

POVERTY-ORIENTED FINANCIAL SERVICE PROGRAMMES: ROOM FOR IMPROVEMENT?

James G. Copestake
University of Bath

1. Introduction

There is a growing view among development practitioners that savings and credit programmes should be evaluated primarily on the basis of their contribution to the long-term deepening of financial markets, or expansion of the volume and range of profitable financial services on offer. People and agencies motivated primarily by a commitment to poverty reduction find this hard to stomach. For them the single most important criterion for success of any programme is poverty reduction, even if this can only be obtained at the cost of subsidies and transfers from the non-poor. The purpose of this article is to explore the scope for reconciliation of these two views.

The case against subsidising financial services in order to improve access to them among the poor can be briefly stated.¹ Cheap credit results in excess demand that has to be choked off in some way by non-price means. Critics of cheap credit argue that it is in practice extremely difficult to ensure that the additional services provided are benefitting poor people would not otherwise have had access to those services at an affordable cost. A substantial empirical literature bears witness to the practical problems entailed in achieving this task, and many observers (led most conspicuously by Dale Adams at Ohio State University) indeed appear to have concluded that it is virtually impossible.

This article remains largely agnostic on the questions of whether/how targeting of financial services can contribute towards the reduction of poverty, including when subsidies may or may not be justified. Instead, it focuses on the methodological issue of how this can be demonstrated. If development interventions are viewed as "policy experiments", then finding out how far different experiments are succeeding is clearly essential if practice is to improve (Rondinelli, 1993). To put the point in context, the issue of monitoring and evaluation of poverty-oriented financial service programmes is key.

The article is organised into three sections. Section One specifies in more detail what the information needs of development agencies running poverty-oriented financial service programmes are. Section Two contrasts quantitative and qualitative approaches to obtaining that information. Section Three focuses on ways in which monitoring and evaluation of financial service programmes can be improved through more systematic use of qualitative methods of enquiry.

1. See Copestake (1994a: Section 2) for a more detailed discussion.

2. Institutional Context and Information Needs

The role of monitoring and evaluation arises out of demands for information thrown up by a particular configuration of goals, activities and organisational structures. The focus of this review is on agencies that are not directly controlled by poor people themselves, but whose prime objective is explicitly to help the poor.² Such *Of Non-poor, For Poor* (ON/FP) agencies may be distinguished from: (a) *Of Poor, For Poor* (OP/FP) agencies, and (b) *Of Non-poor, For Non-Poor* (ON/FP) agencies. ON/FP agencies (referred to hereafter as service agencies) are of interest because of the apparent altruism of their constitution. Note that the classification is based upon the stated goals of agencies, not what they actually do.

A financial service may be defined as a means for increasing the liquidity or temporary purchasing power of its users. The focus here will be on collection of savings and provision of credit, but insurance and various forms of guarantee may also be important. In the case of savings, liquidity is purchased by surrendering income in an earlier period, and in the case of credit by surrendering income in a later period. Service agencies run such programmes because they believe that: (a) lack of liquidity is an important determinant of poverty, and (b) they can in some way help to reduce it.

The importance of liquidity shortage as a determinant of poverty depends upon the extent to which poor people are willing and able to generate temporary cash surpluses with which to save or to repay loans. There is ample evidence that even very poor people can save small amounts, and that for some this may indeed be first stage towards improving their economic position. Likewise timely credit may help some poor people to acquire useful assets (or avoid making distress sales), and thereby be better off than they would otherwise have been. However, the importance of liquidity can also be overestimated compared to other factors, such as ill-health, powerlessness, lack of education, and a dearth of income-earning opportunities, for example.³

Where liquidity is an important constraint, the ability of a service agency to improve access to it depends upon the costs involved, both to user and to provider. For the provider of credit, for example, these include the opportunity cost of funds advanced, administrative costs incurred in loan appraisal, supervision and collection, and provision against default.

2. For current purposes the poor may be defined simply as people who are regarded as such by a particular agency.

3. For discussion of the limitations of credit, in particular, as a weapon against poverty see Abugre (1992) or Howse (1983).

For the borrower they entail the costs of securing the loan, meeting conditions attached to it, and paying the required rate of interest.⁴

The success of a service agency in improving access to liquidity among the poor cannot be judged simply from growth in the number and value of savings and borrower accounts of poor people on its books, since some of this growth may be at the expense of other financial institutions. If services are a programme is heavily subsidized, then a further issue is the extent to which the net improvement in access can be sustained for more than a relatively short period. *Sustainability* in this context, refers to the extent to which a provision of financial services *now* affects the capacity of the agency to continue to provide them *in the future*. This is determined in large part by the effect of providing the services on the tangible and intangible assets of the agency (including physical capital, loan portfolio quality, the skills of staff, institutional memory and goodwill).⁵

One point of ambiguity in this definition of (financial) sustainability is the treatment of subsidies, grants and in kind contributions to the agencies operations. A programme may be deemed *sustainable* even if heavily dependent upon subsidies, so long as the goodwill on the basis of which these are granted is preserved. Programmes that do not require such support, on the other hand, may be referred to as *self-sustainable*.

