

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: SEAE

TA No., Country, and Name: TA 3814-PHI: Preparing the Microfinance for Rural Development Project		Amount Approved: \$560,000	
Executing Agency: National Credit Council, Department of Finance		Source of Funding: Japan Special Fund	
		Revised Amount: N/A	
		Amount Undisbursed: \$104,245	Amount Utilized: \$455,755
TA Approval Date: 19/12/2001	TA Signing Date: 15/01/2002	Fielding of First Consultant(s): 17/06/2002	TA Completion Date Original: 30/09/2002 Actual: 31/03//2004
			Account Closing Date Original: 30/09/2002 Actual: 30/06/2004

Description

Global experience in poverty reduction through microfinance and its own experience in ADB and other programs in the Philippines in the past decade have led the Government to adopt commercial microfinance as the cornerstone of its fight against poverty. The Government's aim at the time was to extend microfinance services to one million more of the poor by 2004, to triple the number of poor people with access to financial services from 0.5 million (8% of the country's population) to 1.5 million (24%).

Under the highly successful Rural Microenterprise Finance Project (RMFP)², the People's Credit and Finance Corporation (PCFC), a wholesale credit fund for about 161 microfinance institutions (MFIs), had onlent to about 209,000 poor people. The Government proposed a follow-up loan project to meet the growing demand for microfinance services and intensify outreach to the poor. The proposed project would (i) expand microfinance services to new areas where financial services to the poor were unavailable, (ii) strengthen MFIs to intensify their outreach to the poor, and (iii) provide liquidity in appropriate terms for conduits.

Expected Impact, Outcome, and Outputs

The expected impact of the TA was the development of sustainable microfinance services for the rural poor. The expected outcome was a quantitative review of the microfinance subsector by the Government, and the preparation of a microfinance project that would help reduce poverty in the countryside. The expected outputs covered two broad areas: overall subsector review and project preparation. The subsector review involved an assessment of (i) the rural financial sector, (ii) the volume of demand for microfinance in the rural areas, (iii) the institutional capacity required to meet the demand, (iv) financial apex institutions that could channel funds to MFIs in the light of the privatization of PCFC, and (v) innovative approaches to onlending to the poor and lessons learned from international and domestic best practices. A microfinance project, suitable for ADB funding, was to be prepared to strengthen microfinance services to the poor.

The objectives of the TA (impact and outcome were undifferentiated) in the main text of the TA paper were inconsistent with the impact and outcome stated in the design and monitoring framework (DMF). However, the TA design—including the appropriateness of the outcome, terms of reference, executing arrangements and implementation schedule, formulation of outputs, and stakeholder participation—was relevant to the preparation of a microfinance investment project in the Philippines.

Delivery of Inputs and Conduct of Activities

The consulting team, comprising four international consultants (13 person-months in total) and four national consultants (14 person-months)³ who all worked through a consulting firm, submitted their final report in November 2002. ADB financing covered the consultants' remuneration, cost for baseline survey and beneficiary needs analysis and supporting equipment including 10 computers for the pilot-testing of information technology at key sites. The Government provided adequate qualified and highly enthusiastic counterpart staff, satisfactory office accommodation and facilities, good communication arrangements, and timely supply of all data needed by the consultants. However, government counterpart funding for workshops before the TA suffered delays, which also

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

² Loan 1435-PHI, approved 23 April 1996 and closed 1 July 2002, received a highly successful rating in its project completion report.

³ The international consultants were: a rural microfinance specialist (5 person-months), a financial economist-macro (2 person-months), a financial and project analyst-cum-accountant (4 person-months), and a microenterprise specialist (2 person-months). The national consultants were: a financial economist-macro (2 person-months), an institutional training specialist (3 person-months), a rural sociologist and poverty specialist (4 person-months), and a management information systems development specialist (5 person-months).

delayed the accomplishment of TA outputs. ADB staff closely supervised the TA administration, addressed various issues, and worked with the Government to meet the targets. Overall, the performance of the executing agency (EA) and the ADB staff is rated "satisfactory."

