



Asian Development Bank

Operations Evaluation Department
Operations Evaluation Division 1

Work-in-Progress: Not for Quotation

Title **Special Evaluation Study on the Effect of ADB Microfinance Operations on Rural Poor Households and Status of Women
Proposed Evaluation Approach**

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I. BACKGROUND

A. Overview of Asian Development Bank's Microfinance Portfolio

1. During 1990–2005, the Asian Development Bank (ADB) approved 31 microfinance projects and 20 projects with microfinance components. These projects amounted to \$943 million in loans and \$6 million in grants to support microfinance operations activities in 16 developing member countries (DMCs).¹ The Philippines had the largest share in the total amount of microfinance projects approved, i.e., at 26%. Other countries that had significant shares were Pakistan (18%), Bangladesh (14%), and Indonesia (13%). In terms of projects with microfinance components, Indonesia had the largest share at 31%, Pakistan had 28%, Bangladesh at 12%, while Nepal had 11%.

2. During the period 2000 to 2005, 15 (or 48%) of the 31 microfinance projects were approved. These projects amounted to \$492 million (or 59%) of the total loan and grant projects approved for microfinance since 1990. Throughout the 1990s, only nine projects with microfinance components were approved by ADB. Compared to the period 2000 to 2003, there were 11 projects with microfinance components approved in a period of 4 years. These trends in the total number of projects and total amount of loans approved for microfinance indicate the growing interest and attention given on microfinance in development projects and activities of ADB.

3. Since 1990, there have been three types of lending for microfinance:

- (i) lending in favor and support of a specific investment project with clearly stated aims and objectives such as the Bangladesh Participatory Livestock Development Project,² the Bangladesh Northwest Crop Diversification Project,³ or the Nepal Community Groundwater Irrigation Sector Project.⁴ This type of lending has a long

¹ See Appendix 1, Table A1.1. These projects do not include technical assistance (TA) to support microfinance activities in DMCs.

² Loan 1524-BAN(SF): *Participatory Livestock Development Project*, for \$19.7 million, approved 19 June 1997.

³ Loan 1782-BAN: *Bangladesh Northwest Crop Diversification Project*, for \$46.3 million, approved 21 November 2000.

⁴ Loan 1609-NEP: *Nepal Community Groundwater Irrigation Sector Project*, for \$30.0 million, approved 26 February 1998.

history among ADB projects especially in the agriculture and rural development sectors;

- (ii) general credit lines which provide financing for a wide range of activities with only a broad definition or limitation such as the Viet Nam Rural Enterprise Finance Project.⁵ Such projects normally work through a recognized existing financial institution and may or may not include a degree of institution building and policy dialogue. This kind of project has also been part of ADB's portfolio for a long time; and
- (iii) projects designed to expressly promote microfinance in a holistic manner as an end in itself and as a tool for poverty reduction in furtherance of ADB's poverty reduction strategy. These are the most recent additions to ADB's rural finance and microfinance portfolio.

4. As of 31 December 2005, the total microfinance portfolio of ADB was \$662.69 million. This amount includes \$352.81 million of loans from ADB's concessional Asian Development Fund, and \$301.38 from Ordinary Capital Resources. The portfolio also includes a \$4.0 million grant from the Trust Fund for East Timor; a \$2.0 million grant for the restoration of microenterprise and microfinance in Aceh, Indonesia; and an equity investment of \$2.5 million.

B. Asian Development Bank's Experience

5. In 1999, ADB reviewed its microfinance operations for 1988–1998.⁶ One of the most significant characteristics pointed out by the review was that most microfinance projects showed a distinct bias towards reaching women in poor households both in rural and in urban areas, and most included social mobilization components to enhance women's capacity to access financial services delivered through project-supported mechanisms. However, the review also found that there were deficiencies in earlier microfinance projects. They had (i) focused on microcredit delivery with no provision for other services such as savings, (ii) allowed subsidized interest rates, (iii) paid little attention to financial viability, (iv) paid little attention to sustainability, and (v) were poorly targeted. While some projects have had a positive impact, in many cases, there was no mechanism to sustain this impact beyond the project period. Therefore, many failed to make a significant contribution to poverty reduction or improvements in the status of women as a whole because of their limited outreach.

