

**Validation Report**  
July 2019

# Uzbekistan: Small Business and Entrepreneurship Development Project

Reference Number: PVR-625  
Project Number: 42007-014  
Loan Number: 3043



*Raising development impact through evaluation*

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBU	–	Central Bank of Uzbekistan
DMF	–	design and monitoring framework
ESMS	–	environmental and social management system
GAP	–	gender action plan
GDP	–	gross domestic product
MOF	–	Ministry of Finance
PCB	–	participating commercial bank
PCR	–	project completion report
TA	–	technical assistance

## NOTE

In this report, “\$” refers to United States dollars.

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## PROJECT BASIC DATA

Project Number	42007-014	PCR Circulation Date	13 September 2018	
Loan Number	3043	PCR Validation Date	Jul 2019	
Program Name	Small Business and Entrepreneurship Development Project			
Sector and Subsector	Finance	Inclusive finance—Small and medium enterprise finance and leasing		
Strategic Agenda	Inclusive economic growth			
Safeguard Categories	Environment		FI	
	Involuntary Resettlement		FI-C	
	Indigenous Peoples		FI-C	
Country	Republic of Uzbekistan		Approved (\$ million)	Actual (\$ million)
ADB Financing (\$ million)	ADF: 0.00	Total Project Costs	133.30	100.00
	OCR: 50.00	Loan	50.00	50.00
		Borrower	0.00	0.00
		Beneficiaries <sup>a</sup>	33.30	0.00
		Others <sup>b</sup>	50.00	50.00
Cofinancier	-	Total Cofinancing	0.00	0.00
Approval Date	1 Oct 2013	Effectiveness Date	20 Jan 2014	28 Feb 2014
Signing Date	21 Nov 2013	Closing Date	31 Dec 2017	20 Jan 2016
Project Officers	A. Schou-Zibell A. Mukhamedyarova	Location ADB Headquarters ADB Headquarters	From Oct 2013 Oct 2015	To Oct 2015 Jan 2016
IED Review Director Team Leader	N. Subramaniam, IESP S. Somma, Evaluation Specialist, IESP*			

ADB = Asian Development Bank, ADF = Asian Development Fund, FI = financial intermediation, IED = Independent Evaluation Department, IESP = Sector and Project Division, OCR = ordinary capital resources, PCR = project completion report.

<sup>a</sup> Equity contributions of subborrowers.

<sup>b</sup> Contributions of participating commercial banks which include HamkorBank and Ipak Yuli Bank.

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## I. PROJECT DESCRIPTION

### A. Rationale

1. Small businesses play a significant role in the economy of the Republic of Uzbekistan. In 2012, these businesses contributed 54.6% to gross domestic product (GDP) and 75.2% to total employment or about 9.3 million people.<sup>1</sup> Of the micro and small businesses registered in the same year, 84.5% operated outside the capital city of Tashkent. Lending to small businesses and microcredit comprised 26.3% and 5.7% of banks' total outstanding loans, respectively. Women's businesses accessed less than 15% of the total bank loans.

2. The major constraints small businesses faced in expanding and achieving more profitable operations were the limited access to credit particularly long-term financing, high cost of credit,

<sup>1</sup> Government of Uzbekistan, State Committee on Statistics. 2013. *Statistical Review of the Republic of Uzbekistan*. Tashkent.

high collateral requirements of up to 125% of loan size, and lack of access to business development services. Bank loans typically had short maturities of 6–24 months that restrained small businesses from expanding and modernizing. Insufficient collateral limited the size of loans, thus restricted the ability to borrow more for growth and capital investments. Weak financial literacy especially among women-led small businesses and low-income groups limited their access to financial services and entrepreneurial capacity. On the supply side, weak risk management capacity of banks constrained their lending to small businesses with little or no collateral especially those outside Tashkent.

3. The Small Business and Entrepreneurship Development Project<sup>2</sup> was formulated to address the need to improve the ability of small businesses, including those of women, to operate, expand, access finance, and benefit from economic opportunities. The participating commercial banks (PCBs) were envisaged to benefit from increased long-term finance and stronger institutional capacity, which will enable them to better meet the demand for financial services of small businesses, including women's small businesses and rural small enterprises. Technical assistance (TA) support was provided as part of the loan to improve PCBs' capacity to lend to small businesses and in turn improve entrepreneurial capacities of rural small businesses.

