



# Validation Report

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Reference Number: PCV: PAK 2010-10  
Project Number: 29229  
Loan Number: 1805-PAK(SF)  
April 2010

## Pakistan: Microfinance Sector Development Program (Program Loan)

Independent Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
CIF	–	Community Investment Fund
DPF	–	Deposit Protection Fund
ELRF	–	Emergency Livelihood Restoration Fund
MFI	–	microfinance institution
MSDF	–	Microfinance Social Development Fund
NGO	–	nongovernment organization
NRSP	–	National Rural Support Programme
PCR	–	program completion report
RMF	–	Risk Mitigation Fund
RRP	–	report and recommendation of the President
SBP	–	State Bank of Pakistan

## NOTES

- (i) In this report, “\$” refers to US dollars.
- (ii) For an explanation of rating descriptions used in ADB evaluation reports, see Asian Development Bank. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

### Key Words

adb, asian development bank, community investment fund, deposit protection fund, ied, independent evaluation department, khushhali bank, microfinance bank, national rural support programme, pcr, program completion validation report, risk mitigation fund, state bank of pakistan

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## PROGRAM COMPLETION REPORT VALIDATION FORM

<b>A. Basic Program Data</b>		<b>PCR Validation Date:</b>	April 2010	
<b>Program and Loan Number:</b>	29229 1805-PAK(SF)		<b>Approved</b> (\$ million)	<b>Actual</b> (\$ million)
<b>Program Name:</b>	Microfinance Sector Development Program	<b>Total Program Costs:</b>	70.0	70.9
<b>Country:</b>	Pakistan	<b>Loan:</b>	70.0	70.9
<b>Sector:</b>	Microfinance	<b>Total Cofinancing:</b>	0.0	0.0
<b>ADB Financing:</b>	<b>ADF:</b> \$70.9 million	<b>Borrower:</b>	0.0	0.0
	<b>OCR:</b> 0.0	<b>Beneficiaries:</b>	0.0	0.0
<b>Cofinanciers:</b>	none	<b>Others:</b>	0.0	0.0
<b>Approval Date:</b>	13 Dec 2000	<b>Effectiveness Date:</b>	9 Feb 2001	9 Feb 2001
<b>Signing Date:</b>	6 Feb 2001	<b>Closing Date:</b>	30 Jun 2003	30 Jun 2003
<b>Program Officers:</b>	<b>Name:</b> A. Sharma N. P. Knoll	<b>Location:</b> Headquarters Headquarters	<b>From</b> 2000	<b>To</b> 2003
			2008	2008
<b>Validator:</b>	C. Dingcong, Consultant	<b>Director:</b>	R. B. Adhikari, IED1	
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED1 = Independent Evaluation Division 1, IED2 = Independent Evaluation Division 2, OCR = ordinary capital resources, PCR = program completion report.

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

- (i) **Rationale.** Poverty reduction is central to the Government of Pakistan's economic planning. During 1998–1999, the number of poor was estimated at 45 million or 33% of the country's population. Because less than 5% of poor households had access to affordable financial services, the government considered microfinance critical to its poverty reduction efforts. However, microfinance was constrained in Pakistan by (a) lack of a stated policy and a legal and regulatory framework, (b) few microfinance institutions (MFIs), (c) absence of mechanisms to integrate social capital formation with microfinance services, and (d) financial and organizational problems of commercial banks and development finance institutions.

Marginalization of women, vulnerability of the poor, lack of skills for effective use of financial services, and inadequate basic infrastructure also inhibited the expansion of Pakistan's microfinance sector. Microfinance from informal sources was intermittent and reflected the weak bargaining power of the poor. In addition, the number of nongovernment organizations (NGOs) that could specialize as MFIs were few.

Further, a perception of Pakistan's limited market stimulated minimal investments for the supply of microfinance services, both from the public and private sectors. Even households that had access to microfinance were not assured of the continuity and quality of services due to the limited resource base and inadequate capacity of MFIs. Thus, to address the issues of outreach and sustainability, the government aimed to develop a pro-poor financial system that would have a significant poverty reduction impact.

