

Performance Evaluation Report  
October 2018

# Uzbekistan: Housing for Integrated Rural Development Investment Program—Tranches 1, 2, and 3

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Independent  
Evaluation  ADB

- (i) In this report, "\$" refers to United States dollars.
- (ii) The fiscal year (FY) of the Government of Uzbekistan ends on 31 December.
- (iii) For an explanation of rating descriptions used in Asian Development Bank evaluation reports, see Asian Development Bank. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila.

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# Abbreviations

ADB	–	Asian Development Bank
APFS	–	audited project financial statement
DMF	–	design and monitoring framework
ESMS	–	environmental and social management system
FFA	–	facility financing agreement
IED	–	Independent Evaluation Department
MFF	–	multitranche financing facility
MOU	–	memorandum of understanding
MSEs	–	micro and small enterprises
NBU	–	National Bank of Uzbekistan
PCB	–	participating commercial bank
PCR	–	project completion report
PFRR	–	periodic financing request report
PIU	–	program implementation unit
PPFD	–	Procurement, Portfolio and Financial Management Department
PREI	–	procurement review for effective implementation
QQB	–	Qishloq Qurilish Bank
QQI	–	Qishloq Qurilish Invest
RHS	–	rural housing scheme
RRP	–	report and recommendation of the President
TA	–	technical assistance
TFFPA	–	technical and financial performance audit

# Currency Equivalents

Currency Unit – Uzbekistan sum (SUM)

	<b>At Appraisal</b>	<b>At Completion</b>	<b>At Independent Evaluation</b>
	17 March 2011	30 June 2015	31 October 2017
SUM1 =	\$0.00060	\$0.00039	\$0.00013
\$1.00 =	SUM1,674.18	SUM2,555.60	SUM8,000



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# Basic Data

## Housing for Integrated Rural Development Investment Program (Uzbekistan) (Loan 2775-UZB [Tranche 1], Loan 3039-UZB [Tranche 2], and Loan 3271-UZB [Tranche 3])

<b>Safeguard classification:</b>	FI-C
<b>Sector classification:</b>	Multisector
<b>Thematic classification:</b>	Economic growth
<b>Borrower:</b>	Republic of Uzbekistan
<b>Executing Agency:</b>	Ministry of Economy

Key Project Data (\$ million)	Loan 2775 (Tranche 1)		Loan 3039 (Tranche 2)		Loan 3271 (Tranche 3)	
	Approved	Actual	Approved	Actual	Approved	Actual
Total project cost	714.60	697.70	1,764.65	1,748.42	942.45	980.96
ADB loan amount utilization	200.00	199.74	200.00	199.20	100.00	98.42
ADB loan amount cancellation						1.58
Counterpart financing	514.60	497.96	1,564.65	1,548.89	742.45	
Borrower	91.80	143.19	110.65	300.10	48.41	162.49
Participating commercial banks	135.70	147.55	711.94	637.63	404.99	396.71
Subborrowers' equity	188.50	194.80	592.06	580.06	262.74	233.25
Private sector	98.60	12.42	150.00	31.10	26.31	16.01

Key Dates	Loan 2775 (Tranche 1)	Loan 3039 (Tranche 2)	Loan 3271 (Tranche 3)
Fact-finding mission	18 January–16 February 2011		7–20 April 2015
Appraisal mission	22 November 2010– 17 March 2011	29 July–20 August 2013	
Loan negotiations	25–29 July 2011	18–20 September 2013	29–30 July 2015
Board approval	9 September 2011	1 October 2013	20 August 2015
Loan agreement	16 February 2012	11 October 2013	21 August 2015
Loan effectiveness (expected)	1 April 2012	10 December 2013	20 October 2015
Loan effectiveness (actual)	20 April 2012	24 October 2013	27 August 2015
First disbursement	20 July 2012	24 October 2013	28 August 2015
Loan closing (expected)	31 December 2013	31 March 2016	30 June 2017
Loan closing (actual)	10 December 2015	31 December 2016	8 February 2017
Months (effectivity to closing)		44	37

Type of Mission	Loan 2775 (Tranche 1)		Loan 3039 (Tranche 2)		Loan 3271 (Tranche 3)	
	No. of Missions	No. of Person-Days	No. of Missions	No. of Person-Days	No. of Missions	No. of Person-Days
Consultation	1	9				
Reconnaissance	1	112			1	57
Fact-finding	1	280			1	71
Pre-appraisal	3	275				
Special project administration	1	14				
Inception	1	20	1	15	1	32
Special loan administration	1	26				
Loan review	6	84	6	290	1	59
Midterm review			1	33		
Program completion review	1	16				
Independent evaluation	1	10				

Source: Asian Development Bank.



# Executive Summary

This evaluation assesses the performance of the multitranche financing facility (MFF) of Asian Development Bank (ADB) for the Housing for Integrated Rural Development Investment Program in Uzbekistan (the ADB MFF program). ADB provided \$500 million to support the government's rural housing scheme (RHS), which had an estimated total investment of \$3.05 billion.

The ADB MFF program supported the country's first rural housing intervention. The goal of the RHS was to improve incomes, job opportunities, and living standards in rural areas, and in turn to reduce inequality between rural and urban citizens. This objective was consistent with the housing needs of rural people. The ADB MFF program contributed to the improvement of rural housing conditions and to the initial introduction of mortgage financing in rural areas. The program provided lessons to better target the program in later stages and laid the foundation for the government's current effort to develop a housing mortgage market. The government acknowledged the fact that ADB provided support for the housing program when other development partners' support was not readily available.

RHS as a whole, provided 41,510 housing loans exceeding the initial target of 40,500 loans. However concerning relevance of design, the institutional arrangement of the ADB MFF program was complex and several procurement issues were identified. Further, the ADB MFF program did not achieve the intended outputs and outcomes. The ADB MFF program was to provide at least 39,000 housing loans (95% of housing loans of RHS). ADB financed only 22,834 housing loans, 23.7% of which were to women (lower than the target of 30%). In addition, the share of home buyers belonging to the highest income quartiles (third and fourth) increased from the first tranche to the third tranche of the ADB MFF program. Also, the target of 65,000 local staff trained was not achieved. Furthermore, the financial sustainability of the housing scheme is uncertain because of issues related to subsidies, among others. Subsidies and government-led institutional arrangements crowd out private sector participation in rural mortgage finance. Three critical areas for improvement were identified in this evaluation: (i) competitive rural mortgage financing; (ii) affordability of rural houses, especially for the poor; and (iii) compliance of procurement. As a consequence, Independent Evaluation Department rates the ADB MFF program less than successful.

During the Independent Evaluation Department's final consultation mission to Uzbekistan to discuss the key findings of this report, the overall findings, conclusions, and recommendations were broadly confirmed. Further, the government feedback emphasized the importance of following ADB standards on procurement and their commitment to introduce procedures aligned with the spirit of ADB requirement and expressed commitment towards developing a mortgage market to improve the long-term sustainability of the housing market. Also, the need for targeting the program towards the lower income group was well recognized, which has already been incorporated in the ADB's Affordable Rural Housing Program (2017).

The evaluation recommends ADB to (i) support Uzbekistan to promote a competitive mortgage financial sector that supports rural development, (ii) support Uzbekistan to develop a unified database system of beneficiaries and applicants to assess beneficiary selection and the socioeconomic impact of the RHS, and (iii) ensure strict application of ADB procurement rules in all ADB projects and strengthen monitoring and reporting.

Uzbekistan has achieved high rates of economic growth, but rural development has not kept pace with urban development. Rural poverty has remained high and migration to cities is increasing. The Asian Development Bank (ADB)

provided a multitranche financing facility (MFF) for \$500 million to Uzbekistan for the Housing for Integrated Rural Development Investment Program (the ADB MFF program). The ADB MFF program, approved in 2011, was to support the

government's rural housing scheme (RHS), which had a total estimated investment of \$3.05 billion.

The ADB MFF program, supported by ADB's largest housing project at the time, aimed to improve rural living standards and diversify rural livelihoods by providing rural housing. The ADB MFF program provided a series of financial intermediary loans through the government to participating commercial banks (PCBs). These two banks, Qishloq Qurilish Bank (QQB) and the National Bank of Uzbekistan (NBU), provided mortgage financing to selected beneficiaries for the purchase of new houses. ADB's financial share was about 16% at appraisal.

The ADB MFF program experienced critical challenges in part because the ADB MFF program supported the country's first rural housing intervention. Despite this, it contributed to the improvement of the quality of rural houses and increase in job opportunities in rural areas. Most of the surveyed households were satisfied with the quality of houses. The program made initial contributions to the introduction of rural mortgage financing, although, may not yet be fully sustainable. Formal housing finance mechanisms were introduced in urban areas in 1996, but did not begin in rural areas until commencement of the RHS in 2009. The RHS was extended in 2012–2015 with ADB support. In 2016, the government decided to continue RHS for another 5 years.

In addition, the program provided lessons to better target the program in later stages and laid the foundation for their current effort to develop a housing mortgage market. For example, the need for targeting the program towards the lower income group was well recognized, which was already incorporated in the Affordable Rural Housing Program of ADB (2017).

Despite the above, the ADB MFF program had several shortcomings regarding (i) the development of competitive rural mortgage financing, (ii) affordability of rural houses especially for the poor, and (iii) compliance with ADB procurement standards which affected overall performance of the program.

During the Independent Evaluation Department's consultation mission to discuss key findings of the report, the government feedback emphasized the

importance of following ADB standards and their commitment to introduce procedures aligned with ADB requirement and expressed commitment towards developing a mortgage market to improve the long-term sustainability of the housing market. The government also acknowledged the fact that ADB provided support for the housing program when support from other development partners was not readily available.

This program performance evaluation report assesses the performance of the ADB MFF program and provides findings, lessons, and recommended follow-up actions for future operations that aim for private sector participation, inclusive growth, and due diligence.

## Relevance

The relevance section includes assessment of the strategic alignment of the program to ADB's corporate and country strategies, and the appropriateness of program design, including readiness for ADB support, institutional arrangements, procurement plans, and application of the financial modality and the design and monitoring framework. The ADB MFF program was consistent with the government's Welfare Improvement Strategy, 2008–2010, which emphasized providing the rural population with access to public utilities and services (e.g., health centers, water supply, and sanitation), as well as access to housing. It was also consistent with ADB's country strategy and program, 2006–2010, which aimed to accelerate environmentally sustainable rural development through rural finance and rural infrastructure and services, and with ADB's country operations business plan, 2011–2013, which sought to improve rural livelihoods by expanding access to modern rural housing and improving basic utility services.

During processing, the following concerns were raised about the design of the ADB MFF: (i) the mortgage lending experience of banks in Uzbekistan was still very limited, (ii) the house construction industry was not well developed, (iii) the finance and construction sectors in Uzbekistan were still controlled by the state, and (iv) the pilot RHS project in 2009–2011 mostly supported the highest or second-highest income quartiles. Many of these concerns were not fully

addressed during the due diligence and design phase of the program.

The institutional arrangements were highly complex for a new program that involved many public players, including state-owned enterprises. The mortgage finance sector and the housing industry were dominated by the government and this was reflected in the ADB program. During program preparation, concerns were expressed at ADB management review meetings and at the Board approval meeting that there might be a conflict of interest between QQB, a state-owned bank and a financial intermediary; Qishloq Qurilish Invest (QQI), which was its subsidiary until May 2013; and its subsidiaries.

Under the ADB MFF program, QQB delegated multiple responsibilities to QQI. These included responsibilities for signing contracts with bidders for construction, procurement of materials, and construction supervision. Other tasks included setting membership of tender and site selection committees, supporting the selection of subborrowers (home buyers), and signing home purchase contracts with the home buyers. ADB's program requirement of single-source selection meant that home buyers could buy their houses only from QQI. The ADB Procurement, Portfolio and Financial Management Department (formerly the Operations Services and Financial Management Department) argued against the sole sourcing of QQI for multiple roles under this program.

Another design issue identified relates to procurement. About 60% of the construction cost for each house was for building materials. Procurement was centralized and QQI procured the construction materials from 13 of its subsidiary companies (QQI had sold all of them in 2013 to a QQI subsidiary and sold the subsidiary in 2015). Surprisingly, procurement of building materials was not included in the ADB procurement plans. Unlike procurement of civil works, there was no independent tender commission and/or bid evaluation group to receive and evaluate proposals for the procurement of key construction materials by QQI. Construction materials were distributed at a set price to the winning contractors, with prices at 30% below the market price. QQI, therefore, became the only supplier of centrally procured materials for the contractors.

This government-led institutional structure did not facilitate development of an enabling environment for private sector participation or a market mechanism for housing development in rural areas of Uzbekistan.

The report and recommendation of the President (RRP) and periodic financing request reports identified procurement as a key risk factor. Moreover, all of the procurement review documents during and after implementation included warnings. In 2013, a procurement review mission was fielded, and it reported an overall rating of high risk. The review identified serious issues that could fuel perceptions of bid rigging. During the post-procurement review in 2015, ADB reviewed 45 contracts under tranche 3 and noted in the procurement system assessment that almost all contract prices were lower than the estimated cost by a negligible 0.005%–0.100%.

While the ADB MFF program's aim of expanding access to affordable housing finance with subsidies was relevant, it failed to recognize the institutional weaknesses, weak market conditions, and associated risks, all of which raised concerns about the readiness of the program.

A better approach to targeting the low-income group could have been made, such as providing upfront subsidies for down payments. Given the design weaknesses, institutional weaknesses regarding subsidy provision, and poor procurement design and implementation, the evaluation rates the ADB MFF program less than relevant.

## Effectiveness

The effectiveness assessment includes whether the intended outputs and outcomes were achieved. It also includes assessment of safeguard and gender elements. The ADB MFF program was intended to improve living standards in rural communities to support more inclusive economic growth by financing houses. The line of sight from outputs to outcomes and impact was not set out clearly in the design and monitoring framework. The outcome indicator and the output indicator for rural houses were very similar, especially in their numerical targets, which indicated only the number of houses constructed and the share of women owners. Therefore, this evaluation not only

assessed the achievement of targets, but also examined the logic presented in the RRP that support for the moderate-income group in rural areas would help to improve living conditions and livelihood opportunities for the poor in these areas.

The ADB MFF program was to provide at least 39,000 housing loans (95% of housing loans of RHS) with a total value of about SUM2.4 trillion to targeted beneficiaries, of whom 30% would be women. While RHS provided 41,510 loans and exceeded the target, ADB financed only 22,834 housing loans (55% against the total loans), 23.7% of which were to women. A further 18,697 loans were funded from other sources. Also, the target of 65,000 local staff trained was not achieved, although targets to increase microcredit lending and establish micro and small enterprises, were achieved.

The selection of applicants based on social criteria, and promotion of the availability of housing loans through a public information campaign, helped some lower-income households access mortgage loans for new rural modern homes with access to utilities, roads, and related social and commercial services. However, many of the rural population could not afford to buy such houses, even though the government provided subsidies for buyers and other stakeholders.

The share of home buyers belonging to the highest income quantiles (i.e., the third and fourth quantiles) increased, from the first tranche to the third tranche of the ADB MFF program. For example, share of home buyers by income quartile from lowest to the highest is 8%, 21%, 60%, and 11%. In tranche 3, the share of home buyers belonged to the highest income quartile increased to 34% from zero or single digit in tranche 1 and 2, even though it was assumed that the final tranches of the ADB MFF program would have learned lessons from the preceding tranches and would be able to support the poor (ADB noted that the borrower has agreed to replace 396 of home buyers financed by ADB with qualified beneficiaries in tranche 3). As a result, the subsidies benefited the upper- and middle-income classes, and the impact of the ADB MFF program on the inclusive economic growth of rural communities would be reduced.

The Institute of Social Research under the Cabinet of Ministers carried out a socioeconomic survey of beneficiary households in 2016. About 65% of the 1,008 households surveyed were satisfied with the quality of house construction, and 24% had upgraded their new houses, for example, by adding outbuildings. The survey also compared the satisfaction of beneficiaries with that of residents in traditional villages.

The beneficiaries' satisfaction with the supply of water, power, and gas was higher than that of residents in traditional villages. However, the beneficiaries' satisfaction with the availability of public services and economic activities such as kindergartens, medical services, pharmacies, markets and shops, safety, and the opportunity to operate a side business at home was lower than that of residents in traditional villages. The rationale presented in the RRP was that building houses for the targeted group of low- and moderate-income households would help retain qualified personnel in rural areas, so they could provide social services, the availability of which would be an incentive for people to stay in rural areas, helping revitalize the rural economy and reverse the trend of rural–urban migration. However, this logic has not yet been fully proved.

On safeguards, the loan agreement stipulated that subprojects were ineligible for financing if it was anticipated that they would have more than a minimal adverse effect on the environment, and if construction would involve any involuntary resettlement. The project completion report (PCR) for tranche 1 reported that the desk review for 2012–2013 found that 448 of the 1,066 sites proposed by local governments did not meet the requirements. ADB informed the evaluation team that it would not finance construction on any site that did not meet ADB and government safeguards requirements. The PCR for tranche 2 reported that the sites for 240 houses for 2013 did not meet all the requirements. ADB successfully excluded these sites. The output related to micro and small enterprises was achieved but those for provision of housing loans and improved capacity of local governments were not, which meant the ADB MFF program outcome was not achieved. Overall, the ADB MFF program is rated less than effective.

## Efficiency

The evaluation assesses the implementation efficiency of the ADB MFF program. The efficiency assessment includes the implementation process, such as the scale of delays and cost overruns and their effects on project performance. The operations department determined that calculating an economic internal rate of return would prove difficult from a methodological and data point of view, following advice from the Economic Research and Regional Cooperation Department. This evaluation was not able to independently generate the economic returns due to lack of required data. The program is likely to have contributed to increased access to quality homes in rural areas with basic utilities, which has a certain economic value.

Delays and cost overruns were minimal. For tranche 1, despite a 6-month delay in loan effectiveness, 99.9% of the loan was disbursed before the original closing date. The closing date for tranche 2 was extended from 31 March 2016 to 31 December 2016, but 99.3% of the loan was disbursed by the end of 2014. The third tranche was disbursed by 1 December 2015 and closed 5 months before the original closing date. Funds from ADB, counterparts, and subborrowers were available in a timely fashion and efficiently utilized. The evaluation rates the ADB MFF program efficient.

## Sustainability

The sustainability assessment includes an assessment of the likelihood that the established financial mechanism for rural housing would be maintained over the longer time frame for the development of a rural housing mortgage market. The status of compliance with the loan covenants in the PCRs shows that the financial performance of QQB and the NBU has improved. The delinquency rate of the PCBs with respect to borrowers under the housing program has generally declined. For QQB, it declined from about 15% in 2011 to less than 6% in 2015, and for the NBU it is less than 1%.

The government re-lent funds from ADB to the PCBs at a rate of 3% to allow the PCBs to onlend to subborrowers at 7% for 15 years in 2012 and at least 7% for the first 10 years in 2013 or the first

5 years in 2014 and 2015. As the current market deposit rates are higher than 7%, borrowing at market rates by private banks for onlending as mortgage financing would not have been feasible.

Since 2005, the government has provided housing subsidies through at least six programs, including the RHS, by providing tax exemptions and low interest rates. There is a need for a more comprehensive approach with a clear estimate of the financial constraints on government finances to ensure financial sustainability.

In addition, house prices increased by 69% in 3 years from 2012 to 2015. Correspondingly, the income threshold of eligible home buyers (the moderate- and low-income households) set by the loan covenant was increased from SUM1.25 million per month in 2012 to SUM2.10 million per month in 2015. This made the housing less affordable to the poor while the eligibility of relatively rich families to buy houses was increased. Due to market distortion by the subsidies and government-led institutional arrangements, the uncertainty of financial sustainability of the government, and the reduced affordability of houses to the poor, the evaluation rates the housing scheme supported by the ADB MFF program less than likely sustainable.

## Impact

The RRP set six indicators to measure development impact: (i) average rural households' formal incomes, (ii) rural construction jobs created, (iii) rural micro and small enterprises and home-based jobs created, (iv) rural houses constructed, (v) new or rehabilitated schools near RHS sites, and (vi) new or rehabilitated rural health clinics near RHS sites. However, only the number of rural houses constructed and jobs created were reported in the PCRs.

The ADB MFF program's feature of "supporting accelerated market development and greater competition" was not fully achieved. Over the last 8 years, the total mortgage loan portfolio increased by 45% annually on average, primarily due to subsidized state housing programs with the state-owned banks providing the housing loans. However, this decreased the private banks' share in the total mortgage loan portfolio from 5.7% in 2011 to only 3.2% in 2016. Although thousands

of contractors participated in the ADB MFF program, QQI remains the only housing developer in the country, and it procured the key materials and sold all houses constructed. The evaluation rates the ADB MFF program impact less than satisfactory.

## Asian Development Bank Performance

ADB supported the government in implementing the ADB MFF program through a full-time public finance specialist stationed in Tashkent, and intermittent support from other staff at ADB headquarters and in the Uzbekistan Resident Mission.

During the Board of Directors' approval meeting for the ADB MFF program, the Board requested that ADB use management information systems to provide real-time status reports of expenditures and receipts. ADB Management committed itself to introducing supervisory measures that would be respected by the ADB Board and by the government, including a management information system and a website. ADB also said that beneficiary selection would be led by local governments, with the involvement of citizen-based community groups and regional women's committees. However, these commitments were not kept. A database of applicants and home buyers was not developed. ADB performance is rated less than satisfactory.

## Borrower and Executing Agency Performance

Counterpart funds were provided on a timely basis. The executing agency engaged with stakeholders, including government staff, contractors, and home buyers. Although the program implementation unit experienced high staff turnover and delays in hiring replacement staff, this did not have a significant effect on the completion of the ADB MFF program.

A government research institute implemented an assessment of beneficiaries with ADB's financial support. The assessment was structured as an input to the design of ADB's Affordable Rural Housing Program, which was approved in 2017. The assessment provides valid recommendations on housing design, the allocation of beneficiaries,

and the process for mortgage loan applications. The performance of both the borrower and the executing agency is rated satisfactory.

## Conclusion

The size and quality of rural houses have been a concern in Uzbekistan for several years. The available floor space was only 14.9 square meters per person at the end of 2014 because of overcrowding as a result of multi-family occupancy in traditional housing units. Almost one-third of the housing stock was built before 1971. The existing rural housing stock over the years has suffered from gradual dilapidation and did not meet modern structural resilience norms. Despite the increasing demand for rural housing, Uzbekistan lacked a market for mortgage finance in rural areas.

Uzbekistan had a surplus of skilled and unskilled labor in rural areas as a result of population growth and the return of migrant workers from the Russian Federation. In rural areas, people needed jobs.

The ADB MFF program addressed both issues of housing and the surplus of labor in rural areas. However, the ADB MFF was prepared without project preparatory technical assistance, which could have identified some of the issues and risks, especially those requiring due diligence. ADB provided its loan, at that time its largest housing investment, on the assumption that the program would drive rural growth, but the ADB MFF program should have been justified by data and rigorous analysis.

Not surprisingly, most of the issues identified in this evaluation report had already been identified by the Board of Directors, ADB's supporting departments, and the peer reviewers during the program preparation stage. Proper implementation of a program becomes difficult if the risks and concerns are not fully addressed at the program design stage and are only partially addressed at the implementation stage. Overall, this report assessed ADB support for Housing for Integrated Rural Development Investment Program less than successful.

## Issues

**Issue 1: The mortgage financing market was likely distorted by the implementation arrangement and subsidies provided by the rural housing scheme.** The private banks' share of the total mortgage loan portfolio has decreased, indicating that the implementation arrangement and subsidies provided through the RHS may have distorted the mortgage financing market. The ADB MFF program's intention that home buyers could buy from other developers or construction supervisors did not happen.

