Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View

K. Rossel-Cambier

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This paper builds on a literature review and is a first conceptual attempt to bring forward the specific characteristics of combined micro-finance schemes. It argues for a more formative evaluation approach towards combining micro-finance schemes. Market dynamics and interventions of the key players and stakeholders of combined micro-finance should aim at becoming most efficient, allowing maximum socio-economic benefits and efficiency, taking into account the different challenges of reaching the poor.

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I. Introduction

Globalisation and rapid technological evolution are at the heart of the recent economic investment and development worldwide, but unfortunately leave a widening gap between rich and poor (Sen, 2000). Poverty reduction and the fight against social exclusion have become a priority of most of the world’s countries and leading development institutions who agreed on eight Millennium Development Goals (MDGs), which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education (UN, 2000).

Economic growth, increased competition and globalisation have left social costs as a consequence of negative market failures, impacting in particular the most vulnerable. An estimated three billion people worldwide still seek access to basic financial services essential to managing their precarious lives (Helms, 2006). They have no access to adequate credit, savings or to social protection services. It has proved to be extremely difficult to reach the most excluded people, in particular the workers of the informal urban and rural economy (ILO STEP, 2002), with adequate assistance and services to break the poverty trap (Labie, 1998). National programmes and institutions are providing different social services, but they are often complemented by services and initiatives of community-based organisations developing bottom-up approaches to reach the excluded (Develtere, 2005; Bastiaensen and all, 2005).

The last three decennia have seen the rise of decentralised financing mechanisms enabling clients or members to have access to different financial services (Hudon, 2007). The ideas and aspirations behind micro-finance are not new. Small, informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond. In Europe, as early as the 15th century, the Catholic Church founded pawnshops as an alternative to usurious moneylenders (Helms, 2006). Today, micro-finance is a field that has received an increased policy attention and donor interest. Recent examples are the 2006 Nobel price for peace in favour of the Grameen Bank founder M. Yunus as well as the G8 2005 support declaration for micro-finance (CGAP, 2005). Recent factors such as migration, technological evolution, commercialization of micro-finance and globalized social risks form new
challenges and risks for decentralized financing schemes.

II. The emergence of combined micro-finance schemes (CMF)

During the last ten years, one of the most remarkable revolutions that has involved in the micro-finance thinking and practice is the change from a focus on a credit monoproduct to a full array of financial services, and from a target of micro-enterprises to the broader market of low income households, including both business and family needs (Murdoch, 2004). Initially, micro-finance was called together with micro-credit, and lending was the focus (Rhyne and Otero, 2006). The transition from micro-credit to micro-finance has brought a change outlook, a growing realization that low-income households can profit through access to a broader set of financial services than just credit (Armendáriz de Aghion and Morduch, 2005).

The new approach to micro-finance includes the supply of loans, savings and other basic financial services to the poor (Helms, 2006). People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services.

One can distinguish three major service areas in micro-finance delivery: micro-credit, micro-savings and micro-insurance products.

Micro-credit is the extension of very small loans (microloans) to the unemployed, to poor entrepreneurs and to others living in poverty who are not considered bankable (Labie, 1998; Helms, 2006). These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Micro-credit organizations offer different kind of products such as housing and home improvement loans, education loans, consumer loans, or business loans for working and fixed capital, agriculture or leasing. Lending can be delivered individually or through groups ("groups lending") and products can be differentiated in function of collateral, repayment installments
and other lending methodologies (Crijns and all, 2006).

The need to save may be more urgent for the poor than for the better-off (Hirschland, 2005). Micro-savings services go hand in hand with the supply of deposit and payment products such as current accounts, small-scale investment funds, money transfer services including remittances and various bill payment services. A distinction can be made between “high-“ and “low frequency” saving. High frequency saving intends to fund short-term investment and to smooth consumption from month to month or from season to season, whereas low-frequency saving is more steady and deals with the long-term accumulation of capital during a person’s life (Armendáriz de Aghion and Morduch, 2005).

Micro-insurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved (Latortue, 2003). As with all insurance, risk pooling allows many individuals or groups to share the costs of a risky event (Atim, 2000). Micro-insurance can be different depending on the insured event (life, health, age,
accident, credit, property, etc…), payment mechanisms or organisational features (Churchill, 2006; ILO STEP, 2002; Dror and Preker, 2002).

