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THE IMPACT OF SOUTH ASIAN MICROFINANCE INSTITUTIONS' CORPORATE GOVERNANCE MECHANISMS ON THEIR SOCIAL AND FINANCIAL PERFORMANCE: AN EXPLORATORY STUDY

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The Impact of South Asian Microfinance Institutions' Corporate Governance Mechanisms on their Social and Financial Performance: An Exploratory Study¹

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Abstract

Through a bottom-up approach, microfinance gives access to flexible, convenient and affordable financial services to the poor, which empower and equip them to make their own choice and build their way out of poverty. Microfinance can be considered as a major tool in order to reach the “Millennium Development Goals” set up by the United Nations. Indeed, microfinance has been shown to help reducing poverty, improving welfare and allowing poor people to protect, diversify and increase their sources of income. Despite the largely recognized social benefits of microfinance, the sector is still facing some deep challenges, such as the effective way to combine the social mission and the need for profit. In line with this, good corporate governance can be a way to reach social objectives while being profitable. The aim of this paper is to study the influence of a set of governance mechanisms on some performance indicators of Microfinance Institutions (MFIs) located in South-Asia. By governance mechanisms, we mean the board size, its meetings frequency, the duality Chairman/CEO duality, the presence of a female CEO, the Board's members' education, as well as the CEO's, the efficiency of the internal control, the MFI's legal ownership structure, and the political and legal environment. Regarding the dual mission – social and financial – inherent to MFIs and considering previous empirical studies, five performance indicators were chosen. On the financial side, three financial ratios commonly used in the banking sector were selected: the Return On Assets (ROA), the Operational Self-Sufficiency (OSS) and the Operating Efficiency. On the social side, the number of active borrowers enables to estimate the width of a MFI's social impact (Schreiner, 2002). Further, based on the hypothesis that the lower the loan, the poorer the borrowers, the average size of the loan seems to be an appropriate indicator of the depth of outreach of a MFI (Mueller and Uhde, 2008).

The issue of corporate governance within MFIs seems interesting mainly for three reasons. Among the large literature on microfinance, only a few researchers (Hartarska, 2005; Hartarska and Nadolnyak, 2008; Labie, 2001, 2008; Mersland, 2008, 2009) have addressed this issue. This contrasts with the importance given to corporate governance in the microfinance practitioners' and policy makers' community, where weak governance structures are considered to be the second most important risk factor in this industry. Therefore, as an industry facing specific challenges and operating environments, the field of microfinance needs studies dedicated to the analysis of its governance mechanisms and their impact on performance.

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Given the wide diversity among MFIs – be it in terms of financial self-sufficiency, target clients (women vs. men), distribution channels, we see an obvious necessity to restrict the analysis to a limited geographical area. South Asia has been chosen because it is seen as the birthplace of modern microfinance and houses the largest MFIs in the world, in terms of outreach, number of clients, and size of loans portfolio. Our empirical analysis is focusing on a unique dataset of 59 rating reports about 59 MFIs from five South-Asian countries, namely India, Nepal, Bangladesh, Sri Lanka and Pakistan. The time frame stretches from 2001 until 2008, with a majority of them written during the most recent years. Although these reports come from three different ratings agencies (M-CRIL, CRISIL and JCR-VIS), they do not show any significant differences in terms of evaluation methods used. We did a stepwise regression for each of the five performance indicators.

We found that not all known governance mechanisms affect performance, and that no mechanism has an impact on all five performance ratios, namely ROA, OSS, Operational Efficiency and Depth and Width of outreach. To begin with financial performance, we observe that labor productivity, appropriate knowledge and trainings of the board, as well as the number of people sitting at the board, can be considered as three effective mechanisms in microfinance, as they positively impact either ROA, OSS or Operational Efficiency. When it comes to social performance of MFIs, none of the nine governance mechanisms seems to be an appropriate tool to enlarge the outreach of an institution. These results seem to show that different variables affect financial and social performances and that even different types of financial performance are explained by different factors. Moreover, our analyses have not confirmed some previous results related to the impact of the CEO/Chairman duality, the CEO's gender, and the stability of the political and legal environment. This can, at least partly, be attributed to the small size of our sample. Finally, we suggest some recommendations for future research.