6. The review also found that project preparatory technical assistance (TAs) and advisory TAs provided to support microfinance activities suffered from a number of drawbacks: (i) most project preparatory TAs lacked adequate sector analysis, (ii) most advisory TAs were based on insufficient institutional analysis and lacked a coherent long-term approach to institutional development, (iii) most TAs were designed with only limited stakeholder ownership and participation, and (iv) TAs lacked measurable and monitorable indicators to assess performance.⁷

7. However, the review also noted that project design and impact had improved over time. Lending operations in later years were supporting a wider array of institutions; went beyond credit services to promote voluntary savings; emphasized market-oriented interest rates; and

⁵ Loan 1802-VIE: *Rural Enterprise Finance Project*, for \$80.0 million, approved 12 December 2000.

⁶ Dingcong, Clarence G. 1999. *Review of Asian Development Bank's Microfinance Portfolio*. Manila: ADB.

⁷ These shortcomings are common to TAs in many sectors, not just microfinance and represent an endemic problem with ADB-wide TA operations.

paid more attention to financial viability, repayment levels, and sustainability. Unfortunately, at the time of the review, it was not possible to assess the impacts of these more recent projects since most of them had only been approved in the previous 3 or 4 years and were still in the initial stages of implementation.

8. At the present time though, several of these projects have since been completed or are now in the later stages of implementation. A better assessment of the impact on poor households and women of ADB's initiatives in microfinance should now be possible.

9. In 2001, the Operations Evaluation Department (OED) published a study that reviewed the impact of ADB's lending rural credit in seven DMCs.⁸ Among the projects included in the review were nine microcredit projects.⁹ The study included in-depth reviews and an attempt to quantify results through purposive socioeconomic surveys using questionnaires.

10. The study observed that microfinance projects tended to have more relevance and a more direct focus on poverty reduction and women, but also had limitations in terms of subloan size, higher costs of implementation, and the need to have sustained opportunities for access to such funds to bring about sustained improvements in the status of the beneficiaries. The experience with these projects also highlighted the challenge in achieving an important policy objective (namely poverty reduction and improvements in the status of women) while expecting activities to be implemented with commercial or market efficiency.

11. One major issue identified was that, taken as a whole, the projects did not contribute directly to the emergence of sound and sustainable rural financial systems. The evaluation also noted that the socioeconomic surveys indicated that the impact on gender development became significantly positive with the advent of microfinance projects.

12. The evaluation also noted the need (i) for more focused targeting of the poor, (ii) to promote sound and sustainable rural financial systems, (iii) for project designs which allow financial institutions to work within their mandate and capacity, (iv) for capacity-building assistance, and (v) for provisions within the project funding arrangements to mitigate foreign exchange risks. The ultimate recommendation is that, "within the context of the new Microfinance Strategy, ADB rural credit assistance should focus more on the microfinance type of operations that will allow better targeting of the poor and greater participation of beneficiaries and other stakeholders. Nevertheless, with economic growth as a necessary condition for poverty reduction, the traditional rural credit projects, on a selective basis and integrated as components of larger projects, should continue to be implemented both to bring about an increase in production and an improvement in productivity and technology, and to leverage the necessary policy changes in DMCs that will contribute toward the emergence of sound and sustainable rural financial systems."

13. More recent experience of ADB with microfinance projects indicates that funds provided through microfinance are generally used immediately and often have very quick impact (as opposed for example to an infrastructure project). Benefits can also be widespread. Rather than being limited to one single project area benefits can be region-wide or nationwide. Under the Philippine Rural Microenterprise Finance Project (RMFP),¹⁰ for example, nearly

⁸ ADB. 2001. *Impact Evaluation Study on ADB's Rural Credit Assistance in Bangladesh, People's Republic of China, Indonesia, Nepal, Philippines, Sri Lanka, and Thailand*. Manila.

⁹ The evaluation also reviewed 13 agriculture development projects and 5 development finance projects.

