

**Validation Report**  
September 2018

# Uzbekistan: Public Finance Management Reform Project

Reference Number: PVR-588  
Project Number: 41041-013  
Loan Number: 2338

Independent  
**Evaluation**  **ADB**

*Raising development impact through evaluation*

## CURRENCY EQUIVALENTS

Currency Unit – sum (SUM)

	<b>At Appraisal</b>	<b>At Project Completion</b>
	(18 April 2007)	(15 June 2017)
SUM1.00	= \$0.000796	\$0.000256
\$1.00	= SUM1.255.55	SUM3,903.19

## ABBREVIATIONS

ADB	–	Asian Development Bank
BSL	–	Budget System Law
COA	–	chart of accounts
DMF	–	design and monitoring framework
GAP	–	gender action plan
GDP	–	gross domestic product
GFMIS	–	government financial management information system
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MTBF	–	medium-term budget framework
PFMR	–	public finance management reform
PMO	–	project management office
PSC	–	project steering committee
TA	–	technical assistance
TSA	–	treasury single account

## NOTE

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

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## PROJECT BASIC DATA

<b>Project Number</b>	41041-013	<b>PCR Circulation Date</b>	12 September 2017		
<b>Loan Number</b>	2338	<b>PCR Validation Date</b>	Sep 2018		
<b>Project Name</b>	<b>Public Finance Management Reform Project</b>				
<b>Sector and subsector</b>	Public sector management	Public expenditure and fiscal management			
<b>Strategic agenda</b>	Inclusive economic growth				
<b>Safeguard categories</b>	Environment		C		
	Involuntary resettlement		C		
	Indigenous peoples		C		
<b>Country</b>	Republic of Uzbekistan	<b>Approved (\$ million)</b>	<b>Actual (\$ million)</b>		
<b>ADB Financing (\$ million)</b>		<b>Total Project Costs</b>	37.36	22.64	
	<b>ADF: 0.00</b>	<b>Loan/Grant</b>			
	<b>OCR:</b>	<b>Loan/Grant</b>	2338	20.70	6.36
		<b>Borrower</b>		16.66	16.29
		<b>Beneficiaries</b>		0.00	0.00
		<b>Others</b>		0.00	0.00
<b>Cofinancier</b>	-	<b>Total Cofinancing</b>	0.00	0.00	
<b>Approval Date</b>	28 Jun 2007	<b>Effectiveness Date</b>	9 Mar 2008	14 Dec 2007	
<b>Signing Date</b>	10 Dec 2007	<b>Closing Date</b>	31 Jul 2012	21 Nov 2012	
<b>Project Officers</b>	H. Wei	<b>Location</b>	<b>From</b>	<b>To</b>	
	R. Abdukayumov	Uzbekistan Resident Mission	Jan 2007	Jun 2007	
	B. Gafurov	Uzbekistan Resident Mission	Jun 2007	Jun 2010	
		Uzbekistan Resident Mission	Jul 2010	Nov 2012	
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = project completion report.

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## I. PROJECT DESCRIPTION

### A. Rationale

1. Uzbekistan is the most populous country in Central and West Asia and has the second largest economy. At the time of project preparation in 2006, it had a gross domestic product (GDP) of SUM21.1 billion (\$17.3 billion). Uzbekistan has abundant natural resources, including gold, natural gas, copper and uranium. Its economy used to be dominated by agriculture and primary activities and is now led by the services sector.<sup>1</sup> Almost 64% of the population lived in rural areas in 2006.<sup>2</sup>

<sup>1</sup> The economy has since transitioned into one that is led by the services sector. Figures for 2016 show that agriculture has fallen to 16.6% of GDP, while industry accounted for 32.9% and services 49.5%. See Index Mundi. Uzbekistan Economy Profile 2017. [https://www.indexmundi.com/uzbekistan/economy\\_profile.html](https://www.indexmundi.com/uzbekistan/economy_profile.html) (accessed 5 January 2018).

<sup>2</sup> ADB. 2017. *Key Indicators for Asia and the Pacific 2017*. Manila. However, subsequent revisions of statistics show that less than 48% of the population lived in rural areas in 2009.

2. Since its independence in 1991, the country inherited economic problems associated with the collapse of the former Soviet Union and the economy declined until 1996. GDP growth accelerated at an average annual rate of 4.2% from 1999 to 2003 and at 7.3% from 2004 to 2006. Nevertheless, the economic base remained narrow and Uzbekistan was still a low-income country with a per capita GDP of SUM798,000 (\$653) in 2006.