- (ii) **Impact.** The Microfinance Sector Development Program ultimately aimed to reduce poverty in Pakistan by helping develop the country's microfinance sector. A policy and legal framework for microfinance was to be developed to catalyze private investments in MFIs and encourage

public-private partnerships with a view to expanding the reach of microfinance throughout the country. A lead institution, Khushhali Bank, was to spur growth in the microfinance sector and realize potential investments and institutional diversity. At full implementation, Khushhali Bank was to provide microfinance access to 9% of poor households in the country, with prospects for services to be expanded. In addition, NGOs would help enhance microfinance outreach. Funding from the Microfinance Social Development Fund (MSDF) and the Community Investment Fund (CIF) was to strengthen civil society, particularly related to gender. Funding from the Risk Mitigation Fund (RMF) and the Deposit Protection Fund (DPF) was to reduce the vulnerability of the poor. These funds were established under the program.

- (iii) **Objectives or expected outcomes.** The objective was to reduce poverty in Pakistan by developing the microfinance sector, which would provide financial and social services to the poor. Microfinance services, at affordable rates, were to (a) increase the income of poor households, (b) enhance outreach, (c) build social capital, and (d) reduce risks associated with failed income generating activities, both farm and non farm, faced by the poor. The program was to initiate an integrated package of policy reforms, institutional development, and outreach expansion to grow microfinance sector.
- (iv) **Components and/or outputs.** The program consisted of a \$70 million equivalent loan to support a reform program for the microfinance sector, including social capital enhancement; and an \$80 million equivalent investment loan to provide microfinance services to the poor as well as institutional strengthening. The program completion report (PCR) on the \$70 million program loan is the subject of this validation report.<sup>1</sup>

Based on RRP (footnote 1), the program loan had the following components: (a) developing an enabling policy framework for microfinance sector development; (b) facilitating the establishment of a lead microfinance bank; (c) developing a legislative, supervisory, and regulatory framework to promote institutional diversity in the microfinance sector; (d) establishing mechanisms that enhanced social capital; (e) piloting risk mitigation mechanisms for the poor as safety net measures; and (f) initiating measures to restructure development finance institutions.<sup>2</sup>

### C. Evaluation of Design and Implementation (PCR assessment and validation)

- (i) **Relevance of design and formulation.** The program was consistent with the microfinance strategy of the Asian Development Bank (ADB),<sup>3</sup> ADB's country operational framework for Pakistan,<sup>4</sup> and the government's poverty reduction strategy.<sup>5</sup> ADB consulted with the government, State Bank of Pakistan (SBP), World Bank, International Monetary Fund, and various NGOs in its formulation.<sup>6</sup> Its design drew from lessons in implementing microfinance projects and projects with microfinance components in other countries (RRP, para. 52) and from the experience of countries with mature microfinance industries (RRP, para. 56).

<sup>1</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Islamic Republic of Pakistan for the Microfinance Sector Development Program*. Manila (Loans 1805-PAK [for \$70 million] and 1806-PAK [for \$80 million]); and ADB. 2008. *Completion Report: Microfinance Sector Development Program in Pakistan*. Manila (Loan 1805-PAK); A PCR for the investment loan of \$80 million was prepared separately (ADB. 2008. *Completion Report: Microfinance Sector Development Program (Investment Loan) in Pakistan*. Manila [Loan 1806-PAK]).

<sup>2</sup> The PCR mentions strengthening the ability of the State Bank of Pakistan (SBP) to supervise and regulate microfinance banks as a component of the program loan. However, because funds for this were provided through the investment loan, its impact was evaluated separately in the PCR for the investment loan.

<sup>3</sup> ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*. Manila.

<sup>4</sup> ADB. 1999. *Pakistan: Country Operational Framework, 1999–2000*. Manila. The country operational framework for Pakistan specifies microfinance as one of the interventions for greater poverty reduction impact.

<sup>5</sup> Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad.

<sup>6</sup> In particular, the microfinance group that was sponsored by the Aga Khan Foundation and the Asia Society.

Lessons from other rural development projects in Pakistan were also incorporated (RRP, para. 53). ADB also approved technical assistance to help the government prepare the program.<sup>7</sup> Thus, the process in formulating the design was adequate.