Combined micro-finance (CMF) can be described as the combination in the supply of one of the three described product areas -loans, insurance or savings- to the poor in order to deliver a more comprehensive package of service to clients.

Various examples exist of the combination of credit and savings schemes, already since the German rural cooperatives of the 19th century (Helms, 2006). As financial collateral, micro-lenders may even require that borrowers show that they can save regularly for a period before they become eligible to borrow. Another example is the Grameen Bank that, at the end of 2003, required that borrowers holding loans must deposit weekly deposits in obligatory personal savings accounts, with the amount depending on their loans size (Armendáriz de Aghion and Morduch, 2005).

The boundaries between insurance and savings can be very thin. One could think about the health savings accounts, which are set up to prevent financial needs in case of accident of illness (Atim, 2000; Churchill, 2006). The impact of these accounts is very similar to health insurance schemes which cover only low-cost predictable risks with well defined –often very limitative- ceilings for reimbursement (e.g. reimbursement of basic dental services).

Many micro-credit institutions experiment with the possibility of providing micro-insurance as it responds to the needs of its clients or members and may boost their productivity. Alternatively, also micro-insurance schemes experiment with different savings and credit functions in order to increase the buying power of their clients and enable timely payment of premiums (Churchill and all, 2003; ILO STEP, 2000).
III. Three selected research questions

A lot of knowledge and lessons learned have been developed on each of the respective above-mentioned micro-finance product areas. There is a wide array of guidebooks, training tools, management software and researches available dealing with the different technical and promotional aspects of respectively micro-credit, micro-insurance or micro-saving schemes for the poor (Helms, 2006). It is more difficult to access advanced research and knowledge about the specific character of their combination; in particular in the way their interlinkages may influence or be driven by its key stakeholders and how this can be measured (Labie and all, 2006).

This paper is a first conceptual attempt to bring forward the specific characteristics of combined micro-finance schemes and explicitly questions its relevance from a multi-dimensional point of view. It makes a plea for a formative evaluation approach for the assessment of the possible implications of combining micro-finance on its key stakeholders.

From a market dynamics point of view, micro-finance can be considered as a response to market failures leading to a lack of access to credit and insurance services for excluded populations. In order to assess the change in efficiency and equity of outcomes through combined micro-finance schemes, it is important to analyse how the existing market forces are influenced or affected by its main stakeholders. The stakeholder approach, as an organisational governance analytical framework, considers the organisation as a social construction resulting of different players (Labie, 2005). Applying this approach to the combined micro-finance settings, one can consider three types of actors, depending of the level of involvement (Helms, 2006). At the micro-level, one can observe the different formal and informal micro-finance providers, the participating community groups, the individuals and their families. From a market dynamics point of view, they can be divided in a supply side (management of CMF schemes) and a demand side (beneficiaries-customers and their families). The importance of giving greater interest to these two stakeholders lays at the heart of much current debate about the real priority of micro-finance schemes: poverty alleviation (focusing on poor clients) or financial sustainability (Servet, 2005;
Abdelmoumni, 2005). Though both are not fully mutually exclusive, the trade off towards one or the other objective has considerable implications on the way microfinance is targeted, managed and evaluated (Vasconcellos, 2003).

**Macro level**

**Government**: public policy – financial and legal framework

**Meso level**

**Market interventions**: support structures ("donors")

**Micro level**

**Supply side**: CMF schemes

**Demand side**: customers-beneficiaries

Data gaps – research questions

*Chart 2.: Research stakeholder framework for combined micro-finance schemes*

The meso-level of the stakeholder framework can be defined as the financial infrastructure that promotes transparency about the performance of financial institutions. It includes technical service providers that offer training and consulting services, and professional associations and networks (Helms, 2006). As the market dynamics of the micro-finance sector are often strongly driven by public and private support structures ("donor driven"), one could consider them as a third “key stakeholder”.

