American Journal of Business and Management
Vol. 2, No. 2, 2013, 173-180
DOI: 10.11634/216796061302340

Social Performance of Microfinance Institutions (MFIs): Does Existing Practice Imply a Social Objective?

Sujani Thrikawala*, Stuart Locke and Krishna Reddy

Department of Finance, Waikato Management School, University of Waikato, New Zealand

Many microfinance institutions (MFIs) are currently drifting away from their original mission of alleviating poverty. The objective of this article is to identify and update significant social performance (SP) for microfinance institutions (MFIs) by viewing social performance measures as a way to address the development of MFIs. Unlike traditional performance measurements, social performance measurements are more allied with the organisation's social and development goals. This study has therefore reviewed prior empirical studies and consultancy reports dealing with poverty alleviation to determine important social performance measurements for MFIs to achieve their social goals. Further, this study scrutinises 415 MFIs that have reported their social performance in the Microfinance Information Exchange (MIX) database in 2008 and 2009. The findings have revealed that from 2008 to 2009 the number of MFIs reporting social performance increased by 72 per cent; 80 per cent of them are Non-governmental Organisations (NGOs) and Non-banking Financial Institutions (NFBIs). This study therefore provides direction for future research in performance assessment, balancing social and financial objectives in the microfinance industry. It is also a step in conducting more research and recommending regulation of the social performance of MFIs that will require them to engage in more empirical research work using micro-econometrics techniques in the future to support the available conceptual literature.

Key Words: Microfinance institutions (MFIs), social performance, financial performance, non-governmental organisations (NGOs), non-banking financial institutions (NFBIs).

Introduction

At present, concepts like the "bottom of the pyramid" (BOP) have gained more attention from the disciplines of management and development. The BOP represents the poorest people in the world and countries which are eager to create market-based economic solutions to eradicate poverty from their countries (Prahalad, 2010). World Bank (2012) data indicates that 40 per cent of the world's population live on less than USD 2 per day (this is the median poverty line for developing countries and higher than the average rate of USD 1.25 a day) and 80 per cent of people live on less than USD 10 per day. As a result, many developing countries are considering how to eradicate poverty in their nations and promote sustainable economic development.

Scholars point out that average income growth is correlated with reductions in the incidence and depth of poverty (Dollar & Kraay, 2002; Ferreira, Leite, & Ravallion, 2010; Ravallion & Chen, 1997). Moreover, with a sound financial system, income levels can rise, as it makes possible the appropriate provision of access to money and helps to improve income distribution (Gingrich, 2004). This indicates that the development of the finance sector is a major factor for people's economic well-being because it enables them to reduce income fluctuations, protect against risk and increase their investment opportunities (Claessens, 2006; Erdal, Oguzhan, & Ahmet, 2011; Houssem & Hassene Ben, 2011). In fact, Muhammad Yunus maintains that credit is a human right and people can become self-employed by drawing on that money.

Even though evidence shows that more developed financial services reduce the poverty level and income disparity in a nation (Claessens, 2006), such services are not available on an equal basis, especially in developing countries. Millions of people live without access to financial services and the demand for them far exceeds the currently available supply. According to Sinclair (2012), this gap is called the "missing middle." Even though evidence shows the significance of financial development for a country, most of the formal banking sector and capital market systems in developing countries focus on people who are already wealthier and better established (Daley-Harris, 2006; Wang, 2007). Among the financial services available in developing countries, the formal banking sector serves only around 20 per cent of the population (Berenbach & Churchill, 1997; Robinson, 2001).

The lack of access to financial services may have adverse consequences for the poor seeking to escape poverty. To fill the gap between the supply and demand for financial services in the formal

*Corresponding author

ISSN 2167-9606 Print/ ISSN 2167-9614 Online/ World Scholars
http://www.worldscholars.org

financial sector constitutes a major challenge. This gap has arisen not because of the shortage of funds in the formal financial sector but because lending to the poor results in high transaction costs, moral hazards and high risk (Stiglitz & Weiss, 1981). In several developing economies, governments have intervened with microfinance to minimise this gap by using innovative new contracts to cater to underserved people (Armendáriz de Aghion & Morduch, 2004). The microfinance industry serves as an important provider of credit to less advantaged people who seek small amounts of money with little or no assets to offer as collateral. Recent public media have commented extensively on microfinance as an important instrument to combat extreme poverty in some nations (Hermes & Lensink, 2007).

For this reason, it is important to identify in what way microfinance can reduce poverty. The objective of this study is to identify the social performance measurements of microfinance institutions and analyse to what extent these measurements are found in such institutions (henceforth MFIs). This paper identifies the gap in prior studies conducted in the microfinance area based on recently published social performance consultancy reports. This will contribute to the overall objectives of the microfinance sector by highlighting new social performance variables that need to be considered in order to improve their overall performance when conducting their business.

