Nepal: Rural Finance Sector Development Cluster Program (Subprogram 2)
ABBREVIATIONS

ADB – Asian Development Bank
ADBL – Agricultural Development Bank Limited
CIB – Credit Information Bureau
DMF – design and monitoring framework
DRT – Debt Recovery Tribunal
GBB – Grameen Bikash Bank
IPO – initial public offering
MFI – microfinance institution
MOF – Ministry of Finance
NBTI – National Banking Training Institute
NRB – Nepal Rastra Bank
PCR – program completion report
RFI – rural financial institution
SFDB – Small Farmers Development Bank
STI – second-tier institution
TA – technical assistance

NOTE

In this report, “$” refers to US dollars.

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## PROGRAM DESCRIPTION

### A. Rationale

1. Since the end of the decade-long conflict in 2006, Nepal experienced significant growth in its gross domestic product—from 3.4% in 2006 to 6.1% in 2008. The country also progressed in reducing the incidence of poverty, from 41.8% in 1995 to 30.9% in 2003 and further to 25.2% in 2010. However, disparity between rural and urban populations existed with rural poverty at 27.4% compared to urban poverty at 15.5%.\(^1\) Poverty was largely a rural phenomenon closely associated with lack of access to social and economic infrastructure, such as roads, energy, markets, and finance. Only 30% of

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Nepalese households had an account or a loan from formal or semiformal financial institutions, while 70% relied on informal finance (family, friends, and moneylenders) or were excluded altogether. In the higher hills and mountain areas, 80% of households had no access to financial services.

2. The key causes of limited access to finance included the: (i) excessive government involvement and distorting policies, (ii) poor governance and limited outreach of public rural finance institutions (RFIs), (iii) limited scale and capacity of semiformal RFIs, (iv) lack of appropriate laws and regulations for the supervision of RFIs, (v) insufficient support infrastructure for rural finance, and (vi) inaccessibility of the hills and mountain areas. In 2010, three key public RFIs—the Agricultural Development Bank Limited (ADBL), the Small Farmers Development Bank (SFDB), and the Grameen Bikash Banks (GBBs)—accounted for over 60% of the total formal and semiformal rural finance outreach. However, they had not yet reached their service potential due to weak governance and management, limited staff skills, and little attention given to profitability and sustainability. Formal RFIs regulated by the Nepal Rastra Bank (NRB), such as ADBL, SFDB, and the GBBs, comprised only a small portion of the total number of rural finance intermediaries, and there were no specific regulations for the semiformal RFIs.

3. Addressing the shortcomings in the rural finance sector meant developing an enabling environment for the sector through policy, legal, regulatory, and institutional reforms. In support to the government’s need for sector reforms, the Asian Development Bank (ADB) approved the Rural Finance Sector Development Cluster Program and its subprogram 1 on 26 October 2006. The processing of the Rural Finance Sector Development Cluster Program subprogram 2 was subject to an implementation review of subprogram 1, which was completed in December 2009, and which showed its success in achieving policy and institutional reforms. To complete the rural finance sector reform agenda, subprogram 2 was approved on 18 June 2010, comprising $60.4 million equivalent program loan, a $12.1 million project grant, and a $200,000 technical assistance (TA) grant. Subprogram 2 was closed on 14 January 2016 and a program completion report (PCR) was prepared in September 2016.

B. Expected Impacts, Outcomes, and Outputs

4. The expected impact of subprogram 2 was economic growth and poverty reduction in the rural areas. The expected outcome was an inclusive rural finance system that is more sound and efficient and has wider outreach.

5. Subprogram 2 had six planned outputs: (i) supportive legal and regulatory framework, (ii) ADBL institutional restructuring and reforms, (iii) SFDB institutional restructuring and reforms, (iv) GBB institutional restructuring and reforms, (v) sector capacity building, and (vi) enabling infrastructure for rural finance.

