

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Macroeconomic			
1. Local currency depreciation against the dollar adversely affects PFIs' credit risk profile and subborrowers' debt service capacity.	Moderate	PFIs have asset–liability management functions in place, conduct portfolio sensitivity analysis regularly, and adjust lending policies as necessary. PFIs follow prudent lending policies, taking into account the cost increase of devaluation on the subborrowers' debt service capacity.	PFIs
2. Reduced economic activity affects debt service capacity of horticulture farmers and enterprises.	Moderate	PFIs carefully appraise their loans to help their clients achieve adequate debt service capacity.	PFIs
Governance			
3. Weak governance and corruption in Uzbekistan increase the costs of doing business and constrain small business development.	Moderate	Good governance is an objective of the Government of Uzbekistan's development strategy for 2016–2020. The government has toughened responsibility of government agencies for unnecessary checks and monitoring of small businesses. The seven PFIs that ADB selected to participate in the additional financing project have significant ownership by international financial institutions. Board representation of these international financial institutions will help the PFIs maintain and improve corporate governance standards. All PFIs have successfully passed integrity diligence, including anti-money-laundering and combating terrorism financing, underscoring ADB's comfort with their adequate corporate governance practices. Corruption risk is being mitigated through the PFIs' strong internal control systems, which are free from government influence.	CBU and PFIs
Regulatory			
4. Increased loan loss provisions and adopting CBU's capital adequacy standards require substantial investments and capital to maintain compliance with prudential regulations.	Moderate	PFIs have conducted stress testing and implemented internal capital adequacy assessment programs. PFIs will raise capital as required. Action plans for compliances are included in the PAM for each PFI.	CBU and PFIs

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Business			
5. PFIs incur credit risk.	Moderate	PFIs were selected based on their excellent past financial track records, including their prudent management of credit risk.	ADB and PMO
6. Financial management assessment of PFIs revealed issues related to lack of (i) sufficient professionally qualified accounting staff, (ii) experience in IFRS application, and (iii) sufficient trainings in risk management and accounting.	Moderate	PFIs have developed a time-bound action plan, agreed with ADB, to address financial management issues.	PMO and PFIs
7. PFIs lack capacity to increase outreach to horticulture subsector.	Moderate	The ongoing project lending operation and technical and advisory services by the PMO have helped strengthen PFIs' capacity to increase outreach in a sustainable manner by better understanding the horticulture subsector, adopting mobile loan application systems, and customizing products for targeted beneficiaries. PFIs are expanding e-banking services and regional branch networks.	PMO and PFIs
8. Subborrowers' lack of entrepreneurial skills and financial literacy hinders small business development.	Moderate	The technical and advisory services provided by the PMO have helped PFIs to educate subborrowers on financial literacy, business planning, and management.	PMO and PFIs
9. Government-subsidized lending programs result in an insufficient demand for credit at market rates.	Moderate	In consultation with the government and PFIs, ADB staff estimates have confirmed strong demand for market-based loans and estimated demand for horticulture-related financing to be about \$0.8 billion–\$1.0 billion by 2022.	ADB, PMO, and PFIs
Overall	Moderate		

ADB = Asian Development Bank, CBU = Central Bank of Uzbekistan, IFRS = international financial reporting standards, PAM = project administration manual, PFI = participating financial institution, PMO = project management office.
Source: Asian Development Bank.