Significance of the Study

MFIs provide small loans to poor and low-income people who do not have access to formal financial services, to finance their entrepreneurial activities and assist them to advance out of poverty by meeting their financial requirements. Widespread public enthusiasm for microcredit has generated a dramatic increase in the number of MFIs operating in developing countries. Due to the high profits and public perception of social responsible investment in the sector, large banks also have entered the microfinance industry. With the involvement of the banks, this sector has grown commercially and now concerns itself only with profitability. MFIs are now drifting from their original mission of alleviating poverty. This has been confirmed by the New York Times in a front page article, "Banks making big profits from tiny loans," which criticised the microfinance sector in general (Sinclair, 2012). Muhammad Yunus, the foremost pioneer of the microfinance movement, also expressed the opinion that MFIs are needed to protect the poor from loan sharks and not give rise to their own breed of loan sharks.

Socially responsible investments are becoming increasingly popular around the world. Some investors show a preference for investments that integrate social and ethical considerations and pursue both financial and social objectives (Renneboog, Ter Horst, & Zhang, 2008) and are interested in reaching worthy objectives such as reducing poverty and achieving MDGs (Millennium Development Goals). Typically, these investors expect companies to be more focussed on social welfare than purely on value maximization. They are more likely to invest their money in MFIs than other commercial investments when MFIs have a clearly demonstrable dual mission. The social objective of alleviating poverty is the core concept of MFIs. Socially responsible investors contributed to a notable boom in the volume of global microfinance investments between 2003 and 2007, indicating that the microfinance industry was a very attractive option. For the years 2004 to 2006, foreign capital investment (both debt and equity) in this industry more than tripled to USD 4 billion (Reille and Forster, 2008). The integration of social mission with strategic and operational decisions is therefore essential, according to Lapenu, Foose, Bédécarrats, and Verhagen (2009).

Literature Review

Microfinance and Social Development

The role of financial development in economic progress goes back to Schumpeter's (1912) "Theory of Economic Development" and has been examined both theoretically and empirically in past studies. These studies investigate the evolution of finance systems and their role in economic development. They debate the positive impact of financial development on real wealth. When economic development occurs, countries experience rapid growth in financial assets. Extensive studies conducted on this topic noted that financial development correlated with economic growth (Goldsmith, 1969).

Financial activities play a major role in economic development by promoting overall income levels and raising and pooling funds, allowing more risky investments to be undertaken and allocating resources to high productivity sectors (Helms, 2006; Tinh Thanh, 2011). There is a key relationship between the depth of the financial system and investment, growth and poverty. Many economists and financial practitioners say that the development of financial service sectors in a country is a significant factor for economic growth and also influences the social, economic and political environment of that country (Calderón & Liu, 2003; Erdal et al., 2011; Houssem & Hassene Ben, 2011; Jeanneney, Hua, & Liang, 2006; King & Levine, 1993).

However, efforts to provide formal credit and financial services for the poor in developing countries have failed in past decades. Usually, the formal banking sector has been reluctant to serve this segment due to the perceived high risk and high transaction costs associated with small loans and

savings deposits. Microfinance aims to change all that by using innovative new contracts to serve low-income and poor people and still make a profit (Armendáriz de Aghion & Morduch, 2004). It is generally believed that microfinance emerged with the sole objective of alleviating poverty and that it builds financial markets that meet the diverse financial needs of poor people who do not have access to the formal financial sector (Brau, Hiatt, and Woodworth, 2009; Daley-Harris, 2006; Rock, Otero, & Saltzman, 1998).

Started by Muhammad Yunus, who pioneered the idea of microcredit, the Grameen Bank concept has successfully brought financial services to poor women in Bangladesh as a solution to poverty in the developing world. This new way of doing business secures finance from public and private sector investors, lenders and donors to solve developing country problems such as employment, health and education. The concept has helped to create entrepreneurs who work to improve living standards (Yunus & Weber, 2007). Nearly 70 million low-income individuals throughout the world are served by MFIs (Daley-Harris, 2006). It is estimated that in 2007 there was a total of around 10,000 MFIs in the world (Ming-Yee, 2007), serving over 113 million clients. MFIs are seen to play a significant role in eradicating poverty in developing nations around the world (Caudill, Gropper, & Hartarska, 2009; Zohir & Matin, 2004). Some popular newspapers such as The Economist, the New York Times, and the San Francisco Examiner, have argued that microfinance could be the most important tool for reducing poverty.

