and the overall project are presented in the consolidated DMF in Appendix 1 of the Report and Recommendation (RRP) of the President to the Board of Directors. RRA has established a project performance monitoring system to enable monitoring of detailed activities, output, outcome, and impact indicators.

### **B. Monitoring and Reporting**

58. **Project performance monitoring.** Each PFI will be required to include in its quarterly progress reports information on its small businesses subloan portfolio such as: (i) name or type of loan product; (ii) borrower characteristics (male and female owned); (iii) loan tenor; (iv) interest rate; (v) repeat loan, new loan; (vi) classification by size; (vii) sector of activity; (viii) region; (ix) number of employees (male and female); and (x) loans approved and disbursed. The reporting template will be provided to the RRA and PFIs prior to the inception mission. These reports will be ADB's basis for monitoring and updating project performance and measuring the development impact of the project.

59. **Compliance monitoring.** Compliance of the PFIs to project agreement covenants will be monitored through periodic ADB review missions, quarterly progress reports by the PFIs, random spot checks of subloan documents, and review of the PFIs' audited financial statements. An

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<sup>20</sup> "Ustoz-Shogird" translated from Uzbek means "Teacher – Student" and share success experience in 5 regions and distributes success stories of role model through mass media (newspapers, radio).

environmental specialist was recruited by the PMO (based in RRA) to help monitor PFIs' training, provide assistance to PFIs for ESMS establishment and operations including the preparation of annual environmental and social performance reports of the PFIs.

60. **Safeguards monitoring.** Monitoring and reporting of the implementation of safeguards requirements and procedures within the established ESMS will be prepared by PFIs. The PFIs' quarterly progress reports will include status of compliance with safeguards covenants. The PFIs will submit to RRA annual environmental and social performance reports (Appendix 8 of the ESMS in RRP's linked document 12) by the end of January every year. Based on the PFIs' annual reports, RRA will submit to ADB annual safeguard monitoring reports (Appendix 9 of the ESMS) by mid-February of the following calendar year.

61. **Gender and social dimensions monitoring.** PFIs will be required to report the GAP achievements in their quarterly progress reports.

### C. Evaluation

62. ADB will conduct semiannual and midterm review missions to assess the progress of the project and review compliance with the loan agreement and project agreement covenants. The midterm review mission will undertake a comprehensive review of the project design and the performance of the project. It may require a change in the design and implementation arrangements. Within six (6) months after the loan closing date, MOF will submit a project completion report to ADB in a form acceptable to ADB.<sup>21</sup>

## X. ANTICORRUPTION POLICY

63. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.<sup>22</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.<sup>23</sup> To support these efforts, relevant provisions will be included in the legal agreements.

## XI. ACCOUNTABILITY MECHANISM

64. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.<sup>24</sup>

<sup>21</sup> Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

<sup>22</sup> Anticorruption Policy: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

<sup>23</sup> ADB's Integrity Office web site: <http://www.adb.org/integrity/unit.asp>

<sup>24</sup> Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.



## XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

65. All revisions and/or updates during the course of project implementation should be retained in this section to provide a chronological history of changes to the implementation arrangements recorded in the PAM.

Description of Revision	Date
PAM Agreed with the government, RRA, and PFIs during the fact-finding mission	3–13 February 2018
PAM Agreed with the government, RRA, and PFIs at loan negotiations	10 April 2018
Inception mission	

PAM = project administration manual, PFI = participating financial institution, RRA = Rural Restructuring Agency.