3. Since 2000, the Government of Uzbekistan has been working with international partners to prepare the public finance management reform (PFMR). After 7 years of pilot testing, the government adopted a long-term strategic approach to advance the PFMR. Initially, the Asian Development Bank (ADB) was not directly involved in PFMR but coordinated activities, largely through its involvement in financing public sector investment projects. In May 2007, the Ministry of Finance (MOF) developed the Public Finance Management Reform Strategy, 2007–2018 with support from the International Monetary Fund (IMF) and ADB. The strategy outlined a 12-year action plan to (i) establish a functioning treasury system, (ii) adopt and implement a unified budget and accounting system, and (iii) introduce a medium-term budget framework (MTBF) and program budgeting. When the envisaged assistance from the World Bank became unavailable, the government requested ADB support to develop a comprehensive treasury system and implement a unified budget and accounting systems for its PFMR strategy. In this context, ADB prepared the Public Finance Management Reform Project, which was implemented through ADB's project loan modality.<sup>3</sup> The project built and improved on the concept, design documents and procurement packages prepared jointly by the government and the WB in 2005.<sup>4</sup>

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

4. The project helped implement and refine the country's PFMR strategy, which sought to make public resource management more effective and efficient. The intended impact of the project was improved planning and utilization of public resources. This was to be measured by five targets. The project outcome was improved effectiveness, efficiency, transparency and accountability of the budget execution processes.

5. The project had five outputs: (i) government financial management information system (GFMS) developed and made operational; (ii) treasury and banking operations streamlined and consolidated; (iii) a central accounting system created using a chart of accounts (COA) to reflect the revised budget classification in line with the IMF's Government Finance Statistics Manual 2001 and International Public Sector Accounting Standards;<sup>5</sup> (iv) the Budget System Law (BSL) and Treasury Law refined; and (v) revised budget classification applied in the preparation and execution of the budget.

6. These outputs were subsumed under three components:

- (i) Component 1: Establishment of a nationwide institutional network of treasury offices and support for capacity building for MOF in maintaining the GFMS and its databases.

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<sup>3</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Uzbekistan for the Public Finance Management Reform Project*. Manila.

<sup>4</sup> ADB (Central and West Asia Department). 2007. *Fact-Find Mission to Uzbekistan: Public Finance Management Reform Project*. Back-to-office report. 27 February (internal).

<sup>5</sup> International Monetary Fund. 2001. *Government Finance Statistics Manual 2001*.

<https://www.imf.org/external/pubs/ft/gfs/manual/>; and IPSASB. *International Public Sector Accounting Standards*. <https://www.ipsasb.org/publications-resources?page=12>.

- (ii) Component 2: Modernization of treasury operations involving the development and implementation of GFMS.<sup>6</sup>
- (iii) Component 3: Funding for a project management office (PMO) under the MOF to work with the MOF and treasury offices at the central and local levels.

### C. Provision of Inputs

7. The project was approved in June 2007 and the loan agreement was signed in December 2007 after a 5.3-month delay.<sup>7</sup> Project implementation experienced initial delays in loan signing to meet government assurances. The loan was declared effective in December 2007 ahead of the scheduled date in March 2008. The PCR gave no reason for the advanced loan effectiveness date. The loan was planned to be closed in July 2012 but was delayed until November 2012 to allow for a 4-month winding-down period.<sup>8</sup>

8. At appraisal, the project was estimated to cost an equivalent of \$37.4 million to be funded by a loan of \$20.7 million from ADB's ordinary capital resources and \$16.7 million from the government. The government's counterpart funding included \$10 million for financing the refurbishment of treasury offices nationwide, \$2.6 million for financing charges during implementation, and \$4 million in taxes and duties. ADB also provided a technical assistance (TA) grant of \$600,000 to build capacity to implement the PFMR. The total project cost at completion was \$22.6 million,<sup>9</sup> of which the government financed \$16.3 million. ADB financed three contracts totaling \$6.2 million for information technology equipment and \$0.2 million for project management support. It canceled 69.3% of the loan.<sup>10</sup>

9. The ADB TA grant covered support for budget preparation and budget execution through treasury operations using the GFMS. Individual national and international consultants were recruited following ADB's Guidelines on the Use of Consultants to support the PMO. An international consultant and two national consultants for budget preparation and execution, and treasury were contracted in July 2008. The budget execution consultant was contracted in June 2009. The productivity and quality of inputs were rated satisfactory. The proficiency of international consultants in the Russian language contributed to efficient communication with MOF personnel. Client satisfaction with the input provided was rated satisfactory. The support provided to budget preparation through workshops was well received. The support to budget execution and treasury was essential in speeding up bidding under the PFMR since ADB's two-stage procurement procedure was used for the first time by the executing agency.