Clearly, MFIs serve only a small portion of people in need of such services in the world (CGAP, 2004, 2006) and an expansion of their activities to serve more people is imperative. People on low incomes need the services of MFIs and perceive them to be sustainable. To remain sustainable, MFIs must come up with new approaches to increase their efficiency and impact. They need to offer financial products which are actually needed by the poor to reduce the fluctuations in their volatile incomes and expenses (Sinclair, 2012).

Poverty Alleviation Measurements in Social Development Studies

At the United Nations Millennium Summit in 2000, government heads declared that by adopting the Millennium Development Goals (MDGs), recognised as internationally agreed development objectives, any country could achieve economic growth. These MDGs are new goals to reduce poverty, achieved through various dimensions of welfare, such as increasing access to basic education, primary health care, nutrition, safe water and women's empowerment (IFAD, 2003). With the MDG declaration, donor agencies and governments organised their programmes around the attainment of these goals. They deployed their resources to reduce poverty and hunger, eradicate HIV/AIDS and infectious diseases, empower women and improve their health, advance children's education, and reduce the level of child mortality (Littlefield, Morduch, & Hashemi, 2003).

Achieving a concrete set of MDGs is a large part of any development strategy and many scholars in social development studies have pointed out that progress in achieving these goals is particularly dependent on factors like having a functioning government, physical security, economic development and basic infrastructure (Littlefield et al., 2003). Evidently, there is a strong relationship between a financial system and the achievement of MDGs. As part of their work in social development studies, some scholars have undertaken research to identify how the improved financial system of a country enables the poor to reduce their poverty. Thus it is important to identify the variables and factors that promote improvement in the outlook for the poor in developing countries.

Some studies have considered level of income as a major factor for measuring the impact of the financial system (Cuong, 2008) while others have particularly emphasised income-generating activities adopted by the poor such as microenterprise, livestock products and agriculture (Montgomery & Weiss, 2011). Some studies consider the total monthly/annual per capita expenditure on healthcare, education, food and non-food items (Cuong, 2008; Islam, 2008; Khandker, 2005; Montgomery & Weiss, 2011; Pitt & Khandker, 1998; Tinh Thanh, 2011). The number of children (girls/boys) aged 5-17 enrolled in school and absenteeism from school are taken as another measure to discover the impact of the financial system on the education of the poor (Montgomery & Weiss, 2011; Pitt & Khandker, 1998).

The level of male/female household and village-level borrowing is also used as a measure of the impact of the financial system on poverty (Khandker, 2005; Pitt & Khandker, 1998). Nawaz (2010) has used 13 socio-economic indicators: income, food, clothing, healthcare, housing, furniture, electronics, tube wells, toilets, children's education, social status, voting, and coping vulnerability to evaluate the impact of microfinance on poverty by using evidence from a Bangladeshi village. Hours per month of the labour supplied by women or men aged between 16 and 59 years and women's non-land assets are taken to measure group-based credit impact on poor households in Bangladesh (Pitt & Khandker, 1998).

Social Performance Measures in MFI Governance Studies

Like other firms, MFIs also have to measure their performance to evaluate their existence and growth.

Unlike other firms, however, MFI performance encompasses both finances and outreach. Since the evolution of microfinance, different segments of this industry suggest various evaluation criteria for MFI performance (Kereta, 2007; Meyer, 2002; Ngehnevu & Nembo, 2010). Zeller and Meyer (2002) emphasise three critical dimensions, the “critical triangle of microfinance,” that should be considered in evaluating MFI performance: financial sustainability, outreach to the poor, and impact on welfare. All sides of the triangle must be evaluated for MFI performance and are needed to improve a firm’s success. According to Zeller and Meyer, “impact” means that MFIs have a discernible effect on clients’ quality of life. They also emphasise that the most reliable indicator of impact is their retention of clients and their ability to function without direct subsidies.

Outreach is one of the important objectives in the critical triangle that MFIs need to reach. Currently available measurements of MFIs indicate an overriding concern with the profitability of MFI activities and less with social performance. Outreach, however, is a multifaceted concept that must be measured according to various dimensions (Meyer, 2002; Navajas, Schreiner, Meyer, Gonzalez-vega, & Rodriguez-meza, 2000). Navajas et al. (2000, p. 335) highlighted six aspects for measuring MFI outreach, stating that “outreach is the social value of the output of a microfinance organisation in terms of depth, worth to users, cost to users, breadth, length, and scope.”

In simple terms, most scholars describe outreach as the number of borrowers or clients served by MFIs (Bassem, 2009; Cull, Demirgüç-Kunt, & Morduch, 2007; Hartarska, 2005, 2009; Hartarska & Mersland, 2009; Hartarska & Nadolnyak, 2007; Kereta, 2007; Mersland & Strøm, 2009; Meyer, 2002; Navajas et al., 2000; Tchakoute-Tchuigoua, 2010). This means that those who had no previous access to formal financial services are now served by an MFI. These people are the poor who lack the collateral to obtain loans from the formal financial sector. Kyereboah-Coleman and Osei (2008) used the annual rate of change of active clients to evaluate outreach instead of the number of clients. Compared with men, women face greater problems in accessing loans. Scholars therefore measured the number of women served by finding out whether MFIs consciously target female clients in processing loan applications (Mersland, Randøy, & Strøm, 2011).

