ADB

Validation Report

Reference Number: PCV: UZB 2009-10
Project Number: 31575
Loan Number: 1799-UZB
May 2009

Uzbekistan: Small and Medium Enterprise Development Project

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

AB	–	Asaka Bank
ADB	–	Asian Development Bank
BOP	–	balance of payments
CAR	–	capital adequacy ratio
CBU	–	Central Bank of Uzbekistan
FDI	–	foreign direct investment
FIL	–	financial intermediation lending
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
LDR	–	loan to deposit ratio
NBU	–	National Bank for Foreign Economic Activity of the Republic of Uzbekistan
PB	–	Pakhta Bank
PCB	–	participating commercial bank
PCR	–	project completion report
REDP	–	Rural Enterprise Development Project
ROA	–	return on assets
RRP	–	Report and Recommendation of the President
SME	–	small and medium enterprise
SMEDP	–	Small and Medium Enterprise Development Project
TA	–	technical assistance

NOTE

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

Key Words

adb, asian development bank, independent evaluation department, line of credit, technical assistance, subloan, subproject, employment creation, poverty reduction, export generation, economic growth, participating commercial banks, capital adequacy ratio, loan to deposit ratio, return on assets ratio, operations, bad debts, financial position, relevance, sustainability, impact.

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PROJECT COMPLETION VALIDATION REPORT FORM

A. Basic Project Data		**PCR Validation Date:**	May 2009	
Project and Loan Number:	UZB 31575/1799-UZB		**Approved**	**Actual**
Project Name:	Small and Medium Enterprise Development	**Total Project Costs ($M):**	100.0	not available
Country:	Uzbekistan	**Loan ($M):** **(SDR equivalent)**	50.0	47.9
Sector(s):	Small and Medium Enterprises	**Total Cofinancing ($M):**	50.0	not available
ADB Financing ($M):	**ADF: –**	**Borrower ($M):**	–	–
	OCR: 50.0	**Beneficiaries ($M):**	25.0	not available
Cofinanciers:		**Others ($M):**	25.0	not available
Approval Date:	11 December 2000	**Effectiveness Date:**	18 October 2001	18 October 2001
Signing Date:	09 March 2001	**Closing Date:**	18 October 2006	14 December 2006
Project Officers:	**Name:** R. Narasimham, Senior Project Management Specialist	**Location (HQ or RM):** HQ	**From** 2000	**To** 2007
Validator: **Quality Control Reviewer/Peer Reviewer:**	Sarath Thalakada, Consultant Henrike Feig, Principal Evaluation Specialist	**Director**	Hemamala S. Hettige, IED2	

– = not applicable, ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, IED2 = Independent Evaluation Department Division 2, M = million, OCR = ordinary capital resources, PCR = project completion report, RM = resident mission, SDR = special drawing rights, UZB = Uzbekistan.

B. Project Description (summarized from RRP)

(i) Rationale. The Asian Development Bank (ADB) considered Uzbekistan to have significant potential for the development of small and medium enterprises (SME) due to its abundant natural resources, moderate climate that favors cultivation of agricultural inputs, skilled and educated workforce, favorable geographic location that includes a common border with other Central Asian republics, satisfactory transport infrastructure links with neighboring countries and Russia, and the low concentration of heavy industries. However, despite the high potential, the development of SMEs has continued to languish. This was thought to be due to (i) internal constraints within SMEs relating to management information, technology, and processing skills; (ii) external policy, legal, and regulatory constraints; and (iii) lack of access to credit and foreign exchange for importing capital goods, materials and technology. The Project intended to help finance the critical foreign exchange needs of viable SMEs. The Project also sought to open opportunities for policy dialogue with the Government to resolve these issues and improve the overall industrial framework in Uzbekistan.

(ii) Impact. The Project was expected to promote balanced and sustainable economic growth through support for small and medium enterprise development, thereby reducing poverty.