There is often a strong trade-off between access and self-sustainability. It is relatively easy to improve access in the short-run. New deposits can usually be attracted if the interest on offer is high enough, and some of this will represent a net increase in saving. Likewise credit at low or negative real rates of interest will always find takers, particularly if loan collection is lax. Employing more field staff or opening branches for longer hours should also improve access. However, unless the extra revenue generated from such changes exceeds the extra costs, the changes will be at the expense of self-sustainability. Sustainability will also fall, unless measurable improvements in access are sufficient to attract additional subsidies. Thus improved access during any one period is in itself an inadequate criterion for judging a financial service programme. Likewise self-sustainability cannot be taken as a sole criterion, since it can be achieved through measures that lead to a reduction in access. Information is necessary on both.

It does not follow, however, that only programmes that result in a improvement in

4. The costs of saving comprises administration costs, interest payments and insurance against deposit loss (although the latter may be passed on to the saver), and the time and expense incurred by the depositor.

5. Note that it also depends upon the capacity of users to demand those services; or (in the case of credit) their *debt capacity* (Von Pischke, 1991).

access and self-sustainability should be considered successful. A small reduction in access may be deemed worthwhile in order to make large financial savings, if these can be put to better use. Likewise, significant improvements in access may justify some reduction in self-sustainability, provided that the programme can be sustained by attracting extra grants and subsidies.⁶ The trade-off between the two will depend in part upon the implementing agencies' time horizon; or the value that it attaches to improving access immediately and over the longer-term (Lipton and Van der Gaag, 1993:5-7). But it will also depend upon the extent to which funds used to subsidize credit can be used more cost-effectively to reduce poverty in other ways. Thus savings and credit programmes need to be evaluated: (a) over as long a time period as possible; (b) with reference to other influences on poverty, including other poverty policies (Braverman and Guasch, 1986:1262).

An increasing number of service agencies are prepared to evaluate financial services programmes solely against sustainability and access criteria alone. This *minimalist* strategy has the considerable advantage of relative operational simplicity. Programme managers have a single objective (improvement in access) to maximize over the long-term, subject to a sustainability constraint. Using *logical framework terminology* as presented, for example, by Shields (1993) the programme's *wider objective* is poverty reduction, its *immediate objective* is improved access, the main *outputs or activities* are new savings and borrowing services, and a *key input* is an agreed level of external subsidy or start-up capital.

As a poverty-reduction strategy, this approach rests (as has already been noted) on the assumption that poverty is at least in part determined by liquidity constraints. If this assumption is called into question, then there may be a case for devoting resources towards other more important activities. If these activities are regarded as complementary and cannot be prioritized, then a difficult decision needs to be made between undertaking all necessary activities under the same management, and relying upon other agencies to provide some of them. Under an *integrated* programme, in-kind cross-subsidisation of activities makes it more difficult to monitor the sustainability of the financial services component. On the other hand, synergy may arise from linkages that reduce transaction costs - between extension and loan appraisal, or repayment and marketing for example (Adera, 1988).

6. The most widely accepted case for subsidies is a version of the "infant industry argument" that temporary support may be socially justified to help new entrants achieve a viable scale of operation and level of knowledge of about their customers. For further discussion of this argument see Copestake (1994a) or Calomiris and Himmelberg (1994).

Further complications arise if a second assumption behind the minimalist position is relaxed; that poor people are rational in the way they use extra liquidity to improve their position. There are of course strong grounds for doubting that outsiders know better than the poor themselves what is good for them. Yet many service agencies do nevertheless believe they have an obligation to investigate whether increased liquidity does benefit the poor. The issue of alcoholism, particularly in the context of conflicts between household members, illustrates why. If improved access to credit appears at the margin to be financing the alcohol addiction of one member of a household against the will of others, then the claim that increased liquidity (no pun intended) is leading automatically to reduced overall poverty is hard to sustain.⁷

This suggests that *impact* (eg. on income, wealth, food security, child nutrition, quality of life, or improved gender relations) may be a more reliable immediate objective of many savings and credit programmes than access.

Linking the points made in the last two paragraphs, financial service programmes can be classified into four: minimalist with an access only objective (MA); minimalist with impact objectives (MI); integrated programmes with an access objective (IA), and integrated programmes with impact objectives (IA). Choice between these options is determined in part by philosophical/ideological preferences. For example, MA programmes, with their emphasis on individual rationality and the welfare gains that arise from relatively anonymous transactions through markets for clearly demarcated goods fit comfortably with a neo-liberal outlook (Copestake: 1994a).