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<sup>6</sup> This originally included six procurement packages for computer software, hardware and training services.

<sup>7</sup> ADB. 2017. *Completion Report: Public Finance Management Reform Project in Uzbekistan*. Manila. Presidential Resolution No. PP-721 on measures to implement the Public Finance Management Reform Project with participation of ADB was issued on 1 November 2007 (PCR, footnote 17).

<sup>8</sup> The main reasons included the (i) repackaging of the six procurement packages into three; (ii) delay in opening the bids for the GFMS and server procurement opportunities; (iii) time taken to complete the technical evaluation of the bids; and (iv) rejection of the procurement under revised package 1 by the bid committee for being 43% more than the budget and the decision by ADB not to rebid.

<sup>9</sup> However, the PCR shows a number of figures for the total cost without explanation for the differences—\$22.644 million under the data for project costs, \$22.624 million under the financing plan, and \$22.683 under the cost breakdown by project components. See section Basic Data, section C of the PCR.

<sup>10</sup> The amount represents the unused portion for GFMS procurement, savings from the procurement of packages 2 and 3, and the unused portion for consulting services. Initially, some \$13.9 million was canceled, but an additional \$450,000 was canceled at loan closure.

## D. Implementation Arrangements

10. The Treasury of the MOF was the executing agency, where a PMO was established with six staff and office space.<sup>11</sup> The PMO was responsible for the day-to-day operations covering (i) recruitment of staff and consultants; (ii) establishment and maintenance of records and an accounting system; (iii) procurement of goods and services; (iv) submission of quarterly progress reports and annual audit of project accounts; (v) compliance with loan covenants; and (vi) preparation and submission of withdrawal applications and the use of the imprest account.

11. The government established a Project Steering Committee (PSC) in November 2007, headed by the first deputy prime minister and comprised senior officials of the Agency for Communications and Information; the Central Bank of Uzbekistan; Ministry of Economy; Ministry of Foreign Economic Relations, Investment and Trade; and MOF State Customs and State Tax Committees. In February 2008, the PSC set up a working group comprising line ministry staff to review technical and functional requirements, develop and endorse the schedule of technical requirements, and review the selection of the GFMIS vendor.<sup>12</sup>

12. The project's compliance with assurances under the PFMR strategy for 2007–2018 was generally satisfactory but did not always follow the initial timeline. Of the 28 loan and project covenants, 23 were complied with. Compliance was ongoing for one covenant on enabling ADB representatives to inspect the project at the time of the PCR preparation. Three were partially complied with: i) ensuring that government agencies undertake the project and the operation of facilities in accordance with sound administrative policies and procedures, ii) revision and adoption of implementing rules and regulations on the budget in compliance with the BSL and Treasury Law, and iii) completion of staff training for those in budget organizations and MOF on revised budget classification and unified COA.

13. The TA outcome was strengthened capacity of the government in budget preparation and execution using the revised budget classification. It was expected to address the immediate capacity building needs and focus on the areas not supported by other donors. The TA also included a training program for staff within relevant agencies. Its outputs included (i) user manuals on budget preparation and treasury operations; (ii) training modules and materials on budget preparation and execution; (iii) performance indicators for the education sector; and (iv) training of 17 staff from relevant agencies on budget preparation and execution. All training was related to the revised budget classification.

## II. EVALUATION OF PERFORMANCE AND RATINGS

### A. Relevance of Design and Formulation

14. The PCR rated the project relevant at appraisal. This validation notes that the project supported the first pillar of the government strategy developed in 2005—that is, maintaining macroeconomic stability and accelerating structural reforms.<sup>13</sup> In early 2000, Uzbekistan set a goal of improving its fiscal management by reducing central budget expenditure to below 50% of GDP and gradually eliminating its fiscal deficit. The project was in line with this goal. The

<sup>11</sup> The order establishing the PMO was adopted on 29 December 2007. The PMO was fully staffed in March 2008.