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2 Formal financial institutions are licensed and regulated by the Nepal Rastra Bank (NRB), the central bank. Semiformal financial institutions are registered under various acts, such as the Cooperative Act (1992) and the Societies Registration Act (1977) but are not licensed or regulated by NRB.


C. Provision of Inputs

6. Subprogram 2 was approved on 18 June 2010 and became effective 26 December 2010. The planned closing dates for both the loan and the grant were estimated to be 30 June 2012 at approval and documented to be 31 December 2012 in the loan and grant agreements. The actual closing dates were 18 August 2015 for the loan and 14 January 2016 for the grant. In June 2012 loan and grant closing were extended for 2 years to 31 December 2014 due to the unsettled political environment (that led to delays in achievement of policy actions), and the program steering committee request for an updated procurement plan and reallocation of grant proceeds. A second 1-year extension to December 2015 was approved to accommodate delays in the progress report completion due to disruptions from the 2015 Nepal earthquake.

7. The grant supported the strengthening and enabling of infrastructure for rural finance through equipment, consulting services, training, a credit line, and management support. The estimated cost of the grant-supported project was $4.20 million at appraisal (including contingencies) with counterpart funding to be in kind, such as contributions for staff salaries, office expenses, and other costs. Actual ADB disbursement was $11.25 million to cover (i) engagements of one consulting firm and 15 individual international and national consultants, (ii) project management costs, (iii) purchase of office and management information system equipment, (iv) training, and, (v) credit line.

8. The loan—disbursed in two tranches—has a total amount of $57.6 million. The $29.9 million tranche 1 loan was disbursed on 28 December 2010 upon fulfillment of tranche 1 policy actions. The $27.7 million tranche 2 loan was disbursed on 18 August 2015 upon fulfillment of tranche 2 policy actions, 32 months after the scheduled release date.

9. The TA grant aimed to transform ADBL into a viable and efficient financial intermediary through institutional restructuring, as set out in the second phase of the ADBL restructuring plan and in the ADBL capital restructuring plan, which included the planned sale of a share of ADBL to a private investor. The TA grant was to pay for a chief technical advisor and a strategic divestment specialist. At the request of the executing agency, these roles were combined into a single restructuring and divestment specialist. The TA grant’s planned completion date was 30 September 2011. On 7 December 2010, a 2-year extension and a $100,000 increase in the TA amount was approved to align with subprogram 2 implementation. A second extension was approved and the TA grant was closed on 31 December 2014. The second extension was to continue the work to attract an investor. The actual TA disbursement was $164,500 because the deliverables on the completion and evaluation of bidding documents and overall evaluation of the divestment process did not happen (para.22). The TA completion report presented in Appendix 4 of the PCR assessed the TA successful in achieving the envisaged outcome of transforming ADBL into a viable and efficient financial intermediary (footnote 5).

10. Subprogram 2 was classified C for environment, involuntary resettlement, and indigenous peoples in accordance with the ADB safeguards policy. The policy and institutional reform actions under the program had no adverse impact on the environment, involuntary resettlements, and indigenous peoples and the small scale of sub-borrower activities were assessed as unlikely to have negative environmental impacts.

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6 The difference is due to foreign exchange rate at appraisal and disbursement periods.
D. Implementation Arrangements

11. As planned at appraisal, the Ministry of Finance (MOF) was the executing agency and was responsible for the overall implementation of the program loan, the grant, and the capacity building TA. To monitor progress and coordinate implementation efforts, a steering committee was established, chaired by the MOF secretary and comprised of ADBL, SFDB, Credit Information Bureau (CIB), Debt Recovery Tribunal (DRT), National Banking Training Institute (NBTI), the National Planning Commission, and NRB representatives.

