KfW ENTWICKLUNGSBANK

Uzbekistan: Credit Line for Private-Sector Investment Promotion (SME II)

Ex-post Evaluation Report

OECD sector	24030/Formal sector financial intermediaries	
BMZ project ID	1998 66 740, 1999 70 203	
Project executing agency	Ipak Yuli Bank, Uzprivatbank	
Consultant	iCee	
Year of ex-post evaluation report	**2009**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	Q 4 1999	Q 2 2000
Period of implementation	30 months	82 months
Investment costs	EUR 4.60 million EUR 0.51 million (CM)	EUR 4.60 million EUR 0.51 million (CM)
Counterpart contribution	-/-	-/-
Finance, of which FC funds	EUR 4.60 million EUR 0.51 million (CM)	EUR 4.60 million EUR 0.51 million (CM)
Other institutions/donors involved	-/-	-/-
Performance rating	2	
• Relevance	3	
• Effectiveness	2	
• Efficiency	2	
• Overarching developmental impacts	3	
• Sustainability	2	

Brief Description, Overall Objective and Project Objectives with Indicators

The project comprised a refinancing loan of EUR 4.60 million to two Uzbek commercial banks to enable these to provide private small and medium-sized enterprises (SMEs) in Uzbekistan with access to medium-term and long-term investment loans. It also included a complementary measure worth EUR 0.51 million to finance a consultant to assist the two implementing commercial banks in loan application appraisal, loan handling and loan settlement. The project executing agencies were Ipak Yuli Bank and Uzprivatbank. The latter merged in 2006 with Uzpromstroybank, which was then included in the ex-post evaluation.
The overall objective of the project consisted in making a contribution to structural adjustment in the Uzbek economy, economic growth, income generation and to employment by promoting competitive private enterprises and to deepening and widening the Uzbek financial sector in the process. The overall objective indicators were a) satisfactory return on equity in the promoted enterprises and b) increased lending by all banks to the private sector as a ratio of GDP. The project objective was to raise the capacity of the implementing banks for more efficient and sustainable medium-term and long-term investment lending to the target group of Uzbek private

enterprises with a workforce of up to 300 in line with demand at real positive interest. The project objective indicators were specified as real positive return on equity in the banks and b) a maximum 10% bad debt ratio to the respective total loan portfolio.

Project Design/Major Deviations from Original Planning and Main Causes

To ensure the proper application of lending funds, KfW reserved the right of final consent to loan issuance through individual loan application appraisal. In the initial allocation of lending funds, altogether 14 loans were paid out, ranging between about EUR 0.17 million and EUR 0.47 million, with average final loans amounting to about EUR 0.33 million. The regional priority of final lending was the capital Tashkent: Of the 14 loans paid out in the initial tranche, twelve were granted to enterprises in the city of Tashkent totalling EUR 3.8 million, one loan worth approx. EUR 0.41 million in the region of Tashkent and a loan amounting to about EUR 0.39 million in the Samarkand region.

The consultant financed in the complementary measure advised the banks in loan application appraisal, loan handling and settlement. The advisory measures included preparing and disseminating standard style sheets and procedures for selecting customers and appraising loan applications, for example, joint inspections and performance auditing of prospective final borrowers and the implementation of an automated computer project for credit analysis.

Key Results of Impact Analysis and Performance Rating

a) Relevance: Although the relevance of project design and the underlying results chain was impaired from the outset by the system of foreign exchange control prevailing at the time and other market-distorting elements in the Uzbek banking sector, the project adequately addressed the current deficits in the Uzbek financial sector, the needs of the two implementing banks and the borrower enterprises. The subsequent merger of the private Uzprivatbank with the majority state-owned Uzpromstroybank and the KfW loan approval requirement specified in project design effectively acted as constraints, to the detriment of the intended development of the private financial sector and the competencies of the two banks to conduct their own lending business. The project fitted in with the current development strategy of the Uzbek Government, the priorities of German development cooperation with Uzbekistan, especially in sustainable economic development, the BMZ financial-sector strategy and the strategies of other donors engaged in Uzbekistan. Altogether, we assess relevance as satisfactory overall (Subrating 3).