<sup>12</sup> A budget execution specialist, recruited under the TA, assisted the PMO in preparing bidding documents, including the schedule of technical requirements. Although the necessary management structures were in place at the start of the project, frequent PMO staff turnover and lengthy inter- and intra-ministerial approvals contributed to delays.

<sup>13</sup> Government of the Republic of Uzbekistan. 2005. *Welfare Improvement Strategy Paper of the Republic of Uzbekistan for 2005–2010*. Tashkent.

equipment procured through the project helped the government implement its PFMR strategy. ADB also provided a TA grant to help the government improve public resource planning and use. The project also largely involved the procurement of equipment and the installation of communication lines, budgetary and accounting reforms, and legislative amendments, which were supported by the TA.

15. According to the PCR, the PFMR was supported by TA from the IMF, United States Agency for International Development, United States Treasury, and the World Bank. ADB assistance for PFMR was not part of its Country Strategy and Program, 2006–2010,<sup>14</sup> and was not originally envisaged as a project. This project was approved because no other agency was available to fund it. ADB's coordination with the IMF was important in developing the PFMR strategy from 2007 to 2018. ADB's financing of major costs was critical in designing an adequate schedule of software requirements and technical specifications that provided a sound basis for procurement.

16. The PCR, however, indicated that the project was less than relevant at completion. It noted that the project deviated from the government's approach to the PFMR strategy for 2007–2018 but it did not indicate how. Changes within the government occurred following the adoption of the new development strategy in February 2017 that delegated more responsibilities to the provinces.<sup>15</sup>

17. In addition to the PCR's observations about the project's relevance at completion, the validation also notes weaknesses in project design. First, the project underwent a considerable change in scope. It intended to establish a new GFMS but the new system was not acquired due to difficulties in procurement. The executing agency instead financed the development and modernization of the Treasury's existing software instead of a new GFMS. Second, since the project was classified as having no gender elements, it was not consistent with ADB's gender classification to impose a loan covenant requiring the preparation of a gender action plan (GAP) during implementation. And third, the project design and monitoring framework (DMF) had neither indicators to measure the impact and outcome nor target dates for their accomplishment. Given these weaknesses in project design that undermined the primary objective of implementing a new GFMS, this validation assesses the project less than relevant.<sup>16</sup>

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

18. The PCR rated the project less than effective since it partially achieved its impact and did not fully achieve its outcome. Two of the three outcome indicators were achieved while that relating to the appropriation of expenditures by parliament was partially achieved. The project was expected to deliver five outputs but missed critical deadlines and was extended beyond the original 5-year period. It took the executing agency almost twice as long as the planned schedule to complete the project. Contract repackaging, delays in developing procurement documents, prolonged procurement process, and unsuccessful bidding negatively affected loan disbursement. Nevertheless, four out of the five intended outputs were achieved.

19. The outputs related to GFMS development and uses were achieved after long delays. The impact of the GFMS on improved planning and utilization of public resources will only be

<sup>14</sup> ADB. 2006. *Country Strategy and Program: Uzbekistan, 2006–2010*. Manila.

<sup>15</sup> The government also received technical assistance from the United Nations Development Programme and the European Union Technical Assistance to the Commonwealth of Independent States.

<sup>16</sup> Although the ADB loan closed in November 2012, the project was completed only in June 2017 with the rollout of the GFMS.

seen after the national rollout and testing, which began in 2017. The treasury institutional network and upgraded treasury and accounting systems are in place, enabling the government to monitor the budget expenditure and its execution more efficiently. However, the revised budget classification system developed in line with the Government Finance Statistics Manual 2001 was not adopted at the time of the PCR.<sup>17</sup> The introduction of the MTBF and program budgeting was completed, but the government's decision to adopt it remains pending. It is still too early to assess the project's contribution to the efficiency of budget execution and the link between budgeting and policy objectives.

20. Output 1 on the development and operationalization of the GFMS had substantial delays and modifications prior to its completion. Because of difficulties in procurement, the executing agency financed the development of a GFMS software based on the Uzbekistan Treasury's existing application software rather than procuring an off-the-shelf software. But the existing software only had 80% of the required functional requirements envisioned under a new GFMS.

