Code – PD 000420-UZB
Date – November 25, 2020

Project Document
of the Asian Infrastructure Investment Bank

Sovereign-Backed Financing

Republic of Uzbekistan
National Bank of Uzbekistan COVID-19 Credit Line Project

(Under the COVID-19 Crisis Recovery Facility)

Currency Equivalents
(As at November 12, 2020)

Currency Unit – Uzbek Som
UZS 1.00 = USD 0.000096
USD 1.00 = UZS 10,380.24

Borrower's Fiscal Year
January 1–December 31

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AML	anti-money laundering
bps	basis points
CAR	Capital Adequacy Ratio
COVID-19	coronavirus disease 2019
DFI	development finance institution
ES	environmental and social
EBRD	European Bank for Reconstruction & Development
ESMS	environmental social management system
ESP	environmental and social policy
ESRM	environmental and social risk management
FY	fiscal year
FCIR	Foreign Currency Issuer Default Rating
GDP	gross domestic product
GRM	grievance redress mechanism
IFC	International Finance Corporation
IFI	international financial institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MIFT	Ministry of Investments and Foreign Trade of the Republic of Uzbekistan
NBU	JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan
OM	operations manual
OPS	other productive sectors
PIU	project implementation unit
PP	Procurement Policy
PPM	project-affected people's mechanism
PPP	Policy on Prohibited Practices
ROA	return on assets
SBF	sovereign-based financing
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
SOE	state-owned enterprise

TOR	terms of reference
UFRD	Uzbekistan Fund for Reconstruction and Development
WB	World Bank
WHO	World Health Organization

CONTENTS

1. Summary Sheet
Republic of Uzbekistan
National Bank of Uzbekistan COVID-19 Credit Line Project

Project No.	000420-UZB
Borrower	JSC National Bank for Foreign Economic Activity of Uzbekistan (NBU)
Guarantor	The Republic of Uzbekistan
Project Implementation Entity	JSC National Bank for Foreign Economic Activity of Uzbekistan (NBU)
Sector Subsector	Finance / Financial Intermediary
Project Objective	To alleviate working capital shortages and liquidity constraints brought on by the coronavirus disease (COVID-19) pandemic to small and medium-sized enterprises (SMEs) operating in the private infrastructure and other productive sectors.
Project Description	The proposed Project will be supported under the COVID-19 Crisis Recovery Facility by a medium term sovereign-backed credit line to the National Bank of Uzbekistan (NBU). It will support a portfolio of SMEs operating in infrastructure and other productive sectors in overcoming liquidity constraints and/or working capital shortages brought on by the COVID-19 pandemic. With this support, SMEs can overcome liquidity constraints and maintain operations and investments in infrastructure and other productive sectors that may have to be curtailed, delayed or suspended in the absence of AIIB financing.
Implementation Period	Start Date: 12/01/2020 End Date: 12/01/2022
Expected Loan Closing Date	12/2022
Cost and Financing Plan	Project cost: USD200 million <u>Financing Plan</u>: AIIB loan: USD200 million
Size and Terms of AIIB Loan	USD200 million. 2-year availability period with a maximum maturity of 5 years, including a 2-year grace and then semi-annual repayments End of disbursement availability period: November 30, 2022 Each disbursement amount: USD 15 million–USD100 million All disbursements must have a tenor of no greater than 5 years Final Maturity Date: October 31, 2027 Interest payment dates: April 15 and October 15 AIIB's standard fixed spread interest rate for sovereign-backed loans.

Environmental and Social Category	FI
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	• Legal representation letter in form and substance satisfactory to AIIB. • At least four subloans' details have been proposed and are acceptable to AIIB.
Condition precedents to the first disbursement	• Operational Manual (OM) satisfactory to AIIB
Key Covenants	• Borrower's compliance with Uzbekistan's and the Central Bank of Uzbekistan's prudential regulations and other relevant banking requirements. • Selection of the sub-borrowers and sub-loans in accordance with Sub-Borrower and Sub-loan Eligibility Criteria as per Operations Manual (OM). • Sub-borrower limits: ○ Direct: maximum USD 30 million/sub-borrower. Prohibited uses: retrenchment payments, dividends/share buyback, payments for land, among others to be defined in the OM.
Retroactive Financing (Loan % and dates)	The Borrower may finance liquidity and resilience expenditures incurred during 12 months from the date COVID-19 was declared a Public Health Emergency (i.e., January 30, 2020) by the World Health Organization (WHO) and paid prior to the loan signing up to an aggregate maximum of 20% of the amount.
Policy Assurance	The Vice President, Policy and Strategy, confirms that AIIB is in compliance with the policies applicable to the Project.

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Najeeb Haider
Manager (acting)	Stefen Shin, Principal Investment Officer
Project Team Leader	Benny Zachariah, Investment Officer
Back-up Project Team Leader	James Wylie, Investment Officer
Team Members	Anatole Douaud, Investment Analyst Shelly Hsieh, Strategy & Policy Officer Marife Principe, Senior Social Development Specialist Zhixi Zhu, Environment Specialist Yogesh Malla, Financial Management Specialist Christopher Damandl, Legal Consultant Marcin Sasin, Senior Economist Giacomo Ottolini, Procurement Consultant
Credit Officer	Wei Zhang, Credit Risk Officer

2. Project Description

A. Project Fit under the COVID-19 Crisis Recovery Facility.

1. **Background**. The coronavirus disease (COVID-19) was declared a Public Health Emergency of International Concern by the World Health Organization (WHO) on January 30, 2020, and a pandemic on March 11, 2020. COVID-19 has precipitated a global economic and financial market crisis.

2. **Crisis impact on Uzbekistan.** As of September 9, there have been 44,281 confirmed COVID-19 cases with 358 deaths in Uzbekistan, with the majority of cases concentrated in the capital region. The pandemic has interrupted a period of robust growth for Uzbekistan that began in 2016 when the country began transitioning to a market-based economy (Annex 3). Declines in exports, tourism, and remittance revenues, as well as a collapse in domestic demand due to low consumer confidence and a lockdown imposed by the government since mid-March, have contributed to a drop in gross domestic product (GDP) from 4.9% to 2% in 2020[1] and an increase in poverty by about 3% (or about 500,000 people).[2] As of the second quarter of 2020, unemployment numbers have reached almost 2 million (an increase from 9 to 13.2 percent).[3] The pandemic shock has been compounded by a decline in oil prices and thereby the country's revenue from gas exports.

3. **Crisis impact on SMEs.** Around 230,000 small and medium-sized enterprises (SMEs) are registered in Uzbekistan (as of 2018), constituting 90 percent of all registered legal entities in the country.[4] SMEs generate 55 percent of GDP and employ almost 80 percent of the workforce, of which 60 percent are in rural areas. Unlike larger corporates that tend to have better access to liquidity and benefit from targeted government support, SMEs typically have very limited liquidity buffers to withstand lockdown periods, non-payments by counterparties and falling sales. As of April 20, 2020, about half of the operating entities reported they were not working at full capacity and almost two-thirds of the operating entities were being directly affected by COVID-19 related restrictions.[5] Given their importance in the Uzbek economy, ensuring that SMEs have working capital and access to finance to carry on their economic activities is crucial for Uzbekistan's crisis recovery.

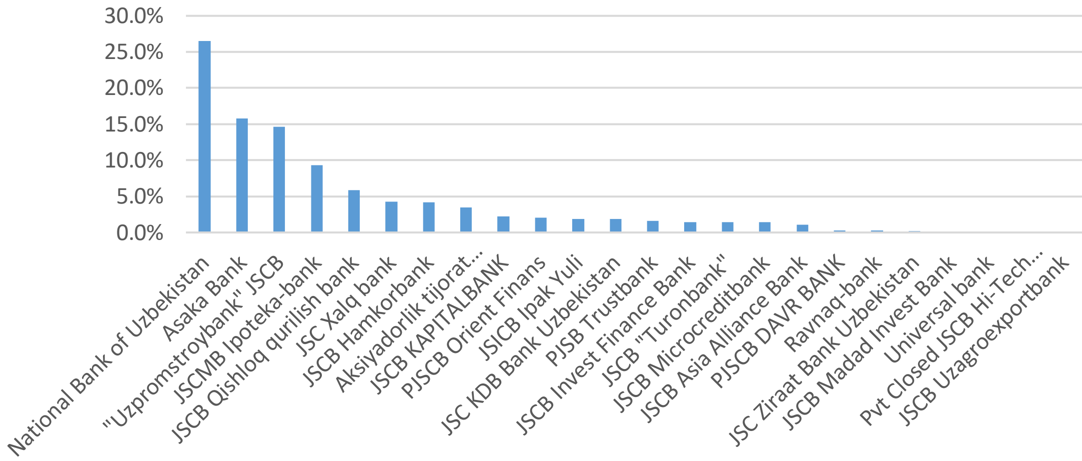
4. **The role of the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan in supporting small and medium-sized enterprises in post-crisis recovery.** The biggest bank in Uzbekistan is the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan (NBU), which accounts for nearly 27 percent of total assets of the banking sector (Figure 1)

---

[1] Silk Road Briefing (2020), Covid-19 Impacted, 2020 GDP Growth in the Caucasus & Central Asia, [Link]
[2] The World Bank, Center for Economic Research and Reform, Development Strategy Center (2020), *Listening to the citizens of Uzbekistan*. Survey.
[3] The Ministry of Employment and Labor Relations. Negative impact to be felt disproportionately by workers in the services and construction sectors, youth and women, employees in small businesses as well as vulnerable groups.
[4] Taking in to account the shadow economy (estimated as 50 percent), the number of SMEs may be higher.
[5] This section is based on: Buyuk Kelajak (2019) *Development Strategy Framework of the Republic of Uzbekistan by 2035*; ADB (2019) *Small and Medium-Sized Enterprise Finance in Uzbekistan: Challenges and Opportunities*; IFC (2018) *Demand study Micro and Small Business Finance & Digital Financial services in Uzbekistan*; State Statistics Committee of the Republic of Uzbekistan; Central Bank of Uzbekistan; Uzcard (a national payment processing company); IMF Country Report 20/171

and extends financing to more than one-third (34 percent)[6] of all SMEs in the country.

Figure 1: Total Asset Distribution in the Uzbek Banking Sector[7]



5. **Alignment with AIIB COVID-19 Crisis Recovery Facility.** The National Bank of Uzbekistan COVID-19 Credit Line Project is aligned with the Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility, specifically with respect to paragraph 14.3 on "financings to address liquidity constraints for clients in infrastructure and OPS [that help clients] maintain (critical long-term) investments that may have to be curtailed, delayed or suspended in the absence of AIIB financing" and 15.1 on "provision of working capital and liquidity support to borrowing banks' clients." This project supports the largest bank in Uzbekistan and one of the country's most significant providers of financings to (34% of all) SMEs in their efforts to maintain the availability and accessibility of liquidity financing to sustain economic activities in the country's infrastructure and other productive sectors (OPS). Given that SMEs account for nearly 80% of jobs in Uzbekistan, this credit line will also support government efforts to restore productive capital, including human capital, by preserving jobs.

