

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: CWGF

TA 6078-REG: Rural Finance in Central Asia			Amount Approved: \$600,000	
			Revised Amount: \$650,000	
Executing Agency Asian Development Bank		Source of Funding TASF	Amount Undisbursed: \$15,337.28	Amount Utilized: \$633,663
TA Approval Date: 18 December 2002	TA Signing Date: n.a.	Fielding of First Consultants: 20 October 2003	TA Completion Date Original: 31 December 2003	Actual: 30 June 2006
			Account Closing Date Original: 2 December 2003	Actual: 31 August 2006
<p>Description</p> <p>The TA was approved to finance a diagnostic study on rural financial systems in the Central Asian region and discuss approaches, modalities, and best practices for efficient intermediation in delivering rural financial services. The TA aimed to bring together rural finance experts and market participants, as well as other stakeholders, to encourage a debate on issues facing rural financial systems, as well as disseminate recommendations. The TA was led by the belief that existing financial systems in Central Asia underserve the rural sector, which employs a comparatively high percentage of the population and accounts for a significant percentage of gross domestic product.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The objective of the TA was to promote the development of sound and viable rural financial markets to make improved financial services widely accessible to rural micro entrepreneurs and small and medium-sized enterprises. The TA was to support a regional study to undertake a comprehensive overview and analysis of the size and structure of rural financial activity in five countries in the Central Asian region (Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan) and Mongolia and related issues. Considering local requirements and conditions, the TA was to advise the Governments as well as Asian Development Bank (ADB) on efficient alternate approaches and modalities for developing sustainable rural financial systems that serve the requirements of small and micro borrowers. The TA findings and recommendations were to be discussed at national and regional levels.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>The design of the TA was relevant in light of the social and economic importance of the rural sector in all countries covered under the TA and the underdevelopment of financial services in general, and rural financial services in particular. Before the TA was approved, ADB supported various rural finance interventions in the region. The TA was designed based on a strong case for launching systematic sector work in this area to identify remaining issues, develop proposals to address them, and thereby, support policy dialogue with the respective governments and other stakeholders.</p> <p>The TA envisaged 16 person-months services of international consultants and 36 person-months of domestic consultants. With hindsight, this was not adequate to produce the expected outputs as the TA had to (i) collect comprehensive data on the rural sector (which has to include agriculture and non-agricultural enterprises and businesses active in rural areas) and rural financial systems (which has to include finance provided by banking systems, nonbank financial institutions, government agencies, donor organization, suppliers and customers, and other channels of informal finance); (ii) analyze these data while taking into account the overall macroeconomic, political, and social situation; (iii) develop preferably innovative proposals on how to address issues; and (iv) go through at least two rounds of interaction with all main stakeholders (through consultations and workshops). Further, time was needed to coordinate such a comprehensive work program. There was also the possibility that some consultants are, perhaps, not familiar with their subject country (international consultants) or not familiar with the concepts and methods applied (domestic consultants). Yet, the actual number of person-months delivered was 15.8 for international consultants and 35.3 for national consultants, i. e. close to the budgeted numbers. Although most consultants were qualified, they clearly struggled to produce the expected outputs due to time constraints. The issue was aggravated by the involvement of too many consultants. Seven international and 15 national consultants were recruited. This resulted in work fragmentation and high transaction costs. Further, a number of domestic consultants had to be replaced for various reasons.</p> <p>TA inception was scheduled for January 2003, i.e. one month after TA approval. The TA did not specify the mode of consultant selection. Ultimately, a firm was recruited. This was understandable, given the large number of consultants involved. As a result, consultants were not fielded before October 2003.</p> <p>“Final” country reports were submitted in December 2004, i.e. 14 months after inception. However, these reports were not actually disclosed. Instead, an increase in the TA amount by \$50,000, financed by the Government of Denmark, was requested and approved in June 2005 to (i) synthesize the findings and recommendations, (ii) develop the analysis in greater detail, and (iii) ensure consistency of style and presentation of country-specific information. For this purpose, two of the international consultants previously recruited through the firm were given individual contracts totaling one person month. In addition, two ADB staff provided inputs. A consolidated report (“Beyond Microfinance – Building Inclusive Rural Financial Markets in Central Asia”) was published in mid-2006.</p>				