## **B. Expected Impacts, Outcomes, and Outputs**

4. The expected impact of the project was viable rural small businesses with women's participation. The expected outcome was increased financial access by rural small businesses with women's participation.

5. The planned outputs were (i) strengthened capacity of PCBs to deliver financial services to women's small businesses and rural small businesses; and (ii) improved borrowing capacity of women's small businesses and rural small businesses.

## **C. Provision of Inputs**

6. The project was approved on 1 October 2013 and became effective on 28 February 2014. The effectiveness of the loan agreement was extended twice due to the delay in drafting and signing of subsidiary loan agreements between the government and the PCBs, process in obtaining the government's legal opinion on the loan agreement, and establishment of the project implementation units. The actual closing date of the loan was 20 January 2016, ahead of the planned closing date of 31 December 2017.

7. The estimated project cost was \$133.3 million. The Asian Development Bank (ADB) provided a \$50.0 million loan to Uzbekistan, which was channeled through two PCBs—Hamkorbank (\$25.0 million) and Ipak Yuli Bank (\$25.0 million). The PCBs provided \$50.0 million equivalent in counterpart funding and subborrowers contributed equity of \$33.3 million. The financing arrangements were followed as planned and the ADB loan was fully utilized.

8. The project was categorized as financial intermediation (FI) for environment and FI-C with respect to involuntary resettlement and indigenous peoples. The small-scale subborrower activities were unlikely to have negative environmental impacts. The project was categorized as effective gender mainstreaming, specifically addressing women's empowerment through access

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<sup>2</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Small Business and Entrepreneurship Development Project*. Manila.

to financial resources and capacity building. The project design incorporated a gender action plan (GAP) that sought to strengthen PCBs' capacity to deliver financial services to women's small businesses and improve their borrowing capacity.

9. The TA support for \$0.5 million was provided to help develop PCBs' capacity for financial services delivery and improve entrepreneurial capacities of rural small businesses, including women entrepreneurs. The TA became effective on 7 November 2013 and was implemented from 7 November 2013 to 31 December 2016. It was extended by 1 year to help the banks complete the planned activities such as development of new financial products for women and gender training. There were no cost overruns on the TA with 30% of the funds unutilized due to savings.

## **D. Implementation Arrangements**

10. As envisaged in the design, the Ministry of Finance (MOF) was the executing agency and Ipak Yuli Bank and Hamkorbank were the implementing agencies. Each PCB established a project implementation unit to monitor and report on the use of loan proceeds and compliance with the requirements on environmental and social safeguards and covenants. The implementing arrangements were clear and suitable for the expected outputs and outcome. All the 54 covenants were complied with. The PCBs satisfactorily complied with the covenants on financial performance under the project. The submission of the required monitoring reports, including for safeguards, were complied with. The PCBs adopted gender policies and established gender focal points to support gender-sensitizing capacity. The GAP was monitored and implemented.

11. On 23 July 2014, a minor change on the implementation arrangement was approved to allow recruitment of a national environmental and social management system (ESMS) training expert for 1 person-month to provide training to the PCBs. The change was appropriate as it helped enhance PCBs' ESMS capacity.

## **II. EVALUATION OF PERFORMANCE AND RATINGS**

### **A. Relevance of Design and Formulation**

12. This validation assesses the project relevant to Uzbekistan's development priorities, which includes enabling small businesses to be the engine of economic growth, poverty reduction, and diversification and investment in the economy.<sup>3</sup> It is also in line with ADB's Country Partnership Strategy for Uzbekistan, 2012–2016,<sup>4</sup> and the Country Operations Business Plan for Uzbekistan, 2012–2014.<sup>5</sup>

13. In terms of relevance of design, the project adopted a participatory approach whereby government, private entities and development partners actively contributed to the project formulation. It built on the lessons deriving from the previous two loans and, as such, it highlighted the need to strengthen bank capacity for rural outreach, continued targeting of women's and rural

<sup>3</sup> Government of Uzbekistan. 2011. *Presidential Decree No. PP 1474. On Further Strengthening Micro, Small and Medium Enterprises Development*. Tashkent; and Government of Uzbekistan. 2010. *Presidential Resolution No. 1438 on Priority Areas for Further Reforms and Sustainability Improvement of the Country's Finance and Banking System in 2011–2105 and Achieving High International Ratings*. Tashkent.

