



Validation Report

Reference Number: PCV: PHI 2010-75

Project Number: 38579

Loan Number: 2199

December 2010

Philippines: Microfinance Development Program

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
EO	–	Executive Order
IED	–	Independent Evaluation Department
MDP	–	Microfinance Development Program
MFI	–	microfinance institution
NAPC	–	National Antipoverty Commission
NCC	–	National Credit Council
NGO	–	nongovernment organization
PCR	–	project completion report
PPSB	–	Philippine Postal Savings Bank
RRP	–	report and recommendation of the President
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

Key Words

asian development bank, adb, executing agency, implementing agencies, microfinance, poverty, program, policy actions, conditions, consultants, performance, outputs, outcomes, relevance, effectiveness, efficiency, sustainability, impact, lessons, recommendations

Director:	H. Hettige, Independent Evaluation Division 2 (IED2), Independent Evaluation Department (IED)
Team leader:	C. Kim, Principal Evaluation Specialist, IED2, IED
Team members:	J. Dimayuga, Evaluations Officer, IED2, IED R. Perez, Senior Operations Evaluation Assistant, IED2, IED

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PROGRAM COMPLETION REPORT VALIDATION

A. Basic Project Data		PCR Validation Date	December 2010	
Project Number:	38579			
Loan Number:	2199		Approved	Actual
Program Name	Microfinance Development Program	Total Program Costs (\$ million):	150.00	150.00
Country	Philippines	Loan (\$ million):	150.00	150.00
Sector	Microfinance	Total Cofinancing		
ADB Financing	ADF: 0.00	Borrower		
	OCR: \$150.00 million	Beneficiaries		
Cofinanciers		Others		
Approval Date	22 Nov 2005	Effectiveness Date	14 Dec 2005	14 Dec 2005
Signing Date	22 Nov 2005	Closing Date	30 Nov 2007	26 Dec 2007
Project Officers	E. Sasaki, Sr. Financial Sector Specialist and B. Nguyen, Finance Specialist, SERD	Location ADB Headquarters	From 2005	To 2007
Validator	S. Thalakada, Staff Consultant, IED2	Director	H.S. Hettige, IED2	
Quality Control Reviewer/Peer Reviewer:	C. Kim, Principal Evaluation Specialist, IED2 J. Dimayuga, Evaluation Officer, IED2			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED2 = Evaluation Division 2, OCR = ordinary capital resources, PCR = project completion report, SERD = Southeast Asia Department.

B. Project Description (summarized from the report and recommendation of the President [RRP]¹)

(i) **Rationale.** The government attached a high priority to poverty reduction. Although poverty rates generally declined in the Philippines over two decades until the mid-2000s, government data indicate income poverty increased from 30% in 2003 to 33% in 2006. Access to microfinance was expected to improve household incomes and reduce poverty and the vulnerability of the poor by helping the poor build viable businesses and pursue income-generating activities. Microfinance was the central strategy for poverty reduction in the Philippines under the Republic Act No. 8425 (Social Reform and Poverty Alleviation Act) and was an important part of the Medium-Term Philippine Development Plan 2004–2010, and the administration's 10-point agenda which calls for the creation of 10 million new jobs. Although the Philippines had achieved good progress in promoting microfinance, more than two thirds of poor households (or 17 million people) still lacked access to microfinance. Action was needed to lay a sound foundation to substantially accelerate the development of microfinance to achieve the necessary national outreach and sustainability.

(ii) **Impact.** The Microfinance Development Program (MDP) was expected to help increase livelihood and income generating activities that would result in increased investment, job creation and government tax revenues. These were in turn expected to help achieve the Millennium Development Goals, which include eradicating extreme poverty and hunger and the promotion of gender equality and empowerment of women. Through these activities, the MDP was expected to contribute to sustainable economic growth and macroeconomic stability. No specific impact indicators were provided in the program design and monitoring framework.

¹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Microfinance Development Program*. Manila.