**Issue 2: The house prices were not affordable for all households, particularly the low-income households. The logic behind the program, that support for the moderate-income group would help to improve living conditions and livelihood opportunities for the poor, has not yet been substantiated.** ADB did introduce a system of prioritizing loan applicants with respect to their socioeconomic profile, but the result was unsatisfactory. ADB did not monitor the difference between the prioritized lists and the final selections. In the end, even the cheapest available houses were too expensive for the poor.

**Issue 3: Several procurement issues resulting from weak compliance with ADB procurement procedures.** All procurement review documents contained warnings. Submission of annual financial statements was delayed, and this caused risks of accountability and non-compliance with loan covenants.

## Recommendations

**Recommendation 1: ADB should help Uzbekistan develop a competitive mortgage finance sector that supports rural development.** The new government is in the process of undertaking deep

and significant reforms to build a more market-oriented mortgage finance sector. ADB and other development partners should respond to the need for supporting reforms, through a step-by-step approach. ADB is preparing a development program for Uzbekistan that will aim to improve the mortgage finance market by addressing the root causes of shortcomings in the rural housing market and improve the role of private sector.

**Recommendation 2: ADB should help Uzbekistan develop a unified database system of beneficiaries and applicants to assess beneficiary selection and the socioeconomic impact of the RHS.** In addition to the client databases of the PCBs, a unified database would help the careful selection of beneficiaries, which is the most important part of effective program implementation and of ensuring efficient use of the limited funds available for housing programs. Ensuring the transparency of the selection process is how ADB can add value.

**Recommendation 3: ADB should ensure strict application of ADB procurement rules in all ADB projects and should strengthen monitoring and reporting.** ADB conducted prior- and post-reviews of procurement only for around 10% of the required contracts in the ADB MFF program's procurement plans. In addition, the procurement plans did not include the purchase of building materials as part of procurement plans, even though building materials represented a major share of the total cost of each house (about 60%). Including building materials would enhance institutional development, as the executing and implementing agencies would benefit from applying ADB standards and would benefit from capacity development in the process. The ADB's project completion reports were silent on due diligence issues, especially on procurement.



# CHAPTER 1

## Introduction

1. In August 2011, the Asian Development Bank (ADB) approved a multitranche financing facility (MFF) to Uzbekistan for the Housing for Integrated Rural Development Investment Program.<sup>1</sup> The MFF program aimed to support the government's rural housing scheme (RHS) by providing loans to moderate- and low-income households. It also aimed to build capacity to strengthen implementation of the RHS. The RHS was designed to improve rural living standards and diversify rural livelihoods.
2. The program is a three-tranche \$500-million MFF, providing a series of financial intermediary loans to help participating commercial banks (PCBs) provide mortgages to selected beneficiaries for the purchase of new homes. Tranche 1 (\$200 million) financed 8,363 house purchases in 2012 and 1,916 houses in 2013, tranche 2 (\$200 million) financed 9,626 houses in 2014, and tranche 3 (\$100 million) financed 2,929 houses in 2015.
3. The Ministry of Economy is the executing agency for the MFF program, and the PCBs are the implementing agencies. Qishloq Qurilish Bank (QQB), a majority state-owned bank with an extensive national branch network, was the only PCB to participate in tranche 1 of the program. In addition to QQB, the National Bank of Uzbekistan (NBU) participated in tranches 2 and 3.
4. This chapter outlines the purpose of the independent evaluation and summarizes the MFF program's intended impact, outcome, and beneficiaries.

### A. Evaluation Purpose and Process

5. This program performance evaluation report assesses the performance of the entire MFF program following the *Guidelines for the Evaluation of Public Sector Operations*, approved in 2016.<sup>2</sup> It generates a series of findings, lessons, and suggested follow-up actions for future operations relating to private sector participation, inclusive economic growth, and due diligence.
6. All three tranche projects were physically completed by 2016. The ADB Independent Evaluation Department (IED) received completed project completion reports (PCRs) for tranches 1 and 2, and a draft PCR for tranche 3. Three PCRs rated the tranche projects relevant, effective, efficient, likely sustainable, and overall successful.<sup>3</sup>
7. An independent evaluation mission visited Uzbekistan in October 2017. The mission was fielded to collect program-related data and information, solicit stakeholder views on the program and sector issues, and verify the findings of ADB and government reports.

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<sup>1</sup> 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.

<sup>2</sup> ADB. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila.

<sup>3</sup> ADB. 2016. *Completion Report: Housing for Integrated Rural Development Investment Program in Uzbekistan (Tranche 1)*. Manila (Loan 2775); ADB. 2017. *Completion Report: Housing for Integrated Rural Development Investment Program in Uzbekistan (Tranche 2)*. Manila (Loan 3039); and ADB. 2017. *Completion Report: Housing for Integrated Rural Development Investment Program in Uzbekistan (Tranche 3)*. Manila (Loan 3271).

## B. Expected Results

8. **Impact, outcome, and outputs.** The report and recommendation of the President (RRP) stated that the MFF program's impact and outcome were as follows: "In support of greater inclusive economic growth, the expected impact of the investment program is improved living standards for rural communities. With more and better rural housing, the outcome of the investment program is improved rural housing for targeted beneficiaries." The outcome target was the financing of at least 95% of 40,800 modern rural homes under the RHS with access to basic utilities. The MFF program was to deliver three outputs:

- (i) **Housing loans provided by participating commercial banks to targeted creditworthy subborrowers in rural areas.** PCBs were to extend housing loans to selected beneficiaries from moderate- and low-income households in rural areas. At least 39,000 housing loans were to be provided and 30% of the beneficiaries should be women.
- (ii) **Improved capacity of local governments to prepare and implement integrated rural development plans and investment promotion strategies.**<sup>4</sup> The capacity development component, which was implemented and financed by the government, envisaged training 65,000 local government staff in integrated rural development planning and investment promotion strategies. The training program was to enable officials to prepare district community development plans.
- (iii) **Improved enabling environment for entrepreneurs and micro and small enterprises (MSEs) to expand or establish new businesses in rural areas.** This component was also funded exclusively by the government. It targeted an increase in total microcredit lending in rural areas from SUM485 billion in loans outstanding at the end of 2010 to SUM1,361 billion by December 2016.

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<sup>4</sup> Under the program, local governments play a central role in preparing integrated rural development plans and regional investment strategies in close consultation with the private sector. They are also important stakeholders of rural housing schemes (RHSs) and rural development programs. District governments are required to provide RHS housing sites from state-reserved lands, ensure that the sites are approved for residential use in accordance with state regulations, and coordinate the sites' access to basic infrastructure and utility services. District governments, in consultation with citizen-based organizations and local women's committees, are also responsible for screening RHS applicants. Provincial governments engage local contractors to construct new RHS houses.

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# Design and Implementation

## A. Rationale

9. Before 2010, Uzbekistan achieved high rates of economic growth, but rural development did not keep pace with urban development. Rural poverty remained high and migration to the cities was increasing because of the lack of rural employment. Economic transformation, diversification, and industrialization were required to counter this trend, together with a focus on private sector development and accelerated expansion of MSEs, which provide more than 50% of rural employment. Good housing, along with health and education facilities, is crucial to attracting and retaining skilled professionals in rural enterprises.

10. **Rural livelihoods.** Demographic and economic factors have caused a steady deterioration of rural livelihoods. While Uzbekistan's active workforce has increased steadily over the last decade, the supply of jobs has not matched the growth in demand. In rural areas, population growth has been higher than in the cities, while farm privatizations and higher rates of mechanization have significantly reduced agricultural employment. Of the country's 4 million people who live below the poverty line, 70% live in rural areas.<sup>5</sup> To arrest these trends, the government has adopted a balanced approach toward both urban and rural areas. The rate of urbanization in Uzbekistan has been relatively slow and an expansion of MSEs would increase rural employment. Moreover, the creation of MSEs would slow down, not end, out-migration to the cities. Cities in Uzbekistan will increasingly become centers of attraction in the process of further economic liberalization, diversification, and industrialization.

11. **Rural housing.** The pent-up demand for rural housing has been a key element of the MFF program's rationale. At the time the MFF program was designed, an estimated 1.5 million families in rural areas were seeking better housing. Uzbekistan's population has grown steadily over the past 60 years to about 33 million and is expected to increase by a further 6 million by 2030. The large number of young families fuels the demand for new housing, particularly in rural areas, where the number of children per family is higher than in the towns and cities. The supply of new houses has been insufficient to keep up with population growth and the housing needs of the 200,000 young families that leave the parental home each year.

12. The quality of the existing housing stock in rural areas is poor. Most rural houses were built during the Soviet period and many were self-built, lacking sound design standards, and using low-quality materials. Houses in such areas often fail to meet modern construction standards or seismic stability requirements. The supply of rural houses with basic facilities, including water, sewerage, and gas, is significantly below that in urban areas, in relation to population.

13. **Housing finance.** Uzbekistan lacks access to cost-effective long-term funding for housing. Despite the substantial demand for investment in new housing, the lack of finance has been a major constraint. When the housing program was designed, banks did not have adequate access to long-term finance. The absence of (potentially mortgage-backed) bonds and long-term savings by households meant that affordable housing finance was almost nonexistent. As a result, personal savings and informal loans have

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<sup>5</sup> United Nations Economic Commission for Europe. 2015. *Country Profiles on Housing and Land Management – Uzbekistan*. New York and Geneva.

been the main financing source for new houses. The reform process for residential mortgage lending is in its early stages. Mortgage lending in rural areas is a new service for Uzbekistan’s banks and for government authorities.

## B. Time, Cost, Financing, and Implementation Arrangements

14. The MFF program was approved on 31 August 2011 and ADB’s support was originally expected to be delivered in about four annual tranches over 2012–2015. The MFF was finally provided in three tranches—the first in 2012, the second in 2013, and the third in 2015. The government requested a loan of \$200.00 million for tranche 1, which was approved on 9 September 2011, with \$199.60 million allocated for mortgage loans to home buyers. Actual disbursements under tranche 1 totaled \$199.70 million spread over 4 years from 2012 to 2015.<sup>6</sup> Tranche 2 was approved on 1 October 2013, for \$200.00 million, with \$198.56 million allocated for mortgage loans. Tranche 2 became effective on 24 October 2013 and closed on 31 December 2016. Tranche 3 was approved on 20 August 2015, for \$100.00 million, all of it allocated for mortgage loans. Tranche 3 became effective on 27 August 2015. It was physically completed on 31 December 2016 and financially closed on 8 February 2017, although audited project financial statements (APFS) and annual financial statements were not provided for FY2016 and FY2017. These were required by Project Agreement Section 3.06 and would call for remedial action.

15. The total estimated cost of the government’s RHS was \$3.05 billion over 4 years from 2011, to be funded by home buyers’ down payments (\$833.50 million), government (\$799.10 million), PCBs (\$536.30 million), ADB (\$500.00 million), and the private sector (\$385.60 million). The funds were intended to be allocated to three components: (i) rural housing (\$3.03 billion), (ii) local government capacity building (\$2.00 million), and (iii) MSE enabling environment (\$24.00 million).

16. Implementation was carried out by the following main actors.

- (i) **Ministry of Finance:** borrower of the ADB loans.
- (ii) **Ministry of Economy:** executing agency and a coordinator of the MFF program. The ministry was also the implementing agency for the capacity building components, the public awareness campaign, and stakeholder consultations. The executing agency has a program implementation unit (PIU) that has provided full support in overseeing, managing, and monitoring the overall implementation of the MFF program since 2012.
- (iii) **State Committee of Architecture and Construction:** assessor of house designs, engineering specifications, and unit costs, and overseer of compliance with state building and construction standards applicable to the construction of individual housing.
- (iv) **Tender Consulting Center:** a state-owned enterprise under the State Committee of Architecture and Construction with a branch in each of the 13 regions.<sup>7</sup>
- (v) **Public commercial banks—Qishloq Qurilish Bank and the National Bank of Uzbekistan:**<sup>8</sup> intermediary financiers and implementing agencies.
- (vi) **Home buyers:** subborrowers of the financial intermediary loan and implementers of subprojects (i.e., purchases of houses). The RRP for the MFF program indicates the requirement of the MFF program that home buyers contract solely with Qishloq Qurilish Invest (QQI) for the purchase of houses.

<sup>6</sup> Of the ADB financing allocated to mortgage loans, \$178.8 million was used for mortgage loans for the 2012 houses and the remaining \$20.8 million was used for mortgage loans for the 2013 houses. Only 8,510 houses were built in 2012 compared with the 10,300 envisaged at appraisal.

<sup>7</sup> Under the program, the regional tender consulting center acts as the secretariat of the local government tender commission and is tasked with preparing and issuing the bidding documents for civil works contracts based on the procurement plan and other relevant information provided by QQI (the employer), receiving bids, organizing opening and evaluation of bids, and issuing a notification of award or letter of acceptance to the winning bidder.

<sup>8</sup> The NBU’s participation in the program was limited to tranches 2 and 3.

- (vii) **Qishloq Qurilish Invest:** a state-owned limited liability company specializing in engineering. QQI was established in September 2009 as a subsidiary of QQB but was separated from it in May 2013. QQI's major shareholders are the Ministry of Finance and the Uzbekistan Fund for Reconstruction and Development. Although QQI is neither an executing nor an implementing agency, it plays multiple roles in the MFF program as an entry point and seller of houses, supervisor of house construction, purchaser of construction materials, overseer of safeguard compliance, financier for fund liquidation, and the party responsible for interacting with and making contracts with home buyers.
- (viii) **Qishloq Qurilish Loyiha:** the national design institute, mandated to lead and develop master plans for rural settlements, including establishing architectural design standards for new rural housing and rural community facilities that incorporate modern construction technology and materials.
- (ix) **Local government tender commissions:** central and local authorities responsible for selecting local contractors, excluding material suppliers, which are selected by QQI.
- (x) **Regional site selection commissions:** central and local authorities that decide on housing sites.
- (xi) **Local contractors:** builders of the MFF program's houses. According to the technical and financial performance audit reports, there were 837 contractors in 2012, 998 in 2013, 1,148 in 2014, and 1,243 in 2015.

17. The MFF program's implementation structure was relatively complex and was further complicated by processes involved in the selection of suitable construction sites, qualified contractors, and eligible beneficiaries (Appendix 2). These processes are discussed in the assessment of efficiency.

### C. Technical Assistance

18. ADB provided two technical assistance (TA) projects to support the MFF program's components 2 and 3 totaling \$1.78 million.

19. **Strengthening Governance and Improving Local Government Capacity for Results-Based Service Delivery.** This TA project provided capacity development for local governments.<sup>9</sup> The Ministry of Economy was the executing agency. The expected outputs were (i) a local government results-based planning, monitoring, and reporting framework; (ii) a local government capacity building program; and (iii) a shared government information portal to improve access to information and ensure more efficient allocation and use of government resources. The completion report for the TA noted that TA implementation had faced a fundamental lack of ownership by the government and was not sufficiently anchored in the MFF program.<sup>10</sup> As the TA did not achieve its outcome or any of its planned outputs, its completion report rated the TA unsuccessful.

20. **e-Government for Effective Public Management.** The TA project focus was broad and aimed to increase electronic public access to government services.<sup>11</sup> There was some overlap with the third output of the MFF program, to enhance an enabling environment for MSEs. The TA has so far successfully supported important e-government reforms, including automation of business registration and electronic property registration, both of which are of vital importance for the MFF program and the RHS. The TA completion date was extended from 31 December 2015 to 31 December 2017.

<sup>9</sup> ADB. 2012. *Technical Assistance to the Republic of Uzbekistan for Strengthening Governance and Improving Local Government Capacity for Results-Based Service Delivery*. Manila (TA 8248-UZB, approved on 10 December 2012 for \$680,000).

<sup>10</sup> ADB. 2017. *Technical Assistance Completion Report: Strengthening Governance and Improving Local Government Capacity for Results-Based Service Delivery in Uzbekistan*. Manila.

<sup>11</sup> ADB. 2012. *Technical Assistance to the Republic of Uzbekistan for e-Government for Effective Public Management*. Manila (TA 8260-UZB, approved on 12 December 2012 for \$1.1 million). TA completion report is not yet available.

## D. Procurement, Construction, Consultants, and Scheduling

21. National contractors built the houses. The tender and contract awards for the bid packages followed ADB procurement guidelines. The bidding documents followed ADB's standard bidding document for small works—a single-stage, two-envelope bidding procedure.

22. QQI provided centralized procurement services for building materials, which meant that QQI, rather than the contractors, was responsible for sourcing the materials. As a result, the contractors' role was reduced to providing labor and equipment.

23. Some homeowners suggested that the housing programs would have benefited from a greater variety of design standards and construction materials. The technical and financial performance audit (TFPA) recommended several design and construction changes largely in response to the suggestions of home buyers, many of whom have made substantial changes and amendments to their homes. Procurement issues are discussed in the relevance and efficiency sections.

24. For program capacity development and PIU staff, national and international consultants were recruited. All consultants were recruited according to ADB's Guidelines on the Use of Consultants. The consultants who supported the PIU were selected using individual consultant selection. The consultants hired through firms were recruited using consultants' qualifications selection, quality- and cost-based selection, and least-cost selection consistent with ADB's Guidelines on the Use of Consultants. The quality-based selection modality was rightly considered the most suitable form of engaging consultants in view of the specific skill requirements and the complexity of the MFF program.

25. When the MFF program was designed in 2011, the plan was to split it into four tranches: tranche 1 for houses built in 2012, tranche 2 for houses built in 2013, tranche 3 for houses built in 2014, and tranche 4 for houses built in 2015. In 2013, a decision was made to combine tranches 2 and 3 and to reduce the number of tranches from four to three.

26. The investment program was implemented as originally scheduled during 2011–2016.<sup>12</sup> Implementation of the first tranche project incurred a 3-year delay and was completed in 2015. The delay was caused by disagreements within ADB over the nature and scope of the technical and financial performance review, which was to be a value-for-money assessment of rural houses built under the government program from 2009 to 2011.<sup>13</sup> With minor exceptions, house construction funded by tranche 2 and 3 loans was completed as scheduled, with both tranche projects closing as scheduled at the end of 2016. Tranche 3 was closed almost 5 months ahead of the original closing date.

## E. Safeguard Arrangements and Gender Action Plans

27. **Safeguard arrangements.** Because the MFF program used PCBs as financial intermediaries to onlend the ADB funds to the final beneficiaries, ADB's Safeguard Policy Statement (2009) applicable to financial intermediaries was applied to define the appropriate safeguard arrangements.<sup>14</sup> ADB conducted a due diligence assessment of the national safeguards impact assessment methodology and practices in relation to ADB's Safeguard Policy Statement. Field visits to representative sites were undertaken to examine the MFF program's potential environmental and social impacts and risks. Based on these due diligence activities, it was determined that the MFF program would have minimal or no adverse social or environmental risks. Consequently, the MFF program was classified as category C for environment, involuntary resettlement, and indigenous peoples. Although national regulations do not require commercial banks to have an environmental and social management system (ESMS), the PCBs involved

<sup>12</sup> ADB. 2011. *Republic of Uzbekistan: Multitranchise Financing Facility for the Housing for Integrated Rural Development Investment Program: Facility Administration Manual*. Manila.

<sup>13</sup> ADB. 2016. *Completion Report: Housing for Integrated Rural Development Investment Program—Tranche 1 (Loan 2775)*. Manila.

<sup>14</sup> ADB. 2009. *Safeguard Policy Statement*. Manila. (Appendix 4, Section G, para. 68 for details on the safeguard arrangements for financial intermediaries).

in the MFF program established ESMSs. QQB submitted annual reports to ADB confirming the MFF program's compliance with the ESMS.

28. **Gender action plans.** The MFF program was categorized *effective gender mainstreaming*, because it aimed to improve the access of women to rural housing finance and employment opportunities. During program preparation, the program team assessed potential gender-differentiated impacts, and identified options to maximize the benefits to women. The team also assessed the capacity of government agencies, community-based organizations, and women's groups to assist in program implementation.

29. Based on the results of these assessments, the government agreed to implement gender action plans aimed at (i) ensuring adequate participation of women in the housing program; (ii) including female borrowers and household members in the skill and reskilling programs, MSE development programs, and business and employment opportunities in the tranche project areas; (iii) developing women-friendly financial products through the PCBs; (iv) developing an implementation strategy for joint land-titling and homeownership; (v) conducting gender awareness training of relevant staff at implementing agencies; and (vi) developing sex-disaggregated program data and reporting.<sup>15</sup>

## F. Loan Covenants, Monitoring, and Reporting Arrangements

30. The covenants were mostly complied with, although a few were modified during implementation.<sup>16</sup> A few covenants were only partially complied with due to the late submission of the required reporting documents. Three covenants were not complied with under tranche 1, and one covenant was not complied with under tranches 2 and 3.<sup>17</sup> Appendix 3 summarizes the status of compliance with covenants. Details related to the few cases of noncompliance or partial compliance or major changes of covenants are discussed below.

31. When the MFF was designed in 2011, ADB understood that all subloans made under the MFF program would have a 6-month grace period, as reflected in the facility financing agreement (FFA). During the processing of tranche 2, ADB learned that all subloans made under the MFF program up to that period had instead had 12-month grace periods, and that the borrower anticipated maintaining the 12-month grace period in the future. Accordingly, the FFA was revised in September 2013 to change the grace period from 6 months to 12 months. In 2015, the borrower decided to lengthen the grace period for 2015 subloans from 12 months to 3 years. The FFA was again revised in July 2015 to reflect this change. The grace period was therefore 12 months for 2012–2014 subloans and 3 years for 2015 subloans.

32. The amendment to the FFA in September 2013 also included the reduction in the number of tranches, the combining of tranches 2 and 3, and specification of the interest by loan year rather than by tranche. The percentages of each subloan for 2012, 2013, and 2014 to be financed by ADB and the PCBs were inserted. In 2014, ADB determined that all 2013 subloans were ineligible to be financed from

<sup>15</sup> There were three gender action plans, one for each tranche project.

<sup>16</sup> For example, in tranche 1, the grace period under subloan provision 4 was amended from 6 months to 12 months, and the interest rate was changed from 7% per annum with a 15-year term to 7% per annum for the first 10 years and the market rate for the next 5 years with 15-year term. Under subloan provision 5 in tranche 1, 35% of each approved subloan was to be funded from QQB's funds and 65% of the amount from the proceeds of the loan relented by the borrower to QQB. This was amended to 70% and 30% for 2013. In tranche 2, each subloan approved by a PCB in 2014 was to comprise 80% of its amount from the PCB's funds and 20% from the proceeds of the loan relented by the borrower to the PCB. This was amended to 50% from PCB funds and 50% from proceeds of the loan.

<sup>17</sup> In all three tranches, the borrower did not comply with the covenant requiring the dissemination of information on sexually transmitted diseases, including HIV/AIDS, to the employees of civil works contractors and to members of the local communities, particularly women. In tranche 1, the borrower did not comply with the covenant requiring the preparation of a study on the introduction of new construction supervision agents. Also, in tranche 1, the borrower did not comply with the required counterpart financing for about 10,300 houses in 2012, but only provided counterpart financing for 8,510 houses in its national budget for 2012.

the tranche 2 loan. To fully utilize the tranche 2 proceeds, ADB and the borrower agreed to amend the FFA to increase the ADB financing percentage for 2014 subloans from 20% to 50%.

33. At the time of program approval, QQI was a wholly owned subsidiary of QQB. QQI was both the construction supervisor for the building of the houses and the owner of 12 brick manufacturers and 1 door, window, and roof factory supplying materials to the contractors building the houses for the state housing program. To remove this conflict of interest, the FFA required that QQI sell the 13 construction supplies companies by 1 January 2013, and that QQB establish QQI as an independent legal entity by 1 January 2014. QQB and QQI complied with these requirements after some delay. In May 2013, QQI became an independent legal entity, and the companies were transferred to Qishloq Qurilish Management Group (a new subsidiary of QQB) to expedite the finalizing of legal arrangements needed for their sale. Paragraph 2 of Schedule 5 of the tranche 2 loan agreement signed in October 2013 required QQB to sell the companies by 30 September 2014 to independent third parties. In December 2014, the tranche 2 loan agreement was amended to extend the deadline to 28 February 2015. QQB completed the sale of eight of the companies by this date, and the remaining five were sold in March and April 2015.