<sup>4</sup> ADB. 2012. *Country Partnership Strategy: Uzbekistan, 2012–2016*. Manila.

<sup>5</sup> ADB. 2012. *Country Operations Business Plan: Uzbekistan, 2012–2014*. Manila.

small businesses, and closely monitored the PCBs during implementation.<sup>6</sup> Moreover, it benefited from a diagnostic assessment on the role of small businesses in the economy and shortcomings of formal financing institutions in meeting the demand for financial services of these businesses.

14. The inputs, outputs, and targets were clearly defined, and altogether logical to achieve the intended outcome. This validation nonetheless notes that the indicator on increase on the number of registered small businesses may not provide an effective measure of output 2 “improved borrowing capacity of women’s and rural small businesses.” The project as a financial intermediation loan did not include assistance on the policy and regulatory environment that can influence the increase in the number of registered small businesses. The target of increased number of registered small businesses was, therefore, too ambitious given the nature of assistance provided and not in consonance with the output 2 statement.

15. In terms of gender mainstreaming, the outputs, targets and indicators of the GAP were clearly specified. Gender specific indicator and target were set at the outcome level. The support for gender sensitization of PCBs’ operations and improving the capacity of women’s small businesses provided under the TA was suitable in meeting the identified needs. In terms of safeguards, the categorization of project as FI-C was justified given that the credit line modality was directed at rural small businesses and women.

16. Under the project, the PCBs were allowed to provide loans in either Uzbek sums or US dollars to small businesses. However, the project completion report (PCR) stated that these banks were reluctant to disburse loans in US dollars because of possible problems and delays with repayment arising from regulatory procedures on conversion.<sup>7</sup> Regulations of the Central Bank of Uzbekistan (CBU) also imposed legal and practical restrictions on cash transactions, which constrained small borrowers that need cash for their business particularly those involved in trade and manufacturing (para. 28). These regulatory restrictions increased transaction costs and resulted in a premium for cash with the difference between cash and noncash prices at 10% to 15%.<sup>8</sup> These issues were not fully addressed in the design and not resolved during implementation. Assistance in addressing these issues could have provided significant contribution to the environment for lending to small businesses and demonstrative value for other programs facing similar restrictive regulatory environment.

17. Based on the above assessment, the PCR rated the project relevant. This validation notes the inconsistency in the PCR’s rating of relevance—in para. 33 it rated the project highly relevant but in Table 3 it rated the project relevant. This validation assesses the project relevant because it supported government’s priority of strengthening small businesses, followed a participatory approach in design formulation, helped address the identified constraint of unmet credit demand from women’s and rural small businesses, and strengthened PCBs’ lending capacity to women and small businesses. However, the project had no exceptional innovative features, substantial demonstration value for other programs, and transformative effects to merit a highly relevant rating. It intended to provide subloans either in sums or US dollars, but regulatory restrictions on cash transactions and currency conversion were not adequately addressed in the

<sup>6</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Small and Microfinance Development Project*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Second Small and Microfinance Development Project*. Manila; and ADB. 2011. *Completion Report: Small and Microfinance Development Project in Uzbekistan*. Manila.

<sup>7</sup> ADB. 2018. *Completion Report: Small Business and Entrepreneurship Development Project in Uzbekistan*. Manila. (para. 17).

<sup>8</sup> Footnote 7.

design. Also, there was shortcoming in the indicator used for measuring improved borrowing capacity of women's and rural small businesses in the design and monitoring framework (DMF).

## **B. Effectiveness in Achieving Project Outcomes and Outputs**

18. The PCR rated the project highly effective in achieving expected outcomes. It underscored the disbursement of the entire loan amount of \$50 million, increased access to rural and women's small businesses, and attained the output targets.

19. This validation notes that the envisaged outcome of increased financial access by rural small businesses with women's participation was achieved. The project exceeded the target of 50% new loans extended by PCBs to small businesses outside of Tashkent City. By 2017, the PCBs issued 5,952 new loans, of which 4,535 or 76.2% were onlent to rural small businesses. Of these, 1,878 or 31.6% were onlent to women's small businesses, which met the target of at least 30% new loans to women.

