

Project Administration Manual

Project Number: 42007-018

Loan Number:

June 2016

Uzbekistan: Small Business Finance Project

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
DVB	–	Davr Bank Joint-Stock Commercial Bank
ESMS	–	environmental and social management system
FIL	–	financial intermediary loan
GAP	–	gender action plan
HKB	–	Hamkorbank Joint-Stock Commercial Bank
IYB	–	Joint Stock Innovation Commercial Bank “Ipak Yuli”
MOF	–	Ministry of Finance
PFI	–	participating financial institution
PIAL	–	Prohibited Investment Activities List
SPS	–	Safeguard Policy Statement
TA	–	technical assistance
ULC	–	Joint Venture “UzbekLeasing International A.O.”, JSC

CONTENTS

	Page
I. PROJECT DESCRIPTION	1
II. IMPLEMENTATION PLANS	1
A. Project Readiness Activities (assuming Board approval on 30 June 2016)	1
B. Overall Project Implementation Plan	2
III. PROJECT MANAGEMENT ARRANGEMENTS	3
A. Project Implementation Organizations: Roles and Responsibilities	3
B. Key Persons	3
C. Project Organization Structure	5
IV. COSTS AND FINANCING	5
A. Project Financing Plan	5
B. Detailed Disbursement Estimates by Year	6
C. Fund Flow Diagram	7
V. FINANCIAL MANAGEMENT	7
A. Financial Management Assessment	7
B. Disbursement	8
C. Accounting	10
D. Auditing and Public Disclosure	10
VI. PROCUREMENT AND CONSULTING SERVICES	11
A. Advance Contracting and Retroactive Financing (not applicable)	11
B. Procurement of Goods, Works, and Consulting Services	11
C. Outline Terms of Reference	12
VII. SAFEGUARDS	13
VIII. GENDER AND SOCIAL DIMENSIONS	13
IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION	15
A. Project Design and Monitoring Framework	15
B. Individual PFI Outcome and Output Performance Targets	16
C. Monitoring and Reporting	17
D. Evaluation	18
X. ANTICORRUPTION POLICY	18
XI. ACCOUNTABILITY MECHANISM	18
XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL	19
APPENDIXES	
1. Quarterly Progress Report	20
2. Statement of Expenditures	30
3. Terms of Reference for Audit of Statement of Utilization of Funds and Specific Audit Assurances Required Under Loan: UZB Small Business Finance Project	31

Project Administration Manual Purpose

The project administration manual (PAM) describes essential requirements for the Ministry of Finance, the executing agency (EA), and the participating financial institutions (PFIs) Hamkorbank, Ipak Yuli Bank, Davr Bank, and UzbekLeasing International A.O., acting as implementing agencies to carry out the project in accordance with the loan and project agreements of the government of Uzbekistan and the participating financial institutions (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 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 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 financial intermediary loan (FIL) of \$100 million will provide US Dollar funding to the participating financial institutions (PFIs) to finance investment and working capital loans to small businesses. In addition, \$0.5 million technical assistance (TA) will support the selected PFIs to improve their lending and outreach to small businesses, and enhance financial literacy of small businesses. The impact will be improved contribution of small businesses to economic growth and employment. The outcome will be increased sustainable provision of PFIs' financing to small businesses. The PFIs are expected to set examples for other financial institutions on how to deepen their outreach, while retaining good asset quality and funding private enterprise activities that generate jobs.

2. The output will be expanded capacity of the PFIs for financing to small businesses. At project completion, at least 20% of the eligible subloans are expected to be made to women-owned small businesses, and at least 60% of the eligible subloans are expected to be made to rural small businesses outside the capital. The capacity development TA will complement this output by focusing on measures for strengthening PFIs' credit underwriting policies and procedures, developing a credit scoring system as well as financial literacy training to small businesses. The output will also include an established environmental and social management system (ESMS) embedded in each PFI's operations for adequate management of environmental and social issues in compliance with the ADB's Safeguard Policy Statement (2009) and national laws and regulations.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities (assuming Board approval on 30 June 2016)

Indicative Activities	2016						Unit
	Jul	Aug	Sep	Oct	Nov	Dec	
Government approval (issuance of government resolution)	▲	▲					MOF
Loan and project agreements signing			▲				ADB, MOF, PFIs
Government legal opinion provided			▲				MOF, MOJ
Government budget inclusion			▲				MOF
Signing of the subsidiary loan agreements between MOF and PFIs				▲			MOF, PFIs
Acceptable project management units in each PFI are formed				▲			PFIs
Each PFI appoint a focal person to oversee implementation of gender action plan				▲			PFIs
ADB confirms acceptability of PFIs' established ESMS and conducts training on ESMS to PFI staff.				▲			PFIs If ESMS is not ready PFIs can only finance C-category subprojects
On-lending arrangements are in place				▲			ADB, MOF, PFIs
Loan effectiveness					▲		ADB

ADB = Asian Development Bank; MOF = Ministry of Finance; PFI = participating finance institution; ESMS = environmental and social management system

Source: ADB staff estimates

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
Ministry of Finance (Executing Agency)	<ul style="list-style-type: none"> ➤ Execute subsidiary loan agreements with the PFIs ➤ Monitor PFIs' performance and compliance with project agreements against design and monitoring framework (DMF) targets¹ ➤ Ensure timely disbursement of ADB loan funds to PFIs ➤ Submit project completion report to ADB within 6 months from project closing date
Participating financial institutions (PFIs) (Implementing Agencies)	<ul style="list-style-type: none"> ➤ Carry out credit origination and monitoring of eligible sub-borrowers in line with sound banking principles ➤ Select subloans up to \$300,000 in accordance with eligibility criteria set out in the project agreements ➤ Monitor business outreach targets as agreed in the project agreements ➤ 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 ➤ Manage financial reporting, accounting, and auditing of project-related activities ➤ Designate dedicated staff for project implementation unit ➤ Implement Gender Action Plan (GAP)² ➤ 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 imprest account ➤ Submit to ADB quarterly progress reports using the format in Appendix 1 within 30 days from the end of each quarter, and respond to other information requests ➤ Submit to ADB annual safeguards monitoring report in February each year
Asian Development Bank (ADB)	<ul style="list-style-type: none"> ➤ 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 ➤ Manage TA implementation with PFIs

B. Key Persons

Executing Agency

Ministry of Finance

Officer's Name: Mubin Mirzaev
 Position: Deputy Minister
 Email address: mmirzaev@mf.uz
 Diyor Mukhamedov
 Position: Head

¹ See Section IX of this Manual.

² See Section VIII of this Manual (Table 4).