Key words

Microfinance institutions; social and financial performance; governance mechanisms

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Introduction

Microfinance – a financial instrument specifically designed for the poorest – has become an intensely discussed topic, as the UN Year of Microcredit in 2005 and the Nobel Peace Prize awarded to Muhammad Yunus and the Grameen Bank in 2006 attest. Through a bottom-up approach, microfinance gives access to flexible, convenient and affordable financial services to the poor, which empower and equip them to make their own choice and build their way out of poverty (Armendáriz and Morduch, 2007).

If the idea of providing small alternative loans to the micro-entrepreneurs and poor families that are conventionally considered “unbankable” is not really new, we often refer to the 70’s and the creation of the Grameen Bank (Bangladesh), Accion International (Latin America) and Bank Rakyat (Indonesia) as the date of birth of the modern microfinance concept (Bayulgen, 2008). According to some estimates, today there are more than 10,000 Microfinance Institutions² (in short MFI) that help 150 million people across the world, mainly in developing countries (PlanetFinance, 2009).

The recent and massive public interest for microfinance is due to the fact that it can be considered as a major tool in order to reach the “Millennium Development Goals” set up by the United Nations. Indeed, the social benefits of micro-financing have been extensively studied, and it has been shown to be positively correlated with economic development by reducing poverty, improving welfare and allowing poor people to protect, diversify and increase their sources of income and assets (Bayulgen, 2008). Further, social-empowerment, increased self-esteem and dignity can be considered among the most beneficial outcomes of microfinance institutions (Dowla, 2006; Bayulgen, 2008; Duflo, 2009).

Nevertheless, this developing tool is facing lots of challenges and today, it only helps a little fraction of the world’s outcasts of traditional banking services (Christen, Rosenberg and Jayadeva, 2004). The sector mainly faces three challenges. First, it is far from being financially sustainable; a large part of the institutions have not reached their profitability threshold yet. Without subsidies and donations, some researchers argue that up to ninety percent of MFIs would disappear (Morduch, 2000; Adams and Raymond, 2008). Second, penetration rates of microcredit services among the poorest populations are still very low (Robinson, 2001; Christen, Rosenberg and Jayadeva, 2004). If in 2006, MFIs had lent an estimated total amount of \$25 billion, this portfolio should reach at least \$250 billion to help the 900 millions of underprivileged people still in need (Dieckman, 2007). Next, no consensus has been reached about the effective way to combine the social mission and the need for profit, the dual goal of every microfinance institution. Should we choose for an institutionalization and a strict focus on financial performance, as stated by the institutionalist approach, or should we follow a welfarist point of view and accept the maintenance of subsidized MFIs (Ayayi and Noël, 2007)? These contrasting theoretical approaches are referred to as the ‘microfinance schism’ (Armendáriz and Morduch, 2007).

² A Microfinance Institution is simply an organization that offers different financial services to these very poor.

Among microfinance industry practitioners, the weakness of governance structures is also seen as a major risk (Center for the Study of Financial Innovation, 2008). In response to this potential threat, guidelines and best practices about governance have recently flourished (Rock, Otero and Satlzman, 1998; Campion and Frankiewicz, 1999; Lapenu and Pierret, 2005). However, this practical advice suffers from an evident lack of consistent theoretical background (Mersland, 2008). Corporate Governance and its set of operating mechanisms have only recently been studied in microfinance. Given this, our study's aim is to contribute to fulfill an important gap of scientific knowledge and to try to complete and stretch some former empirical studies³ assessing the impact of corporate governance on performance of Microfinance Institutions located. There is a vast amount of diversity in MFIs' characteristics throughout the world, be it in terms of financial self-sufficiency, target clients (women vs. men), distribution channels (rural or urban regions), etc. (Callaghan et al., 2007). Given the wide diversity among MFIs, a consistent synthesis is not relevant and we see an obvious necessity to restrict the analysis to a limited geographical area. South Asia has been chosen because it is seen as the birthplace of modern microfinance (Yunus, 2003; Armendáriz and Morduch, 2007). It houses the largest MFIs in the world, in terms of outreach, number of clients, and size of loans portfolio (Callaghan et al., 2007; Gaul and Tazi, 2007). It is also considered as one of the most mature markets for microcredit services.