(iii) Objectives or Expected Outcomes. The Project was expected to (i) revitalize, diversify, and enhance the competitiveness of Uzbekistan's private sector SMEs; (ii) improve the policy, legal, and regulatory framework for SMEs; (iii) create increased value addition through linkages; (iv) generate and sustain additional employment opportunities (about 3,000 direct jobs and 3,000–5,000 indirect jobs); (v) increase foreign exchange earnings by about $90.9 million per annum through export promotion and import substitution; and (vi) help improve the financial intermediation of the banking system.

(iv) Components and/or Outputs. The Project involved a line of credit of $50 million that was to be channeled through three participating commercial banks (PCBs) to about 70 commercially- and financially-viable SMEs to help them finance the import of capital goods, materials and technology. The three PCBs and the funds they received from the Project are as follows: (i) the National Bank for Foreign Economic Activity of Uzbekistan (NBU) ($20 million), (ii) Asaka Bank (AB) ($15 million), and (iii) Pakhta Bank (PB) ($15 million). Subloans were to be denominated in foreign exchange and priority assigned to export-oriented subprojects. The Project was to support both new SMEs and the modernization and rehabilitation of existing ones. The Project was expected to help create demand for agricultural and mineral inputs; absorb surplus labor; improve SME efficiency and product quality through the introduction of new technologies, management, systems, and practices; and enhance the credit and risk management capacity of participating bank.

C. Evaluation of Design and Implementation (PCR assessment and Validation)

(i) Relevance of Design and Formulation. The Project was in line with ADB's country operation strategy for Uzbekistan and the Government's development objectives, which sought to assist Uzbekistan's orderly and sustainable transition to a market economy by emphasizing support for the emerging private sector, particularly SMEs. The Government requested ADB assistance for SME development. In 1996, ADB provided a loan to Uzbekistan for the Rural Enterprise Development Project (REDP) to target SMEs in the agro-industrial sector. However, REDP suffered from disbursement problems due to insufficient effective demand. Despite the mixed success of REDP, a new financial intermediation loan was formulated to support SMEs. ADB sought to address some of the issues identified during the implementation of REDP, including the need for capacity development in selected financial intermediaries, adequate criteria for selecting viable subprojects, and access of sub-borrowers to export earnings at market rates for foreign exchange. However, ADB did not provide technical assistance for the implementation of SME-related policy reforms and the development of support services for SMEs to help improve their performance. Moreover, ADB failed to recognize the constraints faced by state banks operating in an economic system that is characterized by a high level of government intervention in the decision-making process with respect to assistance mechanisms for SME development. Although ADB provided technical assistance (TA) for strengthening the risk management systems of the three PCBs (AB, NBU, and PB) prior to project implementation, the framework conditions did not provide sufficient incentives for the banks to fully implement TA recommendations.

(ii) Project Outputs. The credit line of $50 million financed 31 subprojects at a total cost of $47.4 million. The Project financed new businesses accounting for 77% of the number of subloans, or 68.4% of the credit line amount, as opposed to modernization or expansion investments. Twenty-four of the subloans had maturities of 4 to 7 years. Sixteen subloans (accounting for 43% of the total loan amount) were made to agro-processing or related industries. Seven subloans (accounting for 37% of the total loan amount) were made to yarn and textile industries, which is understandable considering that Uzbekistan is a major producer of cotton. Only two subloans, or 1.7% of the credit line, were made in the arid and poorer regions. Nineteen subloans (accounting for 61% of the total loan amount) were made to joint ventures.

According to the project completion report (PCR), the Project helped create 1,670 direct jobs (compared to 3,000 jobs anticipated at appraisal) and 6,474 indirect jobs (compared to 3,000–5,000 jobs anticipated at appraisal), mainly through backward linkages to agricultural production. Foreign exchange was earned by 11 subprojects (35% of total subprojects) with exports primarily to neighboring countries worth $21.98 million in 2006. However, this only represented 24% of the appraisal estimate of annual incremental exports of $90.9 million, mainly because yarn producers were not as successful as expected in diversifying into the production of textiles and garments due to limited foreign direct investment in technology and export marketing inputs.