20. The targets for the 2 outputs specified in the DMF were mostly achieved. The first output on strengthened capacity of the PCBs to deliver financial services to women's small businesses and rural small businesses was achieved. The first indicator of at least 5,000 new microfinance loans was achieved. By 2017, at least 5,098 microfinance loans were disbursed—3,865 (76%) to rural small businesses and 1,189 (33%) to women. The second indicator of at least 100 new small loans issued by the PCBs was also achieved. By 2017, both PCBs disbursed a total of 854 new loans—671 (79%) were provided to rural clients and 289 (43%) to women.

21. The second output on improved borrowing capacity of women's small businesses and rural small businesses was partly achieved. The first indicator was to be achieved by 2017 at least 3,000 potential subborrowers trained by PCBs and accessed subloans under the project, of which at least 30% are women. This target was exceeded. By 2017, the total business clients trained by PCBs was 8,028 and 4,625 subborrowers (58%) received loans, of which 1,747 (38%) were women who received training and accessed loans. The second indicator on 310,000 small businesses registered by 2017 was partly achieved. As of 1 January 2017, a total of 233,292 enterprises were registered as micro- and small enterprises, which was 25% lower than the target at design. This validation notes that the target for the number of registered small business was too ambitious given the nature of ADB's assistance (para.14).

22. The PCBs adopted gender strategies that were aligned with their overall business strategies. Gender teams were formed by each responsible for the implementation of the GAP and appointed focal points responsible for monitoring and coordination. By 2017, the PCBs delivered an average of 31% of new loans<sup>9</sup> to women's small businesses, which surpassed the target of 30%. Of the total business clients trained by PCBs, 38% were women, also higher than the 30% target.

23. The project also contributed in addressing the unmet credit demand from women's and rural small businesses. It allowed loan repayment of up to 5 years providing small businesses with greater flexibility to manage their cash flows and invest in growth. The project funds were onlent at market-based interest rates, which provided added value to ADB's support by demonstrating the viability of small business lending based on market principles.

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<sup>9</sup> Footnote 7, Appendix 6, p. 51.

24. The project complied with the ADB's Safeguard Policy Statement (2009) and the requirements of national labor, environment, health, safety, and social laws and regulations. There were no reported adverse effects of subprojects on the environment, indigenous people, and resettlement.

25. The TA was rated successful and it provided support in building capacity of the PCBs and its clients.<sup>10</sup> The consultants met their terms of reference and gave the necessary support to the PCBs and potential borrowers, including monitoring and mitigating risks. The TA helped deliver the expected outputs and achieve the targets.

26. This validation assesses the project effective. The project realized its expected outcome of increased financial access by rural small businesses with women's participation. Of the two outputs, one was achieved and the other partly achieved due to the target on the number of enterprises registered that was not met.

### **C. Efficiency of Resource Use**

27. The PCR rated the project efficient in achieving the outcome and outputs. It indicated that the delay in loan effectiveness had no effect on the performance of the project. The disbursements were made in timely manner and the loan was closed ahead of schedule. The TA was efficient in delivering the outputs within the planned budget.

28. Under the project, subborrowers had the option to borrow in local currency. However, this entailed higher cost with difference between cash and noncash prices at 10% to 15% due to CBU regulatory restrictions on cash transactions.<sup>11</sup> This was disadvantageous to entrepreneurs particularly those who need cash for payments at card terminals. The process of direct transfers from the PCBs to the subborrowers' suppliers were also very inflexible, where the borrower cannot purchase directly using borrowed funds. These likely affected the efficiency of doing business and the growth of enterprises.

29. The PCR indicated that lending operations of the PCBs were generally efficient. The introduction of an online system for processing loan applications reduced processing of applications by 1.5 to 2 times during project implementation. The PCBs' cost to income was less than 75% as required in the loan covenant. The PCBs also exceeded the project distributions of microfinance loans by 1.1 times and of small business loans by 8.5 times.

30. Thus, the project was efficient in delivering the expected outputs and outcome. This validation assesses the project efficient.