¹⁰ Loan 1435-PHI(SF): *Rural Microenterprise Finance Project*, for \$20.0 million, approved 23 April 1996, for which a project performance evaluation report has been under preparation by OED.

620,000 beneficiaries were reached, while the number of direct beneficiaries under the Bangladesh Participatory Livestock Development Project (PLDP)¹¹ exceeded 335,000. This large number of beneficiaries was reached at a very modest cost (a loan of \$20.0 million for the RMFP and of \$19.7 million for the PLDP). Under both of the above loans, 97.0% and 97.4% of all end-borrowers, respectively, were women.

C. Asian Development Bank's Microfinance Strategy

14. After a series of internal, regional, and international consultations and workshops beginning in 1998, the ADB's Microfinance Strategy was approved by the Board of Directors in May 2000.¹² The strategy recognizes the potential of microfinance to bring about significant economic and social change in the ADB's DMCs (some of the larger microfinance institutions in Bangladesh, for example, have a client base of over 2 million beneficiaries). It notes, however, that a huge amount of financial resources is required to provide institutional microfinance to over 95% of the potential clients who are currently not served by microfinance services in the region. In that context, it concludes 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 is not likely to generate a significant overall development impact. The role envisaged for ADB is thus to catalyze the expansion of the supply of microfinance services and the strengthening of the capacity of potential clients to access the services. On the supply side, the strategy focuses 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 supports investments in social intermediation to make access to financial services more readily available (this is particularly important when the issue of access to financial services by women is taken into account). The strategy emphasizes 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.

15. ADB's microfinance development strategy defines microfinance as "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." The strategy's goal is to ensure permanent access of institutional financial services for a majority of poor and low-income households and their microenterprises. Apparently, the strategy's main target is the poor household engaged in entrepreneurial activity.

16. The purpose of the strategy is to support the development of sustainable microfinance that can provide diverse services of high quality. With this purpose and the goal of ensuring poor households with permanent access to financial services, the strategy focuses 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.

¹¹ Loan 1524-BAN(SF): *Participatory Livestock Development Project*, for \$19.7 million, approved 19 June 1997.

¹² ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*. Manila.

17. With regard to gender, the strategy paper identifies microfinance as an effective way to assist and empower poor women, “who make up a significant proportion of the poor and suffer disproportionately from poverty”. It notes that microfinance institutions have brought poor women into formal financial systems and enabled them to access credit and accumulate savings. It also points out that recent and ongoing ADB projects have shown a distinct bias towards reaching women in poor households. In terms of recommendations, it notes that social intermediation in addition to microfinance is needed to introduce poor women to a formal or semi-formal market-oriented institutional environment. The major role played by nongovernment organizations (NGOs) in assisting women with and through microfinance is also pointed out.

18. A focus on the rural sector is justified mainly by the overwhelming concentration of poor in the rural areas. However, given the increasing recognition of potential for microfinance in urban areas, opportunities will be explored to build capacity and extend support in urban microfinance as well. The strategy thus emphasizes that ADB support will be (i) catalytic, (ii) selective, and (iii) concentrated in rural areas but without ignoring urban areas.

19. A full review of the microfinance strategy is planned for 2007. The study results of this proposed special evaluation study will comprise an important input for that review through its focus on the impact of microfinance on the most important target groups of microfinance operations and the ADB's overall poverty reduction strategy: poor rural households and women living in poverty.

D. Asian Development Bank's Gender and Development Initiatives

20. Improvement of the status of women is one of ADB's five strategic development themes. In this context a gender and development (GAD) policy was approved by the Board in 1998,¹³ replacing earlier policies based on the narrower concept of women in development (WID). The fundamental principle of this policy was that improvements in the status of women were a cross-cutting issue throughout development activities and that a greater positive impact on the status of women could be achieved by looking at women's issues as a part of the overall development process rather than focusing on specially designed projects for women (without ruling out the occasional need for such projects from time to time). The new policy adopts gender mainstreaming as a key strategy in promoting gender equality. Key elements of the strategy entail promoting: (i) gender sensitivity, (ii) gender analysis during project formulation, (iii) gender planning, (iv) mainstreaming gender within project design, and (v) agenda setting in terms of gender policy issues. Within this context GAD is to be actively promoted within lending and non-lending assistance operations. Special design features and strategies will be built into projects, especially those with the potential to address GAD objectives, to facilitate and encourage women's involvement, and to ensure tangible benefits to women.