The poorest of the poor usually encounter many difficulties in gaining access to credit from formal financial institutions as they are unable to prove their repayment ability due to a lack of collateral. It is essential to identify poor clients. Hartarska (2005), Tchakoute-Tchuigoua (2010) and Bassem (2009) employed “depth of outreach” as one criterion in their study to measure the outreach of microfinance activities. The term refers to "the value the society attaches to the net gain from the use of micro credit by a given borrower” (Navajas et al., 2000, p. 335). Even though it is difficult to measure the depth of outreach, it is important to know how well MFIs reach the very poor. Furthermore, they highlighted the criteria of worth to users and cost to users as two additional important aspects of outreach. These refer to how much the borrower is willing to pay for the loan and the cost of the loan to a borrower respectively. Normally, the cost of a loan consists of interest rates and various other loan-related transaction costs that they have to pay the lender.

Another important factor in evaluating MFI outreach is the variety of financial services or quantity of types of contracts offered, referred to as the scope of the outreach (Navajas et al., 2000). This highlights the demand of the poor for financial instruments and indicates how their welfare has improved through efficient and secure savings, insurance, remittance transfers and other services that are provided in addition to loans (Meyer, 2002). Shetty (2008) identified this service as “credit plus services,” also known as the “integrated approach” or “maximalist approach” in microfinance. The alleviation of poverty is not always achieved by providing simple access to credit when the demand for financial services changes with the level of poverty (Sinclair, 2012). This indicates that MFIs can deliver not only credit services to their poor clients but also a variety of other services such as savings, micro-insurance, micro-enterprises or self-employment development, health care services, various training and awareness programmes, and networking with various institutions (Shetty, 2008).

Navajas et al. (2000) also noted the length of outreach which refers to the time frame within which a microfinance organisation offers loans to the poor. MFIs offer loans for a longer period of time. If borrowers expect to receive additional loans in future, they will be strongly motivated to pay back their loans. Otherwise, if loans are only short-term, this will hinder the social welfare of the community. In addition, some scholars employed average outstanding loan size (Galema, Lensink, & Mersland, 2012; Mersland et al., 2011; Mersland & Strøm, 2009) and the volume of loans (Hartarska and Mersland, 2009) given to the poor as a measure of outreach. Mersland et al. (2011) used rural and urban market criteria as an outreach measure, reflecting the focus of MFI loans. This shows whether MFI is giving loans only to the rural poor, the urban poor or both rural and urban poor.

Social performance measures in consultancy reports

In recent years, there has been significant discussion concerning the introduction of social perfor-

mance criteria for measuring MFI performance since traditionally the success of MFIs has often been measured using only financial measurements. The additional criteria have encouraged MFIs to improve their understanding of the simultaneous pursuit of financial and social performance, a "double bottom line", in tradeoffs between economic and social return on investment (Koning & McKee, n.d.; Zeller, Lapenu, & Greeley, 2003). The social performance of MFIs measures the level of their dedication to fulfilling their social mission (Bédécarrats, Baur, & Lapenu, 2011). This mission is determined by the basic client problem that an unstable family income results in a lack of household security. Thus, these social performance measures are important means for determining the amount of work done by the MFI and where MFI has invested its money to accept visibility from the society.

The social performance indicators initiative was launched in June 2002 at a meeting in Amsterdam organised by Koenraad Verhagen (Argidius Foundation) and Syed Hashemi (CGAP). The initiative was supported by the Argidius Foundation, was administered by CERISE (the Comité d'Echange, de Réflexion et d'Information sur les Systèmes d'Epargne-crédit is a platform of France-based leading microfinance support organisations), and was wholly coordinated by CGAP. The Universal Standards for Social Performance Management, agreed by the Social Performance Task Force (SPTF), provide a core set of indicators for MFIs to achieve their social objectives. These social performance management standards have incorporated to the Microfinance Information Exchange (MIX) reporting standards as a guideline, to improve transparency concerning on social performance and as a benchmark to evaluate MFIs in the MIX database.

SPTF defines social performance as "The effective translation of an institution's social mission into practice in line with accepted social values such as serving larger numbers of poor and excluded people, improving the quality and appropriateness of financial services, creating benefits for clients, and improving social responsibility of an MFI." Zeller et al. (2003) noted that there are four major dimensions of social performance. Then CERISE has established a breakdown of the Zellers et al's four major dimensions of social performance (Bédécarrats et al., 2011).

