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### **Special Issue MICROFINANCE**

#### **Efficiency & Governance in an International Perspective**

Jean-Pierre Gueyié, UQÀM, & Klaus P. Fischer (1946–2006), Université Laval, guest editors

#### **Introduction**

Jean-Pierre Gueyié Guest Editor, Université du Québec à Montréal

“This special issue analyses the governance mechanisms and efficiency of ‘market-based’ microfinance institutions (MFIs). An emphasis is put on ‘mutual type’ MFIs, which are at the centre of most papers in this issue.

“Why have we focused on mutuals? People identify an efficient market economy with firms owned by investors, particularly the joint-stock type of company ... Among European depository financial intermediaries, mutuals dominate by size, market share, and number of customers. In most European countries a mutual is the largest single institution, and all mutuals taken together far exceed 50% of the market. While a huge literature addresses the governance of joint-stock firms, and why joint-stock intermediaries may not provide financing to poor people, amazingly little is known about why mutual financial intermediaries are the largest providers of financial services to poor people worldwide and are likely to present enormous potential for expansion among communities ... ”

#### **In memoriam**

In Memory of Klaus P. Fischer

Jean-Claude Cosset

“On October 6, 2006, Klaus Fisher left us too soon at the end of the kind of long day of work that he loved: a day filled with lectures and testing ideas with researchers and students. Though he did indeed prove to be a prolific researcher—publishing scientific articles in international journals and contributing to the standing of Laval University—Klaus was guided by three priorities: the desire to better the welfare of the world’s most disinherited populations; the need to create international networks including Canadian researchers and those from other countries; and, finally, the wish to transmit his enthusiasm to many students ... ”

En souvenir de Klaus P. Fischer

Guy Charest

« Un jour, vers 1990, se pointa chez nous un grand gars souriant, au parcours singulier, qui parlait un français hésitant avec un accent qu’on a pu qualifier après coup d’anglo-germano-argentin. Car le sort voulut, à notre grand profit, qu’un ingénieur argentin (B. Sc., Cordoba) de souche allemande, passât cueillir un doctorat au Texas (A&M) avant d’aboutir à l’Université Laval comme professeur de finance internationale déjà orienté vers le financement bancaire et coopératif dans les pays en développement. Son flair aidant, il venait au Québec, ce pays des mille et une caisses populaires. L’on ose penser que, par osmose peut-être, le milieu fut déclencheur de recherches fécondes pour cet homme éminemment soucieux du bien-être collectif. »

## Articles

Micro-Finance and Market-Oriented Microfinance Institutions

Jean-Pierre Gueyié, UQÀM

Klaus P. Fischer, Université Laval

The role of microfinance as a tool to fight against poverty by providing financial services to the poor and microenterprises has become an accepted principle worldwide. However, this key role can be accomplished only if the microfinance institutions (MFIs) assuming it are sustainable, i.e., can operate in the long run without subsidy. In this paper, we define market-based MFIs as MFIs that face competition in quality and price of their products in the market in which they operate, and operate under market discipline on the liability side of their balance sheet. Their ability to collect funds from sources under the discipline of funds providers helps them to be independent of subsidy and makes their operations sustainable. It is shown that several elements are fundamental to the success of market-based MFIs, including internalization of conflicts of interest, macroeconomic and sectorial policies, and an appropriate regulatory and supervisory environment.

The Theory of Mutual Financial Intermediaries: A Review

Klaus P. Fischer, Université Laval

Ridha M. Mahfoudhi, Université Laval

This paper reviews the last 30 years of efforts to model mutual financial intermediaries and to distinguish them from the more “traditional” models of jointstock commercial banks. The authors reviewed here have attempted to articulate, in a formal fashion, conflicts of interest between participants in the process that oppose the bundle of contracts that constitutes this form of firms. We focus on the conflicts of interest between “net borrower” and “net saver” members, and on the conflict between members and managers of the mutual.

## The German Cooperative Banking Group as a Strategic Network

Rolf Greve, Ministry of Science and Research, Free and Hanseatic City of Hamburg.

The relationships among customers, cooperative banks, and the central units within the cooperative banking group are precarious because they can be used in opportunistic ways and can cause holdup and moral hazards. The core competence of cooperative banks in Germany is the membership that ensures dependability in precarious relationships. The suitable strategy is member-oriented relationship-management. A structure in line with this strategy can be a strategic network. The institutional devices of the cooperative banking group have to be adapted to the changing general settings. In order to continuously create a strategic network, the cooperative banking group has modified its institutions in recent years.

## Key Issues in Assessing the Performance of Microfinance Institutions

Ronny Manos & Jacob Yaron, School of Business Administration, Israel

The microfinance revolution and the tremendous growth of the industry have drawn attention to performance assessment of microfinance providers, the operations of which are often supported by substantial public funds. In this paper we discuss five related issues: a) the search for an adequate measure of financial sustainability, b) the trade-off between outreach and sustainability, c) the question of how to determine the opportunity cost of concessionary borrowings, d) the conceptual framework of performance assessment, and e) the integration of saving services into performance assessment and subsidy dependence measures.