This exploratory study aims at examining the influence of governance mechanisms, such as the ownership structure, the CEO's skills, the Board's size and composition⁴, on the social and/or financial performance of MFIs in South Asia. To this extent, we built a unique dataset of 59 rating reports and realized a set of regressions on a panel of performances and governance variables.

The rest of the paper proceeds as follows. Section 1 presents a brief literature review on the concepts of microfinance and corporate governance, and justifies our research question. Section 2 describes our empirical study through sample and variables descriptions and some empirical specifications. Last, results are presented and discussed in Section 3.

1. Literature Review

For our study, we define corporate governance as the mechanisms through which donors, equity investors and other providers of funds make sure that their funds will be used according to the intended purposes (Shleifer and Vishny, 1997). A set of mechanisms has been identified by Charreaux (1996) who suggested a double classification: a first division between internal and external governance mechanisms and a second one between intentional and spontaneous mechanisms. By "internal" (or specific), Charreaux (1996) means the

³ The sole researches in this specific field are: Hartarska (2005); Hartarska and Nadolnyak (2008); Labie (2001, 2008); Mersland (2008); Mersland and Øystein Strøm (2009); Mueller and Uhde (2009).

⁴ All the governance mechanisms that we selected are part of Charreaux's classification and are described in Section 1.

existence of mechanisms that are proper to an organization, such as a legal structure, remuneration policy or any board characteristic. On the contrary, legal auditors, consumer associations or legal environment are external (or non specific) and, as of today, they have not been studied in depth (Labie, 2004). Next, an intentional mechanism is the result of a human action and the establishment of a rule. Let us also mention that the existence and the role of each mechanism depend on the size of the organization, its legal status and its nationality (Charreaux, 1996).

The study of corporate governance in the field of microfinance started recently, in 1996 (Clarkson and Deck, 1996). All the above-mentioned challenges facing microfinance (the dual missions of MFIs, the coexistence of lots of organizational models, etc.) complexify the study and the understanding of governance processes within these organizations.

It has been widely demonstrated that corporate governance influences the performance of organizations (Gedajlovic and Shapiro, 2002; Hartarska, 2005; Hartarska and Nadolnyak, 2008; Mersland, 2008; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009) but few researchers have studied the impact of governance on performance of MFIs. Following Adams and Mehran's (2003) illustration of systematic differences between the different industries, it can be argued that each industry has specific challenges and a different operating environment that need to be correctly assessed and understood. This point highlights the interest to restrict our analysis to a specific domain such as microfinance.

The link between governance and performance in the specific field of microfinance seems interesting for several reasons. First, there is a lack of empirical work on the topic. Among the large literature on microfinance, only three groups of researchers (Hartarska, 2005; Hartarska and Nadolnyak, 2008; Mersland, 2008; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009) have addressed this issue. Each of these groups has focused on a specific set of mechanisms and they all (apart from Hartarska and Nadolnyak (2008)) analyzed microfinance from a global perspective. Our research differentiates itself by looking at a restricted geographical area, namely South Asia. More will be said when the sample will be discussed in Section 2.1.

This lack of empirical studies contrasts with the importance given to corporate governance among microfinance practitioners and policy makers, where weak governance structures are considered to be the second most important risk factor in this industry (Center for the Study of Financial Innovation, 2008; Mersland and Øystein Strøm, 2009). Good corporate governance has also been pointed out as a key lever in strengthening MFI's financial performances and social impact (Rock, Otero and Satzman, 1998; Labie, 2001; Helms, 2006).

Last but not least, in an attempt to formalize governance practices and better control this risk factor, several policy guidelines have been issued on the subject (Rock, Otero and Satzman, 1998; Campion and Frankiewicz, 1999; Lapenu and Pierret, 2005) without being in line with

rigorous scientific researches. Bridging this gap of theoretical knowledge could be important for the future and the development of microfinance.

As a result, the aim of this paper is to study the influence of a set of governance mechanisms on some performance indicators of MFIs located in South-Asia.