The government is represented the macro-level providing the development of adequate legal and financial frameworks for micro-finance schemes, in particular to defend the interests of the citizens and ensure coherence with the existing financial market through public policy initiatives.
This paper, building on the framework above, will zoom into three complementary research questions, dealing with essential concerns for each one of the key stakeholders selected:

1. Does combining credit and insurance services improve or weaken overall organisational performance of micro-finance schemes?
2. Does the combining of micro-finance services lead to more inclusion or to more exclusion of the poor?
3. Are combined micro-finance schemes enhancing or challenging donor effectiveness?

In the next chapter, this paper will elaborate on these questions, putting focus on those CMF schemes which mainly include linkages between micro-credit and micro-insurance, as a means for poverty alleviation.
1. Does combining credit and insurance services improve or weaken overall organisational performance of micro-finance schemes?

Theoretical frameworks and academic literature often refer to the promising micro-finance product combination (Churchill, 2005; Labie and all, 2006), which can be achieved by linking micro-credit with micro-insurance. Much of this makes sense, as both products aim –at least in theory- to close the gap between those who have and have not access to financial services. The delivery of both products can create spin-offs and economies of scope in terms of reduced average overhead costs, client administration, human resources, marketing involving stronger client outreach and fidelity and the cross-limitation of risks and hence promote the combination of different micro-finance services (Murdoch, 2004; Churchill and all, 2003).

The global current call for micro-finance as a global success story stands in sharp contrast with reports indicating that only an estimated 10% of all micro-finance organizations globally can survive without subsidies (Servet, 2005). Of the 45 MFI studied by the ILO in 2006, This is also the case in the English-speaking Caribbean for example, where micro-credit institutions face many performance challenges. Evaluation assessments report internal problems, the small scale of operations and the low levels of outreach. (Westley, 2005). Loan recovery is reported to be problematic and the high cost structures and inefficient management are resulting in low levels of sustainability (Lashley and Lord, 2002). As is the case for micro-credit, also most micro-insurance schemes are found financially unsustainable; they have limited client outreach and are often artificially kept alive through hidden subsidization schemes, which are little transparent and hence difficult to assess (Baeza, 2002).

Hence, one should wonder whether, adding more services to an existing already –mostly- weak micro-finance organisation, the combination can lead to overburden and less result focus of its human resources, additional financial risks and new forms of unsustainable subsidy dependency. There is a need to look more in detail whether combining credit and insurance may lead to mutually strengthening performance of micro-finance organisations or -on the contrary- contributes to an even more weakening of the performance of the in majority already financially vulnerable schemes.
This question could be expressed as follows: $\bar{O}_{ci}(x) = f(\bar{O}_{mi}(x))$. In this simplified formula $\bar{O}_{mi}(x)$ represents the average performance measured by an indicator $x$ in a context $i$ for a mono micro-finance scheme and $\bar{O}_{ci}(x)$ the average performance measured with the same indicator $x$ in the same context $i$ for a combined micro-finance scheme. $\bar{O}_{mi}(x)$ is expressed as a function, $f$, –their relationship is to be defined– of $\bar{O}_{ci}(x)$.

If combining microfinance products improves performance, compared to mono-product micro-finance, the formula becomes:

$$\bar{O}_{ci}(x) - \bar{O}_{mi}(x) > \partial.$$  

If combining micro-finance leads weakening of performance (in comparison with mono-product finance schemes), the formula becomes: $\bar{O}_{ci}(x) - \bar{O}_{mi}(x) < -\partial$; and in case of no significant change: $\bar{O}_{ci}(x) - \bar{O}_{mi}(x) \leq \partial$ with $\partial$ the absolute value of the deviation of the estimated error (can be positive or negative).

Before addressing this question, it is important to review the different forms of micro-finance and identify the different kind of products, which are provided by respectively micro-credit and micro-insurance schemes. The analysis has to take into account the nature of the combined products –the credit products and/or risks covered-, the level of outsourcing, the existing payment mechanisms, the current institutional base and other design features. In Benin and Burkina Faso for example, certain micro-credit institutions have developed their own micro-insurance products, whereas others focus only on the distribution and work together with an existing insurance company for calculating and managing the risk (outsourcing). Another example is that an existing insurance company develops and offers its own combined micro-finance product (Labie and all, 2007).