However, a second important consideration in choosing between the four options (and the major focus of this article) is the ease with which each can be monitored and evaluated. This is of more than academic interest, because a programme whose performance cannot reliably be evaluated is more difficult to run effectively. This problem may in turn encourage agencies (particularly those that are larger and more bureaucratic) to prefer MA programmes with modest scope but more easily verifiable objectives. To put the same point a different way, it may be that the information demands of large and bureaucratic organisations are such as to reduce their capacity to run effective poverty-oriented financial service programmes. Thus the information needs implicit in different approaches may have an important bearing over poverty reduction policy and the comparative advantage of different kinds of agency.

One further complication needs to be addressed before moving from information

7. The appropriation by men of credit disbursed to women provides another illustration (Goetz, 1994).

needs to methods of satisfying them. The discussion so far has focused on the key objectives against which the performance of financial service programmes should be monitored and evaluated. However, monitoring and evaluation extends not only to performance, but to *how* or *why* an organisation is more or less successful. Performance may be taken to be a function of: (a) internal variables, including both underlying philosophy and values, organisational structure, conduct and mode of operation; (b) external or contextual variables that have a direct bearing on the programme (political change, macroeconomic policy, the weather etc), which enter the logical framework as risks of assumptions.

Table 1 provides a comprehensive checklist of potentially relevant information. Two sets of variables of particular importance, but prone to neglect are: (a) organisational capacity of the providers of complementary services (law and order, transport, marketing, extension etc); (b) the character of user groups, particularly the degree of inequality, history of factionalism, and record of past and ongoing interaction with other external agencies (Moris and Copestake, 1993: 25-34).

Table 1: Checklist of Potentially Relevant Information

1. AGENCY STRUCTURE & BACKGROUND

- 1.1 Origins, philosophy, values.
- 1.2 Legal status.
- 1.3 Supporting agencies.
- 1.4 Range and rough scale of services provided.
- 1.5 Growth performance.
- 1.6 Important periods of reorientation and reform.

2. CONTEXT

- 2.1 Area of operation (eg. agro-ecology, population density, infrastructure, macroeconomic conditions).
- 2.2 Legislative and regulatory controls on operation.
- 2.3 Socio-economic status of (potential) users (eg. income & wealth, numeracy & literacy, gender).
- 2.4 Principal economic activities of (potential) users.
- 2.5 Relevant social organisation of (potential) users (traditional, political, religious, administrative).
- 2.6 Other local suppliers of the same services (formal and informal).
- 2.7 Other agencies providing complementary services, or with whom the agency collaborates closely.

3. CONDUCT

- 3.1 Organisational structure.
- 3.2 Infrastructure (branches, transport, security, accounting & audit).
- 3.3 Staffing (quantity, quality, incentives).
- 3.4 Terms of deposit collection.
- 3.5 Terms of lending (loan ceilings, interest rates, savings and collateral, repayment terms, disbursement mechanisms, other conditions, collective guarantees, links with past lending).
- 3.6 Other financial services provided.
- 3.7 Other non-financial services provided.
- 3.8 Working relations with other agencies.

4. PERFORMANCE

- 4.1 Financial (accounting ratios, subsidy dependence, interest rate margins, unit transactions costs, repayment rates, risk exposure).
- 4.2 Gross access (number, location and socio-economic status of users, type of financial services provided and loan portfolio composition).
- 4.3 Net access (net growth or additionality in financial service provision).
- 4.4 Economic impact (indebtedness, assets formation, skill acquisition, job creation, income generation, poverty reduction, food security, technical externalities such as resource depletion, pecuniary externalities such as market saturation).
- 4.5 Social impact (individual skills and confidence; group cohesion and conflict, leadership & dependency, collective action).

3. Methods of Enquiry⁸

In considering how information is collected, it is useful to start with the distinction between qualitative and quantitative approaches. The former are often thought of as more subjective, verbal and descriptive: in contrast to the latter which are more objective, numerical, and amenable to mathematical analysis. The two approaches also tend to be associated with different professional disciplines. Table 1 summarises.

Table 2: The Qualitative/Quantitative Dichotomy

	QUALITATIVE	QUANTITATIVE
Raw data	Verbal or visual	Numerical
Methods	Observation Open questions Extended interviews Purposive selection Context specific Adaptive	Measurement Closed questions Fixed questionnaires Statistical sampling Predetermined Procedural
Forms of analysis	Inductive Interpretive	Deductive Mathematical
Favoured by	Sociologists Anthropologists Historians	Natural scientists Economists Accountants

Problems arise almost immediately when one tries to put this distinction into practice. Data goes through several stages in the process of being turned into useful information and its form may radically change. Thus almost any qualitative information can be codified

8. For a fuller discussion of the issues raised in this section, see Chapter 3 of Moris and Copestake (1993).

and treated quantitatively at a higher level of analysis. Similarly, much quantitative data occurs initially as a qualitative report of some activity or observed trait. It may also be transformed back into qualitative form again as a diagram or picture for presentational purposes.