Technically the consultants did not put enough effort into addressing key issues and concerns of the Land Bank of the Philippines (LBP), the proposed EA for the project. The proposed project design was perceived as unrealistic, overly simplified, and unacceptable to LBP. MFIs, LBP branches, and other stakeholders were not consulted enough, and the consultants did not satisfactorily address comments on their reports. The consulting team leader did not organize his team members to carry out their tasks properly and produce good-quality reports. The individual consultants were variously rated in the ADB performance evaluation report: about 25% were rated excellent, 33% satisfactory, 17% generally satisfactory, and 25% unsatisfactory. Overall, the performance of the team is rated "generally satisfactory."

Evaluation of Outputs and Achievement of Outcome

The consulting team produced their report 4 months late, and the quality of their final report was poor. The consultants did not conduct a comprehensive assessment of the rural financial sector, including the status of policy reforms and the further development of the regulatory framework and supervision mechanisms for microfinance. They made recommendations for the medium-term future of PCFC without consulting with key stakeholders. Their analysis of the capacity of MFIs and the volume of demand for microfinance support in rural areas was substandard, some of the data they provided to support their analyses were not very reliable, and the training needs analysis of apex organizations and MFIs was less than satisfactory. The consultants did not adequately take into account innovative approaches and lessons learned from international and domestic best practices of lending to the poor. The less-than-satisfactory outputs contributed to the poor quality of the outcome. ADB and government staff had to do much more work to make up for the poor quality of the outputs and outcome.

Moreover, while ADB's Southeast Asia Governance and Finance Division (SEGF)⁴ was ready to finalize the loan processing, LBP was reluctant to be the project EA. In June 2004 LBP asked ADB for more time to review its internal activities and decide the direction of its microfinance program. ADB recognized that LBP, despite its excess liquidity, was not seeking to take on more external debt. ADB therefore turned the proposed project into a standby project in the 2004 pipeline. SEGF was advised to restructure the proposed project, possibly with the involvement of private banks, nongovernmental organization (NGO)-based financial services, and other potential financial institutions, and to look at ways of addressing legal and regulatory constraints on the microfinance sector.

Overall Assessment and Rating

The proposed project did not materialize, for reasons beyond the scope of the TA. The Government, after reviewing its overall debt portfolio and determining that the country had reached its maximum borrowing capacity, decided to suspend all new borrowing in 2005–2006. Overall, the TA is rated "partly successful."

Major Lessons

ADB staff, in consultation with the Government, should carefully select the consulting team, especially the team leader, by assessing their performance in previous projects. Furthermore, the Government and ADB staff should closely monitor and supervise the delivery of outputs, and conduct mitigation measures if needed, to ensure that the consultants deliver the expected outputs and outcome satisfactorily.

For proper monitoring of TA performance, the narrative information in the main text should be consistent with the DMF.

Recommendations and Follow-Up Actions

Demand for agricultural, rural, and microfinance services in the Philippines is high. Since 2007 the Government has turned to ADB as an active borrower in this sector. In collaboration, ADB's Agriculture, Environment and Natural Resources Division (SEAE) and Financial Sector, Public Management and Trade Division (SEFM) could jointly revisit and restructure the proposed project and assess potential joint financing in the sector. The modes of financing should not be limited to banking services but should also include potential direct investments, through partnerships between the public and private sectors, contract farming, nucleus firms, or other modes of financing. SEAE and SEFM could develop and update a detailed plan of actions for collaborating in helping the rural poor to gain access to financial and other services that will enable them to improve their livelihoods in a viable and sustainable manner.

Prepared by: Agustina Musa

Designation: Financial Due Diligence Specialist

⁴ SEGF had taken over microfinance project preparation and sector work from the Southeast Asia Agriculture, Environment, and Natural Resources Division (SEAE) following the reorganization of ADB in 2002.