



Report and Recommendation of the President to the Board of Directors

Project Number: 41953
September 2012

Proposed Equity Investment Joint-Stock Commercial Bank Ipak Yuli (Uzbekistan)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 August 2012)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.0005
\$1.00	=	SUM1,913

ABBREVIATIONS

ADB	–	Asian Development Bank
CBU	–	Central Bank of Uzbekistan
CPS	–	country partnership strategy
ESMS	–	environmental and safeguards management system
GDP	–	gross domestic product
IFRS	–	International Financial Reporting Standards
JSCB	–	joint-stock commercial bank
MSMEs	–	micro, small, and medium-sized enterprises
NPL	–	nonperforming loan
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of Joint-Stock Commercial Bank Ipak Yuli ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: Joint-Stock Commercial Bank Ipak Yuli		2. Project Number: 41953-01	
3. Country: Uzbekistan		4. Department/Division: Private Sector Operations Department / Capital Markets & Financial Sectors Division	
5. Sector Classification:			
		Sectors	Primary
		Finance	✓
		Subsectors	
		Banking systems Microfinance SME finance and leasing	
6. Thematic Classification:			
Themes		Primary	Subthemes
Economic Growth		✓	Promoting economic efficiency and enabling business environment Widening access to markets and economic opportunities
Private Sector Development			Private sector investment Privatization
Capacity Development			Institutional development Organizational development
6a. Climate Change Impact:		6b. Gender Mainstreaming:	
Adaptation		Gender equity theme	
Mitigation		Effective gender mainstreaming	
Not applicable		Some gender elements	
		No gender elements	
7. Targeting Classification:		8. Location Impact:	
		Rural	
		Urban	
		National	
		Regional	
		Low	
		High	
		Medium	
9. Nonsovereign Operation Risk Rating: N/A			
10. Safeguard Categorization:			
		Environment	
		FI	
		Involuntary resettlement	
		FI (treated as C)	
		Indigenous peoples	
		FI (treated as C)	
11. ADB Financing:			
Sovereign/Nonsovereign		Modality	Source
Nonsovereign		Equity	OCR
		Amount (\$ million)	
		Up to \$6 million (in sum equivalent)	
12. Cofinancing: Not Applicable			
Financier		Category	Amount (\$ million)
Total			
13. Counterpart Financing: Not Applicable			
14. Aid Effectiveness: Not Applicable			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment of up to \$6 million (in sum equivalent) in Joint-Stock Commercial Bank (JSCB) Ipak Yuli (Ipak Yuli) in Uzbekistan.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

2. The banking system in Uzbekistan is in an early stage of development and faces several challenges. Its penetration and financial intermediation function is poor, despite growth in recent years. Banking accounted for only 35.3% of the country's gross domestic product (GDP) in terms of assets in 2011, while total loans were only 20.1% of GDP and total deposits 31.1%—among the lowest in the region. Lending to the private sector was also among the lowest in the region. In 2009, the ratio of domestic credit to the private sector relative to GDP was only 14.6%. While various measures have been undertaken to strengthen the role of financial intermediation in the economy, further reforms are needed to improve the operating and regulatory environments and develop the private sector.

3. In alignment with the Asian Development Bank (ADB) country strategy and program, 2006–2010 for Uzbekistan and the stated objective to promote private sector development through improved financial intermediation, in 2007 the ADB Private Sector Operations Department undertook a review of private commercial banks in Uzbekistan.¹ After discussions with the Central and West Asia Department, two banks were identified for potential intervention. Following several rounds of due diligence, ADB decided to pursue the opportunity of making an equity investment in Ipak Yuli.

