



MEMORANDUM OF UNDERSTANDING
of the Transaction Technical Assistance Review Mission for the Proposed
UZB: Skills Development for a Modern Economy Project

23 September – 4 October 2019

I. BACKGROUND

1. An Asian Development Bank (ADB) transaction technical assistance (TRTA) review mission for the proposed Uzbekistan *Skills Development for a Modern Economy Project* was held from 23 September to 4 October 2019.¹ The project concept paper with the TRTA was approved by the ADB in April 2019 and effective from May 2019 with the endorsement by the Government of Uzbekistan.² This is the first TRTA review mission following its inception in June 2019.

2. The mission's main objectives were to (a) update with the government on the selected training institutions and the proposed project implementation arrangement, following the issuance of Presidential Decree 5812 (dated 6 September 2019); (b) agree on the project scope and the proposed project implementation arrangement; and (c) agree on the draft financial management (FM) and procurement capacity assessment and FM and procurement capacity building action plans.

3. Kickoff meetings were held at MOHSSE (IIDATRTP) by Mr. Murodullo Kholmukhamedov, Deputy Minister (MOHSSE) on 23 September 2019, and at MOELR by Mr. Erkin Mukhitdinov, First Deputy Minister (MOELR) on 28 September 2019. On 27 and 30 September 2019, debriefing meetings were held with Ministry of Finance (MOF) and Ministry of Investment and Foreign Trade (MIFT), respectively.³ On 4 October 2019, wrap up meetings were held with Mr. Kholmukhamedov at MOHSSE and cleared with Mr. Mukhitdinov at MOELR, respectively.

4. This memorandum of understanding summarizes the major points discussed and agreements reached during the mission. These understandings are subject to the approval of higher authorities of the Government of Uzbekistan and ADB. The list of people met is in Annex 1.

5. The proposed project's outcome will be market-driven skills learnt by students and jobseekers, and its outputs will include (i) employment and workforce development services improved; (ii) quality and relevance of skills development enhanced; and (iii) sector governance and management strengthened.

II. MISSION FINDINGS

A. Updates in the proposed scope of the project

6. **Project-targeted skills training institutions.** The mission discussed with MOELR and

¹ The mission team comprised X. Long, Senior Social Sector Specialist and mission leader, Social Sector Division (CWSS), and F. Djumabaeva, Associate Project Analyst, Uzbekistan Resident Mission. The Mission was supported by the TA9256 implementation team, which was a consortium of AARC Ltd (Ireland), EduCluster Finland (Finland), and Aykan Invest (Uzbekistan) and the TA9727 consultants visiting to the country during the same period.

² ADB. 2019. *Project Concept Paper for Uzbekistan: Skills Development for a Modern Economy Project*. Manila. ADB. 2019. *Transaction Technical Assistance for Uzbekistan: Preparing Skills Development for a Modern Economy Project*. 2019. Manila.

³ The debriefing meeting with MIFT was led by the ADB Country Director, Uzbekistan Resident Mission (URM) and composed of Mr. R. Mamatkulov, Senior Portfolio Management Specialist, URM, and the mission team.

MOHSSE about the impact of Presidential Decree 5812 on the project-targeted skills training institutions which were agreed between MOELR, MOHSSE and the ADB mission during the TRTA inception mission in June 2019. The impact included: (i) 4 colleges were transferred to other ministries outside of MOELR and MOHSSE; (ii) 2 colleges serving people with disabilities (PWD) were transferred from MOELR to MOHSSE and now targeting initial vocational education; (iii) among the current 15 colleges administered by MOHSSE, only 1 is “technikum” (targeting grade 11 graduates and education-equivalent adults) and the other 14 are initial vocational schools; and (iv) currently only 11 professional training centers (PTCs) under MOELR remain in the project’s target list, which narrows the project’s aimed support for reskilling unemployed people (previously 17 PTCs were targeted). Meanwhile, the mission found that a number of existing TVET colleges in the country have not renewed the employment contracts of their teachers (usually keeping only teachers for the last batch of the TVET students enrolled in academic year 2017/18). The mission agreed with MOHSSE that, teacher recruitment for selected colleges in the project-targeted trades will be conducted for academic year 2020/21 prior to the start of the project implementation.