(iii) **Objectives or expected outcomes.** The MDP was designed to support the government in addressing systemic weaknesses in the microfinance sector. It aimed to promote access to sound, sustainable, and competitively priced financial services for the poor and their microenterprises. The objective of the MDP was to improve household incomes, reduce poverty, and reduce the vulnerability of the poor. No specific indicators were provided in the program design and monitoring framework.

(iv) **Components and/or outputs.** To achieve this objective, the MDP undertook strategic reforms to (a) enhance the enabling policy and regulatory environment and remove regulatory impediments and policy distortions, thereby promoting market efficiencies and the outreach of services to the poor at competitive prices; (b) build viable microfinance institutions (MFIs) that could provide efficient and cost-effective retail delivery services to the poor; (c) strengthen regulatory and supervisory capacity and oversight for a sound microfinance sector; and (d) increase financial literacy and consumer protection for the poor and users of microfinance services. These reforms were supported by 24 core program conditions (RRP, Appendix 3).

C. Evaluation of Design and Implementation (project completion report [PCR]² assessment and validation)

(i) **Relevance of design and formulation.** The MDP was relevant, as it was designed to address weaknesses in the microfinance sector and help make microfinance services more accessible to improve household incomes and reduce poverty and vulnerability of the poor. It was aligned with the Group of Eight Action Plan for poverty reduction, best practices of the Consultative Group to Assist the Poor, and the ADB Microfinance Development Strategy. The design included two supporting grants, one (technical assistance [TA] 4693-PHI: Microfinance Development Program) for \$0.5 million financed by ADB to support the government in implementing the policy actions proposed under the MDP, and the other (Grant Assistance–Philippines: Developing Financial Cooperatives Project) for \$0.9 million financed by the Japan Fund for Poverty Reduction to develop financial cooperatives and help the government implement a program component to build capacity in cooperatives. Lessons from financing previous microfinance programs were taken into account in formulating the MDP. The reforms were also coordinated with the work being undertaken by other donors.

(ii) **Program outputs.** All the policy actions as agreed with the government and included in the MDP framework and policy matrix were completed fully during program implementation. The MDP enhanced the enabling and regulatory environment as the Bangko Sentral ng Pilipinas formulated rules and regulations to promote microfinance operations by banks, allowing microfinance-oriented banks to open branches anywhere in the country, and promoting electronic banking with consumer protection, particularly for savings mobilization. In addition, the Securities and Exchange Commission required microfinance-oriented nongovernment organizations (NGOs) to be transparent and observe full disclosure in their operations. Under the MDP, MFIs training modules on the uniform set of MFI performance standards were developed and minimum qualifications and fit-and-proper standards for board directors and key management were established for savings and credit. Also, the Privatization Management Office formulated a privatization plan and options for the Philippine Postal Savings Bank (PPSB). To strengthen regulatory and supervisory capacity and oversight for the microfinance sector the manual of rules and regulation for credit cooperatives and multipurpose cooperatives providing microfinance services was formulated and issued in October 2007, and the Bangko Sentral ng Pilipinas conducted risk-based supervision of microfinance operations. To increase financial literacy and consumer protection for the poor the Philippine Microfinance Literacy Program was launched in October 2007.

(iii) **Program cost, disbursements, Borrower contribution, and conformance to schedule** (as relevant to project performance). Total program cost was estimated at \$150 million. Any additional associated adjustment costs related to the structural reforms, including the government contribution, were not specified either in the RRP or PCR. The program loan was disbursed in two equal tranches as scheduled. The first tranche was released on 15 December 2005 upon loan effectiveness, following the government's completion of the first tranche policy actions. The second tranche was released on 26 December 2007 upon completion of the agreed policy actions. The MDP was implemented from December 2005 to December 2007, almost as scheduled (with a 1-month extension). The TA project attached to the MDP was also completed, while the Japan Fund for Poverty Reduction TA was scheduled to end in September 2010.

² ADB. 2009. *Completion Report: Microfinance Development Program in the Philippines*. Manila.