Two changes were made in the scope of the program. First, community organizations' share of social capital formation was reduced from 40% to 20% of the cost of rural community infrastructure subprojects in December 2003 due to the lack of available funds. Second, unused CIF funds and accrued income were transferred from the MSDF to the Emergency Livelihood Restoration Fund (ELRF) in April 2006. The program design also overestimated the participation of NGOs, and was overly optimistic about Khushhali Bank's financial performance. The provision of low-cost sources of funds from the investment loan also undermined the deposit mobilization that was essential to Khushhali Bank's long-term sustainability. Finally, deposit-taking activities were not undertaken by Khushhali Bank until 2008.

- (ii) **Program outputs** (or conditions in the case of program loans). An enabling policy environment was established during the program period. The government issued microfinance policies and ordinances to establish and regulate the lead and six other microfinance banks. Appendix 1 of PCR presented the circulars issued by SBP regarding microfinance and regulation of these banks, which were also issued during the program period.

Khushhali Bank, the lead microfinance bank, was created by a special law in August 2000.<sup>8</sup> Khushhali Bank was expected to be a strategic investor in additional microfinance banks that were licensed to provide microfinance services (RRP, para. 74). However, Khushhali Bank was not an investor in any of these banks. Also according to program design, Khushhali Bank was to provide a full range of financial services to the poor and serve 560,000 borrowers and 640,000 savers by the end of its sixth year of operation (2006). However, at the end of 2006, Khushhali Bank was providing only one service, i.e., credit, and to only 236,917 borrowers or 42% of the projected number of borrowers. One reason was its inability to take over the existing microfinance operations of rural support programs, including their loan portfolios, staff members, and facilities<sup>9</sup> (RRP, para. 72). Khushhali Bank initiated deposit-taking activities only in 2008 with a small pilot program in Rawalpindi. PCR explained that deposit-taking activities were not undertaken until this late date because (a) Khushhali Bank was concentrating on expanding its branch network, and maximizing the number of loan clients it was serving; (b) there were delays in installing the technology required to handle deposit taking; (c) there was easy access to low-cost funding provided under the investment loan; and (d) the program did not require Khushhali Bank to take deposits.

The development of a framework for institutional diversity in the microfinance sector was accomplished. In October 2001, the Microfinance Ordinance authorizing the creation of other microfinance banks was promulgated. As of end December 2007, six additional banks were licensed by SBP.

Regarding the establishment of mechanisms to enhance social capital, the program loan provided the MSDF to create and strengthen community organizations, and the CIF to fund small infrastructure subprojects designed by community organizations. Each was initially

<sup>7</sup> ADB. 1997. *Technical Assistance to the Islamic Republic of Pakistan for the Rural Microfinance Project*. Manila (approved on 12 December 1997 for \$600,000).

<sup>8</sup> Khushhali Bank was established with a paid-in capital of PRs1.7 billion subscribed by 16 commercial banks, most of which were state-owned. Low-cost, long-term funding was provided by the government through the ADB investment loan.

<sup>9</sup> As of 30 June 1999, the National Rural Support Programme (NRSP) and the Aga Khan Rural Support Program (AKRSP) had a total of 58,097 borrowers, loan portfolio of PRs708,313, 104 credit officers, and 323,314 savers.

capitalized by the government with a small contribution by Khushhali Bank (PCR, Tables 4 and 6). However, PCR pointed out that the fund outputs were significantly below targets and that expenditures were also below projections (PCR, Tables 4 and 5, Appendixes 2–5).

The MSDF and CIF did not meet their targets because of the lack of participation of the National Rural Support Programme (NRSP)<sup>10</sup> and other rural support programs. NGOs were contracted to implement social mobilization activities, but none were able to scale up dramatically. As a consequence, Khushhali Bank ended up forming most community organizations, a role that was not expected in the program design. In 2006, the CIF was transferred to the ELRF, a new fund created to provide relief to poor people affected by the 8 October 2005 earthquake. This contributed to actual outputs that were below targets for the CIF.

