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Independent Evaluation ADB

Evaluation Approach

Special Evaluation Study on ADB's Microfinance Development Strategy 2000

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A. Introduction

1. In May 2000, the Asian Development Bank (ADB) approved its microfinance development strategy (MDS) to provide broad guidance to microfinance operations.[1] The MDS defined "microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises" (MDS, Box 1). The MDS's goal was to ensure permanent access to institutional financial services for a majority of poor and low-income households and their microenterprises. The purpose was to support the development of sustainable microfinance systems that can provide diverse services of high quality. The strategy focused on: (i) creating a policy environment conducive to microfinance; (ii) developing financial infrastructure; (iii) building viable institutions; (iv) supporting pro-poor innovations; and (v) supporting social intermediation (MDS, para. 37). For more details, see Appendix 1. It was envisaged that ADB would review the MDS after 3 years of implementation (MDS, para. 51).[2]

2. From 2000-March 2011, ADB approved a total of $2,405.02 million for microfinance operations in loans, grants, technical assistance (TA), and private sector investments. Supported activities ranged from creating the legal and policy environment and building the financial infrastructure for microfinance to institutional reform, product innovation, resources to apex institutions for relending, and consumer protection.

3. It has been a decade since the MDS was approved and a number of projects designed in line with it have already been completed. The ADB's financial sector community of practice (FS CoP) is considering updating the MDS or developing a strategic document for financial inclusion to keep ADB's microfinance operations most abreast with current developments in the sector. Findings of this special evaluation study (SES) will provide timely inputs to assist the FS CoP in preparing such document particularly, and policy recommendations for improving ADB's future microfinance operations more generally.

B. Literature Review

4. The microfinance industry has evolved in approaches and grown significantly in volume over the past 20 years.[3] It started from microcredit to change to microfinance and to access to finance most recently, each of which has involved an expansion of the types of financial services

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1 ADB. 2000. *Finance for the Poor. Microfinance Development Strategy.* Manila.
2 It turned out that no review was conducted.
3 For more detail of literature review, see Appendix 2.

which clients can benefit from and use. As of 31 December 2009 the Microcredit Summit Campaign revealed that 3,589 global microfinance institutions (MFIs) had reached over 190 million clients, 128 million of whom were among the poorest when they took their first loan.[4] However, the financing gap remains huge. Estimates of the total working poor in demand for microfinance services range from 600 million to over 1 billion people.[5] The total amount of funding required to meet the latent demand is estimated at $250 billion to $300 billion.[6]

5. The most important feature of microfinance in recent years is its formalization and greater focus on commercialization and financial sustainability through charging high costs to customers. In recent years, a growing number of nongovernmental organizations (NGOs) is transforming into regulated MFIs that operate as financial institutions on a commercial basis. Studies have shown the institutional benefits of transformation such as increase in equity capital, improved governance, institutional sustainability, increased client outreach, and accelerated growth in total loan portfolio, and product diversification (ADB, 2004; Frank, 2008).[7] However, there have been debates on whether formalization and commercialization cause mission drift, wherein MFIs would shift away from serving the poor and low-income clients to higher income clients. A study by the Consultative Group to Assist the Poorest (CGAP) in 2001 found no compelling evidence of mission drift and exclusion of poorer clients on MFI transformation in Latin America, and concluded that MFIs seem generally committed to their initial mission and target group.[8] Similarly, a study by ADB in 2004 showed that commercial MFIs in Indonesia and the Philippines have not suffered from mission drift.[9] However, a study by the Evaluation Cooperation Group (ECG) in 2010 noted that relatively little work has been done to test the mission drift hypothesis rigorously and that even NGO MFIs may not be focusing primarily on the very poor anymore.[10] For example, one recent rigorous study by Cull et al (2007) found that, as group-lending MFIs get bigger, they also tend to lend less to the poor and to women; this negative effect was also found more weakly for individual lenders.[11] The authors concluded that this is not strictly mission drift as it is consistent with the “idea that as institutions mature and grow, they focus increasingly on clients that can absorb larger loans.” Frank (2008) examined the formalization of MFIs in different regions of the world, and found that transformation tends to result in higher average loan sizes and that transformation allows MFIs to serve more women, but the percentage of women clients being served declines.[12] This result raises concerns about the impact of MFI transformations on the outreach of financial services to low-income women and on maintaining the social mission of microfinance.

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[4] Reed, W. 2010. *State of Microcredit Summit Campaign Report 2011.* Washington, DC: Microcredit Summit Campaign.

[5] Dieckmann, R. 2007. *Microfinance: An Emerging Investment Opportunity.* Frankfurt: Deutsche Bank Research.

[6] ESCAP, ADB and UNDP. 2010. *Paths to 2015 MDG Priorities in Asia and the Pacific.* New York. UN Publishing.

[7] Fernando, N. 2004. *Micro Success Story: Transformation of Non-Government Organizations into Regulated Financial Institutions.* Asian Development Bank. Manila; Frank, C. 2008. *Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line.* Women’s World Banking Focus Note.

[8] Consultative Group to Assist the Poor (CGAP). 2001. *Commercialization and Mission Drift: The Transformation of Microfinance in Latin America.* Occasional Paper, No. 5, January.

[9] Charitonenko, S. A. Campion and N. Fernando. 2004. *Commercialization of Microfinance: Perspectives from South and Southeast Asia.* Asian Development Bank. Manila.

[10] Evaluation Cooperation Group (ECG). 2010. *Making Microfinance Work: Evidence from Evaluations.* Asian Development Bank. Manila.

[11] Cull, R., A. Demirguc-Kunt, and J. Morduch. 2007. *Financial Performance and Outreach: A Global Analysis of Leading Microbanks*. Economic Journal. February, 117(517): F107-F133; Cull, R., A. Demirguc-Kunt, and J. Morduch. 2009. *Microfinance Meets the Market*. Journal of Economic Perspectives. Winter, pp. 167-192.

[12] Frank, C. 2008. *Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line.* Women’s World Banking Focus Note.

6. ADB (2011) examined the policy environment, institutional development and sector performance in Cambodia, the Lao PDR, and Viet Nam over the past decade.[13] It showed contrast developments and market outcomes, especially between Cambodia and Viet Nam. While Cambodia follows a for-profit private sector model having quickly improved the policy environment and sector's financial sustainability, microfinance in Viet Nam primarily serves social objectives and remains heavily dominated by the government through large state-owned banks and semi state-owned people credit funds. On the other hand, Viet Nam has developed a thorough rural network of microfinance providers and has achieved impressive outreach to the poor, especially in rural areas. ADB (2006) study on rural financial markets in Central Asia pointed that microfinance development is necessary but not sufficient for rural financial market development and that rural financial market development remains an important facet of the overall financial sector in Central Asia.[14]

7. An associated issue with commercialization is the unsustainable microcredit indebtedness that appeared in 2010 across India, Bangladesh, Peru, and several transition economies such as the Balkans, Bosnia, and Herzegovina. Srinivasan (2010) suggested that the dynamic behind the crisis particularly in India was clients' growing dependency on microcredit, coupled with high interest rates that meant a growing proportion of the unstable income of the poor being siphoned off to cover interest rates.[15] Chen, Rasmussen and Reillie (2010) in a study of microfinance markets in four countries that experienced repayment crisis after a period of high growth revealed three vulnerabilities that lie at the core of the problem: (i) concentrated market competition and multiple borrowing; (ii) overstretched MFI systems and controls; and (iii) erosion of MFI lending discipline.[16]

8. Finally, despite the impressive recent growth of the microfinance industry worldwide and the general belief that microfinance is a powerful tool for poverty reduction, factual evidence on its poverty impact is yet to be found. This stems mainly from the technical difficulty in avoiding biases in the comparison between clients who receive microfinance services and individuals who do not. More recent impact studies, including those based on new evaluation methodologies such as random controlled trial, however, showed ambiguous results, including some evidence that the very poor benefit little (e.g., Banerjee et al., 2010; Karlan and Zinman, 2009; ADB, 2007; Montgomery, 2005).[17]

9. A survey of evaluations of multilateral development banks' (MDBs) microfinance operations reveals general satisfaction with the results unless the countries concerned were operating under difficult environments (AfDB 2003; AfDB 2006; World Bank IEG, 2008: ECG, 2010).[18] Most of these evaluations narrowly focused on borrowers reached and repayment rates,

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[13] Nguyen, B. T. and R. Vogel. 2011. *Rural and Microfinance in the Lower Mekong Region. Policies, Institutions, and Market Outcomes.* Asian Development Bank. Manila.

[14] Lamberte, M. B., R. Vogel, R. T. Moyes, and N. Fernando. 2006. *Beyond Microfinance: Building Inclusive Rural Finance Markets in Central Asia.* Asian Development Bank. Philippines.

[15] Srinivasan, N. 2010. *Microfinance State of the Sector Report 2010.* New Delhi. Sage Publications.

[16] Chen, G., S. Rasmussen, and X. Reille. 2010. *Growth and Vulnerabilities in Microfinance*. *Focus Note 61*. Washington, D.C. CGAP. February.