## Efficiency and Expense Preference in the Colombian Financial Cooperative Sector

Bernardo Barona, Universidad Javeriana  
Edinson Caicedo, Universidad del Valle  
Blanca C. Zuluaga, Universidad Icesi

This paper explores the expense preference behaviour in Colombian financial cooperatives. Our findings indicate that small cooperatives seem to use a production technology that is different from that of large ones, high-leverage cooperatives appear to use a technology that is different from that of low-leverage cooperatives, and managers of larger units exhibit separable-expense behaviour, while managers from lower-leverage units exhibit joint-expense preference behaviour. These results suggest that, in Colombia, a merger of small cooperatives into larger ones is a decision that should either not be promoted or carefully analyzed before being taken, in order to clearly detect all the possible benefits that might counterbalance managers' expense preference behaviour.

## Contexte et efficience des institutions de microfinance au Bénin

Léa Kaba, Université Laval  
Jean-Pierre Gueyié, Université du Québec à Montréal  
Claude Sinzogan, African Capacity Building Foundation

During the 1990s, the microfinance sector, particularly mutual and cooperative financial institutions, underwent phenomenal growth in West Africa, and today, microfinance financial institutions have established a strong presence in Benin, which can be seen in their sheer numbers and in the range of activities in which they are involved, and in their relatively high territorial coverage. Despite their dynamism, financial cooperatives in Benin seem to be facing serious difficulties managing the funds collected. They operate largely in a position of excess liquidity, thus paving the way to possible agency problems, primarily between managers and members of cooperatives. In this article, we use data from the Fédération des caisses d'épargne et de crédit agricole mutuel (FECECAM), the largest

network of financial cooperatives in West Africa, to assess whether managers have an expense preference for unproductive expenditures. Based on the results of this assessment, we cannot conclude that there is a clear expense preference among financial cooperatives in Benin.

### An Empirical Analysis of Peruvian Municipal Banks Using Cost-Efficiency Frontier Approaches

Janina V. León, Catholic University of Peru

This paper compares alternative frontier techniques to measure cost-efficiency and analyzes explanatory variables for Peruvian Municipal Banks (PMBs) from 1994 to 1999. Consistency of results from parametric and non-parametric cost frontier approaches is tested. Banks performing well and those performing poorly are identified. Furthermore, the departure of German technical assistance is tested for its efficiency effects. Mid-sized PMBs appear as the most efficient, while one old large one and another small young one are the least. Discrepancies in ranks appear in the middle positions. Bank location, size, and productivity are significant determinants. Financial management and performance are correlated to efficiency. Regulation must reinforce financial management and performance.

### The Impact of Women Members and Employees on the Severity of Agency Conflicts in Philippine Cooperative Credit Unions

Mario Lamberte & Maria Chelo V. Manlagñit, Philippine Institute for Development Studies

This paper evaluates the performance of the Philippine cooperative credit unions (CCUs) from 1986 to 1999, using stochastic frontier analysis, focusing particularly on the impact of women members and administrators on the quality of governance of the CCUs. The general trend of the efficiency estimates shows an improving costefficiency accompanied by a fairly stable but declining profit-efficiency of the CCUs. Specifically, the result shows that only about 2% of costs are wasted, on average, relative to a best-practice firm facing the same conditions. Meanwhile, the mean profit estimates for the 14-year period is 92%. Credit cooperatives with a greater number of women employees are more cost- and profit-efficient. However, the dominance of women as members incurs more cost and thus less profit. This raises the issue of having MFIs targeting only women as well as the concern for higher monitoring costs for them, which imply higher total costs and less profits.

### Effectivité d'un crédit ciblé aux pauvres : le cas des microentreprises rurales du Burkina Faso

Samuel Tambi Kaboré, Université de Ouagadougou

Strategies to reduce poverty are increasingly incorporating microcredit services into their poverty fighting. However, there is little empirical evidence for activities whose funding would be more beneficial for the poor or on the effects of credit on the recipients' well-being. This article analyzes the effectiveness of credit targeted at rural microenterprises (RMEs) and revenue sources that are most beneficial for the poor. Results show that consumption attributable to additional RME funds alone can lift 11.25% of the populations of households involved in the processing sector out of poverty; the corresponding figure is 39.83% for those in the handicraft sector, 42.15% for those in the service sector, and 44.1% for those operating in the trade sector. An analysis of the pro-poor character of revenue sources in the rural environment indicates that most RMEs operate in sectors or areas in which revenues benefit the non-poor directly. Nevertheless, the job-creation effects (1.06 permanent direct jobs and 0.66 temporary direct jobs for each RME) will benefit the poor as a result of the pro-poor character of informal rural wage-earning employment. RMEs have a significant potential for reducing poverty in rural areas if targeted efforts result in improved access to related credit for poor developers and direct funding from "wealthier" developers toward job creation.