

MAINSTREAMING MICROFINANCE: BALANCING FINANCIAL PERFORMANCE AND OUTREACH

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Abstract

There is an unsolved dilemma in the Sri Lankan microfinance sector: whether microfinance institutions target low-income earners or seek profitability. To contribute to this debate, this research investigates the effect of financial performance on outreach and the effect of outreach on financial performance. Balancing financial performance and outreach of microfinance institutions have been conducted in various countries and regions, but specifically not for Sri Lanka after implementing No.06 of 2016 Microfinance Act. This study used an empirical data set for ten years, from 2010 to 2019. Data was collected from 16 MFIs and the panel data regression model was used for the analysis. According to the results MFIs can achieve financial and social objectives simultaneously when serving a larger number of customers and a high percentage of female borrowers. But providing services to the core poor people diminishes their financial performance. As per the findings, policy makers are required to make a roadmap to protect both customers and organization financial sustainability. This study emphasizes the importance of having a proper reporting system for the microfinance sector and future research may wish to consider more MFIs by considering a long period and future research can occupy financial performance and outreach variables which are good at forecasting.

Keywords: Financial Performance, Microfinance Institutions, Outreach, Panel Data

JEL Classification: G20, G21

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1 Introduction

Microfinance Institutions (MFIs) also called as “banks of the poor” are incorporated to facilitate monetary support to the less-income earning people to enhance their living standard and eradicate poverty of in an economy. Therefore, enriching the social performances, also called outreach is vital to MFIs. Meanwhile, as fund providing organizations, MFIs are needed to carry out their business operations in a sustainable manner to provide services to their customers continuously. This requires maintaining high financial performance. Fusing financial success with expansive outreach is a challenge for the MFIs.

Both financial performance and outreach are essential to the MFIs. If MFIs are not practicing sustainable outreach, those institutes will be just another fund providing institutions (Thrikawala, et al., 2016). To display a healthy financial situation to stakeholders MFIs may keep high weight to financial objectives. That will be a challenge to MFIs to achieve their social objectives (high outreach). To accomplish social objectives, they need to select the poorest clients and grant facilities to them at a lower rate by deviating from the financial objectives. In contrast, overly financial vision tends to select wealthy clients at a relatively high rate with repayment assurance by threatening the social objectives of MFIs. Achieving financial success with outreach together causes conflicts. By examining in detail, this study shows the effect of financial performance on outreach and the effect of outreach on financial performance. To satisfy stakeholders, MFIs need to derive a trade-off between these two objectives. Therefore, the work presented in this study is vital and significant as this examines the effect of financial performance on the outreach and the effect of outreach on the financial performance of MFIs in the Sri Lankan context.

As a middle-income-earning country, Sri Lanka has an extraordinary demand for microcredit. To fulfill the growing demand, MFIs are required to acquire adequate financial resources at a minimum cost. To obtain funds from a commercial bank and other donors who grant their funds to help poor people, MFIs must maintain their operation, and administration costs at the lowest, and they are required to show their financial sustainability to the lenders. Optimizing these two objectives lead MFIs to a win-win situation (Bedecarrats et al., 2012; Mosley & Hulme, 1998; Morduch, 2000).

According to past studies, there are contradictory views about this trade-off among scholars and practitioners.

Demand for funds from financial services cannot fall through the available funds, and this shortage occurs in terms of lending to poor people, not from the formal financial sector. This demand and supply gap was mentioned as “missing middle” by Hugh, 2012 due to high risk, financial institutes in the formal banking sector serve well-established wealthy people. Therefore, MFIs have a greater opportunity to serve micro-level people to address poverty issues in developing countries. This study makes an effort to examine the effect of financial performance on outreach and the effect of outreach on the financial performance of MFIs operating in Sri Lanka by analyzing deep, historical microfinance data. This area is a novel and nexus of the microfinance sector in Sri Lanka.