6. **Alignment with the country's priorities.** The project is consistent with the emergency response policies of the Government of Uzbekistan. On April 9,[8] the office of the President of Uzbekistan announced multiple measures to ensure the stability of the banking system, including a credit holiday until October 1,[9] with priority given to financing SMEs to mitigate job losses. Uzbekistan plans to attract USD3 billion of financing from international financial institutions (IFIs) by

---

[6] In 2018 NBU had in its loan portfolio 77,156 SME for a total value of USD1.5 billion.
[7] Source: SNL 2019.
[8] See statement of the Uzbekistan President office dated from April 9, 2020. Link.
[9] These measures include: (1) a credit holiday until October 1 representing UZS19.5 trillion (USD1.9 billion); the review of the banking sector portfolio to transform the financing of long-term projects that did not start into projects, which can positively impact the economy this year with a priority toward SME financing to stimulate employment. NBU, along with Agrobank and Mikrokredit bank, the three banks that will be kept 100% state-owned, will be used to channel government financing for unemployment mitigation measures.

the end of 2020 (of which almost USD1 billion has been approved[10]) to counter the adverse impacts of the COVID-19 crisis.

B. Project Description

7. **Overview of the Project.** The proposed project is supported by a medium-term sovereign-backed credit line to NBU to support their portfolio of SMEs operating in infrastructure and other productive sectors in overcoming liquidity constraints and/or working capital shortages brought on by the COVID-19 pandemic. With such support, SMEs can overcome liquidity constraints and maintain investments in infrastructure and other productive sectors that may have to be curtailed, delayed or suspended in the absence of AIIB financing.

8. **Project history.** The Ministry of Investments and Foreign Trade (MIFT) reached out to AIIB in early April 2020 to ask for a USD350 million credit facility for NBU to support "working capital needs of banks, enterprises, SMEs and exporters during the global pandemic." Later, the MIFT and NBU asked for a tranche of this credit line to be dedicated to other Uzbek banks through an APEX-like structure to finance the same category of sub-borrowers. Following negotiations between AIIB and the MIFT, it was agreed to initially concentrate on a line of credit focused on private sector entities lent directly by NBU.

9. **Facility Implementation Overview**. The Project will build on NBU's existing systems and processes. Branch credit officers will market AIIB funded sub-loans, collect, and review requisite documents, and prepare loan files for Head Office review. The Head Office Credit department will, in addition to its regular requirements, ensure prospective loans satisfy AIIB's eligibility criteria and documentation requirements, and implement an ESMS in collaboration with NBU branch credit officers. The PIU design has been completed and will be staffed by existing officers from NBU's Credit Department, Loan Portfolio Monitoring Division, and Legal Department based in the NBU's Headquarters. A consultant has been engaged by NBU to reinforce the PIU. The PIU is expected to commence the first disbursement request including the work on the conditions precedent as soon as the Loan Agreement is signed. The PIU will coordinate work with its credit officers in the regional branches on the project implementation on a regional level. A structure of PIU is presented in Figure 2. The Project manager in charge of the PIU will be the head of the Foreign Economic Activity Department who has over 10 years of experience at NBU, managing foreign currency loans including from IFIs.

Figure 2: Structure and Composition of the Project Implementation Unit[11]

[10] So far to counter the adverse effect of the Covid-19 pandemic, Uzbekistan received (1) a USD95 million budget support for health and social protection approved by the World Bank on April 24, 2020. Link.; (2) a USD375 million IMF financing under the Rapid Credit Facility and the Rapid Financing Instrument to finance the balance of payment needs due to the impact of the Covid-19 crisis on May 18, 2020Link.; (3) a USD500 million budget support loan from the ADB's Covid-19 Active Response and Expenditure Support Program to support various economic measures of the authorities, on June 25, 2020. Link.

[11] The Safeguard Specialist is in charge of implementing the ESMS for the Project and might be also referred to as the 'ESMS Manager'.

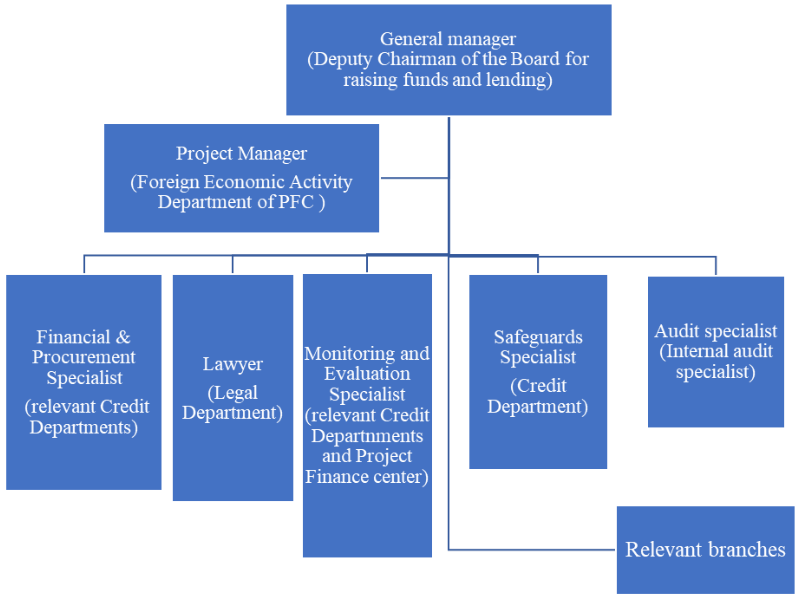
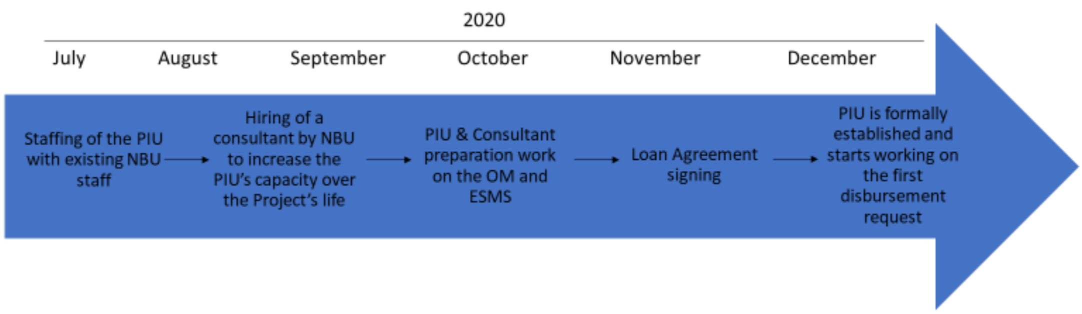


Figure 3: Timeline for Establishing the Project Implementation Unit



10. The PIU will be based in NBU's Project Finance Center, and specifically located within the Division for Foreign Economic Activity. It will:

- Draft the Project Operations Manual (OM) and provide project assurance throughout the design and implementation project phases. This is expected to be completed prior to the first disbursement and is a Condition Precedent.

- Implement the Project-specific Environmental and Social Management System (ESMS) (aligning with AIIB's requirements), roll out the ESMS to branches and functions (including training and capacity building), and provide assurance that the ESMS is implemented to a high standard for all loans funded from the Facility.

- Ensure system changes are implemented so that financial, environmental and social (ES) reports, and policy reports are provided to AIIB on time and to specification.

- Recruit and hire staff and consultants needed for the design and implementation phases. NBU has hired a consultant to assist with developing a project-specific ESMS and financial management as well as to increase the readiness and capacity of the PIU along the Project's life.

Preliminary findings, gaps and recommendations have already been conducted and shared.

C. Project Objective and Expected Results.

i) **Project objective.** The Project's objective is to alleviate working capital shortages and liquidity constraints brought on by the pandemic to SMEs operating in the infrastructure and eligible OPS.

11. **Expected results.** The Project results will be mainly monitored through the following indicators:

- Short-term and medium-term financing provided to SMEs operating in private infrastructure and eligible other productive sectors
- Limited percentage of nonperforming loans of each Borrower
- Maintenance of infrastructure and other productive capacity by the portfolio companies
- Retention of employment by the portfolio companies

12. **Expected beneficiaries.** The Project is expected to have a number of direct beneficiaries including i) NBU, which will channel funds to their client base; and ii) Uzbek SMEs involved in the supply, development, operation and maintenance of infrastructure and eligible OPS that are facing liquidity and working capital challenges under the current environment.

D. Description and Components

13. **Overview of the counterpart.** NBU is the largest bank in Uzbekistan that provides a comprehensive set of services in the country. It offers various deposits, money transfers, municipal payments, plastic cards, and currency operation services. The company also provides financing to more than one-third of SMEs in the country preferential lending through special funds, credit of non-budget funds, and micro-crediting. In addition, it offers remote banking, credit, factoring, and project financing services. The company operates a network of 93 branches and 220 special cashier points. NBU was founded in 1991[12] and is based in the capital, Tashkent.

NBU has total assets worth USD5.7 billion (27% of the Uzbek banking sector total assets). As of January 2020, NBU has served more than 282,000 enterprises and more than 3.3 million individual clients.[13] On June 9, 2020, S&P Ratings affirmed NBU's FCIR at BB-, with a negative outlook, mirroring the Republic of Uzbekistan's sovereign rating. NBU's Common Equity Tier 1 capital ratio, which stands at 25.6% on January 1, 2020,[14] is well above the 8.5% regulatory level in Uzbekistan. NBU's problem loans (Stage 3) accounted for 3.2% of NBU's gross loan portfolio, but these were fully covered by total impairment reserves. The Project team feels that NBU is a stable bank, strongly

---

[12] Presidential Decree of the President of the Republic of Uzbekistan of September 7, 1991, number UP-244

[13] NBU Strategy document.

[14] Moody's Credit Opinion January 30, 2020.

backed by the state and is an effective way to reach to SMEs, which is important for the success of the Project.

14. **Ownership.** NBU is 58.5% owned by the State Fund for Reconstruction and Development of the Republic of Uzbekistan (UFRD), and 41.5% owned by the Ministry of Finance,[15] thus effectively a 100% state-owned bank. NBU was transformed into a Joint-Stock Company on November 2019;[16] however NBU is not included in the 2020 5-year reform of the banking system and privatization plan[17] of the government and will stay 100% state-owned. According to this plan, the state shares in NBU along with two other banks,[18] will remain for "meeting the needs of the population in financial services, the implementation of the mechanism for supporting investment projects, ensuring regional availability of banking services during the reform of the banking system." As such, NBU is not expected to be considered for privatization for at least the next 5 years.

15. Capital was increased via earnings, and capital injection from the Ministry of Finance and the UFRD (USD600 million), which was previously carried out on only under the decision of the president of Uzbekistan. Now the shareholders (Ministry of Finance and UFRD) can authorize this since the last resolution that established NBU as a Joint Stock Company.

16. **Purposes of the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan.** NBU has two objectives: to serve its client as a commercial bank, and as a state-owned bank to support the interests of the foreign economic activity of the Republic of Uzbekistan. According to NBU's 2023 strategy, the overall mission of NBU is "to increase the national wealth of the country, to be a guarantor of confidence and stability of NBU's clients, offering clients new opportunities and financial solutions."[19]

In detail NBU's purposes[20] are to: (1) finance major investment projects in priority sectors of the Uzbek economy with the involvement of foreign credit lines, resources on international capital markets, and funds of foreign investors; (2) provide banking services to small businesses and private businesses, as well as financial advice and information support in matters of foreign economic activity; (3) expand export financing, and support the state program for the development of export potential of the Republic of Uzbekistan through the provision of consulting services to exporters; (4) provide investment banking services to corporate clients, including issuing and placing securities on domestic and foreign markets; (5) develop retail banking services; and (6) diversify the sources of financing of NBU's activities in priority through the mobilization of long-term funds in national currency.