Such a question has already been investigated, at a global level, by some researchers (Hartarska, 2005; Hartarska and Nadolnyak, 2008; Mersland, 2008; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009). Hartarska (2005) focused her analysis on Central and Eastern Europe. Her results show that all governance mechanisms studied do not necessarily significantly affect performances and that the different measures of performance are not necessarily influenced in the same way by the same mechanisms. Some years later, Mersland and Øystein Strøm (2007) analyzed other internal governance mechanisms at a global scale, i.e. on a larger sample. More recently, external governance mechanisms have been studied more in depth by Mueller and Uhde (2009), thanks to indicators developed by the World Bank. They highlighted the important impact of government efficacy and the respect of legislation on the global economic success of MFIs. Let us note that, beyond the fact that these three groups of researchers adopt particular methodologies and approaches, the variables considered in their analyses vary a lot from one study to the other.

Because of the dual mission – social and financial – of MFIs and considering previous empirical studies, five performance indicators were chosen.

On the financial side, three financial ratios commonly used in the banking sector were selected: the Return On Assets (ROA), the Operational Self-Sufficiency (OSS) and the Operating Efficiency. The ROA⁵ is one of the most commonly used ratios to reflect the profit margin as well as the institution efficacy. Simply put, it measures the way the organization uses its assets (Abate and Jansson, 2001). However, this kind of indicator aggregating a large number of factors is not easy to interpret if it is analyzed alone. In order to understand how an institution is profitable (or not), Abate and Jansson (2001) recommend to also take other indicators into account, such as the operational efficiency or the quality of the portfolio. The OSS⁶ represents an institution's capacity to cover its operational expenses thanks to its financial revenues. When this ratio is higher than 1, the MFI can be considered as self-sufficient. The last financial ratio, representing the operational efficacy, has been suggested by Christen (2000) and by Mersland and Øystein Strøm (2007). It measures the costs of the institution necessary to offer its credit services, a low ratio being synonym of good operational performance. This indicator illustrates the way institutions rationalize their operations and, although less comprehensive than the first ones, it bears the advantage of

⁵ Whereas the Return On Investment (ROI) could also have been an option, we preferred the ROA as it is the most used financial ratio in the microfinance literature (see Hartarska, 2005; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009).

⁶ The Financial Self-Sufficiency (FSS) could also have been used to measure the exploitation autonomy of organizations (Cull et al., 2007). However, this ratio does not take the revenues coming from subsidies and donations into account whereas OSS does. As these often represent a large amount in the microfinance money flows (Mueller and Uhde, 2009), not taking donations into account in the microfinance context may lead to interpretation errors.

being more difficult to manipulate by the management, and therefore enables more precise comparisons (Abate and Jansson, 2001).

On the social side, the number of active borrowers is used to estimate the width of a MFI's social impact (Schreiner, 2002). Further, based on the hypothesis that the lower the loan, the poorer the borrowers, the average size of the loan seems to be an appropriate indicator of the depth of a MFI's outreach (Mueller and Uhde, 2008).

What regards governance, we identified nine governance mechanisms that were the most frequently used in the literature. These are the board size, its meetings frequency, the duality Chairman/CEO, the presence of a female CEO, the Board's education, as well as the CEO's, the efficiency of the internal control, the MFI's legal ownership structure, and the political and legal environment.

To sum up, the impact of seven⁷ of these mechanisms on MFI's performance has already been studied, but at a worldwide scale. Previous empirical studies inform us about the existence of:

- a negative impact of board size and the number of internal chairmen on profitability (Hartarska, 2005);
- a negative impact of the CEO/Chairman duality on financial performances (decrease of the ROA and increase of the Operational costs) (Mersland and Øystein Strøm, 2009);
- a positive impact of a female CEO on ROA and a negative impact on operational costs (Mersland and Øystein Strøm, 2009);
- a positive impact of a stable political and legal environment on ROA, OSS and depth of outreach (Mueller and Uhde, 2009).

Therefore, we expect these earlier studied mechanisms to be significantly related to (at least) one of our five performance indicators. The empirical study we conducted in order to answer such a question is detailed in the next section.

2. Empirical study

In this section, we present the sample and describe the dependent, and independent, variables of our model.