21. The project modernized and adequately staffed the treasury office and its provincial departments and district branches. Refurbishing the treasury offices, including the provision of basic information technology equipment and adequate staff took place in 2007-2009. Procuring GFMS-related communication lines and equipment was delayed by 3 years and 5 years, respectively. The development of GFMS software and the rollout were delayed by 6 years.

22. The six contract packages to modernize treasury operations under output 1 were repackaged in 2008 into three. Each was procured under international competitive bidding. Revised package 1 was to procure a commercial off-the-shelf GFMS application software and main servers. ADB adopted a two-stage bidding procedure for the revised package 1 to procure GFMS software and main servers, but the executing agency staff was unfamiliar with the process. Only one bidder submitted a proposal for the second stage, but the price was 43% above the budget and was rejected by the bid committee. Given this, the executing agency suggested the rebidding for the revised package 1 since only one bidder submitted a proposal, but ADB turned it down. The PSC split the package into two contracts, separating the procurement of hardware and software development. The procurement of servers was funded under the 2014 and 2015 state budgets, and installation began in June 2015. The procurement of software developer services took longer than expected and MOF selected an Uzbek IT firm and Treasury-4 developer to design and develop the GFMS. The process was to be completed by 2015, but delays in contract signing led to the modified GFMS testing in one province and district only in February 2017 and was to be rolled out to others from June 2017.

23. Revised package 2 procured computers and office equipment for the treasury offices; and revised package 3 was for telecommunications equipment, local area networking, infrastructure equipment, and support systems. ADB financed these packages. Bidding documents were approved in May 2011, proposals opened in July 2011, and evaluation completed in August 2011. ADB issued no-objection letters in November 2011 to contract awards totaling \$6.2 million. The delivery of goods was completed as planned.

24. Output 2 on streamlining and consolidating treasury banking operations was achieved. The treasury single account (TSA) became operational in January 2012. Moving existing accounts to the TSA began with 14 territorials<sup>18</sup> and one central republican treasury accounts. Extra-budgetary accounts were progressively closed as reported by the Treasury. Output 3 on the

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<sup>17</sup> Footnote 7, para. 34.

<sup>18</sup> Treasury accounts for the Republic of Karakalpakstan, 12 provinces, and Tashkent City.

creation of a central accounting system using a COA reflecting the revised budget classification was partially achieved. A central accounting system was designed, but the unified COA was only adopted by MOF in 2010.<sup>19</sup> However, MOF postponed its implementation several times and replaced it in March 2016 with a different classification, which is now used internally by the Treasury.<sup>20</sup> The delay was linked to the slow launch of the GFMIS.

25. Output 4 on refining the BSL and Treasury Law was achieved. MOF introduced amendments in the BSL and Treasury Law in December 2007.<sup>21</sup> The government enacted a Budget Code in 2014 to replace the BSL and unified them and other acts into one document.<sup>22</sup> Output 5 on the application of the revised budget classification was achieved. MOF adopted the revised classification in 2010 and applied it in budget preparation and execution in some sectors, none of which were specified in the PCR. ADB provided initial training on the classification in 2010 but was unable to provide GFMIS-specific training because of procurement delays. MOF reported that training was completed once the GFMIS was commissioned in 2016.

26. The PMO did not comply with the covenant to develop a GAP within 6 months of the loan effective date.<sup>23</sup> This was due to a lack of guidance on and resources for the GAP preparation. The GAP was intended to establish targets for recruiting and promoting female staff in treasury operations, integrating women's needs in the design and operation of project outputs, promoting women's participation in training, and ensuring women's involvement in project monitoring and evaluation. Gender-related indicators were to be included in the project performance management system.

27. ADB provided consulting services under the supporting TA grant to prepare technical requirements and bidding documents for all packages. Staff training on GFMIS operations was postponed because of the delay in software development. The TA completion report rated the output successful.<sup>24</sup> The TA grant shared good practices on performance-based indicators for budget preparation and execution. However, it was unable to support the development of a GFMIS user manual. Treasury was expected to complete this. The delivery of TA inputs was rated satisfactory. An extension of one year beyond the scheduled 24 months for TA implementation was necessary because of a delay in the selection of an international consultant for budget execution, delays in implementation of the PFMR project, and the need for continued support for both components given the delays in government endorsement of proposed actions.