4. Ipak Yuli, a joint-stock commercial bank, was incorporated in Uzbekistan in 1990. It was re-registered as a new legal entity in June 2000 following its merger with JSCB Umar and JSCB Namangan. Ipak Yuli's primary business comprises retail, commercial, and corporate banking activities; securities operations; foreign currency operations; money transfers; origination of loans and guarantees; and taking of deposits. Regarded as one of the leading mid-sized private banks in the country, with 10 branches and 62 express centers (branches with limited scope of services) throughout the country, Ipak Yuli's market share (in terms of assets) has grown steadily, from 1.4% in 2006 to 2.3% in 2011. Supported by the doubling of its customer base to 89,829 during this period, in 2011 Ipak Yuli ranked ninth in the market in terms of assets.

B. Business Overview and Strategy

5. Initially, Ipak Yuli was primarily oriented toward lending to corporate clients; however, this strategy has evolved to include micro, small, and medium-sized enterprises (MSMEs) and retail lending. Today, Ipak Yuli is a universal bank addressing multiple market segments. As detailed in its development strategy for 2011–2016, Ipak Yuli seeks to strengthen its position in the market by providing a wider spectrum of banking products and services that cater to the needs of its customers in each identified market segment.

¹ ADB. 2006. *Country Strategy and Program: Uzbekistan, 2006–2010*. Manila.

6. While Ipak Yuli has maintained its strong corporate client base, its largest target customer niche comprises rapidly growing small and medium-sized enterprises (SMEs).² These clients tend to view Ipak Yuli as a stable, reliable bank due to its regional presence, high-quality services, and availability of lending resources for private businesses. Priority products and services for SMEs include working capital loans, leasing operations, and project financing—all of which help support the financial sustainability of the SME borrowers. In addition to SMEs, Ipak Yuli has sought to support private entrepreneurship by targeting micro-lenders as a priority area, working with ADB and the European Bank for Reconstruction and Development.

7. Retail banking is among Ipak Yuli's newest and most underdeveloped business lines. Ipak Yuli seeks to strengthen its retail banking portfolio by (i) enhancing product offerings (consumer loans, plastic cards, money transfers, mortgages, deposits); (ii) developing partnerships and corporate sales channels with companies that provide services to retail customers; and (iii) augmenting the services provided by its call center to increase cross-selling. Consistent with its stated objectives, Ipak Yuli has plans to continue the expansion of its distribution network operations into the regions over the next 4 years by opening another four branches in locations with high demand for its products and services. Targeted cities include Andijan, Bukhara, Karshi, and Termez.

C. Ownership, Management, and Governance

1. Ownership

8. As of year-end 2011, Ipak Yuli was owned by 740 corporate entities and individuals, including Uzbekinvest (a government-owned insurance company), Zamon Plus Sarmoya (an investment advisory company owned by Ipak Yuli shareholders), Alfa Invest (a private insurance company), Kafolat (a government-owned insurance company), and Mebel Invest Group (a furniture company). Ipak Yuli's shares are listed on the Uzbekistan Stock Exchange, but there is no active secondary market for the shares.

2. Management

9. Ipak Yuli's management team comprises experienced Uzbek bankers.. Rustam Rakhimbekov has been chairman of Ipak Yuli since 1998.

3. Governance Structure

10. Ipak Yuli has a nine-member council (board of directors); most were elected by the general shareholders' meeting in mid-2011. Most of the council members have professional qualifications and work experience in banking and finance. Although no legislation defines the independence of council members, they cannot be Ipak Yuli employees, cannot have any labor relations with the bank, and cannot be members of the management board. The council's main function is to supervise Ipak Yuli's compliance with its own internal policies and procedures. The audit committee and the recently formed risk management committee assist the council.