The PCR estimated that only 15 of the 31 subprojects (accounting for 47% of the credit line amount) were commercially and financially successful. However, only eight of these sub-borrowers (accounting for 24% of the credit line amount) actually serviced their loans on schedule. The other seven subloans associated with viable investments were rescheduled by NBU and PB, although they could have serviced their debt on time according to the PCR. The remaining 16 subprojects (51% of total subprojects, or 53% of the credit line) were unsuccessful due to a range of problems. According to the PCR, these problems included competition from other countries, particularly the People's Republic of China; a shortage of raw materials; poor product design; and disputes with joint venture partners.

Overall, the arrears rate of the three PCBs under the credit line was high at 54% (after adding back rescheduled portions) and was more than double the arrears rate experienced under REDP (21.8% at the time of its PCR). The high arrears rate reflects the weak credit and risk assessment procedures of the PCBs.

None of the three PCBs defaulted on their repayments to ADB through the Borrower. The financial position of the PCBs did not improve after project approval and a number of financial covenants were not complied with. According to their financial statements, although the PCBs maintained capital adequacy ratios (CAR) at or above 12% as required by ADB, their loan to deposit ratios (LDR) exceeded the ADB ceiling of 100% during 2001–2006 in the case of NBU, 2001–2005 in the case of AB, and in 2001 in the case of PB. This reflected the difficulties they experienced in mobilizing deposits. Profitability was also weak, as none of the PCBs consistently met required return on assets ratios (ROAs) of at least 1%. NBU was below 1% in 2001, 2003–2004 and 2006, and had losses in 2002 and 2005. AB's ROA was below 1% in 2001 and 2004–2006, and negative in 2002. PCB's ROA fell below 1% in 2002. According to the report and recommendation of the President (RRP), all PCBs were assessed to have had satisfactory liquidity and profitability at project appraisal, which implies that their financial condition worsened during project implementation. There were also questions about their actual solvency levels. Unless arrears levels were substantially higher for the ADB-funded loans than for the other loans made by these banks, the extent of non-performing loans would appear to be under-reported.

The RRP and PCR attribute policy measures taken prior to approval of the Project—with regard to improving SME taxation, registration, and licensing—to ADB's policy dialogue. Given the timing and lack of a related TA, it is unlikely that ADB's contribution was crucial in bringing about the required legal changes to help reduce arbitrary bureaucratic delays and corruption. Also, the PCR is silent on whether related general loan conditions were actually met regarding the submission of detailed plans for the (i) implementation and enforcement of SME related measures[1] under the Law on Guarantee of the Freedom of Entrepreneurial Activity, Regulations for Procedures for Inspection of Economic Entities, Law on Licensing of Selected Economic Activities, Law on Foreign Economic Activity, and Law on Audit; and (ii) further improvement of transparency in the tax system, the lowering of the corporate tax rates to 25% of the tax base, the removal of commercial banks' dual role of tax assessor and collector, and the phasing out of import tariffs on capital goods. In any case, considerable obstacles to SME development remain in Uzbekistan. An International Finance Corporation survey in 2003 and a more recent Japan International Cooperation Agency report in 2005 identified the following impediments: (i) onerous government administrative procedures and unjustified interference; (ii) difficulties in currency conversion and obtaining day-to-day cash needs; (iii) inequitable and high taxation; (iv) government imposed restrictions on import and exports; (v) costs associated with importing and exporting; (vi) unfair competition from state-owned or state-controlled enterprises; (vii) limited access to and the high cost of financing; and (viii) corruption. Underlying these difficulties is a widely-perceived patronage culture and a reluctance to move wholly to a market-based economy. An

