

## FINANCIAL MANAGEMENT ASSESSMENT REPORT (MICROFINANCE INSTITUTIONS)

### A. Executive Summary

1. As of February 2013, there are 126 licensed microfinance institutions (MFIs) and microfinance banks in Tajikistan. They provided microcredit with varying purpose, loan size, outreach, efficiency, self-sufficiency, profitability, and impact. The Access to Green Finance project will help meet demand for green finance, while promoting efficient financial intermediation consistent with the ADB requirements. The Project Management Unit (PMU) under the MOF will establish a Green Finance Fund in a commercial bank acceptable to the MOF and will lend \$8.8 million equivalent in somoni to eligible MFIs for tenors of 5 years, at an interest rate equal to the National Bank of Tajikistan (NBT) refinancing rate, for onlending to subborrowers. The PMU will select and allocate this sum among MFIs in accordance with agreed selection and allocation criteria,<sup>1</sup> subject to ADB concurrence. ADB conducted financial due diligence on several MFIs and found that Arvand, IMON, Humo, and Oxus meet the agreed selection criteria. The final selection of MFIs for participation under this project will be conducted by the PMU in accordance with the guidelines set forth in the Project Administration Memorandum (PAM) and will be subject to ADB's concurrence.

2. Among the 4 MFIs referenced above, Humo and Oxus are licensed by NBT as microloan organizations (MLOs) and hence can only perform lending activities. IMON International and Arvand are registered as microdeposit organizations (MDOs) and hence can perform both lending and deposit-taking activities. Oxus was one of the implementing agencies that received a loan under a previous ADB project, the Microfinance Systems Development Program (No. 33040). IMON has been a recipient of loans from EBRD, IFC, and other institutions; Arvand and Humo have been recipients of loans from EBRD, KfW, and other institutions. All 4 of these MFIs meet the necessary financial ratios (footnote 1) and have successfully completed ADB's due diligence for financial intermediaries (Table 1). ADB's integrity due diligence found no evidence that they have engaged in money laundering or other illegal activities.

**Table 1. Assessment of Tajikistan MFIs with Agreed Upon Requirements**

Item	Requirement	IMON (2012)	Arvand (2012)	Humo (2012)	Oxus (2012)
Meeting all NBT prudential requirements?	Yes	Yes	Yes	Yes	Yes
Equity / Total Assets	≥ 12%	24.2%	13.6%	23.2%	20.3%
Return on Assets (ROA)	> 0%	6.5%	5.0%	9.0%	3.4%
Return on Equity (ROE)	≥ 10%	26.2%	30.6%	38.7%	16.7%
Intermediation Cost Ratio (Operating Expenses/Total Assets)	< 33%	26.8%	28.8%	32.9%	31.2%
PAR (Portfolio at Risk) > 30 days	< 5%	2.2%	0.3%	1.2%	0.7%
Write-off Ratio	< 5%	1.0% <sup>a</sup>	0.1%	1.3% <sup>a</sup>	1.2% <sup>a</sup>

<sup>1</sup> In order to be eligible to participate, an MFI must (i) comply with capital adequacy requirements and other prudential requirements established by the National Bank of Tajikistan; (ii) have equity equal to at least 12% of its total assets; (iii) have a ratio of return on assets (ROA) greater than zero; (iv) have a ratio of return on equity (ROE) of at least 10%; (v) have an intermediation cost ratio of less than 33%; (vi) have a portfolio at risk (PAR) over 30 days of less than 5%; (vii) have a write-off ratio of less than 5%; (viii) have corporate, financial, and management and governance practices acceptable to ADB and MOF; (ix) have satisfactorily completed ADB's integrity due diligence checklists; and (x) have substantial outreach in low income urban and rural areas. These requirements must be maintained throughout the project implementation period. An MFI that fails to meet one or two of criteria (ii)–(vii) but still has strong implementation capabilities may be considered for participation if it submits an action plan to attain them, as long as it complies with criteria (i) and (viii)–(x). MFIs will also be required to submit audited financial statements for the 2 years prior to entering into a subloan agreement.