There is an unsolved dilemma in the Sri Lankan microfinance sector whether MFIs target low-income earners or/ and seek profitability. Also, there is a problem in concluding whether MFI’s social performance contradicts or enhances the financial performance, and it is vital to discover the prime objective of MFIs. Bedecarrats et al. (2012), Mallika and Zhao. (2017), Mosley and Hulme(1998), Morduch (2000), Wijesiri et al. (2015) carried out their studies on this topic have been conducted in various countries and regions, but specifically not in Sri Lanka after implementing No.06 of 2016 Microfinance act. Therefore, this study addresses the existing contextual and empirical gap in microfinance literature and derived following research questions to find out the solution for the research problem.

To address the research problem, this study needs to discover answers to the below mentioned specific research questions.

1. What is the effect of financial performance on outreach of MFIs in Sri Lanka?
2. What is the effect of outreach on financial performance of MFIs in Sri Lanka?

To provide answers to these questions this study has derived the following objectives.

1. To identify the effect of financial performance on outreach of MFIs in Sri Lanka.
2. To identify the effect of outreach on financial performance of MFIs in Sri Lanka.

2 Literature Review

2.1 Critical Triangle of Microfinance

“Critical Triangle of Microfinance” is a concept explained by Zeller and Meyer (2002) to evaluate the performance of MFIs. The critical triangle can be illustrated in figure 1 (Zeller & Meyer, 2002, p. 3).

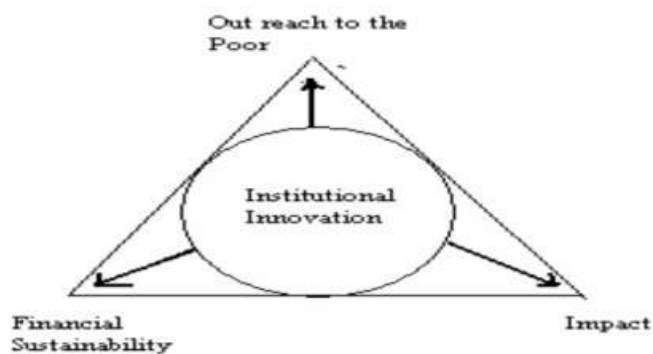


Figure 1- Critical Triangle of Microfinance, (Zeller & Meyer, 2002, p. 3)

According to Zeller and Meyer, (2002) inside circle indicates the innovations of MFIs. The outside circle explains the environment in which MFIs are operated. The corner of the triangle explains the objectives of microfinance. They are financial sustainability, outreach, and welfare. Arrows indicate how innovations affect the fulfillment of the objectives and the development of environment is positively associated with achieving objectives.

2.2 Microfinance and Outreach

The outreach has been explained in the literature as an effort to grant microfinance services to underserved people (Lafourcade et al., 2006). The pioneer of microcredit Mohammed Yunus (2007) has explained the importance of enhancing the social performance of MFIs through the Grameen Bank concept. Most developing countries throughout the world adopted this concept as an answer to the problem of poverty (Yunus & Weber , 2007).

To assess social performance numerous scholars applied the number of customers of MFIs as a pivotal metric, as Bruett (2005) and Thrikawala et al. (2013) utilized in their studies. Further, Meyer (2002), explained outreach as a multidimensional

scenario and identified various dimensions such as worth, breadth, length and scope of users, average loan size, depth of outreach, the cost to users. Meyer (2002) and Navajas, et al. (2000) presented outreach through six dimensions, namely depth, value to users, cost to users, breadth, length, and scope.

The breadth of outreach is a commonly used method to measure the social impact of MFIs. The number of active borrowers as of now has outstanding amounts in the MFIs is considered as a measure of breadth of outreach (Quayes, 2012). This measurement was used as a variable in many microfinance studies. (Bassem, 2012; Kipsha & Zhang, 2013; Roy & Pati, 2019).

During the past decade financial experts identified the importance of women's empowerment, as a result in 2011 Women's World Banking issued a publication to exhibit assistance of financial inclusion for females. Simultaneously, Women's World Banking published a gender performance tracking tool. Percentage of female borrowers from the total number of active borrowers was used to measure outreach by evaluating prior literature. (Thrikawala et al., 2013; Hartarska & Mersland, 2009).