(iv) **Implementation arrangements, conditions and covenants, related TA, and procurement and consultant performance.** The implementation arrangements were adequate to deliver program outputs and achieve the program objectives with the coordinating role played by the National Credit Council (NCC). The Department of Finance was the executing agency for the MDP and provided guidance for program implementation. The NCC Secretariat functioned as the program management unit and coordinated activities among the various implementing agencies. All the policy actions and conditions required were considered to have been completed for timely release of the two loan tranches as specified in the PCR (its para. 20 and Appendix 3). The covenants were regarded relevant for achieving program objectives. The TA completion report rated the TA *highly successful*, as it helped the government meet all program tranche release conditions as scheduled. The TA consulting firm was selected in accordance with ADB *Guidelines on the Use of Consultants* and its performance was *satisfactory*.

(v) **Performance of the Borrower and executing agency.** The Borrower satisfactorily complied with all policy actions and conditions under the MDP, which resulted in timely release of the loan tranches. The covenants with respect to implementation and coordination arrangements and reporting requirements were met satisfactorily and on time. The PCR rated the overall performance of the NCC as *highly satisfactory*, and this validation agrees with that rating. The key premise of the MDP—to help set up a market-oriented microfinance sector—came into question during the program implementation period, however, as a result of the repeal of Executive Order (EO) No. 138 (commonly regarded as a pillar of the government's market-based financing strategy for the sector) by EO No. 588 in August 2006. The PCR states that "The limited and targeted scope of the new EO's operation and the limited funding allocated to it suggest that it has not had a major impact on the sector. ... In future, vigilance is required to monitor and confirm that market principles are maintained toward sound and sustainable financing operations for micro, small, and medium-sized enterprises". This validation fully supports this recommendation.

(vi) **Performance of the Asian Development Bank.** The PCR rated ADB performance *satisfactory*, and this validation agrees with that rating. The program design was adequate to meet the identified weaknesses and included appropriate policy actions and conditions to overcome them. The design also included appropriate TA to help with program implementation. Adequate supervision missions were fielded that helped with adoption of policy actions and conditions, and timely release of the loan tranches.

D. Evaluation of Performance

(i) **Relevance.** The MDP remained relevant during implementation and at completion. The government maintained its commitment to the reform program, as reflected by timely action taken to adopt the required reforms and ensure release of the loan tranches as scheduled. The various implementing agencies involved provided the needed cooperation and coordination in this regard. The PCR rated the MDP *highly relevant*. This validation downgrades this rating to *relevant*. This validation found that the high relevance during the design and formulation of the program diminished following issuance of EO 588 in August 2006 (after approval of the MDP in late 2005), which repealed EO 138, on which the MDP was anchored. This was a major setback to the pursuit of establishing a market-oriented microfinance sector, as envisaged by the MDP.

(ii) **Effectiveness in achieving outcome.** Most of the envisaged outcomes were achieved: (a) outreach helped increase the number of active clients (number of active microfinance clients increased from 2.4 million in December 2006 to 5.5 million in December 2008), create new jobs (a total of 2.6 million jobs were created during that period), and increase the amount of microfinance released (cumulative loan releases in 2008 were more than double that in 2007, and exceeded the cumulative loan releases made during a 2.5 year period from July 2004 to December 2006); (b) performance standards for MFIs, in terms of their portfolio quality, efficiency, sustainability, and outreach ratings, and continued monitoring to strengthen their operational and financial viability; (c) electronic banking that facilitated financial transactions, value transfers, and remittances at reduced risk levels with appropriate insurance and conformity with international best practices; and (d) appropriate rural savings schemes that helped to increase savings mobilization from microfinance clients. However, a few reform objectives had not been achieved at the time of PCR preparation. These include (a) removal of market distortions (e.g. the EO 558 taxation on the microfinance NGOs); (b) unsuccessful privatization of the PPSB; and (iii) increasing financial literacy and

consumer protection (e.g., the unutilized National Antipoverty Commission [NAPC] server to collect public complaints). The needs for system development at the NAPC to enable it to function as a central information repository on microfinance should have been more carefully assessed at the time of program formulation in order to design appropriate policy actions and/or supplementary grant assistance for this objective. The PCR rated the MDP *highly effective* in achieving its outcome. This validation downgrades it to *effective*.