### **D. Preliminary Assessment of Sustainability**

31. The PCR rated the project likely to be sustainable. It underscored the improved ability of the PCBs to expand beyond the traditional areas, increased capacity to finance rural and women's small businesses, PCB's profitable small and medium-sized enterprise operations, and government's strong commitment to ease the business environment. On the part of the subborrowers, the project helped improve their access to financing of up to 3 years and their capacity in management and financial literacy. In 2016, ADB approved the Small Business

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<sup>10</sup> ADB. 2018. *Technical Assistance Completion Report: Improving Rural and Women's Small Business Access to Finance in Uzbekistan*. Manila.

<sup>11</sup> Footnote 7.



Finance Project for \$100 million to support the government's continued efforts to promote and strengthen small businesses.<sup>12</sup> This validation shares the same view of the PCR that this will further sustain the benefits and outcome realized under the project with Hamkorbank and Ipak Yuli Bank as two of the four PCBs selected under this follow-up project.

32. This validation notes that PCB's loan portfolio has significantly grown since 2014. Hamkorbank's value of loan portfolio in sums more than doubled since 2014, while that of Ipak Yuli Bank grew by 91%. Both PCBs were able to maintain good quality portfolio indicated by very low nonperforming loans of less than 1%, substantially below the agreed financial covenant of not more than 5%. These banks also operated profitably with average return on assets of at least 2% during project implementation period, which met the financial covenant of not less than 1% and higher than the 1.6% realized by Uzbekistan's banking sector in 2016.<sup>13</sup> This validation sees that the good asset quality and profitable operations of both PCBs will help sustain the outcome of the project.

33. Lastly, this validation views government's efforts will benefit small businesses and contribute to the sustainability of the project's outcome. The government has set the development of small businesses as a top priority in the reform agenda for 2016–2020.<sup>14</sup> In 2014, the law on collateral registry was adopted to support online registry of movable property, which helps improve the legal environment for small businesses to access finance. On these grounds, this validation assesses the project likely sustainable.

### III. OTHER PERFORMANCE ASSESSMENTS

#### A. Preliminary Assessment of Development Impact

34. The PCR rated the project's impact likely to be moderate to significant. The performance indicator for impact targeted an increase in contribution of GDP to small businesses to 60.0% by 2020 from 54.6% in 2011. As of 1 January 2017, the contribution of small businesses to GDP already reached 56.9%. This validation notes that given the development priority of the government for small businesses, the trend is likely to increase toward the target for 2020. However, attributing these improvements to the project is challenging.

35. The DMF also targeted for impact an increase in active female individual entrepreneurs outside of Tashkent from 29.5% in 2011 to 42.0% by 2020. As of 1 January 2017, 40% of female individual entrepreneurs manage or own businesses outside Tashkent, which indicates that the trend is increasing. This validation is of the view that target of 42% by 2020 will likely be reached.

36. The PCR rated the institutional development impact of the project as significant. This validation shares the same view that the project helped improve PCB's capacity in credit delivery and risk assessment of loans for small and women's businesses. The online systems implemented by PCBs facilitated faster processing of loan applications. Training on electronic banking regulation and supervision was provided to PCB employees. The PCBs implemented ESMSs that met ADB requirements and complied with government's labor, environment, health,

<sup>12</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for Small Business Finance Project*. Manila.

<sup>13</sup> The Global Economy.com. Uzbekistan: Return on Assets.

[https://www.theglobaleconomy.com/Uzbekistan/bank\\_return\\_assets/](https://www.theglobaleconomy.com/Uzbekistan/bank_return_assets/) (accessed March 2019).

<sup>14</sup> Government of Uzbekistan. 2015. *Presidential Decree No. 4725: About measures for ensuring reliable protection of private property, small business and private entrepreneurship, and removal of barriers to their accelerated development*. Tashkent.

safety, and social laws and regulations. Additional training was also provided to the PCBs on gender sensitization and the GAP was further developed. In view of PCB's improved capacity to lend to women's small business and rural small businesses, this validation assesses institutional development impact satisfactory.

37. The PCR assessed the impact on gender to be likely significant. This validation notes that during implementation, 21,928 jobs were created, of which 37% were for women, significantly above the GAP target of 25%. On average, 31% of new loans were disbursed to women, which met the target of 30%. The use of e-banking services was promoted with over 35% estimated women users. The PCBs conducted business and financial literacy for women with about 400 women trained. Seminars were also conducted for training of trainers on improving access to finance of women entrepreneurs in rural areas. This validation assesses the gender impact satisfactory.