12. Tranche 1 was released upon compliance with the 16 tranche 1 release conditions. Tranche 2 was to be released upon compliance with the 18 tranche 2 policy actions. Of the 18 tranche 2 conditions, 13 were fully complied, 1 substantially complied, 1 partially complied, and 3 were not complied. The substantially complied condition was the formulation of a legal framework to regulate and supervise microfinance institutions (MFIs). The draft microfinance act was submitted to the Ministry of Law, but was not submitted to the Parliament because of delays caused by the political situation. The partially complied condition was the divestment of government shares in ADBL to a strategic investor. The ADBL reform and restructuring was completed and the bid documents were prepared. Marketing activities were carried out, but no bids were received because of the prolonged political instability and involvement of politically active labor unions in ADBL, which were not conducive to attracting international strategic investors (para.22). The three conditions not complied with were due to the microfinance authority act not being enacted, and therefore the conditions dependent upon its passage were not achieved. These were the (i) appointment of board members to the second-tier institution (STI), which was envisaged as the regulatory authority to supervise RFIs; (ii) STI’s adoption and disclosure in its website of certain essential regulations, guidelines, policies, and standards; and, (iii) commencement of processing and award of licenses for MFIs by STI.

13. ADB approved the waiver of full compliance on the partly and not complied conditions—based on the important initiatives taken by the government and NRB to address the regulatory gaps in the absence of the microfinance act (para.21), and on the significant progress achieved in ADBL’s proposed divestment by supporting and completing all technical work up to the point of sale. The loan covenants agreed under the program were fully complied with.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

14. The PCR rated the subprogram relevant. The subprogram was consistent with the strategy of the government and ADB for financial sector reform and pro-poor development, as reflected in the government’s 10th Five-Year Plan 2002–2007 and Three-Year Interim Plan 2008–2010, and in the ADB Country Strategy and Program 2010–2012 for Nepal. The PCR stated that the thrust of subprogram 2 to (i) promote a conducive sector environment, (ii) expand sound rural finance outreach, and (iii) enhance private sector participation were relevant at appraisal and remained to be so at completion. Further, the program design made it possible to address complex and interlinked issues to support ambitious institutional reform objectives that improved Nepal’s rural finance system.

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15. This validation views the policy actions appropriate in supporting the rural finance reform agenda through institutional restructuring, drafting of supportive legal and regulatory framework, capacity building, and an enabling rural finance infrastructure. The outputs were interrelated and suitable to achieve a sounder and efficient rural finance system with wider outreach. In terms of modality, this validation notes that the program cluster approach to sequenced reforms was appropriate in the context of Nepal’s rural finance sector that was hindered by the lack of a favorable policy, legal and regulatory environment, weak institutional capacity, and politically challenging conditions. The steering committee arrangements were an important feature of the program design that enabled key stakeholders to work together and pursue reforms throughout a challenging political environment.

16. The program design facilitated major institutional reforms, initiatives to address the regulatory gaps, and substantial progress in the ADBL divestment process. This validation rates the program relevant.

B. Effectiveness in Achieving Project Outcomes and Outputs

17. The PCR assessed subprogram 2 effective. The PCR underscored that despite the challenging political and policy implementation environment, the subprogram effectively supported the implementation of structural reforms that enhanced the efficiency and soundness of the rural finance system, and expanded rural finance outreach.

18. The design and monitoring framework (DMF) specified five outcome indicators for subprogram 2. They were (i) credit outreach of ADBL increases from 200,000 accounts in January 2010 to 250,000 accounts (of which 20% are women) by 2014, (ii) credit outreach of SFDB increases from 140,000 accounts in 2008 to 360,000 accounts (of which 60% are women) by the end of 2013, (iii) at least 60 cooperatives start providing microcredit among households living in the hills and mountains by the end of 2013, (iv) NBTI provides training to some 400 rural finance practitioners annually from 2012, and (v) pending cases at the DRT are reduced from 830 in 2008 to 530 by the end of 2012.