[17] Banerjee, A., E. Duflo, R. Glennerster and C. Kinman. 2010. *The Miracle of Microfinance? Evidence from a Randomized Evaluation*. Cambridge, MA: MIT, June (mimeo); Karlan, D. and J. Zinman. 2009. *Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila*. July (mimeo); ADB. 2007. Special Evaluation Study. *Effects of Microfinance Operations on Poor Rural Households and the Status of Women,* Operations Evaluation Department, September, Manila, Philippines; Montgomery, H. 2005. *Meeting the Double Bottom Line: The Impact of the Khushhali Bank's Microfinance Program in Pakistan,* ADB Institute, Tokyo.

[18] AfDB. 2003. *Review of the Bank's Rural Finance Experience,* Operations Evaluation Department, December, May, Tunis; AfDB. 2006. *Microfinance: Policy and Strategy for the Bank Group,* Operations, Policies and Review

which have been generally high, and by these criteria most project were found to be successful or of good quality. However, independent external evaluations have been less positive about outcomes on the grounds of either lack of sustainability or lack of evidence of impact. For example, CGAP's evaluation of WB and UNDP microfinance projects revealed that only 24% of both agencies' projects were successful in terms of sustainability, around 45% were judged "unacceptable" and 36% were "weak" (CGAP, 2004).[19] The lack of evidence of impact on poverty has already been discussed above.

C. Overview of ADB Microfinance Portfolio

10. From 2000–March 2011, ADB approved a total of $2,405.02 million for microfinance operations to its developing member countries (DMCs). The portfolio comprised $1,860.80 million in 51 loans and grants, $21.72 million in 41 TA projects, and $522.50 million in 4 private sector operations (Table 1). The loan portfolio is heavily concentrated in three countries—India, Pakistan, and the Philippines, constituting 74% of the total loans approved. In addition, ADB also approved at least 11 loan projects with components that support microfinance activities. For more details, see Appendix 3.

Table 1: ADB Microfinance Projects, 2000–2011
(as of 14 March 2011)

Projects	Number	$ million
A. Loans and Grants		
Microfinance Projects	40	1,804.70
Projects with Microfinance Component	11	56.10[a]
Subtotal (Loans and Grants)	**51**	**1,860.80**
B. Technical Assistance		
Advisory and Operational TA	34	19.20
Regional TA	7	2.52
Subtotal (TA)	**41**	**21.72**
C. Private Sector Operations		
Equity Investment	3	272.50
Loans	1	250.00
Subtotal (Investment)	**4**	**522.50**
Grand Total	**96**	**2,405.02**

[a] Microfinance component only.
Source: Staff calculations from ADB database.

11. Since MDS's approval, eight completed projects were evaluated through project completion reports (PCRs) and seven of them were validated by the Independent Evaluation Department (IED). The ratings are in Table 2.[20]

Department, May, Tunis; World Bank Independent Evaluation Group (2008) *IFC Support of MSMEs in Frontier Countries FY94-FY06,* Washington DC; Evaluation Cooperation Group (ECG). 2010. *Making Microfinance Work: Evidence from Evaluations.* Asian Development Bank. Manila.

[19] CGAP. 2004. *Aid Effectiveness in Microfinance: Evaluating Microcredit Project for the World Bank and the United Nations Development Porgramme.* Focus Note 35. Washington, D.C.

[20] See Appendix 3 for the specific projects that were rated.

Table 2: Project Performance Ratings

Rating	PCR	PVR
Highly Successful	3	2
Successful	2	1
Partly Successful	2	3
Unsuccessful	1	1
Total		**8**

PCR = project completion report, PVR = PCR validation report.
Source: ADB loan database.

12. The PCRs and PCR validation reports (PVRs) highlighted key challenges and issues faced in the microfinance projects (Appendix 4). First is the need to further improve the enabling policy and regulatory environment as constraints remain in different forms in different countries (e.g., interest rate caps, ownership restrictions, etc.). Financial systems development approach remains key to achieving sustainable results and to maximizing development effectiveness. The government, particularly the Central Bank, Ministry of Finance, and regulatory and supervisory agencies, is critical in fostering the conducive policy environment. In this regard, project designs need to ensure that legal, regulatory, and supervisory foundation as well government's role and reform measures to be undertaken are appropriate. Second, many DMCs still have limited or lack appropriate supportive infrastructure to allow MFIs to expand their services to the poor. Examples are credit bureaus, rating agencies, wholesale institutions such as apexes and commercial banks, MFI networks for policy advocacy, information dissemination, and technical support, etc. Third, many institutions providing microfinance services in the region are not yet financially sustainable and lack the capacity to expand outreach to large numbers of poor people as well as the capacity to provide a broad spectrum of services. Strong retail institutions committed to outreach and sustainability are essential for extending permanent access to financial services and having significant impact on poverty reduction. Therefore massive efforts are needed to build the capacity of the retail institutions. These lessons learned are in line with international experience in that successful microfinance projects require: (i) financial sustainability on the part of the participating MFIs; (ii) high-standard consultancy and TA; (iii) sound regulation and monitoring; and (iv) flexibility in product design.[21]

D. The Proposed Special Evaluation Study

1. Objective and Scope

13. The SES aims to assess the design, implementation, and effectiveness of the MDS in supporting the development of the microfinance sector in the region, and on that basis to provide inputs for the FS CoP's preparation of a strategic document for financial inclusion and policy recommendations to ADB on future microfinance operations.

14. The SES will assess the MDS's relevance (design), responsiveness (resource allocation), and results (effectiveness and impacts). The assessment will be based on ADB microfinance operations approved during 2000–2010, and will be conducted in two phases. The first phase will include a desk review of project documents, self and independent evaluation reports (PCRs, PVRs, and others), and pertinent current literatures on microfinance. Mini semi-structured interviews with concerned ADB microfinance specialists will also be conducted. The second phase will be field

[21] Evaluation Cooperation Group. 2010. *Making Microfinance Work: Evidence from Evaluations.* ECG Paper 2. Asian Development Bank. Manila.

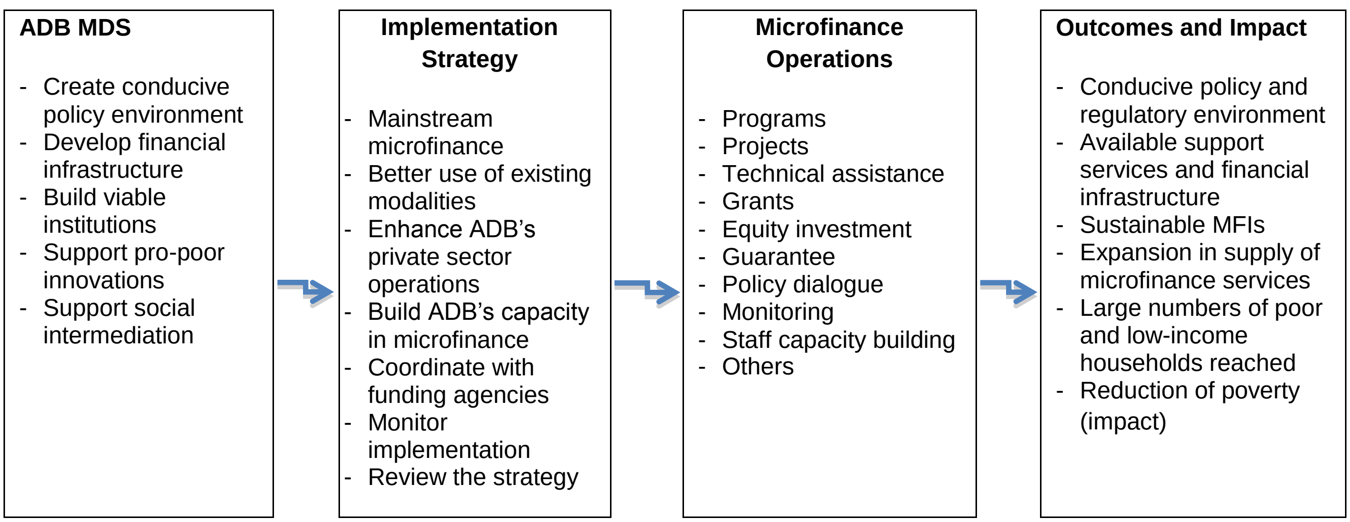
visits to selected countries and microfinance programs for an in-depth evaluation of operations on ground.

2. Evaluation Framework

15. The MDS's goal was to ensure permanent access to institutional financial services for a majority of poor and low-income households and their enterprises. The assumption was that permanent access to financial services, when practiced in a sound manner, would allow the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, increase their earning capacity, and improve their overall quality of life (MDS, Box 2).

16. The MDS was formulated within ADB's overall strategy for poverty reduction. To achieve the objectives of the strategy effectively and efficiently, it was envisaged that ADB would integrate microfinance into its operations, make better use of existing modalities, enhance the involvement of its private sector operations in microfinance, build its internal capacity for microfinance activities, coordinate with other agencies involved in microfinance, and monitor the progress of microfinance activities (MDS, para. 51). To date ADB has used loans, grants, TAs, equity investment and guarantee as modalities of assistance to DMCs to achieve the MDS' development goal. The implementation of the strategy was envisaged to result in the development of the microfinance sector in the region and to contribute to poverty reduction in DMCs. Figure 1 summarizes the logical framework for assessing the MDS. More details are in Appendix 5.