17. **A strongly supported bank**. While the Uzbek banking sector is going through an ambitious reform program, NBU is not part of the privatization plan, as NBU shall play a transition role and keep attracting foreign financing in hard currencies for the domestic economy, while the other largest banks of the country are privatized within the next 5 years. In addition to supporting strategic Uzbek state-owned enterprises (SOEs) and enabling the Uzbek government to finance some

---

[15] NBU Web site. Shareholders of the Bank. Link.
[16] Decree of the President of the Republic of Uzbekistan No. PP-4540 dated November 30, 2019 "On measures to transform the unitary enterprise ". Link.
[17] Presidential Decree dated from May 12, 2020. Uzbek National Information Agency. Link.
[18] Agrobank and Mikrokreditbank, source ibid.
[19] Source: NBU 2023 Strategy.
[20] Source: NBU website "about the Bank". Link.

of the strategic projects in the role of a policy bank, NBU enables the government to channel funds to SMEs in priority sectors such as textile and agriculture and agro-industry to reach the goals of priority state programs.

18. These are the reasons why NBU is strongly supported by the government, which regularly increases NBU's equity to keep growing with the financing needs of the economy. In December 2019, the Uzbek government converted a USD666 million loan from the UFRD (NBU's largest shareholder) into Tier 1 capital, doubling NBU's capital base. At the same time the government transferred USD1.9 billion loan portfolio to SOEs from NBU's book to UFRD's in order to lower NBU's risk-weighted assets, and further boost NBU's Common Equity Tier 1 capital ratio, which stood at 25.6% on January 1, 2020,[21] well above the 8.5% regulatory level in Uzbekistan. This shows the readiness of the Government to support NBU's capital when needed in order to keep attracting hard currency financing from abroad.

19. **Experience working with international financial institutions, development finance institutions, and foreign banks**. NBU has a long track record of attracting and managing financings received from IFIs, development finance institutions (DFIs) and foreign private banks since its creation in the early 1990s. It has direct[22] experience obtaining facilities from IFIs until 2007, and since 2017, the European Bank for Reconstruction and Development (EBRD) has been the only IFI to directly approve two facilities for SMEs and trade finance with NBU. As a result of NBU's cooperation with EBRD, NBU was able to develop a new underwriting policy for SMEs and train more than 60 of its loan officers. NBU has also gained experience implementing ESMS during prior facilities undertaken with technical assistance from Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), and the World Bank (WB). Since 2013, NBU has received and managed USD575 million from various IFIs (Figure 3). The Project team decided to follow the lessons learned through the recent EBRD facilities and rely on the underwriting policy for SMEs developed for the EBRD facilities.

Figure 3: Current International Financial Institution Facilities Received by the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan

International Financial Institution	Amount (USD million)	Date of effectiveness	Purpose
European Bank for Reconstruction and Development (EBRD)	70	2020	Trade Finance Facility (COVID-19)[23]
EBRD	100	2018	MSME and Trade Facility[24]
World Bank (IBRD)	150	2018	Multiple lines of credit through the Ministry of Finance

[21] Moody's Credit Opinion January 30, 2020.
[22] From 2007 to 2017, the facilities received by NBU from IFIs have been channeled through the Ministry of Finance and the established PIU for FIs.
[23] EBRD. Link.
[24] EBRD. Link.

International Financial Institution	Amount (USD million)	Date of effectiveness	Purpose
Asian Development Bank	55	2017	Horticulture Value Chain Development[25]
Islamic Development Bank	100	2013	Multi-Bank Financing 'Global Line of Finance' Facility[26]

20. **Component.** The Project has one component which is direct lending to new and existing SMEs clients of NBU.

Table 1. Project Cost and Financing Plan

Item	Portfolio Size (USD million)	AIIB Financing (USD million)
Direct Lending	2,000	200
Loan Amount		200

E. Cost and Financing Plan

21. **Amount.** The Project is supported by a sovereign-backed loan to NBU, with the guarantee of the Republic of Uzbekistan, for a total of up to USD200 million to NBU. The amounts are comparable in size to the facilities provided previously by other IFIs, DFIs and foreign private banks[27] to NBU. NBU has presented pipelines of direct loans (USD22 million) and its existing portfolio of private companies (USD2 billion) to substantiate the quantities requested. Sub-loans will be made in USD, but if any sub-loans proceeds are converted to Uzbek som, the sub-borrower will bear the foreign exchange risk.

22. **Maturity.** The AIIB loan will be structured as a credit facility with an availability period until November 2022 and a final maturity date in November 2027. All disbursements under the facility will have a maximum maturity of 5 years. The maturity is expected to accommodate the underlying direct sub-loans. The average maturity of the loan is expected to be between 3 to 5 years. The loan will be repaid as the underlying sub-loans reach their maturities; the underlying sub-loans will be bullet-type and will not be recycled.

23. **Pricing.** The AIIB loan will be fixed-spread and follow the General Conditions for Sovereign-baked Loans[28] and Pricing Policy for Sovereign-baked loans.[29] The sub-loans' pricing and maturity will be determined by NBU based on the commercial assessment of the sub-borrowers and in line with market practice: the interest rate will be equal to the cost of funds to the Borrower (i.e., Libor and fixed spread), plus a risk-adjusted spread based on the sub-borrowers' risk

[25] ADB. Link.
[26] IsDB. Link.
[27] Previous credit line received by NBU including from the following organizations: ADB, EBRD, China Development Bank, Islamic Development Bank, KfW, the Export-Import Bank of China, The Export-Import Bank of Korea, Natixis, Gazprombank, Credit Agricole, Deutsche Bank, Sberbank, etc.
[28] General Conditions for Sovereign Backed Loans (2020). Link.
[29] Sovereign-backed Loan and Guarantee Pricing (December 2019). Link.

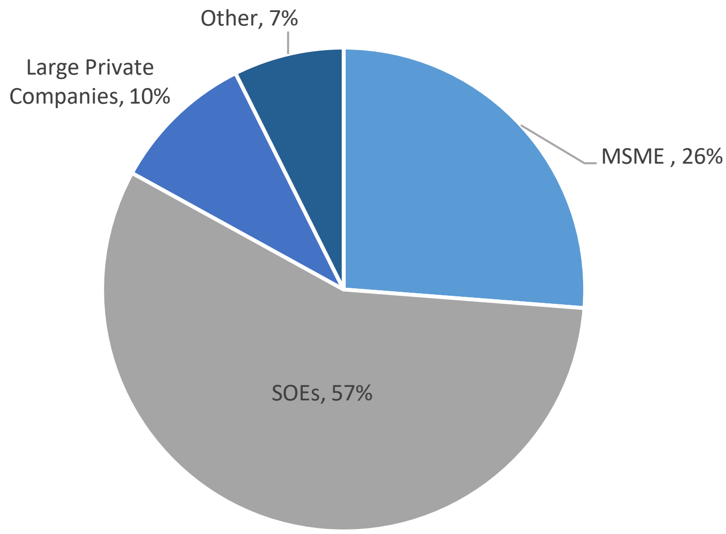
classification. NBU does not pay any fee to receive the sovereign guarantee, as most of its portfolio (46%) benefits from such a guarantee.

F. Subsector Eligibility and Overview

24. **Sub-borrower eligibility.** Proceeds from the loan will be available to the Borrower in accordance with selection criteria and parameters to be defined in the Borrower's OM. Sub-borrowers will be private SMEs domiciled in Uzbekistan, operating in an Eligible Sector as per AIIB's criteria, not involved in activities excluded by the ES Exclusion List or Operational Policy on International Relations, in compliance with applicable law, meeting the Borrower's criteria in terms of creditworthiness', foreign exchange position, ES risk profile, procurement, and know-your-customer requirements. For sub-loans that are intended to be retroactively financed, the relevant expenditure must have been incurred by the Borrower not more than 12 months before the date of the Loan Agreement/after COVID-19 was declared a Public Health Emergency by the WHO (January 20, 2020) up to an aggregate maximum of 20% of the Project amount. Details of the proposed draft criteria for eligible sub-loans are presented in Annex 5.

25. **Loan portfolio.** NBU's loan portfolio in 2019 is USD5.9 billion, of which USD2 billion (36%) is to private sector borrowers, 57% to SOEs, and the rest to individuals. The top 20 borrowers (mostly large SOEs) represented 56% of the gross loan portfolio as of January 1, 2020. As of January 2020, the gross loan portfolio is 66% denominated in foreign currencies (mostly US dollars [52%], Russian rubles and Euro), substantially matched with NBU's major clients' revenues that are also denominated in these foreign currencies. Further analysis is due to be carried out on NBU's USD2 billion private sector portfolio, which is being considered for this Project, of which 73% are SMEs and 27% are large private companies. The Project team expects to use this portfolio as a proxy of what the future portfolio will look like. NBU's 2019 portfolio does not represent the future pipeline of the Project, as NBU might give loans to new clients and the sector and maturity profiles can change. NBU has already started the process of developing a pipeline (Annex 4) and selected its first batch of clients. While this is only USD22 million it does represent a real but prudent pipeline to immediately put to work. NBU will provide a detailed pipeline with at least four sub-loans as a condition to effectiveness of the loan. The Project team understands that about 20% of NBU's existing clients are repeat clients and as such believe that a sufficient amount of demand can be generated, and sub-loans be provided. Disbursement will also be reliant on the pipeline provided, which is a risk mitigant for the Project.

Figure 2: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan Gross Loan Portfolio Breakdown by Type of Borrowers[30]



26. **Sector breakdown.** This Project would focus on the USD2 billion private sector companies loan portfolio of NBU. This loan portfolio is dominated by manufacturing (55%) which includes mostly the textile industry. Agriculture (14%)[31] and trade financing (8%) are the two largest sectors after manufacturing. The initial SME pipeline shared by NBU (Annex 4 and Figure 3) is primarily composed of export-oriented financings in the textile, agro-industry transformation and logistics sectors. AIIB financing will not be utilized for sub-loans dedicated to cotton farming, cotton production and textile production sectors.

[30] According to NBU's GAAP accounting FY2019 portfolio. Used here because NBU gave AIIB additional information (SME share of private companies) based on GAAP accounting standards.
[31] As part of the project design, while this is expected to include greenhouses, it will exclude cotton farms.