28. The TA outcome was substantially achieved. It strengthened the capacity of the Treasury and Budget Department in budget preparation and execution using the revised budget classification system. Most of the expected TA outputs were attained. Due to insufficient time and resources, the consultants were unable to work with the GFMIS vendor and assist the Treasury in the development of a users' manual for budget execution in line with GFMIS. Consequently, the training of executing agency staff on the application of the draft treasury user manual was not undertaken.

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<sup>19</sup> Footnote 6, Design and Monitoring Framework (DMF), Note b. (The Ministry of Finance (MOF) issued Order. No. 26 on 2 April 2010 on the adoption of a unified chart of accounts for the Treasury's budget execution. The MOF postponed the implementation of the document and canceled the order in 2016.)

<sup>20</sup> The treasury is now using a different system—the Uzbekistan Automated System for Budget Organizations central accounting system.

<sup>21</sup> Footnote 7, DMF, Note c.

<sup>22</sup> Footnote 7, DMF, Note d.

<sup>23</sup> Footnote 7, Appendix 2: Compliance with Loan Covenants, p.23. Government procedures in hiring and promoting staff that do not discriminate against female staff were followed.

<sup>24</sup> ADB. 2011. *Technical Assistance Completion Report: Supporting Public Finance Management Reform in Uzbekistan*. Manila (TA 4946-UZB).

29. In compliance with ADB's Environment Policy (2002),<sup>25</sup> at appraisal the project was correctly classified as category C (no impact) for environment, involuntary resettlement and indigenous peoples.<sup>26</sup> Thus, no environmental assessment was required. It has also been confirmed that related civil works and refurbishments of structures were to conform to applicable local legislation and environmental monitoring by an authorized environmental agency. Adequate loan covenants were formulated for the event of any unforeseen land acquisition or resettlement needs. The PMO assigned environmental monitoring to the construction supervision engineer. ADB review missions confirmed that no land was acquired for the project. No ethnic minority or indigenous people lived in the project area or were affected. The safeguard categorization is assessed to have remained valid over the life of the project. Since the project did not achieve the critical output on introducing a new GFMS, this validation assesses the project less than effective.

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

30. The PCR rated the project less than efficient because of significant implementation delays and procurement issues. Although the ADB loan closed in November 2012, GFMS rollout started only in June 2017 after a 6-year delay. This delayed project benefits. Slippages extended completion by 4.5 years because of implementation delays of activities under the PFMR strategy for 2007–2018. Nevertheless, the installed and commissioned equipment and the TA grant that developed the technical requirements for the hardware and software helped the government modernize its treasury operations. TSA implementation resulted in efficiency gains, transparency, and greater accountability through (i) improved cash management, (ii) the establishment of a centralized accounting system, and (iii) the implementation of the BSL and the Treasury Law. Any cost savings are difficult to evaluate, but the opportunity cost of lost benefits is likely to be significant.

31. The benefits of the project were largely indirect: improved budget quality, budget execution efficiency, linking budgeting with policy objectives and project outcomes, greater public financial management transparency and accountability, and preparation for the MTBF and program budgeting. Direct economic benefits were savings through better cash management, greater accountability, and reduced tax and other burdens. Computations of the economic and financial internal rates of return were not prepared during appraisal.

32. The use of the imprest account by the PMO was satisfactory. The loan proceeds were disbursed directly to suppliers for the provision of goods and services and through the imprest account for PMO expenditures. Problems in the issuance of final payments and liquidation of the imprest account advance resulted in almost 4 months of delay before the loan was closed. The PCR indicated that high PMO staff turnover, slow contracting, and the decision not to rebid the GFMS contract package resulted in the underutilization of the loan proceeds, but it did not detail the reasons for not rebidding the contract. Based on the above findings, this validation rates the project less than efficient.

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

33. The PCR rated the project likely sustainable. Despite implementation delays and the cancellation of a significant portion of ADB loan funds, the project was completed with other

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<sup>25</sup> ADB. 2002. *Environment Policy of the Asian Development Bank*. Manila.

<sup>26</sup> ADB (Independent Evaluation Department). 2018. *Assessment of Safeguard Performance and ADB's Safeguard Work Quality: Public Finance Management Reform Project in Uzbekistan*. 3 April (internal).

sources of funding. The government took significant steps to improve the accountability, transparency, and efficiency of budget planning and execution. This required the adoption of new laws, regulations, and instructions. These included the new Budget Code in 2014 and the MOF's approval of the first Budget Accounting Standard,<sup>27</sup> which set requirements for the accounting policies of budget organizations in 2016. The government implemented legislative and other changes to adjust the institutional arrangements between the Treasury and budgetary organizations, and to improve state procurement.