Foreign Assets and Liabilities Management Department
 Telephone: (+998 71) 239 1128
 Email address: dmukhamedov@mf.uz
 Office Address: 5, Mustaqilik Square, Tashkent 100008,
 Republic of Uzbekistan

Implementing Agencies

Joint-Stock Commercial Bank with Foreign Capital Hamkorbank

Officer's Name: Mr. Nazirjon Kadirov
 Position: Chairman of the Management Board
 Telephone: (+998 74) 2980898
 Email address: s.holmurodov@hamkorbank.uz
 Office Address: 85, Babur Av., Andijan, 170119
 Republic of Uzbekistan

Joint-Stock Innovation Commercial Bank "Ipak Yuli"

Officer's Name: Alisher Mirzaev
 Position: Acting Chairman of the Management Board
 Telephone: (+998 71) 120 3878
 Email address: a.mirzaev@ipakyulibank.com
 Office Address: 2, A. Kodiriy Str., Yunusabad District
 100017 Tashkent, Republic of Uzbekistan

Joint-Stock International Leasing Company "UzbekLeasing"

Officer's Name: Zafar B. Mustafaev
 Position: Chief Executive Officer
 Telephone: (+998 71) 120 0202
 Email address: uzlease@sarkor.uz
 Office Address: 1, Beshyogoch Str., 100066
 Tashkent, Republic of Uzbekistan

Private Joint-Stock Commercial Bank "Davrbank"

Officer's Name: Shahruh Hakimov
 Position: Deputy Chairman of the Management Board
 Telephone: (+998 71) 248 3430
 Email address: hakimovsh@davrbank.uz
 Office Address: Block A, Navoi-Zarqaynar Street.,
 Tashkent, 100011, Republic of Uzbekistan

ADB

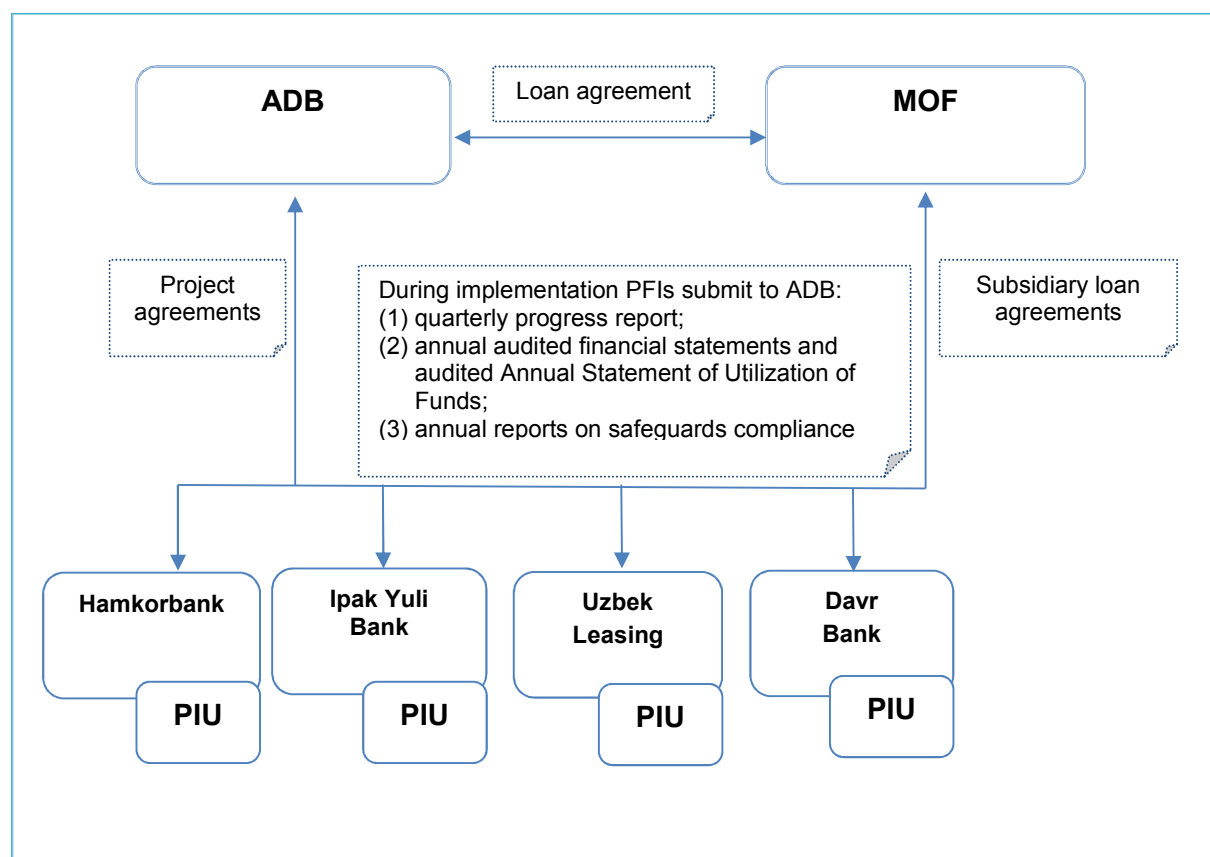
Public Management, Financial
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C. Project Organization Structure



ADB = Asian Development Bank; MOF = Ministry of Finance; PFI = participating financial institution; PIU = project implementation unit

IV. COSTS AND FINANCING

A. Project Financing Plan

3. The project is estimated to cost \$133.3 million. A \$100 million loan from ADB will have a 15-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year.

4. The government will relend the proceeds of the loan in US dollars, through subsidiary loan agreements to the eligible PFIs that satisfy ADB's eligibility criteria.³ The government will relend the proceeds of the loan to the PFIs at the same tenor and grace period at which it received the funds from ADB. The government's relending rate will be the interest rate charged by ADB for the loan plus 0.2% per annum.⁴

³ The distribution of the ADB loan to the PFIs is based on their absorptive capacity, subject to review and adjustments during project implementation, and currently set as follows: Hamkorbank (\$45 million), Ipak Yuli Bank (\$38 million), UzbekLeasing A.O. (\$10 million), and Davr Bank (\$7 million).

⁴ The PFIs' interest rates carry the cost for (i) loan origination, (ii) the provision of foreign exchange to service the ADB loan, (iii) the repricing risk arising from the mismatch of 6 months of repricing of ADB loans (as subloans may carry a fixed interest rate up to 5 years), and (iv) credit risk and related capital charges. Under the current foreign exchange regime, the cost of providing US dollars at payment dates is substantial, justifying the significant net interest margins.

5. The PFIs will use the loan proceeds to finance subloans and leases to eligible small business subborrowers to support working capital and fixed asset investments. Subloans and leases may be issued in USD and sum and priced by the PFIs at market rates that cover foreign exchange, credit, maturity, and interest rate risks. Loans made by PFIs will have a tenor of up to 5 years. PFIs will determine the creditworthiness of subborrowers and assume full credit risk. The maximum subloan size is currently set at \$300,000. The project financing plan is in Table 1.

Table 1: Project Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	100.0	75.0
Subborrowers (through equity contribution) ^a	33.3	25.0
Total	133.3	100.0

^a Subborrowers will contribute equity to the project at a level consistent with market norms. Based on discussions with the PFIs, the average contribution is estimated at 25%.