[1] These measures were to (i) encourage the growth of SMEs and protect the legitimate interests of SMEs engaging in lawful entrepreneural activities; (ii) guarantee legal and intellectual property rights of entrepreneurs; (iii) reduce bureaucratic interference (particularly at the regional and local levels) in the management and administration of SMEs; (iv) streamline reporting and inspection requirements by gradually replacing physical supervision with financial supervision and introducing transparency, equity, and fairness in the inspection process; and (v) provide comfort to foreign investors through protection of their equity when undertaking lawful business activities in Uzbekistan.

area where ADB appeared to have had more impact was the liberalization of exchange rate provisions for SMEs. This involved (i) abolishing the mandatory 50% surrender of SME export earnings at the overvalued official exchange rate, which ended a *de facto* tax on exports; and (ii) permitting SMEs to purchase foreign exchange for imported inputs and loan repayments at the commercial exchange rate, which was a first step towards Uzbekistan's exchange rate unification.

(iii) Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule (as relevant to project performance). Project cost at implementation could not be quantified as the PCR did not provide data on the $25 million that was expected at appraisal to be contributed by the PCBs and subproject beneficiaries to finance the subprojects. Time over-runs were reported on 13 subprojects (42%) due mainly to delays in machinery installation, a lack of raw materials, and disputes with joint-venture partners. Disbursements of $47.9 million (including a $0.5 million front-end fee) were made over a period of 62 months. Although it took about 7 months to make the loan effective, it was terminated within 3 months of the closing date without the need for an extension.

(iv) Implementation Arrangements, Conditions and Covenants, Related Technical Assistance, and Procurement and Consultant Performance. The three PCBs were the executing agencies for the Project. Project implementation units were established within their respective credit departments to process and implement the subprojects. Loan disbursements to these three PCBs continued despite non-compliance with several loan covenants. Examples of non-compliance include inadequate working capital, liquidity (as reflected by the LDR), profitability (as represented by the ROA), single borrower and sector exposure limits, loan loss provisioning, and subloan rescheduling; the financing of ineligible subprojects; and a general lack of prudence on the part of the PCBs in exercising their rights over subproject operations. The PCR states that there was no clause in the project agreement that would have allowed ADB to suspend loan disbursements. However, according to the Office of the General Counsel, in instances of non-compliance by any of the PCBs with the covenants under the project agreement, ADB had the right to suspend the Borrower's right to withdraw the Loan, in whole or in part. According to the PCR, all 31 subprojects met ADB's procurement guidelines, environmental requirements (e.g., adequate waste management), and social criteria (e.g., worker protection and non-employment of minors below 16 years of age).

(v) Performance of the Borrower and Executing Agency. As pointed out, the performance of the executing agencies was less than satisfactory in view of their limited capacity to identify, appraise and monitor SME projects, and their less-than-satisfactory recovery of subloans.

(vi) Performance of the Asian Development Bank. ADB's performance was also "partly satisfactory." ADB approved all subloans made by the three PCBs. Despite its experience with REDP—including subloans that were negatively affected by the corporate governance of sub-borrowers, the unreliable supply of raw materials for agro-processing, and international competition—ADB underestimated the potential performance problems of proposed sub-borrowers. For example, a number of financed investments that later failed were made by sub-borrowers who competed directly with companies from the Peoples Republic of China in product areas for which Uzbekistan had little comparative advantage. A number of credit defaults would, therefore, appear to have been predictable. The fact that 77% of funding was extended to new companies implied a high level of risk, which should have been more carefully assessed. A TA should have been in place during the time of project implementation to assist the PCBs in the appraisal of potential subprojects and related credit management. ADB should have cancelled, or at least suspended, loan utilization earlier than scheduled because of the PCBs' non-compliance with covenants. Doing so would not only have reduced the funding provided to non-viable investments, but would have also sent a clear message to the Government on the need to strengthen operational and financial integrity of the three PCBs. Considering the country context and the level of institutional constraints in the banking sector at the time of project appraisal, ADB should have paid more attention to the policy and regulatory environment. Although the TA identified impediments to banking sector operations, there was little policy dialogue prior to or after project approval on relevant banking sector reforms that could have strengthened the autonomy and capacity of the PCBs. Examples of possible reforms include the appointment of more independent directors to PCB boards, discontinuation of government guarantees for loans to state enterprises, strengthening of credit and risk management systems, and use of market-based interest rates. It is also possible that the provision of a credit line in this environment lessened rather than increased incentives for sector reforms.