19. Of the outcome indicators, four were achieved and one was not achieved. The four that were achieved were as follows: (i) SFDB accounts reached 512,765 as of mid-April 2016, with 74% held by women, exceeding the target of 360,000 or 60% being held by women by 2013; (ii) 229 cooperatives were providing microcredit among households living in the hills and mountains as of mid-April 2016, exceeding the target of 60 cooperatives by the end of 2013; (iii) the NBTI provided training to over 21,000 professionals by May 2016, substantially exceeding the target of 400 practitioners annually beginning in 2012; and (iv) pending cases in the DRT were significantly reduced from 830 in 2008 to 138 by the end of 2014, exceeding the target of 530 pending cases by the end of 2012. The indicator that was not achieved was for ADBL’s credit outreach to increase to 250,000 accounts, with 20% to be held by women. While the target of 20% women account holders was realized, total outreach of ADBL decreased from 200,000 accounts to 174,000. This was due to ADBL’s client shift from small borrowers to larger and commercial accounts.

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9 The DMF indicators in the report and recommendation of the President (RRP) and PCR were the same but the target completion dates in the PCR were moved to a later year for the indicators on institutional restructuring and reforms (Outputs 2, 3, and 4), in line with the approved program extension (para. 6). This validation is based on the DMF presented in the PCR.
20. Six outputs were specified (para.5), each with multiple indicators. Of these, four were fully achieved, one partly achieved, and one was not achieved. The discussion below follows the order of the outputs as shown in the DMF.

21. Output 1—a supportive legal and regulatory framework for microfinance—was not achieved. The act was drafted but due to the absence of a Constituent Assembly at that time, the proposed act could not be processed for enactment. During the second Constituent Assembly, the priority has been to draft the country’s new Constitution, and the envisaged STI to license and supervise rural MFIs was not realized. In the absence of an established STI, the government and NRB took several initiatives to address the regulatory gaps. These included (i) NRB supervising 77 class D MFIs under the Banks and Financial Institutions Act (2006),

22. Output 2—ADBL institutional restructuring and reforms—was partly achieved. The target of issuing an initial public offering (IPO) was realized and was oversubscribed by six times. The financial and operating indicators were achieved, which were attributed to the restructuring. ADBL’s profit increased by 104% in FY2015 compared to FY2014, and nonperforming loans decreased from 9% to 6% during the same period. The final indicator, equity investment by a strategic investor and privatization of ADBL, was not achieved. ADBL’s planned divestment of the government’s shares was adversely affected by the post-2010 political developments and the increased political interference by labor unions.

23. Output 3—SFDB institutional restructuring and reforms—was achieved. The target of reducing ADBL’s share and increasing private sector share in SFDB was achieved. After the SFDB IPO in March 2014, ADBL’s shareholding in SFDB was reduced from 60% to 22% while the stakes of other shareholders in SFDB included small farmer cooperatives (39%), the general public (30%), and commercial banks (9%). SFDB implemented 15 policy actions, including the reorganization of the Board of Directors and professionalization of management, among others. The target of improving financial and operating performance based on the SFDB restructuring plan was achieved. By mid-April 2016, SFDB had total assets of NRs11.1 billion, a 754% increase from 2010. SFDB also met the target for improved access to financial services among households in hill and mountain areas. By mid-April 2016, SFDB provided lending support for 229 cooperatives with 142,514 members of which 63% were women, which significantly exceeded the target of at least 60 cooperatives with 30,000 members of which 60% were women.

24. Output 4—GBB institutional restructuring and reforms—was realized. The target of reducing NRB’s share in the GBBs and increasing private sector participation was met. The five GBBs were merged into a single national rural bank in June 2014 to have a stronger capital base and become an effective grassroots financial intermediary. The capital share of NRB was divested as prescribed by the NRB Act, with NRB’s holding reduced to 5% of the merged bank’s total equity, and the balance held by the general public and private investors.