11. Ipak Yuli is managed through various levels of corporate governance, including the general shareholders' meeting, the council, and the management board. The council, the

² At the end of 2011, Ipak Yuli's SME loans represented over 62% of the total loan portfolio, microfinance accounted for more than 12%, corporate loans 22%, and retail loans 4%.

internal audit department (which reports to the council), and the Revision Commission³ (which reports to the general shareholders' meeting) supervise corporate governance. In addition, the organization and effectiveness of Ipak Yuli's corporate governance are evaluated as part of the annual CAMELS⁴ assessment conducted by the Central Bank of Uzbekistan (CBU). Corporate governance is guided by internal policies, regulations, and procedures, reflecting the institution's corporate goals, strategic objectives, values, and codes of conduct, as well as the processes for decision-making at all levels of bank governance, with clear divisions of responsibility, authority, and accountability.⁵

D. Financial Performance

12. **Earnings performance.** Ipak Yuli's net income has grown steadily over the past 4 years from SUM4.3 billion in 2008 to SUM6.3 billion in 2009, SUM8.1 billion in 2010, and SUM12.8 billion in 2011, driven by growth in interest and noninterest income. Net interest income rose by almost 88.0% in 2009, helped by the expansion of the loan portfolio, particularly of high-yielding microfinance loans, and the spike in the net interest margin. Although interest income continued to rise in 2010, with the narrowing of the net interest margin during the year, net interest income decreased slightly. Despite this, the rise in noninterest income during 2010 more than offset the decline in net interest income. Noninterest income rose by 67.8% in 2010, bolstered by the increase in fee income (related to charges for settlements and payments, cash wire transfers, and plastic cards), the net gain on foreign exchange operations, and the rise in dividend income. In 2011, increases in net interest income related to loan portfolio growth and the widening of the net interest margin, and noninterest income attributable to the continued increase in fee income, contributed to earnings growth.

13. Ipak Yuli's return on average assets was fairly constant during 2008–2010, as the pace of growth in net income largely matched that of average assets. In 2011, with the growth in net income outpacing that of average assets, the return on average assets increased to 2.21% from 1.74% in 2010. The return on equity also increased, from 19.34% in 2010 to 22.32% in 2011.

14. **Asset quality.** The growth of Ipak Yuli's loan portfolio has been driven over the last several years by sharp increases in the retail, microfinance, and SME areas, with more moderate increases in the corporate portfolio, a reflection of the bank's evolving strategy.

15. **Capital adequacy.** Ipak Yuli has more than quadrupled its capital base since 2007, with total equity rising from SUM13.7 billion in 2007 to SUM56.1 billion in 2011. The bank strengthened its capital position by issuing additional shares each successive year,⁶ as well as continuing its policy of dividend capitalization. In terms of capital adequacy, Ipak Yuli comfortably meets the minimum statutory capital requirements prescribed by CBU and is within the standards of the Bank for International Settlements (Basel guidelines), with a tier 1 capital ratio of 13.7% and total capital adequacy ratio of 14.5% in 2011.

³ The Revision Commission's responsibility is to verify the reliability of the bank's financial information, using the reports of the independent annual audit as well as the materials prepared by the internal audit.

⁴ CAMELS is defined as capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk.

⁵ Activities, rights, and responsibilities for the shareholders, the council, and the management board are reflected in documents such as the bank's charter and policies.

⁶ Ipak Yuli issued SUM2.6 billion of ordinary shares in 2008, SUM7.0 billion in 2009, SUM6.0 billion in 2010, and SUM6.6 billion in 2011.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

16. The proposed equity investment in Ipak Yuli of up to \$6 million (in sum equivalent) will be financed from ADB's ordinary capital resources.⁷ ADB will not be the single largest shareholder in Ipak Yuli. The investment will represent approximately 15% of issued capital.

B. Financial Assumptions

17. Ipak Yuli's management projects modest growth in the balance sheet in the short and medium term, in line with economic forecasts and its strategic preference for a measured pace of expansion.

C. Implementation Arrangements

1. Exit Strategy

18. ADB will look to the stability and improvement in Ipak Yuli's operating performance over the next several years before exiting the investment becomes a feasible option.

