1. **Terms of Reference**

**SELECTION OF CONSULTANTS FOR** **SHARI’AH AUDITING SERVICES**

**“Strengthening the Economic Resilience of the Vulnerable Enterprises (SERVE) Project”,**

**IsDB Loan, Project Code: UZB-1037**

**Contract №SERVE/CQS/Audit-01**

# Background

The Government of Uzbekistan received loan from the Islamic Development Bank to finance the implementation of the Strengthening the Economic Resilience of the Vulnerable Enterprises (SERVE) Project in Uzbekistan, referred as “the Project”. The total Project cost is estimated at US$ 100.30 million. The Project will be financed by the IsDB, Participating Financial Institutions and the Government of Uzbekistan. IsDB’s Contribution is US$ US$ 40 million. The Ministry of Economy and Finance is the Executing Agency (EA) and is entrusted in the execution and supervision of the implementation of the project through Project Management Unit, based in the premises of the Executing Agency. The legally binding terms and conditions of the financing are specified in the IsDB Loan Agreement, Framework Agreement, and Agency Agreement No.UZB-1037, dated April 18 2024, which may be amplified by supplemental letters and /or an amendment.

# Project Description.

The project has four components as follows:

**Component A. Access to Finance:** provision of line of financing (LOF) for MSMEs through the selected Partner Financial Institution (PFI)in an Islamic sharia-compliant operation. The financing will be extended primarily for small business development support, including small loans and micro-finance for entrepreneurs and small enterprises, households/family businesses, women and youth-headed enterprises. A separate financial instrument in the form of a guarantee facility will be extended to target the micro and small enterprises to increase their access to finance. This component will address the needs of MSMEs to sustain impact of vulnerability, consolidate their business and recover better from its impact. The MSMEs supported by the line of finance maybe different from the MSMEs supported under the guarantee scheme to achieve maximum impact as separate schemes supporting MSMEs. The guarantee schemes will be used to guarantee shariah compliant facilities.

**Component B. Business Engineering and Capacity Building:** the component envisions support to: (i) MSMEs in business planning for value chain development; (ii) capacity building and supporting financial institutions in development of working tools, including tools and services targeted for women and youth, additional financial products, and staff training; and (iii) Supporting Business Development Services based on Economic Empowerment approach in supporting vulnerable MSMEs in the country. These value-addition services ensure the sustainability of the project and put in place a mechanism that will enhance resilience of MSMEs as they come out of the crisis through better business planning and market linkages.

**Component C. Project Coordination:** The component will finance the cost of supporting project implementation, including setting up of the Project Management Unit (PMU) under the Executing Agency and its operations (staff salary, office equipment, operating cost, project start-up and staff training). The component will also finance upgrading the IT software in financial management/accounting and establishment of a Management Information System (MIS) as a part of automation and monitoring of fund flow, measurement, and evaluation of project results indicators.

**Component D. Audit Service:** the component will comprise of provision of (i) financial audit service to ensure eligibility of the expenditures, effective operation of Special Accounts and (ii) sharia audit service to ensure sharia compliance of the transactions. The assignments will be undertaken by independent, qualified auditors acceptable to the IsDB.

# Objective

The Project is based on Instalment Sale and Islamic Loan (Qard) financing structures and requires to appoint a Shari’ah Auditor to audit the project implementation to ensure compliance with AAOIFI International Shari’ah Standards as the reference benchmark. The Shari’ah Audit objective shall be to safeguard the project from interest (riba), harmful uncertainties (gharar) and other Shari’ah non-compliance risks during the implementation life cycle. The focal point of the Shari’ah Auditor shall be the IsDB Group Shari’ah Affairs Division.

# Scope of Services

The Shari’ah Auditor will provide the following Shari’ah Audit Services to support the Project:

* Perform Shari’ah Audit to ensure that Project assets under the Framework Agreement to be financed using the Instalment Sale are identified as tangible existing assets before disbursement (excluding cases where advance payments are used, which is based on a forecast of projected expenditures).
* Perform Shari’ah Audit to ensure that the Project assets to be financed using the Instalment Sale are identified as Shari’ah-compliant assets.
* Perform Shari’ah Audit to ensure that ownership of Project assets is properly acquired before sale in line with Shari’ah requirements for Instalment Sale (excluding the cases where Sale offers and Sale acceptances are formalized in a bulk).
* Perform a Shari’ah Audit to confirm that any penalties or late fees collected are handled in accordance with Shari’ah principles (i.e., not treated as income).
* Perform a Shari’ah Audit to conduct a selective on-site visits as necessary to confirm Shari’ah compliance of financed assets and end-beneficiary MSME business activities.
* Perform a Shari’ah Audit to ensure that all contracts and instalment sale financing agreements under the Line of Finance follow approved Shari’ah-compliant templates.
* Perform a Shari’ah Audit to verify that disbursement requests are supported by documentation that confirms Shari’ah compliance of the underlying transaction(excluding cases where advance payments are used, which is based on a forecast of projected expenditures).
* Perform Shari’ah Audit to ensure that the end beneficiary MSMEs that need the assets are engaged in Shari’ah-compliant businesses.
* Perform Shari’ah Audit to ensure that the instalment sale agreements (offer and acceptance) for each specific assets or batch of assets is properly executed.
* Perform Shari’ah Audit to ensure that the sequence of implementing the instalment sale transaction is in line with Shari’ah (excluding the cases where Sale offers and Sale acceptances are formalized in a bulk the cases where cases where advance payments are used, which is based on a forecast of projected expenditures).
* Perform a Shari’ah Audit to ensure that the co-financing provided by the Partner Financial Institutions aligns with the pre-agreed provisions outlined in the Co-Financing Terms of the Financing Line guidelines, and that the end-beneficiary MSMEs are engaged in Shari’ah-compliant business activities as defined in the same guidelines and specified in the Project descriptions of the Financing Agreements.
* Perform Shari’ah Audit to ensure that template legal (subsidiary) agreements are maintained during implementation and any changes made did not result in Shari’ah non-compliance.
* Perform Shari’ah Audit to ensure that any Shariah non-compliant income is paid directly to IsDB’s Waqf Charitable Fund Account.
* Perform Shari’ah Audit to ensure that the Line of Finance Component is used exclusively to finance the items described in the Project Description, while all the other items including any contingencies are financed with the Islamic Loan (Qard).
* Perform Shari’ah Audit to ensure that the guarantee to be provided which is funded by the IsDB Islamic Loan (Qard) will be used to guarantee only Islamic financing facilities and not to guarantee conventional loans. Furthermore, if there is any guarantee fee charged by the implementing entity it must not exceed the actual cost i.e., the entity cannot profit from the fee but only recover actual costs in line with Shari’ah requirements.
* Provide guidance on potential project Shari’ah non-compliance risks and how best to resolve them.
* Perform any related Shari’ah Audit tasks on the Project as may be required by IsDB from time to time.