25. Output 5—sector capacity building—was achieved. As planned, NBTI was established under the Company Act 2006 and training began in 2010. NBTI conducted 73 regional training

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10 The Banks and Financial Institutions Act of 2006 defines the licensing and regulatory requirements of institutions that provide microfinance services (class D institutions), which includes microfinance development banks, microfinance savings and credit cooperatives, and microfinance nongovernment organizations.
programs to train over 21,000 staff of banks and financial institutions. Long-term accredited diploma and degree programs were initiated in December 15, 2010. The program’s support for NBTI helped raised the professional standards for a wide range of financial institutions.

26. Output 6—enabling rural finance infrastructure—was achieved. The microfinance credit information system was established at the CIB in March 2014 and was fully operationalized in December 2014. The capacity of DRT was developed through training and skills improvement in legal and financial management, and its office system was automated.

27. This validation considers that the policy actions under subprogram 2 were (i) transformed key RFIs into viable rural finance intermediaries, (ii) reduced the ownership of government in state-owned RFIs, (iii) enhanced the role of the private sector, (iv) widened the outreach of semiformal RFIs including those households in hilly and mountainous areas, and (v) developed the capacity of institutions and financial infrastructure in the sector. The policy action on establishing an STI for RFIs was not realized but important measures were taken by the government and the NRB to address the regulatory gaps (para.21). The policy action on the divestment of ADBL was not realized largely due to the unfavorable political environment, although all required documentation was prepared and the restructuring was otherwise completed. Notwithstanding the challenging political climate, significant milestones were achieved under the subprogram. The key reform actions improved both ADBL’s and SFDB’s financial and operating performance, merged GBBs to have a stronger capital base, established a supportive rural finance infrastructure for greater efficiency of the sector, and expanded the outreach of RFIs. The envisaged outcome of inclusive rural finance that is more sound and efficient with wider outreach was achieved. This validation rates the subprogram effective.

C. Efficiency of Resource Use

28. The PCR rated subprogram 2 less than efficient largely due to the delay of 32 months after the original implementation schedule. The unstable political environment during implementation led to delays in the progress of reform actions. It also caused delays in the program steering committee’s resolution to request an update of the procurement plan and to reallocate the grant proceeds (para.6). Also, the earthquake in the second quarter of 2015 disrupted the completion of progress reports.

29. This validation considers that the loan amount was adequate in addressing the scope of subprogram 2 to promote a conducive sector environment, expand outreach, and enhance private sector participation. This validation acknowledges that this was undertaken during a particularly unsettled political period, during which the steering committee worked hard to pursue the reform programs and to develop alternative solutions where possible. The delayed completion was due to circumstances beyond the control of the project, and yet the subprogram was largely implemented, and produced tangible results. Taking the entire situation into account, this validation rates the subprogram efficient.

D. Preliminary Assessment of Sustainability

30. The PCR rated subprogram 2 likely sustainable. The policy reforms led to the deepening of financial markets, with institutional restructuring and expansion. Improvements in the financial and operational performance of these institutions allowed their outreach to be expanded and non-performing loans reduced, contributing to increased profitability and a greater sustainability of their operations. Additional ongoing assistance is planned through the proposed Agricultural Sector Development Program, set as a firm program for 2017 assistance pipeline, which will enhance
further program sustainability. The proposed program includes a plan implementing the provision of the microfinance act with regard to the STI and further divestment of state-owned banks.

31. This validation also recognizes that the continued capacity development for financial institutions by NBTI and the full operation of the microfinance credit information system will help sustain the subprogram’s outcome. The political environment, however, will remain a challenge to any proposed legislative and privatization of state-owned banks. In view of the transformation of ADBL, SFDB, and GBBs into viable entities, and the achievements in sector capacity and support infrastructure, this validation rates the subprogram likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

32. The PCR assessed the impact of the subprogram significant. The impact statement in the DMF was economic growth and poverty reduction in rural areas. The three impact indicators were all achieved. First, the total number of rural finance borrowers was over 2.2 million in December 2015, exceeding the target of 1.2 million. Second, access to financial services among disadvantaged households living in hills and mountain areas reached over 209,166 accounts in April 2016, substantially exceeding the target of 30,000 accounts. Third, women’s access to finance increased from 200,000 accounts in 2008 to 1.7 million accounts in December 2015, exceeding the target of 283,000.