2.1. Sample description

Our empirical analysis focuses on a unique dataset of 59 rating reports (and so, 59 MFIs) from five South-Asian countries, namely India, Nepal, Bangladesh, Sri Lanka and Pakistan⁸. The objective of these reports is to generate independent information about MFIs, and a new

⁷ The board size, the duality Chairman/CEO, the presence of a female CEO, the CEO's education, the efficiency of the internal control, the MFI's legal ownership structure, and the political and legal environment.

⁸ Unfortunately, due to a lack of information, we had to eliminate Afghanistan from our study.

kind of visibility, in order to enhance the fund allocation system. The rating reports come from three major Asian ratings agencies: M-CRIL (31 rating reports), CRISIL (26 rating reports) and JCR-VIS (2 rating reports). Although these reports come from diverse rating agencies, Mersland and Øystein Strøm's investigations (2009) they do not show any significant differences in terms of evaluation methods used. Indeed, all these agencies are officially recognized by the CGAP and adopt ratio definitions suggested by the Inter-American Development Fund (Abate and Jansson, 2001).

These reports are in the public domain and were published on two complementary databases: the MIX⁹ (www.mixmarket.org) and the Rating Fund¹⁰ (www.ratingfund.org), between 2001 and 2008, with a majority of them written recently. Let us also note that the most recent evaluation was selected if more than one report was available for one institution. Table A in Appendix 1 presents the 59 institutions of our database as well as their country of origin.

Table 1 provides detailed information on the regional and institutional characteristics of MFIs included in our sample. In our sample, 43 MFIs operate in India, 8 in Nepal, 4 in Bangladesh, 3 in Pakistan and only 1 in Sri Lanka. To reflect the organizational diversity inherent to the microfinance field, four different types of institutions were selected: 37 Non Governmental Organizations (NGO), 14 Non-Bank Financial Institutions (NBFI), 4 rural Banks and 4 Cooperatives or Credit Unions. The origin of the reports is also presented.

⁹ The Microfinance Information Exchange, Inc. (MIX) is the leading business information provider dedicated to strengthening the microfinance sector, through an online information exchange MIX Market (www.mixmarket.org) and through a variety of publications (MicroBanking Bulletin and reports).

¹⁰ The Microfinance Rating and Assessment Fund (Rating Fund) has been launched in 2001 by the Inter-American Development Bank (IDB) and the Consultative Group to Assist the Poor (CGAP) in order to improve transparency of MFI financial performance and to build a market for MFI rating and assessment services by encouraging greater demand from MFIs for professional external evaluations, as well as strengthening the quality of supply.

Table 1 – Regional and institutional characteristics of the sample

	India	Nepal	Bangladesh	Pakistan	Sri Lanka	Total
Rating year						
2001	1	0	0	0	0	1
2002	3	0	0	0	1	4
2003	3	0	1	0	0	4
2004	5	0	0	1	0	6
2005	3	4	2	1	0	10
2006	3	1	0	0	0	4
2007	17	3	1	1	0	22
2008	8	0	0	0	0	8
Legal structure						
Non Governmental Organization (NGO)	28	2	4	3	0	37
Non Bank Financial Institution (NBFI)	13	0	0	0	1	14
Bank	0	4	0	0	0	4
Cooperative/Credit Union	2	2	0	0	0	4
Rating agency						
CRISIL	24	0	2	0	0	26
M-CRIL	19	8	2	1	1	31
JCR-VIS	0	0	0	2	0	2
Total	43	8	4	3	1	59

This sample possesses the advantage of being well-balanced in terms of the grade attributed by the rating agencies (generally from 1 to 5).

Our sample suffers from an important bias, namely its size. 59 observations can be viewed as a too small number, especially given the fact that we intend to use a regression model based on ten predictors and eight control variables (see below, Section 2.2.) of financial and social performance of MFIs. According to some authors (Bernard, 1999), a minimum of 10 observations per predictor is necessary. Harris (1985) underlines that this principle is not based on any empirical proof. Others suggest more liberal rules than Harris and consider that the number of observations must only exceed the number of variables by 40 (see Howell, 1997). Our sample of 59 observations respects this rule. Moreover, the small size of the sample must be regarded in line with the size of the population. Between 2002 and 2007, an average of 149 MIFs reported to the MIX, with a minimum of 81 in 2002 and a maximum of 187 in 2005 (www.mixmarket.org).