34. The government committed itself to carrying out annual TFPA and value-for-money assessments and it has generally delivered on this commitment. However, the timeliness of the reports has been a problem: the audits for 2012 and 2013 were conducted in 2015, and those for 2014 and 2015 were not completed until 2017 due to delays in selecting the audit firm. This deprived ADB of an important tool in the MFF program to assure accountability and continuous process improvement in beneficiary selection and procurement, as well as the delivery of quality construction and value for money.<sup>18</sup>

35. The borrower and the PCBs complied with the requirement to submit APFSs, although these were not always submitted on time.<sup>19</sup> QQB and the NBU did not provide separate auditors' opinions on their compliance with financial covenants. However, their respective corporate audited financial statements confirmed their full compliance with the financial covenants set out in the loan agreement.

36. The tranche 1 covenant for counterpart support stipulated that the borrower should allocate in its national budget for 2012 counterpart financing for approximately 10,300 houses under the RHS, and related infrastructure and social services. The borrower was not able to comply with this covenant as funds allocated in the national budget for 2012 were sufficient for only 8,510 houses. This covenant was amended in December 2013 to revise the target for the 2012 allocation to 8,510 houses and to stipulate an additional allocation of counterpart financing in the national budget for 2013 for approximately 1,790 houses. This additional allocation brings the total target to 10,300 houses, as originally stipulated in 2012.<sup>20</sup>

<sup>18</sup> The audits included evaluations of (i) procedures for beneficiary selection, (ii) house price setting, (iii) procedures for selection of contractors, (iv) construction quality, and (v) home buyer satisfaction. They also included recommendations by the auditors of possible alternative construction materials and by selected home buyers of improvements in house design and terms and conditions of loans to home buyers. (Source: ADB. 2016. *Completion Report: Housing for Integrated Rural Development Investment Program in Uzbekistan*. Manila; and technical and financial performance contract numbers HIRD/CQS/02 and HIRD/QCBS/03.)

<sup>19</sup> These statements included the following documents: project financial statements, the auditors' opinion on the financial statements, use of the loan proceeds, compliance with the financial covenants of the loan agreement, use of the procedures for the imprest fund, a statement of expenditures, and a management letter setting out any deficiencies in the internal control of the project identified during the audit. There were several reasons why the banks were late in submitting APFS acceptable to ADB: (i) ADB rejected the initial APFS submitted by the banks because they were not prepared on a calendar year basis, did not properly separate tranche 1 and tranche 2 funds, and did not identify ineligible expenditures; (ii) there were delays in reaching an agreement on the terms of reference for the APFS, in particular, ADB's request for an opinion on the banks' compliance with financial covenants; and (iii) there were protracted negotiations between ADB and the banks' auditors on the contents of a "hold harmless" letter demanded by the auditors.

<sup>20</sup> In tranche 2, the government was able to comply with the covenant by allocating counterpart financing for 10,000 houses and related infrastructure for 2013 and 11,000 houses and related infrastructure for 2014. In tranche 3, the government complied with its commitment to allocate counterpart financing for 12,000 houses and related infrastructure for 2015.

## CHAPTER 3

# Performance Assessment

### A. Relevance

37. **Supported strategies.** One of the economic policies for implementing the government's Welfare Improvement Strategy, 2008–2010 was to improve the mechanisms and instruments for improving housing conditions.<sup>21</sup> Anchored on the Welfare Improvement Strategy, the government launched the RHS in 2009 to build new housing throughout the country for the rural population. The goal was to improve incomes, job opportunities, and living standards in rural areas, and in turn to reduce inequality between rural and urban citizens. ADB's support to the RHS was an MFF for the Housing for Integrated Rural Development Program during 2011–2015, with complementary support to rural housing, integrated rural development planning and investment promotion, and an increase in microcredit lending in rural areas. The RHS was extended by 1 year to 2016 after its initial 5-year period ended. The MFF program is aligned with the country partnership strategy priority of assisting rural development to promote pro-poor growth, particularly accelerating environmentally sustainable rural development. In the ADB country operations business plan, 2010–2011, rural development was not included as a separate item but was folded into finance (small and medium enterprise lending) and water (irrigation), for which other loans are listed. However, the MFF program's objective of improving rural livelihoods through expanded access to modern rural housing and improved basic utility services was included in the country operations business plan, 2011–2013, which was approved a month before program approval.<sup>22</sup>

38. The sector assessment in the RRP noted that the Housing for Integrated Rural Development Strategy was designed to implement the government's Welfare Improvement Strategy, and it set objectives, targets, and a period for rural housing development. During the first ADB management review meeting for the MFF program, the question was raised as to whether the government should formally adopt the strategy, as this was an ADB requirement for an MFF. ADB told IED that this strategy was adopted in 2011 and set out in the MFF policy framework.<sup>23</sup>

39. **Readiness for housing finance.** This was ADB's largest housing program at that time. The loans were to support the RHS, which required an investment of more than \$3 billion for 2011–2015 in a country with a gross domestic product of \$46 billion in 2011. The size of the MFF program heightened its visibility. During program processing, several concerns were raised by ADB Board members, ADB departments, and peer reviewers. These included whether ADB was ready to provide a \$500 million MFF, including \$200 million up front, considering (i) the pilot project of the RHS for 2009–2011 supported mostly home buyers in the highest or second-highest income quartiles, raising equity issues;<sup>24</sup> (ii) the

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<sup>21</sup> The Welfare Improvement Strategy was Uzbekistan's first national medium-term development strategy. The strategy aimed at supporting inclusive economic growth by fostering a modernized and diversified economy, which was to be achieved through (i) industrial development and private sector mobilization, and (ii) reducing the rural–urban gap by expanding economic and social development opportunities in rural areas. It particularly emphasized providing the rural population with access to social infrastructure and public utilities and services (e.g., health centers, water supply, and sanitation), as well as access to housing. Government of Uzbekistan. 2007. *Welfare Improvement Strategy of Uzbekistan: Full Strategy Paper for 2008–2010*. Tashkent.

<sup>22</sup> ADB. 2011. *Country Operations Business Plan: Republic of Uzbekistan, 2011–2013*. Manila.

<sup>23</sup> ADB. 2011. Housing for Integrated Rural Development MFF Policy Framework 2011–2015. In *Framework Financing Agreement*, pp. 16–22.

<sup>24</sup> The government implemented the rural housing scheme as a pilot project during 2009–2011. During the first year of the RHS, without selection criteria, 99% of the 847 RHS home buyers were households from the highest income quartile. In 2010, about

mortgage lending experience of banks in Uzbekistan in rural areas was still very limited; (iii) the house construction industry in rural areas was not well developed; (iv) the construction and finance sectors in Uzbekistan were still controlled by state intervention, which was not conducive to significant private sector expansion; and (v) the government had initially approached the World Bank for a financial intermediation loan to support rural housing finance development, but the World Bank had not been willing to provide support. There was a more general concern about whether the investment program could contribute to inclusive and sustainable growth. The MFF was prepared without project preparatory TA that could have identified some of these risks, especially those requiring due diligence, although 13 ADB staff and numerous staff consultants participated in the development of the program over a period of about 14 months. The justification for the urgency in processing was not clear, given that the MFF program was not a response to an emergency. ADB could have examined other options when the program was proposed to the Board of Directors for its approval in 2011, such as TA to create an enabling environment, including a road map, for private sector participation in the mortgage market and the housing construction industry in rural areas.

40. **Complex institutional arrangements.** The implementation arrangements were highly complex for a new program that involved many public players, including state-owned enterprises (para. 16). ADB requirements on safeguards and procurement were combined with the normal country requirements. Some of the agents that played key roles in program implementation, such as QQI, were not discussed in the implementation arrangements sections of the main text of the RRP and of periodic financing request reports (PFRRs). QQI became independent in May 2013 and has retained its responsibilities and roles.

41. **Government-led institutional structure.** The mortgage finance sector and the housing industry were dominated by the government, and this was reflected in the ADB program. ADB explained to the evaluation team that the RHS was not a purely market-based program, and the MFF program was not designed to address all market failures and policy constraints in the banking system. In the MFF program, the program set a requirement of single-source selection by which subborrowers (home buyers) could buy their houses only from QQI. Two state-owned banks participated as financial intermediaries in the ADB program.<sup>25</sup> However, the government assigned distinct areas for both banks, and the two banks offered the same financial conditions to home buyers. The program set a “one contract per contractor” policy in general, but it required extensive capacity development of contractors because the number of construction contracts was greater than the number of contractors.<sup>26</sup> QQI procured key construction materials from its 13 subsidiary companies. (The companies were transferred to Qishloq Qurilish Management Group [a new subsidiary of QQB] and were sold in 2015.) It also provided subsidized materials to contractors at about 30% below the market rate, so QQI became the contractors’ only provider of the key materials.<sup>27</sup> This government-led institutional structure did not do enough to enable private sector mortgage financing for the housing industry in rural areas.

42. The RRP proposed that, from tranche 2, the RHS would allow home buyers to buy from other developers or construction supervisors besides QQI, but this did not happen. ADB provided funds to financial intermediaries for onlending to subborrowers (home buyers) for eligible subprojects (house purchases). In this case the subborrowers were limited to three house designs, although many homeowners made design changes after construction ended, such as closing in the open porch and

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74% of RHS beneficiaries were from the third (second-highest) income quartile. In 2011, about 85% of RHS beneficiaries were within the third (75%) and second (8%) income quartiles. There were about 2,000 complaints during 2009–2011 with respect to houses constructed during the pilot phase.

<sup>25</sup> The NBU and Ipoteka Bank were proposed to participate in tranche 2 on the same terms as QQB. ADB performed due diligence on all three banks and determined that only QQB and the NBU satisfied all program requirements.

<sup>26</sup> The procurement system assessment report for ADB’s Affordable Rural Housing Program, 2017–2021. (ADB. 2017. *Proposed Results-Based Loan and Technical Assistance Grant – Republic of Uzbekistan: Affordable Rural Housing Program*. Manila.)

<sup>27</sup> The memorandum of understanding (MOU) for 9–18 March 2015 noted that QQI sourced 12 materials and provided an option to the contractors to buy these from QQI. The price of these materials was subsidized, and the availability and quality of materials were consistent; therefore, all contractors reportedly chose to source from QQI.

making it into an indoor room. Although all houses in a single housing site were financed by a single bank, if home buyers preferred to deal with a different bank, they could choose a house in another nearby project site where houses were financed by that other bank.

43. During the approval process, a Board member expressed concern that there might be a conflict of interest involving QQB, QQI, and its subsidiaries. Under the MFF program, QQB, a state-owned bank and a financial intermediary, would delegate multiple responsibilities to a subsidiary, QQI. These included responsibilities for signing the contracts with bidders for construction, procurement of materials, construction supervision, membership in tender committees, site selections committees, and signing of home purchase contracts with the home buyers. Although QQI became independent from QQB in May 2013, it still acted as an agent of the local government and as a housing developer, while at the same time offering discounts on construction materials. During the management review meeting in March 2011, an ADB staff member pointed out that this institutional arrangement would raise concerns about potential collusion between QQI and construction contractors.

44. The Procurement, Portfolio and Financial Management Department (PPFD) considered that the proposed procurement arrangement, especially for tranche 1, represented a monopolistic situation. Thus, PPFD considered that the sole sourcing of QQI for multiple roles under this program required Board approval because the arrangement went beyond the circumstances listed under direct contracting, as per Clause 3.6 of ADB's Procurement Guidelines. This refers to a monopolistic situation where there is only one seller with many other functions in the market. QQI met this definition. The key program feature of "supporting accelerated market development and greater competition" was inhibited by this design issue.

45. **Materials and procurement.** According to a decree by the Cabinet of Ministers of the Republic of Uzbekistan, domestically manufactured construction materials were to be supplied centrally by 13 construction materials factories to ensure quality. As a result, there were very few contracts to procure materials considering the size of the housing construction (Table 1).

**Table 1: Numbers of Signed Contracts for Rural Housing Scheme**

Types of Contracts	2012	2013	2014	2015	2016
Housing construction	837	998	1,148	1,244	1,320
Domestically manufactured construction materials	...	22	25	32	35
Imported construction materials	8	40	44	23	14

... = not available.

Source: Qishloq Qurilish Invest.

46. The RRP stated that measures to address fiduciary and governance concerns would be strengthened to ensure transparency and accountability for land acquisition, the selection of contractors, and the procurement of construction materials. Table 2 shows that about 60% of the housing construction costs in 2014 and 2015 were for building materials. Surprisingly, however, procurement of materials was not included in the procurement plans and other ADB documents for tranches 1, 2, and 3. Unlike procurement of civil works, there was no independent tender commission and/or bid evaluation group to receive and evaluate proposals for the procurement of key construction materials by QQI. Identification of materials to be consolidated and procured centrally, direct invitations to prospective suppliers, evaluation of samples, and contract award decisions were all managed by QQI's head office.

**Table 2: Structure of Construction Cost of a 3-Bedroom Standard House under the Housing for Integrated Rural Development Program**

Item	2014		2015	
	SUM'000	%	SUM'000	%
Workers' salaries	26,223	17	27,406	16
Machinery	5,833	4	6,690	4
Building materials	86,572	55	102,593	58
Transportation costs	4,329	3	5,236	3
Equipment	2,927	2	3,351	2
Equipment transportation costs	59	0	67	0
Contractors' other expenses	23,694	15	26,733	15
Insurance	479	0	564	0
Risk coefficient	6,005	4	3,450	2
<b>Total</b>	<b>156,120</b>	<b>100</b>	<b>176,090</b>	<b>100</b>

Source: Grant Thornton, independent auditor, the final report of the technical financial performance audit on the effectiveness of usage of the funds allocated to the construction of rural housing in 2015.

47. Because no reports on procurement of materials are available, the procurement system assessment for the Affordable Rural Housing Program reported that, to take advantage of economies of scale and to ensure timely delivery, QQI consolidated and centrally procured, without public bidding, 20 key construction materials.<sup>28</sup> Of these, 18 were supplied by 27 local suppliers, and 2 (metal sheet rolls and edged lumber) were imported through a direct contract agreement with State Joint-Stock Foreign Trade Company Uzprommashimpeks, a subsidiary of the Ministry of Foreign Trade. The materials were then distributed at a set price to the winning contractors, with prices about 30% below the market price.<sup>29</sup> The procurement system assessment also stated that ADB should require these materials to be procured through public bidding, i.e., through international competitive bidding, and under tight oversight and control either by ADB or under existing national regulations.

48. The memorandum of understanding of the March 2015 mission found that 9 of 12 items were sourced from Uzbekistan while 3 were imported: steel from the People's Republic of China, wood from the Russian Federation, and chipboard from Belarus. QQI assured the mission that all construction materials for houses to be financed by ADB (about 3,000 houses under tranche 3) would be sourced from ADB members, since ADB explained to the government that ADB loan funds could only be used to finance goods and materials sourced and produced from ADB members.

49. **House construction and procurement.** The procurement manual for the MFF program set a cap of one contract for each contractor in general, irrespective of its capacity to handle more contracts.<sup>30</sup> The cap reflected the government's wish to extend the employment and income benefits from the MFF

<sup>28</sup> Footnote 28. Locally supplied materials were paid for in local currency, while imported goods were paid for in United States dollars.

<sup>29</sup> Subsidies for manufacturers and suppliers of materials have been provided in the form of exemptions in accordance with the Resolution of the President of the Republic of Uzbekistan ref. No. 2639 dated 21 October 2016: "To exempt until January 1, 2022 under the Program for construction of affordable housing according to standard designs in rural areas for 2021–2017: companies producing construction materials and equipment, as well as organizations concerned in transportation of these materials and equipment, from payment of the value added tax, single tax payment, and compulsory payments to state special funds—in part of the volumes of sale and transportation (including imports) of construction materials and equipment to the 'EC 'Qishloq Qurilish Invest' LLC and contractor organizations, who signed contracts with 'EC 'Qishloq Qurilish Invest' LLC for construction of housing on 'turn-key' basis. JSC 'Uzsanoatexport'—from payment of customs payments (except customs fees) for imported wooden materials and roofing metal sheets, which are not produced in the country. Value added tax—upon sale thereof to 'EC 'Qishloq Qurilish Invest' LLC."

<sup>30</sup> The procurement manual of the Housing for Integrated Rural Development Investment Program, which was developed by the government and ADB for use in the procurement of ADB-financed houses in 2012–2015, sets a cap of one contract per *massif* (rural housing complex) for each contractor, irrespective of its capacity. Only when the *massif* has more than five contract packages can a contractor be awarded more than one contract, provided that the number of houses in the contracts under consideration does not exceed 35% of the total number of houses in that *massif*. Each large contractor (capable of undertaking 30 or more contracts) is limited to 10 contract packages per region and 30 nationwide. Large firms engaged in joint ventures with small or medium-sized contractors may have a maximum of 40 contracts nationwide.

program widely, and to promote the development of the small and medium-sized companies in the construction industry. The construction sector overview for the MFF program in 2011 estimated that more than 20,000 contractors were available,<sup>31</sup> which was about 20 times the number of the expected contracts per year.<sup>32</sup> However, it overestimated the capacity of the rural housing contractors, who were not familiar with the bidding documents or the tender procedures, and the expected competitive market mechanism did not work. Based on the participation of bidders in 2015, only 1,321 contractors regularly submitted bids for house construction, and most of the regular bidders had a contracting capacity of only one contract per year.<sup>33</sup>

50. In this situation, finding qualified contractors and ensuring competition was a challenge for QQI. Further, the procurement system assessment for the Affordable Rural Housing Program, which aims to provide 29,000 mortgage loans, found that the number of contracts per year was greater than the number of contractors that regularly submitted bids. Since most of these contractors had only enough capacity for one contract per year, and there were no measures to attract wider participation, the system could offer opportunities for collusion or bid rigging.

51. The procurement plans for the three tranches estimated a total of about 2,150 contracts for housing construction for 4 years and proposed that more than 2,000 contracts be reviewed prior to contract signing. The procurement plans made unrealistic commitments, which did not help to ensure compliance with ADB standard practices or uphold the agreements in the RRP and in the loan agreements, despite warnings in all procurement review documents.

52. **Performance of procurement.** The RRP and PFRRs identified procurement as a key risk factor. The PFRR for tranche 2 noted that the MFF is highly complex, incorporating both financial intermediation and oversight (but not direct implementation) of numerous construction contracts across multiple sites nationwide. It also noted that standardized procurement under tranche 1 needed to be fully operational and effectively used in tranche 2. The back-to-office report of 30 April 2015 for tranche 2 noted that there were weaknesses in procurement, such as poor record keeping; inconsistent application of the MFF program procurement manual guidelines; and in some cases, failure of bidders to meet commercial and financial requirements.<sup>34</sup> The PFRR for tranche 3 proposed measures to mitigate (i) incorrect tendering of construction contracts, requiring rebidding, and delaying contracts; and (ii) contracts that did not include all required documents. The memorandum of understanding of the 2015 mission noted that the findings from the review of procurement for tranche 3 contracts indicated concerns about weak capacity and lack of understanding of the procurement process by both the regional tender commissions and the contractors participating in the procurement process.

53. During implementation of the MFF program, PPF fielded a procurement review mission. The procurement review for effective implementation (PREI) produced an overall rating of high risk, with only 9 of the 24 indicators rated satisfactory.<sup>35</sup> Despite some first-year training, procurement capacity in the

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<sup>31</sup> Supplemental Appendix D to the tranche 2 PFRR, para. 1, had the same view: "Uzbekistan's construction sector is well established and comprises engineering and design services, builders and contractors, and construction equipment and construction material factories. In 2012, over 20,000 construction companies were registered, of which more than 85% were privately owned."

<sup>32</sup> The construction sector overview in the RRP for the program noted that Uzbekistan's construction sector was well established and comprised engineering and design services, builders and contractors, and construction equipment and construction material factories. In 2009, over 20,000 construction companies were registered, of which more than 90% were privately owned. Construction firms have broad experience with major infrastructure projects and an extensive range of public and commercial buildings.

<sup>33</sup> The procurement system assessment for the Affordable Rural Housing Program noted that the State Committee for Architecture and Construction maintained a registry of 2,731 civil works contractors, and that QQI had identified 2,309 contractors in the registry that were considered capable of undertaking either housing construction or related infrastructure contracts.

<sup>34</sup> ADB (Central and West Asia Department). 2015. Housing for Integrated Rural Development Investment Program—Back-to-office report (UZB-3039). 15 April (internal).

<sup>35</sup> ADB. 2013. *Final Report of Procurement Review for Effective Implementation*. 25 November.

procuring entities had not yet reached a satisfactory level and further training was a top priority.<sup>36</sup> The PREI identified serious issues that could fuel perceptions of bid rigging.<sup>37</sup>

54. Sampling revealed many instances of noncompliance with the MFF program procurement guidelines during 2012 procurement and some instances during 2013 procurement.<sup>38</sup> The PPF report concluded that ADB would be unwise to adopt country procurement systems without a long list of exceptions, although program-specific procurement guidelines based to a large extent on those of ADB were used for the MFF program.<sup>39</sup>

55. The procurement system assessment in the RRP of the Affordable Rural Housing Program in 2017 also found that, of the 45 contracts under tranche 3 that were prior reviewed in 2015, almost all contract prices were lower than the estimated cost by a negligible 0.005%–0.100%. These findings indicate the likelihood of limited or nonexistent competition. The assessment recommended that, considering the large number of contracts and the limited number of potential bidders, measures were needed to protect the integrity of the process, ensure institutional capacity, and increase bidders' participation, particularly in-house construction contracts.

56. External consultants conducted post reviews of procurement for tranches 1, 2, and 3 in April–November 2015. Table 3 shows the procurement requirements for civil works and the number of post reviewed contracts. Three procurement reviews were conducted in 2015. Although a prior-review was required for tranche 1 contracts, only 24% of contracts were post reviewed. For tranche 2, only 10% of contracts were post reviewed, which ADB needed to review all contracts. As a result, ADB conducted prior- and post-reviews of procurement only for around 10% of the required contracts in the procurement plans. Considering PPF's findings, ADB needs to review all contracts properly in tranches 1 and 2. With far fewer contracts awarded than stipulated in the procurement plan for tranche 3, ADB considered only contracts to be financed by ADB and excluded those to be financed by QQB and the NBU. This may have

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<sup>36</sup> The 2013 procurement review for effective implementation made the following recommendations to mitigate these risks: (i) the immediate allocation of a resident procurement specialist to the ADB supervision team; (ii) the immediate recruitment of an international procurement specialist to the project implementation unit; (iii) user-friendly improvements to the standard bidding documents and amendment of templates for bid evaluation and approval; (iv) amendments to the program's procurement guidelines, including expanding an inadequately described complaints mechanism; (v) changing from two-envelope to one-envelope bidding; (vi) phasing the next and subsequent rounds of bidding over a longer time period to reduce peak workloads; and (vii) ADB to consider its position on retroactive financing before the release of tranche 3, and to decide whether to accept contracts without performance and advance payment guarantees.

<sup>37</sup> The following issues were identified: (i) all 44 sample transactions reviewed had the same three bidders; (ii) the total time taken for bid evaluation and award was very short, in some cases 72 hours or less, which stretched the limits of credibility given the number of no-objections and intermediate Tender Commission approvals needed; (iii) many bids were rejected at the technical evaluation stage (57% of the total of 132 bids in the sample); (iv) in three cases, the dates of bid evaluation reports preceded the dates of bid opening; (v) in one case, two bids passed the technical evaluation but the financial bid of only one bidder was opened; (vi) in one case, only one bid passed the technical evaluation, but two financial bids were evaluated; (vii) in one case, two bidders did not submit a price bid; (viii) there was no clear separation of duties between preparing and approving bid evaluation reports; (ix) in two cases, contract award amounts differed from the winning bid price; and (x) contracts were awarded and disbursements begun without performance and advance payment guarantees in place.