38. This validation assesses the project's development impact satisfactory. The project had significant impact on the PCBs and gender. PCBs' capacity for delivering financial services to small businesses was improved and women gained greater access to these services. The DMF performance indicators for impact have yet to be achieved by 2020 and the trend has so far been upward toward the targets.

## **B. Performance of the Borrower and Executing Agency**

39. The PCR did not rate the performance of the MOF as executing agency. It only rated the performance of the PCBs as implementing agencies.

40. This validation assesses the performance of the MOF satisfactory. The effectiveness of the loan was delayed because of legal requirements and procedures between the government and the PCBs, but this did not affect the performance of the project. The loan covenants were satisfactorily complied with. The MOF provided adequate support in implementing TA activities.

41. This validation shares the PCR's view that the PCB's performance is satisfactory. Both PCBs demonstrated strong commitment and had business strategies to serve rural and women-led businesses. Project implementation units were established in these banks and all eligibility criteria for accessing the loan were met. The ESMSs were established to the satisfaction of ADB and designated staff were trained and appointed in the ESMS. The PCBs and their subborrowers complied with environmental and social safeguard requirements. The PCBs cooperated well with ADB in the monitoring process and in meetings with ADB authorized representatives. These banks complied with all the financial covenants, agreed loan disbursement schedule, and successfully disbursed the loan amount of \$50 million prior to the planned closing date of 31 December 2017.

## **C. Performance of the Asian Development Bank**

42. The PCR rated the performance of ADB satisfactory. ADB fielded one inception mission and two review missions. During the review missions, ADB also conducted field visits with subborrowers to gather feedback. ADB was effective in ensuring that all issues related to the loan and TA administration were addressed accordingly and in a timely manner. ADB was responsive to requests of the government and the PCBs during implementation. This validation also assesses the performance of ADB satisfactory.

## D. Others

43. No major issues were encountered in procurement. The PCBs expressed satisfaction with the advisory services provided under the TA. The performance of consultants under the TA and capacity building was effective and rated by the PCR as satisfactory.

## IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

### A. Overall Assessment and Ratings

44. The PCR rated the project successful. This validation assesses the project successful. The project is rated relevant in addressing the identified key constraints of limited access to finance of rural and women's small businesses and PCBs' lack of institutional capacity to meet their demand for financial services. The project is assessed effective as most of the output targets and the envisaged outcome of increased financial services by rural small businesses with women's participation were achieved. The project is rated efficient in delivering the expected outputs and outcome within the planned budget and in closing the loan ahead of schedule. The project is assessed likely sustainable because of PCBs' increased capacity to finance rural and women's small businesses, profitable operations of these PCBs, increased borrowing capacity of women and small rural businesses, ADB's follow-up project, and government's continued efforts to support small businesses.

### Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant (para. 33) Relevant (Table 3)	Relevant	The project had no exceptional innovative features, substantial demonstration for other projects, and transformative effects to merit a highly effective rating.
Effectiveness	Highly effective	Effective	Indicator for the number of enterprises registered was not achieved (para. 21).
Efficiency	Efficient	Efficient	
Sustainability	Likely to be sustainable	Likely sustainable	
<b>Overall assessment</b>	<b>Successful</b>	<b>Successful</b>	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 50. The ratings for effectiveness, efficiency, and sustainability were adequately substantiated. Data presented were of good quality. The validation notes that evidence and analysis to substantiate highly relevant rating was inadequate. There was no assessment on the performance of the executing agency.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.  
Source: ADB Independent Evaluation Department.

## B. Lessons

45. The PCR presented three key lessons. First, for financial intermediation loans to be effective in fulfilling their objectives to economic growth and development, they should be complemented by policy-based operations that can help catalyze policy and institutional reforms. Second, systematic data collection should be made to assess the larger intended development impacts of financial intermediation and to estimate the credit gap to ensure that ADB funds do not displace private sector funds. Third, mechanisms should be developed that will leverage sovereign loans to move subborrowers to more market-based finance.