7. MOELR confirmed with the mission that, under Presidential Decree 5812, in total 30 PTCs are now administered by MOELR. During the mission, MOELR identified 6 PTCs under the agreed selection criteria and replenished them to the list.⁴ Among the selected PTCs, two PTCs (Samarkand Bogishamol College and another PTC at Tashkent region / city) will pilot training programs for people with disabilities (PWD) that can be later scaled up in other regions, and two PTCs (Samarkand Bogishamol College and another PTC at Tashkent region / city) will accommodate the assessment centers. MOELR agreed with the mission to finalize by 18 October 2019 the selection of the exact PTC at Tashkent region / city to accommodate programs for PWDs and/or assessment center. On 18 October 2019, MOELR submitted to the mission its request to cover all the 30 PTCs under the project. The mission fed back to MOELR that this latest request should be assessed under the existing loan envelop and that based on the forthcoming cost estimates for the planned project the government will then finalize the decision making (before 30 November 2019).

8. MOHSSE confirmed with the mission that, under Presidential Decree 5812, a new Main Department of Education and Methodical Coordination of Vocational Education replaces the abolished Center for Vocational Education. The mission confirmed with MOHSSE based on the project-targeted occupations and skills-sets and on the previously agreed selection criteria that TVET colleges, namely technikums and Initial Vocational Schools to be proposed under the project shall be all under MOHSSE’s administration. For these TVET colleges, government budget will cover their renovations. MOHSSE should ensure that these college buildings are in good condition, so no significant renovation is expected, and that all renovations shall be completed before equipment can be installed. MOHSSE confirmed the list of 16 colleges to ADB by 14 October 2019 (including 11 Initial Vocational Schools and 5 technikums).

9. Annex 2 shows the 30 PTCs under MOELR’s request for project’s coverage (wherein the 17 PTCs identified during the mission are highlighted). It also shows the list of MOHSSE’s TVET colleges targeted for the project. The mission highlighted with the government the list is subject to the final approval of the project by the ADB and government authority.

10. **ADB loan financing scope**

- 1) **Training fees.** As per Presidential Decree 5812, for the Initial Vocational Schools, government budget will fully finance the students’ tuition fees; for the technikums (and

⁴ The other selection criteria were previously agreed with the MOELR during the consultation mission in May 2019.

mid-profile colleges), students will be charged part of the tuition fees, which are subject to government's estimation and decision making. Meanwhile, as the PTCs can only provide free training for jobseekers holding unemployment certificates (only 7.9% of jobseekers approaching public employment services get the unemployment certificate and among them about half can get training at PTCs) by allocation from the employment fund for a maximum of 10 months, it does not meet adequately the needs for youth and women whose unemployment rate is much higher than the national average. The mission confirmed with MOELR and MOHSSE that (i) the project will finance student/trainee internships and teacher development under CBT by ADB loan; and that (ii) the project will finance training for youth and women under CBT in PTCs and technikums through well-defined targeting measures or enrollment requirements. Modalities for fund installment will be developed further by ADB technical assistance.

- 2) **Civil works.** ADB loan will be used to finance the renovation of the targeted PTCs (under MOELR). It will ensure the improvement in energy saving and PWD-friendly access in buildings. ADB loan will also cover the design and supervision of the renovation of the targeted PTCs.
- 3) **Equipment and other goods.** ADB loan will be used to finance all relevant equipment, which mainly include the equipment for 20 selected PES centers (Annex 3), MOELR's staff training center, and NSCELP, the training equipment, tools and material for the targeted skills training institutes, the equipment for teachers' innovation center (under MOHSSE), the assessment tools for the two assessment centers, and the equipment for PIUs. The loan will also support other goods such as furniture, market-available training software, and learning materials.
- 4) **Service.** ADB loan will be used to finance all expenditures related to consulting and non-consulting services in the project.

