

Evaluation Approach Paper
Project Performance Evaluation Report for the Housing for Integrated Rural Development Investment Program (Loan 2775-UZB [Project 1], Loan 3039-UZB [Project 2], and Loan 3271-UZB [Project 3])
August 2017

Team Leader: Toshiyuki Yokota, Senior Evaluation Specialist (email: tyokota@adb.org)
Contact: evaluation@adb.org

A. Introduction

1. This evaluation approach paper (EAP) outlines the background, issues to be addressed, the proposed scope and approach, timeline, and resource requirements for the evaluation of the multitranche financing facility (MFF) to the Republic of Uzbekistan for the Housing for Integrated Rural Development Investment Program (HIRDIP).¹ The resulting project performance evaluation report (PPER) will cover HIRDIP 1, 2, and 3. The PPER is being prepared 10 months after the circulation of the project completion report (PCR) for HIRDIP 1. The PCR for HIRDIP 2 was circulated to the Board on 26 July 2017, and circulation of the PCR for HIRDIP 3 is expected in mid-September 2017, while the PCR for the MFF is being prepared and is expected to be circulated in early 2018. By this time, all applications for housing loans would have been processed and those approved would have been provided with mortgage loans for the three projects. Sufficient time would have elapsed for an assessment of (i) outputs of the three projects, (ii) outcomes of projects 1 and 2, and 3, (iii) the outcome's sustainability and the project's impact.

B. Country and Project Background

2. Most rural houses were built during the Soviet period and were occupied by extended multigenerational families. Utility services were inconsistent and unreliable. The 60,000 new houses that were constructed annually were insufficient to keep up with population growth. The housing finance market was just coming into existence but about 1.5 million households needed new housing or housing renovation, access to better housing, improved living standards and increased access to finance. Affordable housing finance was almost nonexistent, and personal savings and informal loans were the main source for new housing.

3. Recognizing the need for additional and improved rural housing, the Government of Uzbekistan requested Asian Development Bank (ADB) support for implementing its Housing for Integrated Rural Development Strategy (HIRDS) in providing financial assistance to loans for moderate- and low-income households and support capacity development to strengthen implementation of the HIRDS. HIRDS was the government's multisector strategy and roadmap for improving rural living standards and diversifying rural livelihoods, and integrated the government's Rural Development Program (RDP) and Rural Housing Scheme (RHS). HIRDS was also in line with ADB's Uzbekistan Country Strategy and Program (CSP) 2011–2015 and Country Operation Business Plan (COBP) 2012–2013, which adopted the government's two key

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Republic of Uzbekistan for the Housing for Integrated Rural Development Investment Program*. Manila.

objectives of promoting inclusive growth through support of rural development and complements past and current ADB programs to improve rural and micro or small enterprise (MSE) development. The government had an important role to play in the housing market as the housing finance market was underdeveloped in Uzbekistan.

C. Project Description

4. The MFF project loan modality was adopted, to be implemented by financial intermediaries. For the MFF modality, a strategy, road map, policy framework, and an investment program and financing plan existed. The MFF modality also helped ADB sequence and link investment support to the HIRDS road map and policy framework, and helped to implement programmed reforms. For the financial intermediary support, policy reforms in the financial sector were furthered; the capacity, governance, and sustainability of participating financial intermediaries were strengthened; and the efficiency and stability of the financial system was to be increased. Other ADB modalities considered did not address the requirements of the government.

5. The MFF, approved on 31 August 2011, envisaged a \$500 million loan from ADB's ordinary capital resources to enable the government to address demand for housing finance by targeted beneficiaries and to strengthen the investment program's development impact. ADB's support was originally expected to be delivered in approximately four annual tranches over 2012–2015, but the MFF was finally provided in three tranches—the first for 2012, the second for 2013 and 2014, and the third for 2015. The government requested for a loan of \$200 million for the tranche 1 project, and the tranche was approved on 9 September 2011. \$199.60 million was allocated for mortgage loans to homebuyers. A \$200 million loan for the tranche 2 project was approved in October 2013, and a \$100 million loan for the tranche 3 project was approved in August 2015. Of the tranche 2 loan, \$198.56 million was allocated for mortgage loans. Tranche 2 closed in December 2016. Tranche 3 loan was all allocated for mortgage loans.²

6. The entire MFF investment program's impact statement was "improved living standards for rural communities" and the expected outcome was "improved rural housing for targeted beneficiaries." The investment program was to deliver three outputs: (i) finance for approximately 40,800 new rural houses through loans extended by participating commercial banks (PCBs) to targeted rural housing scheme (RHS) homebuyers, and strengthened investment program implementation to achieve greater development impact; (ii) capacity development for *hokimiyats*³