The provision of specific services, such as high or low-risk insurance, long- or short-term loans, or different savings arrangements, involves different managerial and organisational necessities in terms of risk management, client relationships, liquidity and solvency forecasting or cash-flow management (Churchill and all, 2003). In order to map these different and common organisational features, there is a need to review
the various kinds of services respectively for micro-credit, savings and micro-
insurance and analyse how they can match or contradict each other.

Referring to existing performance frameworks (Cull and all, 2006; Depret and
Hamdouch, 2005; Zeller and all, 2003), it is important to bring together the current
performance challenges of micro-credit and micro-insurance schemes. Special
attention should be given to the “if” and “how” bringing in additional insurance
services to micro-credit provision can improve further overall performance. Within
the substantial literature on organizational performance measurement, numerous
frameworks are proposed to help organisations identify a set of performance measures
that appropriately reflect their objectives (Mike and Neely, 2001). Performance is
viewed differently in the context of a credit organisation, an insurance provider or an
non-governmental organization dealing with poverty alleviation. Much depends on
the mission or objective of the organization, but general lessons can be drawn
depending on the kind of service area. The strength of a micro-finance institution is
often based on its close relationship with clients and distribution coverage within a
geographic region. The strength of an insurance company is its capacity to identify
and manage risks related to insurance products

In summary, by integrating services of often different nature one should separate the
performance assessment of each product function. Still, there is a need to identify how
economies of scope can be achieved combining credit and insurance functions under
one combined micro-finance scheme. Following questions need further research
attention: Is there a need to develop a performance assessment framework adapted to
the complexity of CMFs? What are the possible risks and economies of scope of
combining micro-insurance with micro-credit?; How can we assess whether, and if
possible how, the combination of financial services or products, can lead to improved
overall organisational performance? Can combined performance indicators -next to
the known specific mono-product performance indicators- improve overall
performance monitoring? Who would use these indicators and how can this work in
practice? These questions may matter in order to enable management to better
appreciate the CMF scheme’s strengths and weaknesses and provide them with
information for effective decision-making.
2. Does the combining of micro-finance services lead to more inclusion or to more exclusion of the poor?

Global, regional and national micro-credit conferences and summits have promoted micro-finance as an innovative tool to contribute to the MDGs, in particular to reach the poor and the excluded and to promote gender equality (Helms, 2006). A quick overview of impact analyses on micro-credit suggests advantages such as income generation, schooling and social inclusion (Morduch, 1999; Rahman, 2003). Critics of the micro-finance movement indicate that micro-finance has, until today, mainly focused on people, who have no access to financial services, but not to people who are poor (Guerin and Palier, 2005; Lesaffre, 2005). In the Caribbean region for example, most micro-credit products and methodologies are considered not to be adapted to the needs of low-income people and focus mostly on small enterprise credit and the use of collateral (Lashley and Lord, 2002). Others suggest that not focusing on the extreme poor is justifiable, as an estimated 4 out of 5 persons in low-income countries have no access to formal financial services (Abdelmoumni, 2005).

Combining micro-credit with micro-insurance can lead to more inclusion in terms of access to socio-economic services, but can also sharpen certain exclusionary mechanisms. Recent literature indicates that there is evidence about unintended exclusionary dynamics as a consequence of introducing micro-finance (Guerin and Servet, 2003; Rahman, 2003). An excessive focus on financial sustainability is reported to encourage micro-finance agencies to cost down interventions and put stronger emphasis on profit making, with unintended potentially negative consequences for poor borrowers (Morduch, 1999; Woller, 2002; Rahman, 2003). Reported examples linked to micro-credit describe excessive debt-burdens, which may lead to new forms of moral, social and economic costs and inequality. A well-known example of an unintended consequence of introducing community-based microfinance mechanisms is the increased dedication of women to associative work impacting their children (often girls) who cannot attend school anymore to compensate the family care obligations (Servet, 2005). Another example is the nature of micro-insurance exclusionary mechanisms reinforcing the inability of a certain segment of the population to participate or pay premiums. These are explicit exclusionary dynamics of certain schemes towards vulnerable groups in order to
prevent adverse selection amongst the population (Atim, 2000; Ahuja and Jutting, 2004; ILO STEP, 2001). Moreover it has been noted that most surveyed micro-insurance schemes do not offer a sufficient array of social services to effectively protect their members against key risks, and hence give them an unrealistic feeling of safety (Baeza, 2002).