Figure 1: Summary Logical Framework



3. Key Evaluation Criteria and Evaluation Issues

17. The MDS will be assessed on Evaluation Criteria – Relevance, Responsiveness, and Results. The Results criteria will consider Effectiveness of the MDS and Sustainability. The key evaluation issues reviewed to determine the criteria are the following:

(i) **Microfinance development strategy's relevance.** ADB's Strategy 2020 emphasizes inclusive growth.[22] The SES will therefore assess the MDS from the

[22] ADB. 2008. Strategy 2020. The Long-Term Strategic Framework of the Asian Development Bank 2008-2020. Manila.

viewpoint of the inclusion of the poor in financial sector growth and development. It will also assess the development contexts of the microfinance sector in DMCs and the extent MDS addressed the binding constraints. In particular, the appropriateness of the design and financial instruments used given the development priorities and absorptive capacity of DMCs. Within ADB, the SES will review the coherence of the MDS and its implementation with the strategies of other sectors needs, and the coherence of the MDS with international developments in microfinance in the last decade. The SES will assess the extent the MDS has provided guidance to operations in terms of the choice of intervention modalities, prioritization and sequencing, and design of assistance to achieve its development goal and expected outcomes as presented in the evaluation framework above.

(ii) **Microfinance development strategy's responsiveness.** The SES will assess how the MDS was responsive to the needs and development of the microfinance sector in DMCs. In this regard, what human and financial resources did ADB allocate for the implementation of the strategy? In terms of the human resources, were the resources sufficient and deployed in such a way that the strategy could be implemented efficiently and effectively? Were the human resource knowledge and skills appropriate? In terms of the financial resources, what were ADB's funding allocations for microfinance? Were these adequate for the role ADB wanted to play in the microfinance domain in DMCs? In terms of the financial instruments used (loans, grants, etc.) for microfinance, were these adequate to meet sector needs? Were these the right instruments for delivering effective assistance to the microfinance sector?

(iii) **Microfinance development strategy's effectiveness.** DMCs receiving assistance from ADB operate under different policy and regulatory environments and are at different stages of microfinance development. Therefore, ADB has used different approaches to assisting DMCs, including program loans, investment loans, TAs, grants, private sector operations investments, and mixtures of these modalities. The SES will assess the appropriateness and effectiveness of the operation modalities taken and the extent they have contributed to the development of the microfinance sector in DMCs in terms of policy and environment, institutional capacity, and service development and delivery.

(iv) **Effectiveness of non-financial sector approach.** In addition to microfinance projects in the financial sector, ADB has also provided a number of non-financial sector projects involving microfinance components. The study will assess the effectiveness of this approach to microfinance and whether there is any way to improve it in coordination with financial sector projects and the financial team.

(v) **Effectiveness of service delivery models**. DMCs use different models in promoting microfinance services for the poor. In some countries provision is dominated by the government (e.g., Viet Nam), while in the others it is relied on the private sector (e. g., Cambodia, the Philippines). Different models used produce different sector performance and outcomes and thus have different implications for ADB. The study will assess the effectiveness of the models used and the extent to which ADB assistance contributed to improving the resulting sector performance and outcomes.

(vi) **Poverty impact and sustainability**. Given the MDS's stated goal and purpose (para. 1), the SES will assess the extent to which ADB projects have contributed to reaching the poor as intended target groups and how implementing agencies and MFIs assisted by ADB were able to increase their capacity over time to offer financial services sustainably. In this regard, the SES will review both financial and social performance of the sector and beneficial MFIs.

(vii) **Strengthening areas in microfinance development strategy.** Under Strategy 2020, ADB envisions to strengthen its support to the finance sector by helping develop financial infrastructure, institutions and products and services. To promote inclusive growth, ADB seeks to create an enabling environment for microfinance and rural financial institutions, and will explore the use of technologies to expand the reach of the formal financial system to rural areas (Strategy 2020, page 20). The SES will identify areas in the MDS that need strengthening in line with ADB's Strategy 2020 and will seek policy recommendations on how to position and promote microfinance in the new context and as an integral part of financial inclusion.

4. Evaluation Methodology

18. The SES will assess ADB microfinance operations approved during 2000-2010. It will be conducted in two phases.

19. **Phase I: Desk review and interview of ADB microfinance staff.** The SES will conduct a desk review of available project documents, self and independent evaluation reports, and pertinent current literatures on microfinance. Semi-structured interviews will also be conducted with concerned microfinance specialists within the ADB to solicit their experience on the MDS from the viewpoints of design, implementation, resource allocation, and staff capacity.

20. **Phase II: Field visits.** The SES will conduct field visits to DMCs with relatively significant assistance from ADB and unique reform experiences and progresses. A proposed list of selected DMCs is in section E below and this will be finalized toward the end of Phase I. In each selected country, the SES will assess performance of projects on the ground and to conduct in-depth interviews with key informants in concerned government agencies, support institutions, MFIs, and other relevant organizations. To assess the performance of institutions, a small sample survey of MFIs will be conducted. Pertinent data on financial and operational performance of these institutions will be collected, processed, and analyzed. To determine if ADB projects are reaching the intended market and if households have permanent access to a variety of services, a sample survey of microfinance clients will be conducted in the selected countries. This client survey will be limited only to a few countries where survey capacity is readily available due to costs and time involved. See the evaluation framework in Appendix 5.

5. Proposed Countries and Projects for In-depth Evaluation

21. Countries and projects for in-depth evaluation will be selected to represent: (i) ADB's operations and modalities of assistance (loan, grant, TA, etc); (ii) DMCs at different stages of development and activities in microfinance; and (iii) Role of government - some with very dominant government role while others promoting an environment for greater private sector participation.

22. Eight countries are proposed for the study and this will be finalized toward the end of the desk review and interview with the ADB microfinance specialists (Table 3).

Table 3: ADB Assistance in Selected DMCs, 2000–2010
($ million)

Country	Loan	Grant	TA	Total
East Asia				
PRC[a]	0.00	0.00	2.025	2.025
South Asia				
India	1,050.00	0.00	2.00	1,052.00
Southeast Asia				
Cambodia	60.30	1.00	0.60	61.90
Viet Nam	80.00	1.50	0.55	82.05
Philippines	150.00	1.90	0.75	152.65
Central and West Asia				
Pakistan	455.00	2.00	0.00	457.00
Uzbekistan	70.00	0.00	0.55	70.55
Pacific				
Papua New Guinea	22.60	6.91	0.00	29.51

ADB = Asian Development Bank, DMC = developing member country, PRC = People's Republic of China.
[a] The number are exclusive of non-financial sector TAs.
Source: Staff calculations from ADB project database.

23. In East Asia, the People's Republic of China (PRC) is chosen for the special approach that ADB has used that included only TA projects and no loans and grants. In South Asia, India is chosen because of the country's large microfinance market and the significance of the ADB microfinance portfolio. In 2006, ADB approved a loan of $1 billion for the rural cooperative credit restructuring and development program in India.

24. In Southeast Asia, Cambodia and Viet Nam are selected for their stark differences in the stages of development and models used in delivering financial services. While Cambodia operates under a market environment with minimal government intervention, Viet Nam has a government dominated microfinance sector. In 2000, ADB approved a loan of $20 million for the rural credit and savings project in Cambodia and a loan of $80 million for the rural enterprise finance project in Viet Nam. The Philippines is chosen for the $150 microfinance development program loan. In the study conducted by the Economist Intelligence Unit (2010), the Philippines is ranked second best worldwide in the microfinance business environment and the leader in the Asia Pacific Region.[23] There are many lessons that can be drawn from the Philippine experience.

25. Pakistan and Uzbekistan represent the countries in Central and West Asia. In Pakistan, a $70 million program loan and an $80 million investment loan were approved in 2000 for the microfinance sector development program. In 2006, the ADB approved a microfinance program loan of $300 million. Uzbekistan is selected to represent a small and underdeveloped financial sector with limited capacity to provide support to microenterprises. In 2002, ADB approved a $20 million loan for the small and microfinance development project to help provide microfinance services to poor households, microenterprises and small businesses. This project was followed by the second small and microfinance development project approved in 2010 in the loan amount of $50 million.

26. In the Pacific, Papua New Guinea (PNG) is chosen to represent economies with small financial systems of Pacific economies. ADB approved two microfinance projects in PNG. In 2000,

[23] Economist Intelligence Unit. 2010. *Global Microscope on the Microfinance Environment.* London, United Kingdom.

ADB approved a loan of $9.6 million for the microfinance and employment project. In 2010, a follow-up project was approved in the amount of $13.0 million for the microfinance expansion project.

E. Staffing and Implementation Schedule

27. The SES will be carried out by an independent evaluation team led by a Senior Evaluation Specialist (B. Nguyen/Team Leader) under the guidance of the IED management. An international microfinance consultant (3.5 person-months) and a Manila-based national microfinance analyst (2 person-months) will be engaged to assist the conduct of the study. In addition, the evaluation team will be assisted by eight national microfinance consultants (one in each selected case country). The draft consultant terms of reference are in Appendix 6.