Regarding risk mitigation mechanisms for the poor as safety net measures, the program loan established the RMF and the DPF. As with the MSDF and the CIF, these funds were initially capitalized by the government, with a small contribution by Khushhali Bank (PCR, Tables 4 and 6). The RMF was created to reimburse Khushhali Bank borrowers who had lost income-generating assets, such as crops and livestock, due to natural disasters. As of 31 December 2006, the RMF had accumulated earnings of PRs194 million. However, the RMF has not distributed any of this income. Thus, the goal of the RMF was not achieved. In addition, the DPF was created in 2001. However, Khushhali Bank did not begin accepting deposits until 2008 on a small pilot basis. In essence, the DPF's objective was not achieved, because there were no deposits that needed protection during the program period.

Finally, the restructuring of development finance institutions was accomplished. The government closed the Federal Bank for Cooperatives in compliance with the requirements of the program. All assets and liabilities of the Agricultural Development Bank of Pakistan were transferred to a new entity, Zarai Taraqiati Bank.

- (iii) **Program cost, disbursements, borrower contribution, and conformance to schedule** (as relevant to program performance). The actual program loan cost was \$70.91 million, higher than the \$70.00 million at appraisal due to the intervening depreciation of the dollar against special drawing rights. The \$50 million first tranche of the program loan was disbursed upon loan effectiveness in February 2001. The \$20 million second tranche was disbursed 2 months ahead of schedule after the five conditions for loan disbursement were fulfilled (PCR, Table 7). There were no deviations in the implementation arrangements for the program loan. SBP acted as the executing agency and had overall responsibility for implementation. The scaling up of Khushhali Bank's outreach was delayed, because the NRSP did not transfer its loan portfolio and related staff members to the bank. Also, the NRSP's decision not to participate in MSDF- and CIF-funded activities delayed for 2 years implementation of the social mobilization and infrastructure creation subcomponents of the program loan.
- (iv) **Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance.** There were no delays in meeting the conditions for loan effectiveness. All conditions for release of the program loan were met in two tranches (PCR, Table 7). Reporting requirements were satisfactorily met.

The covenant on community member cost sharing for each community investment subproject was modified from 40% of total cost to 20% of total cost, which was a more realistic requirement. The 40% proved to be an obstacle in the utilization of the CIF. This reduction was approved by ADB in December 2003 and was reflected in an amendment to the loan agreement. Three covenants were not complied with. First, the RMF was never implemented.

<sup>10</sup> NRSP was established in November 1991 as NGO and registered under the Companies Ordinance of 1984 to undertake development activities in the rural areas of Pakistan.

Second, disbursements from the CIF were withheld by SBP, and CIF income was diverted to the ELRF, of which less than 1% was used for the specified purpose. Third, a majority of the community investment subprojects exceeded the limit of PRs150,000.

The program was formulated with program preparatory technical assistance (footnote 7), but no evaluation of this TA was presented in PCR. ADB specifies that program preparatory technical assistance resulting in a loan should be evaluated in PCR.<sup>11</sup>

- (v) **Performance of the borrower and executing agency.** This validation agrees with PCR that the borrower and SBP's performances were generally *satisfactory*. Pertinent laws and regulations were set in place by SBP, providing an enabling and regulatory environment for the microfinance sector. Conditions for program loan disbursements were all met by the borrower. Most loan covenants were fully complied with.
- (vi) **Performance of the Asian Development Bank.** ADB fielded seven review missions and responded promptly to the government's request for changes in scope. However, no midterm review was undertaken, which should have assessed Khushhali Bank's financial performance and operational issues. A program of such scope and size should typically have a midterm review to address issues that affect its objectives and implementation. Also, the importance of deposit mobilization for long-term sustainability was not effectively impressed on Khushhali Bank by the review missions. In this regard, this validation rates the performance of ADB as *partly satisfactory*, which differs from the *satisfactory* rating of PCR.