(iii) **Efficiency in achieving outcome and outputs.** The MDP was implemented as scheduled. All milestones were met on schedule, i.e., signing of the loan agreement after Board approval, making the loan effective, and the closing date of the loan. The policy actions and conditions were also met, which helped ensure the two loan tranches were disbursed as scheduled. The efficiency with which the program was implemented helped achieve the envisaged outcome and outputs without delay. The PCR did not assess the efficiency in the context of the program costs and benefits. The performance standards established for MFIs indicated that their operational self-sufficiency ratio increased from 103% with 21 MFIs reporting in 2004 to 111% with 50 MFIs reporting in 2007, and their financial self-sufficiency ratio increased from 94% to 106% during the same period (with the same number of MFIs reporting). The PCR rated the MDP *highly efficient* in achieving its outcomes and outputs, and this validation supports that rating.

(iv) **Preliminary assessment of sustainability.** The MDP helped establish a sound and market-oriented microfinance sector development path (except for the setback due to the issuance of EO 588 in August 2006), including a strengthened policy and regulatory framework, and institutions and capacity; and higher financial literacy, mainly among rural savers and borrowers. Systems were also established to increase the number of MFI trainers and to monitor regularly the operational and financial performance of the MFIs. These positive developments (as well as the economic growth) contributed to an increase in the number of MFIs; outreach into rural areas; the range of financial services offered; and in the number and amount of microfinance provided. In addition, the government continues to show a commitment to further promotion of the microfinance sector on a sustainable basis as one of its main strategies for reducing poverty. Based on these considerations, the PCR rated the MDP as *most likely sustainable*, and this validation supports that rating.

(v) **Impact** (both intended and unintended). The MDP and the two associated TA projects had considerable impact on institutional and capacity development, in terms of: strengthened rules and regulations for the credit and multipurpose cooperatives that helped to provide a range of financial services, including microfinance; the requirement for MFI NGOs to be transparent and make full disclosure of their microfinance operations; reorganization of the Cooperative Development Authority into a financial regulatory agency; adoption of performance standards that helped to strengthen MFI institutional and operational capacity; establishment of the Philippine Microfinance Literacy Program that helped to develop financial knowledge of both microfinance providers and users; and promotion by Bangko Sentral ng Pilipinas of microfinance-oriented banks to set up branches anywhere in the country, conduct risk-based supervision of MFIs, and provide business development services for the poor to improve their livelihood and microenterprise performance. These institutional and capacity enhancement initiatives, albeit with some weaknesses, led to increases in microfinance loans for income-generating livelihood projects and for job creation; these would have resulted in some reduction in poverty. Based on these considerations, the PCR rated the impact of the MDP as *significant*, and this validation supports that rating.

E. Overall Assessment, Lessons, and Recommendations (validation of PCR assessment)

(i) **Overall assessment.** The PCR rated the MDP *highly successful*, because it was implemented as conceived and achieved its targets and objectives. This validation downgrades it to *successful*, based on the reduced relevance of the project and effectiveness in achieving the outcome and the program objectives, high efficiency in achieving outcome and outputs, and likelihood of its sustainability.

(ii) **Lessons.** The following lessons emerge from this successful program: (a) a successful microfinance development program requires continued government commitment and close cooperation and coordination between the various agencies involved; and (b) there is a need to address all aspects of a microfinance development program (i.e., rules, regulatory, and supervisory framework; performance standards for MFIs and their close monitoring; business development services for both providers and

users of microfinance; a financial literacy program to increase the financial knowledge of both providers and users of microfinance; and attachment of appropriate TA to facilitate program implementation and achievement of outputs and outcomes). The PCR also outlined some important lessons regarding (a) the difficulty encountered in changing the tax codes for microfinance-oriented NGOs and cooperatives during a relatively short 2-year program implementation period; (b) the lack of leverage from program policy actions, which constrained progress towards privatizing the PPSB; and (c) the lack of awareness programs, which constrained the use of the NAPC website to handle complaints regarding microfinance services and products. This validation agrees with all these lessons as well.