Item	Requirement	IMON (2012)	Arvand (2012)	Humo (2012)	Oxus (2012)
ADB financial intermediary due diligence ok?	Yes	Yes	Yes	Yes	Yes
ADB integrity due diligence ok?	Yes	Yes	Yes	Yes	Yes
Substantial outreach in rural areas?	Yes	Yes	Yes	Yes	Yes
<b>Summary</b>	<b>Ok</b>	<b>Ok</b>	<b>Ok</b>	<b>Ok</b>	<b>Ok</b>

<sup>a</sup> 2011.

Source: Asian Development Bank staff.

3. The 4 MFIs' financial statements are prepared and maintained according to International Financial Reporting Standards (IFRS) and are audited according to International Standards on Auditing (ISA) by NBT-accredited audit firms (for 2012, Baker Tilly [Arvand and IMON], BDO [Humo], and Finconsult [Oxus]). ADB's project agreements with the selected MFIs will include a provision for their external auditors to certify that ADB's loan funds were used by them only for the permitted purposes.

4. The 4 MFIs' internal audit systems are appropriate to their organizations. The internal audit departments (IADs) report independently to audit committees under their boards of directors and are structured based on the relevant articles of the microfinance law and their internal audit policies. The 4 MFIs also diligently apply reasonable credit appraisal procedures. All four have constituted credit and/or credit approval committees, which in most cases include board members for the purpose of assessing and approving high-value loans. All 4 MFIs have also established asset-liability management committees which ensure that asset-liability mismatches are properly assessed and managed. Policies and practices are also in place for treasury and other operational functions.

5. ADB's loan will finance subprojects for the purchase of smart green energy solutions (SGES). Subprojects will comply with the requirements of Tajikistan's environmental legislation and regulations and conform to ADB's safeguards policies. MFIs will finance only those subprojects which have minimal or no adverse social or environmental risks. Subprojects that fall under ADB's environmental and social safeguard categories A and B or which specifically require environmental assessment clearances by the Government of Tajikistan will not be financed under the project. ADB's prohibited investment activity list will apply.

6. A key risk that participating MFIs will face is credit risk. The credit risk of lending for SGES can be managed through careful client selection and assessment. The low levels of delinquency and write-offs indicate evidence that MFIs manage credit risk well. The risk will be distributed among a relatively large number of customers since ADB-financed loans for SGES are expected to average around \$2,000 and may not exceed \$5,000. MFIs selected to participate in this project will be allowed to set their interest rates for SGES loans based on full cost and risk recovery (i.e., taking into account their cost of capital, administrative expenses, and expected loan losses).

## **B. Project Implementation Units (PIUs)**

7. The members of the PIUs for each selected MFI are identified in the PAM. Staff will be trained and supported to ensure they can correctly assess and manage credit risks, safeguards, and integrity processes to ensure project results.

**C. Funds Flow and Disbursement Arrangements**

8. ADB's imprest fund and statement of expenditure (SOE) procedures will be utilized. Arrangements on funds flow and ADB procedures for loan withdrawals and SOE procedures are detailed in the PAM.