B. Proposed Project Implementation Arrangement

11. **Project Executing Agency (EA).** The mission confirmed with the government that MOELR will be the EA for the project. MOELR will appoint a Project Director, which the government tentatively agreed as the First Deputy Minister, MOELR.

12. **Project Implementation Units (PIUs).** It is agreed that two PIUs – one under MOELR and the other under MOHSSE – will be established to be responsible for day-to-day implementation of the project. The PIU under the MOELR (PIU-1) will act as the coordinating PIU responsible for overall project management and compiling annual project financial reports and quarterly progress reports. The PIU under MOELR will tentatively comprise the following as the minimum: (i) PIU manager; (ii) finance officer; (iii) procurement officer; (iv) civil engineer; (v) equipment specialist; (vi) monitoring and evaluation officer; (vii) training coordinator; and (viii) office manager/translator. The PIU under MOHSSE (PIU-2) will tentatively comprise the same except civil engineer. Some other positions might be added as required. All PIU staff will be full-time personnel to be financed by the ensuing project. Draft Terms of References (TORs), the contractual period and unit costs of the PIU staff will be discussed and agreed upon with the government and the mission during the follow-up mission. The PIUs will be supported by consultants. PIU offices will be provided by MOELR and MOHSSE respectively for use, and PIU equipment will be financed by ADB loan. Annex 4 shows clearly the scope of the proposed project activities and their corresponding responsible ministry. For activities that require joint implementation by the two ministries, the mission agreed with MIFT and MOELR that MOELR will

head the responsibilities in necessary procurement processes.

13. **Project Steering Committee (PSC).** The mission proposed the PSC to be chaired by MOELR, with members from MOHSSE, Ministry of Finance (MOF), Ministry of Investment and Foreign Trade (MIFT), selectively invited representatives from industry and other stakeholders. The PSC is proposed to be responsible to coordinate at strategic level the decision making or reaching consensus on project implementation relevant issues. The responsibility and composition of the PSC will be further discussed and agreed upon during follow-up mission.

14. **Project implementation period.** The mission confirmed with the government that the project implementation period will be six years with the following reasons: (i) the project will include a large number of beneficiary schools; (ii) civil works procurement will start only after the site specific safeguard reports are cleared and the detailed design is finalized; and (iii) MOELR will work with ADB for the first time and is not yet familiar with ADB's guidelines and operational policies.

C. Project Targeted Skills Areas

15. The mission agreed with the government that:⁵

- (i) the project will focus on certificate and diploma training in five priority sectors: (a) construction and civil engineering, (b) textiles and garment making; (c) information and communication technology; (d) agrobusiness and food processing; and (e) mechanical and machinery maintenance and repair;
- (ii) the project will aim to cover a package of 23 occupations and the relevant 33 key functional skill sets (Annex 5);
- (iii) the project will largely focus on level 3 and 4 skills, with some on level 2 and 5.⁶ It fits the dimension of MOELR for reskilling unemployed jobseekers through short-term training (less than one year), targeting level 2 and 3 skills, and MOHSSE for TVET for 2 years targeting level 3 and above skills.

16. The detailed intervention activities under project components and subcomponents and their targets are being prepared with the ADB technical assistance, for which a draft summary description is provided in Annex 6.

D. Due Diligence

17. **Procurement capacity assessment.** Overall rate of procurement risk is assessed as Medium to High due to constrained staff capacity at the EA. The number and qualifications of the staff at the EA are not enough to undertake all the procurement tasks under the project. Familiarity with English language is also a constraint. There is not yet a specialized procurement training program for the staff involved for undertaking procurement. It is also lack of an updated procurement manual specifying procurement capacity requirement and responsibilities for staff and officials who are involved in the procurement process. Whereas the law outlines requirements for the composition of the bid evaluation committee (though not qualifications of bid evaluators), the compliance with such requirements still needs to be improved. Furthermore, it is lack of

⁵ These priority skill areas as listed hereunder were selected based on a sector assessment (March 2019), the findings of the consultation workshop conducted in June 2019 and the employers' survey conducted in 2018 under the ADB technical assistance.

