

DEVELOPMENT EFFECTIVENESS COMMITTEE (DEC)

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

I. Philippines Country Assistance Program Evaluation: Increasing Strategic Focus for Better Results

Shift to Program Lending

1. DEC requested elaboration of ADB's shift from project lending to program lending in the Philippines. **Director, Operations Evaluation Division 1 (OED1)** explained that it had been necessary to address some policy and institutional issues before supporting large investments. **Deputy Director General, Southeast Asia Department (SERD)** said that after the first Philippines Country Assistance Program Evaluation (CAPE), which had been very critical of the ADB-Philippines partnership, ADB had radically changed the way it does business in the Philippines, including shifting from project lending to program lending. ADB had brought to the forefront key policy issues that needed to be addressed, becoming the partner of choice in many respects on policy advice. Although the shift to policy lending had been successful, **DEC** pointed out the need to maintain a balance between program lending and project lending, which is still badly needed.

Sector Performance

2. Noting that ADB's performance in the Philippines was rated partly successful in four out of nine sectors, **DEC** underlined the need to strengthen implementation in the weaker sectors, particularly those in which ADB has a competitive advantage, including infrastructure. On the energy sector, **DEC** inquired how the conclusion could be reached that ADB's support to the sector was a success when privatization was the only barometer. There would be a time lag before benefits are reaped, which could endanger the progress of reforms. **Staff, OED** responded that ADB's assistance had been provided at a critical time. Privatization had reduced the strain imposed on the budget by the energy sector and it would introduce competition and more efficient technology, eventually resulting in benefits.

3. **DEC** expressed concern at the perception among development partners, set out in Box 1 of the report, that ADB is seen as giving less attention to implementation support than the World Bank and requested further elaboration on this point. **Staff, OED** clarified that the issue had been discussed with the Deputy Director General, SERD and Country Director, Philippines Country Office (PHCO), and further information could be provided, but it was mainly a matter of managing perceptions. Director General, SERD, indicated that the basis of this perception was unclear given that (i) the Philippines portfolio was among the best performing in ADB, (ii) staff were reviewing projects frequently, often between 4-6 times a year, (iii) relationships between staff and executing agencies were uniformly good, and (iv) net resource transfers to the Philippines were on the increase over the last three years.

Selectivity

4. Referring to the list of key recommendations for Management's consideration on page vii, **DEC** observed that these did not appear to be selective, and greater focus would be desirable. **Director General, OED** responded that these recommendations were organized thematically rather than according to sectors, and they were not intended to be all-inclusive.

Country Director, PhCO said that the next country partnership strategy would provide an opportunity to address the matter of selectivity.

Role of the Philippines Country Office

5. With respect to Management's disagreement with recommendation 5(vi) in the CAPE that the role and responsibilities of the Philippines Country Office (PhCO) should be clarified, **DEC** inquired why this conclusion had been reached. **OED staff** explained that this was primarily a logistics issue arising from the fact that PhCO is located in the ADB headquarters building. **Director General, SERD** responded that staff would clarify the respective roles and responsibilities of PhCO and headquarters staff. In response to a suggestion from some DEC members that ADB might consider relocating PhCO outside Manila to an area such as Mindanao, **Director General, SERD** explained that moving away from the capital city might create some difficulties for coordination with other development partners and for maintaining strong relations with other parts of the country.

Harmonization with Development Partners

6. **DEC** emphasized the importance of ADB's working together with other development partners on policy advice, and inquired whether the need for development partners supporting the same major reforms to have a unified policy matrix was a significant concern for the Philippines, since it had been mentioned on several occasions. **Deputy Director General, SERD** emphasized that the country team works hard to ensure that all policy reforms supported by ADB are part of a government policy matrix, agreed between the government, ADB and other development partners rather than a separate ADB policy matrix.

Chair's Conclusion

7. **DEC** noted with satisfaction the conclusion in the CAPE that ADB's assistance program for 2003-2007 had been successful. However, of the nine sectors, five were noted as successful and four as partly successful, so there is scope for further improvement. A DEC member encouraged ADB to do more in the country not only in financial assistance but also in promoting the exchange of development experiences between the Philippines and other DMCs in the region.

8. There was a shift from projects to policy loans, but many members felt that policy loans cannot supplant project loans, as these are critical for sector growth as well as promoting investment. Furthermore, policy loans may circumvent the problem of implementation, but implementation issues have to be faced squarely.

9. In the context of the energy sector, **DEC** endorsed OED's comment that "there is a risk that a lag between reform and benefits to consumers may result in political temptation to roll back market-oriented reforms to deliver short-term benefits, such as lower tariffs or subsidies, to consumers. Recent reemergence of political debate to amend provisions of the EPIRA would place reform progress at risk."

10. **DEC** underlined the need for selectivity in focusing ADB's assistance on strategic sectors in line with the resources available, as well as ADB's comparative strength.

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

Targeting the Poorest of the Poor

11. 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

12. 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

13. 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

14. **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

15. **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

16. **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.

17. **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.

18. **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.

19. 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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