Outreach to the poor and excluded

This declares that MFIs need to approach the poor who are unable to access traditional banking. The mission and objectives of MFIs are to be developed with a view to approaching the poor. The MFIs' depth of outreach can be measured and evaluated.

a. Geographic targeting. The institutional decision is made to operate in isolated, remote and poor areas where there are no financial services available;
b. Individual targeting. The MFI deliberately selects clients based on poverty levels or the lack of access to finance;
c. Pro-poor methodology. MFIs design services specifically to reach the poor or excluded people.

Adaptation of services and products to the target clients

The financial needs of the target poor population should be identified and loan products should be designed accordingly.

a. Range of traditional services. Offering a range of financial services;
b. Quality of services. Delivering high quality services;
c. Innovative and non-financial services. Arrange for innovative and non-financial services.

Improvement in the social and political capital of clients and communities

Building up a relationship with clients helps to minimise operational risk and increases the repayment rate.

a. Economic benefit to clients. Along with financial services for the poor, MFIs need to track and monitor changes and implement practices to verify whether benefits are received by the clients;
b. Client participation. Strengthening the social network by the involvement of clients in governance;
c. Social capital/client empowerment. Promoting clients' empowerment.

Social responsibility of MFIs

Social responsibility explains the adaptation of MFI corporate culture and the socio-economic context, an adequate human resource policy etc.

a. SR to employee. Implementing appropriate human resource policies;
b. SR to clients. Guaranteeing the respect of consumer protection principles;
c. SR to the community and the environment. Taking care to respect the culture, community and context where MFIs operate.

Moreover, CGAP proposed social performance indicators to measure the MDGs of financial institutions. These can be described as depth of outreach, reducing poverty and hunger (improvements in housing structure, increase in assets), promoting schooling (primary, secondary school attendance), access to health care services (access to clean water, immunization and prenatal care, use of modern medical facilities) and women's empowerment and social capital. Recently, MIX collected pilot data

from 22 social performance indicators in 2009 and then redefined them in 2011 with the help of 400 MFIs. Subsequently, MIX and SPTF have reduced these to 11 indicators to measure MFI social performance (MIX, n.d.). These include mission and social goals relating to the poor, governance for social performance management, range of loan products and services, social responsibility to clients, transparency of interest rates charged, staff incentives, social responsibility for the environment, client poverty level, client outreach based on lending methods, microenterprise financing, and employment creation and client retention ability.

Methodology

This research obtained data concerning 415 MFIs from the MIX database to provide an overall understanding about the MFIs that reported social performance and to highlight the importance of social performance for the microfinance sector. This study used descriptive data analysis techniques to assess the characteristics of MFIs that reported social performance measures during 2008 and 2009. Thus, the sample consists of 558 observations.

Descriptive Results and Discussion

Based on the data available in the MIX social performance database, the number of MFIs reporting social performance has increased by 72 per cent from 2008 to 2009. Of those who reported social performance, 43 per cent of them are non-government organizations (NGOs) and 38 per cent are non-banking financial institutions (NBFIs). The remaining institutions are banks, cooperative/credit unions and rural banks (9 per cent, 8 per cent and 2 per cent respectively).

This study shows that 81 per cent of MFIs who reported social performance aim to reach low income clients rather than the poor (61 per cent) and very poor (32 per cent). Of 415 MFIs who reported social performance, almost all target female borrowers (84 per cent), clients living in urban or semi-urban areas (80 per cent) and clients living in rural areas (77 per cent). This is a good start for these institutions, showing their contribution to social development.

Further, analysis has shown that 99 per cent and 64 per cent of observations support microenterprises and small enterprises respectively, rather than medium and large enterprises. This outcome supports the development of entrepreneurship activity in a country. About 86 per cent of the sample has poverty reduction objectives when providing financial and non-financial products and services to clients. It is further noted that 85 per cent of the sample provide facilities to promote the growth of existing businesses and 78 per cent aim to assist in employment generation. An interesting observation is that 31 to 35 per cent of MFIs provide financial and non-financial products and services for adult education improvement, children's schooling and health improvement.

Different types of loan provided by the selected sample are presented in Table 1. According to the data supplied, half of the MFIs in the sample provide products and services for consumption purposes, providing loans for housing and household needs such as the purchase of a television, or to pay a bill. Theoretically, MFIs must provide loans for clients to spend on productive entrepreneurial activity. However, the results indicate that not everyone who gets a micro loan is a promising entrepreneur. By examining the growing body of knowledge in the microfinance sector, this study emphasises the importance of assessing social performance.

Table 1. Range of products and services.