Another bias lies in the fact that it only encompasses MFIs able to pay for notation or to ask for a subsidized rating. However, at the same time, it enables to filter all the non professional institutions that operate on a very small scale. Our study is, in a sense, restricted to the most mature and professional institutions, that is to say, those that are probably the most able to correctly answer to the growing demand for financial services. The next section describes the variables used in our model.

2.2. Variables description

a. Dependent variables

In line with relevant previous theoretical and empirical studies (Hartarska, 2005; Hartarska and Nadolnyak, 2008; Mersland, 2008; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009), we used five key measures to gauge the economic and social success of MFIs: Return Assets, Operating Self-Sufficiency, Operational costs, Depth and Width of outreach. Definitions of variables are given in Table 2 and Table 3 shows univariate statistics (mean, standard deviation, minimum and maximum values) for each dependent and independent variable.

First, **Return On Assets** is a commonly used ratio to reflect profitability of an institution. It measures how an institution is using its assets to generate the return (Abate and Jansson, 2001). In our sample, this ratio is on average negative (-0.59%) meaning that, on average, MFIs have not reached their breakeven yet. However, when looking at the median of the sample, we found a value of 0.60%, meaning that half of our observations are experiencing a negative ROA while the other half is being profitable.

Second, to capture the operational capability of a MFI, we used the **Operating Self-Sufficiency** ratio, defined as the ability to cover operational expenses with financial income. Our sample's mean reaches 103.37%, meaning that, on average, South-Asian MFIs are self-sufficient. However, one must remember that the OSS ratio takes the revenues coming from subsidies and donations into account and these often represent a large amount in the microfinance money flows (Mueller and Uhde, 2009).

The **Operational Efficiency** allows to evaluate the costs associated with the supply of financial services. The lower the ratio is, the better the company rationalizes its activities. In our sample, the mean ratio is very high (15.25%), compared to the traditional banking sector (between 1 and 5%). This result can be explained by the fact that, usually, microfinance is a highly labor intensive industry (Abate and Jansson, 2001).

Table 2 – Variables definitions

N°	Name	Variable type	Definition	Source
Dependent variables				
	ROA (Return On Assets) (%)	Continuous	Net return / Total assets	Rating reports
	OSS (Operational Self-Sufficiency) (%)	Continuous	Total financial revenues / (Operating expenses + Financial expenses + Loan loss provision)	Rating reports
	Operational Efficiency (%)	Continuous	Operating expenses (salaries, administrative costs, etc.) / Average loan portfolio	Rating reports
	Depth of outreach	Continuous	Average loan balance per borrower / GDP per capita	Rating reports
	Width of outreach	Continuous	Number of active borrowers	Rating reports
Information independent variables				
1	Board size	Integer	Number of chairmen	Rating reports
2	Meetings frequency	Integer	Number of board annual meetings	Rating reports
3	Chairman/CEO duality	Dummy	Takes the value 1 if the CEO has also a chairman role, and 0 otherwise	Rating reports
4	Female CEO	Dummy	Takes the value 1 if the CEO is a female, and 0 otherwise	Rating reports
5	Board's education and experience	Dummy	Takes the value 1 if the board has enough experience and knowledge in the Microfinance domain, and 0 otherwise	Rating reports
6	CEO's education and experience	Dummy	Takes the value 1 if the CEO has enough experience and knowledge the Microfinance domain, and 0 otherwise	Rating reports
7	Internal auditor	Dummy	Takes the value 1 if the MFI possesses an efficient internal auditing system, and 0 otherwise	Rating reports
8	Non Governmental Organization (NGO)	Dummy	Takes the value 1 if the MFI is registered as a Non Governmental Organization (NGO), and 0 otherwise	Rating reports
9	Non Bank Financial Institution (NBFI)	Dummy	Takes the value 1 if the MFI is registered as a Non-Bank Financial Institution (IFNB), and 0 otherwise	Rating reports