D. Evaluation of Performance (PCR assessment and Validation)

(i) Relevance. The PCR considered the Project to be relevant. However, although the Project was in line with Government and country operational strategy priorities, its relevance was reduced because the choice of project modality did not adequately consider and address distortions affecting economic production and financial intermediation, which subsequently affected the viability of subprojects and the PCBs. While the Project facilitated SME access to foreign exchange at commercial rates, the Project did not address underlying key constraints to domestic resource mobilization and allocation, which ultimately affected the sustainability of SME access to finance and the viability of supported SMEs. ADB policies on financial intermediation lending (FIL) stipulate that in countries with significant market distortions in the financial and other relevant sectors, FIL operations should only be considered when government commitment to address critical issues and concerns exists. Ideally, ADB should have attempted to link Project processing or implementation to progress made on reducing the role of the Government in the economy and in banking, and to meaningful reforms and institutional strengthening of the PCBs. Although the Project successfully addressed foreign exchange risk issues experienced under REDP, it appears that the Government was not prepared to enter into a policy dialogue on banking sector issues at the time of project processing. Also, ADB policy dialogue did not address the significant costs associated with cross-border trade. Trade restrictions actually worsened during project implementation, which affected the profitability of subprojects. These ex-ante relevance issues were compounded by adverse unforeseen policy changes during Project implementation, which reduced the Independent Evaluation Department's (IED) overall relevance rating for the Project to less relevant.

(ii) Effectiveness in Achieving Outcome. The Project provided additional employment for 8,144 persons and helped reduce poverty in that regard. It also generated exports worth $21.98 million in 2006 against the annual targets of $90.9 million. However, some of these achievements might not be sustainable considering that repayment for a number of related subloans are in arrears. Subprojects financed by current loans accounted for only 54.3% of employment generated under the Project, and for only 64% of total export earnings. Given that only 15 of the 31 subprojects were considered to be viable by the PCR, and most of these were in traditional export industries, the Project's contribution to enhancing the competitiveness and diversification of the SME sector was limited. Increased value addition through linkages was not substantiated. Outcomes relating to PCB institution building were insignificant considering the banks' weak operational and financial performance. Financial intermediation was not improved. According to the PCR, policy dialogue under the Project contributed to improvements made with regard to SME taxation, registration, and licensing requirements. However, subsequent SME surveys conducted by the IFC, and World Bank Doing Business indicators [2] revealed significant remaining problems, particularly with regard to administrative procedures (bureaucratic red tape), particularly related to trade, and taxation. However, ADB contributions to facilitating SME access to foreign exchange were significant. As the Project only achieved two of its six envisaged outcomes, IED rated the Project as less effective, compared to the PCR rating of effective.

(iii) Efficiency in Achieving Outcome and Outputs. The credit line was almost fully committed and disbursed within the scheduled dates. However, according to the PCR, only 15 of the 31 financed subprojects had acceptable financial rates of return. Economic rates of return were not determined. The arrears rate on subloans was high (54%). Nothing significant was achieved with regard to institutional development of the three PCBs or more efficient financial intermediation. IED rated the Project as less efficient, taking into consideration resource efficiency issues. The PCR also

[2] In the 2009 Doing Business Survey (www.doingbusiness.org), Uzbekistan ranked 162 and 171 among all covered countries, respectively, with regard to paying taxes and trading across borders.

considered the Project to be less efficient.

(iv) Preliminary Assessment of Sustainability. The financial condition of two of the three PCBs actually deteriorated during project implementation and they now have less capacity to intermediate funds. The PCR determined that only 15 out of 31 subprojects to be successful and sustainable. The fact that 23 subloans were in arrears indicates that the number of sustainable investments financed under the Project might actually be even lower. For these reasons, IED agrees with the PCR's sustainability rating of less likely.