The inclusionary versus exclusionary dynamics of combining micro-finance in comparison with mono-product micro-finance can be described in function of following utility function for the target group: $\bar{U}_{ci}(x) = f' [\bar{U}_{mi}(x)]$

In this simplified formula $\bar{U}_{mi}(x)$ is the average utility for the target group (in particular the poor) measured by an indicator x in a context i for a mono-product micro-finance scheme, $\bar{U}_{ci}(x)$ the average utility measured with the same indicator x in the same context i for a combined micro-finance scheme. The relationship between $\bar{U}_{mi}(x)$ and $\bar{U}_{ci}(x)$ is expressed by a function, $f'(\ldots)$, and should be examined in further research.

If combining micro-insurance schemes lead to more social inclusion (more poor people reached), the formula becomes: $\bar{U}_{ci}(x) - \bar{U}_{mi}(x) > \partial'$ meaning that the average utility of CMF is greater than the average utility of mono-product schemes for poor people.

If combining micro-finance leads to more exclusion amongst the target group (in comparison with mono-finance schemes), the formula becomes $\bar{U}_{ci}(x) - \bar{U}_{mi}(x) < -\partial'$; and in case of no significant change: $\bar{U}_{ci}(x) - \bar{U}_{mi}(x) \leq \partial'$ with $\partial'$ the absolute value of the deviation of the estimated error.

Special attention should be given to the linkages between combined micro-finance and young people. It is known that the main characteristics of poverty in the Caribbean for example are rural, female, and young, with a strong link to educational underachievement (Lashley and Lord, 2002). Young people, up to 24 years old, represent over 50% of the poor in all Eastern Caribbean countries, and in some countries such as Saint Kitts and Nevis, two out of three poor persons are children or youth (Rossel-Cambier, Olsen and Pourzat, 2007).
Micro-finance is as we mentioned above, by definition, a poverty alleviation tool. But how relevant is it for children and youth, who represent more than half of the poor in the Caribbean and worldwide? If the poverty issue is to be addressed successfully, a specific understanding of the poor is needed. Youth poverty and exclusion can be explicitly and indirectly targeted by CMF schemes. Some CMF programmes for example include education on basic health issues as part of their methodology; other examples include the potential impact of micro-finance on education and child labour, gender equality, HIV/AIDS, youth development and child and maternal mortality.

In summary, appreciating the relevance of CMF, one should in particular give attention to its relevance for its key stakeholders: the clients and their family. There is a need to explore whether combining micro-insurance and micro-credit leads to more inclusion or to more exclusion of the poor. Not only quantitative data, but also qualitative evidence should enable in-depth understanding of the potential risks and outcomes of combining child vulnerability with micro-finance. This should highlight the limits and risks and recommendations for future development planners involved in the issue.

3. Are combined micro-finance schemes improving or challenging donor effectiveness?

The Paris declaration on aid effectiveness (High Level Forum on Aid Effectiveness, 2005) encourages the elimination of duplication of efforts and the rationalizing of donor activities to make them as cost-effective as possible. Related to this is the need to reform and simplify donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries’ priorities, systems and procedures.

The two Micro-Credit Summits (resp. 1997 and 2005) have brought together policy makers, donors and practitioners to attract more funding to support micro-finance projects. Various development actors have engaged in the support for micro-finance as most consider that this as an effective tool for poverty reduction and the empowerment of women (CGAP, 2002). Some donors have taken the role of guarding
and promoting the cause of micro-finance and its key principles in different international fora and have formed various national, regional or global networks of practitioners (Helms, 2006). Still, Quis custodiet ipsos custodies? Despite the international attention for micro-finance, more than 30 years of experience and an estimated over 110 millions of clients being served as today, recent evaluation on the effectiveness of the portfolio of its most important promoters such as the WorldBank and the United Nations Development Programme (UNDP) has revealed that less than a quarter of the projects that funded micro-lending were judged successful (Rosenberg, 2006). Similar sources indicate that also micro-insurance schemes are strongly donor and government-driven and lack evidence for results (Baeza, 2002).

