

ATTACHED TECHNICAL ASSISTANCE

A. Introduction

1. The technical assistance (TA) will support the implementation of the Small Business Finance Project through participating financial institutions (PFIs).¹ The TA will strengthen the PFIs' technical capacity to widen their outreach to small businesses and improve subborrowers' financial literacy and business planning. The TA will be implemented from the date of TA effectiveness until 31 December 2019.

B. Output and Key Activities

2. **Output.** The project's output will be expanded capacity of the PFIs for financing small businesses. The TA will help PFIs (i) strengthen credit underwriting policies and procedures, (ii) develop a credit scoring system for small business loans, (iii) improve rural outreach by establishing mobile loan processing, and (iv) strengthen PFIs' financial literacy programs for their small business clients. The TA will also support PFIs to establish environmental and social management systems (ESMSs) for adequate management of environmental and social issues in compliance with the Safeguard Policy Statement (2009) of the Asian Development Bank (ADB) and national regulations. The TA will have two components: (i) the Ipak Yuli Bank (IYB) component, and (ii) the Davr Bank component.

a. Ipak Yuli Bank Component

3. **Agriculture and Individual Business Strategy.** IYB has a dedicated small business loan department serving about 5,000 borrowers, of which 62% are domiciled in rural areas, where they are served by 14 branches and 71 express centers. As of the end of 2015, rural small business loans represent 40% of the small business loan volume, with an average loan size of SUM98 million in rural areas. IYB currently offers the following products: (i) microloans up to \$45,000 equivalent, (ii) small loans from \$45,000 to \$100,000 equivalent, and (iii) medium-sized and corporate loans from \$100,000 to \$2 million equivalent. IYB's loan portfolio is concentrated in manufacturing (38%) and trade (35%), while agriculture represents only 3% of loans outstanding.

4. IYB recognizes the potential of agribusiness with increasing demand from neighboring markets and sees it as an opportunity to improve its risk diversification. IYB plans to expand agriculture loans to 10% of loans by 2018. To successfully cater to farmers and agribusiness needs, IYB has to provide agricultural financing products that accommodate cash flows differentiated by crops and regions. This requires (i) a market assessment for different regions and crops, (iii) preparation of due diligence guidelines and policies for credit underwriting (including pricing) and monitoring, (iv) product design and testing, and (v) on-the-job training of loan officers.

5. Individual entrepreneurs represent 90% of small business loan clients that borrow up to \$100,000. To respond to their client growth, IYB is increasing the loan size for this segment to \$300,000 and expanding the volume of loans made to this segment from 15% to 30% of total loans outstanding by 2018. While IYB has well-established credit underwriting procedures and a credit scoring application for enterprise loans up to \$100,000, loans above this amount require a

¹ The TA first appeared in the business opportunities section of the Asian Development Bank (ADB) website on 12 February 2016.

more comprehensive due diligence and documentation. To improve its outreach to villages and small businesses, IYB aims to reduce transaction costs and adopt a timely and client-responsive lending process by introducing mobile banking applications and tablet computers to process and disburse loans on-site during loan officer field visits. Disbursements will be credited via debit cards.

b. Davr Bank Component

6. **Agriculture and Individual Business Strategy.** Davr Bank provides microloans up to \$45,000 and small business loans up to \$100,000 equivalent. The bank serves about 1,000 borrowers, of which 13% are domiciled in rural areas, where they are served by seven branches. Micro and small business loans represent 90% of Davr Bank's loan volume, with an average loan size of \$120 million. Davr Bank currently offers the following products: (i) microloans up to \$45,000 equivalent, and (ii) small loans from \$45,000 to \$100,000 equivalent.

7. Individual entrepreneurs represent 90% of Davr Bank's loan book. To grow in the small business market segment, Davr Bank is planning to increase the loan size to \$300,000 and expanding the volume of loans at a compound annual growth rate of 25% during by 2021. While microloans up to \$20,000 represent the core of Davr Bank's lending, the bank plans to grow the small business loan book outside the capital from 13% in 2015 to 24% of its loan book in 2021.

8. To prepare for the planned substantial loan growth, Davr Bank needs to improve its lending processes, credit monitoring, and internal controls. In particular, it needs to simplify decision-making and reduce documentation requirements by focusing on determining the loan size based on borrower cash flows rather than collateral. To facilitate the timely delivery of loans to its clients, the bank will introduce a scoring system supporting loan underwriting and monitoring. To improve its outreach to villages and small businesses, Davr Bank aims to reduce transaction costs and adopt a timelier and client-responsive lending process by introducing the use of tablet computers for on-site loan origination and monitoring, and the use of debit cards for electronic disbursements.

9. **Inputs and Activities.** IYB and Davr Bank will undertake the following activities:

- (i) expand agriculture lending by
 - (a) conducting a market study to identify growth potential and profitable product lines;
 - (b) developing credit assessment policies and procedures;
 - (c) developing risk-based pricing methodology; and
 - (d) training credit officers on new credit assessment policies and procedures;
- (ii) expand and improve services to individual entrepreneurs by
 - (a) establishing an expert scorecard system for small business loans, issued from \$100,000 to \$300,000; and
 - (b) training credit officers on a new credit scoring method; and
- (iii) improve rural outreach by
 - (a) establishing a mobile loan application system;
 - (b) establishing a supporting bank card system; and
 - (c) improving clients' financial literacy, in particular their ability to distinguish between usurious offers and responsible finance practice, and to understand their demand for credit and debt service capacity.

10. Expert inputs are required to support IYB and Davr Bank in (i) conducting an agriculture market study, (ii) developing agro-credit policies and procedures, (iii) training credit officers, (iv)

developing a credit scoring system for loans to individual entrepreneurs that exceed \$100,000, (v) establishing mobile loan applications, and (vi) enhancing their financial literacy training programs.