<sup>38</sup> Omissions or errors were found in the dates on some documents, including bid evaluation reports and minutes of Tender Commission meetings. Technical bid opening rarely took place immediately after the closing deadline. No minutes were kept of the opening of financial bids, and some bids were rejected at bid opening, probably due to an error in the reporting template provided by the ADB team. There were occasional failures in carrying out arithmetic checks on all bids that passed technical evaluation. A few errors were found in the comparison of winning bid prices with the estimates. Poor record keeping was found in two regions visited, and contract awards were not disclosed in the media.

<sup>39</sup> Based on the PREI findings, ADB undertook a training and capacity development exercise covering all regions of the country before the implementation of tranche 3. This included (i) a review of procurement documents (master bidding document, contract packaging, bid evaluation report templates, and the program's procurement manual); (ii) capacity building and training for the executing agency's and QQL's procurement personnel, regional and district tender committees, local staff of the two implementing agencies, and local contractors; (iii) participation in pre-bid (open house) meetings to meet contractors in all 13 regions in the country to answer their questions and provide technical guidance; and (iv) participation in bid openings, visiting proposed housing sites, and review of signed contracts. However, the effectiveness and impact of the capacity development was not monitored.

been done to avoid financing houses using materials imported from non-ADB member countries (para. 48). The post review reports identified similar critical issues as the 2013 PREI.<sup>40</sup>

**Table 3: Procurement Requirement and Reviewed Contracts**

Tranche	Requirement in Procurement Plan for Civil Works <sup>a</sup>		No. of Contracts Awarded	No. of Contracts Reviewed (Prior)	No. of Contracts Reviewed (Post)
	Coverage	No. of Contracts			
Tranche 1	100% prior-review	1,030	803	...	192
Tranche 2	100% post-review	1,996	1,191	...	120
Tranche 3	Sampling review <sup>b</sup>	2,146	158	(45) <sup>c</sup>	34

... = not available.

<sup>a</sup> All contracts for civil works were through national competitive bidding.

<sup>b</sup> Prior review will be undertaken for 30% of bidding packages and post review will be conducted for 20% of the remaining 70%.

<sup>c</sup> The procurement system assessment in the report and recommendation of the President of the Affordable Rural Housing Program indicated only the number of prior reviews, and no original documents of the prior reviews were available.

Source: Asian Development Bank. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Affordable Rural Housing Program*. Manila.

57. The facility financing agreement (FFA) of the MFF program required the government to carry out an annual technical and financial performance audit (TFPA) to ensure the quality of construction was in accordance with national building and construction standards, and to strengthen the quality of procurement processes. The TFPAs were delayed. It was only toward the end of tranches 1 and 2 that an independent auditor was hired to conduct the TFPAs. TFPAs for 2012 and 2013 were conducted in 2015, and those for 2014 and 2015 were completed in 2017. The Ministry of Economy engaged Grant Thornton as the independent auditor. The TFPAs found the chronic issues in the bidding process.<sup>41</sup>

58. The Tender Committee was tasked to carry out an initial assessment of bids to check on the completeness of the documents submitted and the appropriateness of the format. The chronology of the Tender Committee activities was not always followed and inconsistencies in the process of bid evaluations were observed.

59. **Theory of change and design and monitoring framework.** The logic presented in the RRP was that, because the targeted group included not only the low-income group but also the moderate-income group as beneficiaries of improved housing, this would help to retain qualified personnel in rural areas to provide the necessary social services, thereby improving living conditions and livelihood opportunities. It was noted during the MFF program preparation that there were no international cases demonstrating that housing investments were a viable driver for rural development, even in such countries as the People's Republic of China and Viet Nam, which are similar to Uzbekistan in terms of land ownership and agricultural and rural production. The proposed model was, therefore, unproven. The MFF program should have established indicators in the design and monitoring framework (DMF) to help ascertain whether the proposed theory of change with respect to rural development was correct (Appendix 1). Moreover, the MFF program intended to target more low-income groups as the tranches progressed.

<sup>40</sup> Four critical issues were identified. First, price bid openings were conducted earlier than the technical bid opening. Second, in several instances, the bid prices were identical to the engineer's estimates. This may have been because the same cost estimators (design institutes) were used by both the employer and the bidder. Another reason could have been an integrity violation by involved parties. Third, in several instances, the bid prices of two bidders were identical within the same lot. This may have been because the bidders colluded or because they engaged the same cost estimators (design institutes). Fourth, discounts offered and read out at the price bid opening were ignored at the contract award stage.

<sup>41</sup> The chronic issues were as follows. First, requests for proposals were to be published in two national and two regional newspapers and posted on special or dedicated websites. However, the websites stated in regulatory documents were not functioning at the time the TFPAs were conducted. If these technical problems were encountered during the tender process, it may have limited the number of bidding participants, which would have reduced the transparency of the tendering process. Second, bid proposals were evaluated using the one-step, two-envelope procedure. In all the tender documents examined by the audit, only one organization was qualified to pass on to the second stage (evaluation of financial proposal) of the process. In all cases, the contract was signed with this organization only. Improvements in the bid evaluation methodology are needed.

60. Instead, the DMF contained only one outcome indicator: “At least 95% of 40,800 new rural modern homes under the RHS with access to basic utilities owned and occupied by targeted beneficiaries (moderate- to low-income households, young families, single-headed households, rural teachers, and health workers, of which 30% are women).” The definition of the targeted beneficiaries was set, covering income, age of family, family structure, and job category. However, apart from the percentage of female beneficiaries, numerical targets were not set for these categories. The other issue for evaluation was that the targeted beneficiaries were moderate- and low-income households, but the data on beneficiaries were by income quartile. As a result, it was not possible to evaluate precisely what share of the targeted beneficiaries were from moderate- and low-income households (para. 69). Furthermore, all except two impact indicators at the country level were macro indicators.<sup>42</sup> To validate the theory of change, the indicators should have monitored the rural population and its structure, and living standards in the project areas, and compared them with the country average or with standards in nonproject areas.

61. **Application of financial intermediary loans.** Financing real sector investments through market-based allocation mechanisms is one of the objectives of financial intermediary loans.<sup>43</sup> However, in this case home buyers had no choice in selecting a house seller because the RRP required single-source selection from QQI. During tranche 1, QQI was still a subsidiary of QQB. QQB lent funds to subborrowers (home buyers) and the MFF program required them to buy their houses from QQI under single-source selection. ADB informed the evaluation team that QQI was a special purpose agency and responded to the challenge of a government program, and that it is unlikely that any private sector entity could have performed its role of supervising contractors at a lower cost than QQI and could have delivered results throughout the country, including in areas hundreds of kilometers from district capital cities. The RRP proposed that the RHS program be open for home buyers to buy from other developers or construction supervisors, but this never happened. The MFF program paved the way for a centralized system, since QQI procured all materials and provided the subsidized materials to contractors (paras. 45–48).

62. The ADB *Operations Manual* establishes how interest rates are to be set.<sup>44</sup> Onlending rates should have local cost anchors to avoid discouraging domestic resource mobilization. The rule accepts exceptional cases, e.g., support for the establishment of microfinance institutions, for a certain period. In such cases, onlending rates that are below market rates may be accepted. However, the RHS provided much lower interest rates to home buyers than the market rate without a clear justification.<sup>45</sup>

63. The RHS is a program implemented by the government through a series of resolutions. The mortgage market house construction industry is not very well developed to serve rural areas, and ADB

<sup>42</sup> The two exceptions are (i) at least 177 new or rehabilitated schools near RHS housing sites from 2011 to 2015, and (ii) at least 140 new or rehabilitated rural health clinics near RHS housing sites from 2011 to 2015. However, data to assess the two indicators were not available in the DMFs of the completed and draft PCRs.

<sup>43</sup> ADB. 2003. Financial Intermediation Loans. *Operations Manual*. D6/BP. Manila. para. 2.

<sup>44</sup> ADB. 2003. Financial Intermediation Loans. *Operations Manual*. D6/BP. Manila. Para.17: “Relending rates from the borrower of the ADB FIL [financial intermediation loan] to the financial intermediary should have local cost anchors, which best reflect the costs of raising such funds locally and avoid discouraging domestic resource mobilization. If ADB lends directly to financial intermediaries under its public-sector window, the loan terms should ensure that guarantee fees paid by financial intermediaries to the DMC reflect this principle by making the costs of the FIL consistent with market conditions. In exceptional and well-justified cases, for example when ADB seeks to support the establishment of MFIs [microfinance institutions] by helping build their capital base and institutional capacity at initial stages of their development, ADB, for a certain period, may accept relending rates that are below market, but not below ADB’s ordinary capital resources lending rates in the case of foreign currency-denominated loan or the equivalent rate in the case of a local currency loan, which should reflect an adequate foreign exchange risk premium. However, in such cases, relending rates should not be so concessional as to unduly subsidize the financial intermediary and provide a disincentive for financial and managerial efficiency.”

<sup>45</sup> The interest rates set in the RHS varied by year. In 2012, the borrower charged interest at a rate of 7% per annum with a term of 15 years. In 2013, the borrowers charged interest at a rate of 7% per annum for the first 10 years and equal to the market rate (the Central Bank of Uzbekistan refinancing rate) for the remaining 5 years. In 2014–2015, the borrowers charged interest at the rate of 7% per annum for the first 5 years and equal to 90% of the market rate (the Central Bank of Uzbekistan refinancing rate) for the remaining 10 years.

support did not promote an enabling environment for rural, market-based house supply and mortgage financing. Subborrowers had no choice in selecting a house seller and the low interest rates distorted the mortgage financing market. The MFF program failed to recognize the institutional weaknesses, weak housing market conditions, and associated risks, raising questions about the readiness of the program. Given the design weaknesses, institutional weaknesses regarding subsidy provision, poor procurement design and implementation, and lack of due diligence, the evaluation rates the MFF program less than relevant.

## B. Effectiveness

64. The MFF program consisted of three components: (i) provision of finance for new rural houses, (ii) capacity building of local governments, and (iii) reforms to improve the enabling environment for MSEs in rural areas (exclusively funded by the government, para. 8). The major activity of the MFF program was providing mortgage loans, and this component accounted for more than 99% of the MFF program in financial terms.<sup>46</sup> Appendix 1 shows the outcome and output targets and achievements by component. The output targets for components 1 and 2 were not achieved, while the output target for component 3 was achieved. The DMF set an outcome only for the first component, financing rural houses for targeted beneficiaries. However, the outcome indicator and the output indicator for rural houses were very similar, especially in their numerical targets. In addition, the details of the outcome indicators could not be evaluated since numerical targets for targeted beneficiaries, i.e., moderate- to low-income households, young families, households headed by a single person, rural teachers, and health workers, were not set (para. 60). This evaluation report not only assesses the achievement of outputs, but also examines the logic of the outcome presented in the RRP that support for the moderate-income group would help improve living conditions and increase livelihood opportunities.

65. The first component of the MFF program aimed to provide at least 39,000 housing loans with a value of at least SUM2.4 trillion to targeted beneficiaries, of whom 30% would be women. The MFF program provided 22,834 loans, and 22.4% of beneficiaries were women.<sup>47</sup> The two photos below show a model of a house and the houses constructed by the MFF program. All the houses financed under the MFF program were newly constructed and had access to basic utilities. Housing loans under the MFF program totaled SUM2.4 trillion. ADB informed IED that the MFF program had provided SUM3.8 trillion in total. It was not clear why the total cost increased, compared with the original estimate.

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<sup>46</sup> Components 2 and 3 represented less than 1% of the program cost. Component 2 was designed to improve the capacity of local governments to implement integrated rural development and investment promotion strategies. The component contributed to the government's goal of creating integrated communities with community facilities and businesses. Component 3 focused on the enabling environment for MSEs with a view to encouraging them to expand or establish new businesses and create jobs in rural areas. The component reflected the significance of Uzbekistan's small businesses for economic growth. However, the government's expressed interest in promoting small businesses was inconsistent with its degree of ownership in the associated TA.

<sup>47</sup> A total of 41,510 modern rural homes with access to utilities, roads, and related social and commercial services owned by targeted beneficiaries were constructed under the RHS in 2012, 2013, 2014, and 2015, and 22.4% of beneficiaries were women. ADB. 2017. *Draft Project Completion Report for the Housing for Integrated Rural Development Investment Program (Tranche 3) in Uzbekistan*. Manila.



66. ADB differentiated the output (houses) by sources of finance (Table 4).<sup>48</sup> The reason for this was not clearly explained by ADB. It may have been to demonstrate that ADB had counted the houses for which it had ensured that ADB standards and the covenants for the MFF program were adhered to. For example, materials imported from ADB members were used for houses to be financed by ADB under tranche 3 (para. 48). The draft PCR for tranche 3 says: “During preparation of the project completion report, the program implementation team determined that 396 of the 2,929 subborrowers selected for the Rural Housing Scheme by the Borrower and PCBs in 2016 did not meet the moderate-income or low-income threshold defined for 2015 (SUM2.1 million) because their formal incomes were between SUM2.1 million and SUM2.5 million. ADB asked the PCBs to replace these 396 subborrowers with subborrowers whose incomes were below the SUM 2.1 million threshold. The PCBs complied with this request and the substitution process is ongoing as of the writing of this report.” This indicates ADB selected houses after completion that satisfied the covenants and did not monitor whether the remaining houses complied with the loan covenants. Table 3 (para. 56) shows the number of procurements by tranche. Under tranche 3, the number of contracts was reduced from 2,146 to 158. Because of the cap of one contract for each contractor (para. 49), it was not possible to develop as many houses as planned. Therefore, in assessing the MFF program achievements, this report counts only the number of houses financed by ADB to avoid including houses that might not follow the covenants. Otherwise, the evaluation would have had to deduct marks for noncompliance with the loan covenants.

**Table 4: Number of Housing Loans by the Housing for Integrated Rural Development Investment Program and Other Partners, 2012–2015**

Year	The Number of Loans Reported by ADB as Output of MFF <sup>a</sup>			Others <sup>b</sup>		
	ADB Financed	QQB and NBU Only	Total	Ipoteka Bank	Islamic Development Bank	Total
2012	8,363	147	8,510 <sup>c</sup>	0	0	8,510
2013	1,916	7,464	9,380 <sup>d</sup>	620	0	10,000
2014	9,626	374	10,000 <sup>d</sup>	1,000	0	11,000
2015	2,929	4,922	7,851 <sup>e</sup>	3,049	1,100	12,000
<b>Total</b>	<b>22,834</b>	<b>12,907</b>	<b>35,741</b>	<b>4,669</b>	<b>1,100</b>	<b>41,510</b>

ADB = Asian Development Bank, MFF = multitranchise financing facility, NBU = National Bank of Uzbekistan, QQB = Qishloq Qurilish Bank.

Note: The ADB Uzbekistan Resident Mission informed the Independent Evaluation Department that the number of houses was the same as the number of loans.

<sup>a</sup> Houses reported by ADB as the MFF program financed by each institution.

<sup>b</sup> Houses developed by the others were counted separately from the ADB program because the funders might use different standards and due diligence from those used by ADB.

<sup>c</sup> Houses financed under tranche 1.

<sup>d</sup> Houses financed under tranche 2.

<sup>e</sup> Houses financed under tranche 3.

Source: Uzbekistan Resident Mission.

<sup>48</sup> Table 3 includes the other financing sources for the RHS. These may not necessarily follow ADB standards.

67. The selection of applicants based on social criteria and promotion of the availability of the loans through a public information campaign helped some lower-income households access mortgage loans for new rural modern homes with access to utilities, roads, and related social and commercial services. However, many people living in rural areas could not afford to buy the houses, even though the government provided subsidies for buyers, PCBs, materials suppliers, and contractors. The down payment of 25% of the house price made the houses unaffordable for many people living in rural areas, even though the MFF program offered a long-term mortgage loan of 15 years.

68. The issue of the affordability of houses was raised during program preparation. The peer reviewer of the draft RRP was concerned about the ability of target groups to meet the 25% down payment costs: “With pricing of houses between \$30,000 and \$60,000 and gross domestic product per capita at \$1,336, house purchases would be very significant multiples of income and would probably be unaffordable.” ADB’s Economic Research and Regional Cooperation Department also expressed concerns about the weakness of the affordability analysis, which should have ensured affordability of the housing provided by the MFF program to the target beneficiaries. If ADB had carried out project preparatory TA for the MFF program and reviewed the pilot implementation of the RHS by the government for 2009–2011, these lapses could have been avoided.

69. **Income of beneficiaries.** The targeted beneficiaries were moderate- and low-income households. The loan covenant required to define eligible home buyers within the moderate- and low-income threshold annually and ensure QQI and NBU would meet the requirement. Table 5 shows the income threshold, which increased by 68% from SUM1.25 million in 2012 to SUM2.10 million in 2015. The share of home buyers belonging to the highest income quantiles (i.e., the third and fourth quantiles) increased, from the first tranche to the third tranche of the ADB MFF program. Table 6 shows collected data on beneficiaries classified by income quartile in the PCRs. It was not possible to understand from the data the precise share or total number of eligible home buyers each year. The moderate- and low-income threshold appears to fall somewhere in the third or fourth quartiles. Even though it was assumed that the final tranches of the MFF program would have learned lessons from the preceding tranches and would be able to promote inclusive economic growth, the share of home buyers in the highest quartile increased from zero or single digits in tranches 1 and 2 to 33.9% in tranche 3.<sup>49</sup>

**Table 5: Moderate- and Low-Income Threshold (SUM million)**

Year	Monthly Income
2012	1.25
2013	1.50
2014	1.75
2015	2.10

Source: Project completion reports of the first and second tranches and the draft completion report of the third tranche.

<sup>49</sup> The RRP says: “Based on a study undertaken during tranche 2, the government will pilot viable options for sustainable public support for low-income rural housing during tranche 3 and 4, and develop a strategy to expand outreach to low-income rural households for the next phase of the RHS.” Footnote 1. para. 14.

**Table 6: Beneficiaries by Income Category (%)**

Tranche	Year	Income Quartile			
		First (lowest)	Second	Third	Fourth (highest)
Tranche 1	2012	5.0	24.0	70.0	1.0
Tranche 2 <sup>a</sup>	2013	16.0	29.0	51.0	4.0
	2014	6.0	18.0	76.0	0
Tranche 3	2015	4.0	16.5	46.5	33.9
<b>Total</b>		<b>7.6</b>	<b>21.4</b>	<b>60.0</b>	<b>10.9</b>

<sup>a</sup> The project completion report presents data by year. Aggregated data for tranche 2 were not available.

Source: Project completion reports of the first and second tranches and the draft completion report of the third tranche.

70. **Subsidies.** Under the RHS, the government provided subsidies not only for buyers but also for PCBs, materials suppliers, and contractors. Buyers received cheaper houses built with materials at 30% below market rates, a lower interest rate than the market rate, free land lease rights, no property tax, and protection from foreign exchange risk of ADB loans; while PCBs, materials suppliers, and contractors received exemption from value-added tax and profit tax. Many governments accept that housing subsidies can promote the public interest. The examples of the People’s Republic of China, the Republic of Korea, and Singapore show that public funding, compulsory savings, and other regulatory measures can usefully complement private financing and markets to help ensure affordable housing is widely available.<sup>50</sup> However, during the preparation of the MFF program, the peer reviewer expressed the view that a more thorough analysis should have been carried out and consideration given as to whether this was the most effective type of subsidy intervention by the government. The reviewer noted that (i) housing subsidy programs had encountered problems in many countries and needed to be carefully structured; and (ii) a World Bank publication on housing finance had noted that previous subsidies linked to mortgage finance were not accessible for low-income households.<sup>51</sup>

71. The lower interest rate became a significant benefit, particularly in targeting more beneficiaries from the low-income group. However, there seems to have been a disconnect between the objective and the MFF program’s strategy to move toward a more market-based interest rate, without any clear strategy on how to make the houses affordable for the low-income group. The PCR of tranche 1 recognized this shortcoming and recommended that the MFF program should consider providing new types of housing, such as apartment buildings and houses with smaller or fewer rooms (footnote 13). However, since the PCR was published in 2016, it was too late for the succeeding tranches to follow up on this recommendation. Without a clear strategy, the MFF program was unable to move to a more market-based interest rate, which hampered the development of the mortgage finance sector supporting rural areas. The subsidies may have created long-term housing market distortions and reduced the opportunities for other private entities to enter mortgage financing in rural areas. In addition, to the extent that the subsidies benefited the upper and middle classes, the impact of the MFF program on poverty reduction may have been reduced.

72. Because buyers received substantial subsidies from the RHS, which ADB supported, it was important that the selection process was rigorous and transparent, and that it was monitored. The beneficiary criteria and selection<sup>52</sup> and the site selection (Box 1) followed the procedure set out in the

<sup>50</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Republic of Uzbekistan for the Housing for Integrated Rural Development Investment Program*. Manila. Linked Document no. 21: Global Comparison of Housing Subsidies.

<sup>51</sup> World Bank. 2007. *Housing Finance Development in Uzbekistan*. Washington, DC.

<sup>52</sup> The framework financing agreement defined the subborrower selection criteria as follows: a subborrower should (i) be a citizen and a resident of a rural area; (ii) agree to use the funds solely to finance the acquisition of a new primary residence; (iii) meet the RHS income threshold (to be defined annually as a multiple of the minimum wage) so that all RHS beneficiaries are moderate-to low-income households; and (iv) be evaluated and prioritized in accordance with a predefined scoring system prioritizing (a) young families or first-time homeowners, (b) single heads of households, (c) teachers or health care workers, and (d) other skilled

MFF program. During the ADB Board of Directors' meeting that approved the MFF program, ADB Management gave a commitment that beneficiary selection would be led by local governments, with the involvement of citizen-based community groups and regional women's committees. However, these groups and committees were not involved in the selection process. To promote inclusive economic growth, ADB prioritized applicants and provided socially prioritized lists of applicants to QQB and the NBU, but it did not carry out post-evaluation to review the consistency of the final selections with the lists it had prepared.

#### Box 1: Site Selection Process and Criteria

Site selection was primarily the responsibility of the local government that led the site selection commissions. Qishloq Qurilish Invest, in its role as technical supervision engineer, was also involved in the process. Rural areas with the potential to be project sites covered the entire country outside the capital Tashkent and the 13 provincial capitals. There were no written criteria for site selection except (i) the site of the house plot must be on land that was classified as reserved land by the local government or administered by state agencies, and (ii) the program would not cause involuntary resettlement or adverse environmental impact.

Source: Asian Development Bank, Uzbekistan Resident Mission.

73. **Assessment of program logic.** The RRP identified the selection of RHS home buyers as a risk to the inclusionary aims of the MFF program and it proposed social impact monitoring and a study on low-income rural housing. These would have enabled the government to pilot viable options for low-income rural housing during the second half of the MFF program and to develop a strategy to expand outreach to low-income rural households for the next phase of the RHS. However, this did not happen. A database of applicants and home buyers (detailing location, income, professional, education, and demographic information) was not developed by the executing agency, the implementing agency, or ADB.

74. An independent government organization, the Institute of Social Research under the Cabinet of Ministers, carried out a socioeconomic survey of 1,008 beneficiary households in 3 of the 13 regions in 2016, and delivered the *Final Report: Socio-Economic Survey of HIRD* [Housing for Integrated Rural Development] *Beneficiary Households*.<sup>53</sup> The major factors affecting the purchase of houses were access to utilities and proximity to a regional center and a work place. The most important financial conditions for home buyers were the repayment period (70% of respondents), the grace period (41%), the down payment (34%), and the interest rate (30%). The respondents also identified areas for further improvement, including reducing the down payment (53%), increasing the repayment period (45% of respondents), reducing the interest rate (32%), and increasing grace period (25%).

