

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee's Discussion on 6 August 2008

Special Evaluation Study of the Effect of Microfinance Operations on Poor Rural Households and the Status of Women

Targeting the Poorest of the Poor

1. **DEC** noted that the most important observation of the study was the regressive impact of the microfinance interventions on the households with lower incomes, and questioned whether ADB should target the poorest of the poor with such instruments. ADB should find other, more effective ways of helping the ultra poor. **Director General, OED** agreed with this assessment, pointing out that ADB should partner with other institutions such as NGOs or CSOs to reach the ultra poor effectively. **Practice Leader for Microfinance** said microfinance is one tool to lift people out of poverty, but livelihood promotion and protection must also be included in any intervention targeted to the ultra poor until they reach a level where they can benefit from mainstream microfinance activities. On the issue of targeting of the ultra poor, **Director, OED1** pointed out that some financial institutions did not want to lend to the ultra poor because of the high risk involved.

Institutional Effectiveness

2. Referring to paragraph 136 of the report, **DEC** felt that an opportunity had been lost to assess the impact of different microfinance institutions included in the study (namely, NGOs, cooperatives, and banks) on the effectiveness of the microfinance projects. **Director General, OED** explained that the focus of the study was on poor rural households, and there was insufficient data to assess the impact of the institutions as well. However, this could be done in a subsequent study. **Practice Leader for Microfinance** added that the quality and sustainability of the services provided was more important to the success of the project than the type of institution used to deliver the microfinance.

Impact on Employment

3. With reference to a point made in the Management's Response, **a DEC member** agreed that the study did not sufficiently analyze the impact of the microfinance projects on employment. **Practice Leader for Microfinance** concurred with this observation, adding that the poverty reduction impact on the poorest of the poor would be higher if the enterprises created employment for them, even if the projects did not directly target the ultra poor.

Baseline Data

4. **DEC** regretted the lack of baseline data for assessing the impact of the microfinance projects, and one member suggested that collection of baseline data be incorporated into any such project design to allow the impact of the project to be measured. **Director General, OED** agreed that this would be desirable; however, it was costly and labor intensive to include such data collection in microfinance projects. Accordingly, data would be gathered from selected projects for rigorous assessments.

Review of Microfinance Strategy

5. **DEC** inquired as to the nature of the review of the Microfinance Strategy referred to in paragraph 154. **Managing Director General** responded that the Microfinance Strategy would not be reviewed in isolation; rather, it would be considered as a part of ADB's financial sector strategy to ensure that it is consistent with the rest of the sector.

Chair's Conclusion

6. **DEC** commended OED for a useful SES on the effects of microfinance operations on poor rural households and the status of women. The study establishes that promoting microfinance can be very effective instrument for helping poor rural households and improving the status of women. However, it simultaneously reveals a regressive tendency of the intervention, namely, microfinance institutions may not help in ameliorating the condition of the poorest of the poor without appropriate measures to promote and maintain livelihood in rural areas. More focused and deliberate approach in targeting is also important.

7. **DEC** opined that such an evaluation study in the future should assess the relative effectiveness of the different institutions in delivering microfinance, namely, NGOs, banks, and cooperative institutions.

8. **DEC** agreed with OED that in some microfinance projects it would be desirable to collect baseline data to assist in carrying out rigorous impact evaluations in the future.

9. Finally, **DEC** encouraged Management to review ADB's Microfinance Strategy, which was approved by the Board in 2000. The strategy should consider where to position microfinance vis-à-vis ADB's strategy for the financial sector as well as its strategy regarding rural development and agriculture.

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