⁶ In absence of the national qualification framework, the proposed levels of skills refer to the European Qualification Framework as a benchmark.

standard statement of ethics and declaration of any potential conflict of interest has not been deemed as an obligation for those involved in procurement. Currently most evaluation committee members are constrained with procurement procedures knowledge – it needs to be improved in accordance with the government regulations regarding composition of bid evaluators.

18. **Procurement arrangement and risk mitigation plan.** The PIU under EA (PIU-1) will be the coordinating PIU. It will be established for implementing the project activities relevant to or responsible by MOELR as well as coordinating overall project management and compiling annual project financial reports and quarterly progress reports. The PIU to be established under MOHSSE (PIU-2) will be responsible for implementing the project activities relevant to MOHSSE. The specific mitigation measures will include an intensive training to be provided to PIU managers, PIU staff and other stakeholders (procurement committee members) in ADB procedures for procurement of goods, works and consulting services. This training should be organized before any procurement is initiated. It is recommended that the PIU under EA (PIU-1) will develop project management (including procurement) procedures for use by the overall project with assistance from consultants to foster efficiency and reduce risk of non-compliance. For each evaluation committee the members should have technical and procurement knowledge. Full time procurement staff in PIUs for ADB project shall be designated. Qualification criteria shall include knowledge and experience of the procurement of the project funded by ADB and other international donor and proficiency in English. Project management consultant firm shall support the EA and the PIUs to ensure full compliance with ADB procurement policy (ADB will review and approve TORs for the project management consultant firm as well as the selection and recruitment processes). The procurement consultants from project management consultant firm will be engaged under the project and will assist the PIUs in the evaluation of bids for civil works and goods as well with preparation of designs, drawings and bills of quantities. The engineering consultant will assist the PIU under EA in preparing calls for EOIs and RFPs, evaluating EOIs, technical and financial proposals. For the specific procurement activities under MOELR's specific sub-components or under the joint sub-components, the procurement committee and EA will review and approve the draft contract agreements, and then advise PIU-1 manager if he/she can sign; for the specific procurement activities under MOHSSE's specific sub-components, the procurement committee and MOHSSE will review and approve the draft contract agreements, and then advise PIU-2 manager if he/she can sign. During review missions, ADB will review performance of contractors and suppliers (these are to be selected through open competitive bidding).

19. Annex 7 illustrates the procurement institutional arrangement.

20. **Financial management (FM) capacity assessment.** The assessment finds that there is **substantial** financial management risk for this project prior to mitigation. It is largely related to the weak internal audit function under the EA and also the non-availability in public domain of the external audit reports undertaken by the Chamber of Accounts for the ministries. It is expected that with the implementation of the proposed risk mitigation measures, the FM risk of the project will be reduced to moderate.

21. **FM arrangement and risk mitigation plan.** The project shall recruit full time accounting staff at the PIUs. The staff will be trained in ADB's procedures. In addition, a financial management consultant will be appointed under each PIU, on an intermittent basis, to support capacity building of EA and PIU staff. An audit firm will be hired for the audit of project financial statements, and the audit reports for the fiscal year should be submitted to ADB by 30 June of the following year. PIU-1 will introduce for the overall project an off-the shelf accounting system that will be used both for accounting as well as reporting purposes to meet the project specificities.

Each PIU will ensure that reporting to ADB is duly reconciled with bank statements and books of accounts. Each PIU will compile the accounts on a monthly basis so that there are no delays at year-end. Each PIU will ensure that an Action Taken Report (ATR) be prepared to address the audit points raised in the Auditor's report on a timely basis. This will ensure that any issues with respect to internal controls and external audits in the project are acted upon on a timely basis. Each PIU will ensure that asset transfer and registration be managed correctly, especially for equipment procurement for PTCs and TVET colleges. A fixed asset management plan will be implemented and reported by each PIU, with annual sample-based checking. PIU-1, as the coordinative PIU, will ensure the above actions to be implemented for the overall project. In addition, the Project Steering Committee shall monitor the ATRs and its effective implementation and make guidance to the ministries on a regular basis. Annex 8 illustrates the proposed fund flow arrangement.