Source: ADB

B. Detailed Disbursement Estimates by Year

6. The current allocation of the ADB loan to PFIs is presented in Table 2. The Loan Agreement provides that the Government of Uzbekistan 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.

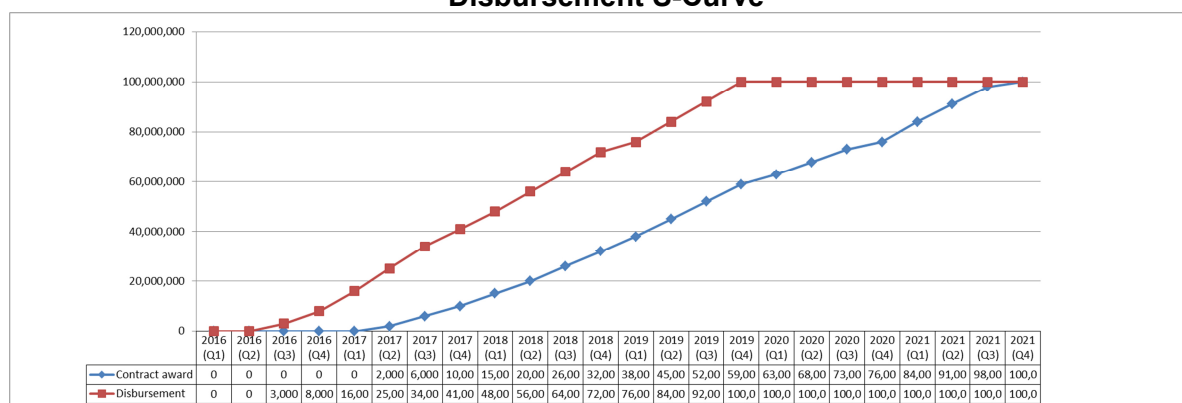
Table 2: Annual Disbursement Estimates (\$ million)

Participating Financial Institution	Allocation	Disbursement Year			
		2016	2017	2018	2019
Hamkorbank	45.00	4.00	14.00	14.00	13.00
Ipak Yuli Bank	38.00	3.00	13.00	12.00	10.00
Uzbek Leasing	10.00	0.75	3.25	3.00	3.00
Davr Bank	7.00	0.25	2.75	2.00	2.00
Total Project Cost	100.00	8.00	33.00	31.00	28.00
% Total Project Cost	100%	8.0%	33.0%	31.0%	28.0%

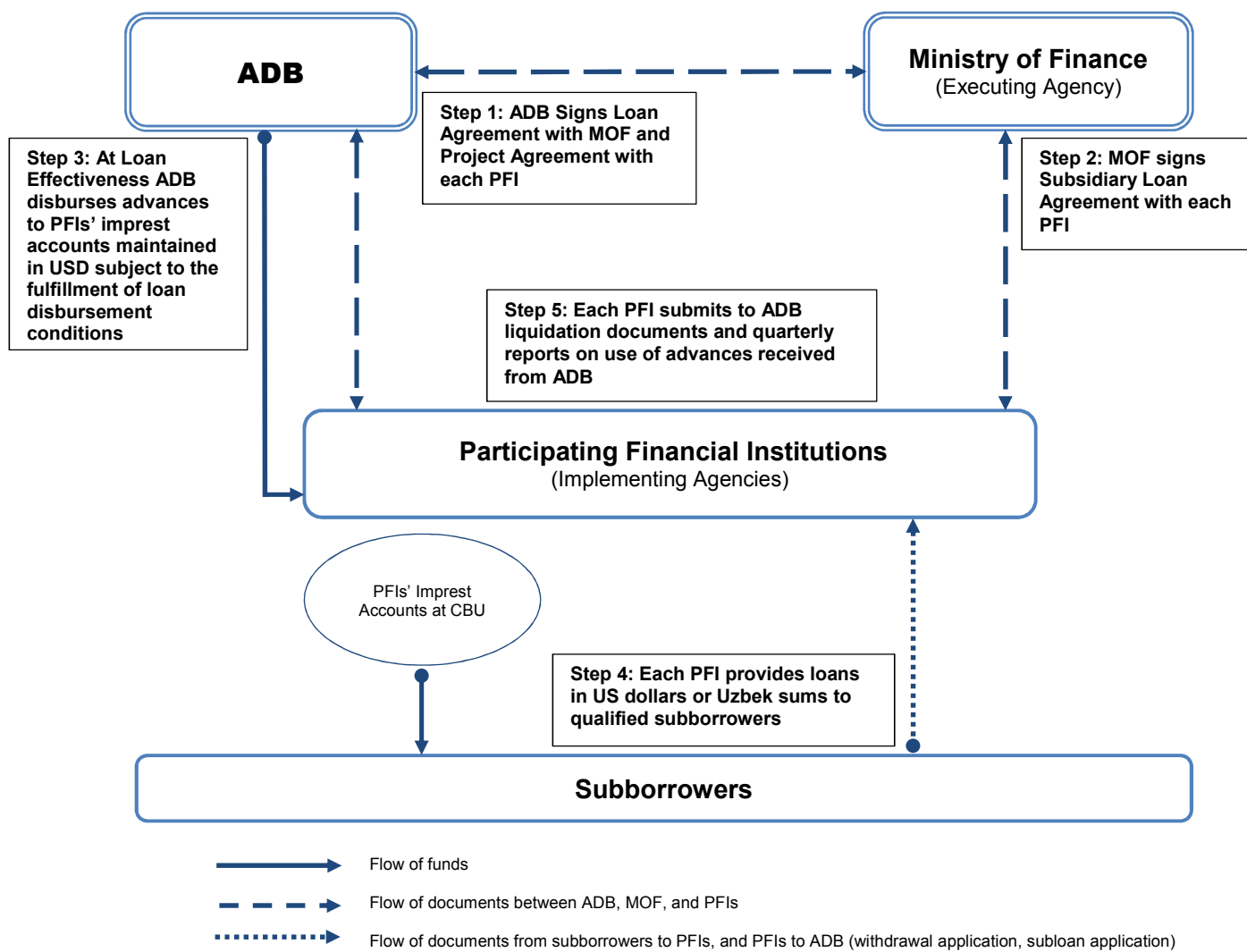
PFI = participating financial institution

Source: ADB staff estimates.

Disbursement S-Curve



C. Fund Flow Diagram



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

7. The PFIs will maintain the following until the project completion date:

- (i) Prepare financial statements in accordance with International Financial Reporting Standards (IFRS);
- (ii) Davr Bank and ULC will recruit senior accountants familiar with IFRS prior to the first disbursement of their respective loans;
- (iii) An internal audit unit that reports to the audit committee of the supervisory board that includes at least one independent member;
- (iv) Financial statements are audited by reputable internationally affiliated audit firms;
- (v) A dedicated credit risk management unit is in place;
- (vi) The bank PFIs will at a minimum meet prudential ratios required by CBU until the project completion date;

- (vii) ULC will maintain a capital-to-asset ratio of not less than 25%;
- (viii) Satisfactory profitability with return on average assets of not less than 1%;
- (ix) Comply with anti-money-laundering (AML) and combating the financing of terrorism (CFT) laws and regulations in Uzbekistan.