b) Effectiveness: The project objective indicators appear to be adequate in hindsight and were met. Returns on equity in both banks in 2007 and 2008 exceeded both the rates of inflation as measured by IMF of 12.3% in 2007 and 12.7% in 2008 and the official rate of inflation of the Uzbek State Committee for Statistics of 6.8% in 2007 and 7.8% in 2008. To determine the amount of non-performing loans, the portfolio at risk, defined here as all loans in arrears for at least 30 days in the respective bank, was assessed as a ratio of the total loan portfolio. This remained well under 10% both in 2007 and in 2008, taking into account the omission of a large individual overdue loan in the portfolio of one bank underwritten by a government guarantee and hence not rated as at effective risk of default. Moreover, the two banks operate a standardised, structured and automated loan handling and risk management system. We therefore deem the project objective to have been achieved. Another project objective indicator that could also have been applied is the development of the total loan portfolios of the two banks, which have increased markedly in recent years. The 14 final loans in the first tranche financed by the project were repaid in full. The returns from the first tranche were reallocated for altogether 15 loans. Except for one, the loans in the first and second tranche were, however, concentrated on the Samarkand and Syrdarja regions and the city and region of Tashkent, so that a broader regional distribution of lending funds did not take place. We assess the effectiveness of the project as good (Subrating: 2).

c) Efficiency: Owing to the marked expansion of the two banks in the last few years and the merger of Uzpromstroybank with Uzprivatbank in 2006, it is difficult to assess the figures on operational efficiency. Given this, the cost-income ratio, defined as the ratio between administrative and other operating costs to interest and fee revenue plus profits from currency transactions, is satisfactory for both banks. Moreover, returns on equity and total returns on assets of the two banks exceeded the respective sectoral average for 2007 as estimated by IMF. The loans were granted on market terms and allocated for sound investments in our estimation. The effects achieved by the project stand in reasonable relation to the funds applied. The funds earmarked for the complementary measure to train altogether 14 personnel in both banks and implement standardised loan handling procedures and software in their loan departments can rate as adequate. We assess the efficiency of the project overall as good (Subrating 2).

(d) Overarching developmental impacts: As all loans issued by the project in the first tranche were repaid by the final borrowers and the majority operate at full capacity utilisation and have recruited personnel, we may assume that the assisted enterprises have earned a satisfactory return on equity. Applying the EBRD structural change indicators, the development of the financial sector is not, however, satisfactory. Lending by all private-sector banks in proportion to GDP declined from a baseline of 21.4% in 1999 - after an initial continuous increase after the millennium - to 15.9% in 2008, which is partly attributable to strong GDP growth in recent years, which the banking sector could not keep pace with. As to the latter indicator, the project was only able to influence it in part. It would therefore have been better to confine attention more to the volume of lending by the two banks to the private sector as a ratio of total loan portfolios. At least one of the two banks has expanded the share in loans to the private sector in proportion to total loan portfolio in recent years. Beyond the set of indicators for the overall objective of the project, from a development-policy view, final lending has had beneficial employment effects in the promoted enterprises. Some enterprises visited during ex-post evaluation reported that the investments financed by the project were essential for business start-up. Capacity utilisation in most of the enterprises inspected appeared to be high and additional investments were planned, which indicates a positive contribution to Uzbek economic growth. A limiting factor is, however, the merger of the Uzprivatbank with the majority state-owned Uzpromstroybank, which poses the risk of greater government influence on lending. Altogether, we assess the developmental impact of the project as satisfactory (Subrating 3).

e) Sustainability: Of the original 14 personnel trained by the complementary measure, four still work in the two banks. Most of the other ten personnel are also reportedly still engaged in the financial sector, so that the know-how they acquired through the complementary measure will continue to be of practical value. The personnel and institutional capacities built up by the complementary measure also appear to have been largely retained and further improved in the two banks. Both banks also have a well-established lending business with future growth prospects, the volume of lending by the two banks, for example, having increased by a large margin in recent years. Most of the promoted enterprises were still doing business at the time of ex-post evaluation after the bulk of the final loans had been granted between 2000 and 2002, which would indicate that most of the financed facilities operate cost-effectively. We assess the sustainability of the project overall as good (Subrating 2).

Altogether, we therefore attest the project a good developmental performance (Rating 2).

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being relevance, effectiveness (outcome), "overarching developmental impact" and efficiency. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good rating that clearly exceeds expectations
2	Good rating fully in line with expectations and without any significant shortcomings
3	Satisfactory rating – project falls short of expectations but the positive results dominate
4	Unsatisfactory rating – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate rating – despite some positive partial results the negative results clearly dominate
6	The project has no positive results or the situation has actually deteriorated

A rating of 1 to 3 is a positive assessment and indicates a successful project while a rating of 4 to 6 is a negative assessment and indicates a project which has no sufficiently positive results.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability)

The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected.)

Sustainability level 3 (satisfactory sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability)

The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and an improvement is very unlikely. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. A rating of 1 to 3 indicates a "successful" project while a rating of 4 to 6 indicates an "unsuccessful" project. In using (with a project-specific weighting) the five key factors to form an overall rating, it should be noted that a project can generally only be considered developmentally "successful" if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are considered at least "satisfactory" (rating 3).