In many low- and middle-income countries, combined micro-finance schemes are being set up but not all achieve acceptable results in terms of efficiency, quality, effectiveness and outreach. Still, sustainability is key to the donor-micro-finance institution relationship. When a MFI becomes sustainable, it is no longer limited to donor funding. It can draw on commercial funding sources to finance massive expansion of its outreach to poor people (CGAP, 2002). Hence, the way promoters partner with CMF schemes is mostly directly linked with the sustainability or their ability to cover all of its costs through interest and other income sources paid by its client (Helms, 2002).

Combining micro-finance services of different nature –f.e. credit versus health insurance- means also bringing together different promoters (and their often little complementary internal departments and programmes) with different approaches and technical expertise to development. The combination of products offers new opportunities but also challenges for partnerships and coordination. One of the -often too underestimated- key challenges for all national or development support agencies is the “compartmentalisation” of their services towards their clients which lays at the heart of confusion amongst partners and weak responsiveness and monitoring performances.

3 Translation: who will guard the guards?
Since 2002, CGAP launched “Micro-finance Donor Peer Reviews” as tools for aid effectiveness. A total of 17 bilateral and multilateral agencies signed on to the initial review exercise, which was followed by country-based assessments (Helms and Latortue, 2004). Participants in the second High Level Meeting on Micro-finance (CGAP, 2006) agreed on a common action plan outlined in a Joint Memorandum, and endorsed five key elements of effectiveness for assessing and benchmarking our performance. These are strategic clarity and coherence, strong staff capacity, accountability for results, relevant knowledge management and appropriate instruments. Bringing in new dimensions to the micro-finance delivery challenges donor agencies to promote diversity and creativity and a coherent approach, which promotes consistent application of good-practice principles. Questions matter such as: Is there a clear coherent strategy to support combined micro-finance schemes? Does the agency have the human resource capacity to formative approach to encourage cross-financial expertise dealing with a multitude of financial services? Do CMF approaches increase, impede or hide broader accountability for results and transparency about micro-finance programming and performance? Does the donor agency have the capacity to invest in knowledge development and learn from the new innovations in CMF? How can CMF support be delivered in a flexible and performance-based manner?

Most of these questions cannot be answered with a yes or a no, but should be part of a more formative approach to evaluation and programming. Development agencies should be aware of their organisational limits and specific added value. It is not only their mission or technical capacity which determine their effectiveness. Most often parameters related to their organisational functioning and procurement impact the way they effectively support combined micro-finance. This is especially true, when we observe the introduction of new, private, investors in the micro-finance sector. These institutions are not supported by public funds –mostly intended for poverty alleviation- but are interested in the micro-finance sector because they see this as a way to invest in the informal economy and ultimately develop profits and strategic market outreach.

The realization that poverty is a multidimensional problem has led many aid agencies to the conclusion that they should be working on all of these fronts at the same time.
Trying to do too many things at once can dilute impact (Helms, 2005). Further research is needed to enable more enhanced understanding of micro-finance and micro-insurance from a donor’s point of view, enabling more effective and harmonised interventions in the sector. Various promoters undertake different interventions to support CMF, but often their nature doesn’t depend only of the organisation’s mission, but also of the limits of their procurement system, their operational capacity and their project cycle management approach. There is a need to understand better how the “matching matrix” between micro-finance promoters and combined micro-finance schemes can be optimized.

IV. Combining micro-finance services efficiency

Efficiency in microfinance is a question of how well an MFI allocates inputs (such as assets, staff and subsidies) to produce the maximum output such as number of loans, financial self-sufficiency and poverty outreach (Balkenhol, 2007). Efficiency of micro-finance schemes may depend of different external variables such as its geographical location, the legal context, the way products are delivered, the level of subsidies and human resources capacities. Combining insurance with credit schemes has to take into account these elements and -to a large extent- the change of efficiency by introducing CMF will depend of its compatibility with these factors.

Though there is not always a trade-off between poverty outreach and financial performance (Balkenhol, 2007), it is important, with reference to the stakeholders framework, to analyze how combining micro-insurance with micro-credit influences the efficiency of the CMF to respectively achieve these two elements.

