

## PROJECT PREPARATORY TECHNICAL ASSISTANCE

### A. Justification

1. A small-scale project preparatory technical assistance (S-PPTA) will help develop project design for the ensuing financial intermediary loan to the Republic of Uzbekistan for the Second Small Business and Entrepreneurship Development Project (project).

### B. Major Outputs and Activities

2. **Output 1. Small business policy and regulatory environment, demand for credit and gender assessments, and subborrower eligibility.** A comprehensive study on the small business policy and regulatory environment will be conducted to identify the current constraints in small business finance and relevant policy implications. Among others, the study will focus on the secured transaction framework. Demand for credit by small businesses will be studied. A gender assessment will be carried out to ensure gender dimensions of the project. Eligibility criteria for small business subprojects to be financed under the project will be developed.

3. **Output 2. Due diligence on potential participating financial institutions (PFIs).** Assessments will be carried out on potential participating financial institutions (PFIs) and will include (i) financial management systems; (ii) quantitative and qualitative financial analysis; and (iii) integrity due diligence as part of the selection process for PFIs. Based on satisfactory due diligence findings, qualified PFIs will be selected for the project.

4. **Output 3. Project economic, financial, environmental, and social assessments.** The financial management system of the project's executing agency (EA) will be assessed. The S-PPTA will (i) assess relevant previous experience, strengths and weaknesses of financial management systems and controls, and financial reporting standards related to financial management and control of project funds; (ii) ensure that financial management systems of the EA are sufficient to produce timely and reliable financial data and reports, and to achieve adequate standards of performance; and (iii) where financial management systems do not meet ADB requirements, provide advice on steps to be taken to bring them in line with ADB requirements. Environmental and social management systems (ESMS) of potential PFIs will be audited. The S-PPTA will (i) review representative loan portfolios of potential PFIs; (ii) assess PFIs' performance and capacity for environmental and social management and identify areas where improvements are required; (iii) assess potential environmental and social impacts and risks of the PFIs' existing and likely future portfolios to determine whether or not the existing ESMS can handle the potential or expected environmental and social impacts; (iv) identify PFIs that fully meet ADB Safeguard Policy Statement (2009) requirements for financial institutions, PFIs that require some minor gap-filling to meet the requirements, and PFIs with major gaps or without ESMS, and propose how these PFIs will meet ADB ESMS requirements, and propose timelines necessary to meet the requirements in relation to the ADB project approval process; and (v) conduct basic coaching and follow-up on the gap-filling measures undertaken by the PFIs.

5. The major outputs and activities are summarized in Table A3.1.

**Table A3.1: Summary of Major Outputs and Activities**

Major Outputs	Expected Completion Date
Small business market assessment	January 2016
Economic analysis	February 2016
Social, gender and environment assessments	February 2016
Due diligence of potential PFIs	February 2016

MSE = micro and small enterprise, PFI = participating financial institution.  
Source: Asian Development Bank staff.

### C. Cost Estimate and Proposed Financing Arrangement

6. The S-PPTA is estimated to cost \$250,000, of which \$225,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF—other sources). The government will provide in-kind contribution (equivalent to 10% of the TA total cost) to cover counterpart staff time, office accommodation, logistical support, translation and timely access to information and data by the S-PPTA team. The detailed cost estimates are presented in Table A3.2.

**Table A3.2: Cost Estimates and Financing Plan**  
(\$'000)

Item	Total Cost
<b>Asian Development Bank<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	130.0
ii. National consultants	20.0
b. International and local travel	30.0
c. Reports and communications	2.0
2. Workshops and training	18.0
3. Miscellaneous administration and support costs	5.0
4. Contingencies	20.0
<b>Total</b>	<b>225.0</b>

<sup>a</sup> Financed by the ADB Technical Assistance Special Fund (TASF-other Sources).