75. About 65% of surveyed households were satisfied with the quality of house construction, and 24% of them had upgraded their new houses, for example, by adding outbuildings. The survey found that 86% of surveyed households said that women's living conditions had improved and 9% said there had been no change. Table 7 shows the level of satisfaction with public services and compares the responses from surveyed households with those from traditional villages. As expected, levels of satisfaction with utility supply were higher among the surveyed population. However, all other public service indicators except for banking and transport had lower ratings than for people in traditional villages. The theory of change of the MFF program—that retaining qualified personnel for social service provision in rural areas improves living conditions and livelihood opportunities—was not verified by the

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professionals or entrepreneurs. The beneficiary selection followed the procedure set in the program. QQI played a key role to support the financial intermediaries (QQB and NBU). The sequence was as follows: (i) advertisement by QQI (box); (ii) pre-purchase agreement with QQI; (iii) loan application; (iv) social prioritization by independent information technology firm financed by ADB; (v) creditworthiness assessment by QQB or NBU; (vi) purchase agreement with QQI, and mortgage agreement with QQB or NBU (Appendix 2).

<sup>53</sup> The Institute of Social Research under the Cabinet of Ministers. 2016. *Socio-Economic Survey of HIRD* [Housing for Integrated Rural Development] *Beneficiary Households*. Tashkent.

socioeconomic survey. Thus, the program did not refute the concern raised by the peer reviewer on effectiveness of housing investments for rural development (para. 59).

**Table 7: Satisfaction with Public Services (%)**

Item	Program Areas	Traditional Villages
<b>Utility</b>		
Sewerage system	44	17
Gas and water supply	63	45
Power supply	79	68
Hot water	68	27
Drinking water	68	48
Internet access	17	9
<b>Public Services and Economy</b>		
Banks, other financial institutions	66	50
Kindergarten	22	23
Medical services	58	81
Pharmacy	51	71
Consumer services	68	85
Market and shops	73	85
Transport infrastructure	67	58
Safety	71	79
Personal subsidiary economy	57	70

Source: The Institute of Social Research under the Cabinet of Ministers, 2016, *Socio-Economic Survey of HIRD* [Housing for Integrated Rural Development] *Beneficiary Households*, Tashkent. Figures 2.3.1–2.3.11.

76. At the end of the survey report, lessons and recommendations were discussed. These revealed that the financial conditions of the housing program were onerous for low- and moderate-income rural families. The Institute of Social Research recommended that, for beneficiary selection, a quota system be put in place to ensure participation by socially vulnerable groups (e.g., members of low-income groups, large families, orphans and invalids, and pensioners). This valid suggestion needs to be conveyed to the ongoing program.

77. The evaluation team could not verify whether, as envisioned in the RRP, building houses for the targeted group of moderate- and low-income households would help retain qualified personnel in rural areas so they could provide social services. The argument in the RRP was that the availability of such services would be an incentive for people to stay in rural areas, and in turn help to revitalize the rural economy and slow the rate of rural–urban migration.

78. **Safeguards.** The financial intermediaries developed environmental and social management systems (ESMSs) that were consistent with ADB’s Safeguard Policy Statement.<sup>54</sup> These were applied to the selection of construction sites as well as to the monitoring of compliance with the ESMSs during construction. Under the loan agreement, subprojects were ineligible for financing if they would have more than the minimal adverse effect on the environment (i.e., if they were classified as category A or B under ADB’s Safeguard Policy Statement), involved any involuntary resettlement, had not been cleared by Uzbekistan’s State Committee for Nature Protection, or were on land that had not been classified by

<sup>54</sup> The MFF program was classified as category FI (treated as C) for all safeguards (environment, involuntary resettlement, and indigenous peoples). Therefore, under ADB’s Safeguard Policy Statement, no ESMS was required to be created nor were any annual ESMS reports required to be prepared by the participating commercial banks. Nevertheless, in an abundance of caution, a robust environment screening system was put in place in the executing agency under the program implementation unit and each of the participating commercial banks installed an ESMS and submitted annual ESMS reports to ADB and the executing agency.

the local government as reserved land for nonagricultural purposes for at least 2 years, based on the PCRs.

79. The PCR for tranche 1 reported that ADB consultants conducted a desk review of land selection and social and environmental safeguards documentation specific to each proposed housing site in 2012 and 2013. The desk review for 2012 found that 384 of the 656 sites proposed by local governments did not meet requirements. The same was true for 64 of 410 sites proposed in 2013. The PCR for tranche 2 reported that sites for 240 houses for 2013 did not meet all the requirements.<sup>55</sup> However, all the sites in 2014 met the requirements. ADB informed IED that the sites were rejected because they (i) were located on agricultural land, (ii) had environmental and sanitary-epidemiology issues, (iii) raised involuntary resettlement issues, and (iv) had not been classified as government reserve land for at least 2 years. The annual safeguards monitoring reports were submitted by QQB and the NBU. ADB explained that, "Sites rejected as a result of the work done by the consultants hired by ADB or the project management unit did not pass to the next stage where only approved sites were reviewed by QQB and NBU. Therefore, it is not surprising that the safeguards reports prepared by QQB and NBU did not identify any safeguards issues." In such a case, the prescreening process is a very important step to ensure due diligence. Although it was assumed that the institutional capacity for safeguards would increase through implementation of the MFF program, an ADB assessment carried out in connection with the preparation of the Affordable Rural Housing Program in 2017 revealed some deficiencies in the application of environmental safeguards.<sup>56</sup>

80. The MFF program did not achieve two major targets: the number of housing loans and the share of women beneficiaries. The number of loans was 22,834 (against a target of 39,000) and the percentage of women beneficiaries was 23.7% (against a target of 30%). Data and analysis to show how home buyers were selected from the applicants were not available for IED review. The number of staff trained was below the target and it was not made clear how the training translated into better planning and implementation of integrated rural development plans and investment promotion strategies (Appendix 1). The effectiveness of the MFF program's contribution to inclusive economic growth is unclear. The logic of rural development could not be verified by the socioeconomic survey. Overall, two of the three outputs were not achieved, resulting to the failure of achieving the MFF program outcome. The evaluation rates the MFF program less than effective.

## C. Efficiency

81. The operations department determined that calculating an economic internal rate of return would prove difficult from a methodological and data point of view, following advice from the Economic Research and Regional Cooperation Department. The PCRs highlighted the many benefits of the RHS, including (i) new houses with reliable access to electricity and water had helped improve rural living standards and had contributed to greater health, productivity, and quality of rural life; and (ii) the new housing offered the advantage of an urban community lifestyle, thereby encouraging skilled professionals and potential entrepreneurs to remain in rural areas. The note on economic analysis of the MFF program mentioned that quantifying the economic benefits had not been easy. This evaluation was not able to independently generate the economic returns due to lack of required data. However, the program contributed to increased access to quality homes with basic utilities in the rural areas, which have certain economic value.

<sup>55</sup> In 2013, six sites were excluded because of involuntary resettlement issues and three were dropped because they had not been classified as reserved land for nonagricultural purposes for at least 2 years.

<sup>56</sup> The observed deficiencies included (i) the absence of a map showing the location of the housing complex and associated land use features relevant to environmental examination within the area of impact, (ii) the nonspecificity of potential environmental impacts, (iii) the absence of stakeholder consultation and disclosure, and (iv) the absence of an environmental management and monitoring plan. ADB. 2017. *Proposed Results-Based Loan and Technical Assistance Grant – Republic of Uzbekistan: Affordable Rural Housing Program*. Program Safeguard Systems Assessment. Manila.

82. **Timeliness of implementation.** Delays and cost overruns were minimal. For tranche 1, despite a 6-month delay in loan effectiveness, 99.9% of the loan was disbursed before the original closing date of 31 December 2013. The closing date for tranche 2 was extended from 31 March 2016 to 31 December 2016, but 99.3% of the loan was disbursed by the end of 2014. The third tranche was disbursed by 1 December 2015 and closed 5 months before the original closing date of 30 June 2017. Funds from ADB, counterparts, and subborrowers were available in a timely fashion and efficiently utilized.

83. The program design is a root cause of identified issues on procurement, and these were considered in the rating of relevance (paras. 52–58). The funds were disbursed on schedule and were efficiently utilized. The evaluation rates the implementation efficiency of the MFF program efficient.

## D. Sustainability

84. **Performance of financial intermediaries.** The PCRs of tranches 1, 2, and 3 rated the program likely sustainable because the government had strongly supported its rural housing program since 2009 and had extended it until 2021.<sup>57</sup> The financial performance of QQB and the NBU had improved. The sustainability of the housing scheme also depends on the ability of the homeowners to service the debt. In 2015, delinquent payments of principal and interest accounted for 0.09% of QQB's total loan portfolio, while the ratio for the NBU was 0.11%.<sup>58</sup> The delinquency rate of the PCBs with respect to borrowers under the housing program has generally declined. For QQB, it declined to less than 6% in 2015 from about 15% in 2011, and it is less than 1% for the NBU, although the rates might be changed after devaluation of the currency in September 2017. The two banks have improved their collection procedures and creditworthiness assessment methodology over time.

85. **Long-term sustainability of the program framework.** During program preparation, IED expressed a concern that the government would relend to the PCBs at a rate of 3% to allow the PCBs to onlend to subborrowers at a rate of 7% for the first 10 years (tranches 1 and 2) or the first 5 years (tranche 3) and make a profit to cover any losses and costs. As the current market deposit rates are higher than the mandated mortgage lending rate of 7% under the scheme, borrowing at market rates by PCBs for onlending would not be feasible. The subsidies and government-led institutional arrangements are still in the early stages of helping Uzbekistan to create a self-reliant and market-based mortgage finance sector serving rural areas. However, the MFF program's catalytic impact on the long-term development of the housing mortgage market and housing industry in Uzbekistan may be limited, and private sector participation has been crowded out. The MFF program did not address the inadequacy of the rural housing mortgage market and rural housing industry (paras. 40–51, 52–58, and 70–72). The key issues that need to be addressed are the market failures and policy constraints to building a more competitive banking system to support housing finance in rural areas.

86. **Housing prices and affordability.** The technical and financial performance audits (TFPAs) also reviewed the price setting of rural houses based on cost of materials and construction.<sup>59</sup> Table 8 shows that the cost of constructing a 3-bedroom house was about SUM104 million in 2012, and it rose to about SUM176 million in 2015, a 69% increase in 3 years. The 2015 TFPA report explained that a substantial increase in the cost of expenditures in the budget took place in all fronts—operation of machineries, building materials, transportation costs, equipment, wages, and other contractor costs. On the other hand, a decrease in the cost of other materials were observed, including storage area, lighting, and low-

<sup>57</sup> Presidential Resolution No. 2639 (21 October 2016): *On the Program for Construction of Affordable Housing with Revised Standard Designs in Rural Areas for 2017–2021*.

<sup>58</sup> Ministry of Economy of the Republic of Uzbekistan. 2017. *The Final Report on the Results of: Technical Financial Performance Audit on the Effectiveness of Usage of the Funds Allocated to the Construction of Rural Housing in 2015*. Grant Thornton LLC. Tashkent.

<sup>59</sup> Costs associated with house construction comprise workers' salaries, machinery, building materials, transportation costs, equipment, equipment transportation costs, other contractor costs, insurance, and risk coefficient.

voltage device.<sup>60</sup> The price increase made it more difficult for rural residents to buy houses. The houses became less affordable to the poor.

**Table 8: Cost of House Construction**  
(SUM'000)

House Type	2012 and 2013 TFPAR		2014 TFPAR		2015 TFPAR	
	2012	2013	2013	2014	2014	2015
3-room	104,397	133,169	133,948	154,657	156,120	176,090
4-room	...	...	140,240	160,564	163,711	186,237
5-room	...	...	159,510	180,549	187,601	208,378

... = not available, TFPAR = technical and financial performance audit report.

Source: Annual technical and financial performance audit report in 2012, 2013, 2014, and 2015.

87. **Financial capacity of the government.** Since 2005, the government has provided housing subsidies through at least six programs, including the RHS, with tax exemptions and lower interest rates. However, Uzbekistan does not have a comprehensive unified housing policy framework, and the housing programs were isolated and uncoordinated and some overlapped. The government was not able to calculate the total amount of subsidy provided through the programs. The continuation of subsidies under the current scheme is uncertain. The government needs a more comprehensive approach with a clear estimate of the financial constraints on government finances.

88. The PCRs assessed construction quality of the houses as satisfactory, although TFPA found a few issues (Box 2). The institutional capacity of the financial intermediaries improved. However, the subsidies and government-led institutional arrangements are still in the early stages of helping Uzbekistan to create a self-reliant and market-based mortgage finance sector serving rural areas. The current approach does not focus enough on the poor in a way that would support sustainable economic growth in rural areas. The sustainability assessment focused on the likelihood that the established financial mechanism for rural housing would be maintained over the longer time frame. The evaluation rates the supported housing scheme by the MFF program less than likely sustainable because of the market distortion by the subsidies and government-led institutional arrangements, the uncertainty of financial sustainability of the government, and the reduced affordability to the poor.

<sup>60</sup> The TFPA conducted a detailed comparison of the results of line item descriptions provided by contractor organizations with line items of the local resource estimate. The audits revealed that there was no unified approach for preparation of estimates by contractors, which led to deviations in price setting. Variations in cost estimates resulted from differing classification of expenses for equipment and materials.

**Box 2: Construction Quality**

Technical and financial performance audits (TFPAs) reviewed the quality of construction in accordance with national building and construction standards. The TFPAs reported that Qishloq Qurilish Loyiha, the national design institute, developed a standard design for use in housing construction, which was adjusted to local conditions by local design institutions. The four TFPAs recorded similar findings in house construction.

- (i) No significant complaints regarding planning, spacing, and overall sizes were expressed by the residents.
- (ii) On construction quality and design-estimation documentation, certain deviations from standards were observed.
- (iii) Due either to nonadherence to the standard design or to the inadequacy of the design, several problems were found by the audit in the houses constructed, e.g., mold in roofs and walls, no access to the attic due to lack of a wall ladder, no anti-fire processing of wooden construction, and inadequate water source.
- (iv) Residents had made changes in the house plan without receiving proper approval from authorities, removing walls to increase living spaces or moving areas to other designated spaces.
- (v) Residents had drilled wells independently without receiving approval from relevant bodies and without the benefit of water quality analysis. Use of artesian wells may lead to negative ecological impacts.

The TFPAs recommended that Qishloq Qurilish Invest and Qishloq Qurilish Loyiha should ensure that construction quality requirements are adhered to. Improvements to the standard design are also needed to address the problems observed by the audit in the houses built.

Source: Technical and financial performance audits.

# CHAPTER 4

## Other Assessments

### A. Development Impact

89. The expected impact of the investment program was improved living standards for rural communities. The RRP established six indicators to measure development impact in the DMF: (i) average rural households' formal incomes, (ii) rural construction jobs created, (iii) rural micro and small enterprises (MSEs) and home-based jobs created, (iv) rural houses constructed, (v) new or rehabilitated schools near RHS housing sites, and (vi) new or rehabilitated rural health clinics near RHS housing sites.<sup>61</sup> Except for the number of rural houses (Table 3) and jobs created, data on the other indicators were not available for the evaluation mission. The PCRs reported that the number of jobs created was substantial, with housing contractors hiring an estimated 184,000 persons for 2012–2015 against the target of 75,000 for 2011–2012. They reported that 41,510 rural houses had been constructed under the RHS.

90. The key program feature of “supporting accelerated market development and greater competition” was not fully achieved. Over the last 8 years, the total mortgage loan portfolio increased by 45% annually on average, primarily due to subsidized state housing programs in rural areas. However, this has decreased the private banks' share of the total mortgage loan portfolio from 5.7% in 2011 to only 3.2% in 2016. Although thousands of contractors participated in the bidding process, the program's procurement manual set a cap of one contract for each contractor in general, irrespective of its capacity to handle more contracts. The key materials for construction were provided by QQI, and the completed houses were sold by QQI. In 2018, QQI is still the only housing developer in the country.

91. The MFF program was categorized *effective gender mainstreaming*. It aimed to promote better outreach and access to rural housing finance and to improve rural housing and employment opportunities for women. For each of the three tranches under the MFF program, the government agreed to implement a gender action plan. The PCRs reported that the envisaged activities had been substantially implemented, and that most of the plans' actions had been implemented in close consultation and coordination with the Women's Committee of Uzbekistan and its regional branches. Women benefited from such facilities as piped water and reliable electricity and gas supply. This reduced the household workload and time burden for female beneficiaries. The health and hygiene culture improved because the houses included indoor toilets, bathrooms, and hot water. Uzbekistan legislation gives women and men equal rights to own property. However, there are significant gender disparities in land and real estate ownership. Most residential houses are acquired through inheritance, which traditionally favors men over women. Only 22.3% of all property is registered in women's names.<sup>62</sup> The figure is much lower in rural households, which are traditionally headed by men. Accordingly, most real estate is registered with men. The project promoted gender equality with 29.8% female ownership in the third tranche and 23.7% overall. However, the target of 30% was not achieved.

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<sup>61</sup> The six indicators are (i) average rural household formal income increases from SUM373,650 in 2010 to at least SUM816,769 in 2015; (ii) at least 75,000 rural construction jobs created annually from 2011 to 2015; (iii) at least 450,000 rural MSE and home-based jobs created annually from 2010 to 2015; (iv) at least 40,800 RHS rural houses constructed with access to improved utilities by 2015, up from 7,647 in 2010 to 48,447 in 2015; (v) at least 177 new or rehabilitated schools near RHS housing sites from 2011 to 2015; and (vi) at least 140 new or rehabilitated rural health clinics near RHS housing sites from 2011 to 2015

<sup>62</sup> ADB. 2018. Uzbekistan Country Gender Assessment Update (draft). Tashkent. The data were provided by the Chamber of Commerce and Industry of Uzbekistan as a result of data collection in September–October 2017.

92. Overall, the major output target was not achieved. The logic presented in the RRP that the MFF program would improve living conditions and livelihood opportunities has not yet been proved (paras. 73–75). The indicators measuring impact have not yet been monitored and data were not available for the IED evaluation. The overall impact rating is less than satisfactory.

## B. Asian Development Bank Performance

93. ADB supported the government in implementing the MFF program through a full-time public finance specialist stationed in Tashkent. Intermittent support was also provided by other staff at ADB headquarters and at the Uzbekistan Resident Mission. ADB informed the evaluation team that ADB hired numerous staff consultants to provide support in such areas as legal review of the RHS house purchase agreement, safeguards, procurement, and beneficiary selection.

94. During the Board of Directors' approval meeting at program processing, the Board requested that ADB use management information systems to provide real-time status reports of expenditures and receipts. ADB Management committed itself to introducing supervision measures that would be respected by the ADB Board and by the government, including a management information system and a website.<sup>63</sup> Beneficiary selection would be led by local governments, with the involvement of citizen-based community groups and regional women's committees. However, these commitments were not kept.

95. The program design and implementation arrangements were ambitious, especially the number of project sites, houses, and contracts, which covered almost the entire country. Monitoring of procurement was weak (paras. 52–58, and 78–80). The memorandum of understanding (MOU) of the mission in 2015 stated that ADB and the government had committed themselves to conducting a 100% procurement prior review for tranche 1 and tranche 2 (2,996 contracts were listed in the procurement plans). A comprehensive review of so many contracts would have been a very large, time-consuming, and costly exercise. As a result, only 16% of the contracts in tranches 1 and 2 were post reviewed. ADB acknowledged that procurement practices were weak. A study on the social impact of the MFF program was not implemented and citizen-based community groups and regional women's committees were not specifically involved in the beneficiary selection.<sup>64</sup>

<sup>63</sup> ADB explained that it had helped the government develop an application form for beneficiaries that could be scanned and uploaded to a website. It had hired an information technology firm to create a database of all applicants for houses using the application forms. The government had created a website, which it had deleted when the MFF program ended. The series of TFPAs repeatedly expressed concerns about this website, nicknamed "Bonfire." The 2012 TFPA noted that parts of protocols were downloaded from website, while others were presented by QQI. Protocols were not fully presented in documents. For some lots, most of the protocols were missing. The 2013 TFPA argued that a unified records management and document storage system should be introduced. This should use the experience of other projects that already have an operating system. The Bonfire website may still have a role to play as an alternative document storage system. However, before documents are uploaded to the system, an in-depth check should be made to ensure they are complete and identical to the original. The documents uploaded should correspond with the list approved by the ADB procurement guide. To limit system accessibility, a classification of individuals with access to the database should be made. Each user should have individual log-in name and password. Users should be classified into two groups: the administrator, who is authorized to have full control of the system, and the users, who can only upload and download information. The 2014 TFPA said that the Bonfire website could continue to be used as an alternative document storage system. However, before documents are entered into the system, they must be carefully checked for completeness. They must be identical to the original. Documents displayed on the Bonfire website should correspond to the list of documents specifically required by the ADB procurement guidelines. The 2015 TFPA noted that, in the development of a unified system of record keeping and storage of documents, the program should use the experience of other projects in which a similar system had already been established. The Bonfire website could be used as an alternative document storage system if documents were carefully checked for completeness. They should be identical to the original. The documents on the Bonfire website should conform to the list of documents specified in the ADB procurement guidelines.

<sup>64</sup> The proposed study should have been carried out during tranche 2. The RRP said, "Based on a study undertaken during tranche 2, the government will pilot viable options for sustainable public support for low-income rural housing during tranche 3 and 4, and develop a strategy to expand outreach to low-income rural households for the next phase of the RHS." The government

96. TFPAs and value-for-money assessments for 2012 and 2013 were conducted in 2015, and those for 2014 and 2015 were completed in 2017. The post reviews of procurement for the three tranches were conducted in 2015. The timing of these assessments was too late for lessons to inform preparation and implementation of the following tranches. ADB should help the government improve its monitoring and disclosure of the status of implementation and timing of assessments to enable lessons to be learned. The performance of ADB was assessed less than satisfactory.

### C. Borrower and Executing Agency Performance

97. Counterpart funds were provided on a timely basis. The executing agency and implementing agencies engaged with stakeholders, including government staff, contractors, and home buyers. Although the program implementation unit (PIU) experienced high staff turnover and delays in hiring replacement staff, this did not have a significant effect on the completion of the MFF program.

98. However, the lack of transparency of procurement was a weakness in implementation. The procurement review for effective implementation (PREI) mission was given restricted access to the MFF program's online procurement database (nicknamed "Bonfire"). The mission was advised that data on all 837 housing construction contracts in 2012 had been entered into this database and work was underway to upload data for 998 contracts from 2013. This could not be verified, as the mission's access was restricted to 28 contracts from 2012. Some documents relating to procurement under those 28 contracts, principally minutes of tender commission meetings, were not found on the website. The TFPAs in 2014 and 2015 found that QQI had discontinued using the database because its license had expired.

99. The government research institute carried out an assessment of beneficiaries with ADB's financial support. The *Socio-Economic Survey of HIRD* [Housing for Integrated Rural Development] *Beneficiary Households* was an input to the design of ADB's Affordable Rural Housing Program, which was approved in 2017. The assessment provides valid recommendations on housing design, the selection of beneficiaries (para. 76), and the process for mortgage loan applications. The performance of the borrower and executing agency is rated satisfactory.

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research institute carried out an assessment of beneficiaries with ADB's financial support, which was an input to the design of ADB's Affordable Rural Housing Program approved in 2017.

# CHAPTER 5

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## Overall Assessment, Issues, and Recommendations

### A. Overall Assessment

100. The ADB MFF program, supported by ADB's largest housing project at the time, aimed to improve rural living standards and diversify rural livelihoods by providing rural housing. The ADB MFF program provided a series of financial intermediary loans through the government to PCBs. These two banks, QQB and the NBU, provided mortgage financing to selected beneficiaries for the purchase of new houses.