Depth of outreach determines the degree to which MFIs reach core poor considering their state of poverty in a specific context giving a lesser value of depth which indicates that MFIs grant facilities to a higher number of poor people. By considering literature this study uses the given formula to calculate depth of outreach.

$$\text{Depth} = \frac{\text{Average outstanding loan balance per client}}{\text{GNI per capita}}$$

Lafourcade et al. (2006), suggested that GNP per capita is an imperfect measure of income disparities. Therefore, Lafourcade et al. (2006) suggested making some adjustments to the reported GNI per capita income and derives absolute impact to the poor people. To derive a real effect, this study removed the outlier impact on high income from the GNI per capita. According to the Weede (1981), a larger portion of income is enjoyed by 20% of the population. Therefore, to calculate the adjusted GNI per capita below steps were followed.

Step 1: Removed 20% from population as highest income element.

Step 2: Excluded 50.8% ²from total GNI as income distributed among wealthier 20% of people.

Step 3: Divide adjusted GNI from adjusted mid-year population.

Table 1. Sri Lanka - GNI per Capita

Year	Gross National Income per capita (LKR)	Adjusted Gross National Income per capital (LKR)
2010	313,097	192,255
2011	350,369	215,477
2012	419,955	258,272
2013	454,993	279,821
2014	487,298	299,688
2015	509,103	313,098
2016	550,697	338,679
2017	605,076	372,122
2018	662,949	407,713
2019	688,717	423,561

Evaluating all the outreach measurements related to the microfinance industry, this study used the breadth of outreach, percentage of female borrowers and depth of outreach to calculate the outreach of MFIs.

2.3 Microfinance and Financial Performance

As described in the critical triangular approach by Meyer (2002), financial performance or sustainability is essential for MFIs to serve core poor people.

² Extracted the upper quintile value from the Department of Census and Statistics - Household Income and Expenditure Survey 2016 report. See page no. 5 of the <http://www.statistics.gov.lk/Newsletters/HIES200910FinalBuletin.pdf>

Furthermore, the critical triangular approach noted that low-income earners are required to obtain credit facilities for a long period because single time access does not eradicate poverty. To provide continuous support to microfinance customers, MFIs need to survive in the financial market with good financial performances.

Meyer (2002) finds two types of sustainability named Operating self-sustainability and Financial self-sustainability. Under the Operating self-sustainability evaluation, whether the operating income is sufficient to cover MFI cost associated with its operations such as administrative expenses, salaries, and loan losses. Meyer (2002) further explained financial self-sufficiency as the ability to cover all costs related to funds when all those funds were valued at market price. Estimating monetary sustainability expects MFIs to keep up with great monetary records and follow perceived accounting practices that give full transparency for revenue, expenditures, costs, possible losses and recovery of loans (Meyer, 2002). Operating Self-Sufficiency (OSS) and Return on Assets (ROA) as financial performance measures because this study evaluates MFIs which are registered under different forms.

To cover the operating cost, MFIs are required to have sufficient revenue generated through operating activities. Most prior studies calculated OSS by dividing financial revenue from operating and financial expenses including loan impairment provision (Thrikawala, et al., 2013; Lin & Ahlin, 2011). Aligned with the literature this study uses the given formula to calculate OSS.

$$\text{OSS} = \text{financial revenue} / (\text{financial expenses} + \text{loan loss provision expenses} + \text{operating expenses})$$

Most financial institutions use ROA as a determinant of performance. Similar to that to evaluate the performances of MFIs used ROA as a measurement of sustainability (Hartarska, 2005; Thrikawala et al., 2013; Strøm et al., 2014). ROA expresses the profitability of MFIs as a percentage compared to its total assets. This study calculates ROA as follows,

$$\text{ROA} = \text{Net operating income, net of taxes} / \text{average total}$$

Concerning the indication of prior research, there may be positive, negative or, no effects with outreach and financial performance variables, therefore it is suitable to evaluate the impact of these variables related to the microfinance industry in the context of developing economies. Therefore, Firm Age, Leverage and Organization

type were used as control variables to identify the relationship between two contradictory performance determinates of MFIs, in Sri Lanka.