As planned, a national workshop was undertaken in each country to support fact-finding. A final regional roundtable took place in Tashkent in August 2004. This was a bit too early to discuss TA findings, given that draft country studies were submitted to ADB only in September 2004. The TA also provided financial assistance in the amount of \$25,000 to a conference on "Expanding access to Microfinance in Central Asia." The conference was organized by the World Bank and held in Almaty in April 2003, i.e. six months before consultants were fielded under the TA. The conference was, as such, not instrumental in discussing or disseminating TA findings.

Evaluation of Outputs and Achievement of Outcome

The reports produced under the TA were (i) country reports (and summary country reports for publication) on rural finance in Azerbaijan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan; and (ii) cross cutting reports (for publication) titled "From Agricultural Credit to Rural Finance: In Search of a New Paradigm" and "Moving Towards Inclusive Rural Financial Markets in Central Asia". The latter report was written by ADB staff.

The individual country reports submitted by December 2004 were comprehensive and rich in detail. They included an introduction, a detailed country and macroeconomic overview, a short description of the rural economy, a detailed description of rural financial markets, a brief outline of interest rates and competition, and a short description of key issues to be addressed in expanding rural finance. However, data presented were not always comparable across countries and frequently outdated. Most time series ended in 2002, few in 2003. Given rapidly changing economic and financial systems in Central Asia, this was a weakness. Further, given scarce inputs, the reports should have focused on the rural economy and rural financial systems, and specific recommendation rather than providing general country information. The terms of reference for the diagnostic work were too broad and/or the number of counties too large. The request to provide additional inputs to finalize the "final" report makes clear that the reports were unsatisfactory.

The summary country reports that were published in mid-2006 were a streamlined version of the country reports submitted in December 2004. Style and presentation of country information was harmonized, but the level of detail substantially reduced and information generally not updated. This was a major lacuna—mainly including information as of 2002 in a mid-2006 publication necessarily undermined the relevance of the publication. Nevertheless, the final publication continues to date to be the most comprehensive overview on rural finance available for Central Asia. Further, the two cross cutting reports were of high quality and they made clearly an important contribution to the discussion on rural finance in Central Asia. Furthermore, the six national workshops and the final regional roundtable undertaken under the TA helped to raise the awareness for rural finance in Central Asia.

The actual impact of the TA outputs on the development of sound and viable rural financial markets is difficult to assess. However, the TA outputs have not fed into ADB interventions. An effort was made to use TA outputs for processing in Azerbaijan. However, the proposed interventions have not been approved or failed to become effective.

Overall Assessment and Rating

The TA evaluation presents a mixed picture. While the TA design was highly relevant, more consultancy services (or staff resources) would have been required to produce the desired outputs at the required quality level, and achieve the intensity of stakeholder interaction needed to have an impact on decision making. This pertains particularly to the compilation of relevant and timely data. However, after several extensions and with additional inputs, the TA provided a much needed overview on rural finance in Central Asia and helped introduce new concepts and ideas. As such, it is rated successful.

Major Lessons

The lessons include (i) comprehensive and in-depth diagnostic work is time and knowledge intensive, particularly in Central Asia where information is still not always easily available and comparable; to reduce transaction cost, work should be undertaken by staff and consultants who are well familiar with the region and stakeholders; (ii) close involvement of ADB staff can substantially increase the efficiency of diagnostic work and its impact; and (iii) domestic consultants can be highly efficient in increasing the effectiveness of diagnostic work, if they are well guided.

Recommendations and Follow-Up Actions

To reduce complexity, regional sector work can be undertaken sequentially (country-after-country), even if the objectives are to use synergies and facilitate regional knowledge sharing. More emphasis should be put on disseminating the finding of diagnostic work to have an impact on decision makers, who do not usually absorb information disclosed outside their country and do not necessarily participate in workshops. Developing a cluster approach may help to increase the effectiveness of regional sector work as much as can help to enhance the effectiveness of project work.