21. The strategy further states that ADB will endeavor to increase the number of projects with GAD as either a primary or secondary objective, especially projects in health, education, agriculture, natural resource management, employment and income generation, and financial services (microfinance). Thus, microfinance activities are seen as a specific avenue for furthering the GAD objectives of ADB operations. Enhancing women's access to savings and credit services is also identified expressly among the project activities which will be promoted. As it happens, both WID- and GAD-focused projects have commonly used microfinance as a tool to promote improvements in the status of women. These have included such examples as

¹³ ADB. 2003. *Gender and Development: Our Framework*. Manila.

the Bangladesh Rural Women Employment Creation Project,¹⁴ the Nepal Microcredit Project for Women,¹⁵ the Indonesia Community Empowerment for Rural Development Project,¹⁶ and many more. Again though, at the time of preparation of the GAD policy paper, the microfinance strategy paper, and the rural credit impact evaluation; the results of many of these projects could not be fully assessed since they were still ongoing or just completed. While the results of those that had been completed did indicate generally very positive results in terms of their impact on the status of women participants in the individual projects, these projects were not necessarily analyzed for their overall impact on the establishment of sustainable financial institutions to which women would have access whether they were project participants or not (i.e., the goal of the Microfinance Strategy).

II. RATIONALE FOR THE SPECIAL EVALUATION STUDY

22. Poverty reduction and improving the status of women have been common primary or secondary objectives in most microfinance projects and project components financed by ADB. Very often the main targets of these projects are the rural poor households and women. Microfinance participation can affect households in many ways. There is a range of possible social and economic outcomes beyond household income and consumption—including business profits, nutrition, schooling, fertility, risk, asset holdings—and a range of measures of empowerment and changes in social status.

23. As regards women, experience in microfinance shows that relative to male borrowers, women perform better in repaying loans.¹⁷ Evidence also shows that serving women is likely to have stronger impacts on households.¹⁸ One reason is that women tend to be more concerned about children's health and education, and therefore are likely to channel more resources for household food and non-food expenditures than men, if given the opportunity.¹⁹

24. It is important that the impact of ADB's microfinance operations on these target groups (rural poor households and women) is objectively assessed to determine if the development objectives of poverty reduction and promoting the socio-economic welfare of women are being achieved. Most studies on microfinance acknowledge the focus on assisting poor women increase their incomes and social status and note that poor women have been major beneficiaries but do not note the extent to which they have benefited nor assess how sustainable such benefits are. In past retrospectives (undertaken in 1997 in the case of gender and development and in 1999 in the case of microfinance), most projects which combined microfinance and women were still under implementation or just completed. While the initial results were positive, assessing the medium to long-term development impact of these projects on their targeted groups was then difficult to perform reliably.

¹⁴ Loan 1067-BAN(SF): *Rural Women Employment Creation Project*, for \$8.0 million, approved 13 December 2000.

¹⁵ Loan 1237-NEP(SF): *Microcredit Project for Women*, for \$5.0 million, approved 24 June 1993.

¹⁶ Loan 1765-INO: *Community Empowerment for Rural Development Project*, for \$50.0 million, approved 19 October 2000.

¹⁷ Khandker, Shahidur R., B. Khalily, and Z. Kahn. 1995. *Grameen Bank: Performance and Sustainability. World Bank Discussion Paper 306*. Washington, DC: World Bank.

¹⁸ Khandker, Shahidur. 2003. *Microfinance and Poverty: Evidence using panel data from Bangladesh. World Bank Policy Research Working Paper 2945*. Washington, DC: World Bank; Pitt, Mark and Shahidur Khandker. 1998. "The Impact of group-based credit programs on poor households in Bangladesh: Does gender of participants matter?" *Journal of Political Economy* 106(5): 958-996.