33. In terms of institutional development, the reforms resulted in significant improvements in the financial and operational performance of ADBL, SFDB, and GBBs, increasing their capacities to expand their outreach. Further, capacity development by NBTI and the credit information system that has been set in place had positive impact on the development of the rural finance sector. This validation assesses the subprogram highly satisfactory.11

B. Performance of the Borrower and Executing Agency

34. The PCR rated the performance of MOF as the borrower and executing agency satisfactory. Despite the political challenges the country faced during program implementation, significant progress was made in pursuing the complex set of reforms, restructuring the three public RFIs, and complying with all loan covenants. The government displayed ownership of the program by its active supervision of the program and regular conduct of steering committee meetings. The government also demonstrated flexibility, particularly in addressing unforeseen difficulties and adjustments during program implementation, such as addressing the regulatory gaps in the absence of an established STI.

35. This validation adds that despite the inability of the Constituent Assembly to enact the microfinance act, measures taken by government to fill in the regulatory gaps resulted in 75% coverage of microfinance clients. The government also took serious steps to divesting the ADBL, although the political climate hindered it from being fully realized. Reform actions taken by the government transformed ADBL into a viable rural finance intermediary. This validation also rates the performance of the borrower and executing agency satisfactory.

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11 In the IED 2016 Guidelines for the Evaluation of Public Sector Operations, ratings for development impact were changed to: (i) highly satisfactory, (ii) satisfactory, (iii) less than satisfactory, and (iv) unsatisfactory.
C. Performance of the Asian Development Bank

36. The PCR assessed the performance of ADB *satisfactory*. It indicated that ADB fielded 11 review missions to provide timely support to the program through technical inputs, close coordination with the government and development partners, and monitoring of implementation progress. ADB provided timely guidance and inputs and helped ensure the achievements of the institutional reform under the program.

37. This validation also notes that some level of flexibilities and adjustments were needed during program implementation due to challenges of political uncertainties. ADB was responsive to these challenges where policy actions on the STI and ADBL divestment became unrealistic to achieve and a waiver was approved. Nonetheless, ADB should have anticipated the long delay in enacting vital legislation during program design when the country just made a transition from a monarchial to a parliamentary system and the political situation was unstable. Overall, this validation rates the performance of ADB *satisfactory*.

D. Others

38. No major issues were encountered in procurement. The performance of consultants under the TA grant and capacity building was *effective* and assessed by the PCR as *satisfactory*. The government PCR assessed subprogram 2 *successful* since the policy actions, except for those waived were complied with. Further, it noted that (i) notable progress was achieved in restructuring the ADBL and SFDB, (ii) the establishment of NBTI has demonstrated the prospects for sustainability in rural finance operations, (iii) DRT has reduced pending cases related to debt recovery, and (iv) CIB’s credit information services was expanded to include small borrowers.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

39. This validation rates the subprogram *successful*. The program is rated *relevant* in facilitating major institutional reforms, enhancing the environment for rural finance, and addressing regulatory gaps, notwithstanding the shortfalls in ADBL divestment and the non-establishment of an STI. The program is assessed *effective* since the majority of the policy actions were achieved and most of the outcome and output targets were met or exceeded. The program is rated *efficient*, recognizing that delays in implementation were due to the broader political situation and that the steering committee continued the reform agenda during this time. The program is assessed *likely sustainable* because the key public RFIs were successfully transformed into viable financial intermediaries and supportive rural finance infrastructure was established.
Overall Ratings

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<td>Quality of PCR</td>
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ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.
Note: In the IED 2016 Guidelines, ratings for development impact are (i) highly satisfactory, (ii) satisfactory, (iii) less than satisfactory, and (iv) unsatisfactory.
Source: ADB Independent Evaluation Department.

