

**DEVELOPMENT EFFECTIVENESS COMMITTEE**  
**Chair's Summary of the Committee Discussion – 1 October 2012**

**I. Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare (IN.204-12)**

1. DEC discussed the evaluation of ADB's Microfinance Development Strategy (MDS) 2000, which the Independent Evaluation Department (IED) found as relevant and responsive to the sector development needs of ADB's developing members. However, the report found the MDS' results less than effective in microfinance institutional development, and sustainability of operations. In addition, there was no clear evidence that the Bank's interventions had reached the poor, as only 9% of the clients lived below \$1.25/day. IED explained that the report intended to make a case for improving outreach in a sustainable manner while emphasizing the public sector's role in improving market infrastructure, consumer protection, and financial literacy for advancing financial access for the poor, as well as providing institutional support to the financial system. IED also clarified that while the report surfaced the tradeoff between outreach and welfare-enhancing effects of microfinance, it suggested that more deliberate and innovative approaches with greater focus on addressing demand-side constraints may yield better results.

2. IED explained that the findings were not isolated to ADB; studies by the World Bank, Consultative Group to Assist the Poor and the Evaluation Cooperation Group conveyed similar findings. DEC inquired about how ADB should structure its microfinance operations moving forward and whether the focus on ultra poor is prudent, given concerns over sustainability and spillover effects. IED clarified that irrespective of the portfolio size, ADB should do much more on results and outcomes to make its support to microfinance more inclusive and effective. As such, more needs to be done on demand-side activities, and on improving the market infrastructure, credit information, business development services and social performance of microfinance operations.

3. In reference to the vulnerable groups program of Bangladesh Rural Advancement Committee (BRAC) which was often cited as a successful microfinance initiative, DEC members inquired whether ADB should engage in microfinance only in instances where the government provides direct subsidies to the poor. IED clarified that it was not referring to interest rate subsidies, but encouraged ADB to explore ways to reach the ultra poor through graduation programs such as BRAC and innovations in financial technology such as money transfers and deposit services. Some DEC members favored client-focused interventions which aim at protecting clients from unfair practices by commercial players, and cautioned against approaches which may be innovative yet unrealistic.

4. DEC noted the fluctuations of approval amounts in ADB support for microfinance with increases in 2006 and 2010, which Management perceived could be correlated with the changing needs of clients, as well as with the decline of financial intermediation operations. DEC members also asked whether the report's recommendations fed in to next year's work program in line with the Financial Sector Operational Plan. Management expressed that there are projects in the pipeline where many of the recommendations have been reflected in the design, and more projects under implementation in South Asia have considered the report's findings and recognized the social welfare impact of cross subsidies and the need to develop an effective delivery mechanism. Moreover, a staff training program has been conducted aiming at improving the project design and implementation of non-core financial sector operations involving financial intermediation components to bring their performance at par with core financial sector operations.

5. A discussion ensued about the inclusion of microfinance in the results framework, with DEC members inquiring how gender is integrated and why there are no indicators to measure consumer protection, credit quality, and outreach to the poor. Management stressed that the number of indicators for financial sector development under the development effectiveness framework is limited, comprising only the number of end borrowers for microfinance and the number of microfinance loan accounts opened as its proxy. Under the current review of the results framework indicators, the microfinance indicator is to be further disaggregated into the number of female borrowers or accounts held by female borrowers.

Management also recognized that there are limitations in measuring indicators for certain factors such as good consumer protection and financial literacy.

6. Definitional issues in relation to microfinance's integration into the formal financial system were discussed. Management emphasized the distinction between microfinance as a financial service and as a government welfare program, stressing that the former modality assumes that the users are creditworthy. Management further reiterated that institutional strengthening interventions could be focused on credit assessment of end borrowers combined with the promotion of consumer protection and financial literacy.

### **Concluding Remarks**

7. The DEC welcomed the Special Evaluation Study of Microfinance Development Strategy 2000. It noted with satisfaction that ADB has had a portfolio allocation of \$2.8 billion in this sector during 2000-2010. The interventions have achieved reasonably good results in addressing regulatory and policy constraints in many countries. However, the study also showed that the results have been less than effective in market and institutional development, sustainability of microfinance operations and outreach of the poor, which is worrisome. DEC noted that given the emphasis of Microfinance Development Strategy on helping the poor, interventions need to be sharpened with a greater focus on clients (especially empowerment of women), the use of financial innovations and technology-based solutions to achieve desired outcomes. A balance needs to be struck between improving financial sustainability of institutions and financial inclusion of and outreach to the poor to make ADB's future support for microfinance more inclusive and effective.

8. DEC noted the ambiguous results from interventions in countries with policy reforms and those without, and encouraged staff to clarify further. Members noted and urged Management the need to emphasize gender mainstreaming in microfinance operations. Furthermore, members noted IED's recommendations about improving microfinance institutional infrastructures such as credit information and rating systems for the viable and sustainable expansion of microfinance in developing member countries. DEC recommended that IED publish an article on a referred journal to contribute to the debate on the future of microfinance.

### **II. IED Work Program 2013-105 and 2013 Budget**

9. IED presented a revised work program for 2013-1015, which had been previously discussed with DEC in the meeting of 31 July 2012, and incorporated comments received from DEC as well as Management. DEC members supported the work program, with a majority supporting the inclusion of the validation in 2015 of the midterm review of Strategy 2020 to be conducted by Management, and appreciated IED's proposed focus on the strategic pillars of inclusive growth, environmentally sustainable growth and regional cooperation. Several DEC members had questions on the proposed increase in IED's budget for 2013, and agreed to continue discussions on IED's budget in a subsequent DEC meeting.

### **III. DEC Work Program for 2013**

10. DEC discussed the proposed schedule of DEC meetings presented by IED, to be firmed up before the end of 2012.