8. On 10 February 2016, CBU restricted Hamkorbank from performing certain foreign exchange operations for a period ending on 11 August 2016. This has adversely affected its ability to manage its foreign exchange open position, which turned negative in April 2016. ADB received on 3 May 2016 written confirmation from CBU that foreign exchange operations related to foreign creditors are not affected by the restrictions. The removal of the foreign exchange operation restrictions will be a condition for the disbursement of the proposed loan to Hamkorbank.

9. No withdrawal shall be made by Davr Bank until it has hired adequate number of qualified accountants with sufficient knowledge of IFRS. In addition, Davr Bank will implement a time-bound action plan that includes the provision of regular training on IFRS and improvements in risk management.

10. No withdrawal shall be made by ULC until it has hired adequate number of qualified accountants with sufficient knowledge of IFRS. In addition, ULC will implement a time-bound action plan that includes the provision of regular training on IFRS.

B. Disbursement

11. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, 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 withdrawal applications to ADB.

12. **Imprest fund procedure.** ADB's imprest fund and SOE procedures will be used for disbursement under the loan.⁵ Each PFI will open a US dollar imprest account at the CBU to facilitate disbursements. Each of the PFIs will establish an imprest account in its name and shall be accountable and responsible for proper use of advances to the imprest account. The advance to the respective imprest account will not exceed each PFI's estimated 6 month funding required for payments to be made to eligible subborrowers. The request for initial and additional advances to the imprest account should be accompanied by an Estimate of Expenditure Sheet setting out the estimated subloans for the forthcoming six (6) months of project implementation (Appendix 2).⁶ The ADB project division responsible for project administration will review the reasonableness of the 6-month estimate.

13. **Statement of expenditure procedure.**⁷ The statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the imprest account(s). PFIs are required to ensure that supporting documents and records for the loan amounts claimed under the SOE procedure are maintained and made available for review

⁵ Details about SOE procedures are available at (http://www.adb.org/documents/handbooks/loan_disbursement/default.asp).

⁶ Available in Appendix 10b of the Loan Disbursement Handbook.

⁷ SOE forms are available in Appendix 9B and 9C of ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

14. Before submission of the first withdrawal application, the MOF 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 Loan Disbursement Handbook (LDH). Individual payments below this amount should be paid by each PFI and subsequently claimed from ADB (i) through reimbursement; or (ii) from the imprest account, unless otherwise accepted by ADB.

15. Each liquidation report financed from the ADB loan will include (a) withdrawal application for liquidation of advance, (b) statement of expenditures on the ADB loan (Appendix 2), (c) bank statement for the imprest account, (d) the Imprest Account Reconciliation Statements (IARs) required to reconcile all bank statements against the PFIs' records. SOE records will be maintained and be available for review by ADB's disbursement and review mission and external auditors. The MOF and the PFIs will submit to ADB in a timely manner any supporting documents requested by external auditors or ADB including documentation supporting creditworthiness assessments of each subborrower.

16. Supporting documents should be submitted to ADB or retained by the PFIs in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time) when liquidating or replenishing the imprest accounts.

17. The project implementation unit (PIU) of each PFI will be responsible for (i) updating and preparing yearly disbursement projections, (ii) preparing summary of eligible subloans financed by ADB funds, and (iv) preparing and sending withdrawal applications to ADB.

Conditions for loan disbursement

18. No withdrawal shall be made under the project for any PFI until such time as the PFI has: (a) established an ESMS in a manner satisfactory to ADB, which includes without limitation, (i) third party monitoring mechanism for subloans; (ii) guidelines for site visits of qualified subprojects; and (iii) a tracking system of qualified subprojects; and (b) appointed designated staff who is capable and adequately trained in fully implementing the ESMS, in particular implementing environmental category B qualified subprojects including and executing any corrective or preventive measures needed to ensure compliance of such qualified subprojects with applicable national laws and regulations and the SPS.

19. No loan disbursement shall be made under the project for Hamkorbank until the CBU has removed all relevant restrictions on Hamkorbank's foreign exchange operations.

20. No loan disbursement shall be made under the project for Davr Bank and UzbekLeasing International A.O. until each of them has hired adequate number of qualified accountants with sufficient knowledge of IFRS to adequately administer its day-to-day financial management operations and to satisfactorily prepare its financial statements in accordance with IFRS.

Table 3: Allocation and Withdrawal of Loan Proceeds

Number	Financing Category	Amount Allocated (\$)	Basis for Withdrawal from the Loan Account
1	Financing of Subloans– Hamkorbank ^a	45,000,000.00	100% of total expenditure claimed
2	Financing of Subloans– Ipak Yuli Bank ^a	38,000,000.00	100% of total expenditure claimed
3	Financing of Subloans– Davr Bank ^a	10,000,000.00	100% of total expenditure claimed
4	Financing of Subloans– UzbekLeasing International A.O. ^a	7,000,000.00	100% of total expenditure claimed
Total		100,000,000.00	-

PFI = participating financial institution.

^a Subject to the disbursement conditions set forth in Schedule 2 of the Loan Agreement and the Schedule of the project agreements.

Sources: Government of Uzbekistan and Asian Development Bank staff estimates.

C. Accounting

21. The PFIs will maintain separate records relating to all subloans financed out of ADB's loan proceeds relating to this Project. The PFIs will prepare and submit to ADB in the English language within 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").

D. Auditing and Public Disclosure

22. The PFIs shall (i) maintain separate accounts and records for the Project; (ii) prepare annual statements of utilization of funds for the Project in accordance with 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 such audit, have the auditors 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 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. Terms of Reference are contained in Appendix 3.

23. Each PFI shall (i) provide its annual financial statements prepared in accordance with international financial reporting standards; (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 1 May 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.

24. 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. The PFIs shall enable ADB's representatives to inspect any Qualified Subborrower, any Qualified Subproject, and any relevant records and documents.

25. The government, the EA (MOF), and the IAs (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.⁸ 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.

26. Public disclosure of the annual audited statements of utilization of funds for the project, including the auditor's opinion on the statements, will be guided by ADB's Public Communications Policy 2011.⁹ After the review, ADB will disclose the audited statements of utilization of funds 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 (not applicable)

B. Procurement of Goods, Works, and Consulting Services

27. Consultants will only be funded under the TA and be recruited by ADB according to ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).¹⁰ The terms of reference for consulting services are detailed in Section C below. Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Procurement will be carried out in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

28. An estimated 20 person-months of international consultants and 25 person-months of national consultants will be required. ADB will recruit consulting firm(s) using the consultants' qualification (CQS) method. ADB will recruit the Environmental and Social Management System Specialist using individual consultant selection method. In all cases output-based (lump-sum) contract may be considered.