34. Government ownership and commitment is secured. Internal software development capacity has been built to support Uzbekistan Automated System for Budget Organizations and the updated GFMS within Treasury, which is now supported by a local IT firm under contract until 2023. The government has sufficient resources, remains committed to upgrade its hardware and operating systems, and has in-depth and in-house technical skills. With support from the local software developer, the Treasury trained users of the new systems and established a central IT support center, which provides user support assistance, and enhances sustainability. Based on the above information, this validation rates the project likely sustainable.

### **III. OTHER PERFORMANCE ASSESSMENTS**

#### **A. Preliminary Assessment of Development Impacts**

35. Development impacts were rated by the PCR as moderate. With support from other international financial institutions, the project helped to modernize the Treasury, resulting in more effective public expenditure management. The Treasury tested the updated software and has been using it since June 2017. The Treasury's use of the revenue module in its recording of budget commitments will help improve planning and possibly reduce the under collection of revenues and over-budget of expenditures. The government has implemented the TSA, enabling the more efficient use of funds. The project, however, did not achieve all impact indicators and has still to prepare a multiyear rolling budget. The lack of appropriate guidance on the preparation of GAP and limited resources meant that the covenant was not met. While the Treasury provided training to more than 3,000 managers, employees and IT staff, no gender disaggregated data was provided. This validation rates the project impact satisfactory.

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

36. The PCR rated the performance of the borrower and executing agency satisfactory. While the executing agency and borrower faced difficulties in loan administration, the government's commitment and ownership of the PFMR process were notable.

37. Project implementation was significantly delayed because of the 5.3-months interval between loan approval and signing; changes in the procurement packaging; conflict between the government and ADB over procurement guidelines; lack of coordination of procurement activities between the PMO, executing agency and its bidding committee, whose members often were not available when needed; and the frequent changes in PMO staff. This slowed down procurement, ultimately delaying implementation and leading to design changes after the loan closure.

38. The government, however, demonstrated its commitment to implementing PFMR, including the commissioning of the government-modified GFMS in 2017. It stepped in and provided funding when ADB would not extend the loan period. This led to the cancellation of loan

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<sup>27</sup> Footnote 22; and footnotes 19 and 20.

proceeds but enabled the government to complete the outputs. The borrower and the EA accomplished the major reform agenda to promote the efficient execution of the treasury budget. The treasury system is well established and operational. Changes in the legal framework are being introduced and the government is moving towards its long-term strategy to improve the public financial management. The overall performance of the borrower and executing agency is assessed satisfactory.

### C. Performance of the Asian Development Bank

39. ADB performance was rated by the PCR as satisfactory. ADB supported the project because the World Bank funding was unavailable. It provided inputs and feedback during implementation and maintained regular contact with the PMO and executing agency. ADB conducted five missions from loan inception in 2008.<sup>28</sup> The decision not to rebid the GFMIS package gave the government an opportunity to provide significant resources to the project. ADB demonstrated flexibility when changes were required. But there were delays because contract packages changed, and there were procurement procedural differences between the government and ADB. ADB could have been more assertive and engaged a resident long-term IT and procurement expert to support the PMO. However, ADB safeguard work quality at appraisal and at supervision are assessed satisfactory (footnote 26). ADB loan proceeds were not used during implementation for any physical assets that would need environment and safeguard assessment. The loan covenants on ADB Safeguard Policy for Involuntary Resettlement were not triggered. This validation assesses ADB performance satisfactory.

## IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

### A. Overall Assessment and Ratings

40. The PCR assessed the project less than successful.<sup>29</sup> The project was implemented after substantial delays and major changes in the financing plan and procurement packaging. Almost 70% of ADB loan proceeds were canceled. The loan amount was not disbursed in full and the loan period was not extended. The expected outcome of the project—improved effectiveness, efficiency, transparency, and accountability of budget execution—was only partially achieved and the modified GFMIS's full application is expected in 2018. The validation assesses the project less than successful (Table 1).