¹⁹ Blumberg, Rae. 1989. *Entrepreneurship, credit, and gender in the informal sector of the Dominican Republic. In Women in Development: A.I.D.'s Experience, 1973-1985, Vol. 2*. Washington, DC: Center for Development Information and Evaluation, USAID.

25. At the present time, the situation has changed. It is now 5 years since the 2001 impact evaluation and many of the projects which were then on-going have now been completed. Moreover, it has been 6 years since the microfinance strategy was published so new projects with a greater focus on microfinance (and its impact on women) that have since been initiated, have now been completed. In addition, an internal review of the microfinance strategy is planned for 2007. It is now possible to review the results of the gender equality initiatives of several recently or nearly completed microfinance projects and be productively used as a key input into the overall review of the microfinance strategy in 2007. Since the reduction of poverty among women is one of the top priorities of ADB's poverty reduction strategy, it is considered important to take this opportunity to assess ADB's experience with one of the most promising tools for both poverty reduction and improving status of women, i.e. microfinance operations.

26. The study shall only focus on microfinance projects and activities of ADB, and not rural finance projects. While there are overlaps between rural finance and microfinance, they are basically distinct from each other. Microfinance involves the provision of financial services (credit, savings, insurance, etc.) to the poor and low-income households and their micro-enterprises.²⁰ Many of these microfinance programs are directed towards women. Rural finance on the other hand involves the provision of financial services for agriculture and non-agricultural activities in rural areas. Rural finance could involve financing fairly significant investments, whereas in microfinance, financing are usually in small amounts specifically for groups or individuals defined as poor. Unlike microfinance, many rural finance projects do not necessarily target women. For the study therefore to be more specific and focused, the scope will be narrowed down only to microfinance operations of ADB.

III. OBJECTIVE AND SCOPE OF THE PROPOSED STUDY

A. Objective

27. The objective of the study will be to assess, through real experiences on ADB projects, the extent to which microfinance services has reduced poverty among rural poor households and improved the economic and social status of women in ADB's DMCs.

28. The study seeks to answer the following major questions:

- (i) How effective were microfinance projects in reducing poverty of rural poor households and in changing the socio-economic status of poor women?
- (ii) To what extent has the project design and implementation of ADB microfinance projects mainstreamed improving the status of women?
- (iii) What lessons can be drawn from ADB's experience in reaching rural poor households and poor women with microfinance services? What are the implications of these lessons to ADB's current and future directions for microfinance?

B. Scope

29. The study will review the impact of selected microfinance projects completed since 1995 in three DMCs with different economic and social characteristics, capturing the results of projects which were still ongoing during the 1999 review of ADB's microfinance portfolio, the impact evaluation of 2001, as well as projects that were approved since the publication of the

²⁰ Definition based on ADB's Microfinance Development Strategy.

Microfinance Strategy. The focus of the study will be on the target groups—rural poor households and women. On a *prima facie* basis, three countries representing three of the five operational regions of the ADB have been selected in order to include a range of different types of DMCs at different levels of development, with a range of financial sectors and development finance institutions. Gender assessments have also been completed in these countries providing the study a documented baseline of the status of women. Further, these countries have had significant microfinance projects supported by ADB, at present or in recent past, and there is much that can be learned from their experiences. These countries purposively selected are the Philippines, Bangladesh, and Uzbekistan.

30. The Philippines has been selected as an example of a long-established Southeast Asian country with an open capitalist economy and a long history of rural and microfinance. It was also selected for its successful experience with microfinance both in earlier projects and through the RMFP, for which 97% of the client borrowers were women and which has been rated as highly successful by a recently published project completion report. Key inputs for the Philippines study will be obtained from the project performance evaluation report for the project which is currently undertaken by OED in its final stages.