⁸ 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;
- b. If the delay exceeds 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.

⁹ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>.

¹⁰ Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>

C. Outline Terms of Reference

29. The tasks and duties of each of the consulting services will be customized for each PFI and require the following expertise:

30. **Agriculture Finance and Rural Banking Experts** (international and national) will (i) conduct a market study to identify growth potential, profitable product lines; (ii) develop credit policies and procedures; (iii) develop risk-based pricing methodology; (iv) train credit officers on new credit policies and procedures; and (v) improve clients' financial literacy, in particular, their ability to (a) distinguish between usurious offers and responsible finance practice; and (b) understand their demand for credit and debt service capacity. The expert will be a seasoned banker and have extensive experience in the development of agricultural financing products, credit policy and procedures, and risk assessment in advanced and emerging countries. At least 15 years of relevant professional experience is required.

31. **Credit Scoring Experts** (international and national) will help (i) establish expert scorecard system for small business loans, issued in the range from \$100,000 to \$300,000 to individual entrepreneurs; and (ii) train credit officers on a new credit scoring method. The expert will be a staff or affiliate of a renowned firm specialized in credit scoring and credit information systems development and maintenance and have hands-on experience in the diagnostic, design, testing and roll out of credit scoring expert system application, credit data management, client segmentation, both in advanced and emerging economy contexts. At least 15 years of relevant professional experience is required.

32. **Mobile Loan Application System Vendor** (international and/or national) will help improve rural outreach through establishing a mobile loan application system and a supporting bank card system. The vendor will be a company with at least 10 years services track record of providing IT and cards solutions and systems are adapted for mobile banking and credit underwriting requirements in Uzbekistan or in other Central Asian country environments.

33. **Small Business Banking Expert** (international) will support an expansion of individual and small business lending with a special emphasis on the regions and help (i) conduct a market study to identify growth potential, profitable product lines; (ii) develop credit assessment policies and procedures; (iii) develop risk-based pricing methodology; (iv) train credit officers on new credit assessment policies and procedures; and (v) improve clients' financial literacy, in particular, their ability to (a) distinguish between usurious offers and responsible finance practice; and (b) understand their demand for credit and debt service capacity. The expert will be a seasoned banker and have extensive experience in the development of agricultural financing products, credit policy and procedures, risk assessment in advanced and emerging countries. At least 15 years of relevant professional experience is required.

34. **Environmental and Social Management System (ESMS) Specialist** (national, 10 person-months, intermittent). The specialist will have at least 7 years of experience in environmental and social management and be familiar with the SPS and other IFI environmental and social safeguard policies applicable for financial intermediaries. The specialist assists PFIs in ensuring their ESMSs meet SPS requirements. The specialist will review the ESMS and related reporting and advise PFIs on modifications as necessary. The specialist will (i) validate PFI's environmental and social (ES) safeguard categorization process for subloans to be carried by PFIs and identify arrangements in case of differences between the SPS and national laws and regulations; (ii) advise PFIs on the due diligence and mitigating measures required for subloans classified as environment B category; (iii) review PFIs' annual ES performance reports

prior to submission to MOF and ADB; (iv) conduct environment audit for high risk subprojects on periodical basis or any other subprojects as needed; and (v) conduct ESMS training for PFIs at least twice a year and periodically report to and address issues raised by ADB.

35. The distribution of the TA to PFI beneficiaries will be based on the customized terms of reference for each PFI and TA agreements between ADB and the PFI.

VII. SAFEGUARDS

36. Pursuant to ADB's SPS (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth Appendix 5 of the SPS. All PFIs will ensure that their investments are in compliance with applicable national laws and regulations and will apply the project's prohibited investment activities list (Appendix 1 of ESMS linked document) to subprojects financed by the ADB loan proceeds.¹¹ This project is categorized as FI for environment and FI (treated as C) for involuntary resettlement (IR) and indigenous peoples (IP) safeguards. Each PFI will have in place an ESMS to be maintained as part of its overall management system to meet Uzbekistan's national laws and regulations and ADB's SPS. Subprojects classified environment category A and included in the ESMS environmental exclusion list are excluded from the financing under the project. Eligible subprojects will follow Uzbekistan national environmental regulations. Each PFI is required to (i) demonstrate to ADB that it has a satisfactory ESMS in place prior to the first disbursement by ADB; and (ii) provide to ADB annual reports on its ESMS performance (Appendix 6 of ESMS linked document).

37. The government shall cause each PFI to ensure that the preparation, design construction, implementation, operation and decommissioning of each Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environment Safeguards; and (c) the ESMS, and any corrective or preventative actions set forth in a Safeguards Monitoring Report

38. PFIs shall ensure that each Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) ADB's SPS (2009); (c) its ESMS; and (d) and any corrective or preventative actions set forth in an annual Environmental and Social Performance Report.

39. PFIs will ensure that all subprojects using ADB funds are first screened against the Prohibited Investment Activities List, and in a second step screened and categorized as described in the ESMS. 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 2 of ESMS linked document), or fall under the Environmental Exclusion List (Appendix 3 of ESMS linked document) or having involuntary resettlement impacts or impacts on indigenous peoples will not be eligible for financing under this program.

VIII. GENDER AND SOCIAL DIMENSIONS

40. The project will contribute to improving the enabling environment for women-owned small businesses by upgrading their skills and access to finance. To ensure a wide outreach of training to the targeted population, PFIs will (i) conduct annual customer surveys of women

¹¹ Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2 of the RRP; linked document 13).

owned small businesses to identify issues faced by this segment, (ii) carry out public marketing campaigns to improve outreach to women and rural small businesses.

41. The PFIs will carry out and monitor the progress of gender and social dimensions as described in the gender action plan as described in Table 4.