Figure 3: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan tentative Pipeline Composition

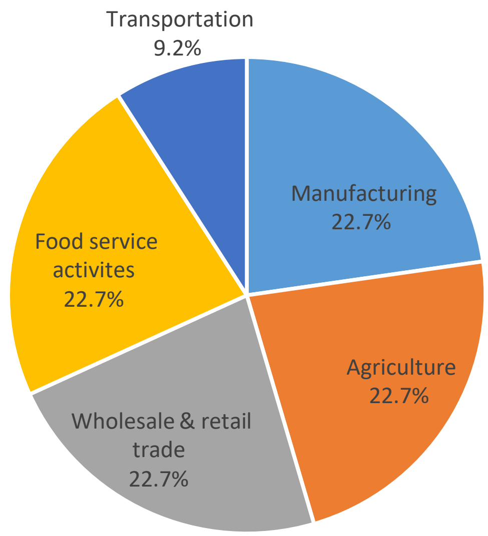
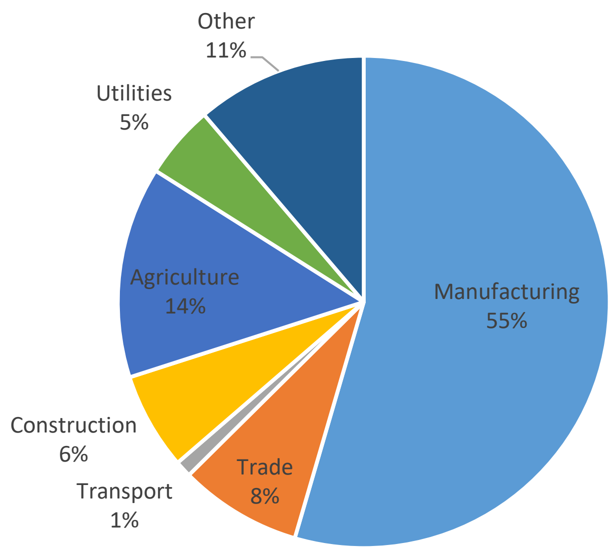
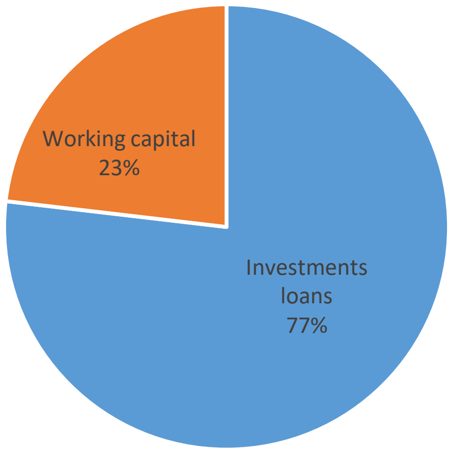


Figure 4: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan Private Companies Gross Loan Portfolio (2019) Per Sector[32]



[32] Based on GAAP accounting standards as the breakdown per sector of NBU's private company portfolio is not available based on International Financial Reporting Standards (IFRS).

Figure 5: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan Private Companies Gross Loan Portfolio (2019) Per Type of Loan[33]



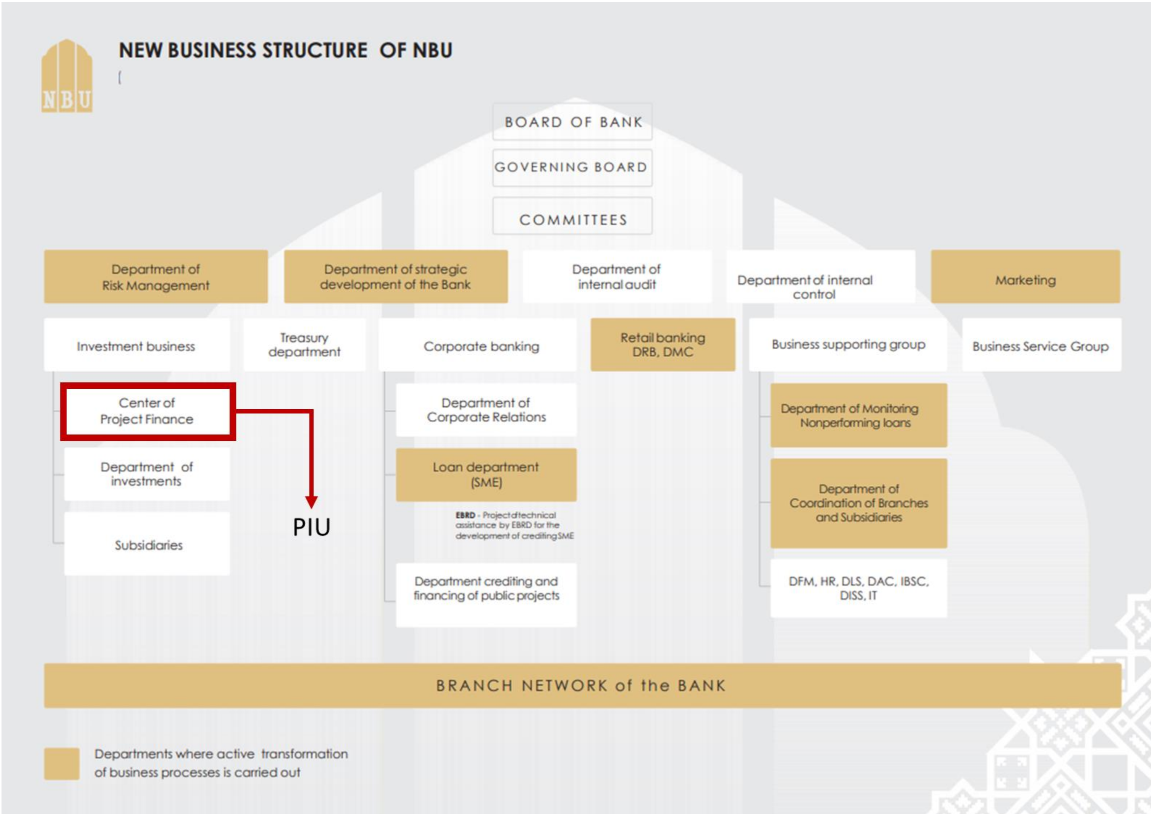
G. Implementation Arrangements

27. **Implementation Management.** The Borrower will be responsible for the implementation of the Project. A new PIU will be created within NBU with adequate budgetary and human resources, ready to oversee the on-lending to sub-borrowers, including the selection, appraisal, monitoring, record keeping, information management, and reporting to AIIB. The PIU will be located within the Project Finance Center department and specifically with the Division for Foreign Economic Activity. The PIU will be composed of NBU's existing staff officers from the Credit Department, Loan Portfolio Monitoring Division, and Legal Department in the Borrower's Headquarters. The PIU in the Headquarter of the Borrower will coordinate work with its loan officers in the regional branches on the project implementation on the regional level. The PIU shall ensure the Borrower and the sub-borrowers comply with the OM, ESMS and the applicable law, including the relevant Central Bank of Uzbekistan's prudential rules and the laws regulating lending activities in foreign currency, as well as AIIB's applicable requirements under its Environmental and Social Policy (ESP), [34] the Procurement Policy (PP),[35] and Policy on Prohibited Practices (PPP).[36] The PIU is responsible for the proper execution of the Facility as well as monitoring the process of fulfillment the obligations assumed by the Borrower under the Loan Agreement. The PIU is accountable to the Borrower's Management Board. In particular, the PIU will prepare the sub-loan appraisal forms, ensuring the eligibility criteria are met as well as the E&S screening and due diligence performed. The PIU is also in charge of collecting and preparing the reporting information to AIIB. NBU has been and will continue working with a consultant which has improved the PIU's readiness to implement the Project.

---

[33] Based on GAAP accounting standards as the breakdown per type of loan of NBU's private company portfolio is not available based on IFRS.
[34] ESP (February 2016, amended February 2019). Link.
[35] PP (January 2016). Link.
[36] PPP (December 2018). Link.

Figure 6: Expected Location of the Project Implementation Unit within JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan



28. **Operations Manual.** The Borrower has been preparing and then will be guided by an OM, to be agreed with AIIB. The OM will include the eligibility criteria for sub-borrowers, and sub-loans (Annex 5) and their management. The OM will also describe the disbursement and funds flow process and the required reporting to AIIB for project monitoring (paragraph 31). NBU has hired a consultant to help prepare the OM, which is a Condition Precedent to first disbursement.

29. **Procurement.** AIIB will provide financing to NBU to support eligible private sector SMEs in Uzbekistan, directly, in accordance with the OM that is being developed as indicated in paragraph 28. The use of proceeds is not intended for the financing, directly or indirectly, of any supply, works or consultancy service contracts, only for the provision of liquidity. On this basis, it is not expected that liquidity financing, particularly working capital, will involve procurement. However, during project preparation the use of proceeds may be partly allocated to provide financing to specific sub-projects. These eligible sub-projects are envisaged to be small in amounts and short-term financing. Should that occur, the AIIB Private Sector Entities provisions for Financial Intermediaries of the AIIB's PP and associated Interim Operational Directive on Procurement Instructions for Recipients apply to this component of Project. NBU shall be able to demonstrate that procurement is carried out following established commercial practices, appropriate procurement methods, and that market prices are achieved as required under the OM; NBU has already hired a consultant to support them during implementation. Public entities may not be financed, as provided in the OM.

30. **Retroactive Financing.** Retroactive financing will be permitted as per the General Conditions for Sovereign-backed Loans. The Borrower may finance

eligible expenditures incurred from the date COVID-19 was declared a Public Health Emergency by the WHO (i.e., January 30, 2020) and paid for prior to the loan signing, up to an aggregate maximum of 20% of the amount and as per the eligibility criteria.

31. **Monitoring and Evaluation.** During the loan implementation period, AIIB will retain the right to review all sub-loans and conduct supervisory visits, including visits to the sub-borrowers, at its discretion. NBU will regularly provide AIIB with reports including utilization request forms, audited financial statements, auditors' management letters, certificates of compliance with national financial regulations, and ES reports, in accordance with the provisions of the Loan Agreement. The operations of the Project will be incorporated in the periodic risk-based audits conducted by the Borrower's internal audit departments. The project specific internal audit reports will be shared with the AIIB upon request and consent from their respective Audit Committees. NBU will be required to provide unaudited and audited financial reports during project implementation. The unaudited financial reports will cover a 6-month period, (January–June and July–December of each year), commencing after the first disbursement of funds and will be submitted to AIIB within 45 days after the end of the period under review. The format and content of the reports will be agreed on with AIIB. An annual project audit will be executed by an external audit firm deemed to be acceptable to the Central Bank's regulations and to AIIB, in accordance with the terms of reference (TOR) approved by AIIB. The audit report comprising of the project audited financial statements and the management letters will be submitted to the AIIB, within 6 months of NBU's financial year end.

Table 2: Reporting Due to the Asian Infrastructure Investment Bank

Reports prepared by the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan/Project Implementation Unit	**Time**
Utilization request forms	When needed
Interim unaudited financial reports	Every 6 months
Annual audited project financial statement and NBU entity audited financial statement including the auditor's management letter	Annually
Certificates of compliance with national financial regulation	Annually
ES reports as per the loan agreement	Annually
Project specific internal audit report	Every 6 months

32. **AIIB's Implementation Support.** Subject to travel disruptions caused by the COVID-19 pandemic, AIIB will carry out an annual monitoring visit to a subset of the total number of sub-borrowers to oversee the implementation of the Project.

33. **Financial Management.** NBU will be responsible for the overall project financial management. The Project will align its planning, budgeting, accounting, funds flow and audit arrangements with the existing system of NBU to the extent possible. A PIU shall be established within NBU to provide technical and

administrative support. PIU shall be adequately staffed with finance/accounts staff to maintain adequate project financial management. PIU shall prepare project accounts in accordance with acceptable accounting standards. PIU shall prepare and submit Interim Un-Audited Financial Reports (IUFRs) to AIIB within 45 days of the end of each calendar semester. The external audit reports for each year of Project implementation will be submitted as follows: (i) the Project audit report within 6 months from the fiscal year-end and (ii) NBU entity audit report within 1 month from approval by NBU Board, but no later than 1 year from end of the fiscal year. The independent auditor shall conduct the annual project audit in accordance with applicable standards and TOR acceptable to AIIB. The detailed project financial management arrangements including funds flow, accounting, internal control, internal audit, disbursement, eligibility of sub-borrowers, reporting, external auditing etc. will be stated in OM.

