

## **MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON THE SPECIAL EVALUATION STUDY ON THE EFFECT OF MICROFINANCE OPERATIONS ON POOR RURAL HOUSEHOLDS AND THE STATUS OF WOMEN**

On 26 October 2007, the Officer-in-Charge, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### **I. General Comments**

1. We welcome OED's Special Evaluation Study (SES) on Effects of Microfinance Operations on Poor Rural Households and the Status of Women. This is the first ADB study which used a quantitative approach to examine the impact of microfinance on the poor. Given that ADB has a large portfolio (over \$2.0 billion) and our continuing commitment to microfinance, we note that the findings of the SES would be important for our operations.

2. Microfinance is widely recognized as an important tool in poverty reduction and empowerment of women. The actual impact of microfinance on different dimensions of poverty, however, depends not only on the quantity but also on the quality of such assistance. Accordingly, we have made a concerted effort to enhance and improve our assistance for development of sustainable microfinance services in our developing member countries within the overall framework provided by ADB's Microfinance Development Strategy, approved in 2000. We note that ADB has also been working closely with the Consultative Group to Assist the Poor (CGAP) in its microfinance aid effectiveness initiative since 2002.

3. The SES examines one project in the Philippines, three in Bangladesh and one in Uzbekistan. We take issue with SES's selection of the projects. First, the Small and Microfinance Development Project in Uzbekistan should not have been included in the SES. The project was not relevant in relation to the objectives of the SES since no disbursements had been made by the time of the study. Second, the projects covered in the SES are those focused primarily on provision of microcredit rather than microfinance services, which include other financial services such as deposit services and money transfers, in addition to credit. Hence, it would have been more appropriate to title the SES as "Effect of Microcredit Operations on Poor Rural Households and the Status of Women".

4. Notwithstanding these limitations, we note that the SES provides useful lessons and recommendations to improve the development effectiveness of microfinance.

### **II. Comments on Findings of the Study**

5. **Outreach of Microfinance Projects.** The SES observed that actual outreach of the Philippine project did not match its envisaged target and the impact of the project was regressive. The Philippine project did not reach the poorer households because in practice it was not targeted to those households.

We note that microfinance projects, if appropriately designed and implemented, are capable of reaching poorer households. The experience of Bangladesh Rural Advancement Committee (BRAC) cited also in the SES confirms this.

6. **Impact of Microfinance.** According to the SES, the estimated 305,000 enterprises supported under the Philippine microcredit program employed a total of 705,000 people. Thus, the employment generated is admittedly substantial. Although the SES should have examined the extent to which the employment benefited the poor, it has not done so. Nor has the SES assessed the extent to which poor women benefited from the employment generated by these enterprises. The failure to examine the poverty reduction impact of employment is a major drawback of the SES. As a result, the SES, in effect, has not fully addressed its stated main objective of assessing the “extent to which selected ADB microfinance projects have reduced the poverty of rural households and improved the socioeconomic status of women in developing member countries”.

7. The SES states that "planning to reach large numbers of the ultra poor with microfinance alone may not be a realistic objective", and suggests that “more scrutiny of project designs is needed for microfinance projects that purport to be targeted at the ultra poor”. We agree. As noted in the SES, special programs may be needed to provide the ultra poor with a range of services. We have already begun to adopt BRAC’s integrated multi-service approach to address income and non-income poverty of the poorest in some developing member countries.

### III. Comments on Specific Recommendations

8. **More Focused Approach in Targeting.** We agree with the SES suggestion that a concerted effort is needed to improve design and implementation of microfinance projects targeting poor households. However, provision of credit alone is inadequate and can even be counterproductive as the poorest segments of most developing societies suffer from multiple, interlocking disadvantages. Microfinance projects targeted on the poorest could generate positive outcomes if they are more demand-driven and adopt a comprehensive approach integrating the provision of credit with convenient access to safe deposit services, financial literacy training and skill development.

9. **Use Internationally Accepted Guidelines for the Design of Microfinance Projects.** We concur with the SES suggestion that there is considerable room for improvement of microfinance project design. We note that ADB has been working closely with the CGAP in its microfinance aid effectiveness initiative since 2002. We have already been using the CGAP guidelines in formulating the design of our microfinance projects.

10. **Build Staff Technical Capacity in Microfinance.** ADB has already made a concerted effort to improve staff capacity in microfinance since 2000 and organized special training programs in association with CGAP. Staff turnover and movements make it necessary to continue this effort. Thus, we fully endorse this recommendation of the SES. However, instead of developing in-house training programs for this purpose, ADB could use field-level programs such as those available at BRAC.

11. **Rigorous Impact Evaluations.** We also concur with the SES recommendation that only selected microfinance projects should allocate funds for impact evaluations. Rigorous impact evaluations are costly, time consuming, and require highly-skilled expertise. However, they can throw considerable light on what improvements are necessary in design and implementation of microfinance projects to maximize their development effectiveness.