<sup>b</sup> Workshops, trainings, seminars, and conferences

Purpose	Venue
- Workshops on credit demand and gender assessments, and small business development constraints	- Offices of potential PFIs
- Training on ESMS	

Source: Asian Development Bank staff estimates.

### D. Consulting Services

7. The TA will require consulting services of 4 international consultants for a total of 6 person-months, and 2 national consultants for total of 4 person-months. Individual consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). The number of person-months is in Table A3.3 below. The outline terms of reference for the S-PPTA consultants are described in paragraphs 8–13.

**Table A3.3: Summary of Consulting Services Requirement**

<b>Positions</b>	<b>Person-Months Required</b>
<b>International</b>	
Micro and Small Enterprise (MSE) Finance Specialist	2
Financial Management Expert	2
Integrity Due Diligence Expert	1
Legal Expert/Secured Transactions Specialist	1
<b>National</b>	
Environmental and Social Management System (ESMS) Audit Specialist	2
Gender Specialist	2

ESMS = environmental and social management system, MSE = micro and small enterprise.

Source: Asian Development Bank staff estimates.

**8. Micro and Small Enterprise (MSE) Finance Specialist (international, 2 person-months, intermittent).** The specialist shall have a graduate degree in economics, finance, business management, or other relevant discipline for the assignment. He/she should have at least 10 years of international experience in finance, banking, and microfinance. Experience in rural and women-owned business development and in the region will be valued. The specialist will (i) review the small business sector, identify the current development challenges and opportunities, and prepare an updated sector assessment reflecting recent trends and changes; (ii) review the government policy and regulatory framework for small business development including the secured lending framework; (iii) review the banking sector's existing financial services and products supporting small businesses and start-ups, identify strengths and weaknesses, and document lessons learned taking into consideration international best practices and feedback from the clients; (iv) assess recent trends in small business finance, and challenges and demand for credit by small businesses; (v) based on constraints that impede growth in the small business finance market, propose potential policy improvements; (vi) assess the development potential of alternative financing products for small businesses including leasing, factoring, and other forms of chain finance; (vii) assess options to widen access to credit through guarantee schemes or other alternative financial mechanisms; (viii) identify eligibility criteria for potential subborrowers; (ix) prepare an economic analysis of the proposed project in accordance with ADB's guidelines for economic analysis of projects; and (x) provide other outputs requested by the ADB project team and agreed by the specialist to complete the assignment in an efficient and timely manner.

**9. Financial Management Expert (international, 2 person-months, intermittent).** The expert will be a Chartered Accountant, chartered financial analyst or equivalent, have at least 10 years of working experience with extensive experience with frameworks for accounting and auditing and IFRS standards. The expert will prepare a report containing financial management assessments of each potential PFI, as well as detailed financial analyses of the PFIs. He/she will develop the design of the fund flow and disbursement mechanism for the ensuing loan and will assess the capacity of PFIs as the implementing agencies to manage imprest fund or SOE procedures without ceilings from the perspective of Strategy 2020 MTR Action Plan and Loan Disbursement Handbook.

**10. Integrity Due Diligence Expert (international, 1 person-month, intermittent).** The consultant will conduct due diligence on potential PFIs, including (i) identifying shareholders, beneficial owners, managers, and supervisors; (ii) assessing their AML/CFT frameworks and systems and adequacy of "know-your-customer" procedures; (iii) assessing real or reported

financial or reputational risks associated with the financial institutions, including identification of any civil or criminal litigation involving allegations of financial misconduct; (vi) reviewing Politically Exposed Persons (PEPs) associated with the institutions; and (vii) identifying potential risks resulting from including a PFI in the project; and (viii) suggesting mitigating actions which might help minimize potential integrity concerns.