Loan	Percentage	Savings	Percentage
Microcredit loans for microenterprises	97	Voluntary savings	30
SME loans	53	Compulsory savings (cash collateral)	16
Loans for agriculture	48	Fixed term deposits	24
Housing loans	50	Special purpose savings accounts	14
Microcredit for other household needs/ consumption	49	Checking accounts	9

Conclusion and Policy Implications

This study identifies significant social performance measurements that should be considered by MFIs when measuring their performance as they need to evaluate the social impact of funded activities. Many MFIs currently consider only improvement in their output, such as the number of borrowers served, the number of jobs created, average loan outstanding, and depth of outreach but not improvements in outcome such as measuring the impact on client income, and the impact on the education and social status of clients and their family members. Little consideration has previously been given by scholars to the mapping of social outcomes with MFI operations. Microfinance is a social business and must give careful consideration to social performance as this enhances the overall per-

formance of the organisation. Financial performance is only an accompaniment to social performance, which is crucial to carry on service to clients. To achieve it, MFIs are required to provide evidence of achievements in social performance such as housing, health, and client empowerment.

Theoretically MFIs must provide loans for clients to spend on productive entrepreneurial activity. However, not everyone who gets a micro loan can be regarded as a promising entrepreneur. Many clients undertake microfinance loans for consumption purposes, such as to buy a television or pay a bill. Only about five per cent of total microfinance loans are borrowed for productive purposes. Generally, MFIs do not report their consumption loans and many fund providers do not appear to check their client portfolio information. However, in future almost all the investors and stakeholders in the microfinance industry will give close attention to the social development secured by their investments. The relationship between funding and social performance is an example that informs donors' decisions. In addition to the credit facilities which represent the hard level outputs, MFIs should also consider the soft side such as consultancy services for borrowers on budgeting, inventory control and business planning.

This study offers insights for national-level policy makers interested in the social impact of MFIs within their own countries. Regulators must play a major role in reducing the damage MFIs are causing, by toughening reporting requirements and making the reports available to the general public. Once the public loses faith in financial institutions, people will withdraw their money and this could cause the collapse of entire banking and financial systems. Now the sector is attempting to reinvent itself. The microfinance sector needs to be more effective if it wants to become the miracle cure for poverty. This study makes an advanced contribution to the understanding of MFI social performance, highlighting various kinds of social performance. This will enable MFIs to conduct operations in relation to social objectives. This study posits the need for comprehensive empirical studies for the microfinance industry, using econometric techniques to support the conceptual literature available at present.

References

Armendáriz de Aghion, B., & Morduch, J. (2004). Microfinance: Where do we stand?, 135-148. Retrieved from http://www.pfsprogram.org/sites/default/files/G3_FAI_WhereWeStand_0.pdf

Bassem, B. S. (2009). Governance and performance of microfinance institutions in Mediterranean countries. *Journal of Business Economics and Management, 10*(1), 31-43.

Bédécarrats, F., Baur, S., & Lapenu, C. (2011). *Combining social and financial performance: A paradox?* Valladolid, Spain. Retrieved from http://microcredit.momentumitgroup.com/resource/23/combining-social-and-financial-performance.html

Berenbach, S., & Churchill, C. (1997). *Regulation and supervision of microfinance institutions Experiences from Latin America Asia and Africa*. Washington, D.C.: USAID

Brau, J. C., Hiatt, S., & Woodworth, W. (2009). Evaluating impacts of microfinance institutions using Guatemalan data. *Managerial Finance, 35*(12), 953-974.

Calderón, C., & Liu, L. (2003). The direction of causality between financial development and economic growth. *Journal of Development Economics, 72*(1), 321-334.

Caudill, S. B., Gropper, D. M., & Hartarska, V. (2009). Which microfinance institutions are becoming more cost effective with time? Evidence from a mixture model. *Journal of Money, Credit and Banking, 41*(4), 651-672.

CGAP. (2004). *Annual Report 2004*. Washington, DC: Consultative Group to Assist the Poor, The World Bank. Retrieved from http://www.cgap.org/gm/document-1.9.41932/CGAP_Annual_Report_2004.pdf

CGAP. (2006). *Good practice guidelines for funders of microfinance*. Washington, DC: Consultative Group to Assist the Poor, The World Bank. Retrieved from http://www.mastercardfdn.org/pdfs/Good%20Practice%20Guidlines.pdf

Claessens, S. (2006). Competitive implications of cross-border banking. *World Bank Policy Research Working Paper No. 3854*

Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2007). Financial performance and outreach: A global analysis of leading microbanks. *The Economic Journal, 117*(517), F107-F133.

Cuong, N. V. (2008). Is a governmental micro-credit program for the poor really pro-poor? Evidence from Vietnam. *The Developing Economies, 46*(2), 151-187.