**FINALIZED FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE (FMAQ) BY  
FOUR MFIs**

**A. MDO IMON International**

**TAJ: Access to Green Finance Project  
Financial Management Assessment Questionnaire**

Topic	Response	Remarks
<b>1. Implementing Agency:</b>	<b>MDO "IMON International", LLC</b>	
1.1. What is the entity's legal status / registration?	CSC, Closed Stock Company	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	We have loans provided by foreign IFIs. Debt list is attached	
1.3. What are the statutory reporting requirements for the entity?	We report to NBT, tax authorities and our foreign partners under loan agreement requirements.	
1.4. Is the governing body for the project independent?	Yes	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes	
<b>2. Funds Flow Arrangements</b>		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Attracted funds have to be registered at NBT according to requirements of instruction 191.	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3. What have been the major problems in the past in receipt of funds by the entity?	None	
2.4. In which bank will the Imprest Account be opened?	Eskhata Bank	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	Yes	
2.7. How are the counterpart funds accessed?	Directly	
2.8. How are payments made from the counterpart funds?	Through correspondent accounts	
2.9. Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	N/A	
<b>3. External Audit</b>		
3.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. 2012 was audited by Baker Tilly Tajikistan, LLC	
3.2. Are there delays in audit of the entity?	There are no delays. We	

Topic	Response	Remarks
When are the audit reports issued?	get reports by March of each year.	
3.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
3.4. Were there any major accountability issues brought out in the audit report of the past three years?	No	
3.5. Will the entity author audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes	
3.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
3.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No	
3.8. Has the project prepared acceptable terms of reference for an annual project audit?	Yes	

General Director  
MDO "IMON International", CSC



Sharipova S.

8, April 2013



**B. MDO Arvand**

**TAJ: Access to Green Finance Project**  
**Financial Management Assessment Questionnaire**

Topic	Response	Remarks
<b>1. Implementing Agency:</b>	<b>MDO ARVAND LLC</b>	
1.1. What is the entity's legal status / registration?	Limited liability company registered as a microcredit deposit organization with the National Bank of Tajikistan (NBT)	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, for example, housing finance project funded in part by Habitat for Humanity	
1.3. What are the statutory reporting requirements for the entity?	We report to national bank, tax authorities and our foreign partners under loan agreement requirements. Also to Board of Directors.	
1.4. Is the governing body for the project independent?	Yes	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes	
<b>2. Funds Flow Arrangements</b>		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	After registering the loan at NBT level, funds will be deducted from the account into which the loan proceeds are received from MOF and transferred to the accounts designated by our borrowers	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3. What have been the major problems in the past in receipt of funds by the entity?	None	
2.4. In which bank will the Imprest Account be opened?	We have an account with Eshkata Bank	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	Yes	
2.7. How are the counterpart funds accessed?	Not applicable	
2.8. How are payments made from the counterpart funds?	Not applicable	
2.9. Are the beneficiaries required to contribute to project costs? If	Yes, our borrowers will be required to contribute to	

Topic	Response	Remarks
beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	project costs (we will not lend them 100% of the cost)	
<b>3. External Audit</b>		
3.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. 2011 and 2012 was audited by Baker Tilly.	
3.2. Are there delays in audit of the entity? When are the audit reports issued?	There are no delays. We get reports by end March each year.	
3.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
3.4. Were there any major accountability issues brought out in the audit report of the past three years?	No	
3.5. Will the entity author audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes. External auditor audits all accounts.	
3.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Yes but there weren't any major issues.	
3.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No	
3.8. Has the project prepared acceptable terms of reference for an annual project audit?	Yes	





**C. MLO Oxus**

**TAJ: Access to Green Finance Project**  
**Financial Management Assessment Questionnaire**

Topic	Response	Remarks
<b>1. Implementing Agency:</b>	<b>MLO OXUS LLC</b>	
1.1. What is the entity's legal status / registration?	Limited liability company registered as a microlending organization with the National Bank	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Entity is implementing mainly externally financed lending projects by receiving funds from foreign investors	
1.3. What are the statutory reporting requirements for the entity?	Entity is providing regular monthly, quarterly and annual reports to National Bank, Tax and statistic committees and Social protection Fund	
1.4. Is the governing body for the project independent?	Governing body for the project is not created yet	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes	
<b>2. Funds Flow Arrangements</b>		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	According to ADB procedures	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Under discussion	
2.3. What have been the major problems in the past in receipt of funds by the entity?	No	
2.4. In which bank will the Imprest Account be opened?	Agroinvestbank or First Microfinance Bank	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No. Project implementation unit is not created yet	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	Yes	
2.7. How are the counterpart funds accessed?	Not applicable	
2.8. How are payments made from the counterpart funds?	Not applicable	
2.9. Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Yes, our borrowers will be required to contribute to project costs (we will not lend them 100% of the cost)	
<b>3. External Audit</b>		