2. Reporting Arrangements

19. Ipak Yuli will provide ADB with financial reports at predetermined regular intervals and as requested. ADB will review these reports on an ongoing basis and monitor the facility accordingly. ADB will also have the right to appoint a director on Ipak Yuli's council (the equivalent of a board of directors). Ipak Yuli will be required to retain a reputable accounting firm acceptable to ADB to conduct annual audits of its financial statements under IFRS guidelines.

20. Ipak Yuli will provide ADB with technical assistance progress reports at predetermined intervals and as requested, outlining the status of implementation. ADB will review these reports on an ongoing basis and monitor the facility. Included in these reports will be an annual report on its safeguards and social dimensions performance.

D. Value Added by ADB Assistance

21. Justification for the equity investment is based on the following considerations:

- (i) **Supporting improvements in the quality of the banking system.** As a shareholder of Ipak Yuli and an active member on the council, ADB will help the bank improve its operations, particularly in the areas of internal controls, corporate governance, risk management, credit risk management, anti-money laundering and anticorruption measures, and environmental and social safeguards. This support will be augmented by the provision of technical assistance (TA).
- (ii) **Catalyzing foreign investment in Uzbekistan.** International institutional investors and multilateral organizations have been hesitant to invest in Uzbek banks. ADB's equity investments in Ipak Yuli, in combination with the

⁷ ADB will complement the proposed investment with technical assistance from the ongoing ADB. 2010. *Technical Assistance for Capacity Building for Financial Institutions (Phase 2)*. Manila.

International Finance Corporation's equity investment in JSCB Hamkorbank,⁸ would provide a significant signaling effect to foreign investors with regard to potential opportunities in the Uzbekistan banking system.

E. Technical Assistance

22. To strengthen the effectiveness of the intervention, ADB's ongoing TA for Capacity Building for Financial Institutions (Phase 2) will support areas to be determined in consultation with Ipak Yuli.⁹ Topics that may be covered by the TA include governance and internal controls, risk management, credit risk management, microcredit and SME financing, environmental and social safeguards (including tracking of gender benefits and the implementation of a gender action plan),¹⁰ and anti-money laundering and anticorruption measures. TA support alongside the equity investment will allow ADB to add substantially more value to Ipak Yuli and increase ADB's own eventual return.

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

1. Impact

23. **Support for the banking sector.** The banking sector in Uzbekistan faces several challenges, as it remains small and in a nascent stage of development, as revealed by the low asset-to-GDP ratio of 35.5%, total loans-to-GDP ratio of 20.1%, and total deposit-to-GDP ratio of 31.1%. Through its equity investment, ADB will provide systemic support to the sector at a critical point in its development, strengthening financial intermediation and helping to promote confidence in the banking system. The equity investment in Ipak Yuli will also lend key support to the sector by promoting the adoption of strengthened operating policies and procedures based on international best practice standards, particularly in the areas of corporate governance, internal controls, risk management, credit risk management, environmental and social safeguards, and anti-money laundering/anti-corruption.

24. **Private sector development.** The equity investment will strengthen Ipak Yuli's capital position and in doing so, underpin the expansion of its operations. Given Ipak Yuli's niche market in private sector SME financing, this investment will contribute to the expansion of SMEs, an underdeveloped and underserved segment of the Uzbekistan economy. The equity investment will contribute to private sector development by helping to mobilize liquidity and channel it toward the most productive investments through the extension of credit.

2. Outcome

25. The equity investment will support Ipak Yuli's adoption of strengthened operating principles (i.e., corporate governance, internal controls, risk management, credit risk management, safeguards and social dimensions, and anti-money laundering/anti-corruption) based on international best practice standards, contributing to the bank's overall performance

⁸ The International Finance Corporation made its equity investment in JSCB Hamkorbank in 2010.

⁹ ADB. 2010. *Technical Assistance for Capacity Building for Financial Institutions (Phase 2)*. Manila.