28. The schedule for the SES is proposed as follows:

Milestones	Target Completion Date
Approval of Evaluation Approach Paper	IV Jul 2011
Consultant Recruitment	II Aug 2011
Phase I: Desk review and internal interviews	IV Sep 2011
Phase II: Field visits	IV Jan 2012
Internal/External review of draft SES	II Apr 2012
Interdepartmental review of draft SES	IV Apr 2012
DG-Level meeting	II May 2012
Submission to DG, IED	IV May 2012

29. The SES report will be made publicly available after the approval by the Director General, IED. It will be uploaded on ADB external and internal websites, and will provide inputs to ADB's evaluation information system.

30. Henrike Feig, Lead Evaluation Specialist (Financial Sector Operations), IED1 and Cheolghee Kim, Principal Evaluation Specialist, IED2, will be the internal reviewers.

31. Qifeng Zhang, Principal Microfinance Specialist (ADB Microfinance Focal Point), OREI, will be the ADB reviewer.

32. Eric Duflos, Senior Microfinance Specialist, Consultative Group to Assist the Poor (CGAP), World Bank, will be the external reviewer.

MICROFINANCE DEVELOPMENT STRATEGY

1. The Asian Development Bank (ADB) approved its Microfinance Development Strategy (MDS) in May 2000.[1] The MDS was envisaged to provide a clear and consistent link between ADB's microfinance operations and its overarching objective of poverty reduction; facilitate promotion of common approach to microfinance operations throughout ADB; provide a consistent basis for policy dialogue with the developing member countries (DMCs) on microfinance related issues; assist ADB's ongoing efforts to improve the quality of project design, processing, and implementation of microfinance operations; and facilitate adoption of longer term perspective than in the past in providing assistance for microfinance.

2. The MDS defines microfinance as follows:

> "Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. Microfinance services are provided by three types of sources:
>
> - formal institutions, such as rural banks and cooperatives;
> - semiformal institutions, such as nongovernment organizations; and
> - informal sources such as money lenders and shopkeepers.
>
> Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services." (MDS, page 2)

3. The goal of the strategy was to ensure permanent access to institutional financial services for a majority of poor and low-income households and their microenterprises. The purpose was to support the development of sustainable microfinance systems that can provide diverse services of high quality. The strategy focused on:

(i) creating a policy environment conducive to microfinance;
(ii) developing financial infrastructure;
(iii) building viable institutions;
(iv) supporting pro-poor innovations; and
(v) supporting social intermediation.

4. To achieve the objectives of the strategy, it was envisaged that ADB integrate microfinance into its operations, make better use of existing modalities, enhance the involvement of its private sector operations in microfinance, build its internal capacity for microfinance activities, coordinate with other agencies involved in microfinance, monitor the progress of microfinance activities and review its microfinance strategy in 2003 (MDS, para. 51).

5. The strategy recognized the potential of microfinance to bring about significant economic and social change in the ADB's DMCs. It noted, however, that a huge amount of financial resources was required to provide institutional microfinance to over 95% of the potential clients who were not served by microfinance services in the region. In that context it concluded that ADB and other agencies cannot meet the demand for microfinance either individually or as a group. However, without reaching a large number of the poor households on a permanent basis, microfinance would not likely generate a significant overall development impact. The role envisaged for ADB was thus to catalyze the expansion of the supply of microfinance services and strengthen the capacity of potential clients to access the services. On the supply side, the

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[1] ADB. 2000. *Finance for the Poor. Microfinance Development Strategy.* Manila.

strategy focused on building financial systems that can grow and provide financial services on a permanent basis to an increasing proportion of the poor, as well as the promotion of pro-poor innovations. On the demand side, the strategy supported investments in social intermediation to make access to financial services more readily available. The strategy emphasized selectivity in application due to the constraints on ADB resources for microfinance, the various stages of microfinance development in DMCs and the relative priority of microfinance in the context of ADB's overall strategy for poverty reduction and country operational strategies.

REVIEW OF LITERATURE

A. Commercialization

1. The shift towards greater profitability and commercialization of microfinance has been a major development in the microfinance industry. While this approach has been strongly endorsed by the aid community, a move in this direction runs the risk of increased concentration on the less poor, as microfinance institutions (MFIs) are more likely to take out larger and hence lower-cost loans. There is also a concern that aggressive marketing of microfinance may push poor borrowers on taking loans that are not suitable to their needs. This argument of “mission drift” wherein commercialization will shift MFIs away from serving poor and low-income clients to higher income clients has been a subject of frequent debate in microfinance.

2. ADB (Charitonenko et al. 2004) conducted a study on the commercialization of microfinance in South and Southeast Asia.[1] The study observed that commercial MFIs in Indonesia and the Philippines have not suffered from mission drift. In fact, the experiences of several MFIs have shown that the commercial level and depth of outreach have increased in tandem. Further, it was evident that there has been greater microfinance commercialization in Southeast Asia than in South Asia. The main reasons were the difference in attitudes toward commercialization and the roles that governments play in enabling or discouraging commercialization.

3. In a study by Cull et al. (2007) using data on 124 institutions in 49 countries, it was found out that as group-lending MFIs get bigger they also lend less to the poor and to women; this negative effect of size was also found more weakly for individual lenders.[2] The authors conclude that, for larger and older MFIs, the results are consistent with the view that “as institutions mature and grow they focus increasingly on clients that can absorb larger loans”. This is not strictly mission drift since more poor borrowers could still be served under a commercial model.

4. In 2009, Cull et al. came out with another study using Microfinance Information Exchange dataset covering 346 institutions with nearly 18 million active microfinance borrowers.[3] The evidence suggests that investors seeking pure profits would have little interest in most of the institutions that are seen serving poorer customers. The study concludes that commercial investment is necessary to fund the continued expansion of microfinance, but institutions with strong social missions, many taking advantage of subsidies, remain best placed to reach and serve the poorest customers, and some are doing so at a massive scale.

5. In 2010, problems associated with borrower over-indebtedness and commercialization emerged as an issue in the microfinance literature. Unsustainable microcredit indebtedness was observed across developing countries: in India (Srinivasan 2010);[4] in Bangladesh (Banking with the Poor, 2009);[5] and in Peru (Kevany, 2010);[6] and also in transition countries, such as the Balkans (Bateman 2011)[7] and especially in Bosnia and Herzegovina (Cain, 2010).[8]

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[1] Charitonenko, S., A. Campion, and N. Fernando. 2004. *Commercialization of Microfinance: Perspectives from South and Southeast Asia.* Asian Development Bank. Manila.

[2] Cull, R., A. Demirguc-Kunt, and J. Morduch. 2007. *Financial Performance and Outreach: A Global Analysis of Leading Microbanks*. Economic Journal, February, 117(517): F107-F133.

[3] Cull, R., A. Demirguc-Kunt, and J. Morduch. 2009. *Microfinance Meets the Market.* Journal of Economic Perspectives. Winter, pp. 167-192.

[4] Srinivasan, N. 2010. *Microfinance State of the Sector Report 2010.* New Delhi; Sage Publications.

[5] Banking with the Poor Network. 2009. *Microfinance Industry Report: Bangladesh 2009.* Banking with the Poor Network in collaboration with SEEP.

6. In India, the combined presence of the large and well-funded state-backed selgSHGs (self-help groups) and five of India's largest and fastest growing MFIs resulted in a rapid proliferation of credit across Andhra Pradesh and the wide use of multiple loans by borrowers. Data suggests that households in Andhra Pradesh had too many loans and too much debt than seem to be supportable considering their income levels and ability to repay (Srinivasan (2010); Johnson and Meka (2010); CGAP (2010)).[9] Srinivasan (2010) suggests that the dynamic behind the crisis was the growing dependency upon micro-credit, coupled with high interest rates that meant a growing proportion of the unstable income of the poor being siphoned off to cover interest rates. Poorest households were also observed to have increased their engagement with local loan sharks to pay off microloans they obtained all too easily from their local MFIs (Ghokale, 2009).[10]

7. Chen, Rasmussen and Rellie (2010) studied four microfinance markets that experienced repayment crisis after a period of high growth: Nicaragua, Morocco, Bosnia and Herzegovina and Pakistan.[11] The case studies conducted in these countries revealed three vulnerabilities within the microfinance industry that lie at the core of the problems: (i) concentrated market competition and multiple borrowing; (ii) overstretched MFI systems and controls; and (iii) erosion of MFI lending discipline. In view of these vulnerabilities the study recommended:

(i) The need for MFIs to balance their growth objectives with the need to improve quality of client services and ensure the long-term sustainability of client relationships.
(ii) Credit information bureaus as essential component of the market infrastructure to improve credit risk management and manage multiple borrowing.
(iii) Use of financial access mapping that would help identify both underserved and saturated markets.

B. Formalization

8. In recent years, there has been a growing number of NGOs transforming into regulated financial institutions (RFIs).[12] This process of conversion into a formalized or regulated financial institution, which is one of the elements of commercialization, usually requires fresh capital from private or outside investors. There's a view that this influx of new capital may cause a "mission drift", whereby the poverty-alleviation focus of the transformed MFI is diluted in the face of increased pressure to generate profits. In 2001, a study by the Consultative Group to Assist the Poorest (CGAP) on the transformation of MFIs in Latin America concluded that MFIs seem

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6 Kevany, S. 2010. *Debt Trends in Peru's Personal, Microfinance Sectors Spark Warnings.* Wall Street Journal. 16 December.