11. IYB will prepare detailed terms of reference for consulting services in coordination with ADB. By 31 December 2019, IYB should have achieved the following results:

- (i) agriculture lending policy and procedures are in place and have been successfully tested and rolled out,
- (ii) credit scoring system for individual entrepreneurs has been developed and is in use,
- (iii) mobile credit assessment system has been established,
- (iv) agriculture credit volume has increased to 10% of total loan portfolio, and
- (v) small loan volume for individual entrepreneurs has reached 30% of total loans.

12. Davr Bank will prepare detailed terms of reference for consulting services in coordination with ADB. By 31 December 2019, Davr Bank should have achieved the following results:

- (i) streamlined individual and small business lending policies and procedures are in place and have been successfully tested and rolled out,
- (ii) credit scoring system for individual entrepreneurs has been developed and is in use,
- (iii) mobile credit assessment system has been established,
- (iv) micro and small business credit volume in the regions outside the capital has reached 20% of total loans, and
- (v) at least 1,000 clients have been trained in financial literacy.

C. Cost and Financing

13. The TA is estimated to cost \$650,000, of which \$500,000 will be financed on a grant basis by the Financial Sector Development Partnership Special Fund. The PFIs will provide counterpart support of \$150,000 in the form of staff, logistical support, national consultants, and necessary related investments.

Cost Estimates and Financing Plan (\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	300.0
ii. National consultants	90.0
b. International and local travel	60.0
2. Contingencies	50.0
Total	500.0

^a Financed by the Financial Sector Development Partnership Special Fund and administered by the Asian Development Bank. The participating financial institutions will provide counterpart support of \$150,000 in the form of staff, logistical support, national consultants, and necessary related investments.

Source: Asian Development Bank estimates.

D. Implementation Arrangements

14. The consulting services will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time). An estimated 20 person-months

of international consultants and 25 person-months of national consultants will be required. The national Environmental and Social Management System Specialist will be hired using the individual consultant selection method. The other consultants will be engaged through firms selected using the consultant qualification selection method. Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). ADB will monitor the TA implementation through regular visits to Uzbekistan and telephone contact. Periodical reporting by each PFI to ADB will include (i) brief quarterly progress reports on the TA components; (ii) regular communication, as required, to address issues that warrant examination and immediate feedback; and (iii) a final report, which will include the results of the TA project, lessons, a description of the tasks undertaken, a measurement of the impact and outputs of the TA project, and a summary of IYB's and Davr Bank's future prospects in small business services. The final report will be submitted to ADB within 30 days after the TA project's completion date.

E. Outline Terms of Reference for Consultants

15. **Agriculture Finance and Rural Banking Experts** (international and national). The experts will be seasoned bankers and have extensive experience in the development of agriculture financing products, credit policy and procedures, and risk assessment in advanced and emerging countries. At least 15 years of relevant professional experience is required. The experts will support PFIs to expand their agriculture loan portfolios by (i) conducting market studies to identify growth potential and profitable product lines, (ii) developing credit assessment policies and procedures, (iii) developing risk-based pricing methodologies, and (iv) training credit officers on new credit assessment policies and procedures.

16. **Credit Scoring Experts** (international and national). The experts will be staff members or affiliates of renowned firms specializing in credit scoring and credit information systems development and maintenance. They should have hands-on experience in the design, testing, and roll-out of credit scoring expert system applications, credit data management, and client segmentation, both in advanced and emerging economy contexts. At least 15 years of relevant professional experience is required. The experts will help PFIs (i) establish expert scorecard systems for small business loans issued from \$100,000 to \$300,000, and (ii) train credit officers on a new credit scoring method.

17. **Mobile loan application system vendor**. The vendor will be a company with at least a 10-year track record of providing information technology and cards solutions and systems adapted for mobile banking and credit underwriting requirements in Uzbekistan or in a comparable Central Asian country. The vendor will help PFIs (i) establish a mobile loan application system, and (ii) establish a supporting bank card system.

18. **Small Business Banking Expert** (international). The expert will support an expansion of individual entrepreneurs and small business lending, with a special emphasis on the regions, outside Tashkent by (i) conducting a market study to identify growth potential and profitable product lines; (ii) developing credit assessment policies and procedures; (iii) developing risk-based pricing methodology; (iv) training credit officers on new credit assessment policies and procedures; and (v) improving clients' financial literacy, in particular their ability to distinguish between usurious offers and responsible finance practice, and to understand their demand for credit and debt service capacity. The expert will be a seasoned banker and have extensive experience in the development of agriculture financing products, credit policy and procedures,

and risk assessment in advanced and emerging countries. At least 15 years of relevant professional experience is required.

19. **Environmental and Social Management System Specialist** (national, 10 person-months, intermittent). The specialist will have at least 7 years of environmental and social management experience and be familiar with ADB's Safeguard Policy Statement and other international finance institutions' environmental and social safeguards as applicable for financial intermediaries. The specialist will assist PFIs in making their ESMSs functional and in line with Safeguard Policy Statement requirements. The specialist will review each PFI's ESMS and related reporting, and will advise each PFI to modify its ESMS as necessary. The specialist will (i) validate PFIs' environmental and social safeguard categorization process for subloans to be carried by PFIs, and identify arrangements in case of differences between the Safeguard Policy Statement and national laws and regulations; (ii) advise PFIs on the due diligence and mitigating measures required for subloans classified as category B for environment; (iii) review PFIs' annual environmental and social performance reports prior to submission to ADB, and consolidate PFIs' environmental and social performance reports into a safeguard monitoring report for submission to ADB and the Ministry of Finance; (iv) periodically conduct environmental audits for high-risk subprojects 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.

20. 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.