22. **Civil works preparation.** The TA civil engineer consultants reviewed the information on 9 civil work sites among the old list of targeted schools during late August 2019 and proposed the necessary civil work scopes for these 9 sites. Based on the updated list of selected schools, the consultants will visit the remaining schools in the updated list. TA civil engineer consultants will develop the Terms of References (TOR) of the design and supervision firm that will do the detailed design and supervision of the construction.

23. **Environmental safeguards.** The TA environmental safeguards consultants visited 17 sites among the old list of targeted schools within early September 2019 and identified the scope for intervention to improve compliance to environmental safeguards under ADB SPS (2009) and the government regulations. The main issues include: (i) lack of connection to water drainages, waste disposal, and running water (under budget constraints) for in-building toilets; (ii) lack of ventilation mechanisms and disabled people friendly facilities (ramps, handles, toilet positions); (iii) lack of gas availability for boilers; and (iv) absence of smoke alarms, fire extinguishers and fire tanks connection. The project initial environmental examination (IEE) will be prepared addressing the overall assessment and proposing environmental safeguard management plan. The PIU will have an environmental safeguards specialist to monitor the compliance to the plan during project implementation. The environmental safeguard screening list will be included in the bidding document for construction contractors.

24. **Social safeguards.** The TA social safeguards consultants have visited all the 30 sites of the old list of targeted schools within August 2019. The most important findings are: (i) all the visited sites have a well-defined physical boundary comprising a wall or fencing or both on all four sides; (ii) the visited colleges have a large land mass area of several hectares.⁷ Therefore, any construction works will be confined within the boundary of a college, and there is no issue of land acquisition or adversely affecting any person of his/her livelihood activities.

25. However, it is important to carry out the construction activities when the colleges are not in session, so that the academic and training activities of the colleges are not affected. The purpose is to avoid or minimize impact as much as possible. As such, as for a social management plan, it is recommended that as far as practicable, construction works be aligned with the time when the students are sent to the potential employers for practical training during the months of May to August (summer vacation). If this is not always possible or, if the construction activities extend beyond this time frame, then, as the social safeguard consultants learnt from the colleges, there is the existing practice in the country of an affected college temporarily using the premises of another college, or sending their students to another college through mutual agreement during

⁷ The largest the team found was 8 ha in Bekabad, Tashkent Province, and the smallest was 0.6 ha in Tashkent city.

the construction works. The project will pursue this arrangement during implementation.

26. The safeguards consultants will visit the remaining sites that are not covered in the new list. Project safeguards categorization will be proposed then.

27. **Government's feasibility study.** MOELR agreed with the mission on timely preparation of the government's feasibility study report. In accordance with the Presidential Decree No. 3857 dated 16 July 2018, a sector science and technology council (SSTC) will be headed by MOELR and composed of members from MOHSSE and relevant ministries. The mission shared with MOELR that (i) ADB TRTA is hiring a national firm to support the development of the government's feasibility study;⁸ (ii) the feasibility study will contain prototype design for selected sites by aligning with the national building code.

28. **Government counterpart financing.** The mission confirmed with MOF that the local taxes and duties under the project will be exempted and/or financed by the counterpart financing. This is counted as government counterpart financing. In the next mission, ADB will discuss with MOF about the refunding-basis or exemption-basis.