Table 4: Gender Action Plan

Activities	Performance Indicators/Targets	Responsible Unit	Timeframe
Output 1: Expanded capacity of the participating financial institutions for financing small businesses			
1.1 Sustainable bank finance to women-owned small businesses provided			
Increase loans to women-owned businesses	<ul style="list-style-type: none"> PFIs' loans to women-owned businesses increased to SUM700 billion in 2021 (2015 baseline: SUM310 billion). PFIs' women borrowers increased to 9,000 in 2021 (2015 baseline: 7,500). 	PFIs	Q4 2016–2021
1.2 Gender policy of participating financial institutions improved			
PFIs adopt a Gender Policy	<ul style="list-style-type: none"> A Gender Policy is developed and adopted. 	DVB, ULC	2017–2018
PFIs conduct gender awareness seminars for PFI's board, management and staff	<ul style="list-style-type: none"> At least 50% of each PFI's board, management, and staff attended gender seminars. 	PFIs	Q3 2017 onwards
PFIs conduct annual customer surveys and public awareness campaigns	<ul style="list-style-type: none"> Customer survey conducted by each PFI at least once a year. At least one public awareness campaign on women entrepreneurship and bank products held by each PFI. 	PFIs	2017 onwards
1.3 Gender monitoring system of participating financial institutions enhanced			
Establish sex-disaggregated database and monitoring mechanism on women entrepreneurship	<ul style="list-style-type: none"> Monitoring system with sex-disaggregated data established in all PFIs (total loan amount, total number of loans, total new jobs created, number of female loan officers, number of PFI female staff in middle and upper management levels). Generate periodic/regular performance monitoring reports with sex-disaggregated data. 	PFIs	Q2 2017 onwards
1.4 Capacity of women-owned small businesses to access bank credit strengthened			
Conduct training on business development and financial literacy (basic cash flow analysis, productive household investments, bookkeeping, budgeting)	<ul style="list-style-type: none"> 25 training workshops conducted. 4,000 women clients trained on basic business and financial knowledge by 2021. At least 1,500 women-owned small businesses received loans or leases from the PFIs by 2021. 	PFIs	4 workshops per year (one per each PFI) Q2 2017 onwards
Provide training on legal literacy, i.e. tax, import regulations, document requirements to access loans or leases from PFIs	<ul style="list-style-type: none"> 25 training workshops conducted. 4,000 women trained on basic financial knowledge by 2021. 	PFIs	4 workshops per year Q2 2017 onwards

HKB = Hamkorbank, IYB = Ipak Yuli Bank, DVB = Davr Bank, ULC = UzbekLeasing International A.O., PFI = participating financial institution, Q = quarter.

Note: Under the project, women-owned businesses are defined as businesses with more than 50% female ownership.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting
<p>Outcome Increased sustainable provision of PFIs' financing to small businesses</p>	<p>By 2021^b</p> <p>a. PFIs' volume of small business loans and leases increased to SUM4,400 billion (2015 baseline: SUM1,770 billion), of which SUM1,730 billion are to small enterprises (2015 baseline: SUM730 billion); SUM1,640 billion are to micro enterprises (2015 baseline: SUM650 billion); and SUM1,030 billion to individual entrepreneurs (2015 baseline: SUM390 billion)</p> <p>b. PFIs' volume of small business loans and leases outside Tashkent increased to SUM2,600 billion (2015 baseline: SUM1,100 billion)</p> <p>c. PFIs' volume of loans and leases to women-owned businesses increased to SUM700 billion (2015 baseline: SUM310 billion)^c</p> <p>d. At least 60% of the numbers of subloans are received by small businesses located outside Tashkent (2015 baseline: 0%)</p> <p>e. At least 20% of the numbers of subloans are to women-owned businesses (2015 baseline: 0%)</p> <p>f. PFIs' net NPL ratios (loans overdue for more than 90 days) remain less than or equal to 4% of gross loans (2015 baseline: 1%^d)</p> <p>g. Participating banks' Basel III capital exceeds 14.5% of risk-weighted assets (2015 baseline: not applicable)</p>	<p>a–g. PFIs' progress reports</p>
<p>Output 1. Expanded capacity of the PFIs for financing small businesses</p>	<p>By 2021</p> <p>1a. PFIs' small business borrowers reaches 35,000 (2015 baseline: 28,261), of which 7,700 are small enterprises (2015 baseline: 6,158), 11,900 are microenterprises (2015 baseline: 9,662), and 15,400 are individual entrepreneurs (2015 baseline: 12,441)</p> <p>1b. PFIs' small business borrowers</p>	<p>1a–e. PFIs' progress reports</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting
	<p>outside Tashkent reaches 27,000 (2015 baseline: 24,000)</p> <p>1c. PFIs' women-owned business borrowers reaches 9,000 (2015 baseline: 7,500)</p> <p>1d. Selected PFIs have improved credit underwriting policies and systems in place (2015 baseline: not applicable)</p> <p>1e. At least 8,000 PFI borrowers trained on financial literacy, of which at least 50% are women (2015 baseline: 6,520)</p>	

Key Activities with Milestones
<p>1. Expanded capacity of the participating financial institutions for financing small businesses</p> <p>1.1. ESMSs of PFIs are established to ADB's satisfaction before the first disbursement (October 2016)</p> <p>1.2. PFIs disburse loans to small businesses (Q4 2016–Q4 2021)</p> <p>1.3. PFIs adopt improved underwriting policies and procedures (December 2018)</p> <p>1.4. PFIs develop and adapt a gender policy and conduct a series of workshops for management and staff on gender issues (March 2018)</p> <p>1.5. PFIs conduct annual marketing customer satisfaction surveys to assess the quality of financial services and demand for services (Q1 2018)</p> <p>1.6. PFIs train customers on financial literacy (Q12017–Q4 2019)</p>

ADB = Asian Development Bank, ESMS = environmental and social management system, NPL = nonperforming loan, PFI = participating financial institution, Q = quarter, TA = technical assistance.

^a Government of Uzbekistan. 2015. *Presidential Decree No. UP-4707: On the measures for structural reforms, modernization and diversification of production in 2015–2019*. Tashkent; Government of Uzbekistan. 2015. *Presidential Decree No. UP-4725: On the measures for ensuring reliable protection of private property, small business and private entrepreneurship and removal of barriers to their accelerated development*. Tashkent.

^b Individual PFI outcome and output performance targets are reflected in the project administration manual.

^c Women-owned businesses are defined as businesses with more than 50% female ownership.

^d Baseline data for NPLs as of the end of each year according to official information from the Central Bank of Uzbekistan.

Source: ADB.

B. Individual PFI Outcome and Output Performance Targets

Results Chain	Performance Indicators with Targets and Baselines
<p>Outcome</p> <p>Sustainable provision of PFIs' financing to small businesses increased</p>	<p>By 2021</p> <p>PFI's volume of small business loans increases to:</p> <p>a. Hamkorbank: SUM2,000 billion (2015 baseline: SUM797 billion);</p> <p>b. Ipak Yuli Bank: SUM 1,800 billion (2015 baseline: SUM762 billion);</p> <p>c. Davr Bank: SUM360 billion (2015 baseline: SUM122 billion);</p> <p>d. Uzbek Leasing: SUM240 billion (2015 baseline: SUM96 billion).</p>
	<p>By 2021</p> <p>PFI's loans to small businesses outside Tashkent reach:</p> <p>a. Hamkorbank: SUM1,620 billion (2015 baseline: SUM713 billion);</p>