Table 2. Operationalization

Variable	Acronym	Expected Sign	Definition
<i>Outreach Measures</i>		<i>In Financial Performance Models</i>	
Breadth of Outreach	Breadth	Positive	The natural logarithm of the number of active borrowers in the MFI
Percentage of female borrowers	FemBorr	Positive	Female borrowers/ total number of active borrowers
Depth of Outreach	Depth	Positive	The average loan balance per borrower/adjusted GNI per capita.
<i>Financial Performance Measures</i>		<i>In outreach Models</i>	
Operating self-sufficiency	OSS	Positive	Total financial revenue/ (financial expenses + loan loss provision expenses + operating expenses)
Return on assets	ROA	Positive	Net operating income, net of taxes/average total
<i>Control Variables</i>			
Firm Age	Fage		The number of years from the date of establishment as an MFI.
Leverage	Lev		Total debt/ total assets.
Organization type	Orgtype		Categorical variables: NBFI, License MFIs, NGO-MFIs, Banks.

To observe the financial performance indicators related to outreach, this study considers financial performance measures as an independent variable and outreach measures as a dependent variable and formulated following hypotheses.

H1a: OSS positively effect on breadth of outreach.

H1a: ROA positively effect on breadth of outreach.

H2a: OSS positively effect on percentage of female borrowers.

H2b: ROA positively effect to the percentage of female borrowers.

H3a: OSS positively effect on depth of outreach.

H3b: ROA positively effect on depth of outreach.

To observe the outreach indicators related to financial performance, this study considers outreach measures as the independent variable and financial performance measures as the dependent variable under the two econometrics models.

H4a: Breath of outreach positively effect on OSS.

H4b: Percentage of female borrowers positively effect on OSS.

H4c: Depth of outreach positively effect on OSS.

H5a: Breath of outreach positively effect on ROA.

H5b: Percentage of female borrowers positively effect on ROA.

H5c: Depth of outreach positively effect on ROA.

3 Methodology

Research questions of this study direct the research method. To achieve research objectives, it is required to adhere to the positivism methodology. The research method for this study is quantitative method and this study used secondary data collected from various sources.

Initially study selected specific MFIs engaged in microfinance activities in Sri Lanka. Subsequently addresses the process of sample selection and determination of sample size. After that diagnostic tests were conducted to identify the most suitable regression model for the analysis.

Consistent with Thrikawala et al. (2013), there are disparate legal forms in the Sri Lankan microfinance sector. Therefore, this study is required to identify institutions that conduct microfinance activities and obtain data from those institutions. As per the

information available on the Lanka Microfinance Practitioners Association (LMFPA) website, 58 MFIs have been registered as members (Lanka Microfinance Practitioners' Association, 2020). They have categorized MFIs in Sri Lanka as Co-operatives, Non-Banking Financial Institutes (NBFIs), Non-Government Organizations (NGOs), Public companies, Private companies, Banks and Technical Service Providers (LMFPA, 2017). Even though some of the commercial banks and financial institutes involve with microfinance activities they do not disclose that information in their annual report. Therefore, institutions that do not disclose microfinance information separately were excluded from the study.

Data collection of the study was restricted by availability and the accessibility of data. Therefore, based on the availability of MFI annual reports, financial statements, and corresponding outreach information sample period is restricted to 10 years period. The data collection for this study commenced from the year 2010, with the terminated in 2019. Certain Microfinance Institutions (MFIs) were excluded from the study either due to the absence or insufficiency of data, as well as the omission of MFIs with limited operational durations. The study spanned a period of ten years. Information pertaining to financial performance, outreach indicators, and control variables was gathered from diverse sources, including annual reports of MFIs, individual firm websites, and direct communication with the MFIs. For this study, data was gathered for an equivalent number of periods (t) for each individual firm (i). The balanced panel dataset encompasses 160 Microfinance Institutions (MFIs) and was used for the analysis from the period of 2010 to 2019.