(v) Impact (both intended and unintended). The Project did have a moderate impact on employment creation, poverty reduction, export expansion, and economic growth. Indirect employment creation exceeded appraisal estimates, but direct job creation and export generation fell short of appraisal estimates. The impact on institution building and efficient financial intermediation for economic growth was insignificant as evidenced by the weak operational and financial performance of at least two of the three PCBs. Although some progress was made with improving the enabling environment for SME development, it is unclear to what extent the project actually contributed to this process. Overall, the Project's impact was assessed to be modest.

E. Overall Assessment, Lessons, and Recommendations (Validation of PCR assessment)

(i) Overall Assessment. The Project was less relevant with regard to the creation of sustainable mechanisms for SME financing and development, less effective in achieving its envisaged outcomes, less efficient considering low resource efficiencies, and its sustainability was less likely in light of unresolved institutional and policy issues affecting SME development and financing. The Project did not have the envisaged impact on export expansion, economic growth, and financial intermediation. IED's overall assessment was that the Project was partly successful. The PCR also rated the Project as partly successful.

(ii) Lessons. The PCR included a number of lessons, including the need for accompanying credit lines with policy dialogue on real sector reforms and covenants that ensure sound and autonomous credit policies and practices by PCBs. Lessons identified by IED in conjunction with this Project reconfirm earlier IED findings on ADB projects using state banks as financial intermediaries, which have been largely negative. State banks, particularly those operating in interventionist economic systems, are often used for non-commercial purposes, which reduces their incentives and capacity for adequate risk assessment and management. In the absence of meaningful financial sector reforms in Uzbekistan to strengthen the commercial orientation of the PCBs, ADB's use of the FIL modality was inappropriate.

Even in a more conducive policy environment and in light of their limited experience with longer-term SME lending, the three PCBs should have received assistance prior to the approval of the Project and during implementation to help build their credit risk assessment and management capabilities and assist directly in the appraisal of subprojects. Given the rather fluid situation of the banking sector, ADB's inexperience in dealing with most of the PCBs, and a lack of access to reliable information regarding their financial condition, TA and loan proceeds should have been allocated on a first come-first served basis and taken into consideration the PCBs' actual financial and operational performance instead of pre-determining maximum loan amounts for each PCB.

ADB should have suspended loan utilization when covenants were not being complied with.

In addition, the PCR recommended the inclusion of covenants requiring the PCBs to monitor the financial condition of sub-borrowers on a quarterly basis. While appropriate under other circumstances, it is doubtful that such a requirement would have made a difference in enabling banks to proactively identify potential repayment problems, given SME accounting systems and the limited predictive value of financial statements in Uzbekistan. Regular site visits would have been a more appropriate tool under these conditions.

(iii) Recommendations. The PCR correctly states that ADB needs to (i) ensure that the credit decisions of financial intermediaries are not subordinated to state intervention, and (ii) select PCBs with proven track records and subject them to enforceable financial covenants. Even more appropriate would be adherence to ADB's Operations Manual Section D6 on financial intermediation lending, which stipulates that FILs should only be considered in a policy and institutional environment that is conducive to FIL operations, or in cases where there is meaningful government commitment to address critical issues and concerns. Addressing systemic issues through project covenants is a difficult challenge, as ADB's experience in Uzbekistan shows.

F. M&E Design, Implementation & Utilization (PCR assessment and Validation)

The monitoring and evaluation was appropriate (though could have been improved by regular site visits by the PCBs) and included a project framework attached to the RRP (Appendix 1). The PCBs were required to: (i) maintain records and accounts to record progress of each subproject; (ii) furnish ADB with reports and information on the use of loan proceeds, subloans, subprojects, and on each PCB's operations and financial condition; (iii) submit to ADB annual financial statements audited by independent firms in accordance with appropriate auditing standards acceptable to ADB; (iv) maintain prudent financial standards relating to CAR, LDR, ROA, loan loss provisions, and legal lending limits; (v) monitor and evaluate the financial and economic performance of subprojects; and (vi) ensure that subborrowers met various prudent financial, environmental, and social standards. The required reports were submitted to ADB. In addition to approving all subloans, ADB fielded an inception mission and five review missions for project administration purposes.