¹⁰ As a participating bank in the Second Small and Microfinance Development Project, Ipak Yuli agreed to implement a gender action plan. ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Second Small and Microfinance Development Project*. Manila (Loan 2634-UZB).

and increasing confidence in the banking system. Indicators include (i) the operating performance of Ipak Yuli, specifically its commercial viability based on asset quality and capital adequacy; and (ii) economic sustainability, particularly the provision of financial services to viable private enterprises and allocation of resources based on increasing lending to MSMEs.

3. Outputs

26. ADB will make an equity investment in Ipak Yuli, and as an active shareholder, will assist in overseeing the implementation of strengthened operating principles based on international best practice standards for corporate governance, internal controls, risk management, credit risk management, safeguards and social dimensions (including implementing a gender action plan and core labor standards), and combating money laundering and corruption, and thus contribute to strengthening the bank's operating performance.

B. Alignment with ADB Strategy and Operations

1. Consistency with Strategy 2020 and the Country Partnership Strategy

27. Under Strategy 2020, ADB will strengthen its regional and national support for the financial sector by helping to develop financial infrastructure, institutions, and products and services and by promoting inclusive growth. Through such initiatives, ADB will continue to assist in channeling the region's savings into the most productive investments, as well as continue to build the capacity of financial institutions by introducing international best practices. The investment supports institutional and sector development by providing capital and capacity building for the financial sector.

28. The strategic priorities of the ADB country partnership strategy (CPS), 2006–2010 for Uzbekistan include catalyzing private domestic and foreign investment through ADB's private sector operations.¹¹ The CPS notes a number of potential transactions from the private sector operations side in the finance and infrastructure sectors. Indicative investments that ADB might consider, the CPS continues, include (i) equity, debt, and/or guarantee financing for infrastructure projects in areas such as water, power, energy, transportation, and telecommunications; (ii) equity investments in one or more private local banks as well as loans in the form of tier 2 capital or designated credit lines; (iii) inclusion of commercial banks in ADB's Trade Finance Program; (iv) equity investments or provision of credit lines to leasing companies or other nonbank financial institutions; (v) credit enhancement for securitization of mortgages and leases or other capital market transactions; and (vi) equity in investment funds. The equity investment is well within the range of transactions envisioned by this CPS, as well as the country operations business plan, 2012–2014¹² and the more recent 2012–2016 country partnership strategy,¹³ which again highlight private sector development and financial sector development as key objectives. It is also in line with recent government initiatives including *On Priority Areas for Further Reforms and Sustainability Improvement of Country's Finance and*

¹¹ ADB. 2006. *Country Partnership Strategy: Uzbekistan, 2006–2010*. Manila.

¹² ADB. 2012. *Country Operations Business Plan: Uzbekistan, 2012–2014*. Manila.

¹³ ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila.

*Banking System in 2011–2015 and Achieving High International Ratings,*¹⁴ and *Further Strengthening MSME Development.*¹⁵

2. Consistency with Sector Strategy and Relevant ADB Operations

29. Supporting financial sector development is a key focus of development assistance for ADB in line with the tenets detailed in ADB's Private Sector Development Strategy¹⁶ and Enhanced Poverty Reduction Strategy,¹⁷ which note improved economic growth, stimulated by private sector investment, as a key contributing factor in reducing poverty. The Private Sector Development Strategy refers specifically to ADB's role in strengthening the financial sector in the developing member countries. The strategy notes the critical importance of well-functioning financial systems for private sector development, which in turn underpins sustainable economic growth. Many developing member countries need to strengthen their financial institutions and create diversified financial markets that can finance private-sector-led growth.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