31. Bangladesh has been chosen as an example of an established South Asian DMC that has a long history with ADB which include projects that support microfinance activities. During the period 1990 to 2005, ADB has approved loans for Bangladesh in the amount of \$116 million for microfinance projects and \$14.3 million for projects with microfinance components. With Bangladesh still being one of the world's poorest nations (with average gross domestic product per capita only marginally higher than the dollar-a-day international poverty standard) and women remaining vulnerable to poverty (having limited access to economic resources, political participation, and other forms of decision-making), there is strong justification for the inclusion of Bangladesh in the study's coverage.

32. Finally, Uzbekistan was chosen to represent the DMCs in Central Asia and to provide an example of a project approved after the release of ADB's microfinance strategy. On 20 December 2002, the ADB approved a \$20 million loan to help provide microfinance services to poor households, microenterprises, and small businesses in Uzbekistan.²¹ Uzbekistan's financial sector remains small and underdeveloped with limited capacity to provide financial support to micro and small enterprises (MSEs) and to poor households, particularly in isolated areas. The project was envisioned to mobilize savings and provide the poor with financial services to set up MSEs which are critical in supporting the country's transition to a market economy and reducing poverty.

33. The study shall, first, provide an overview of the ADB's microfinance operations by analyzing the scale, composition, trends, and characteristics of its microfinance portfolio. Secondly, a review of ADB's microfinance operations will be undertaken focusing on the extent the projects' design in these countries have mainstreamed improving the status of women. Performance of these projects in terms of effectiveness in reaching their targeted groups will be evaluated. Further, the effects of these projects on women will be assessed. It is recognized that microfinance has significant potential for contributing to women's economic, social, and political empowerment. However, these effects are not necessarily an automatic consequence of microfinance. Women empowerment is a complex process of change that goes much further than women's access to microfinance services or increase in income. For example, the effect on empowerment could be limited due to intra-household inequalities that constrain women from

²¹ Loan 1963-UZB(OCR): *Small and Microfinance Development*, for \$20 million, approved 9 December 2002.

enjoying benefits of an increase in household income, even when they are major contributors. Third, the study will measure the poverty impact of microfinance on rural poor households and the status of women.²² In view of the costs, time and tedious process involved in conducting impact surveys, a project in one country will be selected for the impact assessment at the household and/or client level. It is envisioned that the assessment will illustrate the quantitative impact of an ADB microfinance project on poor household and women, the results of which will contribute to a better understanding of microfinance. While this quantitative impact assessment will be implemented only in one country, the profile of poor households and women in three countries will nonetheless be collected and analyzed through the use of sample surveys in each country. Data gathered from these surveys will also be used to determine if projects have indeed been effective in reaching target groups covered by the study.

IV. METHODOLOGY

34. The study will be undertaken in three phases: (i) a preparatory phase, (ii) a full-scale implementation phase, and (iii) a general operational review phase. The preparatory phase will include a review of related literature; the formulation of the framework and detailed methodology for the study; the testing of the methodology in one of the three chosen countries, most likely the Philippines; the fine-tuning of the methodology based on real field experiences; and the preparation of a country report. At this stage, a detailed note to file will be prepared in which the refined methodology is described along with the results from phase 1. This will be discussed with peer reviewers²³ and, if desired, OED management. The methodology for evaluating the effects of microfinance services on poor households and women will employ a mixture of quantitative and qualitative methods.²⁴

35. The full implementation phase will entail (i) the initiation of the study in the other two countries to be covered; (ii) implementation of the study applying the methodology developed in the preparatory phase; (iii) compilation, processing and analysis of results; (iv) preparation of country study report for each country; and (v) consolidation of the country reports into an integrative report.

36. The general operational review phase will consist of an overview of past microfinance projects undertaken since 1995 focusing on the target groups. This will be done through a literature review and desk studies supplemented by interviews with ADB staff involved in on-going and past microfinance projects. The literature review would entail a thorough review of reports and recommendations of the President, project completion reports, project performance evaluation reports, and project performance reports along with any relevant review mission reports. Results would be tabulated in matrix form for ready reference and comparison. Subsequently, once the main issues are identified, in-depth interviews and discussions with key operational staff would be undertaken to round off the picture and complete the analysis. Past experience have shown that the results of a general overview are more valuable after specific country studies have been completed. The country studies can point out trends and issues which can then be looked at on a broader and more generic perspective through a region-wide

²² Stimulated by criticism by the NGO Center for Global Development, the subject of impact evaluation is currently a "hot topic" in the development community. OED needs to increase the proportion of rigorous impact evaluations within its work program and this study will help meet this need.