² The tranche 1 project's expected impact was improved rural housing for targeted beneficiaries and its expected outcome was downstreaming of rural housing scheme for moderate and lower income beneficiaries, with a focus on women. Tranche 1 project had three outputs: (i) provision by participating commercial banks of housing loans to targeted creditworthy sub-borrowers in rural areas, (ii) improved capacity of local governments in preparing and implementing integrated rural development plans and investment promotion strategies, and (iii) enhancement of the enabling environment for entrepreneurs and MSEs to establish new businesses or expand existing ones in rural areas. Qishloq Qurilish Bank (QQB) was selected as the implementing agency for component 1 because it was the only bank with experience in making loans under the government's rural housing program. Tranche 2 was approved on 1 October 2013, and became effective on 24 October 2013. The loan was financially closed on 31 December 2013. Tranche 2 project has the same outputs as tranche 1. A third tranche of \$100 million to fund mortgages for houses was approved in 2015, with the same envisaged outputs as tranches 1 and 2. Tranche 3 was physically completed on 31 December 2016 and financially closed on 8 February 2017. The PCR for tranche 3 is scheduled for circulation in mid-September 2017.

³ Under the Housing for Integrated Rural Development Strategy (HIRDS), *hokimiyats* play a central role in preparing integrated rural development plans and regional investment strategies in close consultation with the private sector. Local governments are also important stakeholders of the Rural Housing Scheme (RHS) and Rural Development Program (RDP). District *hokimiyats* are required to provide RHS housing sites from state-reserved lands, assure that the sites are approved for residential use in accordance with state regulations, and coordinate the sites' access to

in project areas to prepare and better implement their integrated rural development plans and investment promotion strategies; and (iii) reforms to support an improved enabling environment to encourage and accelerate rural MSE development.

7. During the Board meeting for project approval on 31 August 2011, all executive directors who made remarks were concerned on the project design, absence of analysis of economic internal rate of return and long term impact of poverty reduction, project implementation and monitoring, conflict of interest, and governance. The remarks included the targeted beneficiaries in the report and recommendation of the President (RRP) are not the poor; the construction and finance sectors in the country are still very much directly and indirectly controlled by the state; and fundamentals of the financial sector are weak and there exists a serious distortion in the housing market and high risk fiduciary environment. ADB Management responded to the concerns as ADB would introduce supervision measures, set a results-based monitoring system for tight monitoring and reporting with clear baselines, carry out independent auditing, and calculate economic internal rate of return.

D. Major Findings of Previous Evaluations

8. The PCR for HIRDIP 1 was circulated on 22 September 2016. The PCR assessed HIRDIP 1 as *relevant, effective, efficient, likely sustainable*, and overall *successful*. The Independent Evaluation Department (IED) is preparing a validation report. The PCR found most covenants to have been complied with, the exceptions being (i) provision for adequate credit and risk management policies, operating systems, and procedures; (ii) grace period for 2012 sub-loans would be 6 months, (iii) Qishloq Qurilish Bank (QQB) to maintain a return-on-average-assets ratio of 0.5% for each of the 2 most recent completed fiscal years; (iv) the government to carry out annual technical and financial performance audits and value-for-money assessments; and (v) submission of project financial statements within 6 months of the end of the fiscal year. Per the PCR, the covenant breaches were subsequently addressed and did not impact on project performance.

9. At project appraisal, conflicts of interest between QQB and the construction supervisor (Qishloq Qurilish Invest [QQI], which is a wholly owned subsidiary of QQB), and between the developer (QQI) and construction material factories (which are wholly owned subsidiaries of QQI) were identified as potential risks. The PCR reported that the conflict of interest was eliminated by establishing QQI as an independent legal entity.

10. The PCR acknowledged that many bid packages and bids required greater ADB staff input. It also noted that the lack of support to government of a full-time international procurement specialist was a serious deficiency. The other lessons were (i) additional funding for capacity building needs; (ii) provision of additional consulting services to executing agencies in the areas of public management, banking and procurement; and (iii) ways to retain key government personnel for the project implementation period and beyond. The PCR also noted that public information campaign made possible the downstreaming of housing loans to moderate and lower income beneficiaries and the focus on women.

basic infrastructure and utility services. Provincial *hokimiyats* engage local contractors to construct new RHS houses. District *hokimiyats*, in consultation with *mahallas* (citizen-based organizations) and local women's committees, are responsible for screening RHS applicants.

E. Evaluation Scope and Approach

11. **Objective.** The PPER will assess the performance and impact of HIRDIP 1, 2, and 3 following IED's guidelines for evaluating sovereign projects.⁴ The PPER expects to generate a series of findings, lessons, and recommendations for future operations in (i) housing in both rural and urban areas in Uzbekistan and other developing countries; (ii) residential mortgage markets

12. The Appendix shows the key issues that the PPER will address. The evaluation will also examine effectiveness and efficiency of the entire MFF program, to improve design of the MFF modality for similar interventions.

