

## Social Performance Management and Sustainability of Microfinance Institutions

### Tilak Ghising<sup>1</sup>

<sup>1</sup>Ph.D. Scholar, Faculty of Management, Dr. K.N. Modi University, Newai, Jaipur, Rajasthan, India

\*Corresponding Author: [tilakghising1@gmail.com](mailto:tilakghising1@gmail.com)

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### Abstract

*Social performance management refers to the ability to achieve social goals by putting customers at the center of strategy and operations in microfinance institutions. The social performance of a microfinance institution means its effectiveness in achieving social goals and creating value for customers. This is just one aspect of social performance management. Social performance management examines the whole process through which an effect occurs. In the present study, social performance is considered as an assessment of social goals such as targeting the poor and marginalized, an adaptation of services that deliver economic benefits to customers, and the environment, and employees to improve social responsibility towards customers and the community. The overall performance of microfinance institutions contributes to the long-term sustainability of the organization. Sustainability of microfinance institutions means the long-term continuation of the microfinance program, which includes continuity of financial and non-financial services of microfinance institutions. The sustainability of microfinance institutions are measured by using a portfolio, performance, financial management, and profit-to-financial ratio. In the present study, the sustainability of microfinance considered as a long-term continuation of the program that benefits all stakeholders in the microfinance sector and society. Most microfinance institutions devote their efforts to achieving the social and financial goals of the organization. Social performance facilitates progress in achieving the social goals of microfinance institutions. As such, sustainability is a dynamic concept that aims to meet the expected cost of all programs and return on investment.*

**Keywords:** Microfinance, Social Performance, Sustainability

### 1. Introduction

The concept of Microfinance was developed to mobilize small savings of poor people to create deposit, which may be accessible to unreachable and un-bankable poor, especially women. Microfinance is often described as a revolution or a panacea in fight against poverty. It provides access to financial services to those who are excluded from traditional banks. Proponents of the microfinance model assumes that the poor have the capacity to become small entrepreneurs, and given access to microcredit in particular, they will create economic and social transformation.

The origin of Microfinance can be traced back to 1976, when Mohammed Yunus set up the Grameen Bank, as an experiment, in Bangladesh. Later, the Grameen model of Grameen Bank, Bangladesh was replicated in developing countries. Since then several

microfinance institutions have come and succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies overtime. Now, after decades of implementation worldwide, some say microfinance is no panacea, but simply the latest in a series of approaches to rural development finance (Armendáriz & Morduch, 2010).

Microfinance, a popular term in the field of financial inclusion, is also recognized as one of the developmental tools to enhance the income and the standard of living of the marginalized through a sustainable business model. As stated in Nepal Rastra Bank (ECONOMIC REPORT, 2008/2009), the formal microfinance sector in Nepal started in 1974, when NRB directed Nepal Bank Limited (NBL) and RastriyaBanijaya Bank (RBB) to lend at least 5 percent of their deposits under a “priority sector credit” Scheme.

The decade long Maoist insurgency against the government from 1996-2006 caused the withdrawal of commercial banking services from many rural and remote areas, leaving a void to be filled mostly by semi-formal microfinance institutions. Political instability continues, fuelled by a high degree of inequality and the complex caste and ethnic composition of the population; caste is the most powerful indicator of poverty in Nepal (Bank & DFID, 2006). There are stark differences in population density and infrastructure in the country’s three geographic zones that pose challenges to Grameen model methodology and standard financial products and services. Distortions caused by the Deprived Sector Lending Program (DSLPL) have resulted in high liquidity in many microfinance institutions. Within microfinance institutions, there is weak technical capacity in the areas of accounting and auditing, strategic planning, financial analysis and human resources (Ferrari, 2007).

The concept of social performance, financial performance in microfinance institutions, and the trend of commercialization resulted in understanding the effect of social performance on the sustainability of microfinance institutions. In this study, the effect of social performance on the sustainability of microfinance institutions will be analyzed. The study endeavors to present an academic framework for the impact of social performance on the sustainability of Nepalese microfinance institutions.