7 Bateman, M. 2011 (Ed). *Confronting Microfinance: Undermining Sustainable Development.* Sterling VA: Kumarian Press.

8 Cain, P. 2010. *Microfinance meltdown in Bosnia.* Al Jazeera (English), 4 January.

9 Consultative Group to Assist the Poor. 2010. *Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance.* Focus Note 67, Washington, D.C.: CGAP, November.

10 Ghokale, K. 2009. *As Microfinance Grows in India, so do its rivals*. Wall Street Journal. 16 December.

11 Chen, G., S. Rasmussen, and X. Reille. 2010. *Growth and Vulnerabilities in Microfinance.* Focus Note 61. Washington, D.C.: CGAP, February.

12 The benefits to a transformed MFI include improved and increased access to funding from commercial sources, flexibility in offering non-credit products, especially savings, and improved management and governance structure with greater degree of transparency. Examples of these are ACLEDA Bank in Cambodia, Mongolia's Xac Bank, Nepal's Nirdhan Bank, Opportunity Bank and CARD Bank in the Philippines.

generally committed to their initial mission and target group.[13] The study argues that there seems to be no compelling evidence that the formalization of MFIs leads to mission drift resulting in the exclusion of poorer clients. It was observed that regulated MFIs provide larger loans to their clients than do unregulated NGOs. However, this is not necessarily an indication of mission drift and could be a function of different factors, including the generational factor. In certain cases, larger loan sizes might not be a reflection of an MFI's shift towards higher-income clients but rather a natural evolution of maturing MFIs and microfinance clients. In line with the CGAP findings, Campion and White (2001) also found increases in the outstanding loan balances of three major transformed NGOs in Latin America since their transformation.[14]

9. Frank (2008) examined the impact of formalization upon a control group of approximately 25 MFIs in different regions of the world using data tracked by the Women's World Banking (WWB) since 2002.[15] She found out that transformation tends to result in higher average loan sizes for RFIs than NGO MFIs. Another observation she had was transformation allows MFIs to serve more women clients, but the percentage of women clients being served declines. She attributed this to two factors. First, women tend to own smaller businesses than men. There is a correlation between an MFI's legal structure, the institution's predominant lending methodology and gender composition of its client base. NGOs typically offer group lending and therefore tend to have a high percentage of women clients, while regulated financial institutions often offer only individual lending, and therefore have a smaller percentage of women. Second, was the need to increase average loan sizes in order to improve margins. Because large loans are less costly to administer than small loans, institutions may seek to offer larger loans as a means of improving efficiency and generating more income.

10. Findings of studies on the benefits of transformation to institutions have nonetheless been positive. In the ADB study (Fernando 2004), most transformed MFIs have achieved encouraging results.[16] They have found new shareholders, increased equity capital, improved governance, achieved institutional sustainability and improved outreach to the poor. Frank's (2008) findings also showed positive impact on transformed MFIs in terms of increase in client outreach and accelerated growth in total loan portfolio; and product diversification – particularly with respect to the mobilization of client savings.

C. Apex

11. Apexes have been an important source of local funding for microfinance, and even more so since the global financial crisis. They are financed with public funds from national governments or with funds from donors. They take various institutional forms such as development banks, NGOs, donor program, government financial institution, private commercial banks, and special government or donor programs.

12. Despite the significant amounts of funding channeled through apexes, not much is known about how and where funds flow into microfinance markets, or how they perform. Nonetheless, they've played a useful role in providing wholesale funding for microfinance in

[13] Consultative Group to Assist the Poor. 2001. *Commercialization and Mission Drift: The Transformation of Microfinance in Latin America.* Occasional Paper. No. 5, January.
[14] Campion, A. and V. White. 2001. *NGO Transformation.* Bethesda, Microenterprise Best Practices: 31
[15] Frank, C. 2008. *Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line. Women's World Banking Focus Note.*
[16] Fernando, N. 2004. *Micro Success Story: Transformation of Non-Government Organizations Into Regulated Financial Institutions.* Asian Development Bank. Manila.

start-up and nascent financial sector environments and the much needed liquidity when the financial crisis squeezed commercial funding sources (CGAP 2010).[17]

13. In 2009, CGAP completed a study to map apexes that identified 76 apexes around the world.[18] The following were the findings:

(i) Apex funds represent a substantial means by which governments fund microfinance. Well over US$2 billion per year of public money has been disbursed globally to microfinance through apexes.
(ii) Apex funds exist in all regions in the world, the highest disbursements of which take place in Latin America and South Asia.
(iii) Apexes are growing in number with 11 created in the last 3 years.
(iv) Most of the funds are in local currency, which means that MFIs that borrow from them are less exposed to exchange risks than when they get a loan in hard currency.

D. Policy and Financial Environment

14. ADB has undertaken studies that looked into the financial and policy environment for microfinance in the Region. In 2006, ADB published the results of a comprehensive study on rural and microfinance markets in Central Asia.[19] The Central Asian Republics (CARs) are very much different from the rest of Asia in that they have a unique and largely shared history as former communist republics. The study pointed out that microfinance is only one piece of the larger mosaic that is rural finance. The requirements of inclusive rural financial market development are greater and more multifaceted than microfinance can address, though microfinance can provide important benefits to an important segment of the rural population. The study concludes that microfinance development is necessary but not sufficient for rural financial market development; rural financial market development remains an equally important facet of overall financial sector development in Central Asia.

15. ADB (2011) also carried out a study on rural and microfinance in the lower Mekong region.[20] The study covered Cambodia, the Lao People’s Democratic Republic (Lao PDR), and Viet Nam. The rural and microfinance sector in these countries has undergone significant changes over the past two decades. Cambodia and Viet Nam have taken different paths in development of their rural and microfinance sectors. In Cambodia, the policy environment is market based with reliance placed on private entities and investors. Ownership must be for profit, with foreign and domestic capital treated equally. In Viet Nam, the government plays a dominant role, not only because it is the main provider of micro and rural financial services but also because it promulgates regulatory policies that inhibited the development of private sector providers. In Lao PDR, the sector is undergoing unprecedented reforms with the leading Agricultural Promotion Bank (APB) undertaking fundamental institutional and operational changes to becoming a market-based, state-owned rural banking institution. The government has already moved to reform its regulatory regime toward private provision of financial services.

16. The three countries under different policy environment offer loan products that are offered worldwide: individual loans, short-term group lending, some with individual responsibility

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[17] Consultative Group to Assist the Poor. 2010. *Apexes: An Important Source of Local Funding*. CGAP Brief. March.
[18] http://www.cgap.org/p/site/c/template.rc/1.26.10511/
[19] ADB. 2006. *Beyond Microfinance: Building Inclusive Rural Finance Markets in Central Asia.* Manila.
[20] Nguyen, B. T. and R. Vogel. 2011. *Rural and Microfinance in the Lower Mekong Region.* Asian Development Bank. Manila.

for repayment and some with joint. In terms of deposit services, except for government banks in Viet Nam and Lao PDR, some informal groups in Lao PDR, ACLEDA Bank in Cambodia, deposit services are quite limited. In terms of outreach, Viet Nam has been remarkable with more than 10 million clients and total loans outstanding of over $7 billion. Cambodia had over 1 million clients with an outstanding loan portfolio of $462 million. In Lao PDR, outreach has been very limited with only 2% of the credit demand met by APB and 5% by non-bank financial institutions. Apparently, the market outcomes in these three countries are different.

E. Impact

17. Despite the growth of the microfinance industry there is little firm evidence on its poverty impact. This stems mainly from difficulty in avoiding biases in the comparison between clients who receive microfinance services with MFIs and similar individuals who do not. Those that have done rigorous impact studies had ambiguous results. Estimates in Montgomery (2005) using data from Pakistan found mild significant impact on per capita food expenditure in the months after the beneficiary first borrowed.[21] However, access to microcredit did not have significant impact on nonfood expenditure. The study by ADB (2007) in the Philippines found slightly less positive results.[22] The availability of microcredit loans had positive and mildly significant impacts (significance level of 10%) on the per capita income of the beneficiaries. Consistently mildly significant impact was also found for per capita total expenditures and per capita food expenditures. However, the impact on per capita income and expenditures was found to be regressive (i.e., positive impact on better-off borrowers but negative impact on poorer borrowers). Also, the same study showed that only 10% of the sample microfinance clients were below the poverty line, with the bulk clustered around, but over the poverty threshold.

[21] Montgomery, H. 2005. *Meeting the Double Bottom Line: The Impact of the Khushhali Bank's Microfinance Program in Pakistan,* ADB Institute, Tokyo.

[22] ADB. 2007. Special Evaluation Study, *Effects of Microfinance Operations on Poor Rural Households and the Status of Women.* Operations Evaluation Department, September, Manila.