A more precise definition of the distinction between qualitative and quantitative enquiry is that it refers to the stage at which data is first turned into numerical form. Quantification is generally more selective, with much of the "raw" qualitative data (whether a picture, or the impressions of an investigator) being lost in the process of enumeration. An interviewer may observe, for example, that a respondent is uncomfortable with being asked about informal loans. But the questionnaire being used provides space only for a yes/no answer, and an opportunity to question more deeply is lost. Early quantification facilitates delegation of information collection and permits rigorous statistical analysis. But at the same time, it requires active selection of a few variables based on prior assumptions about what is likely to be most relevant - a process that inevitably limits the range of possible findings.

It is a short step from this point to the conclusion that qualitative and quantitative methods of enquiry are complementary, and that the most appropriate blend of the two depends upon the nature of the complete set of potentially relevant data and the task at hand. A key question behind this article is the extent to which monitoring and evaluation of poverty-oriented financial service programmes currently strikes the right balance between them. As quantitative approaches are generally better understood, the focus will be particularly on the role of qualitative enquiry.

Qualitative enquiry can be distinguished from casual or informal gathering and digestion of information to the extent that it is planned, documented and follows systematic methodological guidelines. There is an abundance of academic material to draw upon; indeed qualitative enquiry has been written about from an exceptionally wide range of backgrounds and perspectives (Patten, 1990:88). Three distinct strands in this literature appear to be of particular relevance to the issue of monitoring and evaluation of financial services programmes. The oldest and richest strand is concerned with research methodology in the social and organisational sciences. Numerous references are available that cover the main methods, including in-depth interviews with key informants, group meetings and participant observation (See Moris & Copestake, 1993:36). Important themes include the extent to which the true identity of the enquirer (and the focus of their interest) is revealed to others, integration with quantitative methods, and field-work strategies.

Reference to data acquisition within this tradition as "fieldwork" is revealing. The term suggests that good data depends upon the insights, skills and interpretive acumen, of the investigator; a job which is therefore hard to delegate. Many qualitative researchers have in the past made a virtue of not entering the field with a specific policy agenda in mind, fearing that this would colour their perceptions. This, and primary orientation to their academic peer group, has hindered the timely flow of relevant findings to practitioners. However, the potential relevance of qualitative social science research methodology is increasingly recognised, and a second strand of literature, Rapid Rural Appraisal (RRA), draws extensively upon this tradition. It is specifically concerned with meeting the need of rural development practitioners for more timely and cost-effective information. RRA grew in large measure out of the problem of how to classify farmers living in "complex, diverse and risky" environments into homogeneous groups, and to identify key production constraints facing each. Confronted with a huge array of potentially relevant variables and a largely illiterate client group, researchers were forced to make hard choices about how the limited time and resources available for information acquisition could be used most efficiently. It quickly became apparent that this problem, and the techniques developed to overcome it, were appropriate not only to agricultural research but to many areas of development practice. However, use of RRA in the field of financial services appears to have been relatively limited, perhaps because of the strength of quantitative methods in this field.

The general RRA tool-kit expanded rapidly to include: wealth ranking; construction of village or watershed transects, maps, models, seasonal calendars and other diagrams; use of aerial photographs; pairwise or matrix ranking of technology options; and more familiar qualitative methods borrowed from the social sciences such as semi-structured interviewing of key informants, participant observation, and discussion with focus groups (McCracken, Pretty, Conway, 1988). Many of its proponents found that these techniques, particularly when used in connection with poverty alleviation interventions, encouraged them to adopt a more participatory approach to data collection, with the result that the label RRA has given way to PRA of Participatory Rural Appraisal.

The increasing emphasis on participation in RRA/PRA literature has led to convergence with a third strand of literature, concerned specifically approaches to monitoring and evaluation. This has largely grown out of the experience of service agencies in trying to promote social development, or efforts to facilitate sustainable improvements in individual and community self-reliance, or their capacity to sustain their own development (Oxfam, 1985:102). This literature can be interpreted on two levels. The first focuses on the need

for more reliable methods of establishing whether social development goals (self-confidence, empowerment, community organisation etc.) are being achieved. Relative to financial service programmes, these may be defined as indicators of social impact, and may feature explicitly among programme objectives. As such they represent an additional information need, rather than a methods of enquiry.

But there is a second level. The acceptance of social development goals has more fundamental implications for monitoring and evaluation, for the way in which these are conducted itself has an important influence over social development. Choice of method of enquiry may be inseparable from choice of organisational structure. A striking example of this is the growing recognition that it is expensive and inefficient to attempt to record detailed information on the creditworthiness of poor individuals. For if the relevant decisions can be delegated to loan groups, then the information can remain in qualitative form; and the change itself is empowering.

This point is particularly important when considering service organisations. Their NP/FP nature represents a split identity, in which staff are accountable to sponsors as well as to end-users, whose interests and information needs rarely coincide. Most monitoring and evaluation work is commissioned by external sponsors, with poor users and junior staff allowed to participate only to the extent that the sponsors regard this as compatible with their wider objectives. However, an important role of evaluation is often to catalyse change by question objectives (eg. access vs impact, as well as underlying definitions of poverty) and operational practices (eg. integrated or minimalist). This suggests the need to consult widely and avoid too narrow a focus upon quantitative methods of enquiry (Santo Pietro, 1983).