The purpose of this study is to evaluate whether focusing on social output affects the efficiency of MFIs. Inclusive growth is the key developmental aim for many developing countries, including Nepal. The role of microfinance institutions (MFIs) in promoting financial inclusion is widely applauded. However, to achieve financial sustainability, MFIs have become highly commercialized and are seen to have drifted away from their social mission. Various studies have shown the efficiency of MFIs on financial parameters. MFIs being a social enterprise, it is important to include social output among the efficiency parameters (Bharti & Malik, 17 June 2021). Microfinance promise to serve low-income or disadvantaged beneficiaries excluded from the formal banking sector in a financially sustainable way (thus the called “double bottom line” of financial and social performance) built excitement around the development of a global industry ( (Botti & Corsi, 2011).

### **1.1 Research Objective**

The main objective of study is to measure the social performance management of microfinance institutions.

### **2. Materials and Method Used**

The study is based on the review of literatures. It has reviewed the related literatures to know the theoretical ideas of social performance of MFIs and their sustainability. The two main ways of understanding the concept of social performance are to look at the results on the one hand, and at the management processes on the other.

### **3. Result and Discussion**

#### **3.1 Social Performance of MFI**

Social performance measurement of MFIs is important to multilateral agencies, donors and social investor. Beyond simple outreach measures, social performance measurement reveals how social goals are being met. There are several tools available for social performance measurement (SPM) in various contexts. Such tools aim to measure MFI adherence to social mission, governance, environmental and social responsibility, enterprises and employment created, and human resource practices, among other factors. Unlike financial performance, there is no standardized methodology to measure MFI social performance (Gutiérrez-Nieto, Serrano-Cinca, & Molinero, 2009).

In the absence of information about MFI social performance, investors may turn to the relatively few large and high profile MFIs offering high financial returns, even though other MFIs may yield higher combined social and financial returns (Kerer, 2008). Add some literatures/findings here.

#### **3.2 Sustainability and Social Efficiency Assessment**

As is the case with rural finance institutions, it is desirable to reduce or eliminate dependence on subsidies. The focus is on sustainability, using ratios to calculate operational self-sufficiency, return on assets, and return on equity. Nepali MFIs are encouraged by meso-level organizations to perform financial analysis for operational self-sufficiency. This does not mean that social goals are abandoned in the name of sustainability. A study found that institutions chose financial efficiency over social efficiency in order to ensure that they could continue their social mission. For this reason, socially efficient MFIs are also financially efficient (Gutiérrez-Nieto, Serrano-Cinca, & Molinero, 2009). There are so many factors that have been identified regarding clients protection for the sustainability of microfinance. Microfinance is a globally recognized as an effective and powerful instrument for poverty reduction and economic development. It has positive impact on whole economy in micro level (Lamichhane, 2021-04-29).

The six dimensions of the Universal Standards of Social Performance Management are:

- i. Define and monitor social goals
- ii. Ensure board management and employee commitment to social goals
- iii. Design products, services, delivery models and channels that meet clients' needs and preferences
- iv. Treat clients responsibly
- v. Treat employees responsibly
- vi. Balance financial and social performance

#### **3.3 Relationship between social performance and sustainability of MFI**

This study identifies the effect of social performance on the sustainability of microfinance institutions. It has been revealed that the conventional method of assessment of financial institutions is not applicable to the microfinance sector. Performance measurement of microfinance institutions has to be different from that of other financial institutions because of the social aspects involved besides profitability. Social performance has now become part of microfinance business along with business sustainability. Today, managerial decisions may have longer-term impact on how an MFI's dual mission is achieved.

### **4. Conclusion and Recommendation**

After analyzing the review of the literature of different articles and journals about the MFIs, it shows that all the MFIs, target rural areas demonstrate a better management of their social performance. The MFIs which only target rural areas; this may be explained by the fact that they have a stronger social mission and also, probably, that they have made a more

substantial investment to ensure the achievement of this mission, notably by the adaptation of the services and products to meet with local needs. The study determined that although NGOs are more likely to emphasize a social mission than other types of MFIs, they are equally driven to ensure sustainability, and are likely equally financially efficient.

It is not possible to analyze the direction of any causal link that may exist between social performance and financial performance or the temporal dimension of the potential effects; in order to do this, it would be necessary to observe the institutions' financial and social performances several times over a period.

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