10	KKZ	Continuous	Arithmetical mean of the six governance indicators*	World Bank
Independent control variables				
11	GDP per capita (\$)	Continuous	Ratio of gross domestic product to population	IMF**
12	Inflation rate (%)	Continuous	Annual percentage change in gross domestic product deflator	IMF**
13	MFI experience (year)	Integer	Years with microfinance operations	Rating reports
14	Firm size (\$)	Continuous	Total assets	Rating reports
15	Labor productivity	Integer	Number of active borrowers / Total number of staff members	Rating reports
16	Individual	Dummy	Takes the value 1 if the MFI fulfils exclusively individual loans, and 0 otherwise	Rating reports
17	Rural	Dummy	Takes the value 1 if the MFI operates mainly in rural zone, and 0 otherwise	Rating reports
18	Urban	Dummy	Takes the value 1 if the MFI operates mainly in urban zone, and 0 otherwise	Rating reports

*Data for 2001 and 2008 were not available, and so are respectively estimated by the data for 2000 and 2007.

**International Monetary Fund.

Table 3 – Statistics summary

Name	Obs.	Mean	Median	SD	Minimum	Maximum
Dependent variables						
ROA	59	-0.006	0.006	0.073	-0.301	0.200
OSS	59	1.034	1.039	0.314	0.222	2.081
Operational Efficiency	59	0.152	0.119	0.136	0.019	0.941
Depth of outreach	59	0.369	0.177	1.044	0.039	8.099
Width of outreach*	59	80,569	22,326	156,545	916,261	879

N°	Name	Obs.	Mean	SD	Minimum	Maximum
Informative independent variables						
1	Board size	57	8.37	4.02	2	23
2	Meetings frequency	34	5.15	3.25	2	15
3	Chairman/CEO duality	57	0.68	0.47	0	1
4	Female CEO	59	0.17	0.38	0	1
5	Board's education	57	0.74	0.44	0	1
6	CEO's education	57	0.86	0.35	0	1
7	Internal auditor	56	0.39	0.49	0	1
8	NGO	59	0.61	0.49	0	1
9	NBFI	59	0.24	0.43	0	1
10	KKZ	59	-0.33	0.41	-1.11	0.14
Control independent variables						
11	GDP per capita (\$)*	59	684.48	236.02	304.08	1016.16
12	Inflation rate (%)	59	6.17	1.93	1.93	10.82
13	MFI experience (year)	59	8.51	4.78	1	19
14	Firm size (\$)*	59	9,626,648	17,576,097	119,705	97,549,397
15	Labor productivity*	59	173.34	92.76	40	479
16	Individual	59	0.07	0.25	0	1
17	Urban	59	0.22	0.42	0	1
18	Rural	59	0.56	0.50	0	1

If we turn to social performance, the **Depth of outreach** is assessed through the average loan balance per borrower divided by GDP per capita, as suggested by Mueller and Uhde (2009). The sample mean indicates an average loan of \$ 0.37 per borrower on our 59 MFIs.

Lastly, the **Width of outreach** stands for the number of active borrowers (Schreiner, 2002), namely 80,569 clients, on average, in our database. However, when it comes to the median number of borrowers in MFIs, the figure drops at 22,326.

* In order to avoid large numbers, our analyses will be made on the logarithm of these variables.

b. Independent variables

On the basis of the classification suggested by Charreaux (1996), we selected nine corporate governance mechanisms (eight internal and one external) that were available in the rating reports. Besides, we used eight control variables in order to erase some macroeconomic disparities between countries and to work on a comparable basis. Unfortunately, as the reports do not always disclose the entirety of this information, some variables were defined on a smaller number of MFIs¹¹.