4 Data Analysis and Discussion

This study employed panel data analysis methodology as done by Bassem (2012), Kipsha and Zhang (2013) and Roy and Pati (2019), in a similar type of research. To carry out the analysis this study composed five regression equations.

$$\text{Depth} = \alpha + \beta_1 \text{OSS}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{Ogtyp1} + \beta_4 \text{Ogtyp2}_{it} + \beta_5 \text{Ogtyp3}_{it} + \beta_6 \text{Fage}_{it} + \beta_7 \text{lev} + \epsilon_{it}$$

$$\text{Breadth} = \alpha + \beta_1 \text{OSS}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{Ogtyp1} + \beta_4 \text{Ogtyp2}_{it} + \beta_5 \text{Ogtyp3}_{it} + \beta_6 \text{Fage}_{it} + \beta_7 \text{lev} + \epsilon_{it}$$

$$\text{Femborr} = \alpha + \beta_1 \text{OSS}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{Ogtyp1} + \beta_4 \text{Ogtyp2}_{it} + \beta_5 \text{Ogtyp3}_{it} + \beta_6 \text{Fage}_{it} + \beta_7 \text{lev} + \epsilon_{it}$$

$$OSS = \alpha + \beta_1 Breadth_{it} + \beta_2 Femborrit + \beta_2 Depth + \beta_4 Ogytyp1 + \beta_5 Ogytyp2_{it} + \beta_6 Ogytyp3_{it} + \beta_7 Fageit + \beta_8 lev + +\epsilon_{it}$$

Model 5

$$ROA = \alpha + \beta_1 Breadth_{it} + \beta_2 Femborrit + \beta_2 Depth + \beta_4 Ogytyp1 + \beta_5 Ogytyp2_{it} + \beta_6 Ogytyp3_{it} + \beta_7 Fageit + \beta_8 lev + +\epsilon_{it}$$

Where, i index firm observations, t denoted the time period, α and β indicates the regression line's intercept and the slope of the respectively. In these models, OSS, ROA are used as financial performance determinants and Breadth, Femborr and Depth used as measures of outreach. Fage, Lev and Ogytyp are the control variables of the study. Here Orgtyp is a categorical variable with four categories named Licence MFIs, NGO microfinance, NBFIs and Banks. Since there are four categories, omitted NBFIs and used three dummy variables, Ogytyp1 for Licence MFIs, Ogytyp2 for NGOs and Ogytyp3 denotes Banks.

This study consists with of panel data need to select most appropriate method from fixed-effect, random-effect and pool OLS models. This study includes categorical variables therefore it is required to use either the random-effect model or Pooled OLS model by considering time-invariant effect. Results of the LM test are advised to use a random-effect model for all the models.

The summary of the diagnostic test and remedial action taken to overcome issues are expressed in Table 2: Selection of remedial test.

Table 3: Selection of Remedial Test

Model	Diagnostic tests						Remedial Test
	LM Test	Multicoll inearity	Heteroske dasticity	Serial Correlation	Cross-Sectional Dependency		
Outreach Models							
Breadth	Ran dom -	No Multicoll inearity	Heterosked asticity	Serial Correlation	No Sectional dependency	Cross-	Panel Cluster Option

	effe						(panel	
	ct						var)”	
	Mod							
	el							
Femborr	Ran	No	Heterosked	Serial	No	Cross-	Panel	
	dom	Multicoll	asticity	Correlation	Sectional		Cluster	
	-	inearity			dependency		Option	
	effe						(panel	
	ct						var)”	
	Mod							
	el							
Depth	Ran	No	Heterosked	No	Serial	No	Cross-	Robustne
	dom	Multicoll	asticity	Correlation	Sectional			ss
	-	inearity			dependency			standard
	effe							error
	ct							
	Mod							
	el							