Topic	Response	Remarks
3.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, financial statement is audited by an independent auditors each year. Auditors are Finconsult and Tajik Audit Service	
3.2. Are there delays in audit of the entity? When are the audit reports issued?	No delays in audit. Report are issued in Apr-May	
3.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
3.4. Were there any major accountability issues brought out in the audit report of the past three years?	No major accountability issues	
3.5. Will the entity author audit the project accounts or will another auditor be appointed to audit the project financial statements?	Will be discussed separately by parties upon signing document	
3.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
3.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Will be defined upon signing agreement	
3.8. Has the project prepared acceptable terms of reference for an annual project audit?	Not yet	

Executive Director  
Vatansho Vatanshiev



27.03.2013

**D. MLO Humo and Partners**

**TAJ: Access to Green Finance Project**  
**Financial Management Assessment Questionnaire**

Topic	Response	Remarks
<b>1. Implementing Agency:</b>	<b>LLC MLO "HUMO and PARTNERS"</b>	
1.1. What is the entity's legal status / registration?	Limited liability company registered as a microcredit organization with the National Bank of Tajikistan (NBT)	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	No	
1.3. What are the statutory reporting requirements for the entity?	Monthly financial statements and statistics reports to NBT, monthly reports to Tax department	
1.4. Is the governing body for the project independent?	Yes	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes	
<b>2. Funds Flow Arrangements</b>		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	After registering the loan at NBT level, funds will be deducted from the account into which the loan proceeds are received from MOF and transferred to the accounts designated by our borrowers	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3. What have been the major problems in the past in receipt of funds by the entity?	Funds which were channeled through the Government of Tajikistan were not available for big MFI's due to the requirements of PIU and local banks	
2.4. In which bank will the Imprest Account be opened?	We will open account in National Bank of Tajikistan	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	Yes	
2.7. How are the counterpart funds accessed?	Not applicable	
2.8. How are payments made from the counterpart funds?	Not applicable	
2.9. Are the beneficiaries required to	Yes, our borrowers will be	

*AT*

Topic	Response	Remarks
contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	required to contribute to project costs (we will not lend them 100% of the cost)	
<b>3. External Audit</b>		
3.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Organization is passing through an external audit every year. For performing external audit have been invited audit companies which has NBT license and are acceptable by our creditors like EBRD. Our auditors were Tajik Audit Service, BDO.	
3.2. Are there delays in audit of the entity? When are the audit reports issued?	No, audit report usually issued in April	
3.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
3.4. Were there any major accountability issues brought out in the audit report of the past three years?	No	
3.5. Will the entity author audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes	
3.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
3.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No	
3.8. Has the project prepared acceptable terms of reference for an annual project audit?	Our company has ToR for an external audit and we accept the requirements of our lenders	

Best regards,

General Director of  
LLC MLO "Humo and Partners"