46. At the **sector level**, this validation adds the lesson that regulatory bottlenecks (such as regulatory procedures on foreign exchange and restrictions on cash transactions) that affect implementation need to be assessed more comprehensively, reviewed at appraisal, and the relevant agencies to be proactively involved in addressing the issues. At the **project level**, the TA envisaged supporting a baseline survey for an impact evaluation study, which was not carried out. Only a qualitative impact study was implemented.<sup>15</sup> Plans should have been incorporated in the design to include a rigorous impact evaluation that establishes data from a baseline survey at the onset and another one after the project.

## C. Recommendations for Follow-Up

47. The recommendations in paras. 51–54 of the PCR should have been better presented by classification (e.g., sector level, project level, etc.). The PCR somewhat mixed the recommendations with the lessons. The PCR recommended more in-depth analysis, tools for measuring impact, and collection of baseline data need to be further developed. There is need to take long-term and systemic approach to financial intermediation loans to realize larger development impact. This includes thorough economic and sector work to guide policy discussions, expansion of the PCBs to include other better performing banks, and capacity building support. ADB needs to remain actively engaged in the sector to support government's continuing reforms. The PCR also offered a mix of recommendations drawn from lessons learned in finance projects. These include engaging in policy dialogue on regulatory impediments to small and medium-sized enterprise development, setting up prudential and supervisory infrastructure for banks and other finance institutions, building PCB's capacity, strengthening monitoring, increasing subloan size to \$1 million, and rigorous review of subloans to determine the type of support needed for future interventions. Future loans should establish capital adequacy ratios covenants in line with recent CBU requirements.

48. In addition, this validation recommends that baseline and end-of-project data on subborrowers should form part of the monitoring design and framework of onlending projects that specifically target women's and rural small businesses. These projects need to plan for surveys to collect data needed for measuring impact. Second, in the absence of government demand for policy-based loan in a very regulated environment, a series of TAs may be used to support incremental measures and sequential reforms toward easing constraints in the financial system.

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<sup>15</sup> N. Biondal. 2014. *Qualitative Impact Study: Uzbekistan Small Business and Entrepreneurship Project*. Tashkent.

## V. OTHER CONSIDERATIONS AND FOLLOW-UP

### A. Monitoring and Reporting

49. The indicators identified in the DMF were clear and measurable. The financial ratios used were appropriate in monitoring the financial performance of the PCBs and compliance with the financial covenants. The data on financial performance were drawn mainly from PCBs' audited financial statements and loan portfolio. The PCR provided good quality and reliable data. This evaluation notes the lack of a rigorous baseline survey for impact evaluation, which was envisaged in the TA. Instead, a qualitative impact study was conducted under the TA.<sup>16</sup> A quantitative impact study that measures how the project's assistance benefited women's and rural small businesses could have been useful to the project and design of future projects.

### B. Comments on Project Completion Report Quality

50. The PCR followed the ADB Project Administration Guidelines 6.07a.<sup>17</sup> The actual achievements vis-à-vis the expected outcome and output were clearly presented in Appendix 1. PCB's performance presented in Appendixes 3 and 4 provided a comprehensive picture of PCB's operations and financial performance and were useful for the analysis. The data presented were of good quality. The status of compliance with loan covenants presented in Appendix 4 had complete information on the extent of compliance. The status of the GAP implementation in Appendix 6 was informative. The ratings for effectiveness, efficiency, and sustainability were adequately substantiated. This validation assesses the overall quality of the PCR satisfactory. However, it notes that the overall evidence and analysis to substantiate a highly relevant rating was inadequate; moreover, the rating for relevance in the text was inconsistent with Table 3 (para. 13). The PCR could have benefited from an assessment of the performance of the executing agency.

### C. Data Sources for Validation

51. The data sources used for this validation were the reports and recommendations of the President including on the Second Small and Microfinance Development Project, PCR, back-to-office reports on inception and review missions, and TA completion report.

### D. Recommendation for Independent Evaluation Department Follow-Up

52. None.

<sup>16</sup> N. Blondal. 2015. *Qualitative Impact Study: Uzbekistan Small Business and Entrepreneurship Project*. Tashkent.

<sup>17</sup> ADB. 2009. Project Completion Report for Sovereign Operations. *Project Administration Instructions*. PAI 6.07a. Manila.