13. The evaluation will collect information on the program from available documents including (i) ADB policies and strategies, (ii) government policies and strategies, (iii) project documents (including RRP, back-to-office reports, ADB PCRs, government PCRs, subproject appraisal and summary reports), (iv) evaluation documents (e.g., PVR and rural housing evaluations), and (v) country statistics and background documents.

14. The evaluation will collect primary data during consultations with concerned staff in Central and West Asia Department and an independent evaluation mission to Uzbekistan. Interviews will be conducted with Uzbekistan Resident Mission staff, key informants in government ministries and agencies, PCBs, and program beneficiaries. Focus group discussions, interviews, and client and household surveys will be conducted to gather first-hand information from the program beneficiaries. The household survey will be conducted on a sample of project beneficiaries and control groups to collect information on perceived benefits of the project.

15. The evaluation will be undertaken by an evaluation team comprising Toshiyuki Yokota (Senior Evaluation Specialist, team leader) and Caren Joy Mongcopa (Associate Evaluation Officer). The draft report is proposed to be peer reviewed by Tomoo Ueda (Principal Evaluation Specialist), and an external reviewer.

16. The evaluation will require the inputs of an international consultant (rural development) with proven track record in evaluating rural housing projects, and a national consultant for conducting household surveys and providing in-country support during the independent evaluation mission. The cost estimates are reflected in Supplementary Appendix A. The consultants' terms of reference are in Supplementary Appendix B.

17. The study requires access to existing information, data and documents, meetings with relevant staff in ADB, government, implementation agencies, contractors, and consulting services; and interviews with beneficiaries. Lack of adequate information and data will represent limitations for the study.

⁴ Independent Evaluation Department. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila: ADB.

F. Tentative Schedule

18. The major milestones and target dates are provided below. The mission is proposed for October 2017, subject to government clearance. The target date for completion is March 2018.

Major Activities/Milestones	Target Date
EAP approval	III August 2017
Recruitment of consultants and initial preparations	I August–I September 2017
Independent evaluation mission	III October–I November 2017
Analysis and report writing	I November–IV November 2017
Internal peer review	I December 2017
Interdepartmental review	II December 2017
Government review	IV January–I February 2018
PPER finalization	IV February 2018
Submission for approval (Director, IESP)	I March 2018
PPER submission for approval (Director General, IED)	IV March 2018

G. Dissemination of Findings

19. The report, after approval, will be disseminated through IED's website, and presented at appropriate knowledge sharing events within and outside ADB.

Appendix: Evaluation Matrix: Key Project Performance Evaluation Report Questions

Supplementary Appendixes (*available upon request*):

A. Cost Estimates

B. Terms of Reference

EVALUATION MATRIX: KEY PROGRAM PERFORMANCE EVALUATION REPORT QUESTIONS

Criteria	Specific Evaluation Questions	Data Sources
Program Performance		
Relevance	<p><i>Policies and Strategies</i></p> <ol style="list-style-type: none"> 1. Is the program consistent and in line with the strategies of the Government of Uzbekistan and ADB? <p><i>Design and Formulation</i></p> <ol style="list-style-type: none"> 2. Was the rationale for the program design based on sound diagnostic assessments of economic and political conditions, problems/constraints and opportunities? 3. Were the project designs appropriate to achieve the envisaged project outcome and impacts? Was it flexible enough to allow adjustments in project design and scope during implementation? 4. Were the project risks identified at appraisal adequately mitigated in the project design? 5. Were the project outputs and outcomes measurable and achievable during the project timeframe? 6. Was the Design and Monitoring Framework adequate and used to monitor progress of outputs and outcomes? 7. Was there a sufficient assessment at appraisal of institutional capacity and readiness to undertake the program? 8. To what extent were stakeholders—executing agency, other government institutions, private sector institutions—involved in the design of the program? Was there a sense of ownership? 9. Was the financing modality appropriate for this project and similar projects? 10. Were the eligibility criteria, project preparation and appraisal processes for sub-loans adequate and subsequently implemented as planned? 11. Was there sufficient assessment at appraisal to identify target beneficiaries and to determine if paying capacities matched the program's requirements? 12. Were standards for housing designs and engineering specifications adequately set up? 13. Why supporting the ownership of houses by the beneficiaries, rather than renting them for social housing? 14. What was governance structure of the IAs/EAs? 	<p>RRP</p> <p>Loan Agreement</p> <p>Financing Framework Agreement</p> <p>Project Agreement</p> <p>CPS</p> <p>BTORs</p> <p>Periodic Financing Requests</p> <p>PCR</p> <p>PVR</p> <p>IEM field observations, key informant interviews, household survey, and interviews</p>
Effectiveness	<ol style="list-style-type: none"> 1. To what extent were the projects' outputs and outcomes achieved as indicated in the DMF? 2. What factors contributed to the achievement (or non-achievement) of expected outputs and outcomes? 3. Were there outcome and outputs that were not achieved or fell below expectations? What were the reasons for the shortfall? 4. What were the major achievements realized? Were there any unexpected outcomes and achievements? 5. Were policy conditions and triggers met? If not, why? 	<p>RRP</p> <p>Loan Agreement</p> <p>Financing Framework Agreement</p> <p>Project Agreement</p> <p>BTORs</p>