Daley-Harris, S. (2006). *State of the microcredit summit campaign report 2006*. Washington, DC: Microcredit summit campaign

Dollar, D., & Kraay, A. (2002). Growth is good for the poor. *Journal of Economic Growth, 7*(3), 195-225.

Erdal, D., Oguzhan, A., & Ahmet, I. (2011). The Direction of Causality between Financial Development and Economic Growth: Evidence from Turkey. *International Journal of Management, 28*(1), 3 -19.

Ferreira, F. H. G., Leite, P. G., & Ravallion, M. (2010). Poverty reduction without economic growth? Explaining Brazil's poverty dynamics, 1985-2004. *Journal of Development Economics, 93*(1), 20-36.

Galema, R., Lensink, R., & Mersland, R. (2012). Do powerful CEOs determine microfinance performance? *Journal of Management Studies, 49*(4), 718-742.

Gingrich, C. D. (2004). Community-based savings and credit cooperatives in Nepal: A sustainable means for microfinance delivery? *Journal of Microfinance, 6*(1), 21-39.

Goldsmith, R. (1969). *Financial Structure and Development*. New Haven: Yale University Press.

Hartarska, V. (2005). Governance and performance of microfinance institutions in Central and Eastern Europe and the newly independent states. *World Development, 33*(10), 1627-1643.

Hartarska, V. (2009). The impact of outside control in microfinance. *Managerial Finance, 35*(12), 975-989.

Hartarska, V., & Mersland, R. (2009). Which governance mechanisms promote efficiency in reaching poor clients? Evidence from rated microfinance institutions. *European Financial Management, 18*(2), 218-239.

Hartarska, V., & Nadolnyak, D. (2007). Do regulated microfinance institutions achieve better sustainability and outreach? Cross-country evidence. *Applied Economics, 39*(10), 1207-1222.

Helms, B. (2006). *Access for all: Building inclusive financial systems*. Retrieved from http://books.google.co.nz/books?id=t7vpYGj4qa8C&printsec=frontcover#v=onepage&q&f=false doi:10.1596/978-0-8213-6360-7

Hermes, N., & Lensink, R. (2007). The empirics of microfinance: What do we know? *The Economic Journal, 117*(517), 1-10.

Houssem, R., & Hassene Ben, M. (2011). The Causality between financial development and economic growth: Panel data cointegration and GMM system approaches. *International Journal of Economics and Finance, 3*(1), 143 - 151.

IFAD. (2003). *Achieving the millennium development goals by enabling the rural poor to overcome their poverty*. Rome, Italy: International Fund for Agricultural Development

Islam, A. (2008). *Who benefits from microfinance? The impact evaluation of large scale programs in Bangladesh*. Australia: Department of Economics, Monash University

Jeanneney, S., Hua, P., & Liang, Z. (2006). Financial development, economic efficiency and productivity growth: Evidence from China. *The Developing Economies, 44*(1), 27-52.

Kereta, B. B. (2007). Outreach and financial performance analysis of microfinance institutions in Ethiopia (pp. 1-37):

Khandker, S. R. (2005). Microfinance and Poverty: Evidence Using Panel Data from Bangladesh. *The World Bank Economic Review, 19*(2), 263-286.

King, R. G., & Levine, R. (1993). Finance, entrepreneurship and growth. *Journal of Monetary Economics, 32*(3), 513-542.

Koning, A., & McKee, K. (n.d.). *Social Performance.* Retrieved from http://www.cgap.org/topics/social-performance

Kyereboah-Coleman, A., & Osei, K. A. (2008). Outreach and profitability of microfinance institutions: the role of governance. *Journal of Economic Studies, 35*(3/4), 236-248.

Lapenu, C., Foose, L., Bédécarrats, F., & Verhagen., K. (2009). *Social performance governance*. Social Performance Progress Brief Argidius Foundation. Retrieved from http://inthiseconomy.org/SPTF/docs/Social-Performance-Governance.pdf

Littlefield, E., Morduch, J., & Hashemi, S. (2003). *Is microfinance an effective strategy to reach the Millennium Development Goals?* (2003). Washington, D.C.: Consultative Group to Assist the Poor (CGAP). Retrieved from: http://www.cgap.org/publications/microfinance-effective-strategy-reach-millennium-development-goals

Mersland, R., Randøy, T., & Strøm, R. Ø. (2011). The impact of international influence on microbanks' performance: A global survey. *International Business Review, 20*(2), 163-176.

Mersland, R., & Strøm, R. Ø. (2009). Performance and governance in microfinance institutions. *Journal of Banking and Finance, 33*, 662-669.