G. Other (e.g. Safeguards, including governance and anticorruption; Fiduciary aspects; Government assessment of the Project, as applicable) (PCR assessment and Validation)

According to the PCR, all procurements followed ADB guidelines. The PCBs maintained separate accounts on the utilization of ADB loan proceeds, and submitted their annual financial statements that had been audited by independent and qualified auditors in accordance with accepted accounting and auditing standards. The subprojects complied with environmental quality standards and with social-standard covenants regarding the maximum number of working hours per day, adequate safety and health protection measures, and non-employment of minors below 16 years of age.

H. Ratings	**PCR**	**IED Review**	**Reason for Disagreement/Comments**
Relevance:	Relevant	Less relevant	Project design did not adequately consider and address distortions and capacity gaps in the country's economy and financial system, which affected the viability of subprojects and the repayment of subloans.
Effectiveness in Achieving Outcome:	Effective	Less effective	IED's rating took into account the poor performance of subprojects, subloans, and PCBs. Additional employment created and exports generated might not be sustainable as some of the subprojects and subloans were either "partially successful" or "unsuccessful," or were in arrears. It is not clear to what extent the Project helped successful sub-borrowers improve their competitiveness and productivity. The Project failed to improve financial intermediation of the banking system.
Efficiency in Achieving Outcome and Outputs:	Less efficient	Less efficient	

Preliminary Assessment of Sustainability:	Less sustainable	Less likely	
Borrower and Executing Agency:	Not rated	Partly satisfactory	The PCR did not require this rating.
Performance of ADB:	Satisfactory	Partly satisfactory	IED took into account deficiencies in project design, ADB's involvement in subproject approval, and its reluctance to suspend disbursements despite non-compliance with covenants.
Impact:	Not stated	Modest	Assessment of project impact is not required for PCRs.
Overall Assessment:	Partially successful	Partly successful	
Quality of PCR:		Satisfactory	

I. Comments on PCR Quality

The PCR was "generally satisfactory," although the Project's relevance and effectiveness could have been assessed in a more balanced way. Also, the PCR should have provided data on value addition created by subprojects through backward and forward linkages, total investment leveraged by ADB funding, progress made on SME reforms, and overall SME access to credit following project approval.

J. Recommendation for IED follow-up

None.

K. Data Sources for Validation:

RRP
PCR
Project Performance Evaluation Report for REDP
Uzbekistan Country Assistance Performance Evaluation
World Bank Doing Business Database

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 24 December 2008, Director, OED2, Operations Evaluation Department (OED), received the following comments from the Financial Sector, Public Management and Trade Division (CWFM), Central and West Asia Department (CWRD).

> We have reviewed OED's draft Project Completion Report (PCR) Validation relating to Loan 1799-UZB: Small and Medium Enterprise (SME) Development Project circulated to CWFM on 15 December 2008. While we concur with OED's overall assessment of the Project as "partly successful," we have the following comments on the OED's assessment of the project's relevance.
>
> CWFM continues to hold the position that the project is relevant, against OED's assessment of the project as "less relevant." CWFM's assessment stems from the facts that the project: (i) was in line with ADB's country operating strategy and the Government's development objectives, both of which sought Uzbekistan's orderly transition to a market economy by emphasizing support for the emerging private sector particularly SMEs, (ii) provided SMEs' access to foreign exchange at commercial rates for financing their capital investments, (iii) set in motion the process for Uzbekistan's eventual succession to the IMF Article 8, thereby ending exchange rate distortions, and (iv) through policy dialogue attempted to create a more enabling domestic regular environment for the SME sector.