(iii) **Recommendations.** This validation recommends follow-up action regarding the PPSB privatization—an implementation plan consistent with the MDP could form the basis of discussions between the government and ADB. The PCR made a number of recommendations, all of which are supported by this validation, in particular the recommendation that ADB exercise vigilance regarding the maintenance of market-based principles. The PCR also did not comment on the procurement procedures followed in using the loan proceeds. ADB should obtain this information for its records.

F. Monitoring and Evaluation Design, Implementation, and Utilization. A Design and Monitoring Framework was included in Appendix 2 of the RRP. The program period was 24 months. The loan was released in two tranches. The first tranche of \$75 million was released on 15 December 2005 upon the government meeting conditions for loan effectiveness. The second tranche was released on 26 December 2007, and the government met the conditions for that release. The policy actions and conditions as set out in the policy matrix (RRP, Appendix 3) were monitored closely by ADB through regular program review missions, and the government, which helped release the two loan tranches largely on schedule (there was a 1-month extension for the second tranche release). This validation considers that the monitoring and evaluation design and the implementation arrangements were put in place, and that ADB efforts to follow these up were satisfactory.

G. Others. The RRP states that the loan size was based on the program's development impact, the importance of the sector, and the associated adjustment costs related to the structural reforms. The PCR could have commented on the use of program loan proceeds and the counterpart funds generated from the loan proceeds earmarked for meeting the associated structural adjustment costs and supporting the specific activities (e.g., operation of the microfinance database at NCC) required by the MDP.

H. Ratings	PCR	IED Review	Reason for Disagreement/Comments
Relevance:	Highly relevant	Relevant	The program relevance diminished after issuance of EO 588 in August 2006 (after approval of the MDP in late 2005), which repealed EO 138, on which the MDP was anchored. This was a major setback to the pursuit of the establishment of a market-oriented microfinance sector, as envisaged by the MDP.
Effectiveness in Achieving Outcome:	Highly effective	Effective	The program effectiveness was reduced, as a few reform objectives have not been achieved. These include (i) removal of market distortions (e.g., EO 558, taxation on the microfinance NGOs), (ii) unsuccessful privatization of PPSB, and (iii) increasing financial literacy and consumer protection (e.g., by using the unutilized NAPC server to collect public complaints).
Efficiency in Achieving Outcome and Outputs:	Highly efficient	Highly efficient	
Preliminary Assessment of Sustainability:	Most likely	Most likely	

Borrower and EA:	Highly satisfactory	Highly satisfactory	
Performance of ADB:	Satisfactory	Satisfactory	
Impact:	Significant	Significant	
Overall Assessment:	Highly successful	Successful	The overall rating is downgraded as the ratings of relevance and effectiveness were downgraded.
Quality of PCR:		Satisfactory	

I. Comments on PCR Quality: The quality of the PCR could have been further enhanced had information been provided on the use of counterpart funds in support of the program's objectives, and the procurement procedures adopted in the use of the loan proceeds. However, the PCR claimed this was not feasible, as the loan proceeds were added to the government's funds for budget appropriation.

J. Consideration for IED's Follow Up: A program performance evaluation report can be prepared in 2011 in line with IED's planned microfinance strategy evaluation.

K. Data Sources for Validation: RRP, PCR, and selected program administration documents

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 15 October 2010, the Director of the Independent Evaluation Division 2 of the Independent Evaluation Department (IED) received the following comments from the Financial Sector, Public Management and Trade Division of the Southeast Asia Department.

We have reviewed IED's earlier draft Project Completion Report Validation Report on Loan 2199–PHI: Microfinance Development Program circulated to us on 14 September 2010. We appreciate that the comments we made to IED on the earlier draft have been adequately incorporated in the final draft. Therefore, we have no further comment to make on the final draft.