#### D. Evaluation of Performance (PCR assessment and validation)

- (i) **Relevance.** The program loan was *relevant*. It was consistent with ADB's microfinance strategy and operational framework for Pakistan, as well as with the government's poverty reduction strategy. The program loan was able to establish the much-needed enabling policy and regulatory environment for the development of the microfinance sector. The changes made to its scope were responsive to implementation issues and to the October 2005 earthquake. However, the design overestimated the participation of NGOs and did not include measures to spur Khushhali Bank's deposit-taking activities. Thus, this validation differs from the PCR's *highly relevant* rating.
- (ii) **Effectiveness in achieving outcome.** This validation agrees with the PCR's *less effective* rating of the program loan. Assistance through the RMF to borrowers who lost their income-generating assets due to natural disasters was not accomplished. Only one third of the expected number of basic infrastructure subprojects was completed. Community organizations were formed, but no proposed training of community leaders was conducted. Finally, Khushhali Bank did not achieve operational self-sufficiency at the end of the program period. However, the program loan was able to (a) establish a policy and regulatory environment conducive for the development of Pakistan's microfinance sector, (b) create institutional diversification through the licensing of six additional microfinance banks, and (c) restructure two development finance institutions.
- (iii) **Efficiency in achieving outcome and outputs.** The subject of this validation is the program loan, and following *Project Administration Instructions* the PCR did not rate efficiency of investment (Appendix 2 para. 24 of PAI 6.07A). However, efficiency of process and in achieving the outcomes should have been evaluated.<sup>12</sup>

<sup>11</sup> ADB. 2009. Project Completion Report. *Project Administration Instructions*. PAI. 6.07A. Manila (Appendix 2, para. 12). This requirement is reiterated in ADB. 2009. Technical Assistance Completion Report. *Project Administration Instructions*. PAI 6.08. Manila (para. 6).

<sup>12</sup> Efficiency of process also needs to be assessed (Appendix 2, para. 24 of PAI 6.07A). Also, guidelines on the preparation of project and program performance evaluation reports describe how to evaluate the efficiency of program loans.

Disbursements were on schedule and according to plan, indicating efficiency in process. The critical component of creating an enabling policy environment, including the enactment of laws and adoption of regulations, was achieved as well. These laws and regulations had substantial benefits to the sector; they helped mainstream microfinance into the financial system. However, the program loan was inefficient regarding social mobilization. Khushhali Bank ultimately formed 80% of all community organizations, thereby performing a role which was not anticipated for it in the Program's design. Khushhali Bank also was unable to provide a full range of financial services as expected in the design. Further, the outputs for the funds created under the program loan were below targets, indicating inefficiencies in achieving expected outcomes for the funds. Therefore, this validation rates the program as *less efficient*.

Consequently, KB ultimately formed 80% of all community organizations, thereby performing a role which was not anticipated for it in the Program's design.

- (iv) **Preliminary assessment of sustainability.** This validation concurs with the PCR's *less likely to be sustainable* rating. While the policy and regulatory environment for microfinance sector was established, the lead microfinance bank, i.e., Khushhali Bank, did not achieve operational self-sufficiency at the end of the program period. Its deposit-taking activities were undermined by the subsidies from low-cost funding of the investment loan. As a result, the bank was unable to lay the foundation for a strong deposit base that should provide a low-cost source of "loanable" funds. Further, Khushhali Bank is hardly making any profit although it began to make principal payments on the investment loan in 2009. Thus, it will have a difficult time achieving sustainability without additional funding or unless a profitable commercial bank acquires it. The six additional microfinance banks were also not financially sustainable at program completion (PCR, Appendix 7). In view of the current unsustainable operations, the program loan is rated *less likely to be sustainable*.
- (v) **Impact** (both intended and unintended). The key objective of the program was to reduce poverty. However, an evaluation of the impact on poverty was not built into the program design. Using two separate independent studies, PCR pointed out that the results on poverty impact of the program's lending component were inconclusive. Both studies used the same one-time survey data of 2,881 households (half of which were Khushhali Bank borrowers) but used different methodologies. Setboonsarng and Parpiev were unable to confirm that being a Khushhali Bank borrower had any beneficial impact on households' food consumption, healthcare and educational expenditures, savings, or accumulation of durables.<sup>13</sup> However, Montgomery found evidence that the poorest Khushhali Bank borrowers increased expenditures on children's education.<sup>14</sup> This validation notes that there were common findings on some variables' impact on both studies, but their degree of significance differed. At the same time, the findings on certain variables were contradictory. Setboonsarng and Parpiev found that Montgomery's estimates on all variables tested for income generation were overestimated. They also found that Khushhali Bank's lending program contributed significantly to income-generating activities, such as agricultural production, and in particular, animal raising. On the whole, the results of Setboonsarng and Parpiev showed lower degrees of impact of Khushhali Bank's microfinance program.