Results Chain	Performance Indicators with Targets and Baselines
	<p>b. Ipak Yuli Bank: SUM760 billion (2015 baseline: SUM303 billion); c. Davr Bank: SUM60 billion (2015 baseline: SUM20.7 billion); d. Uzbek Leasing: SUM160 billion (2015 baseline: SUM64 billion).</p> <p>By 2021 PFI's loans to women's small businesses reach: a. Hamkorbank: SUM460 billion (2015 baseline: SUM177 billion); b. Ipak Yuli Bank: SUM110 billion (2015 baseline: SUM82 billion); c. Davr Bank: SUM80 billion (2015 baseline: SUM32 billion); d. Uzbek Leasing: SUM50 billion (2015 baseline: SUM19 billion).</p>
<p>Output Capacity of the PFIs for financing small businesses expanded</p>	<p>By 2021 PFI's small business borrowers reach (number): 1a. Hamkorbank: 27,050 (2015 baseline: 21,946) 1b. Ipak Yuli Bank: 6,300 (2015 baseline: 5,008) 1c. Davr Bank: 1,300 (2015 baseline: 1,020) 1d. Uzbek Leasing: 350 (2015 baseline: 287)</p>
	<p>By 2021 PFI's small business borrowers outside Tashkent reach (number): 2a. Hamkorbank: 22,765 (2015 baseline: 20,579) 2b. Ipak Yuli Bank: 3,657 (2015 baseline: 3,102) 2c. Davr Bank: 330 (2015 baseline: 133) 2d. Uzbek Leasing: 248 (2015 baseline: 208)</p>
	<p>By 2021 PFI's women borrowers increase to (number): 3a. Hamkorbank: 6,863 (2015 baseline: 5,821) 3b. Ipak Yuli Bank: 1,647 (2015 baseline: 1,388) 3c. Davr Bank: 375 (2015 baseline: 309) 3d. Uzbek Leasing: 115 (2015 baseline: 55)</p>

C. Monitoring and Reporting

42. **Project performance monitoring.** Each PFI will be required to include in its quarterly progress reports information on its small businesses subloan portfolio: (i) name or type of loan product (working capital or investment loan), (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 report format is in Appendix 1. These reports will be ADB's basis for monitoring and updating project performance and measuring the development impact of the project .

43. **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 ESMS expert will be recruited through the TA to help monitor PFIs' training, provide assistance to PFIs for ESMS establishment and operations including the preparation of Environmental and Social Safeguard (ES) performance reports of the PFIs.

44. **Safeguards monitoring.** PFIs will be required to establish an ESMS that meet ADB's standards before the first disbursement of funds (Appendix 1 of ESMS linked document). 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 the ADB annual ES performance reports (Appendix 6 of ESMS linked document) by the end of March of every year.

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

D. Evaluation

46. ADB will conduct semiannual and mid-term review missions to assess the progress of the project and review compliance with the loan agreement and project agreement covenants. The mid-term 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 6 months after the loan closing date, MOF will submit a project completion report to ADB in a form acceptable to ADB.¹²

X. ANTICORRUPTION POLICY

47. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹³ 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.¹⁴ To support these efforts, relevant provisions will be included in the legal agreements.

XI. ACCOUNTABILITY MECHANISM

48. 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.¹⁵

¹² Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

¹³ Anticorruption Policy: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

¹⁴ ADB's Integrity Office web site: <http://www.adb.org/integrity/unit.asp>

¹⁵ Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

49. All revisions/updates during course of project implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

PAM Prepared and Agreed with MOF and the PFIs	
First Revision	
Second Revision	

**NAME OF PARTICIPATING FINANCIAL INSTITUTION
QUARTERLY PROGRESS REPORT**

Quarter: [] Year []

A. Introduction and Basic Data

1. Provide the following:
 - (i) ADB loan number, project title, borrower, executing agency, implementing agencies;
 - (ii) Total estimated project cost and financing plan;
 - (iii) Status of project financing including availability of counterpart funds;
 - (iv) Dates of approval, signing, and effectiveness of ADB loan;
 - (v) Original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
 - (vi) Date of last ADB review mission.

B. Utilization of Funds (ADB Loan and Counterpart Funds: PFIs contribution and subborrowers' equity)

2. Provide the cumulative disbursements from the ADB loan and counterpart funds (subloans made to date), and comparison with time-bound projections (targets).

C. [PFI's] Business Plan for Micro and Small Loans Portfolio

3. Provide a description of the PFI's business plan, including the following:
 - (i) Number of staff involved in the PFI's micro and small loans operations as of (date), sex-disaggregated;
 - (ii) Assessment of staff competency in micro and small lending and actions taken or to be taken to fill the competency gap, if any;
 - (iii) Micro and small business lending policies (description of the PFI's policies on maturity of loans, on collateral required, interest rate structure, new lending products, lending limits and concentrations, and other relevant information); and gender-sensitive approaches.

D. Implementation Progress

4. Provide the following:
 - (i) Assessment of the progress of the credit line, including the validity of key operational assumptions and risks to achieving the financial targets;
 - (ii) Progress or achievements in implementation since the last progress report;
 - (iii) Assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (see Project Monitoring Table-Quarterly);

- (iv) Assessment of project implementation arrangements compared with those in the report and recommendation of the President (RRP) such as establishment and staffing of project implementation unit, and whether major changes have occurred or will need to be made; and
- (v) Information relating to other aspects of the implementing agencies' internal operations that may impact on the implementation arrangements or project progress;

E. Compliance with Covenants

5. Provide the following:

- (i) The PFI's compliance with financial loan covenants including the PFI's management, safeguard covenants, and the provision of Audited Annual Statement of Utilization of Funds and audited PFI financial statements

Financial Covenant	Stipulated financial ratio	Year					
		2016	2017	2018	2019	2020	2021
Prudential ratios as required by the CBU for banks, as amended from time to time. In case of ULC which is not subject to CBU's prudential ratios, a capital to asset ratio of not less than 25%	Must be maintained during project implementation period						
Return on average assets ratio	Not less than 1%						
Net non-performing loans ratio	Not more than 5%						
Maximum limit on an individual related party exposure	Not more than 25%						

- (ii) The borrower's and implementing agencies' compliance with project-specific loan covenants associated with implementation.

F. Major Project Issues and Problems

6. Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, noncompliance to safeguards requirements during implementation (if any), and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements).

	Loan Disbursement (Previous Quarter)								Loan Disbursement (Current Quarter)								Outstanding							
	Number		% of total		Amount		% of total		Number		% of total		Amount		% of total		Number		% of total		Amount		% of total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Maturity (months)																								
< 3																								
[3-6]																								
[6-12]																								
[12-24]																								
[24-36]																								
> 36																								
Total																								
Type of client																								
No. of previous bank loans																								
Previous loans from other bank																								
Total																								
Region																								
Andijon																								
Buxoro																								
Farg'ona																								
Jizzax																								
Xorazm																								
Namangan																								
Navoiy																								
Qashqadaryo																								
Qaraqalpakstan																								
Samarqand																								
Sidaryo																								
Surxondaryo																								
Toshkent Viloyati																								
Toshkent Shahri																								
Total																								

Note:
 (1) This column will not be filled during the first year of reporting .Subsequent reports should include this column.