101. At the time the MFF was designed in 2010–2011, Uzbekistan had a critical need for adequate housing for its growing rural population. The size and quality of rural houses have been a concern in Uzbekistan for several years. The available floor space was only 14.9 square meters per person at the end of 2014 because of overcrowding as a result of multi-family occupancy in traditional housing units. Almost one-third of the housing stock was built before 1971. In addition, they did not have access to piped utilities. The existing rural housing stock over the years has suffered from gradual dilapidation and did not meet modern structural resilience norms. Despite the increasing demand for rural housing, Uzbekistan lacked a market for mortgage finance in rural areas. Uzbekistan had a surplus of skilled and unskilled labor in rural areas as a result of population growth and the return of migrant workers from the Russian Federation.

102. The ADB MFF program addressed both issues of housing and the surplus of labor in rural areas. The ADB MFF program experienced critical challenges in part because the ADB MFF program supported the country's first rural housing intervention. Despite these challenges, the ADB program contributed to the improvement of the quality of rural houses and increase in job opportunities in rural areas. Most of the surveyed households were satisfied with the quality of houses. The program made initial contributions to the introduction of rural mortgage financing, although, may not yet be fully sustainable. Formal housing finance mechanisms were introduced in urban areas in 1996, but did not begin in rural areas until commencement of the RHS in 2009. The RHS was extended in 2012–2015 with ADB support. In 2016, the government decided to continue RHS for another 5 years.

103. The program also provided lessons to better target the program in later stages and laid the foundation for their current effort to develop a housing mortgage market. For example, the need for targeting the program towards the lower income group was well recognized, which was already incorporated in the Affordable Rural Housing Program.

104. Despite the above, the ADB MFF program had several shortcomings regarding (i) the development of competitive rural mortgage financing; (ii) affordability of rural houses, especially for the poor; and (iii) compliance with ADB procurement standards, which affected overall performance of the program. Table 9 shows the MFF program ratings. RHS as a whole, provided 41,510 housing loans exceeding the initial target of 40,500 loans. However concerning relevance of design, the institutional arrangement of the ADB MFF program was complex and several procurement issues were identified. Further, the ADB MFF program did not achieve the intended outputs and outcomes. The ADB MFF program was to provide at least 39,000 housing loans (95% of housing loans of RHS). ADB financed only

22,834 housing loans, 23.7% of which were to women (lower than the target of 30%). The share of home buyers belonging to the highest income quartiles (third and fourth) increased from the first tranche to the third tranche of the ADB MFF program. The target of 65,000 local staff trained was not achieved. Furthermore, the financial sustainability of the housing scheme is uncertain because of issues related to subsidies, among others. Subsidies and government-led institutional arrangements crowd out private sector participation in rural mortgage finance. IED rated the ADB MFF program less than successful.

**Table 9: Overall Program Rating**

Criterion	Weight	Rating	Rating Value	Weighted Rating
Relevance	0.25	Less than relevant	1	0.25
Effectiveness	0.25	Less than effective	1	0.25
Efficiency	0.25	Efficient	2	0.50
Sustainability	0.25	Less than likely sustainable	1	0.25
<b>Total</b>	<b>1.00</b>			<b>1.25</b>

Notes: Highly successful (HS)  $>2.5$ ;  $2.5 \leq$  successful (S)  $>1.75$ ;  $1.75 \leq$  less than successful (LS)  $>0.75$ ; unsuccessful (US)  $\leq 0.75$ .

Source: Asian Development Bank Independent Evaluation Department.

105. The MFF was prepared without project preparatory technical assistance, which could have identified some of the issues and risks, especially those requiring due diligence. ADB provided its loan, at that time its largest housing investment, on the assumption that the program would drive rural growth, but the MFF program should have been justified by data and rigorous analysis.

106. Most of the issues identified in this evaluation report were already identified by the Board of Directors, ADB's supporting departments, and the peer reviewers during the program preparation stage. Proper implementation of a program becomes difficult if the risks and concerns are not fully addressed at the program design stage and are only partially addressed at the implementation stage. Overall, this report assesses ADB support for Housing for Integrated Rural Development Investment Program less than successful.

107. During IED's final consultation mission to Uzbekistan to discuss key findings of the report, the government feedback emphasized the importance of following ADB standards and their commitment to introduce procedures aligned with ADB requirement and expressed commitment towards developing a mortgage market to improve the long-term sustainability of the housing market. The government also acknowledged the fact that ADB provided support for the housing program when support from other development partners was not readily available.

## B. Issues and Recommendations

108. To provide a significant investment in housing on the assumption that it would drive rural growth, the design had to be justified by data, rigorous analysis, and alignment with the existing ADB country partnership strategy and the government's official development plans. Most of the issues identified in this program performance evaluation report were already prefigured during the MFF program preparation stage. Members of the Board of Directors, ADB supporting departments, and peer reviewers expressed concerns about the risks of the MFF program. The efforts and commitment of the operations department successfully moved the MFF program ahead, but many of the concerns that had been expressed and the risks that had been identified became a reality. Ex-ante review processes need to be incorporated not only in the program design and documents, but also in implementation practices. In addition, the issues and recommendations of post-evaluation need to be carefully considered in future ADB support.

## 1. Market Mechanism

109. **Issue 1: The mortgage financing market was likely distorted by the implementation arrangement and subsidies provided by the rural housing scheme.** Private banks' share of the total mortgage loan portfolio has decreased, indicating that the subsidies provided through the MFF program may have distorted the mortgage financing market. QQI consolidated its central role in the government-led implementation arrangement. The RRP said, "the RHS program will be open for home buyers to buy from other developers or construction supervisors." This did not happen. Furthermore, QQI is playing the same role in the Affordable Rural Housing Program.

110. **Recommendation 1: ADB should help Uzbekistan develop a competitive mortgage finance sector that supports rural development.** The RHS was initiated in 2009 to launch the rural housing finance market. Private sector development and widening access to markets and economic opportunities is crucial to economic development. For these objectives to be realized, the private sector needs to play a bigger role in mortgage finance in rural areas. However, privately owned banks have so far not provided mortgage lending in rural areas and currently offer no funding for longer than 1 year. The new government is in the process of undertaking deep and significant reforms to build a more market-oriented mortgage finance sector. ADB and other development partners should go forward to respond to the need for supporting reforms through a step-by-step approach. A competitive mortgage system would be better positioned to target interest rates and subsidies at low-income households. Such a system could leverage scarce fiscal resources to build a larger mortgage market. ADB is preparing a development program for Uzbekistan that will aim to improve the mortgage finance market by addressing the root causes of shortcomings in the rural housing market and improve the role of private sector. It will be responsive support of ADB. Against the backdrop of a fragmented framework of housing policies and subsidy schemes, the new program should aim to improve the private sector, mortgage finance market in rural areas by (i) supporting legal and policy reform efforts, and (ii) setting up a mortgage financing institution to provide long-term funds and develop the capital market.

## 2. Inclusive Economic Growth

111. **Issue 2: The house prices were not affordable for all households, particularly the low-income households. The logic behind the program, that support for the moderate-income group would help to improve living conditions and livelihood opportunities for the poor, has not yet been substantiated.** Even the cheapest available houses were too expensive for the poor.<sup>65</sup> Although the government decided to offer smaller multistory houses with smaller houses and apartments under the Affordable Rural Housing Program in 2017, such options were not available under the Housing for Integrated Rural Development Investment Program. Because the MFF program provided significant subsidies, this mismatch should have been avoided. ADB should have conducted a demand and affordability survey before starting the MFF program. ADB did introduce a system of prioritizing loan applicants with respect to their socioeconomic profile, but the result was unsatisfactory for two reasons: (i) the final selection of beneficiaries was made by the participating banks, which emphasized creditworthiness rather than the socioeconomic merits of applicants; and (ii) ADB did not monitor the difference between the prioritized lists and the final selections.

112. **Recommendation 2: ADB should help Uzbekistan develop a unified database system of beneficiaries and applicants to assess beneficiary selection and the socioeconomic impact of the RHS.** In addition to the client databases of the PCBs, a unified database will help the careful selection of beneficiaries, which is the most important part of effective program implementation and of ensuring efficient use of the limited funds available for housing programs. ADB can add value by ensuring the

<sup>65</sup> Three one-story house designs were available in the program. In the first tranche, 35% of beneficiaries selected a 3-room house (134.00 square meters [m<sup>2</sup>]), 57% selected a 4-room house (143.00 m<sup>2</sup>), and 8% selected a 5-room house (181.75 m<sup>2</sup>). The houses cost an average of SUM106.641 million (\$53,660 as of 31 December 2012)—SUM102.37 million for the 3-room house, SUM106.44 million for the 4-room house, and SUM120.84 million for the 5-room house.

transparency of the selection process. To align future programs with ADB's strategic priorities, especially inclusive economic growth through housing development, financial inclusion, and private sector development, ADB should carry out an assessment of the socioeconomic impact of future programs and should analyze how introducing mortgage lending and other financial products into rural areas can benefit financial sector growth and small entrepreneurs, including women.

### 3. Due Diligence

113. **Issue 3: Several procurement issues resulting from weak compliance with ADB procurement procedures.** The institutional arrangements for the implementation of the MFF program were dominated by the government. This arrangement exposed the MFF program to major governance-related risks. All procurement review documents contained warnings (paras. 52–58). Submission of the audited project financial statements and annual financial statements was delayed and caused risks of accountability and non-compliance with loan covenants.

114. In the RRP, ADB planned to decrease its financial share of each subloan gradually, from 65% in 2012, 45% in 2013, 40% in 2014, and 35% in 2015. In effect, this would have meant ADB support would have been seed funds to provide houses and loans to international practices including ADB standards. All 2013 housing loan contracts were signed and were well underway before tranche 2 became effective. ADB excluded and did not finance contracts signed before loan effectiveness. Thus, the ADB financial share increased in 2014, rather than decreasing as anticipated. In 2015, ADB financed only 2,929 houses to ensure the materials were not imported from non-ADB member countries (para. 48). As a result, ADB's financial share per house increased to 50% in 2014 and 70% in 2015.

115. **Recommendation 3: ADB should ensure strict application of ADB procurement rules in all ADB projects and should strengthen monitoring and reporting.** This evaluation discussed several issues related to procurement. However, PCRs were silent on due diligence issues, especially on procurement. ADB conducted prior- and post-reviews of procurement only for 10% of the required contracts in the ADB MFF program's procurement plans. In addition, the MFF program's procurement reports did not include the purchase of building materials as part of its procurement plans, even though building materials represented a major share of the total cost of each house. Including building materials would enhance institutional development, as the executing and implementing agencies would benefit from applying ADB standards and benefit from capacity development in the process. A review of procurement would benefit ADB and the government and enable them to identify issues and lessons for feedback.

# Appendixes

## APPENDIX 1: DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Achievements			PPER Update	Assessment
		Tranche 1	Tranche 2	Tranche 3		
<p><b>Impact</b></p> <p>Rural communities have improved living standards</p>	<p>Average rural household formal income increases from SUM373,650 in 2010 to at least SUM816,769 in 2015</p> <p>At least 75,000 rural construction jobs created annually from 2011 to 2015</p> <p>At least 450,000 rural MSE and home-based jobs created annually from 2010 to 2015</p> <p>At least 40,800 RHS rural houses constructed with access to improved utilities by 2015, up from 7,647 in 2010 to 48,447 in 2015</p> <p>At least 177 new or rehabilitated schools near RHS housing sites from 2011 to 2015</p>	<p>41,510 new rural modern homes with access to utilities, roads, and related social and commercial services owned by targeted beneficiaries were constructed starting in 2012, 2013, 2014, and 2015. 98% were occupied by targeted beneficiaries, and 24% of beneficiaries were women.<sup>a</sup></p> <p>(The PCR assessed the whole program.)</p>	<p>Under Project 2, 21,000 (10,000 in 2013 and 11,000 in 2014) new rural modern houses with access to basic utilities were completed. 91.4% were occupied by “targeted” beneficiaries.</p> <p>(The PCR assessed only tranche 2.)</p>	<p>41,510 new rural modern homes with access to utilities, roads, and related social and commercial services owned by targeted beneficiaries were constructed starting in 2012, 2013, 2014, and 2015. 90% (37,361) were occupied by targeted beneficiaries, and 22.4% of beneficiaries were women.<sup>b</sup></p> <p>Under project 3, construction of 12,000 new rural modern houses with access to basic utilities was completed.</p> <p>(The PCR assessed the whole program.)</p>	<p>Among the five performance indicators, the fourth was achieved, as the RHS constructed 41,510 houses.</p>	<p>The first performance target should be assessed in tranche 3. Other indicators should be assessed in each tranche. During the review process for the PPER, ADB updated the share of women beneficiaries from 22.4% to 23.7%, although a source of data had not yet been confirmed.</p>

Design Summary	Performance Targets and Indicators with Baselines	Achievements			PPER Update	Assessment
		Tranche 1	Tranche 2	Tranche 3		
	At least 140 new or rehabilitated rural health clinics near RHS housing sites from 2011 to 2015					
<b>Outcome</b> Improved rural housing for targeted beneficiaries	At least 95% of 40,800 new rural modern homes under the RHS with access to basic utilities owned and occupied by —targeted beneficiaries (moderate- to low-income households, young families, single-headed households, rural teachers, and health workers), of whom 30% are women	NA	NA	NA	The MFF program financed 35,741 houses including those financed from the NBU and QQI.	A database of beneficiaries was not developed so compositions by income, profession, age, and family were not assessed. However, the PCRs reported that for tranche 1, 71% of home buyers belonged to the highest or second-highest quartiles and for tranche 3, the figure was 80%. During the review process for the PPER, ADB updated the share of women beneficiaries from 22.4% to 23.7%, although a source of data had not yet been confirmed.
<b>Outputs</b> Housing loans provided by	At least 39,000 with a value of at least	10,279 mortgage loans (8,363 in 2012	21,000 housing loans (10,000 in 2013 and	In 2015, 7,851 loans were provided to	The MFF program financed 22,834	The PCRs reported the MFF

Design Summary	Performance Targets and Indicators with Baselines	Achievements			PPER Update	Assessment
		Tranche 1	Tranche 2	Tranche 3		
PCBs to targeted creditworthy subborrowers in rural areas	SUM2.4 trillion of housing loans provided to targeted beneficiaries, of which 30% are women	and 1,916 in 2013) with a value of SUM687 billion were provided, of which 21% were provided to women.	11,000 in 2014) with a value of SUM1,853 billion were provided, of which 21.6% were provided to women.	targeted home buyers, of which 2,090 (26.6%) were women.	houses.	program constructed 35,741 houses, but these included some units that did not follow ADB's due diligence. The PPER counted only the houses financed by ADB for which ADB reviewed the compliance of the due diligence.
Improved capacity of local governments to prepare and implement integrated rural development plans and investment promotion strategies	At least 65,000 staff of local governments trained in integrated rural development planning and investment promotion strategies (sex-disaggregated)	In 2012, training was delivered to more than 11,000 staff, of whom 13% were women.	During 2013–2014, training was delivered to 15,865 staff (7,463 in 2013 and 8,402 in 2014), of whom 12% were women.  District community development plans were prepared for 100 districts by the end of 2014	In 2015, training was delivered to 7,690 staff, of whom 14% were women. In 2016, training was delivered to 7,741 staff, of whom 15% were women.  From January 2014 to December 2016, regional integrated/industrial development programs were adopted for the Kashkadarya, Surkhandarya, Syrdarya, Namangan, and Tashkent regions.	Training was delivered to 42,296 staff, of whom 13% were women.	ADB support for this component was significant based on discussions with ADB, governments, the executing agency, and implementing agencies.
Improved enabling environment	Total microcredit lending in rural areas increases from	Total microcredit lending in rural areas increased to	Total microcredit lending in rural areas increased from SUM506 billion in	Total microcredit lending in rural areas increased from	Total microcredit lending in rural areas increased from	The source of data was Central Bank of

Design Summary	Performance Targets and Indicators with Baselines	Achievements			PPER Update	Assessment
		Tranche 1	Tranche 2	Tranche 3		
for entrepreneurs and MSEs to expand or establish new businesses in rural areas	SUM485 billion in 2010 to SUM1,361 billion in 2015.  At least 30,000 new MSMEs, of which at least 30% are women, established in rural areas	SUM506.1 billion in 2012.  16,871 new MSEs were established in rural areas in 2012, of which 4,983 (30%) were established by women. In 2013, 11,171 were established, of which 3,362 (30%) were by women. 703 new MSEs were established by RHS home buyers in 2012 (830 in 2013). Of these, 278 in 2012 and 307 in 2013 were owned by women.	2012 to SUM706 billion in 2014. HIRD home buyers received 1,908 new microloans (927 in 2013, of which 404 were to women, and 981 in 2014, of which 380 were to women). HIRD home buyers received 1,518 new MSME loans (746 in 2013, of which 363 were made to women, and 772 in 2014, of which 332 were made to women).  24,338 new MSMEs were established in rural areas in 2013 (11,171) and 2014 (13,167), of which 7,410 (30%) were established by women. 1,810 new SMEs were established by HIRD home buyers in 2013 (830) and 2014 (980). Of these, 307 in 2013 and 384 in 2014 were established by women.	SUM506.1 billion in 2012 to SUM1,341 billion in 2016, with 1,009 new microloans (of which 40.9% or 413 loans were to women) and 796 new MSME loans (of which 46.2% or 368 loans were to women) provided to HIRD home buyers.  31,121 new MSEs were established in rural areas in 2015 (14,254) and 2016 (16,867), of which 9,723 (31.2%) were established by women. 2,003 new MSEs were established by HIRD home buyers in 2015 (991) and 2016 (1,012), of which 823 (41.1%) were owned by women.	SUM506.1 billion in 2012 to SUM1,341.0 billion in 2016.  72,330 new MSEs were established during the MFF program, of which 22,116 (31%) were established by women.	Uzbekistan, and the targets were achieved

ADB = Asian Development Bank; HIRD = Housing for Integrated Rural Development; MFF = multitranche financing facility; MSEs = micro and small enterprises; MSMEs = micro, small, and medium-sized enterprises; NA = not applicable; NBU = National Bank of Uzbekistan; PCB = participating commercial bank; PCR = project completion report; PPER = program performance evaluation report; QQI = Qishloq Qurilish Invest; RHS = rural housing scheme; SMEs = small and medium-sized enterprises.

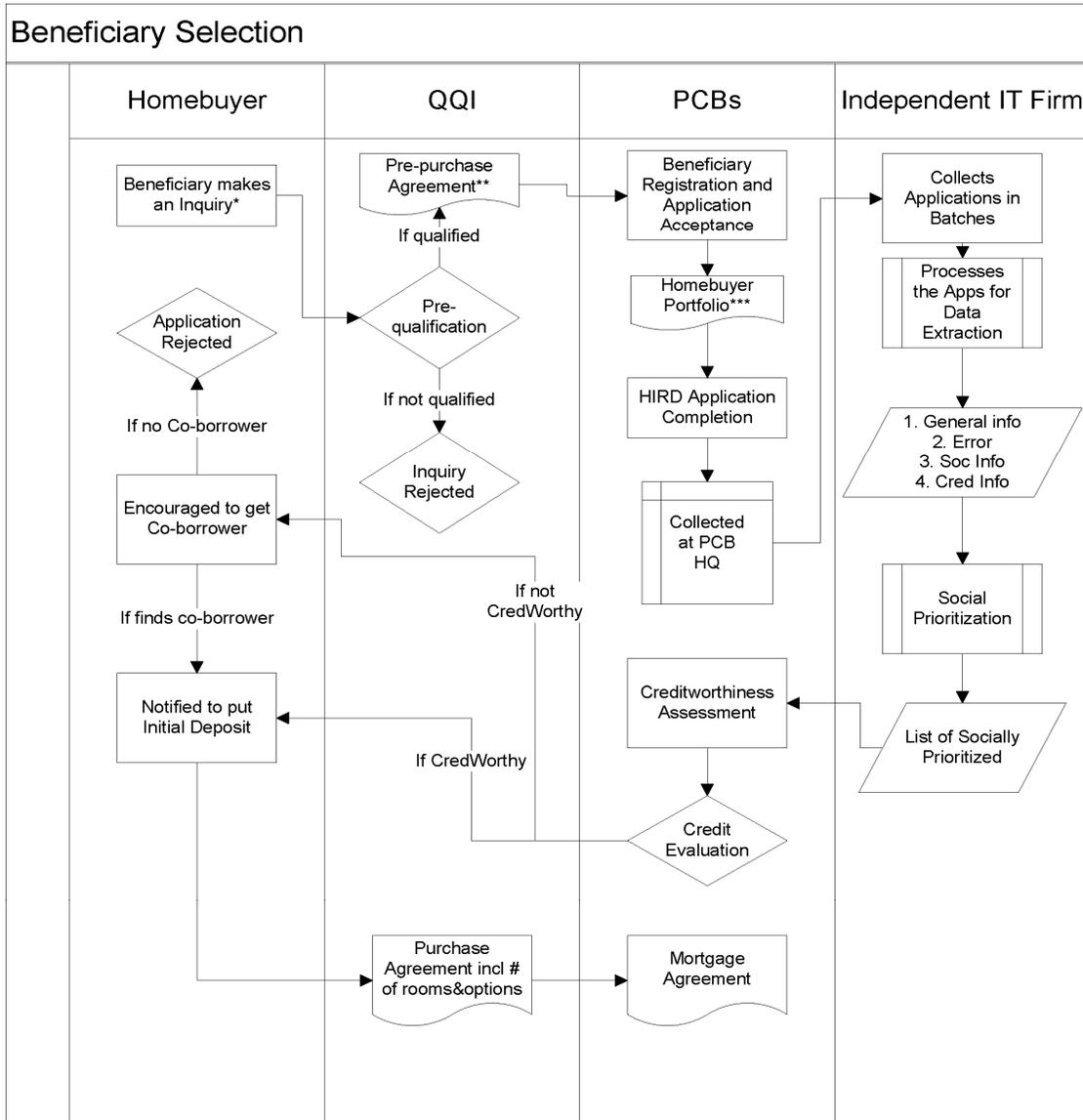
<sup>a</sup> The percentage of women is for 2012–2015. The percentage of targeted beneficiaries is for 2012–2014 and reflects the percentage of borrowers whose formal income (income from wages or other taxed income) placed them in the first (lowest), second, or third income quartiles. Income quartiles for 2012–2014 are contained in Table 2 of Appendix 7 of the periodic financing request report for tranche 3. ADB. 2015. *Periodic Financing Request Report for the Housing for Integrated Rural Development Investment Program (Tranche 3) in Uzbekistan*. Manila.

<sup>b</sup> The percentage of women is for 2012–2015. The percentage of targeted beneficiaries is for 2012–2015 and reflects the percentage of borrowers whose formal income (income from wages or other taxed income) placed them in the first (lowest), second, or third income quartiles. Income quartiles for 2012–2014 are contained in Table 2 of Appendix 7 of the periodic financing request report for tranche 3. Income quartiles for 2015 were calculated using the 3-year average growth rates for 2012–2014. ADB. 2015. *Periodic Financing Request Report for the Housing for Integrated Rural Development Investment Program (Tranche 3) in Uzbekistan*. Manila.

Source: Government of Uzbekistan, Ministry of Economy, Program Implementation Unit.