The first and second above-discussed research questions described respectively possible changes by combining micro-finance products on organisational performance and poverty alleviation. The analyses enabled following two complementary formulas defining the relation between the situation of microfinance schemes offering only one product group or those offering both credit and insurance products:

- Average organisational performance: \( \bar{O}_{ci}(x) = f[\bar{O}_{mi}(x)] \), with in optimal situations \( \bar{O}_{ci}(x) - \bar{O}_{mi}(x) \geq \partial; \) and;
Average utility for the target group: $\bar{U}_{ci}(x) = f^*\left[\bar{U}_{mi}(x)\right]$, with in optimal situations $\bar{U}_{ci}(x) - \bar{U}_{mi}(x) \geq \partial'$.  

The contribution of combining micro-finance schemes makes sense if both formulas are higher or equal ($\geq$) to respectively $\partial$ and $\partial'$ or their sum. This can be put in the following formula: $[\bar{O}_{ci}(x) - \bar{O}_{mi}(x)] + [\bar{U}_{ci}(x) - \bar{U}_{mi}(x)] \geq \partial + \partial'$

The question is more difficult if only one of both equations is higher than their respective error margin. How can we for example judge overall improvement if a contribution of combined micro-finance schemes improves outreach to the poor but weakens organisational performance? What about the opposite situation where adding new products improves organisational performance, but creates more exclusion towards specific segments of the poor population?

In order to answer this question, there is a need to weight respectively organisational performance and poverty outreach in function of their relative importance or given priority. This can be expressed as follows: $\alpha [\bar{O}_{ci}(x) - \bar{O}_{mi}(x)] + \beta [\bar{U}_{ci}(x) - \bar{U}_{mi}(x)] \geq \alpha \partial + \beta \partial'$.

This formula brings together both stakeholders interests, but more interestingly, gives a weight, respectively $\alpha$ and $\beta$, to each part of the equation. This paper argues that there is no generic way to attribute a weight to combined micro-finance schemes, but that much depends of the characteristics and priorities of the organisations implementing and promoting micro-finance. These may have a defined mission towards micro-finance or be limited by their organisational characteristics (in particular procurement limits for provide adequate services to support micro-finance schemes).

Careful judgement should take into account the compensation mechanisms between organisational performance and poverty alleviation. The choice can be compared with the conceptual discussions between the Kaldor-hicks efficiency (Stringham, 2001) and the Pareto Efficiency models.

Under Pareto efficiency, an outcome is more efficient if at least one person is made better off and nobody is made worse off (Stringham, 2001). This seems a reasonable
way to determine whether an outcome is efficient or not. However, in practice it is almost impossible to make any large change such as an economic policy change without making at least one person worse off. Under ideal conditions, exchanges are Pareto efficient since individuals would not voluntarily entered into them unless they were mutually beneficial.

Kaldor-Hicks argues for (named for Nicholas Kaldor and John Hicks) a type of economic efficiency that captures some of the intuitive appeal of Pareto efficiency, while having less stringent criteria and therefore being applicable in more circumstances (Fujimura and Weiss, 2000). Using Kaldor-Hicks efficiency, an outcome is more efficient if those that are made better off could in theory compensate those that are made worse off and lead to a Pareto optimal outcome (Fujimura and Weiss, 2000). Thus, a more efficient outcome can in fact leave the other outcome worse off.

Applying this discussion framework to the current debate between organizational performance and poverty alleviation, under the Pareto efficiency model, combined micro-finance designers should aim at finding an adapted formula (“outcome”) by
which both the CMF scheme has optimal organizational performance and the poor are most reached, with minimal exclusion and organizational inefficiency. Bringing this back to our conceptual model, this means that both formula should prevail:

- Improved performance: \( \bar{O}_{ci}(x) - \bar{O}_{mi}(x) \geq \partial; \)
- Poor are more reached than before: \( \bar{U}_{ci}(x) - \bar{U}_{mi}(x) \geq \partial' \)

which leads to: \( [\bar{O}_{ci}(x) - \bar{O}_{mi}(x)] + [\bar{U}_{ci}(x) - \bar{U}_{mi}(x)] \geq \partial + \partial' \)