34. **Fund Flow and disbursement.** The loan will adopt a combination of reimbursement and advance methods for payments. Advance will be the main method of disbursement while the reimbursement will be used for retroactive financing. Under the advance method, AIIB will disburse funds to a segregated designated account maintained by NBU, in which funds will thereafter be transferred to eligible sub-borrowers. The designated account must be established at a financial institution acceptable to the Bank. Funds will be advanced in tranches, which will be made against submission of the details of sub-loans proposed for financing under the advance and their approval by AIIB. Subsequent advances will made upon confirmation that previous funds have been on-lent for the approved sub-loans and AIIB's approval of a new list of eligible sub-loans. The minimum disbursement from AIIB to the Borrowers will be USD15 million and the maximum USD100 million; applications may bundle several requests. When funds are used for the reimbursement of loans made using the Borrower's funds, evidence of the amount and eligibility of the subloans for which reimbursement is requested will be required and subject to AIIB approval. Withdrawals for retroactive financing will be permitted, and subject to the date and limit specified in the legal agreements. Hence all the sub-loans will be subject to AIIB's prior review. The Borrower will provide to AIIB all the necessary information for approving the sub-loans. The Borrower will open and maintain a segregated bank account for the payment and repayment of funds associated with each sub-loan. The detailed disbursement arrangements have been set out in a Disbursement Letter, to which the Interim Disbursement Manual for Sovereign-backed loans is attached.

35. **Funds Flow**. NBU will receive, maintain, and monitor AIIB loan proceeds using their own financial management systems. The Borrower will deposit the AIIB loan proceeds into its segregated bank account (Designated Account) for on-lending to sub-borrower's accounts.

3. Project Assessment

A. Technical

36. In our assessment, the Borrower has the capacity to implement this facility with appropriate support from consultants. NBU will be responsible for project implementation, including selection analysis, and monitoring of all sub-borrowers. While NBU has a track record[37] of managing IFI and DFI-funded facilities and lending to SMEs and private sector targeted by the Project it is expected that the consultant, already hired by NBU to work with the PIU set-up, will assist with capacity building and implementation. The technical aspects of the loan review process are enshrined in the Borrower's financing approval and monitoring procedures, which segregate the duties of separate departments involved in the identification, screening, evaluation, monitoring, and recovery of loans after their financial close.

B. Financial Analysis of the Borrower

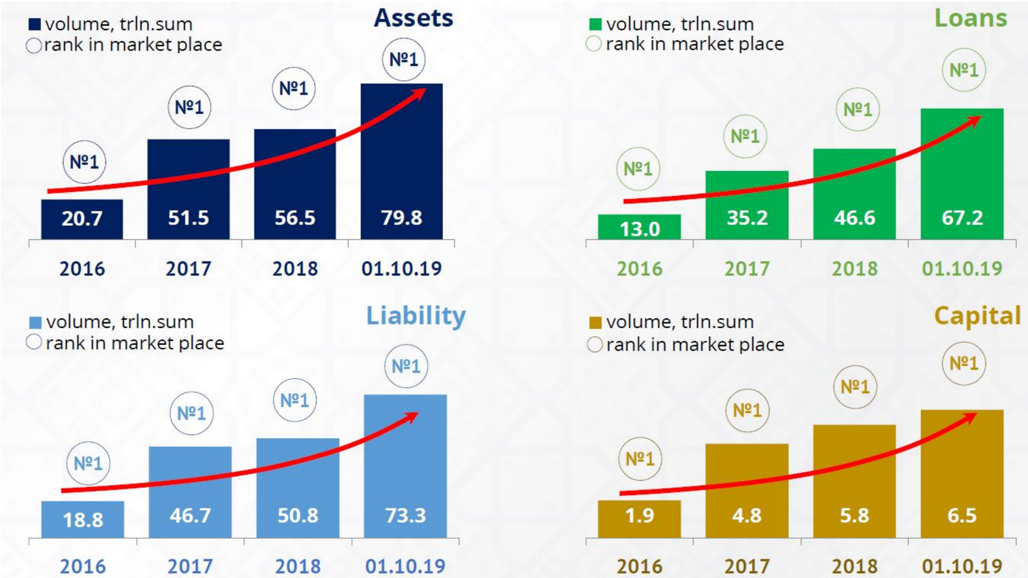
37. The economic and financial analysis focuses on the financial soundness, portfolio quality, and risk management capabilities of the Borrower, and the initial review of the existing loan portfolio of NBU. Overall, the Borrower presented an acceptable approach to lending (see underwriting standards of NBU in Annex 7), has a healthy balance sheet, and commands the leading position in the Uzbek banking sector. Its limited open foreign currency positions, low nonperforming loan ratios, high capital adequacy ratio, liquidity, interest margin and returns on assets and equity confirm this view. Moreover, NBU is in a key position to enable a successful reform of the country's banking system by insuring stability and continuity of State support to the sector during the privatization process.

38. Specific financial analysis highlights:

(i) *Size.* NBU represents about 27% of total assets of Uzbek banks making it one of the most important banks in the country. Their asset growth of 16.5% along with a deposit growth of 30.6% in FY2019[38] shows continued growth in their fundamentals.

[37] NBU has received previous credit lines from the following organizations: ADB, EBRD, China Development Bank, Islamic Development Bank, KfW, the Export-Import Bank of China, The Export-Import Bank of Korea
[38] Based on FY 2019 IFRS

Figure 7: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan Asset, Loans, Liabilities and Capital Growth in 2016–2019[39]



(ii) *Long-term foreign currency issuer default rating (FCIR)*. On June 9, 2020, S&P Ratings affirmed NBU's FCIR to BB-, with a negative outlook mirroring the Republic of Uzbekistan's sovereign rating. On June 5, 2020, the Republic of Uzbekistan BB- sovereign rating was confirmed by S&P with a negative outlook as a result of the global economic slowdown and the effect of the COVID-19 pandemic. Fitch rating Long-term issuer default rating also rated NBU mirroring the Republic of Uzbekistan as BB- with a stable outlook respectively on August 19 and on April 10, 2020[40].

(iii) *Funding.* NBU has a diversified funding structure dominated by wholesale funding from loans from IFIs, DFIs and foreign private banks for about 40% of the bank's liabilities as of year-end 2019. Thirty-two percent of NBU's liabilities are composed of cheap and long-term government-related funding sources (UFRD, Ministry of Finance, Central Bank) aimed at funding state program and strategic projects. 29% of NBU's liabilities as of year-end 2019 are composed of deposits. NBU's liquid assets represent 14% of its total assets as of FY2019, down 1% from 2018. The shrinking of the liquidity buffer is a potential risk, especially as short-term foreign currency borrowing represents 86% of the liquid assets at end-1H2020. In spite of these challenges, NBU's funding structure rating by Moody's was adjusted upward on July 28, 2020 to caa1 from caa3.

(iv) *Loan book.* Foreign currency exposure risk is contained as the foreign currency loans, which represent about 66% of NBU's total gross loan at year end 2019, is matched with NBU's foreign currency borrowers revenues through

39 Source: NBU
40 Fitch ratings NBU, August 19, 2020. Link.

exports; moreover, 46% of the total gross loan are covered by a sovereign guarantee.

(v) *Capital Adequacy*: NBU is adequately capitalized and complies with all prudential ratios applied by the Central Bank of the Republic of Uzbekistan. In December 2019, the Uzbek government converted a USD666 million loan from the UFRD (NBU's largest shareholder) into Tier 1 capital, doubling NBU's capital base. At the same time the government transferred USD1.9 billion loan portfolio to SOEs from NBU's book to UFRD's in order to lower NBU's risk-weighted assets, and further boost NBU's Common Equity Tier 1 capital ratio, which stands at 25.6% on January 1, 2020,[41] well above the 8.5% regulatory level in Uzbekistan.

(vi) *NPL Ratio*. NBU's problem loans (Stage 3) accounted for 3.2% of NBU's gross loan portfolio, these were fully covered by total impairment reserves. According to management, the problem loans should modestly increase due to the pandemic impact by only 100 basis points (bps) by the end of 2020,in part thanks to the continuous increase of the gross loan portfolio, and the support of the government toward NBU's largest debtors, which are large SOEs. According to management 46% of its loan book benefits from a state guarantee.

(vii) *Profitability and Efficiency*. NBU's earnings are increasing in FY2019 compared to the previous year with a net interest margin at 3.11% (compared to 2.4% in FY2018) and a Return on Average Assets of 1.3% (compared to 1.5% in FY2018), however, this is mainly driven by a large "other income" of non-recurring nature, which shows low profitability on a recurring basis. This low profitability of a volatile nature is not surprising for a state-owned bank. The cost to income of NBU stands at 37% in FY2019, well below the domestic sector's average at 63.4%.

C. Fiduciary and Governance

39. **Procurement.** AIIB will provide financing to NBU to support eligible private sector SMEs in Uzbekistan directly, in accordance with the OM. The AIIB Private Sector Entities provisions for Financial Intermediaries of the AIIB's PP and associated Interim Operational Directive on Procurement Instructions for Recipients apply to this Project. NBU shall be required to demonstrate that procurement is carried out following established commercial practices, appropriate procurement methods, and that market prices are achieved. Public entities may not be financed, as provided in the OM.

40. **Financial Management.** The financial management assessment was carried out based on desk reviews of documents and virtual meetings. The review indicates that NBU has experience, along with reasonable financial management systems, to manage projects funded through development partners. Based on the assessment, financial management capacity may be considered as reasonable and financial management risk as High due to accounting and internal control weaknesses. The financial management risk may be mitigated at

[41] Moody's Credit Opinion January 30, 2020.

the project level through adequate mitigation measures such as project-specific accounting, a specific TOR for the external auditor, use of the internal audit in project review and the details in the OM.

41. The Planning and Budgeting Unit (PBU) of the Treasury Department is responsible for the regular budgeting process. PBU uses internal documents for the development of budgets such as orders, guidance notes, and instructions and also inputs from other departments. PBU collects the budget-related information from different units within the Project Implementing Agency during the last quarter of each year and consolidate the information for further review and decision making by the Management. Normally, either in November or December, the annual budget of the next year is approved by the Board of Directors. The strategic and annual plans are shared with the regulator, the Central Bank of the Republic of Uzbekistan.

42. NBU has a department of accounting and reporting, which is headed by the chief accountant. This department will be responsible for accounting and financial reporting along with PIU staff. The department of accounting and reporting has around 30 staff. In addition, NBU has around 40 accountants in its operational department and around 700 accounting staff in branches. NBU shall assign its current accounting staff from the department of accounting and reporting to perform project accounting functions. NBU uses the National Accounting Standards (NAS) for its accounting system and the Central Bank also developed the regulations for accounting and financial reporting of the banks. NBU uses the Chart of Accounts developed by the Central Bank for commercial banks. Since September 2019, NBU has been using the new version of Integrated Automated Banking System (iABS), which has an accounting module. NBU follows accrual basis of accounting in its operation and similar approach may be used for the project accounting. Central Bank rules requires three controls: initial, current and final controls for each accounting transaction. The initial control is done by the implementer, the current control is done by the chief accountant, and the final control is done after the transaction is completed and it is performed to verify whether it was done correctly.

43. NBU shall document in the OM key internal control mechanisms to be followed in the application and use of project funds. NBU has an in-house internal audit department to conduct internal audit of the various activities and departments based on the audit plan. The services of the internal audit department shall be used to conduct and report on the project activities. For the project specific internal audit, OM shall set out the terms of reference of internal audit, periodicity of the audit, and report-sharing arrangements with AIIB. NBU produces a full set of financial statements compliant with international standards such as the IFRS. NBU initially prepare financial statements compliant to NAS and later convert them as per IFRS. Generally, NBU meets external reporting requirements and statutory requirements that focus on requirements of Central Bank, statistical needs and tax information.