Criteria	Specific Evaluation Questions	Data Sources
	<ol style="list-style-type: none"> 6. What were the roles of stakeholders in program implementation? 7. To what extent did the program strengthen the capacity of PCBs? 8. Are data on outputs and outcomes derived from credible sources? 9. Were the project activities undertaken in line with ADB safeguards policy? 10. How effective was the timing and sequencing of various tranches on the overall effectiveness of the program? 	<p>Periodic Financing Requests</p> <p>PCR</p> <p>PVR</p> <p>IEM field observations, key informant interviews, household survey, and interviews</p>
Efficiency	<ol style="list-style-type: none"> 1. How well were the program resources used in achieving the expected outcome? 2. Was there timely approval and effectivity of loan agreement? Was there timely disbursement of the loan proceeds? 3. Were the implementation arrangements appropriate and adequate to achieve the program outcome? 4. Was the program implementation on track or were there significant delays? 5. Were appraisal and approval processes for the sub loans implemented in a timely manner? 	<p>Loan Agreement</p> <p>Financing Framework Agreement</p> <p>Project Agreement</p> <p>BTORs</p> <p>PCR</p> <p>PVR</p> <p>IEM field observations, key informant interviews, household survey, and interviews</p>
Sustainability	<ol style="list-style-type: none"> 1. What is the likelihood that the project benefits will be sustained beyond the life of the project? 2. To what extent can PCBs and local governments sustain/operate without support from ADB or other development partners? 3. To what extent will sub loan delinquency impact on the program's sustainability? 4. Will there be continued support for and commitment to implement the program? 5. Were human, financial, economic and institutional conditions sufficient to support the program outcome? 	<p>BTORs</p> <p>PCR</p> <p>PVR</p> <p>IEM field observations, key informant interviews, household survey, and interviews</p>
Other Assessments		
Development Impacts	<ol style="list-style-type: none"> 1. What are the program's major contributions to the strategic priorities of Uzbekistan and ADB? 2. What development impacts have ADB interventions had on institutions and the sector? 3. To what extent did the project contribute to inclusive economic growth and environmentally sustainable growth? 	<p>Government economic and financial data</p> <p>IEM field observations, key informant interviews,</p>

Criteria	Specific Evaluation Questions	Data Sources
	<ol style="list-style-type: none"> 4. Have the beneficiaries' perception of the project changed, before and after completion? What direct contributions do beneficiaries see from the project? 5. What were the contributions of the program toward governance, transparency, and institutional capacity? 6. Are there unanticipated impacts that can be possibly attributed to the program? 	household survey, and interviews
Institutional Impact	How has ADB support through capacity development component made significant and lasting improvements to the PCBs and the local governments?	IEM interviews
ADB Performance	<ol style="list-style-type: none"> 1. How has ADB performed in terms of its support for the sector over the long-term? 2. Did ADB mobilize sufficient resources (including technical experts) during project design? 3. Did ADB take prompt actions to ensure the timely implementation of recommendations from BTORs, including the mid-term review and resolve any implementation bottlenecks? 4. What was the role and performance of the resident mission? How was the relationship between headquarters and the resident mission? 5. Did ADB sufficiently monitor and evaluate program implementation as well as status at expected completion date? Was there adequate supervision during program implementation? 6. Did ADB and the Government take the initiative to modify program design when circumstances called for such action? 7. Was the ADB assessment (PCR) timely and of quality? 	PCR PVR BTORs IEM interviews
Borrower and Executing Agency Performance	<ol style="list-style-type: none"> 1. Was the government (national and local levels) actively involved in the design? 2. Did the executing agency make efforts to ensure that the following were met: quality of program preparation; loan effectiveness requirements; implementation of program activities; program sustainability? 3. Were institutional arrangements adequate to ensure effective and efficient program implementation? 4. To what extent was there government ownership of the program? To what extent did the government support the program? 5. Were loan covenants complied with? 6. Did the executing agency perform adequate program monitoring, evaluation and reporting? 	PCR PVR BTORs IEM interviews

ADB = Asian Development Bank, BTOR = back-to-office report, CPS = country partnership strategy, DMF = design and monitoring framework, IEM Independent Evaluation Mission, PCBs = participating commercial banks, PCR = project completion report, PVR = PCR validation report, RRP = report and recommendation of the President. Source: Asian Development Bank Independent Evaluation Department.