Financial Performance Models

OSS	Ran	No	Heterosked	No	Serial	No	Cross-	Robustne
	dom	Multicoll	asticity	Correlation	Sectional			ss
	-	inearity			dependency			standard
	effe							error
	ct							
	Mod							
	el							
ROA	Ran	No	Heterosked	Serial	No	Cross-	Panel	
	dom	Multicoll	asticity	Correlation	Sectional		Cluster	
	-	inearity			dependency		Option	
	effe						(panel	
	ct							

Mod
el

var)”

According to the empirical results of models only a few are statistically significant, these results are mostly aligned with the previous studies.

Table 4.

Results of the Models

Hypothesis	Coefficient	P-Value	Decision	
To identify the effect of financial performance on outreach of MFIs in Sri Lanka				
Breadth of Outreach	H1a: Operating self-sufficiency positively effect on breadth of outreach.	-0.075	0.129	Not accepted
	H1b: Return on assets positively effect on breadth of outreach.	0.428**	0.012	Accepted
Percentage of female borrowers	H2a: Operating self-sufficiency positively effect on percentage of female borrowers.	.023**	.038	Accepted
	H2b: Return on assets positively effect to the percentage of female borrowers	.044	.349	Not accepted
Depth of Outreach	H3a: Operating self-sufficiency positively effect on depth of outreach.	-.021*	.082	Not accepted
	H3b: Return on assets positively effect on depth of	.03	.384	Not accepted

outreach.

To identify the effect of outreach on financial performance MFIs in Sri Lanka

Operating self-sufficiency	H4a: Breath of outreach positively effect on Operating self- sufficiency.	-0.265	0.226	Not accepted
	H4b: Percentage of female borrowers positively effect on Operating self-sufficiency.	0.492***	0.000	Accepted
	H4c: Depth of outreach positively effect on Operating self- sufficiency.	-0.805	0.281	Not accepted
Return on assets	H5a: Breath of outreach positively effect on Return on assets.	0.109***	0.000	Accepted
	H5b: Percentage of female borrowers positively effect on Return on assets.	0.068	0.432	Not accepted
	H5c: Depth of outreach positively effect on Return on assets	-0.005	0.954	Not accepted

There is a significant positive relationship between ROA with number of borrowers ($t=2.51$, $p=0.012$). Similarly, ~~femborr~~ (percentage of female borrowers positively relates to Operating Self Sufficiency ($t=2.08$, $p=0.038$) to a significant measure. Both breath of outreach and the percentage of female borrowers are the main proxies of outreach, as expected these two proxies are statistically positively related to ROA and operate self-sufficiently. Sri Lankan MFIs with higher financial performance are more focused on social objectives confirming the expected relationship, which leads to the non-existence of a trade-off. These findings are consistent with recent research done

by Quayes and Joseph (2021) utilizing an imbalance panel of 1219 MFIs over 20 years from the World Bank Data Catalogue. Fernando (2004), Hishigsuren (2007) and Makame (2007) uncovered identical findings from their studies. However, these findings are in opposition to the findings of Hermes et al. (2011) which assert the presence of a trade-off based on 1318 observations from Microfinance Institutions (MFIs) spanning 11 years, from 1997 to 2007. Nyamsogoro (2010), Annim (2012), Crawford et al. (2012), and Bassem (2012) also found a negative effect of financial performance on outreach.

Operating self-sufficiency negatively correlated with the number of borrowers, but the relationship is not statistically significant. ROA positively relates with the female borrowers and depth of outreach, but these relationships do not have statistical significance.

Contrary to the expectation of the study, depth is significantly negatively correlated ($t = -1.74$, $p = 0.082$) with operating self-sufficiency. It reveals the existence of the trade-off between financial performance and outreach. This finding is similar to the findings of the study done by Bassem (2012) and Kipsha and Zhang (2013). As per results, when MFIs concentrate more on financial performance, they are unable to reach the core poor people.