20 March 2013



Mavsuda Vaisova

*M*

**RISK ANALYSIS SUMMARY TABLE**

	<b>Risk Assessment<sup>a</sup></b>	<b>Proposed Mitigation</b>
<b>Control Risks</b>		
1. Implementing Agencies  (ADB has completed due diligence on the 4 MFIs referred to in this appendix as examples of the MFIs to be selected)	L	<p>ADB has undertaken due diligence on the operational and financial soundness of the MFIs using eligibility criteria and found them safely solvent, comfortably liquid, satisfactorily profitable, and adequately efficient. The same due diligence will be undertaken by the PMU for all candidate MFIs under consideration, and the due diligence for those MFIs proposed for subloans will be validated by ADB.</p> <p>Each MFI will be required to report project progress on a quarterly and annual basis. ADB review missions will also assist the MFIs where weaknesses in capacity are identified during implementation.</p>
2. Funds flow/disbursement arrangements. Need for Imprest Accounts Need for the Statement of Expenditure	M	<p>To monitor the imprest accounts, the selected MFIs are required to submit (along with its loan withdrawal applications to ADB) a reconciliation statement and copy of its bank statement which are reviewed by ADB Controllers.</p> <p>ADB Controllers Department will conduct disbursement and SOE review mission to check the veracity of the SOE records. ADB may also request the submission of supporting documents on a sampling basis.</p>
3. Staffing	L	<p>The MFIs proposed by the PMU will be assessed to confirm appropriateness for the project. The staff of each selected MFI's project implementation unit (PIU) will be given intensive briefing and periodic spot training on ADB disbursement procedures, loan requirements, and details of the Project Administration Manual (PAM).</p>
4. Accounting Policies and Procedures	L	<p>The MFIs proposed for the project will have reviews of their accounting policies and procedures to ensure they are adequate for the scope and scale of their operations.</p> <p>The participating MFIs will prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) and have them audited in accordance with International Standards of Auditing (ISA). They will follow IFRS principles for all aspects of their operations. These standards meet ADB's requirements.</p>
5. Internal Audit	L	<p>The participating MFIs' internal audit systems will be assessed before acceptance to ensure they are appropriate to their organizations. The internal audit departments will report independently to their boards of directors.</p> <p>The participating MFIs will have in place diligent credit approval practices to ensure adequate check and balances in loan appraisal and approvals. Checks and balances will also be in place for treasury and other operational functions.</p>



	<b>Risk Assessment<sup>a</sup></b>	<b>Proposed Mitigation</b>
6. External Audit	L	<p>The MFIs are required to have their financial statements and project accounts audited annually in accordance with International Standards of Auditing (ISA) by an auditor acceptable to ADB and meeting the project's requirements.</p> <p>The PMU will also maintain its financial statements as required by ADB and have them audited by independent external auditors acceptable to ADB.</p> <p>External auditors' reports are always issued within 3 months of the close of each fiscal year.</p> <p>To ensure that the ADB's loan funds were used only for the intended purposes, ADB's project agreements with the MFIs will include a provision for their external auditors to certify that ADB's loan funds were used by them only for purposes authorized by the grant agreement.</p> <p>Likewise, the PMU's independent external auditors acceptable to ADB will also be required to certify that the PMU's expenditures were used for purposes specifically authorized by the grant agreement.</p>
7. Reporting and Monitoring	M	During project implementation period, the participating MFIs will be required to submit to ADB (i) quarterly progress report and (ii) an annual monitoring and evaluation report. Templates for these reports along with the detailed monitoring criteria will be given to the MFIs before implementation starts and will be discussed with the PIU of each MFI.
8. Information Systems	L	The participating MFIs will be required to have management information systems (MIS) adequate to their needs. The MIS generally will cover portfolio quality, treasury operations, and other support operations.
<b>Overall Control Risk</b>	L	
<b>Inherent Risks</b>		
<b>Legislative risk.</b> Parliament may reject tax waivers and exemptions on selected SGES products proposed by the government.	M	If requested, ADB will prepare written analyses of the benefits of the wide use of SGES products and the economic benefits accruing from the proposed tax waivers and exemptions.
<b>Project complexity.</b> Successful financing of many SGES products requires cooperation between MFIs, NGOs, and suppliers and/or manufacturers of SGES products.	M	The PMU will have a full time staff member who will be responsible for instigating the coordinating the necessary cooperation. The TA will also provide consultancy support for these cooperation development and coordination activities.

<sup>a</sup> H = High, M = Moderate, L = Negligible or Low.