**11. Legal Expert/Secured Transactions Specialist (international, 1 person-month, intermittent).** The specialist will have at least 10 years of international experience in secured transactions and small business finance in developing countries. The specialist will (i) work together with the MSE specialist to identify constraints to small businesses' access to finance (information asymmetry, little credit history, under collateralization, etc.) and develop policy recommendations; (ii) prepare an outline of the secured transaction framework and recommend policy and regulatory improvements; and (iii) identify any capacity development needs of the Central Bank of Uzbekistan and the collateral registry, with particular reference to increasing credit to small businesses.

**12. Gender Specialist (national, 2 person-months).** The gender specialist will have at least 8 years of experience in gender related issues that support women's entrepreneurship. The specialist will (i) assess constraints faced by women's businesses (cultural factors; collateral norms; loan size; terms and conditions; entrepreneurial skills); (ii) analyze profiles of women's businesses and identify most demanded types of business in which women want to be involved and if there are higher-profit options they can consider; (iii) collect gender and women's businesses data; (iv) review potential PFIs' gender action plans and monitoring frameworks if they exist; (v) review quality of and demand for financial products and services among women's small businesses; (vi) prepare a draft Gender Action Plan for the project; and (vii) provide other outputs needed for project design and agreed by the specialist to complete the assignment in an efficient and timely manner. In conducting her or his work, the specialist should, at least, review (i) the Country Gender Assessment for Uzbekistan available at <http://www.adb.org/documents/uzbekistan-country-gender-assessment-2014>; (ii) Uzbekistan country chapter in the publication on ICTs for women entrepreneurs available at <http://www.adb.org/publications/information-and-communication-technologies-women-entrepreneurs>; and (iii) Toolkit on gender and MSMEs development and finance available at <http://www.adb.org/documents/gender-tool-kit-micro-small-and-medium-sized-enterprise-finance-and-development>.

**13. Environmental and Social Management System (ESMS) Audit Specialist (national, 2 person-months, intermittent).** The specialist will have at least 10 years appropriate environmental and social auditing background and experience and knowledgeable of ADB's 2009 Safeguard Policy Statement (SPS). The specialist will conduct safeguard due diligence of the shortlisted PFIs based on the objectives, principles, and requirements of the SPS. The specialist will work under the guidance of ADB's environment specialist. In particular, the specialist will (i) assess potential environmental and social impacts and risks of the PFIs' existing and likely future portfolios to determine whether or not the existing ESMS can handle and is commensurate to the potential or expected environmental and social impacts; (ii) prepare a summary assessment of PFIs, identifying PFIs that fully meet ADB's SPS requirements for financial institutions, PFIs that require some minor gap-filling to meet the requirements, and PFIs with major gaps or without ESMS, and proposed measures how these PFIs will meet ADB SPS ESMS requirements and propose timeline necessary to meet the requirements in relation to ADB project approval process; (iii) conduct basic coaching and follow-up on the gap-filling measures undertaken by the PFIs and report to ADB; (iv) brief potential PFIs on ADB's SPS requirements for financial institutions; and (v) other tasks required by the terms of reference.

## E. Implementation Arrangements

14. The Ministry of Finance will be the executing agency for the S-PPTA. ADB's Central and West Asia Department, Public Management, Financial Sector, and Trade Division (CWPF), will act as focal point and coordinator of consultant inputs and activities. The proposed S-PPTA will be implemented over 10 months, from November 2015 to August 2016 and will require 4 international consultants for a total of 6 person-months, and 2 national consultants for a total of 4 person-months. ADB will recruit consultants based on the individual consultant selection method in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). The consultants will be considered for engagement on output-based (lump sum) contracts in line with MTR Action Plan Nos. 2.9.2 and 2.10.2. The disbursements will be made in accordance with ADB's Technical Assistance Disbursement Handbook (May 2010, as amended from time to time). The tentative implementation schedule is set forth in Table A3.4.

**Table A3.4: Tentative Implementation Schedule**

<b>Item</b>	<b>Expected Completion Date</b>
Approval of S-PPTA	November 2015
Initial deployment of consultants	November 2015
TA closing	August 2016

S-PPTA = small-scale project preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank staff.