APPROVED ASIAN DEVELOPMENT BANK MICROFINANCE LOANS AND GRANTS, 2000–2010

Table A3.1: Microfinance Projects

No.	Loan/ Grant No.	DMC	Date Approved	Project	Approved Amount ($ million)	Fund Source
1	1741	Cambodia	27 Apr 2000	Rural Credit and Savings	20.0	
2	1768	Papua New Guinea	19 Oct 2000	Microfinance and Employment	9.6	
3	8186	Timor Leste	6 Dec 2000	Microfinance Project	4.0	
4	1802	Viet Nam	12 Dec 2000	Rural Enterprise Finance[d]	80.0	
5	1805	Pakistan	13 Dec 2000	Microfinance Sector Development Program (Program and Project Loans)	150.0	
6	1806					
7	1706	Papua New Guinea	19 Oct 2000	Microfinance and Employment	0.9	AUS
8	1848	Mongolia	25 Oct 2001	Rural Finance	8.7	
9	1963	Uzbekistan	9 Dec 2002	Small and Microfinance Development	20.0	
10	2000	Tajikistan	26 Jun 2003	Microfinance Systems Development Program (Program and Project Loans)	8.0	
11	2001					
12	2040	Sri Lanka	11 Dec 2003	Rural Finance Sector Development Program (Program Loan)	50.0	
13	2041	Sri Lanka	11 Dec 2003	Rural Finance Sector Development Program (Credit Line)	10.0	
14	2042	Sri Lanka	11 Dec 2003	Rural Finance Sector Development Program (Project Loan)	10.0	
15	2063	Philippines	18 Dec 2003	Development of Poor Urban Communities Sector	20.0	
16	9064[b]	Cambodia	25 Feb 2005	Improving the Access of Poor Floating Communities on the Tonle Sap to Social Infrastructure and Livelihood Activities	1.0	JFPR
17	9075[b]	Azerbaijan	20 Sep 2005	Mahalla Business Development	1.5[a]	JFPR
18	2199	Philippines	22 Nov 2005	Microfinance Development Program	150.0	
19	9079	Indonesia	28 Nov 2005	Restoration of Microenterprises and Microfinance in Aceh	2.0	JFPR
20	2230	Pakistan	7 Feb 2006	Rural Enterprise Modernization Project	5.0	
21	9088	Philippines	14 Mar 2006	Developing Financial Cooperatives	0.9	JFPR

No.	Loan/ Grant No.	DMC	Date Approved	Project	Approved Amount ($ million)	Fund Source
22	9095	Lao PDR	17 Aug 2006	Catalyzing Microfinance for the Poor	2.0	JFPR
23	2268	Nepal	26 Oct 2006	Rural Finance Sector Development Cluster Program I	56.0	ADF
24	2281	India	8 Dec 2006	Rural Cooperative Credit Restructuring and Development Program	1,000.0	OCR
25	9105	Pakistan	30 Jan 2007	Microfinance for the Poorest	2.0	JFPR
26	88[b]	Bhutan	21 Nov 2007	Micro, Small and Medium-Sized Enterprise Sector Program (Program Grant)	6.0	ADF IX
27	89[b]	Bhutan	21 Nov 2007	Micro, Small & Medium-Sized Enterprise Sector Program (Project Grant)	9.0	ADF IX
28	2378[b]	Cambodia	6 Dec 2007	Second Financial Sector Program Cluster (Subprogram 1)	10.0	
29	9118[b]	Philippines	15 Feb 2008	Developing Micro insurance Project	1.0	JFPR
30	2478[b]	Cambodia	5 Dec 2008	Second Financial Sector Program Cluster (Subprogram 2)	10.0	
31	2585[b]	Cambodia	26 Nov 2009	Second Financial Sector Program Cluster (Subprogram 3)[b]	10.0	
32	9140	Viet Nam	05 Oct 2009	Formalizing Microfinance Institutions	1.5	JFPR
33	2617	India	26 Feb 2010	Micro, Small and Medium Enterprise Development	50.0	
34	2634	Uzbekistan	21 Apr 2010	Second Small and Microfinance Development	50.0	
35	208[b]	Nepal	18 Jun 2010	Second Rural Finance Sector Development Project	12.1	ADF
36	2686	Papua New Guinea	28 Oct 2010	Microfinance Expansion	13.0	ADF
37	226	Papua New Guinea	28 Oct 2010	Microfinance Expansion	6.0	AUS
38	2706[b]	Cambodia	2 Dec 2010	Second Financial Sector Program Cluster (Subprogram 4)	10.0	
39	9152	Mongolia	17 Dec 2010	Promoting Inclusive Financial Services	2.5	JFPR
40	9153	Bangladesh	18 Jan 2011	Institutional Support for Migrant Workers	2.0	JFPR
				Subtotal	**1,804.7**	

ADF = Asian Development Fund, AUS = Australia (Other Source), DMC = developing member country, JFPR = Japan Fund for Poverty Reduction, OCR = ordinary capital resources.

[a] Cancelled effective 25 September 2006.

[b] Not included in the list of projects from OREI and Microfinance Special Evaluation Study (2006).

Source: Asian Development Bank database.

Table A3.2: Projects with Microfinance Components, 2000–2003[a]

No.	Loan/ Grant No.	DMC	Date Approved	Project	Approved Amount[b] ($ million)	Fund Source
1 2	1765 1766	Indonesia	19 Oct 2000	Community Empowerment for Rural Development Project	115.0 (15.0)	OCR
3	1771	Bangladesh	26 Oct 2000	Chittagong Hills Tracts Rural Development Project	30.0 (1.6)	ADF
4	1782	Bangladesh	21 Nov 2000	Northwest Crop Diversification	46.3 (5.2)	ADF
5	1787	Pakistan	28 Nov 2000	NWFP Barani Area Development (Phase II)	52.0 (1.9)	ADF
6	1862	Cambodia	27 Nov 2001	Northwestern Rural Development	27.2 (3.6)	ADF
7 8	1987 1988	Pakistan	20 Dec 2002	Rural Finance Sector Development	250.0 (15.0)	OCR
9	1990	Viet Nam	20 Dec 2002	Housing Finance	30.0 (5.0)	ADF
10	1994	Lao PDR	28 Jan 2003	Small Towns Development Sector	16.0 (1.3)	ADF
11	2070	Bangladesh	19 Dec 2003	Second Participatory Livestock Development	20.0 (7.5)	ADF
				Subtotal	**586.5 (56.1)**	

ADF = Asian Development Fund, DMC = developing member country, OCR = ordinary capital resources.
[a] Based on IED's Special Evaluation Study on Microfinance Sector (2006). Data cutoff is December 2006.
[b] Estimated microfinance component are in parenthesis.
Source: Asian Development Bank database.

Table A3.3: Technical Assistance for Microfinance Activities 2000–2010

S. No.	TA No.	DMC	Date Approved	Project Title	Amount (US$'000)	Fund Source
A.	**Advisory and Operational TA**					
1	3397	MON	2-Feb-00	Rural Finance	700	
2	3413	KAI	9-Mar-00	Rural Finance Development (TA Cluster)	2,020	
3	3435	TIM	10-May-00	Microfinance	150	Bank (TASF)
4	3555[a]	TAJ	6-Dec-00	Support to Rural Financial Systems Development	150	Bank (TASF)
5	3556	TIM	6-Dec-00	Strengthening the Microfinance Policy and Legal Framework	250	JSF
6	3568	VIE	12-Dec-00	Support of Rural Business	1,000	
7	3635	UZB	5-Mar-01	Pilot Testing of Rural Savings and Credit Unions	150	Bank (TASF)
8	3707	SRI	24-Aug-01	Rural Finance Sector Development	550	
10	3741	VIE	12-Oct- 01	Framework for Microfinance Development	300	JSF
11	3743	TIM	17-Oct- 01	Microfinance Information Technical Systems Development	150	Bank (TASF)
12	3810	INO	18-Dec-01	Rural Microfinance	1,000	
13	3814	PHI	19-Dec-01	Microfinance for Rural Development	560	
14	4021	UZB	9-Dec- 02	Developing Prudential Regulation and Supervision of Savings and Credit Unions	400	Bank (TASF)
15	4068	KGZ	19-Dec-02	Capacity Building in Savings and Credit Unions and Micro financial Systems	550	Bank (TASF)
16	4093	AZE	11-Apr- 03	Microfinance Sector Development	400	Bank (TASF)
17	4132	TAJ	26-Jun- 03	Institutional Strengthening of Microfinance Systems	640	JSF
18	4172	VAN	14-Sep- 03	Diagnostic Study for Improving Access to Affordable Credit	150	Bank (TASF)
19	4238	VAN	4-Dec-03	Rural and Microfinance Outreach	250	Bank (TASF)
20	4247	IND	12-Dec-03	Rural Finance Sector Restructuring and Development	1,000	
21	4293[a]	PHI	27-Jun-08	Capacity Building for Housing Microfinance (Supplementary)	500	EAKPF
22	4430	PRC	9-Nov-04	Rural Finance Reforms and Development of Microfinance Institutions	1,000	PRF
23	4491	AZE	17-Dec-04	Developing Microfinance Regulations and Collateral Framework	800	JSF
24	4509	TIM	20-Dec-04	Strengthening Microfinance Operations	500	JSF
25	4544	PHI	23 Dec. 04	Enhancing Access of the Poor to Microfinance Services in Frontier Areas	250	GCF
26	4638	VIE	29-Aug-05	Implementing the Regulatory and Supervisory Framework for Microfinance	250	Others
27	4693	PHI	22-Nov-05	Support the Implementation of the Microfinance Development Program	500	
28	4755	CAM	21-Dec-05	Developing Deposit Services in Rural Cambodia	600	JFPR
29	4761	SRI	3-Jan-06	Micro insurance Sector Development	600	PRF
30	4837	BHU	11-Sep-06	SME/Microenterprise Development Program	500	JSF
31	4887	IND	8-Dec-06	Capacity Building for Rural Cooperative Credit Structure Reform	2,000	UK
32	7499	VIE	21-Feb-10	Microfinance Sector Development Program	500	
33	7765	PRC	29-Dec-10	Capacity Development of Partner Banks in Microfinance Wholesale Lending	225	Bank (TASF)
34	7777	NEP	27-Jan-11	Improving Access to Finance Sector Development Program	600	
				Subtotal	**19,195**	