Table 5: Breakdown of the PFI's Loan Portfolio (SUM million)

	2016				2017				2018				2019			
	Total for the year		Outstanding at year-end		Total for the year		Outstanding at year-end		Total for the year		Outstanding at year-end		Total for the year		Outstanding at year-end	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Microfinance																
Small																
Medium																
Corporate																
TOTAL																

	2020				2021			
	Total for the year		Outstanding at year-end		Total for the year		Outstanding at year-end	
	Male	Female	Male	Female	Male	Female	Male	Female
Microfinance								
Small								
Medium								
Corporate								
TOTAL								

**TERMS OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND
SPECIFIC AUDIT ASSURANCES REQUIRED UNDER LOAN: UZB SMALL
BUSINESS FINANCE PROJECT**

[FOR PFIs]

A. Background

1. The Small Business Financing Project is a financial intermediary loan. ADB will make a loan to the Government of Uzbekistan (government), and the government will lend the loan proceeds to participating financial institutions (PFIs).

B. Audit Requirements

2. ADB requires the following on an annual basis:

- (i) Audited Annual Statement of Utilization of Funds (see Attachment 1): The purpose of the audit of Annual Statement of Utilization of Funds is to enable the auditor to provide an independent and objective professional opinion on whether the Annual Statement of Utilization of Funds gives a true fair view or is presented fairly, in all material respects, in accordance with accounting principles acceptable to ADB.
- (ii) Specific additional audit assurances following ISAE 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information” with respect to:
 - a) Use of Loan Proceeds in accordance with the Project Agreement and only for the purposes of making SME Loans to Qualified SME for Qualified SME for Qualified SME Subprojects as defined in the Schedule to the Project Agreement.
 - b) Compliance with Financial Covenants defined in the Project Agreement (refer to Section D).
- (iii) Management Letter: The auditor will provide a management letter containing, at a minimum, (a) any material weaknesses in the accounting and internal control systems that were identified during the audit of the Annual Statement of Utilization of Funds, including any irregularity in the use of imprest fund and statement of expenditure (SOE) procedures where applicable, (b) recommendations to rectify identified weaknesses, (c) management’s comments on the audit recommendations along with the timeframe for implementation, (d) status of significant matters raised in previous management letters, (e) any other matters that the auditor considers should be brought to the attention of the project’s management; and (e) details of any ineligible expenditure.¹ The Management Letter should include only those issues which do not affect the true and fair view of the Annual Statement of Utilization of Funds. Serious issues

¹ Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreements; (ii) expenditures not allowed under the terms of the legal/financing agreement; and (iii) expenditures incurred in violation of applicable government regulations.

which affect the true and fair view presentation of the Annual Statement of Utilization of Funds should be reflected in the audit opinion.

C. Specific Considerations

3. The auditor will, during the course of the audit, pay particular attention to the following:
 - (i) The use of external funds in accordance with the relevant legal and financing agreements;
 - (ii) The maintenance of proper books and records;
 - (iii) Where the audit report has been issued under ISA 800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the Annual Statement of Utilization of Funds is prepared in accordance with a special purpose framework and that, as a result, the Annual Statement of Utilization of Funds may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.
 - (iv) The assurance report must contain, among others:
 - i. A statement that the engagement was performed in accordance with ISAE 3000.
 - ii. Subject matter;
 - iii. Criteria for measurement;
 - iv. A summary of the work performed; and
 - v. The auditor's conclusion.
 - (v) Adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the imprest account;
 - (vi) On the imprest fund procedure, audit procedures are planned and performed to ensure (a) the imprest account (and any sub-accounts) has been managed in accordance with ADB's Loan Disbursement Handbook, (b) the cash balance of the imprest account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the imprest account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the imprest account (and any sub-accounts) comply with disbursement percentages stipulated in the loan agreement;
 - (vii) On the SOE procedure, audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose stipulated in the loan agreement, and (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement; and
 - (viii) Any weaknesses in internal controls.
4. The audited Annual Statement of Utilization of Funds, audit report on specific assurances, and Management Letter will all be provided in the English language no later than 6 months after the end of the fiscal year to which they relate.
5. Public disclosure of the audited Annual Statement of Utilization of Funds, including the auditor's opinion thereon, will be guided by ADB's Public Communications Policy (2011). After review, ADB will disclose the audited Annual Statement of Utilization of Funds and the opinion

of the auditor thereon no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter will not be disclosed.

D. Compliance with Loan Covenants

6. ADB requires on an annual basis specific audit assurances with respect to compliance with the financial covenants set forth in subparagraphs 3(a) to (d) of the Schedule to the Project Agreement, to wit:

- (i) Prudential ratios as required by the CBU for banks, as amended from time to time. In case of ULC which is not subject to CBU's prudential ratios, a capital to asset ratio of not less than 25%;
- (ii) a return on average assets ratio of not less than 1%. For the purpose of this subparagraph, return on assets ratio means [PFI]'s net income after tax divided by its average total assets in a financial year as reported in its financial statements in accordance with international financial reporting standards;
- (iii) net non-performing loans ratio of not more than 5%. For the purpose of this subparagraph, net non-performing loans ratio means, in relation to any date, the percentage figure calculated as follows: (i) the aggregate amount of non-performing loans minus reserves; (ii) divided by gross loan portfolio; and (iii) multiplied by 100, with percent (%) added after such figure. For the purpose of this subparagraph, non-performing loan means any loan in respect of which any principal or interest amount has been outstanding for a period of more than ninety (90) days after the relevant due date provided for under the agreement(s) pursuant to which that loan was made;
- (iv) a maximum limit on an individual related party exposure of no more than 25%. For the purpose of this subparagraph, this limit is calculated as an individual exposure to a related party divided by the gross loan portfolio, expressed as a percentage.

E. Auditing Standards

7. Audits will be carried out in accordance with the International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Annual Statement of Utilization of Funds is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Statement of Utilization of Funds. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Statement of Utilization of Funds whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the Annual Statement of Utilization of Funds in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Annual Statement of Utilization of Funds.

F. Record Keeping

8. The auditors will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the Annual Statement of Utilization of Funds. This will include: (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts, or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; and (iii) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

G. Statement of Access

9. The auditors will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the project and deemed necessary by the auditor.

10. The auditor will be provided with full cooperation by all employees of [PFI] and the project implementing units, whose activities involve, or may be reflected in, the Annual Statement of Utilization of Funds. The auditor will be assured rights of access to banks and depositories, consultants, contractors, and other persons or firms hired by [PFI].

H. Independence

11. The auditors will be impartial and independent from any aspects of management or financial interest in the entity or project under audit. In particular, the auditors should be independent of the control of the entity. The auditors should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditors should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

I. Auditor Experience

12. The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards. The auditors should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of projects comparable in nature, size, and complexity to the project whose audit they are to undertake. To this end, the auditor is required to provide curriculum vitae (CV) of the personnel who will provide the opinions and reports, together with the CVs of managers, supervisors, and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