44. For purposes of monitoring of project progress and financial performance, IUFRs will be prepared under the proposed project. NBU will produce a full set of IUFRs every semi-annual period throughout the life of the project. The format of IUFRs would be agreed with the NBU and may include: (1) Project Sources and Uses of Funds, (2) Uses of Funds by Project Activity, and (3) Designated Account Statement. NBU selects external auditors from among the Big 4 firms for its entity audit each year and the selected auditor is approved by Board of Directors to conduct annual audit of financial statements prepared as per IFRS. The entity

audit reports for the last 5 fiscal years were timely issued with clean/unmodified opinions.

45. The latest management letter available for review for fiscal year 2019 noted several significant issues in accounting and internal control weaknesses repeated as in previous years. There seems to be no progress made in the last few years by NBU in addressing issues raised by the external auditors. The issues are mainly as follows. First, NBU had not adopted any written procedure to convert financial statements prepared as per NAS to IFRS. NBU did not have enough accounting specialists with sufficient experience and knowledge to prepare financial statements as per IFRS. Second, incorrect accounting for borrowed funds resulted in recording borrowed funds into incorrect account headings and delayed verification of the balances of the borrowed funds. As a result, NBU was even required to adjust financial statements during the audit. Third, NBU had weak control over the classification of customer loans, which resulted in an absence or insufficient amount of loan loss allowances or contrary accruing loss allowances for customers with no overdue loans or unchanged risk ratings. Fourth, NBU had no control process over accounting and monitoring of compliance with covenants for borrowed funds obtained under contracts signed with IFIs. Particularly, the deficiency in this area led to violations of covenants set by IFIs. Lastly, movement of fixed assets does not follow IFRS treatment, which led to incorrect calculation of depreciation. The annual project financial statement shall be audited by an independent auditor based on the TOR acceptable to AIIB. The audited project financial statement is due to AIIB within 6 months of the end of each fiscal year. NBU Entity audit report shall be submitted within 1 month from approval by NBU Board, but no later than 1 year from end of the fiscal year.

46. **Disbursements.** The loan will adopt a combination of *reimbursement* and *advance* methods for payments. Advance will be the main method of disbursement while the reimbursement will be used for retroactive financing. Under the advance method, AIIB will disburse funds to a segregated designated account maintained by NBU, in which funds will thereafter be transferred to eligible sub-borrowers. The designated accounts must be established at a financial institution acceptable to AIIB. Funds will be advanced in tranches, which will be made against a submission of eligible sub-borrowers approved by AIIB. Subsequent advances will be made upon confirmation that previous funds have been on-lent to beneficiaries and AIIB's approval of a new submission of eligible sub-borrowers. The minimum disbursement from AIIB to the Borrower for direct on-lending will be USD15 million and the maximum USD100 million. Applications may bundle several requests. When funds are used for the repayment of own Borrower loans, the quantum thereof must be disclosed. The Borrower will also open and maintain a segregated bank account for the payment and repayment of funds associated with each sub-loan. The detailed disbursement arrangements have been set out in a Disbursement Letter, to which the Interim Disbursement Manual for Sovereign-backed loans is attached. Withdrawals for retroactive financing will be permitted, and subject to the date and limit specified in the legal agreements.

47. NBU will receive, maintain, and monitor AIIB loan proceeds using their own financial management systems. The Borrower will deposit the AIIB loan proceeds into its segregated bank account (Designated Account) for on-lending to sub-borrower's accounts. The Borrower will also open and maintain a segregated bank account for the payment and repayment of funds associated with each sub-loan.

48. **Accounting.** A separate project profile account will be created in the accounting system and ledger of the Borrower, in which the chart of accounts will be designed by sub-borrowers to ensure the accuracy and completeness of Project transactions and financial reports. The Project's transactions will be recorded and reported on using the *cash basis* of accounting. All payments to and from eligible sub-borrowers will be recorded and tracked in sub-loan accounts to be maintained in accordance with policies and procedures satisfactory to AIIB. Any foreign exchange gains and losses will be absorbed by the Borrower.

49. **Governance and anti-corruption.** NBU has put in place a comprehensive anti-money laundering (AML) Policy to control AML/Combating the Financing of Terrorism and Sanctions monitoring, which covers all the necessary elements including governance, Know Your Counterparty/Customer Due Diligence, high risk customers management, Ultimate Beneficial Owner and transparency, regular review and ongoing monitoring, transaction screening and monitoring, training that are in line with the Central Bank's regulatory requirements. A dedicated team named Internal Control Department is also in place to assist the management to control and manage AML and sanctions risk. Overall, the AML program is considered to be adequate.

50. The Borrower is committed to preventing fraud and corruption in the sub-loans. The Borrower will ensure that the Project is implemented in strict compliance with AIIB's PPP. Implementation will be monitored regularly by NBU and reported to AIIB. The Borrower and its sub-borrowers shall be required to report to AIIB any suspected Prohibited Practices in relation to AIIB's loans and the Project. AIIB reserves the right to investigate—directly and indirectly through its representatives—alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project and to take necessary measures to address any issues in a timely manner, as appropriate.

51. **Institutional Capacity.** NBU was founded in 1991 and grew to become the largest bank in the country, proving its ample institutional capacity in terms of credit assessment, financial management and governance. NBU has experience working with other MDBs and has implemented ESMS related to their respective facilities. NBU has engaged a consultant to help them develop a project-specific ESMS relevant for this project and aligned with AIIB's requirements.

52. **Reporting and Monitoring.** During the loan implementation period, AIIB retains the right to review all sub-loans and conduct supervisory visits, including visits to the sub-borrowers, at its discretion. NBU will regularly provide AIIB with reports including utilization request forms, audited financial statements, auditors' management letters, certificates of compliance with national financial regulations, and ES reports, as per the loan agreement. The operations of the Project will be incorporated in the periodic risk-based audits conducted by the Borrower's internal audit departments. The internal audit reports will be shared with the AIIB upon request and consent from their respective Audit Committees. NBU is required to provide unaudited and audited financial reports during project implementation. The unaudited financial reports will cover a 6-month period, (January–June and July–December of each year), commencing after the first disbursement of funds. Such will become due to AIIB within 45 days of the financial year end. The format and content of the reports will be agreed on with AIIIB. An annual project audit will be executed by an external audit firm deemed to be acceptable to the Central Bank's regulations and to AIIB, in accordance with a TOR approved by AIIB. The audit report comprising of the project audited financial statements and the management letters will become due to the AIIB, within 6 months of NBU's financial year end.

D. Environmental and Social

53. **Environmental and Social Policy, Standards and Categorization.** AIIB's ESP including relevant Environmental and Social Standards (ESSs) and Environmental and Social Exclusion List (ESEL) applies to this Project. The Project has been assigned Category FI and the Borrower's ESMS, aligned to comply with the ESP, will be used as the project's ES instrument.

54. NBU has an established "Policy of Environmental and Social Risks Management" (ESRM), which is equivalent to an ESMS. Building on NBU's ESRM and its ESMS arrangements with other IFIs, a project-specific ESMS has been prepared and being reviewed and finalized to ensure alignment with AIIB's ESP. and will be adopted to apply to subloans. The project-specific ESMS will be included in the OM for this Project.

55. The sub-loans under this project will be selected against eligibility criteria. An ES screening procedure will be followed. Category A and high-risk Category B[42] sub-loans as well as activities listed in AIIB's ESEL and the list of prohibited activities regulated in NBU's ESRM, and sub-loans for cotton farming, cotton production and textile production sector will be excluded from eligibility for financing. The ES eligibility criteria is elaborated in the draft Project-specific ESMS. In addition, screening checklists of potential ES risks and impacts for sub-projects are also included in the draft project-specific ESMS.

56. **Environmental and Social Management System and Capacity**. NBU's existing ESRM is applicable to all financial activities of NBU. This ESRM aims to increase the potential positive ES effects, to avoid, if not, to minimize the negative ES impacts of projects it finances and to promote sustainable development. NBU has had experiences working with other IFIs such as ADB, WB and JICA. NBU has adopted project-specific ESMSs for each of the ADB- and JICA supported-projects, while for the WB supported-project, it is regulated by an Environmental and Social Management Framework (ESMF).

57. Similar to other IFI supported projects, NBU has committed to adopt a Project-specific ESMS acceptable to AIIB. The draft Project-specific ESMS includes screening of ES impact and risks, ES categorization, due diligence, approval, monitoring and reporting for sub-projects by NBU as well as responsibilities of sub-borrowers. The progress of implementation of the ESMS and results of environmental and social performance monitoring of sub-projects will be aggregated in the Annual Environmental and Social Report and submitted to AIIB. AIIB team will monitor the implementation of the project-specific ESMS and conduct post review of ES performance of the sub-projects on a sample basis to validate the progress of the ESMS implementation.

58. **Stakeholder Engagement, Consultation and Information Disclosure**. The draft project-specific ESMS includes requirements on stakeholder engagement for sub-loans as required by national legislations and AIIB ESP. The information of this project has been disclosed on AIIB website through the Project Summary

[42] These high risk Category B sub-projects to be excluded from the AIIB financing are those transactions that may potentially result in: (i) land acquisition or involuntary resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and cultural resources; (iv) significant retrenchment of more than 20% of direct employees and recurrent contractors; and/or (iv) significant occupational health and safety risks.

Information. The information on eligible sub-projects will be disclosed by NBU as per the project-specific ESMS.

59. **Grievance Redress Mechanism**. NBU has an Executive Office at the headquarters that works with citizen appeals and regularly reports to the NBU's management and the Central Bank of Uzbekistan on complaints received and actions undertaken to address them. Each of NBU branches also has a designated officer responsible for receiving appeals, registrations, and addressing them and submitting them to the Headquarter. Stakeholders who have concerns may send these through e-mail, regular postal mail, a telephone hotline 24/7 or an appointment meeting with NBU management. The sub-borrowers will be required to have a GRM in place for receiving and addressing ES concerns and or complaints as part of the project-specific ESMS.

60. **AIIB Independent Accountability Mechanism**. AIIB's Policy on the Project-affected Peoples Mechanism (PPM) applies to this Project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the ESP in situations when their concerns cannot be addressed satisfactorily through the Project-level GRM or the processes of AIIB's Management. Information on AIIB's PPM is available at: https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html.

E. Risks and Mitigation Measures

Table 4: Summary of Risks and Mitigating Measures

Risk Description	Assessment Ratings	Mitigation Measures
Implementation capacity *Risk that the Borrower is unable of implementing the Project as approved*	*Low*	• The Borrower as experience with international financial institution (IFI) and development finance institution credit line implementation. • The Asian Infrastructure Investment Bank (AIIB) reserves the right to conduct periodic discussions with management and the Board and visits to sub-borrowers.
Corporate Governance / Conflict of Interest *Risk that the Borrower comes under undue influence or become conflicted during their operations.* *Risk of integrity breaches and supervisory failures.*	*Medium*	• The JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan (NBU) follows International Financial Reporting Standards 9 provisioning • NBU adhere to international compliance questionnaires and audit processes. • AIIB will obtain the annual letter to management from external auditors and keep examination rights.