A key principle that emerges from this discussion is that the quality and reliability of information gathered can be greatly enhanced by *triangulation*, or the process of systematically cross-checking one enquiry against another. When contradictory evidence emerges, this may result in the identification of bias or weakness in one source or technique. But discrepancies may also stimulate questions and further lines of enquiry leading to deeper insights. This point clearly applies not only to qualitative enquiry itself, but to selection of a blend of quantitative and qualitative techniques.

4. Monitoring and Evaluation of Financial Service Programmes

This section briefly reviews the role of qualitative and quantitative enquiry in obtaining the different categories of information listed in Table 1. It focuses particularly on the task of evaluating programme performance against agreed objectives, and of understanding

the reasons behind success or failure. The discussion does not assume that monitoring and evaluation is carried out by an external agent, but it does assume that findings are primarily (though not necessarily exclusively) channelled to the trustees of directors of the service agency.

4.1 Agency Structure, Context and Conduct

Background information on the structure of the service agency and the context in which it works should be obtainable from secondary sources and discussions with senior staff, shareholders, external sponsors and other key informants. The opportunity to obtain outside views from staff in "peer" agencies, journalists, academics, trade associations and so on is often particularly revealing of the nature of the rhetoric that all agencies cultivate of themselves - though outsiders' opinions should not be accepted uncritically either, of course. It is not enough just to take advantage of chance encounters as they arise. Useful outside informants should be actively sought, time made to visit them, and their views carefully recorded, so that they can if necessary be cross-checked against other sources.

Much factual information about how the agency actually operates - infrastructure, organisation, policy guidelines, employment practices, and terms of borrowing and lending can again be obtained straight-forwardly from secondary sources and staff. Other potentially important aspects of conduct - internal conflict, corruption, staff attitudes and morale, for example - are more problematic. Finding out about them depends in part upon the personal skills of evaluators themselves, including a willingness to recognise and take opportunities for frank and confidential discussion when these arise. But qualitative enquiry also entails systematically checking that no significant stakeholder have been overlooked, and finding ways of engineering such opportunities.

Focus group discussions, for example, can be planned to ensure: (a) that participants are less inhibited in airing their views by the presence of staff of different status; (b) the presence of peers encourages a more forthright expression of shared interests. Questionnaire based interviews, in contrast, are unlikely to hit upon sensitive issues unless based on detailed inside knowledge already gained.

Participative ranking exercises, may also help to reveal divergent staff attitudes, as well as variation in the quality of services provided by the agency.⁹ A separate card is first written out for key sub-units (eg. branches, villages, savings groups). Key informants or

9. The exercise described below is based on Grandin (1988), and a case-study of its use in a credit context can be found in Copestake et.al (1994b).

focus groups can then be asked to sort the cards into groups according to how "healthy" they perceive them to be. Use of the word "healthy" is deliberately vague, to allow staff themselves to define what it means - profitability, repayment, participation, innovation, lack of conflict, understanding, growth etc. Differences in the definitions described by different informants (eg. more emphasis on sustainability at the top of the agency and upon access among field staff) may themselves be revealing.¹⁰

The individual rankings can also be arithmetically combined to give an overall ranking for all sub-units, as the basis for purposive selection of a representative sample of sub-units and users for more detailed study. Participative and purposive selection of these sub-units further clarifies what key informants perceive to be the main goals of the agency and important reasons for diversity in performance.

4.2 Financial and Economic Performance

So long as reliable accounting systems are in place, financial analysis can largely be carried out using established quantitative methods. Reliance on traditional accounting ratios, however, can be misleading since profitability may be underpinned by grants and subsidies (including services provided in-kind) from external sponsors.¹¹ The Sustainability Dependence Index (SDI) described in Yaron (1992) sets out the procedure for monitoring the overall level of such subsidization by working out the value of all such subsidies as a percentage of income earned.

However, while the SDI is a valuable financial performance indicator, it still leaves unanswered the issue of how it should be interpreted and acted upon. The usual practice is for the non-poor paymasters of the service agency to weigh the subsidy cost of a programme against: (a) historical progress of the agency towards self-reliance; (b) evidence of access and impact (discussed below). A more radical alternative would be to find ways of asking users themselves what they would be willing to pay (WTP) to retain a

10. These differences can be explored further by applying a set of open-ended questions, for example: (a) What is the agency for? (b) What progress have so far been made? (c) What are the chief obstacles to progress? (d) How can they be overcome? (Copestake, et al: 1994b).

11. Repayment statistics need to be treated with even more caution. There are various ambiguous ways of calculating them (see Von Pischke, 1991:383). They reflect collection policies as well as repayment records and can be manipulated through rescheduling. In addition they only give a partial picture of a lending institution's position. When checked and adjusted, however, they can nevertheless be an invaluable monitoring tool.

given level of service, of willing to accept (WTA) in compensation for its loss. Such contingency valuation is beset with well known practical problems, not least the divergence between WTA and WTP estimates. However, it may be feasible to ask focus groups to rank the financial services they have access to against other services that might be provided at the same subsidy cost.