Operating Self-sufficiency and return on assets were considered in this study as proxies of microfinance financial performance. The empirical analysis results indicate that the Sri Lanka MFI's financial performance is influenced by some outreach variables analogous to the prior studies.

Breath has a statistically significant positive ($t = 3.59$, $p = 0.000$) association with ROA and a statistically significant positive ($t = 3.79$, $p = 0.000$) association between percentage of female borrowers and operating self-sufficiency. These findings adhere to the expectations of the study. These findings are consistent with the study done by Bassem (2012) in the Middle East and North Africa region, from a sample of 64 microfinance institutions from 2008 to 2010. Also, Kipsha and Zhang (2013)'s study on Sustainability, Profitability and Outreach Trade-offs, which was conducted in East Africa using panel data of 47 Microfinance institutions for four years period, found the same results, that is positive effect on financial performance from outreach. Cull et al. (2007) found a positive relationship between financial performance and

outreach from the study done with high quality data gathered from 124 institutions in 49 countries. Women are good at credit risk, do not use loan for unnecessary work and specifically, they utilized funds for the benefit of their families, especially for children (Garikipati , 2008). Therefore, when MFIs lend more to women that will reduce risk and enhance MFIs' financial performance. However, according to the findings, depth decreases the financial performance of MFIs in Sri Lanka, but this relationship is not statistically significant.

5 Conclusion

This study contributes significantly to the microfinance performance literature. ~~First~~ This research contributes to the literature by understanding the effect of financial performance on outreach and the effect of outreach on financial performance of MFIs in Sri Lanka because this area is an understudied area in the Sri Lankan context. Evidence shows the absence of trade-off in the number of borrowers and percentage of female borrowers confirming concurrent enhancement of financial performance and outreach. But a trade-off exists in terms of serving core poor people and this confirms that enhancement of outreach to the core poor causes a reduction of financial performance. The findings of this study assist fund providers such as donors and investors and advocate them to identify well-performing MFIs' financial and non-financial aspects.

As stated by Kipesha and Zhang (2013), when people do not have access to formal financial sector, MFIs need to play a major role in facilitating funds and other services to alleviate poverty. Therefore, the findings of this study are important for the stakeholders, including the government to formulate policies. Due to the adverse effect of the COVID 19 pandemic, Sri Lankan per capita GDP has declined and ranked as lower-middle-income country in July 2020, though previously ranked as an upper-middle-income earning country.

The study results indicate that policymakers are required to protect customers and make sure the organization maintains financial sustainability and the importance of preparing regulations and road map to govern MFIs in Sri Lanka. A lack of adequate information disclosure requirements is observed and that is a big challenge to policymakers for policy formulation. Therefore, this study emphasizes the importance

of having a proper reporting system for the microfinance sector. Finally, this research recommends that Sri Lankan MFIs must have a good focus on financial and social performance to achieve their ultimate objective of reducing poverty while enhancing the living standard of low-income earning people. The government is also required to encourage MFIs to perform well financially and socially while establishing a proper information disclosure platform for MFIs in Sri Lanka.

The essential limitation connects with the accessibility of information in the public space on the performance of MFIs in Sri Lanka. MIX market and LMFPFA are the best wellsprings of information, yet data is often restricted. This study involved three social performance variables as getting to that data was conceivable. Further studies might consider other measures of outreach such as the number of advances given to clients with low wealth in view of family wealth levels to improve understanding of the performance of MFIs. Women's World Banking has created monetary and social execution markers that permit MFIs to scrutinize the social performance of female clients in detail. This assists with considering the number of female clients an MFI serves as well as how well it is serving. For example, instead of taking the ratio of female clients and all clients, researchers can use the ratio of female clients and new clients which would assist in recognizing the direction of a specific MFI. As per Stock & Watson, 2007, this study experiences sample selection bias brought about by information accessibility. It is normal to expect sample selection bias in a study like this on an emerging topic such as MFI performance. Therefore, future research may wish to consider more MFI as Cull et al. (2007) by considering a more extensive data set covering a long period.

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