**Table 1. Overall Ratings**

<b>Validation Criteria</b>	<b>PCR Rating</b>	<b>IED Review</b>	<b>Reasons for Disagreement and/or Comments</b>
Relevance	Less than relevant	Less than relevant	
Effectiveness	Less than effective	Less than effective	
Efficiency	Less than efficient	Less than efficient	
Sustainability	Likely sustainable	Likely sustainable	
<b>Overall Assessment</b>	<b>Less than successful</b>	<b>Less than successful</b>	

<sup>28</sup> Footnote 7, p. iii. Overall, ADB conducted six missions: appraisal mission on 2-18 April 2007; inception mission on 15 April 2008; 6 multiple review missions (dates not supplied in the PCR); midterm review mission on 12 December 2011-20 January 2012; loan review mission in July 2012; and project completion review mission in June 2017.

<sup>29</sup> ADB. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila.

Validation Criteria	PCR Rating	IED Review	Reasons for Disagreement and/or Comments
Preliminary Assessment of Impact	Moderate	Satisfactory	
Performance of Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 44.

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

## B. Lessons

41. The PCR offered useful lessons in PFMR. In addition to these, the validation offers the following lessons:

(i) **Country-level lesson.** Procurement matters that delay project implementation are a serious issue. Knowledge of procurement procedures is a key aspect of most ADB-funded projects and a lack of understanding of the two-stage process should have been rectified earlier. Further training should have been provided to the executing agency, especially since it had limited exposure to ADB procedures and to the prices of the goods and services to be procured under the project.

(ii) **Sector-level lesson.** PFMR is multifaceted and requires sufficient time to implement. Supporting TA and project implementation should go hand in hand. The PMO was established to manage the procurement process with TA support. However, central treasury staff had to carry out both project-specific tasks and their day-to-day functions. This led to competing priorities between their own jobs and project requirements, and delays in dealing with project issues. It is essential for implementing staff to adequately apportion their time between the requirements of the project and their day-to-day activities.

(iii) **Project-level lessons.** Several project-level lessons are identified. First, although the supporting TA addressed issues related to budget preparation and execution, continued support for the entire PFMR process is needed. The expectation that the TA could achieve its outcome within 24 months was too optimistic based on capacity constraints, which should have been identified at appraisal. Second, the bid price for the GFMIS application and main servers should have been better estimated. The bid was 43% above the price. Third, a results-based loan could have been considered where disbursements would have been phased in relation to the progress of project implementation to avoid difficulties in monitoring evolving needs during and after project completion. Fourth, a GAP is not required for projects classified as having no gender elements; hence, this was not needed in the loan agreement. Finally, the procurement of IT systems—including hardware, software, and related communications equipment—requires the involvement of specialized personnel. However, this is not a full-time job, and on-call consultant support could have been considered for the executing agency.

(iv) **Results framework and methodology-level lessons.** Lessons in this area include the following: (i) the DMF was not well designed and had deficiencies in the measurement of performance indicators for the project impact and outcome. Target dates should have been indicated; and (ii) the five outputs of the project involved the

implementation of three components. These should have been integrated more closely with the outputs of the DMF.

### **C. Recommendations for Follow-Up**

42. ADB's future loans or TA on public financial management should include components to check up on the status of PFMR and Treasury operations to ascertain project sustainability. The implementation period of future TA and public financial management loans should be coterminous to enable continuous support throughout execution.

## **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

### **A. Monitoring and Reporting**

43. According to the PCR, the project had appropriate project monitoring, evaluation, and reporting procedures, which could be strengthened through open discussions between ADB, the executing agency and/or borrower to speed up delayed resolutions. This is endorsed by this validation.

### **B. Comments on Project Completion Report Quality**

44. The PCR covers most of the requirements. It, however, presents some numerical inconsistencies such as three different totals for the project cost without providing an adequate explanation. Some statements could have been better put into context by citing justifications, sources or supporting actions. For instance, more informative reasons could have been given as to why the project deviated from the government's approach to PFMR strategy. The PCR indicated that delays resulted in project design changes, which could have been discussed in detail. But given the candid nature of the PCR, the validation considers its quality to be satisfactory.

### **C. Data Sources for Validation**

45. Data sources for this validation were the PCR, the RRP, country partnership strategy and national strategy for Uzbekistan, project safeguard assessment, progress reports and back-to-office reports of loan review missions.

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

46. This validation does not recommend further IED follow-up.