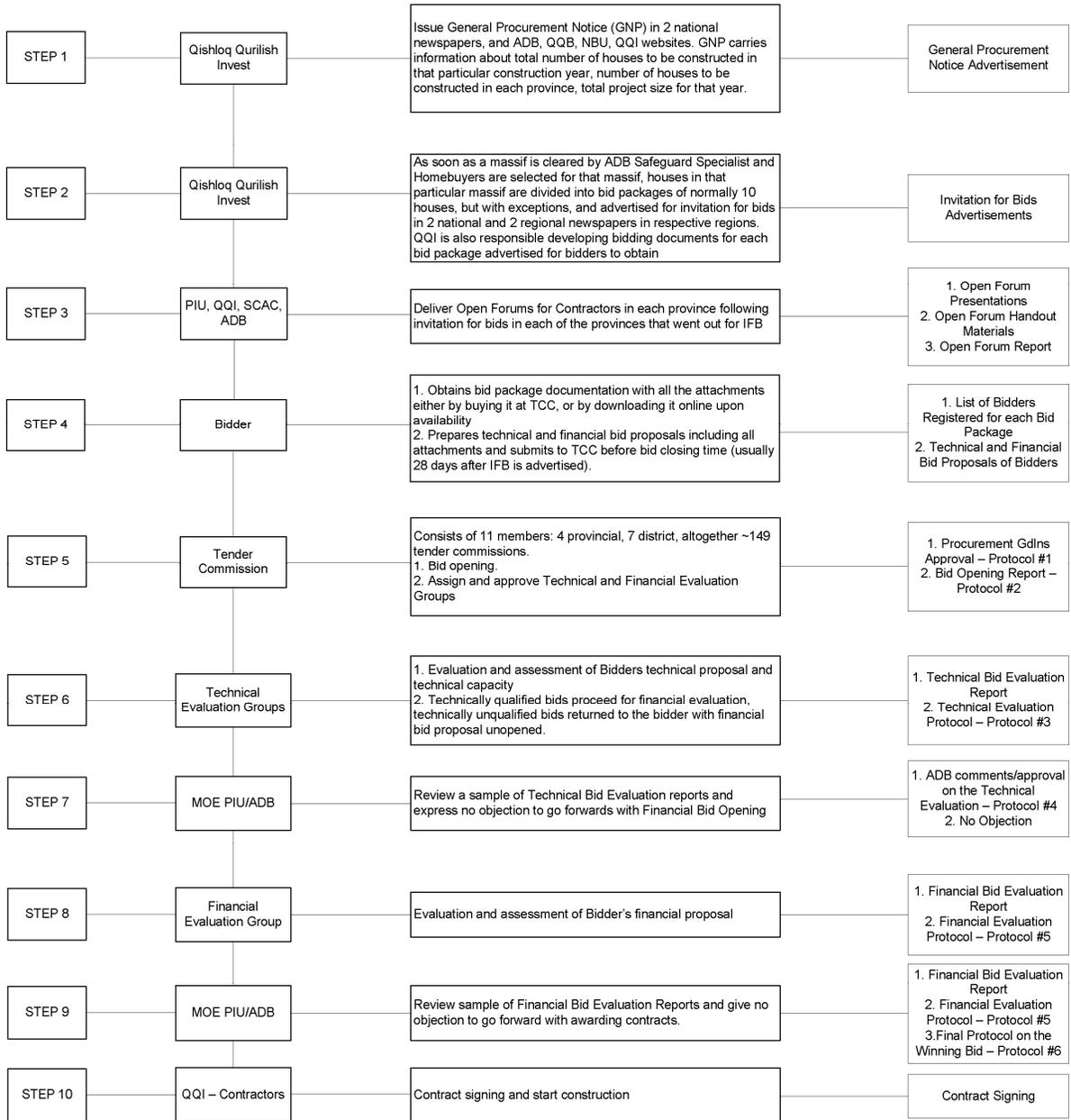
## APPENDIX 2: PROCESSES INVOLVED IN THE SELECTION OF BENEFICIARIES, CONTRACTORS, AND CONSTRUCTION SITES

Figure A2.1: Beneficiary Selection Process



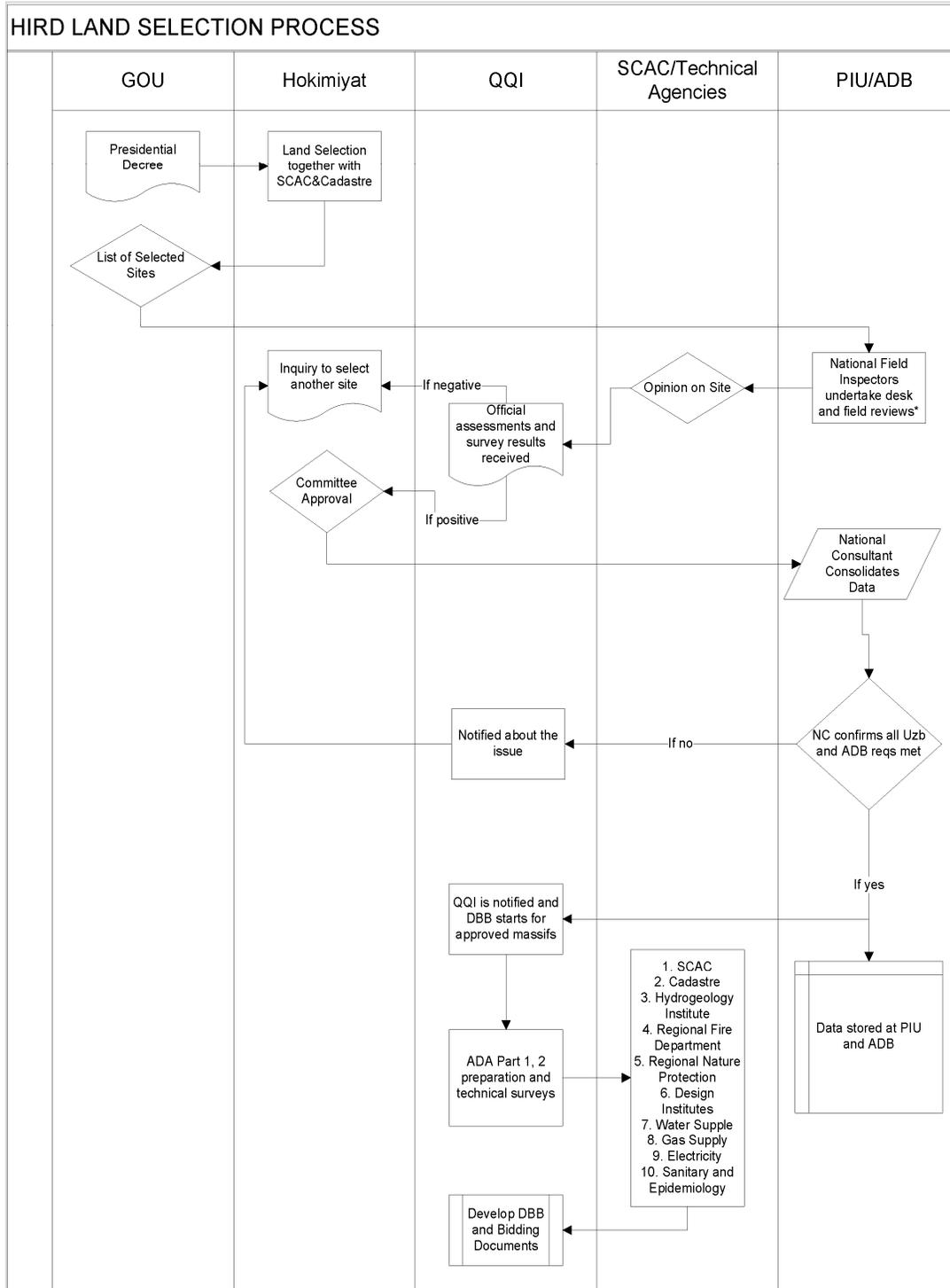
HIRD = Housing for Integrated Rural Development, HQ = headquarters, IT = information technology, PCB = participating commercial bank, QQI = Qishloq Qurilish Invest.  
 Source: Asian Development Bank.

Figure A2.2: Contractor Selection Process



ADB = Asian Development Bank, GPN = general procurement notice, MOE = Ministry of Economy, PIU = project implementing unit, QQB = Qishloq Qurilish Bank, QQI = Qishloq Qurilish Invest, TCC = Tender Consulting Center.  
 Note: A *massif* is a rural housing complex.  
 Source: Asian Development Bank.

Figure A2.3: Selection of Construction Sites



ADB = Asian Development Bank, DBB = design-bid-build, GOU = Government of Uzbekistan, HIRD = Housing for Integrated Rural Development, NC = national consultant, PIU = program implementation unit, QQI = Qishloq Qurilish Invest, SCAC = State Committee for Architecture and Construction.  
 Note: The list of documents reviewed is to be finalized by the PIU safeguard specialist.  
 Source: Asian Development Bank.

## APPENDIX 3: STATUS OF COMPLIANCE WITH LOAN COVENANTS

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<b>ARTICLE III. Use of Proceeds of the Loan</b>			
<p><b>Section 3.01.</b> (a) The Borrower shall relend a portion of the proceeds of the Loan (\$199,600,000), in Sum equivalent, to QQB under a Subsidiary Loan Agreement, upon terms and conditions satisfactory to ADB.</p>	Complied with.	NA.	NA.
<p><i>Revision in Tranche 2</i> <b>Section 3.01.</b> (a) The Borrower shall relend a portion of the proceeds of the Loan to the PCBs (\$14,376,000 to NBU and \$77,384,000 to QQB for financing Subloans in 2013 and \$21,360,000 to NBU and \$85,440,000 to QQB for financing Subloans in 2014), in Sum equivalent, under a Subsidiary Loan Agreement with each PCB, upon terms and conditions satisfactory to ADB. If there is any change to the current composition of the PCBs, or if there is a need to reallocate the proceeds of the Loan for more effective Project implementation, the Borrower shall reallocate the Loan proceeds amongst the PCBs in a manner acceptable to ADB.</p>	NA.	<p>The sum equivalent of \$77,384,000 plus \$85,440,000 was re-lent to QQB for the financing of Subloans in 2014.</p> <p>The sum equivalent of \$14,376,000 plus \$21,360,000 was re-lent to NBU for the financing of Subloans in 2014.</p> <p>None of the funds re-lent to either bank was used for the financing of Subloans in 2013 because the Subloans in 2013 were all issued prior to the effective date of the Loan. The reallocation of Loan proceeds from 2013 Subloans to 2014 Subloans was included in a change of scope approved in November 2014.</p>	NA.
<p><i>Revision in Tranche 3</i> (a) The Borrower shall relend a portion of the proceeds of the Loan to the PCBs (\$36,000,000 to NBU and \$64,000,000 to QQB), in Sum equivalent under a Subsidiary Loan Agreement with each PCB, upon terms and conditions satisfactory to ADB.</p>	NA.	NA.	<p>Complied with. The sum equivalent of \$64,000,000 was re-lent to QQB for the financing of subloans in 2015.</p> <p>The sum equivalent of \$36,000,000 was re-lent to NBU for the financing of subloans in 2015.</p>

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
(b) The Borrower shall cause QQB [PCBs] to apply the proceeds of the Loan described in subsection (a) hereinabove to the financing of expenditures on Part 1 of the Project in accordance with this Loan Agreement and the Project Agreement	Complied with.	Complied with.	Complied with.
<p><b>Section 3.02.</b> The Borrower shall make the remainder of the proceeds of the Loan (\$400,000) available to MOE upon terms and conditions satisfactory to ADB, and cause MOE to apply such proceeds to the financing of expenditures on Part 2 of the Project in accordance with the provisions of this Loan Agreement.</p> <p><b>Revision in Tranche 2</b> The Borrower shall make the remainder of the proceeds of the Loan (\$1,440,000) available to MOE upon terms and conditions satisfactory to ADB, and cause MOE to apply such proceeds to the financing of expenditures on Part 2 of the Project in accordance with the provisions of this Loan Agreement.</p> <p><b>Revision in Tranche 3</b> Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan for the Qualified Subprojects in accordance with the provisions of Schedule 3 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.</p>	<p>Complied with.</p> <p>NA.</p> <p>NA.</p>	<p>NA.</p> <p>Complied with.</p> <p>NA.</p>	<p>NA.</p> <p>NA.</p> <p>Complied with.</p>
<p><b>Section 3.03.</b> (a) The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.</p>	Complied with.	Complied with. Schedule 3 was amended in November 2014, among other things to change the amount allocated to the financing of subloans to \$198,560,000, to allocate all of such amount for subloans made in 2014 (i.e., none for subloans made in 2013), and to change the financing percentage to 50%.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p><b>Revision in Tranche 3</b> Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.</p>	NA.	NA.	Complied with.
<p>(b) Notwithstanding the generality of subsection (a) hereinabove and except as ADB may otherwise agree, the proceeds of the Loan described in Section 3.01(a) of this Loan Agreement shall be used only for making Subloans to Qualified Subborrowers for Qualified Subprojects and shall be applied exclusively for the financing of expenditures under Part 1 of the Project.</p>	Complied with.	Complied with.	NA.
<p><b>Section 3.04.</b> Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and Consulting Services to be financed out of the proceeds of the Loan to be procured in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.</p>	Complied with.	Complied with.	NA.
<p><b>Section 3.05.</b> Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.</p>	Complied with.	Complied with.	NA.
<p><b>Section 3.06.</b> The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 2013 or such other date as may from time to time be agreed between the Borrower and ADB.</p>	In November 2013, ADB approved an extension of the loan closing date from 31 December 2013 to 30 June 2014. In June 2014, ADB approved a further extension of the loan closing date to 30 June 2015.		
<p><b>Revision in Tranche 2</b> The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 March 2016 or such other date as may from time to time be agreed between the Borrower and ADB.</p>	NA.	On 18 March 2016, ADB approved an extension of the loan closing date from 31 March 2016 to 31 December 2016.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<b>Revision in Tranche 3</b> <b>Section 3.06</b> The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2017 or such other date as may from time to time be agreed between the Borrower and ADB.	NA.	NA.	Complied with. The loan was closed on 8 February 2017.
<b>Section 4.01.</b> (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound banking, financial and business practices.	Complied with, except that QQB did not impose a penalty for delinquent payments on subloans.	Complied with, except that QQB did not impose a penalty for delinquent payment on subloans.	Complied with, except that QQB did not impose a penalty for delinquent payments on subloans.
(b) In the carrying out of the Project, the Borrower shall perform, or cause to be performed, all the obligations set forth in Schedule 5 to this Loan Agreement and the Project Agreement.	Complied with, except as noted below and in Appendix 4	Complied with, except as noted below and in Appendixes 4 and 5.	Complied with, except as noted below in this appendix and in Appendixes 4 and 5
<b>Section 4.02.</b> The Borrower shall make available, or cause to be made available, promptly as needed, the funds, facilities, land and services, in addition to the proceeds of the Loan, for the carrying out of the Project.	Complied with.	Complied with.	Complied with.
<b>Section 4.03.</b> In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.	Complied with.	Complied with.	Complied with.
<b>Section 4.04.</b> The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	Complied with.	Complied with.	Complied with.
<b>Section 4.05.</b> The Borrower shall enable ADB's representatives to inspect any Qualified Subborrower, any Qualified Subproject, the Goods and Works, and any relevant records and documents.	Complied with.	Complied with.	Complied with.
<b>Section 4.06.</b> (a) The Borrower shall:			
(i) maintain, or cause to be maintained, separate accounts for the Project;	Complied with.	Complied with.	NA.
(ii) have such accounts and related financial statements audited annually, in accordance with	Complied with.	Complied with.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB;			
(iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for imprest account and statement of expenditures), all in the English language; and	Complied with, except that (i) the APFSs submitted by the PIU for 2012 and 2014 were not submitted to ADB until 10 June 2014 and 14 August 2015, respectively; and (ii) QQB did not submit APFS for 2012, 2013, and 2014 until 10 July 2015. In addition, QQB's APFS for 2015 were not submitted by the 30 June 2016 deadline.	NA.	NA.
(iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	Complied with.	NA.	NA.
<b>Revision in Tranche 2</b> furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.	NA	Complied with, except that (i) the APFSs submitted by the PIU for 2014 and 2015 were not submitted until 14 August 2015 and 19 December 2016, respectively; (ii) QQB did not submit APFS for 2013 and 2014 until 10 July 2015 and did not submit APFS for 2015 until 7 October 2016; and (iii) NBU did not submit APFS for 2013 and 2014 until 11 July 2015 and did not submit APFS for 2015 until 13 September 2016.	NA.



Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a) (iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.	NA.	Complied with.	Complied with.
<b>Section 4.07.</b> In addition to the reports and information set forth in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished to ADB, all such reports and information as ADB shall reasonably request concerning: (a) the Qualified Subborrowers, the Qualified Subprojects and the Subloans; and (b) the administrative, operational and financial condition of QQB [PCBs].	Complied with.	Complied with.	Complied with.
<b>Section 4.08.</b> The Borrower shall promptly take all action, including the provision of funds and other resources, which shall be necessary on its part to enable QQB [PCBs] to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.	Complied with.	Complied with.	Complied with.
<b>Section 4.09.</b> (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.	Complied with.	Complied with.	Complied with.
(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.	Complied with.	Complied with.	Complied with.
<b>Procurement</b> 3.(a) The Borrower and QQB [PCBs] shall ensure that procurement of Goods, Works and other items of expenditures for the Qualified Subprojects is carried out with due attention to economy and efficiency and in accordance with established	Complied with. ADB's standard bidding document for small works (single-stage, two-envelope) was used.	Complied with. ADB's standard bidding documents for small works (single-stage, two-envelope) were used.	Complied with. ADB's standard bidding document for small works (single-stage, two-envelope) was used.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
private sector or commercial practices, acceptable to ADB.			
(b) Notwithstanding the generality of subparagraph (a) hereinabove and except as ADB may otherwise agree, Works shall only be procured on the basis of national competitive bidding (unless the threshold for national competitive bidding is exceeded, in which case international competitive bidding shall be used).	Complied with.	NA.	NA.
<b>Revision in Tranche 2 and Tranche 3</b> (b) Notwithstanding the generality of subparagraph (a) hereinabove and except as ADB may otherwise agree: (i) Works for the Qualified Subprojects shall be procured on the basis of national competitive bidding (unless the threshold for national competitive bidding is exceeded, in which case international competitive bidding shall be used); and (ii) Goods for the Project shall be procured using national competitive bidding (unless the threshold for national competitive bidding is exceeded, in which case international competitive bidding shall be used) and shopping.	NA.	Complied with.	Complied with.
(c) The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the method of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.	Complied with.	Complied with.	Complied with.
(d) The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures and bidding documents are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the FAM. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.	Complied with.	Complied with.	Complied with.
<b>Consulting Services</b> 4. Except as ADB may otherwise agree, the Borrower shall apply a quality- and cost-based selection for selecting and engaging Consulting Services.	Complied with. ADB agreed with the Borrower that (i) individual	Complied with. ADB agreed with the Borrower that (i) individual consultants	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
	consultants would be selected using individual consultant selection; (ii) the firm hired to perform the technical and financial performance review would be selected under consultants' qualification selection; and (iii) the firm hired to conduct the PIU audit would be selected using least-cost selection.	would be selected using individual consultant selection, (ii) the firm hired to perform the technical and financial performance audit for 2012 and 2013 would be selected under consultants' qualification selection, and (iii) the firms hired to conduct the PIU audits would be selected using least-cost selection.	
<b>Industrial or Intellectual Property Rights</b> 5. (a) The Borrower shall cause QQB [PCBs] to ensure that all Goods and Works procured for the Qualified Subprojects (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.	Complied with.	Complied with.	Complied with.
(b) The Borrower shall cause QQB [PCBs] to ensure that all contracts entered into with respect to the Qualified Subprojects for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) hereinabove.	Complied with.	Complied with.	Complied with.
6. The Borrower shall cause MOE to ensure that all ADB- financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.	Complied with.	Complied with.	Complied with.
<b>ADB's Review of Procurement Decisions</b> 7. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.	No contracts were procured under international competitive bidding.	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>8. The Borrower shall seek ADB's approval before it:</p> <ul style="list-style-type: none"> <li>(a) grants any extension of the stipulated time for completion of a contract for Goods or Works;</li> <li>(b) agrees to any modification or waiver of the conditions of a contract for Goods or Works, including any change order that falls under (c) or (d) below;</li> <li>(c) issues any change order under a contract for Goods or Works that will in aggregate increase the original contract price (for the avoidance of doubt, such aggregate shall take into account any previous or simultaneous change order or orders under such contract); or</li> <li>(d) issues any change order under a contract for Goods or Works that will affect more than 15% of the original contract price (either through increases or decreases), even if the net effect of such change order will not in aggregate increase the original contract price. For the avoidance of doubt, such aggregate shall take into account any previous or simultaneous change order or orders under such contract.</li> </ul>	No requests for approval were made.	NA.	NA.
<p><b>Revision in Tranche 2 and Tranche 3</b>  <b>ADB's Review of Procurement Decisions</b>                      In the case of a contract of Goods or Works, which is subject to ADB's prior review, the Borrower shall seek ADB's prior approval of any modification or waiver of the terms and conditions of the contract, including:</p> <ul style="list-style-type: none"> <li>(a) granting an extension of the stipulated time for completion of a contract for a period of 1 month or more, or which is likely to require an extension of the Loan Closing Date; and</li> <li>(b) increases in aggregate of the original price by more than 15% (for the avoidance of doubt, such increase shall take into account any previous change under such contract).</li> </ul>	NA.	No requests for approval were made.	No requests for approval were made.
<p>9. ADB shall respond to each request for approval under paragraph 8 above within 7 business days (in Manila) of ADB's receipt of such request. Such response will indicate that the request is: (a) approved; (b) declined; (c)</p>	No requests for approval were made.	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>pending receipt of additional information or documentation; or (d) pending consideration by ADB's Procurement Committee, in each case as determined by ADB. If ADB fails to respond within 7 business days (in Manila) of ADB's receipt of such request, the request shall be deemed to have been approved by ADB. In the case of (c), the Borrower shall promptly provide the requested information or documentation to ADB and ADB shall respond to the relevant request within 7 business days (in Manila) upon receipt of such requested information or documentation satisfactory to ADB. In the case of (d), ADB shall notify the Borrower of the decision by the Procurement Committee within 7 business days (in Manila) of such decision by the Procurement Committee.</p> <p><b>Revision in Tranche 2 and Tranche 3</b> ADB shall respond to each request for approval under sub paragraphs 7(a) and (b) hereinabove within 20 ADB business days (in Manila) of ADB's receipt of such request. Such response will indicate that the request is (a) approved; (b) declined; (c) pending receipt of additional information or documentation; or (d) pending consideration by ADB's Procurement Committee, in each case as determined by ADB.</p>	NA.	No requests for approval were made.	No requests for approval were made.
<p><b>Added in Tranche 2 and Tranche 3</b> In the case of a contract for Goods or Works, which is subject to ADB's post-review, ADB shall review the required contract modification or waiver and respond to the Borrower as soon as practicable, but not later than 1 month after the receipt of the required document.</p>	NA.	No requests for approval were made.	No requests for approval were made.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>10. The Borrower shall, or shall ensure that QQB:</p> <ul style="list-style-type: none"> <li>(a) provides to ADB within 7 days a copy of all time extensions, modifications or waivers to the contracts (including change orders) following ADB’s approval in accordance with paragraph 8 above and amendment of the contracts; and</li> <li>(b) maintains a record of all change orders under all contracts for Goods or Works which do not require ADB’s prior approval under paragraph 8 above and submit such record for ADB’s review every 6 months.</li> </ul> <p><b>Revision in Tranche 2 and Tranche 3</b> The Borrower shall provide to ADB copies of all time extensions, modifications or waivers to the contracts (including charge orders) within 1 month following amendment of the contract.</p>	<p>No requests for approval were made.</p>	<p>NA.</p> <p>No time extensions, modifications, or waivers to contracts (including change orders) were submitted to ADB.</p>	<p>NA.</p> <p>No time extensions, modifications, or waivers to contracts (including change orders) were submitted to ADB.</p>
<p><b>Implementation Arrangements</b> The Borrower and QQB shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower, QQB and ADB. In the event of any discrepancy between the FAM and this Loan Agreement and/or the Project Agreement, the provisions of this Loan Agreement and/or the Project Agreement shall prevail.</p> <p><b>Revision in Tranche 2 and Tranche 3</b> The Borrower, the MOE and the PCBs shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the FAM and this Loan Agreement and the Project Agreements, the provisions of this Loan Agreement and the Project Agreements shall prevail.</p>	<p>Complied with.</p> <p>NA.</p>	<p>NA.</p> <p>Complied with.</p>	<p>NA.</p> <p>Complied with.</p>