²³ Henrike Feig and Njoman Bestari.

²⁴ Common quantitative methods include sample surveys and semi-structured interviews. Common qualitative methods include focus groups, case studies, individual interviews based on key open-ended questions, participatory appraisals, and participatory learning activities.

overview of past operations. This will allow parallels to be drawn and distinctions to be made among and between countries and geographic regions.

37. An important aspect of the literature review is the identification of methodologies used by financial institutions in selected DMCs. Lessons that may apply to ADB operations will be drawn out from their experiences, particularly on sustainable and effective delivery of microfinance services. Further, the review shall include the experience of other funding agencies in supporting microfinance operations that focus on women. To the extent possible, ADB-financed microfinance projects shall be benchmarked with those financed by other funding agencies, such as the World Bank, NGOs, etc. Contacts have already been initiated with the International Fund for Agricultural Development, which will do a similar study, and international NGO Grameen USA.²⁵ The OEM will exchange information with these agencies while conducting this study.

38. An important feature of the study will be the inclusion of an impact evaluation within it (para. 31). Estimating the impacts of a microfinance intervention is especially difficult in the absence of baseline data²⁶ or where opportunities for a randomized control trial are not available.²⁷ The procedure is beset by two well-known problems of nonrandom participation (selection problem) and nonrandom program placement that could seriously bias the estimates of impact if not appropriately dealt with. The former has to do with the likely different unobserved characteristics, such as entrepreneurial ability, of participants and non-participants that can affect outcomes. The latter has to do with selecting program areas on the basis of specific characteristics, such as developed or undeveloped areas, which can also affect outcomes. The crucial problem is finding a valid counterfactual. Recent research have generated valid counterfactuals from single-round surveys, which the study intends to do, in at least two ways: (i) by an ingenious use of newly qualified clients who have yet to receive loans in a geographically different area²⁸ from the existing clients;²⁹ and (ii) utilizing eligibility criteria that are exogenous to the decision of clients.³⁰ In both approaches the selectivity problem is dealt with by getting information on both client and non-client eligible in program areas. Nonrandom program placement, on the other hand, is dealt with either by using variables indicating relevant village-level characteristics or village-level fixed effects estimation. Thus, sample households should cover both eligible (clients and non-clients) and non-eligible in program areas and eligible and non-eligible in soon-to-be opened program (control) areas.³¹ The procedures require three sets of information: (i) household characteristics covering both measures of outcomes of interest and determinants, (ii) village characteristics, and (iii) program characteristics. These quasi-experimental methodologies are approaches available for adoption in the study.

²⁵ NGO Grameen USA has agreed to cooperate as an external peer reviewer. The Economics and Research Department (ERD) of ADB has been consulted and agreed to cooperate by sharing their working knowledge.

²⁶ Baseline data is usually absent in most donor supported microfinance programs.

²⁷ For example, see Gine, Xavier, T. Hangaya, D. Karlan, and B. Nguyen. 2005. Evaluating Microfinance Program Innovation with Randomized Control Trials: An Example from Group versus Individual Lending. *ADB ERD Technical Note, December 2005*. Manila.

²⁸ Karlan (2001) discussed problems in using new borrowers in the same geographic area as a control group. See Karlan, Dean. 2001. Microfinance impact assessments: The perils of using new members as a control group. *Journal of Microfinance* 3:C2): 76-85.

²⁹ See Coleman, Brett E. 1999. The Impact of Group Lending in Northeast Thailand. *Journal of Development Economics*. Manila: ADB; Coleman, Brett E. 2002. Microfinance in Northeast Thailand: Who Benefits and How Much? *ADB ERD Working Paper Series No. 9*. Manila; Montgomery, Heather. 2005. *Serving the Poorest of the Poor: The Poverty Impact of the Khushhali Bank's Microfinance Lending in Pakistan*. ADBI Monograph.