PCR also reported that the impact of social mobilization using the MSDF could not be established because there was no systematic collection of data and no evaluation was undertaken to determine impact (PCR, para. 42). The same can be said of the CIF, which halfway into the program was transferred to the ELRF, and therefore was unable to achieve its targets. The RMF did not have an impact because none of its funds were disbursed to

<sup>13</sup> Setboonsarng, S. and Z. Parpiev. 2008. Microfinance and the Millennium Development Goals in Pakistan: Impact Assessment Using Propensity Score Matching. Discussion Paper No. 104. Tokyo: ADB Institute.

<sup>14</sup> Montgomery, H. 2005. *Serving the Poorest of the Poor: The Poverty impact of the Khushhali Bank's Microfinance Lending in Pakistan*. Tokyo: ADB Institute.

mitigate losses in income-generating assets. Likewise, the DPF did not achieve its intended effect because Khushhali Bank did not undertake deposit-taking activities during the program period.

The promulgation of the Microfinance Ordinance (2001) and the Khushhali Bank Ordinance (2000) creating Khushhali Bank helped diversify the institutions providing financial services in the microfinance sector. However, these institutions still have to achieve financial self-sufficiency.

- (vi) The impact of the component to strengthen the capacity of SBP to regulate microfinance banks and the capacity of Khushhali Bank and other microfinance to operate successfully were evaluated separately in the investment loan's PCR.

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

- (i) **Overall assessment.** This validation agrees with the PCR's *partly successful* rating. The program loan was *relevant, less effective, less efficient, and less likely to be sustainable*. The program loan was able to set in place the policy and regulatory environment conducive to the development of the microfinance sector. It also facilitated the licensing of additional microfinance banks and restructured two development finance institutions. However, there were shortfalls in the other components. Khushhali Bank's service was limited to credit rather than to a full range of financial services as envisioned in the design. It also failed to reach operational self-sufficiency at the end of the program period. Furthermore, social mobilization had limited success. The MSDF and the CIF, which were created to enhance social capital, performed significantly below targets. The RMF and the DPF, which were risk mitigation mechanisms for the poor, did not achieve their objectives. Because of these shortfalls, the program loan is rated *partly successful*.<sup>15</sup>
- (ii) **Lessons.** The lessons cited by PCR are crucial. First, diversification of institutions providing financial services to the poor will lead to more competition and efficiency in the market. Unfortunately, the program supported only one institution (Khushhali Bank) that relied heavily on government support and low-cost funding from the investment loan. Second, measures and necessary conditions need to be set to ensure sustainability. The program framework was oriented toward expanding microfinance outreach and did not provide specific measures to ensure sustainability of operations. Experience from the program also highlights the importance of savings mobilization in operating sustainable microfinance programs. The availability of low-cost funding from the investment loan undermined Khushhali Bank's motivation to tap deposits from the public. Thus, it was unable to provide the motivation and incentive to build a strong deposit base that could have become a steady source of loanable funds.
- (iii) **Recommendations.** This validation agrees with the PCR's recommendations. Amendments need to be made in the loan agreement pertaining to the four funds. Less than half of the income of the MSDF, and none from the RMF were used for their intended purposes. Covenants relating to the CIF should be removed since it has already been terminated. The DPF needs to be modified to allow other microfinance banks to use the fund to protect deposits.

#### **F. Monitoring and Evaluation Design, Implementation, and Utilization** (PCR assessment and validation)

The program was conceived with poverty reduction as the key objective, but no systematic socioeconomic data were collected that could be used to monitor and assess impact on poverty

<sup>15</sup> The overall weighted average score, based on Independent Evaluation Department ratings, is 1.2, which is equivalent to a *partly successful* overall rating.

and social dimensions. PCR used the results from independent studies (footnotes 13 and 14) in drawing out the impact of the program loan. Khushhali Bank's management information system was able to monitor the bank's operational and financial performance and to generate the necessary financial reports. However, the deposit-taking module was not installed.