The CMF scheme design would realize optimal Kaldor-Hicks efficiency, if there would be ways of mutual compensation and can be expressed by giving weights to each outcome:

\[ \alpha [\bar{O}_{ci}(x) - \bar{O}_{mi}(x)] + \beta [\bar{U}_{ci}(x) - \bar{U}_{mi}(x)] \geq \alpha \partial + \beta \partial'. \]

This means, as it is often the case in practice, that if a CMF scheme explicitly aims at increasing its outreach to the poor (\( \beta > \alpha \)), the scheme may lose effectiveness in terms of financial and organizational performance because of costs linked to higher transaction, more risks, or other. Concrete examples can also be given from the opposite situation, where \( \alpha > \beta \). Imagine a CMF scheme aiming at optimizing its financial performance (see rising number of schemes aiming at achieving considerable profit margins), it may exclude in an implicit way (f.e. limiting transaction costs to reach out to population in marginalized areas) or in a more explicit way (f.e. no insurance for vulnerable groups, collateral, means-testing) the initial target group of micro-finance: the poor.

The key difference is the question of compensation. Kaldor-Hicks does not require that compensation actually be paid, merely that the possibility for compensation exists, and thus does not necessarily makes each party better off (or neutral). Applying this to the case of combined micro-finance, we can observe compensation mechanisms in case of a negative impact of introducing CMF. Alternative poverty alleviation programmes, such as cash transfer or social assistance schemes, may for example compensate the fact that combined micro-finance schemes don’t reach specific segments of the poor. Financial underachievement may be compensated by subsidization, if for example specific poor target groups are serviced with adapted quality and effective combined micro-finance services.
This paper argues that combined micro-finance schemes should aim at being most efficient, taking into account the different stakeholders. Keeping this in mind, it is important to know the extent to which $\alpha$ and $\beta$ differ, in order to judge whether the organisation is effectively pursuing its mission. This is in particular true when the combined micro-finance schemes be subsidized by public funds as part of a specific public policy, and hence need to be most accountable for social performance. Still, in case of inefficiencies -and before judging- one should take into account the full context of the scheme and examine to what extent compensation mechanisms are enhanced.

V. Conclusion: Towards a formative evaluation approach for the promotion of combined micro-finance schemes

Market failures leading to increasing social exclusion need policy response. Still, while public funds will always be necessary to help the most indigent, market-based solutions are an efficient and fiscally attractive option to meet the risk management and financial services demands of poor households and small enterprises.

Despite the existential problems linked to economic and financial sustainability, many micro-credit organisations are being solicited to provide micro-insurance services. Before engaging in new activities and services, promoters need to be aware of the risks and opportunities of investing in combined micro-finance, in particular with reference to the interest of its target group, the poor.

Micro-finance is not always the answer for development problems (Labie, 1998). In various cases other intervention strategies may be more appropriate to tackle social exclusion and poverty. Various examples exist of combined micro-finance schemes, which have very low levels of outreach and are limited in their services because of geographical, cultural or financial reasons.

This means that micro-finance should be continuously and objectively measured towards its goals. Many reporting and “evaluation” initiatives are made in a context of project justification and fundraising but cannot be considered as evidence-based and
critical assessments of the relevance and the performance of existing and new micro-finance schemes (Rahman, 2003). There is a need for consistent and rigorous evaluations of micro-finance to bring evidence to the question whether micro-finance creates real positive change to poor people (Servet, 2005).

For these reasons, there is a need for a more thorough and formative evaluation approach to combined micro-finance evaluation, which builds on lessons learned dealing with combined product design and implementation.

This can be achieved by analysing the effective and potential changes of introducing combined services on the key stakeholders of micro-finance schemes and identifying how economies of scope can be achieved and risks can be limited. It is important to examine the relevance of combined micro-finance on the micro, meso and macro level and underline its linkages to other poverty alleviation approaches and development initiatives. By identifying how the market inefficiency can be tackled through its demand and supply side stakeholders, focus should be put on the introduction of positive and innovative externalities for more effective social inclusion and poverty alleviation.
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