³⁰ Kandker, Shahidur. 1998. *Fighting Poverty with Microcredit*. Oxford University Press.

³¹ See Chapter 8 of Aghion, Beatriz and Jonathan Morduch. 2005. *The Economics of Microfinance*. MIT Press.

39. The wider impact of microfinance on women will also be examined. Appropriate tools will be used to determine how and to what extent women have been empowered by their participation in the program. Participatory tools such as focus groups and participatory learning and action will be utilized in discussions with client-beneficiaries to assess women empowerment. These tools will be used with the awareness that empowerment is not necessarily an automatic outcome of microfinance program, whether designed for financial sustainability or poverty targeting. The use of these tools therefore is envisioned to generate meaningful insights on the dynamics involved in analyzing the wider impact of projects on women.

40. The study will blend both qualitative and quantitative data with focus on feedback from discussions with the women client-beneficiaries and relevant stakeholders. Triangulation method will be used to check the consistency of data estimates through available secondary data and structural interviews with key informants. Respondents to the sample survey interviews and participants in focus group discussions shall include women beneficiaries, field staff of financing institutions, and their senior officers. Policy issues would also be discussed with the gender representatives for the countries concerned at the ADB resident missions and within headquarters. Where meaningful, representatives of key gender-focused agencies (such as women's unions) would be interviewed. NGOs and microfinance practitioners shall also be invited to participate in focus group discussions to gather their views and experiences. The overall design for the study is shown in the draft evaluation matrix as Appendix 1, which will be subject to refinement during the study.

V. STAFFING AND SCHEDULING

41. The study would be conducted under my responsibility as Team Leader, with assistance from complementary skilled international and domestic consultants on an intermittent basis. A team of international consultants will be needed to initiate the study and undertake the preparatory phase. The assistance of local consultants (under international supervision) will then be required in each country to (i) provide an overview of the gender situation in each country and the gender impact of the microfinance projects in particular; (ii) provide an overview of the microfinance situation in the country in general; (iii) assist in conducting the field surveys, focus groups, participatory learning, and action sessions using the methodology and tools developed during the preparatory phase; and (iv) assist with the analysis of the results within the context of the country concerned. The terms of reference for the consultants are provided in Appendix 2.

42. The study would require the input of three international consultants: (i) an international rural microfinance specialist, with experience in evaluating ADB operations/projects and sound understanding of the overall financial sectors in Asian DMCs and how their structures relate to the microfinance subsector; (ii) an international impact evaluation specialist/econometrician with strong background in impact evaluation methodologies using sample surveys, statistical, and econometric tools; and (iii) an international gender specialist with experience in projects with gender positive focus. Four domestic consultants, i.e., a gender specialist and a microfinance specialist for each country except for Philippines, would also be required for the country studies.

43. It is estimated that the international rural microfinance specialist will be heavily involved in all phases of implementation and would require 4 months input on an intermittent basis, the international gender specialist on a 2-month intermittent input, and the international impact evaluation specialist/econometrician on a 2-month intermittent input. Both the domestic gender specialist and domestic microfinance specialist will be required for 1.5 months each, except in

the Philippines. An evaluation analyst would also be required in Manila to assist in processing collected information in addition to assistance from an in-house evaluation analyst. Further, an impact survey team will be formed in one country to conduct the field survey for the quantitative impact assessment.

44. The study would be undertaken over an 8-month period from May to December 2006. The preparatory phase would be undertaken within headquarters over a period of 1.5 months. Selected country studies would be undertaken through 3 months of field and office work. The general operational review would be undertaken over a 1-month period and a further 1.5 months of analysis and write up at headquarters would be required prior to circulation for peer review.

45. The special evaluation study will adhere to the following schedule and output milestones:

Position paper finalization	I May 2006
Preparation of field assessment	May–June 2006
Completion of Operations Evaluation Mission	I November 2006
Submission to Director General, OED	IV March 2007

Appendixes

Appendix 1: Draft Evaluation Design Matrix

Appendix 2: Terms of Reference