**G. Other** (e.g., safeguards, including governance and anticorruption; fiduciary aspects; government assessment of the project, as applicable) (PCR assessment and validation)

No issues were raised by PCR on safeguards, fiduciary aspects, or other concerns.

<b>H. Ratings</b>	<b>Program Completion Report</b>	<b>Independent Evaluation Department Review</b>	<b>Reason for Disagreement and/or Comments</b>
<b>Relevance</b>	Highly relevant	Relevant	The design overestimated the participation of NGOs, particularly that of NRSP. Khushhali Bank formed most of the community organizations, a role that was not expected in the design. Additionally, the program did not provide specific measures to ensure Khushhali Bank's financial sustainability and incentives to mobilize deposits. The use of low-cost funds from the investment loan undermined the savings mobilization of Khushhali Bank.
<b>Effectiveness in achieving outcome</b>	Less effective	Less effective	
<b>Efficiency in achieving outcome and outputs</b>	Not rated	Less efficient	<p>Conditions for disbursements were all met, and the program loan was released on time in two tranches. Also, there were no delays in meeting the conditions of loan effectiveness. However, there was significant delay in scaling up Khushhali Bank's outreach, because the NRSP's portfolio and staff were not transferred. The NRSP also did not participate in activities supported by the MSDF and the CIF, which led to a significant delay in the implementation of the social mobilization and small infrastructure components.</p> <p>Regarding outcomes, the program loan created an enabling policy and regulatory environment for the microfinance sector, achieved diversification of institutional microfinance sources, and restructured two development finance institutions. However, the actual outputs of the four funds created under the program loan were below targets. Also, Khushhali Bank did not achieve financial self-sufficiency as expected at appraisal.</p>

<b>Preliminary assessment of sustainability</b>	Less likely	Less likely	
<b>Borrower and executing agency</b>	Satisfactory	Satisfactory	
<b>Performance of the Asian Development Bank</b>	Satisfactory	Partly satisfactory	No midterm review was undertaken. Review missions were ineffective in making Khushhali Bank address deposit taking and financial sustainability.
<b>Impact</b>	Positive	Significant	Results of two independent studies show that the degree of significance differs. Overall, the results of Setboonsarng and Parpiev showed a lower degree of impact than those of Montgomery. The impact of social mobilization could not be established, because data were not systemically collected. In addition, funds to enhance social capital were transferred to the ELRF. Funds for risk mitigation were not used; hence, they had no impact. Institutional sources for microfinance services were increased through the creation of Khushhali Bank and six microfinance banks.
<b>Overall assessment</b>	Partly successful	Partly successful	
<b>Quality of Program Completion Report</b>		Partly satisfactory	PCR did not assess the preparatory technical assistance that resulted in the loan, and the program's efficiency was not evaluated.

#### **I. Comments on Program Completion Report Quality**

The quality of PCR is *partly satisfactory* because (i) no assessment of the preparatory technical assistance was presented in the report, and (ii) the program loan's efficiency was not evaluated.

PCR is clear and concise, and its findings were supported with adequate data. Lessons and recommendations are based on findings and are important for the future design of ADB microfinance programs.

#### **J. Recommendation for the Independent Evaluation Department Follow-Up**

No follow-up actions are required.

#### **K. Data Sources for Validation**

Back-to-office mission reports, PCR, RRP, minutes of the management review meeting on the program, minutes of the staff review committee meeting, and independent impact studies.

## **REGIONAL DEPARTMENT'S RESPONSE TO THE PROGRAM COMPLETION REPORT VALIDATION REPORT**

On 26 August 2009, the Independent Evaluation Department circulated a draft program completion report validation report for interdepartmental comments. The Independent Evaluation Department received comments from the Financial Sector, Public Management and Trade Division of the Central and West Asia Department on 7 September 2009. All comments were duly incorporated in the final report.