B. Lessons

40. The PCR identified six lessons. First, ADB should consider whether program loans are applicable in countries under political transition. In the case of Nepal, the Second Constituent Assembly did not assume legislative functions, resulting in the failure to enact the microfinance act. Second, ADB should carefully assess the readiness of the country when supporting bank privatization given the existing political situation. The divestment of ADBL did not materialize because investors were reluctant to commit equity in a politically unstable environment. The privatization and merger of the five GBBs into a single national rural bank was successful and did not require a strategic investor because the largest shares were held by employees and staff of the new bank. Third, institutionalizing reform requires the need for continuous upgrading of technical and change-management competencies, as well as providing training experts to develop soft capacities for increased professional standards. Fourth, to ensure that the policy matrix is strong and relevant, it is necessary to have a holistic approach in close consultation with the government and other development partners. Fifth, the policy matrix actions should be aligned with accomplishments that can be reasonably controlled. For example, the policy action on ADBL privatization should have been rephrased to reflect the process to the point of sale, rather than achieving the sale. Lastly, there were a large number of policy actions that made monitoring difficult. The number of policy actions should be limited so that ADB can be more effective in monitoring compliance.

41. This validation finds the lessons identified valid and are helpful for future programs particularly in an environment where the political situation is unstable. This validation agrees that program design should anticipate the difficult process of passing a legislation and privatization.
C.  Recommendations for Follow-Up

42. The PCR recommended two actions. The program performance evaluation should be prepared in 2017. This evaluation should include a survey of women credit beneficiaries to assess the sustainability of their economic activities and track improvements in income and gender relations.

V.  OTHER CONSIDERATIONS AND FOLLOW-UP

A.  Monitoring and Reporting

43. The performance indicators and targets identified in the DMF were clear. The financial ratios used were appropriate in monitoring the financial performance of ADBL and SFDB. The outreach indicators were appropriate in monitoring the performance of the participating RFIs. The subprogram performance monitoring was effective as demonstrated by the comprehensive data collected at completion and actual performance was clearly reported in the PCR. The PCR noted the large number of policy actions under the subprogram (a total of 34 actions—16 for tranche 1 and 18 for tranche 2) and this made monitoring and implementation a challenge. It suggested that policy measures be limited for ADB to be effective in monitoring compliance throughout the program (PCR, para. 60), which this validation finds sensible.

B.  Comments on Project Completion Report Quality

44. Overall, the quality of the PCR is satisfactory. It was well written and followed the ADB Guidelines. The discussion on the implementation of the program and outputs delivered was comprehensive with adequate evidence to substantiate the ratings. The presentation on the status of tranche policy actions in Appendix 2 was informative. This validation notes that the DMF indicators in the report and recommendation of the President and in the PCR were the same, but the target year of completion for some indicators were recorded later (footnote 9) and it would be useful to specifically state that this was due to the extension of the program. Also, para. 5 of the PCR stated that there were 59 policy actions, but 34 policy actions were indicated in the policy matrix. Other sections of the PCR, however, rightly reported 16 policy actions under tranche 1 and 18 policy actions under tranche 2, or a total of 34 policy actions under subprogram 2. Finally, the PCR’s DMF makes reference to an IPO in March 2014 for SFDB, which was not discussed in the report.

C.  Data Sources for Validation

45. The sources for this validation were the report and recommendation of the President and linked documents, the PCR, back-to-office reports, and the government PCR.

D.  Recommendation for Independent Evaluation Department Follow-up

46. The subprogram suggests a good case to learn from, as it successfully achieved substantial policy reforms in a difficult political situation. Preparation of a program performance evaluation report is recommended, which can be an input to the IED policy-based lending study.