



1. Project Data:		Date Posted : 09/22/2004	
PROJ ID: P009131		Appraisal	Actual
Project Name: Financial Institution Building	Project Costs (US\$M)	30	16
Country: Uzbekistan	Loan/Credit (US\$M)	25	15
Sector(s): Board: PS - Banking (50%), Central government administration (32%), Payment systems securities clearance and settleme (18%)	Cofinancing (US\$M)		
L/C Number: L4479; LP311			
	Board Approval (FY)		99
Partners involved :	Closing Date	06/30/2004	03/31/2004
Prepared by :	Reviewed by :	Group Manager :	Group:
Jorge Garcia-Garcia	Lily L. Chu	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
1. Improve the corporate governance and management capacity of state owned commercial banks in preparation for their privatization over the long term;			
2. Increase competition between commercial banks and boost efficiency and innovation of the banking system; and			
3. Improve prudential regulations and strengthen the supervisory capacity of the Central Bank of Uzbekistan, including better reporting capacity by the commercial banks .			
b. Components			
1. Institutional strengthening of the six participating banks . The program aimed at improving bank management, operations and strategy; treasury risk management; financial and credit risk management; accounting and internal audits; and management information systems .			
2. Institutional strengthening of commercial banks . It consisted of training to commercial banks and of technical assistance in external audits to selected commercial banks .			
3. Improvement of the Legal Framework . It aimed at strengthening the legal, regulatory and supervisory capacity of the Central Bank .			
4. Strengthening of the financial sector information system . It aimed at building or upgrading a core management of information system (MIS) for commercial banks to strengthen their management of liquidity and risk and to provide assistance to make necessary changes in the banks operations .			
5. Bank privatization and restructuring . It aimed to provide assistance to help organize the banks' assets restructuring process, to help implement pre-privatization measures in the various banks, and to attract strategic investors .			
6. Institutional strengthening of the project implementation unit . It aimed to do so by providing services for the management, administration, implementation, monitoring and evaluation of the project .			
c. Comments on Project Cost, Financing and Dates			
Project used about 60 percent of the financing granted and was closed three months ahead of schedule .			
3. Achievement of Relevant Objectives:			
The Central Bank increased its powers to supervise banks and regulate the financial system when the law on deposit insurance and amendments to the law on the Central Bank were adopted in 2002.			
4. Significant Outcomes/Impacts:			
Banks became increasingly aware of the importance of internal audits and controls in their management . As a result of it, the gap between the level of provisions observed in the call reports sent to the Central Bank and the provisions recommended by the internal auditors fell markedly;			
The information system for the financial sector has improved, and today the Central Bank supervises 32 head bank accounts rather than the 1,000 commercial bank accounts it supervised before the loan started .			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
Discussion about prospective privatization of banks, those between the authorities and EBRD, could not be			

concluded successfully

Asset restructuring of privatized state banks has been partially successful, and actual bank privatization to strategic foreign investors has not yet taken place .

No measurable indicators that the ultimate objectives of the loan have been achieved .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Unsatisfactory	<p>Corporate Governance and Bank Management: The Government still interferes with commercial bank operations and banks still are required to conduct non-core, government-related functions. No information is presented to demonstrate that managers are selected or evaluated on the basis of performance . Relationships between banks and customers, shareholders, and board members are not discussed. Lack of unqualified audits and concerns about adequate provisioning call into question reported profits. (Unsatisfactory).</p> <p>Increased competition, efficient and innovation: No data to support extent of portfolio diversification or changes in concentration ratios. Financial intermediation is reported to be decreasing. Banks are unable to meet the demand for currency. As noted above, increased reported profits are questionable since audits are not unqualified and loan provisioning is deemed inadequate. EBRD has judged the environment not conducive for business. (Unsatisfactory)</p> <p>Improved prudential regulations and supervision; Prudential regulations are supervision has been improved, but the overall banking system is still fragile and loan provisioning still does not meet international standards (Moderately Satisfactory)</p>
Institutional Dev .:	Substantial	Modest	The creation of credit departments, improvement of MIS systems, improved provisioning and audits, and improved supervision are all positive. However, these improvements still reflect the nascent stages of institutional development. For example, while external audits have been instituted, the audits are not yet unqualified, indicating that the credit review, provisioning, or other aspects of asset valuation may still require strengthening.
Sustainability :	Highly Likely	Non-evaluable	It is not possible to say whether the possible benefits of technical assistance will be sustained in a system where competition does not exist
Bank Performance :	Satisfactory	Unsatisfactory	Bank lent for a sector in a country where chances of reform were minimal, and where the benefits of the loan could only

			be realized if certain reforms were carried out. Project design did not deal with the issue of tax collection and administration, perhaps one main reason for the government's reluctance to sell the banks .
Borrower Perf .:	Satisfactory	Unsatisfactory	The Government failed to take measures necessary to ensure that the project objectives would be achieved, among others to restructure banks and to attract strategic investors .
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Before proceeding with a technical assistance loan, the Bank should question the wisdom and convenience of lending to a country unwilling to remove the constraints that prevent realizing the benefits of the proposed assistance.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR presents a succinct analysis of project developments but fails to produce evidence to justify its ratings . Moreover, the ICR fails to present, and discuss the implications of, indicators of performance that would have shown that the project achieved its objectives; their absence in the ICR is surprising since they appear in the PAD as indicators for measuring project performance . With the evidence presented, the ICR cannot conclude that the technical assistance brought net benefits to the financial system and helped achieve the project objectives .The ICR focuses on inputs rather than outcomes . The ICR overlooks to discuss the institutional development impact of the project and analyzes in an unsatisfactory manner whether the project achieved its objectives as stated in the PAD .