Meyer, R. L. (2002). *Track Record of Financial Institutions in Assisting the Poor in Asia* (Vol. 49). Tokyo, Japan: Asian development bank institute (ADBI)

Ming-Yee, H. (2007). *The international funding of microfinance institutions: An Overview*. LuxFLAG. Retrieved from http://www.microfinance.lu/fileadmin/m edia/Publications/downloads/etudes/MF_intermediation_overview_01.pdf

MIX. (n.d.). *Social Performance Indicators* Retrieved from http://www.themix.org/social-performance/Indicators

Montgomery, H., & Weiss, J. (2011). Can commercially-oriented microfinance help meet the millennium development goals? Evidence from Pakistan. *World Development, 39*(1), 87-109.

Navajas, S., Schreiner, M., Meyer, R. L., Gonzalez-vega, C., & Rodriguez-meza, J. (2000). Microcredit and the poorest of the poor: Theory and evidence from Bolivia. *World Development, 28*(2), 333-346.

Nawaz, S. (2010). Microfinance and poverty reduction: evidence from a village study in Bangladesh. *Journal of Asian and African studies, 45*(6), 670-683.

Ngehnevu, C. B., & Nembo, F. Z. (2010). *The Impact of Microfinance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Cameroon: A case study of CamCCUL*. Swedish University of Agricultural Sciences, Uppsala. Retrieved from http://stud.epsilon.slu.se/1614/1/ngehnevu_c_etal_100714.pdf

Pitt, M. M., & Khandker, S. R. (1998). The impact of group-based credit programs on poor households in Bangladesh: Does the gender of participants matter? *Journal of political economy, 106*(5), 958-996.

Prahalad, C. K. (2010). *The fortune at the bottom of the pyramid: Eradicating poverty through profits* (5 ed.). S. Kobrin (Ed.)

Ravallion, M., & Chen, S. (1997). What can new survey data tell us about recent changes in distribution and poverty? *World Bank Economic Review, 11*(2), 357-382.

Reille, X., & Forster, S. (2008). *Foreign capital investment in microfinance: Balancing social and financial returns*. Washington, D.C. USA: CGAP. Retrieved from http://www.cgap.org/gm/document-1.9.2584/FN44.pdf

Renneboog, L., Ter Horst, J., & Zhang, C. (2008). Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of Banking and Finance, 32*(9), 1723-1742.

Robinson, M. S. (2001). The microfinance revolution: Sustainable finance for the poor (pp. 1-3). Washington, DC: World Bank.

Rock, R., Otero, M., & Saltzman, S. (1998). *Principles and practices of microfinance governance*. Bethesda, United States of America: Development Alternatives, Inc. . Retrieved from http://www.ifc.org/ifcext/corporategovernance.nsf/AttachmentsByTitle/Microfinance%2BGovernance%2BPractices.pdf/$FILE/Microfinance%2BGovernance%2BPractices.pdf

Schumpeter, J. A. (1912). *The theory of economic development*. Cambridge, MA: Harvard University Press.

Shetty, N. K. (2008). The microfinance promise in financial inclusion and welfare of the poor: Evidence from India. *The IUP Journal of Applied Economics, 8*(5)

Sinclair, H. (2012). *Confessions of a microfinance heretic: How microlending lost its way and betrayed the poor*. San Francisco, CA: Berrett-Koehler Publishers.

Stiglitz, J. E., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American Economic Review, 71*(3), 393-410.

Tchakoute-Tchuigoua, H. (2010). Is there a difference in performance by the legal status of microfinance institutions? *Quarterly Review of Economics & Finance, 50*(4), 436-442.

Tinh Thanh, D. (2011). *Impacts of household credit on the poor in peri-urban areas of Ho Chi Minh City, Vietnam*. University of Waikato

Wang, Q. (2007). *Does rating help microfinance institutions raise funds? A cross-country analysis of the role of rating agency: Assessments in microfinance industry*. Auburn University. Retrieved from http://etd.auburn.edu/etd/bitstream/handle/10415/1329/WANG_QIANFEI_8.pdf?sequence=1

World Bank. (2012). *Data.* Retrieved from: http://data.worldbank.org/

Yunus, M., & Weber, K. (2007). *Creating a world without poverty: Social business and the future of capitalism*: Public Affairs.

Zeller, M., Lapenu, C., & Greeley, M. (2003). *Social performance indicators initiative (SPI): Final report*. Paris: Comite d'Echange, de Reflexion et d'Information sur les systemes d'Epargne-credit (CERISE)

Zeller, M., & Meyer, R. L. (2002). *The triangle of microfinance: Financial sustainability, outreach, and impact* (40). Washington, D.C.: International Food Policy Research Institute. Retrieved from http://ageconsearch.umn.edu/bitstream/16592/1/fp020040.pdf

Zohir, S., & Matin, I. (2004). Wider impacts of microfinance institutions: Issues and concepts. *Journal of International Development, 16*(3), 301-330.