Qualitative enquiry is also relevant to assessment of the pervasive risks associated with any financial services programme (Von Pischke, 1991). The failure of a programme to meet its objectives can easily be blamed upon bad luck - drought and theft being among the most common excuses. But this only serves to question whether an unacceptably high level of risk was inherent in the programme. Answering such questions requires local knowledge and good judgement that is often in short supply. But comparison with the practices and performance of other service agencies working in similar conditions may be suggestive.

4.3 Access and Impact

Details of the total number and value of savings and loans can usually be obtained from the agencies' own management records, which may also provide some information on the composition of users by locality, gender, and socio-economic group. Analysis by type of loan and stated purpose are also often available. Where improved access to particular groups or increases in particular kinds of expenditure are the main justification for external subsidy, then the reliability of such information is of considerable importance. This will be determined by many factors, including the time that field staff are able to spend with users, the extent to which information is validated within peer groups of users, and the complexity and diversity of users' income and expenditure patterns. Thus while such information can rarely be dismissed as useless, its reliability should always be cross-checked.

The most serious and intractable problem with such information arises from the fungibility of all forms of cash and credit. The problem is usually discussed in relation to credit programmes that seek to achieve specific impact on household expenditure. Many programmes (the Integrated Rural Development Programme in India probably being perhaps the world's largest) explicitly link targeted credit to poverty reduction via investment in assets. To evaluate a programme against such an objective it is necessary to establish that a given expenditure (say investment in livestock) was only possible as a result of obtaining a particular loan for that purpose. Where both loan and the expense are very large relative to the total budget the causal link between the two may seem self-

evident. But even in this case, it is possible that the borrower could have obtained credit from elsewhere - in which case the impact of the loans amounts only to the difference in interest payments and other terms of the alternative credit sources.

Quantitative approaches to overcoming this problem have tended to emphasise the need to establish a control of non-borrowers against whom the economic position of borrowers can be compared over time. But establishing a perfect control (ie. identical to users in all respects other than access to a particular loan, and therefore susceptible to the same exogenous pressures over time) is quite simply impossible (Adams and Von Pischke, 1980). Econometric analysis may permit quantification of the extent to which variation in desired patterns of expenditure can be explained by access to loans as against other sources of variation, but such research is costly and time consuming.

One reaction to this problem, highlighted in the previous section, is to select less ambitious objectives. But fungibility applies to access as well as to impact. The rapid expansion of one agency may be offset by a reduction in services provided by others. This may lead to a sustainable net improvement in access to liquidity, but the extent to which this is true cannot be assessed from secondary information from the agency itself. The rigorous quantitative solution to this problem is to analyze changes in the aggregate flow of funds into and out of a particular region using Social Accounting Matrices (SAMs). But this is again a costly and time-consuming form of analysis, and credit evaluations based on SAMs are rare.¹²

Qualitative enquiry again offers some scope for more timely and cost-effective intermediate solutions. Given the importance of gaining a holistic picture of user impact, the number of programme sub-units and users that can be contacted is limited, and so it is particularly important that those selected should reflect as closely as possible overall programme performance. The illustrative procedure described below is based upon a participatory rapid appraisal carried out over four weeks of a savings-and-credit programme in South India (Copestake et.al (1994b). However, the basic approach can be adapted to suit other contexts.

Representative sub-units can be selected with the help of key informants using the method already described above. A sample of users within each can then be obtained by carrying out a second participatory ranking exercise - this time based upon the wealth of users within each sub-unit. Wealth is generally the most useful variable for stratification of users because of its influence upon both demand for financial services and access to

12. For a recent exception see Colliot & Nguyen (1993).

them from other sources. Note that the participatory ranking technique also helps to clarify how "wealth" is locally interpreted.

If time is available, the evaluation team may be able to conduct interviews with individuals across the range of wealth so established. However, "focus-group" meetings with a few members of, say, the bottom, middle and top wealth terciles in each sub-unit provides a more rapid approach which also permits some peer review of responses. In mixed groups, it may also be necessary to hold separate focus group discussions with men and women.

Two exercises can usefully be undertaken with each group to highlight their experience in utilising particular financial services. These are illustrated below for the case of credit delivery, but can be adapted for savings or other services as necessary.

(A) *Sources of finance.* In this exercise a grid is drawn (on the ground or on a blackboard), with one column for each source of finance (including own savings). Participants are then invited to list advantages and disadvantages of each. Important issues (amount of credit available, interest rates, timeliness) that emerge are then entered in rows and different institutions ranked accordingly. Choice of column and row headings, and the manner in which the exercise is carried out may be as insightful as the actual rankings.