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p><b>Added in Tranche 3</b> <b>Technical and Financial Performance Audit, and Action Plans for QQB and QQI</b></p> <p>The Borrower through the MOE shall ensure that</p> <ul style="list-style-type: none"> <li>- the technical and financial performance audits for 2014 and 2015 are carried out promptly, and that the reports for such audits are submitted to ADB within 4 months from the signing of the contract with the auditors, or by 30 June 2016 for the report for the 2014 audit and by 30 September 2016 for the report for the 2015 audit; and</li> <li>- NBU, QQB and QQI provide ADB quarterly reports on the implementation of their respective action plans agreed with ADB.</li> </ul>	NA.	NA.	<p>Complied with late. Audit reports for 2014 and 2015 were submitted in March 2017.</p> <p>Complied with, although reports were not always submitted in a timely manner.</p>
<p><b>Added in Tranche 2</b> <b>Sale of Construction Materials Businesses/Companies</b></p> <p>The Borrower shall cause QQB to sell the construction materials businesses/companies (comprising 12 brick companies and 1 door, window and roof factory, transferred by QQI to QQB) to independent third parties by 30 September 2014.</p> <p><i>As amended in November 2014:</i> The Borrower shall cause QQB to sell the construction materials businesses/companies (comprising 12 brick companies and 1 door, window and roof factory, transferred by QQI to QQB) to independent third parties by 28 February 2015.</p>	NA.	Complied with, after delay. QQB completed sales for eight of the 13 companies by 28 February 2015, and the remaining five by April 2015.	NA.
<p><b>Qualified Subborrowers</b></p> <p>2. The Borrower shall cause QQB to ensure that each Qualified Subborrower shall meet and maintain the following eligibility criteria:</p> <ul style="list-style-type: none"> <li>(a) he/she is a citizen, and resident of a rural area, of the Borrower;</li> <li>(b) he/she agrees to use the Subloan only for the financing of his/her Qualified Subproject; and</li> <li>(c) he/she meets the moderate-income, or low-income, threshold of the Rural Housing Scheme (to be defined annually</li> </ul>	Complied with, except that 17% of qualified subborrowers had formal incomes higher than the moderate- income or low-income threshold (SUM1.25 million for 2012 and SUM1.50 million for 2013) defined annually by ADB. Note that the threshold was not	Complied with, except that 18% of qualified subborrowers for 2013 had formal incomes higher than the moderate- or low-income threshold (SUM1.50 million for 2013 and SUM1.75 million for 2014), defined annually by ADB. Note that the threshold was not defined as a multiple of the national	Complied with. During preparation of the project completion report, the project team determined that 396 of the 2,929 subborrowers selected for the Rural Housing Scheme by the Borrower and PCBs in 2016 did not meet the moderate-income or low-income threshold defined for 2015

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>as a multiple of the national minimum wage).</p> <p><b>Added in Tranche 2 and Tranche 3</b>                      (d) he/she agrees to occupy, and not to sell or transfer ownership of, the house purchased under his/her Qualified Subproject for at least 5 years from the date he/she receives the legal title to the house.</p>	<p>defined as a multiple of the national minimum wage.</p>	<p>minimum wage.</p>	<p>(SUM2.1 million) during the preparation of the project completion report because their formal incomes were between SUM2.1 million and SUM2.5 million.</p> <p>ADB asked the PCBs to replace these 396 subborrowers with subborrowers whose incomes were below the SUM2.1 million threshold. The PCBs complied with this request and the substitution process is ongoing as of the writing of this report.</p>
<p><b>Qualified Subproject</b>                      3. The Borrower shall cause QQB to ensure that each Qualified Subproject meets the following eligibility criteria:                      (a) the Qualified Subproject is for the purchase by the Qualified Subborrower of a house under the Rural Housing Scheme; and                      (b) the Qualified Subproject shall adhere to the safeguards requirements set forth in paragraphs 8 to 12 and 15 of this Schedule                      (for tranche 2: paragraphs 9 to 15 of this Schedule).</p>	<p>Complied with.</p>	<p>Complied with.</p>	<p>Complied with.</p>
<p><b>Subloan</b>                      4. The Borrower shall cause QQB to ensure that each Subloan:                      (a) shall charge interest at the rate of 7% per annum and have a term of 15 years, including a grace period of 6 months; and                      (b) shall not exceed \$50,000 equivalent.</p> <p><i>As amended in December 2013:</i>                      The Borrower shall cause QQB to ensure that each Subloan:                      (a) In 2012, shall charge interest at the rate of 7% per annum and have a term of 15 years, including a grace period of 12 months;                      (b) In 2013, shall charge interest at the rate of 7% for the first 10 years and the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 5 years, and have a term of 15 years, including a grace</p>	<p>Complied with, except that all subloans had a 12-month grace period.</p> <p>Complied with.</p>	<p>NA.</p>	<p>NA.</p>

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
period of 12 months; and shall not exceed \$50,000 equivalent.			
<p><b>Revision in Tranche 2 Subloan</b></p> <p>The Borrower shall cause the PCBs to ensure that:</p> <p>(a) each Subloan made by a PCB in 2013 shall: (i) have a term of 15 years, including a grace period of 12 months; and (ii) charge interest at the rate of 7% per annum for the first 10 years and equal to the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 5 years;</p> <p>(b) each Subloan made by a PCB in 2014 shall: (i) have a term of 15 years, including a grace period of 12 months; and (ii) charge interest at the rate of 7% per annum for the first 5 years and equal to 90% of the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 10 years; and</p> <p>all Subloans shall not exceed \$50,000 equivalent.</p>	NA.	Complied with.	NA.
<p><b>Revision in Tranche 3 Subloan</b></p> <p>The Borrower shall cause the PCBs to ensure that:</p> <p>(a) each Subloan made by a PCB shall: (i) shall have a term of 15 years, including a grace period of 3 years; and (ii) charge interest at the rate of 7% per annum for the first 5 years and equal to market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 10 years; and shall not exceed \$50,000 equivalent.</p>	NA.	NA.	Complied with.
5. The Borrower shall cause QQB to ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QQI activities under the Rural Housing Scheme). Each such Subloan approved by QQB, for which a loan agreement is entered into between QQB and a Qualified Subborrower, in 2012 shall comprise 35% of its amount from QQB's funds and 65% of the amount from the proceeds of the Loan re-lent by the	Complied with.	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>Borrower to QQB.</p> <p><i>As amended in December 2013:</i> The Borrower shall cause QQB to ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QOI activities under the Rural Housing Scheme.) Each such Subloan approved by QQB, for which a loan agreement is entered into between QQB and a Qualified Subborrower, in (a) 2012 shall comprise 35% of its amount from QQB's funds and 65% of the amount from the proceeds of the Loan re-lent by the Borrower to QQB; or 2013, shall comprise 70% of its amount from QQB's funds and 30% from the proceeds of the Loan re-lent by the Borrower to QQB.</p>	Complied with		
<p><b>Revision in Tranche 2</b> The Borrower shall cause the PCBs to ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QOI activities under the Rural Housing Scheme.) Each such Subloan approved by a PCB, for which a loan agreement is entered into between the PCB and a Qualified Subborrower, in 2013 shall comprise 70% of its amount from the PCB's funds and 30% of the amount from the proceeds of the Loan re-lent by the Borrower to the PCB. Each such Subloan approved by a PCB in 2014 shall comprise 80% of its amount from the PCB's funds and 20% of the amount from the proceeds of the Loan re-lent by the Borrower to the PCB.</p> <p><i>Last sentence amended in November 2014 to read:</i> Each such Subloan approved by a PCB in 2014 shall comprise 50% of its amount from the PCB's funds and 50% of the amount from the proceeds of the Loan re-lent by the Borrower to the PCB.</p>	NA.	Complied with, as amended.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p><b>Revision in Tranche 3</b></p> <p>The Borrower shall cause the PCBs to ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QQI activities under the Rural Housing Scheme.) Each such Subloan approved by a PCB, for which a loan agreement is entered into between the PCB and a Qualified Subborrower shall comprise 25% of its amount from the PCB's funds and 75% of the amount from the proceeds of the Loan re-lent by the Borrower to the PCB.</p>	NA.	NA.	Complied with.
<p>6. In the event that any eligibility criteria for a Qualified Subborrower, Qualified Subproject or Subloan is not confirmed, whether at the time of Subloan approval or thereafter, ADB reserves the right to exclude such Subloan from the Project.</p>	Complied with.	Complied with.	Complied with.
<p><b>Financial Covenants</b></p> <p>7. QQB [PCBs] shall remain financially sound throughout the Project implementation period. Specifically, QQB [PCBs] shall:</p> <p>(a) maintain a capital adequacy ratio of not less than 12%. For the purpose of this subparagraph, capital adequacy ratio means the ratio of regulatory capital to risk assets, expressed as a percentage. Regulatory capital means the aggregate of equity share capital, general reserves and subordinate debt. Risk assets mean the aggregate of total assets less risk-free assets (i.e., cash in hand, with CBU and other banks, and holdings of securities issued by the Borrower and by governments of countries of the Organisation for Economic Co-operation and Development) plus off-balance sheet contingencies;</p>	Complied with.	Complied with.	Complied with.
<p>(b) maintain a return on average assets ratio of not less than 0.5% for each of the last two completed fiscal years. For the purpose of this subparagraph, return on assets ratio means the division of net profit by the sum of the total assets at the end of the year in issue and the total assets at the end of the previous year, expressed as a percentage;</p>	<p>The ratio was 0.3% for 2012, i.e., 0.2% less than the minimum required. In response to a request by ADB, QQB adopted an action plan in August 2013 to improve its financial results. The</p>	<p>For QQB, the ratio was 0.3% for 2012, i.e., 0.2% less than the minimum required. In response to an ADB request, QQB adopted an action plan in August 2013 to improve its financial results. The ratio for</p>	<p>Complied with. QQB's return on average assets ratio was 0.6% for 2015 and 0.5% for 2016. NBU's return on average asset ratio was 1.0% in 2015 and 0.9% in 2016.</p>

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
	ratio for 2013 was 0.7%, and it has subsequently remained above the 0.5% minimum.	2013 was 0.7%, and it has subsequently remained above the 0.5% minimum.  For NBU, the ratio has always remained above the 0.5% minimum.	
(c) ensure that its non-performing loans (i.e., debts requiring 100% loan-loss provisioning as defined by CBU) is less than 5% of its total loan portfolio;	Complied with.	Complied with.	Complied with.
(d) maintain corporate, financial and governance practices acceptable to ADB; and	Complied with.	NA.	NA.
(e) maintain adequate credit and risk management policies, operating systems and procedures.	Complied with, except that (i) QQB did not impose a penalty on delinquent payments on subloans, (ii) QQB's procedures for collecting delinquent loans needed improvement, and (iii) QQB's procedures for registering pledge agreements needed improvement. In July 2015, in response to a request by ADB, QQB adopted an action plan that included the implementation of improved loan administration and collection procedures.	NA.	NA.
<b>Screening, Categorization, and Environmental and Social Assessment and Planning</b> 8. The Borrower shall, or shall cause QQB to, ensure that before any Qualified Subproject is approved for financing: (a) the ESMS is used to screen the Qualified Subproject from the environmental, indigenous peoples or involuntary resettlement impacts associated with such Qualified Subproject. The Borrower shall cause QQB to ensure that each Qualified Subproject is not category A or category B in terms of environmental, involuntary resettlement and/or ethnic minority or indigenous people impacts, within the meaning of the SPS;	Complied with.	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p><b>Revision in Tranche 2 and Tranche 3</b>  <b>Screening, Categorization, and Environmental and Social Assessment and Planning</b>            The Borrower shall, or shall cause PCBs to ensure that before any Qualified Subproject is approved for financing:</p> <p>(a) the ESMS is used to screen the Qualified Subproject from the environmental, ethnic minority/indigenous peoples or involuntary resettlement impacts associated with such Qualified Subproject and ensure that all Qualified Subprojects shall not involve any environmental, ethnic minority/indigenous peoples or involuntary resettlement impact which can be categorized as Category A or B within the meaning of the SPS [Safeguard Policy Statement];</p>	NA.	Complied with.	Complied with.
<p>(b) the environmental clearance from the Nature Protection Committee of the Borrower for the rural housing site for the Qualified Subproject has been obtained; and</p>	Complied with.	Complied with.	Complied with.
<p>(c) the rural housing site for the Qualified Subproject has been classified under the local government reserve land for non- agricultural activities since 31 December 2009 and there is no claim from any third party on this rural housing site.</p>	Complied with.	NA.	NA.
<p><b>Revision in Tranche 2</b>            (c) the rural housing site for the Qualified Subproject has been classified under the local government reserve land for non- agricultural activities since 31 December 2010 for 2013 houses and 31 December 2011 for 2014 houses, and there is no claim from any third party on this rural housing site.</p>	NA.	Complied with.	NA.
<p><b>Revision in Tranche 3</b>            (c) the rural housing site for the Qualified Subproject has been classified under the local government reserve land for non- agricultural activities since 31 December 2012 for 2015 houses, and there is no claim from any third party on this rural housing site</p>	NA.	NA.	Complied with.
<p><b>Environment</b>            9. The Borrower shall cause QQB to ensure that the preparation, design and construction of each Qualified</p>	Complied with.	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>Subproject complies with all applicable laws and regulations of the Borrower relating to environment, health and safety, the SPS, the ESMS and any corrective or preventative actions in the Safeguards Monitoring Reports.</p> <p><b>Revision in Tranche 2 and Tranche 3 Environment</b></p> <p>The Borrower shall cause the PCBs to ensure that the preparation, design and construction of each Qualified Subproject comply with all applicable laws and regulations of the Borrower relating to environment, health and safety and the SPS. Without limiting the generality of the foregoing, no environmental impact under the SPS is permitted for the Qualified Subprojects. In the event that there is any unanticipated impact during implementation of a Qualified Subproject, the Borrower shall cause the PCBs to ensure that they adhere to applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.</p>	NA.	Complied with.	Complied with.
<p><b>Land Acquisition and Involuntary Resettlement</b></p> <p>10. The Borrower shall cause QQB to ensure that all land used for each Qualified Subproject complies with paragraph 8(c) of this Schedule, all applicable laws and regulations of the Borrower, the SPS, the ESMS and any corrective or preventative actions set forth in the Safeguards Monitoring Reports.</p> <p><b>Revision in Tranche 2 and Tranche 3 Land Acquisition and Involuntary Resettlement</b></p> <p>The Borrower shall cause the PCBs to ensure that all land used for each Qualified Subproject comply with paragraph 9(c) of this Schedule, all applicable laws and regulations of the Borrower and the SPS. Without limiting the generality of the foregoing, no land acquisition or resettlement impact under the SPS is permitted for the Qualified Subprojects. In the event that there is any unanticipated impact during implementation of a Qualified Subproject, the Borrower shall cause the PCBs to ensure that they adhere to</p>	Complied with.	NA.	NA.
	NA.	Complied with.	Complied with.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.			
11. The Borrower shall cause QQB to ensure that no physical or economic displacement takes place in connection with any Qualified Subproject.	Complied with.	NA.	NA.
<p><b>Indigenous Peoples</b></p> <p>12. The Borrower shall cause QQB to ensure that the preparation, design and construction of each Qualified Subproject does not generate any adverse impact to the ethnic minority or indigenous people within the meaning of SPS, and complies with the ESMS and any corrective or preventative actions set forth in the Safeguards Monitoring Reports.</p> <p><b>Revision in Tranche 2 and Tranche 3 Ethnic Minority/Indigenous Peoples</b></p> <p>No ethnic minority/indigenous peoples impact under the SPS is permitted for the Qualified Subprojects. In the event that there is any unanticipated impact during implementation of a Qualified Subproject, the Borrower shall cause the PCBs to ensure that they adhere to applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.</p>	Complied with.	NA.	NA.
<p><b>Human and Financial Resources to Implement Safeguards Requirements</b></p> <p>13. The Borrower shall cause QQB [PCBs] to ensure that necessary financial [budgetary] and human resources are made available to fully implement the ESMS.</p>	NA.	Complied with.	Complied with.
<p><b>Human and Financial Resources to Implement Safeguards Requirements</b></p> <p>13. The Borrower shall cause QQB [PCBs] to ensure that necessary financial [budgetary] and human resources are made available to fully implement the ESMS.</p>	Complied with.	Complied with.	Complied with.
<p><b>Safeguards Monitoring and Reporting</b></p> <p>14. The Borrower shall cause QQB [PCBs] to:</p> <p>(a) submit annual Safeguards Monitoring Reports to ADB;</p> <p>(b) if any unanticipated environmental and/or social risks and impacts arise during Qualified Subproject implementation, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and</p> <p>(c) promptly report any actual or potential breach of compliance with the</p>	Complied with.	Complied with.	Complied with.





Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>provision for the financing of Subloans in 2012.</p> <p><i>As amended in December 2013:</i> Notwithstanding the generality of Section 4.02 of this Loan Agreement, the Borrower shall allocate in its national budget for 2012 counterpart financing for approximately 8,510 houses, and in its national budget for 2013 counterpart financing for approximately 1,790 houses, under the Rural Housing Scheme, and for the related infrastructure and social services, in 2012. Such counterpart financing of the Borrower shall be made by the end of 2011 and 2012 respectively. The Borrower shall ensure that QQB makes provision for the financing of Subloans in 2012 and 2013.</p>			
<p><b>Revision in Tranche 2 Counterpart Support</b> Notwithstanding the generality of Section 4.02 of this Loan Agreement, the Borrower shall allocate in its national budget for 2013 and 2014 counterpart financing for approximately 10,000 houses for 2013, and 10,000 houses for 2014, under the Rural Housing Scheme and related infrastructure and social services. Such counterpart financing of the Borrower shall be made by the end of 2012 and 2013 respectively. The Borrower shall ensure that the PCBs make provision for the financing of Subloans in 2013 and 2014.</p>	NA.	Complied with. The borrower allocated counterpart financing for 10,000 houses and related infrastructure for 2013, and for 11,000 houses and related infrastructure for 2014.	NA.
<p><b>Revision in Tranche 3 Counterpart Support</b> Notwithstanding the generality of Section 4.02 of this Loan Agreement, the Borrower shall allocate in its national budget for 2015 counterpart financing for approximately 2,929 houses for 2015 under the Rural Housing Scheme and related infrastructure and social services. Such counterpart financing of the Borrower shall be allocated by the end of 2014. The Borrower shall ensure that the PCBs make provision for the financing of Subloans in 2015.</p>	NA.	NA.	Complied with. The borrower allocated counterpart financing for 12,000 houses and related infrastructure for 2015.
<p><b>Sector Development</b> 20. The Borrower shall complete a study on the sale of QQI's construction materials businesses/companies (comprising 12 brick companies and 1 door, window and roof factory) and on</p>	Not complied with. A study was prepared on the sale of the construction materials companies,	NA.	NA.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p>the introduction of new construction supervision agents (in addition to QQI) for the Rural Housing Scheme.</p> <p><b>Revision in Tranche 2 and Tranche 3 Sector Development</b> The Borrower shall cause the PCBs to ensure that the standard contracts to be used under the Rural Housing Scheme (i.e., the mortgage agreements with the individual purchasers, the collateral agreements with the individual purchasers, the QQI pre-purchase agreements with the individual purchasers and the QQI contracts with the contractors) comply with the laws and regulations of the Borrower and are satisfactory to ADB.</p>	<p>but not on introduction of new construction supervision agents.</p> <p>NA.</p>	<p>Complied with.</p>	<p>Complied with.</p>
<p>21. The Borrower shall identify at least 1 new commercial bank (in addition to QQB) for participation in the provision of subloans under similar terms and eligibility criteria in the subsequent projects of the Investment Program. Such identification shall be completed by the end of 2012. ADB shall assist the Borrower on this process of identification, including carrying out of due diligence on prospective commercial banks.</p>	<p>Complied with. Two additional banks—the National Bank of Uzbekistan (NBU) and Ipoteka Bank—were proposed to participate in project 2 on the same terms as QQB. ADB performed due diligence on all three banks and determined that only QQB and NBU satisfied all program requirements. Starting in 2013, all three banks made loans to home buyers on the same terms and conditions. However, funds lent by ADB under projects 2 and 3 were onlent only to QQB and NBU.</p>	<p>NA.</p>	<p>NA.</p>
<p>22. The Borrower shall cause QQB to ensure that the standard contracts to be used under the Rural Housing Scheme (i.e. the QQB mortgage agreements with the individual purchasers, the QQI purchase agreements with the individual purchasers and the QQI contracts with the contractors) comply with the laws and regulations of the Borrower and are satisfactory to ADB.</p>	<p>Complied with.</p>	<p>NA.</p>	<p>NA.</p>

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
<p><b>Revision in Tranche 3</b></p> <p><b>Sector Development</b></p> <p>The Borrower shall cause the PCBs to ensure that the standard contracts to be used under the Rural Housing Scheme (i.e. mortgage agreements with the individual purchasers, the collateral agreements with the individual purchasers, the QQI pre-purchase agreements with the individual purchasers, and the QQI contracts with the contractors) comply with the laws and regulations of the Borrowers and are satisfactory to ADB.</p>	NA.	NA.	Complied with.
<p><b>Governance and Anticorruption</b></p> <p>23. The Borrower and QQB [PCBs] shall:</p> <p>(a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and</p> <p>(b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	Complied with.	Complied with.	Complied with.
<p>24. The Borrower and QQB [PCBs] shall ensure that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.</p>	Complied with.	Complied with.	Complied with.
<p><b>Combating Money Laundering and Financing of Terrorism</b></p> <p>25. The Borrower shall ensure that QQB [PCBs]:</p> <p>(a) complies with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;</p> <p>(b) formulates and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and</p> <p>(c) promptly informs the Borrower and ADB if there is any violation or potential</p>	Complied with.	Complied with, except that the PCBs did not submit regular periodic reports to ADB.	Complied with, except that the PCBs did not submit regular periodic reports to ADB.

Reference/Section	Loan 2775-UZB (Tranche 1)	Loan 3039-UZB (Tranche 2)	Loan 3271-UZB (Tranche 3)
violation of subparagraph (a) hereinabove. In the event that ADB informs QQB [a PCB] of its concern that there has been such an alleged violation, QQB [the PCB] shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.			
<b>Added in Tranche 2 and Tranche 3</b> (d) provide an update in their periodic reports to ADB on any change in their management or shareholders.	NA.		
26. The Borrower shall ensure that QQB [the PCBs] complied with the requirements of United Nations Security Council Resolutions 1737, 1747, 1803 and 1929 (and any additional related resolution of the United Nations Security Council), which are mandatory requirements for the Borrower, to ensure that QQB [PCBs] does not have any direct or indirect dealing with entities or persons identified in these resolutions.	Complied with.	Complied with.	Complied with.

ADB = Asian Development Bank, APFS = audited project financial statements, CBU = Central Bank of Uzbekistan, ESMS = environmental and social management system, FAM = facility administration manual, MOE = Ministry of Economy, MOF = Ministry of Finance, NA = not applicable, NBU = National Bank of Uzbekistan, PCB = participating commercial bank, PIU = program implementation unit, QQB = Qishloq Qurilish Bank, QQI = Qishloq Qurilish Invest, SPS = Safeguard Policy Statement.

Notes:

1. The term QQB is used in tranche 1, while PCB is used for tranches 2 and 3.
2. The status of compliance with loan covenants for the three chances were referred from project completion reports of tranches 1 and 2, and draft completion report of tranche 3.

Sources: ADB. 2016. *Completion Report: Housing for Integrated Rural Development Investment Program (Tranche 1) in Uzbekistan*. Manila (Loan 2775); ADB. 2017. *Completion Report: Housing for Integrated Rural Development Investment Program (Tranche 2) in Uzbekistan*. Manila (Loan 3039). ADB. 2017. *Draft Completion Report: Housing for Integrated Rural Development Investment Program (Tranche 3) in Uzbekistan*. Manila (Loan 3039).