III. CONCLUSIONS AND NEXT STEPS

29. TRTA implementation is generally on track. But we would like to expedite MOF and MIFT's confirmation on the use of loan proceeds for financing renovation of PTCs. The mission proposed with the government the following processing schedule:

Table 2: Tentative Processing Schedule

Milestones	Tentative Completion Date
Mid-term review mission	November 2019
Fact-finding mission	January 2020
Feasibility study clearance by MOF and MIFT	March 2020
Loan negotiations	April 2020
ADB Board approval	June 2020
Loan signing	August 2020

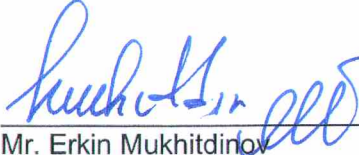
ADB = Asian Development Bank, MOF = Ministry of Finance, MIFT = Ministry of Investment and Foreign Trade.
Source: Asian Development Bank.

30. The Mission would like to express its sincere appreciation for the assistance and cooperation extended to it by MOELR, MOHSSE, as well as officials from MOF, MIFT and the other agencies consulted.

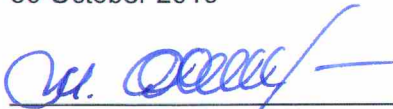
⁸ ADB approved on 2 September 2019 the supplementary financing to TA9727 for this purpose.



Ms. Xin Long
Senior Social Sector Specialist, CWSS
Asian Development Bank
30 October 2019



Mr. Erkin Mukhitdinov
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30 October 2019



Mr. Murodullo Kholmukhamedov
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Government of Uzbekistan
30 October 2019



Annexes:

- Annex 1: List of people met
- Annex 2: List of proposed PTCs and targeted TVET Colleges
- Annex 3: List of 20 PES centers for equipment
- Annex 4: Scope of the proposed project activities and their corresponding ministry
- Annex 5: Project targeted occupations and key functional skill sets
- Annex 6: Draft summary of project design
- Annex 7: Proposed Procurement Institutional Arrangement.
- Annex 8: Proposed Fund Flow Arrangement.

Annex 1: List of People Met

Ministry of Employment and Labor Relations

Erkin Mukhitdinov	First Deputy Minister
Ekaterina Gorbunova	Head, International Relation Department
Denis Kim	Specialist, International Relation Department
Odil Kamiljanov	Main Department for Coordination of National System of Assessment of Qualifications, Competences and Skills
Adiba Nuriddinova	Head of Social Policy Department

Ministry of Higher and Secondary Specialized Education

Murodullo Kholmukhamedov	Deputy Minister
Khudoynazar Kurbanov	Independent Advisor
Sharif Ergashev	Head, Main Department of Education and Methodical Coordination of Vocational Education
Utkir Alijonov	Deputy Head, Main Department of Education and Methodical Coordination of Vocational Education
Shixnazar Sharofaddinov	Deputy Director, IIDATRTP
Nodir Ergashev (by phone)	Senior Specialist (TVET), Investment Department

Ministry of Investment and Foreign Trade

Shukhrat Vafaev	Deputy Minister
Otabek Imamov	Head of Division, Department for Cooperation with International Financial Institutions

Ministry of Finance

Shakhrukh Sharakhmetov	Deputy Minister
Mokhir Yunusov	Deputy Head, Main Department for Financing of Social Sphere and Science
Rafael Klivleyev	Chief of division, Main department of social sphere and science financing
Khusniddin Djamalov	Leading Specialist, Protocol department

British Council (by phone)

Shukhrat Amanov	Country Projects Manager (Education)
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Swiss Agency for Development and Cooperation

Gabriela Damian-Timosenco	International Team Leader, Skills Development Project in Uzbekistan, Phase IV
Oleg Bezruchko	International Expert

KfW (by phone)

Petar Gjorgjiev	Country Manager Central Asia
Ylva Renner-Haeberle	Director of KfW Office Bishkek (on Kyrgyzstan and Uzbekistan)
Shakhrukh Irnazarov	Head of KfW Office Tashkent

Industry representatives

Bakhtiyor Umarov	Istiqlol Dizayn Markazi LLC (on textiles)
Pazliddin Sayfutdinov	Director, Art Soft Agro Consulting (on agro clusters)