S. No.	TA No.	DMC	Date Approved	Project Title	Amount (US$'000)	Fund Source
B.	**Regional TA**					
1	5929		5-Sep-00	Microcredit Summit Asia and Pacific Regional Meeting	140	
2	5950		16-Nov-00	Financial Services for Poor Women	600	France
3	5952		20-Nov-00	Commercialization of Microfinance	700	JSF
4	5984		17-Apr-01	Microfinance Outreach Initiatives of the Consultative Group to Assist the Poorest	500	Bank (TASF)
5	6404[a]		4-Jun-07	Capacity Building for Small Business and Microfinance Banks	300	Bank (TASF)
6	7685		29-Nov-10	Market Study for a Non-Sovereign Microfinance Funding Initiative	135	Bank (TASF)
7	6254		30-Aug-05	Joint Conference on Worker Remittances and Poverty Reduction with Inter-American Development Bank and United Nations Development Programme	150	
				Subtotal	**2,525**	
				Total all TA projects	**21,720**	

EAKPF = e-Asia and Knowledge Partnership Fund (Republic of Korea), GCF = Governance Cooperation Fund, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, PRF = Poverty Reduction Fund, TA = technical assistance, TASF = Technical Assistance Special Fund, UK = United Kingdom.

[a] Not included in ORE list of TA projects.

Source: Asian Development Bank database.

Table A3.4: Private Sector Investment for Microfinance

Loan/Inv. No.		DMC	Date Approved	Project Title	Amount ($ million)
A.	**Equity**				
1.	7264/2358	REG	22-Oct-07	Bank Eskhata (Tajikistan), Inecobank (Armenia), Ineximbank (Kyrgyz Republic)	20.0
2.	7198	REG	5-May-04	Shorecap International Fund	2.5
3.	7306	IND	26-Feb-10	Micro, Small, and Medium Enterprise Development	250.0
B.	**Private Sector**				
4.	7325	REG	13-Dec-10	Microfinance Risk Participation Program	250.0
				Total	**522.5**

DMC = developing member country, IND = India, Inv. = investment, REG = Regional.
Source: Asian Development Bank database.

SELECTED LESSONS FROM ADB'S MICROFINANCE PROJECTS

Year	Project Title	Lessons Identified
2007	Rural Credit and Savings (Loan 1741-CAM). Source: PCR	Factors such as the pace at which NGOs would become licensed, existing funding cost, liquidity position the eligible borrowers, prudential regulations Rural Development Bank (RDB) would have to observe, and RDB's limited capacity in credit expertise and risk management – affected the demand for the credit line. Many reforms required for a project of this scope are of an institutional nature, therefore the time, resources and conditions needed for the huge task of reforming both RDB and target NGOs were easily underestimated. The timeliness of consensus building, leadership development, and development of the technical skills needed to engineer and manage the changes that were expected to occur as a result of this project did not coincide with the fast disbursing tranche of the loan. There are dangers that inappropriate credit make may some sub-borrowers poorer. This is because if the sub-borrowers cannot repay the loan through no fault of their own, they will have a debt that they did not have before the licensed financial institution tried to help them.
2005	Microfinance Development Program (Loan 2199-PHI). Source: RRP	The financial systems approach is the key to achieving sustainable results and to maximizing development impact. Microfinance clients are more concerned about access to services that are compatible with their requirements than about the cost of services, given the diversity of the demand for financial services, a broad range of institutional types is required. Strong retail institutions committed to outreach and sustainability are essential for permanently extending the reach of financial services and having a significant impact on poverty reduction. The demand for savings services by poor households and microenterprises is as strong as or stronger than the demand for credit. Expanding the outreach of savings services can have a significant impact on both institutional sustainability and poverty reduction. Because microfinance is primarily targeted at the poor who are disadvantaged, social mobilization is necessary to introduce them to a formal or semi-formal, market-oriented institutional environment.
2010	Microfinance Development Program (Loan 2199-PHI). Source: PVR	Successful microfinance development program requires continued government commitment and close cooperation coordination between the various agencies involved. There is need to address all aspects of a microfinance program. That is, rules, regulatory and supervisory framework, performance standards for MFIs and their close monitoring, business development services for both providers users of microfinance, a financial literacy program to increase the financial knowledge of both providers and users of microfinance, and attachment of appropriate TA to facilitate program implementation and achievement of outputs and outcomes.
2007	Evaluation on the Effect of Microfinance on Poor Rural Households and Status of Women (TA 6312-REG). Source: SES	The characteristics and mandate of participating institutions have important bearings on targeting poor households. The institutional orientation of the institution or NGO needs to match the development goal in project designs. Planning to reach large numbers of the ultra poor with microfinance alone may not be realistic. Special programs may be needed to provide the ultra poor with a range of services, covering training, health provision, and more general social development for the disadvantaged, as well as grants of assets or credits. The survey results illustrate the limits of microfinance for the poorest of the poor.

Year	Project Title	Lessons Identified
		More scrutiny of project designs is needed for microfinance projects that purport to be targeted at the ultra poor. Targeting efforts must clearly define the target group, identify the barriers to the program participation, and include interventions and/or mechanisms to remove these barriers. It is useful to include a gender action plan in the design of microfinance projects, which may include features to increase women's participation in, and access to, benefits of the microfinance projects.
2008	Rural Credit and Savings (Loan 1741-CAM). Source: PVR	There were long delays in starting the project and dispensing ADB loans to subborrowers, because eligible on-lenders could not be easily identified, and adequate regulations, controls, and supervision were not in place. Future project should avoid these problems. The majority of the ADB loan was canceled and the project scope was reduced from $20 million to $5 million. This was due in part to lower-than-expected demand for the project's funding, and in part because of the Government's growing commitment fee burden, which began with loan effectiveness. Future microfinance projects, especially in the field of rural credit for the poor, should consider these factors in their demand analysis.
2008	Rural Enterprise Finance (Loan 1802-VIE). Source: PCR	The eligibility criteria for low-income household loans should have been more flexible. The average annual expenditure of less than $128 per capita – set out at appraisal was not appropriate at implementation. The risk premium scheme to recover the cost involved in making loans to subborrowers with collateral shortages was not effective as expected. Poor subborrowers without collateral could not afford the interest rate plus risk premium. A proper baseline survey on major indicators should be conducted at an early stage of project implementation to verify achievement of the project outcome and outputs. One of the major factors contributing to successful implementation of the credit lines for low-income households and for micro and small enterprises was the flexibility in determining the subloan size,
2008	Microfinance Sector Development Program – Program Loan (Loan 1805-PAK). Source: PCR	Diversify and focus on more institutions. The program supported only a single MFI (Khushhali Bank) that relied heavily on government support and low-cost funding from the investment loan. It was thus difficult to assess the extent to which its difficulties in becoming self-sustainable and achieving its outreach targets were attributable to institution-specific factors as against general sector conditions. Measure and promote sustainability. To achieve better results, microfinance programs should establish incentives and conditions on continued funding reaching targets related to sustainability. The program provided a continuing stream of funds regardless of sustainability of the institution supported, following an approach that had contributed to the poor performance of donor-funded agricultural and development banks in prior decades.
2010	Microfinance Sector Development Program – Program Loan (Loan 1805-PAK). Source: PVR	Diversification of institutions providing financial services to the poor will lead to more competition and efficiency in the market. Measures and necessary conditions need to be set to ensure sustainability. Importance of savings mobilization. The availability of low-cost funding from the investment loan undermined KB's motivation to tap deposits from the public. Thus, it was unable to provide the motivation and incentive to build a strong deposit base that could have become a steady source of loanable funds.
2008	Microfinance Sector	Need for institutional sustainability for microfinance delivery. KB's financial