30. The investment is classified under category FI for impacts on the environment as it involves an equity investment in Ipak Yuli and some of the bank's portfolio (e.g., manufacturing) have potential environmental impacts and risks. With respect to involuntary resettlement and indigenous peoples, the investment is classified under category FI (treated as C) because Ipak Yuli's borrowers are not expected to acquire land using eminent domain law nor adversely affect the dignity, human rights, livelihood systems, culture, territories, and natural or cultural resources of indigenous peoples. Ipak Yuli's current environmental and social management system (ESMS) is limited to ensuring that borrowers follow national laws, requirements, and procedures. Ipak Yuli is committed to enhancing its ESMS by (i) applying ADB's prohibited investment activities list, (ii) adopting its own environmental and social safeguards screening and categorization, (ii) refining its due diligence and project approval procedures, (iii) appointing responsible staff with clear duties and responsibilities in ensuring safeguards compliance, and (iv) establishing safeguards performance monitoring and reporting procedures. Ipak Yuli has committed to establish an ESMS as part of its overall management system to meet national laws and/or ADB's Safeguard Policy Statement (2009) and other social requirements. An ESMS satisfactory to ADB will be established before the equity investment is disbursed.¹⁸ Ipak Yuli has also agreed to only consider funding environment category A subprojects after it has developed adequate technical capacity and established a proven track record in implementing an ESMS to the satisfaction of ADB.

31. The investment is categorized as effective gender mainstreaming. Ipak Yuli is one of the participating commercial banks in the Second Small and Microfinance Development Project

¹⁴ Presidential Resolution No. 1438 (2010) comprises an action plan for 2011–2015 aimed at comprehensive activities for reforms and sustainable improvement of Uzbekistan's finance and banking system, and measures aimed at development of the microfinance and nonbank financial subsectors.

¹⁵ Presidential Decree No. PP1474 (2011) aims to improve the enabling environment for MSMEs by reducing bureaucratic bottlenecks, rationalizing MSME registration and inspection requirements to lower transaction costs, and increasing competitiveness of MSME exports.

¹⁶ ADB. 2000. *Private Sector Development Strategy*. Manila.

¹⁷ ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

¹⁸ Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary; Environmental and Social Management System Arrangement; and Gender Action Plan.

being administered by ADB since 2010.¹⁹ As part of its commitment, Ipak Yuli is implementing a gender action plan, which primarily focuses on the bank's microfinance lending operations. The plan includes benchmarks (25%) for lending to microenterprises owned and/or managed by women, the development of a gender policy, and women-friendly loan products and other financial services. This investment will supplement the gender action plan by expanding it to cover Ipak Yuli's SME lending operations. For its SME operations, Ipak Yuli commits to a step-by-step increase of the total amount of financing and total number of SME loans extended to women by 10% each year within the next 5 years. To realize this target increase, Ipak Yuli will look into developing women-friendly financial services and procedures for SMEs. To expand its outreach to women and to support its gender initiative, Ipak Yuli will consider developing marketing strategies that target women. It is also enhancing its automated information system to include a data field to collect sex-disaggregated data on the borrower and the borrowers' employees. Moreover, Ipak Yuli's ESMS will integrate the supplemental gender action plan and include arrangements to comply with national labor laws and ADB's Social Protection Strategy to ensure adherence to internationally recognized core labor standards, including provisions prohibiting any discrimination against women in hiring and providing equal pay for equal work for men and women.²⁰

B. Anticorruption Policy

32. Ipak Yuli was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

33. The proposed \$6 million (in sum equivalent) equity investment in Ipak Yuli, once approved and signed, will increase ADB's projected nonsovereign exposure to \$9.4 billion by March 2013. Additionally, the proposed transaction will increase nonsovereign exposure to Uzbekistan to \$726 million or 7.7% of the total nonsovereign exposure, and increase nonsovereign exposure to domestic commercial banks to \$762 million. The proposed equity investment is within the medium-term country, industry, subsector, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

34. Consistent with the Agreement Establishing the Asian Development Bank,²¹ the Government of Uzbekistan will be requested to confirm that it has no objection to the proposed assistance to Ipak Yuli. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

VI. RECOMMENDATION

35. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the

¹⁹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Second Small and Microfinance Development Project*. Manila.

²⁰ ADB. 2001. *Social Protection Strategy*. Manila.

²¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

equity investment of up to \$6,000,000 in the Joint-Stock Commercial Bank Ipak Yuli from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Haruhiko Kuroda
President

27 September 2012

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved financial sector intermediation in Uzbekistan</p> <p>Increased contribution of SMEs to the economy</p>	<p>Ratio of assets to GDP increases from 35.3% in 2011 to 45% by 2020^a</p> <p>Ratio of loans to GDP increases from 20.1% in 2011 to 25% by 2020^a</p> <p>Ratio of total deposits to GDP increases from 31.1% in 2011 to 40% by 2020^a</p> <p>Ratio of domestic credit to the private sector to GDP increases from 14.6% in 2009 to 20% by 2020^a</p> <p>Increased share of SMEs to GDP from 54% in 2011 to 60% in 2020^a</p>	<p>CBU statistics</p> <p>Statistical Review of Uzbekistan, State Committee on Statistics</p>	<p>Assumptions Stable or increased economic development in Uzbekistan</p> <p>Improved operating performance of banks will lead to more private sector activity in the economy</p>
<p>Outcome Demonstrated success of a bank that adopted strengthened policies and procedures based on international best practice standards</p>	<p>Operating performance Credit quality improved Capital adequacy ratio maintained above CBU norms from 2012 to 2017</p> <p>Economic sustainability Loan portfolio grows by an average of 20% per annum from 2012 to 2017</p>	<p>Ipak Yuli's board resolutions Ipak Yuli's quarterly and annual financial statements Reporting specifically requested by ADB</p>	<p>Assumptions Ipak Yuli does not breach domestic prudential or CBU norms Continued demand for credit No adverse economic developments No regulatory changes for banking Adopted policies and procedures are well implemented</p>
<p>Outputs 1. Strengthened policies and procedures adopted</p>	<p>New or revised policies and procedures adopted for</p> <ul style="list-style-type: none"> Internal controls by 2013 Corporate governance by 2014 Risk management by 2014 Credit-risk management by 2014 Anti-money laundering/anti-corruption by 2013 Environment and social safeguards by 2012 Gender policy by 2013 	<p>Ipak Yuli's board resolutions Ipak Yuli's quarterly and annual financial statements Reporting specifically requested by ADB Annual environmental and social performance reports</p>	<p>Assumptions Growth in demand for SME loans continues</p> <p>Risks Competition from other banks with SME niche increases</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
2. Increased SME lending	<p>SME loans increased from SUM151.3 million in 2011 to SUM400 million in 2017</p> <p>Number of SME loans increased from 2,700 in 2011 to 7,000 in 2017</p> <p>Loan amount to SMEs owned and/or led by women increased from SUM18.4 million in 2011 to SUM32 million in 2017</p> <p>Number of SME loans provided to women increased from 969 in 2011 to 1,700 in 2017</p>		
Activities with Milestones			Inputs
<ol style="list-style-type: none"> 1. Environmental and social management system compliant with ADB's Safeguard Policy Statement (2009) adopted and implemented prior to disbursement of the equity investment 2. ADB and Ipak Yuli enter into a shareholders agreement and related project documentation 3. Equity investment in Ipak Yuli made by December 2012 4. ADB participates on the Ipak Yuli council and assists in overseeing the adoption and implementation of policies, procedures, and the gender action plan by 2017 			<p>ADB: up to \$6 million (in sum equivalent) to Ipak Yuli</p> <p>Technical Assistance: up to \$400,000 to Ipak Yuli (from ongoing ADB TA)^b</p>

ADB = Asian Development Bank, GDP = gross domestic product, SMEs = small and medium-sized enterprises.

^a Estimates based on information from the Central Bank of Uzbekistan and World Bank Development Indicators.

^b ADB. 2010. *Technical Assistance for Capacity Building for Financial Institutions (Phase 2)*. Manila.

Source: Asian Development Bank estimates.