(B) *Uses of finance.* In this exercise the columns again represent sources of finance, but rows are taken to represent major items of expenditure through the year. Participants are encouraged to indicate which sources of finance are most important to them for each expenditure - and the pros and cons of alternatives. Note that links between sources and uses of funds may arise out of strong seasonality and uncertainty about cash-flow. They may also reflect a particular way of thinking, particularly among people with few assets. But links should not be imputed where they do not exist.

The participatory wealth ranking also furnishes useful data for cross-checking secondary information on access to services by socio-economic group. Records of individual savings and loans for each selected sub-unit can be retabulated according to wealth rank category to reveal, for example, the proportion of credit that is reaching the 40 percent of least wealthy households within a village.

Taken together the above techniques should enable an experienced evaluator to gain a reliable and accurate impression of the extent to which a net increase in access to liquidity is being achieved by poor and non-poor users, and what difference it makes to their expenditure. PRA techniques can also be used to gain insight into wider economic impact. Village transects and mapping exercises, for example, are widely used to reveal

where pressure on common property resources is most acute, and it is a short step to discussion of the extent to which credit is a contributory factor to this. Community ranking of the relative importance and growth potential of different market outlets could similarly be used to identify areas where credit may either constrain supply, or be a factor behind market saturation and boom-bust cycles of investment.

Likewise PRA should reveal the extent to which a financial service programme is contributing to social goals. Key indicators are relative levels of knowledge and understanding of the programme among people of different socio-economic status (and gender), and the extent of their participation in discussion and organisation.

4.4 Wider Applications of Qualitative Enquiry

This article has focused particularly on monitoring and evaluation because of its importance to a learning approach to development practice. However, much of what has been said about the role of qualitative enquiry can be applied to the identification, appraisal and design of financial service programmes. Two examples may suffice to illustrate the range of possibilities. Firstly, open-ended participatory appraisal is particularly useful in the early stages of programme identification, in assessing the extent to which liquidity is a constraint to different social groups.¹³ Secondly, ad hoc comparative studies of "best practice" within different financial services agencies may help to stimulate cross-fertilization of ideas and to encourage innovation in programme design.¹⁴

Qualitative enquiry also has an important role in individual loan appraisal. Commercial banks generally rely heavily on tried and tested quantitative methods for both appraisal of borrowers, including strict collateral requirements and careful technical and financial appraisal of large loans. Such techniques are more difficult to apply to poor households whose capacity to save and borrow is more limited. One response (already noted) is for detailed appraisal to be delegated to peer groups. However, wider appraisal by staff remains important. Peer groups, for example, are still susceptible to the "fallacy of composition" if they all seek funds to invest in meeting the same demand, or to the "tragedy of the commons" if they all seek funds to develop the same common property resource.

13. Skill is required, however, to ensure that participants do not state what they think sponsors of the PRA want to hear and might be prepared to offer. See, for example, Hagberg and Hedlund (1994).

14. Chao-Beroff et al (1991) describe, for example, how staff involved in promoting village level revolving funds (*caisses villageoises*) in Mali and small group based savings and credit schemes for the poor (*credit solidaire*) in Burkina Faso joined together to explore the strengths and weaknesses of the two approaches.

Interviews with key informants, focus group discussions, village meetings and participant observation may all help branch managers plan against such problems. Much of this data collection may be done informally and intuitively, but an unplanned approach is also more likely to result in bias and gaps in understanding. Active methods of screening borrowers against poverty criteria (such as wealth ranking) can then be used to ration improved access to credit in line with limited marketing and resource constraints.¹⁵

5. Conclusion

To sum up, while reducing poverty through targeted financial service programmes is fraught with difficulties, it should not be regarded as impossible. An important condition for improving performance is more rigorous monitoring and evaluation. This should conform to the following guidelines. (1) Wider and immediate objectives should be clear, and should be regularly reviewed in consultation with all important stakeholders. (2) Sufficient information should be routinely collected on the financial sustainability of programmes, to permit regular calculation of the Sustainability Dependence Index. (3) Measuring the effect of programmes upon access and impact on users is more difficult, and attempting to do so through detailed household surveys and econometric analysis is rarely appropriate. On the other hand, more timely and cost-effective information can be gathered through better use of qualitative methods of enquiry. (4) Armed with such information, cost-effectiveness in reducing poverty can be compared with alternative poverty reduction instruments. Alternatively, social benefits can be compared with the opportunity cost of funds required to achieve them.

15. For alternatives to the Grandin method already described, see Chandramouli (1990) and Moris and Copestake (1993:80). These methods are potentially far more cost-effective than traditional survey based methods, though more research is needed to cross-check the reliability and cost of different techniques against each other in different contexts.