Risk Description	Assessment Ratings	Mitigation Measures
NBU is a state bank (state-owned enterprise) with a Board that comprises representation from the Ministry of Finance, of Investments and Foreign Trade and Uzbekistan Fund for Reconstruction and Development.		• AIIB will be informed of material events such as changes of policies, management, or Board. • Decision making within NBU is multi-layered and subject to scrutiny. This prevents the misuse of funds based on personal preference. • Financial, environmental and social, fiduciary, and Financial Crime and Integrity Due Diligence/Know Your Counterparty undertakings will be included in the operations manual (OM). • Existing IFI relationships and compliance with their requirements provide additional comfort.
Macroeconomic Risk *Risk of a severe macroeconomic downturn induced by the coronavirus disease (COVID-19) pandemic.* *The outlook for the Uzbek economy in the short term is largely dictated by the biological trajectory of the virus, and the response by authorities.*	*Medium*	• NBU is the largest bank in the country and the preferred instrument to finance State program to stimulate the economy. • NBU has strong capital adequacy ratio (CAR) that provides a line of defense for the bank in the event of an economic shock such as abrupt devaluation. • Uzbekistan has never defaulted on IFI loans and has relatively low debt.
Foreign Exchange Risk *Risk that the high dollarization of the loan book of NBU could lead to a degradation of its asset quality.*	*Medium*	• The Borrower lends and funds itself in hard currency and matches with sub-borrowers' revenues mostly in hard currencies in order to minimize the currency volatility risk. • NBU has a strong CAR, and large access to additional funding if needed. • Uzbekistan's external capital flows are modest relative to gross domestic product.
Financial Management Risk	*High*	• The project specific accounting shall be maintained, external audit shall have a project-specific terms of reference, internal

Risk Description	**Assessment Ratings**	**Mitigation Measures**
Accounting and internal control weaknesses may affect credibility and reliability of financial statements and delay in receiving project audit reports.		audit shall report on project specific activities and OM shall detailed out project financial management arrangements.
Environmental and Social (ES) Risk *Mis-categorization or under reporting of ES risks and impacts of sub-project.* *Underperformance of ES risk and impacts management of the Borrower, or sub-borrowers.*	*Medium*	• NBU has developed and committed to adopt a project-specific ESMS aligned with AIIB environmental and social policy requirements. • NBU to conduct capacity building/training on the implementation of the project-specific environmental and social management system and AIIB's ESP. • The overall ES risk of this Project is medium. Through the proper procedure of ES screening, categorization, due diligence, approval and monitoring, the potentially adverse ES impacts and risks will be minimized to the extent possible. • The Borrower is to exclude sub-loans categorized as category A and high-risk B and those in cotton farming, cotton production and textile production sectors. The Borrower will maintain a database and records of their ES assessment of sub-loans, and their monitoring of ES commitments and performance throughout their tenure for reporting to AIIB. AIIB will conduct post-reviews and supervision when required.

Annex 1: Results Monitoring Framework

Project Objective:	1. To alleviate working capital shortages and liquidity constraints brought on by the pandemic to small and medium-sized enterprises operating in the infrastructure and eligible “other productive sectors.”										
Indicators	**Unit of measure**	**Base-line** Data Year	**Cumulative Target Values**						**End Target**	**Frequency**	**Responsible**
			YR1	**YR2**	**YR3**	**YR4**	**YR5**				
Project Objective Indicators:											
1. Amount of financing made available to eligible sub-borrowers	USD	0	100	150	150	200	200		200	Annual	NBU
2. Number of eligible sub-borrowers receiving financing	#	0	25	50	75	75	75		75	Annual	NBU
3. Percentage of nonperforming loans in the SME portfolio	%	0%	<10%	<10%	<10%	<10%	<10%		<10%	Annual	NBU
4. Percentage of loan value in Group 1 and 2 sectors	%	0%	50%	75%	100%	100%	100%		100%	Annual	NBU
5. Utilization rate of the component(s)	%	0%	47%	95%	100%	100%	100%		100%	Annual	NBU
Intermediate Results Indicators:											
1. Number of jobs created/retained by sub-borrowers (disaggregated by gender)	#	0	25	50	50	50	50		50	Annual	NBU
2. Percentage of sub-borrowers with women owners or with one or more women in executive positions	%	0%	5%	10%	15%	15%	15%		15%	Annual	NBU

Annex 2: JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan
Financial Highlights

National Bank for Foreign Economic Activity of the Republic of Uzbekistan | Income Statement

	2015 FY	*2016 FY*	*2017 FY*	*2018 FY*	*2019 FY*
Accounting Principle	IFRS	IFRS	IFRS	IFRS	IFRS
Financials Reported Currency Code	UZS	UZS	UZS	UZS	UZS
Income (UZS Millions)					
Interest Income	590,296	763,467	1,389,969	2,620,568	3,971,082
Interest Expense	318,779	406,858	712,702	1,358,970	2,138,230
Net Interest Income	271,517	356,609	677,267	1,261,598	1,832,852
Fee & Commission Income	NA	NA	338,299	391,131	446,791
Fee & Commission Expense	NA	NA	59,062	74,928	83,073
Net Fee & Commission Income	176,576	196,129	279,237	316,203	363,718
Realized and Unrealized Gains on Securities	182,180	164,799	3,024,191	(404,296)	20,366
Partnership Income	5,296	8,464	8,540	8,323	9,911
Dividends from Equity Instruments	NA	NA	4,638	12,821	14,402
Rental Revenue	NA	NA	5,316	5,427	7,507
Other Noninterest Income	NA	NA	21,420	(15,542)	101,712
Operating Income	**666,897**	**754,021**	**4,020,609**	**1,184,534**	**2,350,468**
Expenses (UZSM)					
Operating DD&A	NA	NA	26,625	45,545	50,654
Compensation & Benefits	140,841	188,025	247,981	344,953	515,972
Occupancy & Equipment	NA	NA	48,708	41,671	52,567
Tech & Communications Expense	NA	NA	4,409	6,034	6,945
Other Expense	NA	NA	234,974	285,570	244,759
Operating Expense	**316,349**	**379,609**	**562,697**	**723,773**	**870,897**
Operating Profit & Impairment (UZSM)					
Pre-impairment Operating Profit	350,548	374,412	3,457,912	460,761	14,795,710
Bank Loans Impairment Expense	NA	NA	0	2,380	1,371
Provision for Loan Losses	164,258	132,649	1,341,349	(443,062)	448,993
Loans and Credit Commitments Impairment	NA	NA	1,341,349	(440,682)	450,364
Memo: Off-Balance Sheet Impairment	NA	NA	NA	30,217	(74,727)
Impairment on Securities	NA	NA	NA	13,687	9,846
Impairment on Financial Assets	164,258	132,649	1,341,349	(426,995)	460,210
Other Assets Impairment	NA	NA	27,832	45,759	21,727
Non-Financial Investments Impairment	1,596	2,258	27,832	45,759	21,727
Asset Writedowns	165,854	134,907	1,369,181	(381,236)	481,937
Net Income (UZSM)					
Net Income before Taxes	184,694	239,505	2,088,731	841,997	997,634
Provision for Taxes	23,874	29,354	(61,876)	59,473	207,545
Effective Tax Rate	12.93	12.26	(2.96)	7.06	20.80
Discontinued Operations	(20,735)	(37,341)	(14,783)	0	0
Net Income	**140,085**	**172,810**	**2,135,824**	**782,524**	**790,089**

National Bank for Foreign Economic Activity of the Republic of Uzbekistan | Balance Sheet					
	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY
Accounting Principle	IFRS	IFRS	IFRS	IFRS	IFRS
Financials Reported Currency Code	UZS	UZS	UZS	UZS	UZS
Assets (UZS Millions)					
Cash and Balances with Central Banks	4,618,229	6,309,502	11,080,508	6,614,154	7,001,599
Net Loans to Banks	1,325,367	973,393	2,006,794	1,892,000	1,777,507
Cash and Cash Equivalents	5,943,596	7,282,895	13,087,302	8,506,154	8,779,106
Total Gross Loans	10,679,728	14,145,169	36,462,247	47,593,678	56,077,358
YoY Growth	*24%*	*32%*	*158%*	*31%*	*18%*
Loan Loss Reserve	441,793	578,173	1,940,684	1,568,196	1,903,350
Total Net Loans	10,237,935	13,566,996	34,521,563	46,025,482	54,174,008
Loans Held for Investment, Net of Reserves	10,237,935	13,566,996	34,521,563	46,025,482	54,174,008
Total Securities	48,998	48,625	60,437	41,337	320,852
Financial Assets	19,523,391	26,234,625	47,669,302	54,572,973	63,273,966
Investment in Partnerships	32,545	36,721	55,936	189,853	239,535
Noncurrent Assets HFS & Discontinued Ops	NA	NA	195,858	20,755	10,262
Fixed Assets	450,661	221,279	233,913	912,565	1,383,471
Tangible and Intangible Assets	NA	NA	233,913	912,565	1,383,471
Tax Assets	NA	NA	207,331	255,344	267,726
Total Other Assets	NA	NA	148,032	241,584	314,381
Total Assets	**15,754,440**	**20,426,332**	**48,510,372**	**56,193,074**	**65,489,341**
YoY Growth	*23%*	*30%*	*137%*	*16%*	*17%*
Liabilities (UZSM)					
Deposits from Banks Held at Amortized Cost	NA	NA	1,909,557	950,879	1,139,442
Deposits from Cust Held at Amortized Cost	NA	NA	12,110,126	11,871,894	15,507,241
Total Deposits from Banks	546,509	1,867,661	1,909,557	950,879	1,139,442
Total Deposits	6,014,985	6,406,873	12,110,126	11,871,894	15,507,241
Other Subordinated Debt	35,574	35,655	0	0	1,459,376
Total Subordinated Debt	35,574	35,655	0	0	1,459,376
Senior Debt	7,782,733	10,519,559	30,129,880	38,082,653	34,942,076
Total Debt	7,818,307	10,555,214	30,129,880	38,082,653	36,401,452
Total Financial Liabilities	14,379,801	18,829,748	44,149,563	50,905,426	53,048,135
Total Other Liabilities	NA	NA	71,022	377,818	293,979
Total Liabilities	14,480,296	18,951,190	44,238,609	51,283,244	53,342,114
Equity (UZSM)					
Equity Hybrid Securities	0	0	0	126,096	126,096
Common Equity	1,272,383	1,474,336	4,246,502	4,693,476	11,917,031
Equity Attributable to Parent Company	1,272,383	1,474,336	4,246,502	4,819,572	12,043,127
Noncontrolling Interests	1,761	806	25,261	90,258	104,100
Total Equity	**1,274,144**	**1,475,142**	**4,271,763**	**4,909,830**	**12,147,227**
Balance Sheet Analysis (%)					
Loans at Amortized Cost/ Assets	64.98	66.42	71.16	81.91	82.72
Net Loans/ Assets	64.98	66.42	71.16	81.91	82.72
Amortized Loans/ Deposits	NA	NA	285.06	387.68	349.35
Reserves/ Loans Held For Investment	4.14	4.09	5.32	3.29	3.39
Growth Rates (%)					
Asset Growth	22.78	29.65	137.49	15.84	16.54
Net Loans Receivable Growth	23.69	32.52	154.45	33.32	17.70
Deposit Growth	22.43	6.52	89.02	(1.97)	30.62

Annex 3: Sovereign Credit Fact Sheet

Recent Economic Development

Uzbekistan is a lower-middle income country with gross domestic product (GDP) per capita at USD1,534 and a population of 32.4 million. Growth in 2019 was robust, at 5.6 percent, driven by investment, industry (including construction), and services sectors. Inflation remains relatively high, at about 15 percent, due to high growth, continued liberalization of regulated prices and the impact of currency deprecation in August 2019. Current account deficit in 2019 was elevated, at about 5.6 percent of GDP, reflecting high investment rates. Fiscal policy was prudent, with revenues more or less balancing expenditures.