# Duration of assignment.

The duration of the assignment shall cover the entire implementation period of the Project, commencing in Q3 2025 and continuing until the Project's completion, tentatively scheduled for December 2027.

# Contract Type.

Lump-sum contract (to be confirmed during negotiation).

# Quality Reporting

1. The Shari’ah Auditor has the responsibility to provide quality Shari’ah Audit reports to the IsDB Group focal point on a quarterly basis.
2. The reports should disclose the Shari’ah compliance status of the overall th Project as funded by IsDB and any exceptions and rectification measures taken or to be taken and in addition highlight the following:
   1. Scope of operations audited.
   2. Nature of audit work performed.
   3. Shari’ah observations, implications with recommendations for improvement.
   4. Timeframes given for implementation of recommendations.
   5. Explain the process for rectification of any rectifiable Shari’ah non-compliant event.
   6. Explain the process of purification (tanqiyyah) of tainted (non-permissible) income.
   7. In the absence of an AAOIFI Shari’ah rule, any adoption of alternative Shari’ah rulings other than the AAOIFI International Shari’ah Standard rulings should be explained with adequate justification.
   8. In the case of the Quarterly Shari’ah Review Report, it shall be submitted to IsDB quarterly no later than 30 days after the reporting quarter.
3. Please note that as a minimum requirement all the above items must be contained in the report and where there are no issues to report on any of the items an explicit statement to that effect should be stated by the Shari’ah Auditor in the report.
4. IsDB retains the right to request a meeting with the Shari’ah Auditor (Staff or Shari’ah Scholars) to discuss any Shari’ah issues pertaining IsDB’s funded project or request any additional information.
5. The reports and all correspondence shall be provided in English language.

The audits shall cover structural, transactional, and governance dimensions. Methodologies must align with risk-based auditing, compliance testing, and AAOIFI Governance Standards (GSIFI No. 2)

# Required Expertise and Qualifications

* A University Degree in a relevant field (Islamic Economics, Islamic Banking/Finance, Shariah/ Shariah & Law, Fiqh Muamalat).
* AAOIFI Shari’ah Qualification (CSAA)
* At least 3 years of Shari’ah Audit experience in the Islamic Finance sector with demonstrated experience advising governments/ corporates and other stakeholders on Islamic Development Finance.
* Fluency in English.

Deliverables  
Quarterly Shari’ah Audit Reports must include:  
- Scope of operations audited  
- Nature of audit work performed  
- Findings and recommendations  
- Implementation timelines  
- Rectification processes for non-compliance  
- Purification (tanqiyyah) of tainted income  
- Justifications for non-AAOIFI rulings, if any

Reports are to be submitted to IsDB within 30 days after each quarter. Explicit statements must be included where no issues are observed.

# Duration and Level of Effort The assignment will run from Q1 2026 through December 2027. Estimated level of effort: 6 professional staff-months (intermittent).

# Access and Cooperation

1. The Shari’ah Auditor shall have unrestricted access to all relevant documentation required to assess Shari’ah compliance. This includes: Financing Agreements, Framework and Agency Agreements, Subsidiary Financing Agreements, procurement contracts, disbursement records, and etc.

3.2 The Auditor shall also can be granted access to financial records, management reports, and minutes of relevant decision-making meetings as required to support Shari’ah assessments.

3.3 The Executing Agency must provide the Shari’ah Auditor with all information requested in a timely and transparent manner. Any restriction in access shall be promptly reported to IsDB.

3.4 The Islamic Development Bank reserves the right to request meetings or site visits with the Shari’ah Auditor (including Shari’ah scholars or audit staff), review working papers, or request clarification on audit findings at any time during or up to two years after the audit period.

# Language Requirement

All deliverables, working papers, and correspondence must be in English.

# Recordkeeping

Final versions of the TOR, REoI, shortlist evaluation, and EOIs must be submitted to IsDB for documentation and audit trail purposes.