References

- ABUGRE, C (1992) Where credit is not due - a critical evaluation of ACORD's experiences with financial services. ACCORD, Research and Policy Programme, Occasional Paper No. 6.
- HOWSE, C J (1983) Agricultural development without credit, in D W Adams, G Donald & J D Von Pischke (1983) *Rural markets in developing countries. Their use and abuse.*
- ADAMS, D W & J D VON PISCHKE (1980) Fungibility and the design and evaluation of agricultural credit projects. *American Journal of Agricultural Economics*. Vol. 62, No. 4, pp. 719-26.
- ADERA, A (1988) Agricultural credit and the mobilization of resources in rural Africa. *Savings and Development*, Vol. XI, No. 1, pp. 29-73.
- BRAVERMAN A and J L GUASCH (1986) Rural Credit markets and institutions in developing countries: lessons for policy analysis from practice and modern theory. *World Development*. Vol. 14 No. 10/11 pp. 1253-1267.
- CALOMIRIS, C W & C P HIMMELBERG (1994) Directed credit programs for agriculture and industry: arguments from theory and fact, in M Bruno & B Pleskovic, editors, *World Bank Conference on Development Economics 1993*.
- CHANDRAMOULI, K (1990) Pass on the pen approach to identifying the poorest of poor families. *RRA Notes*, No. 14, pp. 22-32, IIED, London.
- CHOA-BEFOFF, R, R EGGER & A MORENO (1991) Epargne et credit participatif: atelier de travail au Mali et au Burkina Faso s'appuyant sur deux experiences innovantes. Working paper produced jointly by Kreditanstalt Fur Wiederaufbau and Caisse Centrale de Cooperation economique.
- COLLIOT, E & T D P NGUYEN (1993) Le credit rural et l'economie villageoise a Banh (Burkina Faso). *Recherche Developpement*, No. 34, pp. 65-83.
- COPESTAKE, J G (1994a) Credit policy, poverty and subsidies. Why people disagree and implications for agency interactions. Centre For Development Studies, Bath University, unpublished paper.
- COPESTAKE, J G, P BRAGMAN & S V L MICHAEL (1994b) The People's Bank; a review of the Sarva Jana Seva Kosh in Lathur Block, Tamilnadu, South India, Friends of ASSEFA (London).
- GRANDIN, B (1987) Wealth ranking in smallholder communities: a field manual. IT Publications, London.
- GOETZ (1994) Women's control over loans in rural credit programmes in Bangladesh. ODI/IDS London, *Development Research Insights*, No. 13 (July).
- HAGBERG, S & H HEDLUND (1994) Report on a participatory rapid appraisal in Chief Sandwe and Lilindawalo areas of Petauke district in Zambia. SIDA. Stockholm.
-

-
- LIPTON, M & J VAN DER GAAG (1993) Including the poor: proceedings of a symposium organized by the World Bank and International Food Policy Research Institute. World Bank.
- MCCRACKEN, J A & J N PRETTY, G R CONWAY (1988) An introduction to Rapid Rural Appraisal for agricultural development, International Institute for Environment and Development; sustainable agriculture programme.
- MORIS, J & J G COPESTAKE (1993) Qualitative enquiry for rural development. ODI/IT publications, London.
- OXFAM (1985) The Field Directors' handbook: an Oxfam manual for development workers. Edited by B Pratt & J Boyden Oxford University Press. Part Three.
- PATTEN, M Q (1990) Qualitative evaluation and research methods. Sage 2nd edition, Newbury Park, CA.
- RONDINELLI, D A (1993) Development projects as policy experiments: an adaptive approach to development administration. Routledge, London & New York. Second Edition.
- SANTO PIETRO, D, editor (1983) Evaluation sourcebook. American committee of voluntary agencies for foreign service, Washington DC.
- SHIELDS, D (1993) What is the logical framework? A step by step users guide. *The rural extension bulletin*, No. 1 (April) University of Reading, Agricultural and Rural Development Department.
- VON PISCHKE, J D (1991) Finance at the frontier. Debt capacity and the role of credit in the Private economy. Economic Development Institute of the World Bank.
- YARON (1992) Assessing development finance institutions: a public interest analysis. World Bank.

Abstract

Providing financial services to people beyond the reach of existing suppliers may be worthwhile, but is difficult. A key determinant of the effectiveness of programmes that attempt to do so is their ability to learn from past performance. While the "Subsidy Dependence Index" represents a useful advance in monitoring programme costs, less progress has been made in improving methodologies for monitoring programme impact. The article identifies ways in which these needs can be met through qualitative methods of enquiry, particularly participative wealth ranking.

PROGRAMMES DE SERVICES FINANCIERS AXÉS SUR LA PAUVRETÉ: MARGE D'AMELIORATION?

Résumé

Il serait peut-être profitable de fournir des services financiers à ceux qui sont hors de la portée des fournisseurs actuels, mais cela demeure cependant difficile. La capacité de tels programmes de bénéficier des expériences passées détermine, entre autre, leur efficacité. Bien que "l'Indice de Dépendance aux Subventions" représente un progrès significatif quant au suivi des coûts de programme, les moyens d'évaluer leur impact ne sont pas, par ailleurs, si avancés. Cet article identifie les moyens de remédier à ce besoin à travers des méthodes d'investigation qualitatives, y compris méthodes participatif de classification des richesses.