Since taking office in 2016, the new government has embarked on a reform agenda to transform Uzbekistan from a state-led to a more market-based economy.[1] Reforms included introduction of market-pricing mechanisms, removal of trade restriction, and accelerating industrialization. Even though the state and the state-owned enterprises (SOEs) continue to dominate the economy, the reforms have been progressing—the recently-announced plans include privatization of many SOEs and injecting more competition into key markets.

The modernization agenda made Uzbekistan an attractive destination for investment, both foreign and domestic. This is further underpinned by robust growth potential, young and abundant labor supply, diversified commodity exports, macroeconomic stability and modest debts. Investment rates are remarkably high, around 40 percent of GDP in 2019.

Table 4: Selected Macro Indicators (2017–2022)

Economic Indicators	2017	2018	2019	2020*	2021*	2022*
Real GDP growth 1/	4.5	5.4	5.6	1.5	5.0	6.0
CPI inflation (average) 1/	13.9	17.5	14.5	12.9	9.5	6.4
Current account balance	2.5	-7.1	-5.6	-9.6	-7.9	-6.4
General government balance 4/	1.3	1.7	0.0	-7.5	-1.8	-1.2
Nominal gross public debt	20.2	20.4	29.3	36.9	36.8	36.9
Gross public financing need	3.1	2.6	11.6	11.8	6.4	5.7
Gross external debt	34.1	34.3	43.5	46.3	47.6	47.2
Gross external financing needs	0.4	11.9	6.3	14.1	8.9	7.7
Gross international reserves 2/	14.4	12.2	14.4	11.5	10.2	9.1
Broad money growth (M2) 1/	41	13.2	13.8	16.7	18.2	21.6
Exchange rate (UZS/USD) 3/	8,140	8,354	9,501	10,364	..	..

Note: in percent of GDP unless indicated otherwise. * projections
1/ percent change year-on-year; 2/ months of imports; 3/ end-of-period, for 2020: as of Oct 13; 4/ adjusted (IMF definition)
Source: IMF Country Report No. 20/171, World Economic Outlook April 2020, IMF Press Release of Sep 21, 2020

The coronavirus disease (COVID-19) pandemic, with 44,281 reported cases and 358 deaths as of September 9, and the related economic shock will impact Uzbekistan significantly. Tight lockdowns measures imposed in March and a collapse in economic confidence will lead to a serious economic slowdown. In addition, remittances worth some 15 percent of GDP (mainly from Russia) will be affected. The shock is compounded by a

[1] The president was elected on 4 December 2016 and the prime minister was appointed on 14 December 2016. President Mirziyoyev's development strategy 2017–2021 laid out a vision of major structural reforms across all economic policy areas and institutions.

decline in oil prices, that is impacting gas exports, which account for over 10 percent of exports.

The response on the economic front included increasing the number of low-income families receiving social benefits, assisting affected businesses via interest subsidies, financing public works and postponing taxes. State-owned banks are extending loan maturities for the affected sectors. The central bank lowered the interest rate by 400 bps and allowed the exchange rate to depreciation moderately, by about 8 percent.

Economic Outlook and Risks

As the result of the double crisis, economic growth in 2020 is expected to slow down to about 1.5 percent, down from 6 percent expected earlier—according to the projections of the International Monetary Fund. The fiscal balance will slide into a 7.5 percent of GDP deficit, due to lower revenues and higher expenditures, and the current account balance is expected to deteriorate to almost 10 percent of GDP.

Provided the pandemic situation stabilizes toward the end of 2020 and early 2021, there should be a rebound in 2021. Inflation is projected to decline gradually to about 11 percent by end-2020 due to weak demand but remain under the continued pressures from price liberalization and public wage adjustments.[2]

Notwithstanding the pandemic and oil shocks, Uzbekistan's debt remains sustainable. As a result of diversified commodity exports and low initial debt the country has substantial buffers, with reserves covering 13 months of imports (almost 50 percent of GDP) and public debt as low as 29 percent of GDP in 2019, of which over 90 percent is owed to official creditors. Over the medium term, the debt ratio is expected to increase only moderately. Economic and debt management are improving, with the authorities planning to introduce inflation targeting and fiscal rules (e.g. debt limits). Total external debt remains moderate 43.5 percent of GDP in 2019. Overall, Uzbekistan's creditworthiness is being sustained. Even though yields have initially increased by about 300 bps (to above 7 percent), they have already come down to pre-pandemic levels. On October 9, Fitch affirmed Uzbekistan rating at BB- outlook stable; on June 5, S&P also affirmed the BB- rating but changed the outlook from stable to negative on higher-than-expected fiscal borrowing.

Overall, risks to the economic outlook are to the downside. They include a prolonged global downturn and a failure to contain the virus. In fact, since July, the authorities felt compelled to reverse some of the earlier relaxation of restrictions, due to COVID-19 cases rising again. The government's commitment to the reform agenda will be tested by weaker investment and potentially by growing social discontent as unemployment and economic hardship increase.

In the longer run, given its large working-age population, creating more and better jobs is the country's overarching priority.[3] Uzbekistan has anchored its development agenda to

[2] Continued price adjustments are needed, especially in the energy sector, so to reduce SOE losses, save energy, and attract foreign investors to the energy sector. Also, the government plans to significantly expand active labor market policies (ALMPs) to encourage temporary employment by providing a wage subsidy to employers.

[3] The working-age population as a share of the total population in Uzbekistan has surged since the 1990s. It is predicted to peak around 2040. The ratio will stay at around 70 percent during 2020-50. This is an opportunity for rapid and inclusive catch-up growth.

the Sustainable Development Goals (SDGs) and the total additional spending needs to reach the SDGs in social and infrastructure sectors is estimated at about 8.7 percent of GDP in 2030, with a focus on health and roads.

Annex 4: Preliminary Pipeline of the JSC National Bank for Foreign Economic Activity of the Republic of Uzbekistan

NBU On-lending List		
Sectors	**No. of Clients**	**Total amount of loans (USD mln)**
1. Manufacturing		
- working capital	**15**	**35.0**
2. Agriculture		
- working capital	**15**	**30.0**
3. Wholesale and retail trade		
- working capital	**25**	**45.0**
4. Food service activities		
- working capital	**15**	**30.0**
5. Transportation		
- working capital	**10**	**20.0**
6. Retroactive financing		
- transaction financed by NBU since 1 February 2020		**40.0**
TOTAL	**80**	**200.0**

Annex 5: Eligible Sub-Borrowers

Table 6: Eligible Sector Groups by Strategic Alignment

Group 1	Strong relationship with AIIB's key strategic sectors (energy, transport, water, sustainable infrastructure, healthcare, information and communication technology)
Group 2	Generally, other productive sectors (OPS) and activities that are eligible under the draft OPS strategy (5.1.1. Critical inputs to infrastructure development, management, and operation.)
Group 3	Less strong link toward Asian Infrastructure Investment Bank priorities, but not an Excluded Sector. Some of these sectors are important to safeguard employment and productive capacity of infrastructure and OPS.
Not eligible	Weak or no link to infrastructure and OPS; Excluded Sector / Activity due to environmental and social and other challenges

Table 8: Eligible Sectors

NACE Rev.2	Category
Section A	Agriculture, forestry and fishing
Section C	Manufacturing
Section D	Electricity, gas steam, air conditioning
Section E	Water supply (sewerage, waste, remediation)
Section F	Construction
Section G	Wholesale and retail trade
Section H	Transport and storage
Section J	Information and Communication
Section M	Professional scientific and technical activities
Section N	Administrative and support service activities
Section P	Education
Section Q	Human health and social work activities

Table 9: Excluded Sectors and Activities within Sectors

NACE Rev.2	Category
A1.16	Growing of fiber crops (e.g. jute, flax, hemp, cotton)
Section B	Mining and quarrying
C11.01	Distilling, rectifying and blending of spirits
C12	Manufacture of tobacco products
C13	Manufacture of textiles
C14	Manufacturing of wearing apparel

C19	Manufacture of coke and refined petroleum products
C20.2	Manufacture of pesticides and other agrochemical products
C24.46	Processing of nuclear fuel
C25.4	Manufacture of weapons and ammunition
C27.1	Manufacture of transformers using PCBs
C28.25	Manufacture of non-domestic cooling and ventilation equipment using ozone depleting substances and types using banned compounds (e.g. CFCs).
C30	Manufacture of military fighting vehicles
C30.11	Building of ships and floating structures (warships)
C30.4	Manufacture of military fighting vehicles, intercontinental ballistic missiles (ICBM)
D35.11	Production of electricity from coal, oil and diesel is excluded
Section O	Public Administration and defense, social security
R92	Gambling and betting activities
Section U	Activities of extraterritorial organizations and bodies, e.g. diplomatic and consular missions, international organizations, etc.

Eligible Sub-Borrowers

An entity may be eligible to receive a sub-loan if it meets all the following requirements:

1. It is a private entity *criteria*[1]: (i) which is carrying out or is established for a business purpose, and is operating on a commercial basis; (ii) which has more than 50 percent of shares owned privately (i.e., not any Governments nor Government-owned entities); (iii) which is financially and managerially autonomous from the government; and (iv) whose day-to-day management is not controlled by the government.

2. It is registered and operating primarily in the Republic of Uzbekistan or has a fixed place of business in the Republic of Uzbekistan.

3. It has obtained all necessary approvals, certifications and permits to carry out its activities, and is in compliance with all applicable national environmental, social, health and safety legislations, and employment regulations and standards in effect in the Republic of Uzbekistan and commits to maintaining that status during the tenure of the sub-loan. It represents not having recently been administratively or judicially convicted of material breach of environmental and social regulations. It is not being reported in mainstream or social media as materially contravening good ES practices.

4. It meets the Borrower's requirements and eligibility criteria including creditworthiness and financial risk.

5. It manages its financial position in a prudent and effective manner, ensures adequate and satisfactory environmental and social monitoring, reporting as well as proper procurement procedures.

---

[1] To be financed under the Facility, the sub-borrowers should be a private entity carrying out their businesses in accordance with the Law of the Republic of Uzbekistan dated May 2, 2012 "On guarantees of freedom of entrepreneurial activity", including:

1) Individual entrepreneurs (without forming a legal entity);

2) Micro-firms with an average annual number of workers employed in the manufacturing sectors - not more than 20 people, in the service sector and other non-productive industries—not more than 10 people, in wholesale, retail trade and public catering—not more than 5 people;

3) Small enterprises with an average annual number of workers employed in industries:

a. light, food and construction materials industries, as provided by law,—not more than 200 people;

b. metalworking and instrument making, woodworking, furniture industry, as well as other industrial and production sectors provided for by law—not more than 100 people;

c. machine building, metallurgy, fuel and energy, and chemical industry, production and processing of agricultural products, construction, and other industrial and production sectors provided for by law—not more than 50 people;

d. science, scientific services, transport, communications, services (except insurance companies), trade and public catering and other non-productive sectors - not more than 25 people.

The average annual number of employees of small businesses is determined in the manner prescribed by law. The number of employees hired concurrently, under work contracts and other civil law contracts, as well as the number of employees in unitary enterprises, in representative offices and branches, is also taken into account.

Legal entities and individuals carrying out several types of activities (multidisciplinary) belong to small businesses according to the criteria of that type of activity, the share of which is the largest in annual turnover.

6. The sub-borrower is not included in the Asian Infrastructure Investment Bank's published Debarment List, and is not engaged, or seeks to engage, in activities as listed in the AIIB's Environmental and Social Exclusion List[2] using the AIIB's loan.

[2] The list is published and updated regularly on AIIB's website: www.aiib.org

Deliberately blank