Year	Project Title	Lessons Identified
	Development Program – Project Loan (Loan 1806-PAK). Source: PCR	viability as an institution delivering on its microfinance mandate remains dependent on its access on subsidized funding. To ensure KB's financial viability, the Loan Agreement should have mandated financial covenants for KB such as (i) capital adequacy ratio, (ii) loan to deposit ratio, (iii) return on asset ratio. Need for realistic assumptions regarding NGO capabilities. ADB should have been more realistic about NGO's capabilities and willingness to deliver social capital formation services in Pakistan's interior. It appears that the project design sought to replicate experiences of other countries with a stronger NGO success rate than was the case in Pakistan. Need for project focus on institutional strengthening particularly in providing advisory services to KB for improving its own financial sustainability once ADB's concessionary loan funds would no longer be made available.
2009	Microfinance Systems Development Program Loan – 2000 & 2001-TAJ). Source: PCR	Interagency committees may be unnecessary. The committees created from the program were not created on time and met only twice. Nevertheless, all program outputs were achieved. Enacting legislation and adopting regulations frequently take more time than anticipated. Inconsistent policies result in confusion and program delays as exemplified by the experience in recruitment of the program manager.
2010	Microfinance Systems Development Program Loan – 2000 & 2001-TAJ). Source: PVR	The experience with the program underpins the need for adequate advisory services to help prepare the required legal and regulatory changes to speed up program implementation. The program shows the benefits of integrated approaches to microfinance development support that promote capacity development of MFIs in conjunction with necessary reforms in the underlying policy environment.
2010	Microfinance Sector Development Program – Project Loan (Loan 1806-PAK). Source: PVR	Institutional sustainability is needed for microfinance delivery. The government's explicit and implicit subsidy exacerbated Khushhali Bank's complacency in funding its operations independently. Ensuring KB's financial sustainability should have been a focus.
2010	Rural Finance (Loan 1848-MON). Source: PVR	There's need to lay down a firm legal, regulatory, and supervisory foundation prior to embarking on promotion of financing institutions, such as savings and credit cooperatives (SCCs). ADB attempted to establish the regulatory environment structure in parallel to project implementation, which did not work well. The two activities should have been better prepared, and sequenced as separate projects.

Source: Independent evaluation team.

EVALUATION FRAMEWORK

Evaluation Issues	Key Questions	Data Sources and Methods
MDS's Design	Were the design and financing used by the ADB appropriate in responding to the needs and issues of the microfinance sector in DMCs? To what extent has the MDS contributed to the appropriateness of the design and financing used? Were the projects supported by ADB relevant to the countries' development priorities and ADB's country strategy from approval to completion? To what extent is the MDS compatible with Strategy 2020? Is the MDS coherent with ADB's other sector strategies and with international developments in microfinance? Has the MDS provided sufficient guidance to operations in the choice of types of interventions and design of assistance?	ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.) Key informant interviews in selected DMCs. In-depth interviews with concerned ADB officers. Sector and macro data from official sources. Relevant studies conducted in selected DMCs.
Resource Allocation	Has ADB financing and technical support helped in easing constraints to the expansion of microfinance in DMCs? What human and financial resources did ADB allocate for the implementation of the strategy? Were the human resources used sufficient and deployed efficiently and effectively? Were the human resource knowledge and skills appropriate? Were the administrative allocations for MDS implementation adequate and effective? Were the financial instruments used adequate and appropriate to meet sector needs?	ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.) Key informant interviews in selected DMCs. In-depth interviews with concerned ADB officers. Sector and macro data from official sources. Relevant studies conducted in selected DMCs.
Effectiveness of ADB's modalities of assistance	How effective is ADB's different modalities of assistance in contributing to sector/industry development in terms of policy, institutions and services? Are the modalities appropriate in different country contexts? Has the MDS been effective in providing overall guidance to ADB's microfinance operations? How effective has the MDS in achieving its intended objectives?	ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.) Key informant interviews in selected DMCs. In-depth interviews with concerned ADB officers. Sector and macro data from official sources. Operational and financial performance reports of MFIs and apexes. Relevant studies conducted in selected DMCs.
Use of different models in delivering services	To what extent has ADB assistance contributed to the policy environment and different models used for delivery of	ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.)

Evaluation Issues	Key Questions	Data Sources and Methods
	microfinance services? What are the market outcomes in using different models for delivering financial services?	Key informant interviews in selected DMCs. Operational and financial performance reports of MFIs. Relevant studies conducted in selected DMCs. Interviews with concerned ADB officers.
Timing and proper sequencing of project activities	Are project interventions properly sequenced? Is the timing appropriate given the country context? Is sequencing of reforms in project designs appropriate?	ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.) Key informant interviews in selected DMCs. Relevant studies conducted in selected DMCs. Sector and macro data from official sources.
Poverty Impact (Outreach) and Sustainability	What is the social performance of MFIs? Are they reaching increasing numbers of the poor households? Are they improving the quality and appropriateness of financial services? Are there improvements in the economic and social conditions of clients? Are the operations of participating MFIs sustainable? Is there increased capacity among MFIs to expand outreach?	Operational and financial performance reports of MFIs and apexes. Sample survey of MFIs. Sample survey of microfinance clients. Socio-economic data from official sources and from pertinent studies. Key informant interviews in selected DMCs.
Areas for improvement in the MDS	In line with Strategy 2020, what areas in the MDS need to be strengthened? What needs to be done to enhance the development effectiveness of the MDS? How effective was ADB's coordination with other agencies involved in microfinance? How effective was ADB's monitoring of microfinance activities. How ADB operations can move forward financial inclusion?	Key informant interviews in selected DMCs. Interviews with concerned ADB officers. ADB documents and reports (RRP, PCR, PVR, TA completion reports, studies, etc.) Current literature on microfinance/financial inclusion.

Source: Independent evaluation team.

TERMS OF REFERENCE FOR CONSULTANTS

1. The study will require 3.5 person-months inputs from an international microfinance consultant and 2 person-months inputs from a Manila-based national microfinance analyst. In addition, in each country of in-depth evaluation, a national microfinance consultant will be recruited, 1 person-month each. The consultants will be working on an intermittent basis under the supervision of the evaluation team leader.

1. International Microfinance Consultant (3.5 person-months, intermittent)

2. The International Microfinance Consultant (IMC) will have demonstrated expertise and working experience in the microfinance sector in general and in evaluation of microfinance interventions in particular. The IMC will work with the evaluation team leader in gathering and analyzing information, including conduct of country and project in-depth evaluations and interviews of concerned ADB microfinance specialists, and preparing draft SES report. The assignment will be 3.5 person-months from mid Aug 2011-end Jun 2012, intermittently, and will involve 6-8 weeks of work in the 8 case study countries and the rest at home office.

3. Specific tasks:
   (i) Review the documents of microfinance projects approved during 2000-2010, self and independent evaluation reports of completed projects, and pertinent current literature and other materials on microfinance;
   (ii) Design a small institutional survey of concerned institutions, supportive agencies, and MFIs for the countries of in-depth evaluation, and prepare questionnaires;
   (iii) Design a small socioeconomic microfinance client survey for the countries of in-depth evaluation, and prepare questionnaires;
   (iv) Design a semi-structured questionnaire for ADB microfinance specialists and conduct the interview;
   (v) Guide the national microfinance consultants (via email) during the conduct of the institutional and client surveys in the selected countries;
   (vi) Participate in country field visits to assist the evaluation team leader in conducting meetings with concerned government agencies, supportive institutions, MFIs, and other relevant organizations;
   (vii) Analyze the collected information and data from the field visits and surveys;
   (viii) Prepare a draft report addressing the key evaluation questions of this evaluation approach paper, and later incorporate comments from internal and external reviewers;
   (ix) Draft brief dissemination materials of the study findings, as necessary; and
   (x) Undertake any other tasks that the evaluation team leader may reasonably assign to pertaining to the study.

2. National Microfinance Analyst (2 person-months, intermittent)

4. The National Microfinance Analyst (NMA) will have strong statistical background and proven skills in survey data analysis. The NMA will provide statistical assistance to the evaluation team leader and IMC in conducting statistical analyses of the data collected from the in-depth study countries. The assignment will be 2 person-months, intermittent, from mid Aug 2011-Apr 2012. The NMA will be based in Manila and will work at ADB office and at home office, subject to arrangement with the evaluation team leader.

5. Specific tasks:
   - (i) Review project files and available self and independent evaluation reports of completed microfinance projects to consolidate the assessments, evaluation findings and ratings;
   - (ii) Review and familiarize with the institutional and client survey questionnaires, sample and coding;
   - (iii) Clean survey data and information received from the field and generate working datasets;
   - (iv) Prepare descriptive summary statistics, tables, graphs, and run estimation models as necessary as required by the evaluation team leader; and
   - (v) Undertake any other tasks that the evaluation team leader may reasonably assign to pertaining to the study.

3. National Microfinance Consultants (in countries of in-depth evaluation, 1 person-month each)

6. The National Microfinance Consultants (NMCs) will have good knowledge in microfinance and experience with small institutional and client surveys. The NMCs will assist the evaluation team in mission meetings, in collecting local information and data, and in preparing inputs for the SES report pertaining to their own country. The assignment for each NMC will be 1 person-month from early Oct 2011-end Jan 2012, intermittently.

7. Specific tasks:
   - (i) Collect country background information and data on microfinance;
   - (ii) Review and understand the design of and questionnaires for the small institutional and client surveys;
   - (iii) Conduct the small institutional and client surveys and provide collected data to the evaluation team;
   - (iv) Coordinate, arrange, and participate in evaluation mission meetings with relevant government agencies and institutions, and provide interpretation/translation as necessary;
   - (v) Provide inputs to the SES draft report; and
   - (vi) Undertake any other tasks that the evaluation team leader may reasonably assign to pertaining to the study.