- To begin with the characteristics of the board, its capacity to function effectively partly depends on its **size** (variable 1), namely the number of chairpersons. Indeed, a board in the microfinance sector should be large enough in order to gather the necessary key skills, but small enough to enable each chairman to get actively involved (Campion and Frankiewicz, 1999). In our sample, MFIs count on average eight chairmen.
- Another important board characteristic is board **meetings frequency** (variable 2), namely five per year on average in our sample, which is consistent with the fact that institutions expand and become more and more complex. The microfinance context indeed requires frequent interaction between the board and the management team in order to monitor a potentially volatile loan portfolio and to ensure proactive management (Campion and Frankiewicz, 1999).
- Often, MFIs have diverging points of view on the **role of a CEO in the board** (variable 3). Best practices recommend that a senior manager serves the board with a voice, but no vote. This allows the board to gain from the CEO knowledge and skills, while respecting the separation of powers that is crucial for effective monitoring (Campion and Frankiewicz, 1999). A majority of our MFIs (68%) do have their CEO sitting on the board.
- MFIs may also use gender as selection criteria for their CEO, if the institutional mission deems it necessary. For example, as in South Asia most MFIs are dedicated to the empowerment of women, it might be judicious to hire a **female CEO** (variable 4) (Campion and Frankiewicz, 1999; Mersland and Øystein Strøm, 2009). Yet, regarding the percentage of female CEO in our sample (17%), we can argue that this theoretical consideration has not reached a wide practical response yet.
- Further, the board, through its members, should collectively possess the necessary knowledge and experience to address the strategic demands facing the MFI. Effective microfinance boards consist of directors with a wide range of skills such as social and commercial skills, or strategic and operational abilities (Campion and Frankiewicz, 1999). That is why **knowledge and experience of the board** are assessed through a dummy variable representing their education (variable 5). Similarly, the CEO needs to be

¹¹ Cf. Table 3.

equipped with sufficient training and knowledge in order to manage the day-to-day operations and bring accurate and relevant information to the board's attention (variable 6). According to the rating agencies' evaluations, among 57 South-Asian MFIs, 74% of the boards and 86% of the CEOs are considered as sufficiently trained and experienced.

- Another information variable is the presence of an **internal auditor** (variable 7). *“At its best, the internal auditor provides independent, objective assessments on the appropriateness of the organization's internal governance structure and the operating effectiveness of specific governance activities”* (Mersland and Øystein Strøm, 2009, p. 6). Among 56 MFIs, only 39% possess an efficient internal auditing system.
- The different **legal structures** that coexist in microfinance have been modeled through two dummy variables (variables 8 and 9). The first variable (variable 8) takes the value of one if the MFI operates under a NGO legal status (61% of our sample). The second dummy variable (variable 9) represents a Non Bank Financial Institution (23.73% of our sample). All the other statuses (cooperative and rural bank) are classified under a double zero.
- Last, a **KKZ** composite index (variable 10), the sole external governance mechanism, models the political and legal environment of a country. This composite index stands for an arithmetical mean of the six governance indicators created by Kaufmann, Kraay and Zoido Lobaton (1999) intended for the World Bank analyses and recommendations. These indicators are: “Voice and accountability”; “Political Stability and Absence of Violence”; “Government Effectiveness”; “Regulatory Quality”; “Rule of Law” and “Control of Corruption” and are detailed in Figure 1 in Appendix 2.

As previously mentioned, when examining the relationship between governance and an institution's success, it is imperative to control for macroeconomic and MFI's characteristics. In this respect, we added eight control variables in our regressions.

- Two country specific data were used: the **Gross Domestic Product** (GDP) per capita and the **inflation rate** (variables 11 and 12).
- Besides, the **age of the MFI** (variable 13) has been calculated as the reporting year minus the year in which the microfinance activities began (Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009). Similarly, the **size** of the institution (variable 14) and the **labor productivity** (variable 15) of every institution were introduced in our model.
- Next to this, regarding the existence of several loan models, a dummy variable (variable 16) summarized the characteristic of offering collective or individual loans. Microfinance services are provided with different methods in South-Asia (Sa Dhan, 2005). Group models include Self-Help groups, the Grameen model and joint-liability groups; the individual model corresponds to individual banking.

- Lastly, the **market type** (mainly rural or urban) has been introduced in our model through a double dummy variable (variables 17 and 18). Since there are significant difficulties to deserve rural population, this might impact an institution's performances (Johnson, Malkamaki and Wanjau, 2006). For instance, the operating expenses of rural "microlenders" are much higher since their clients are more widely dispersed (Abate and Jansson, 2001).

Table 4 shows the correlations between the independent variables. There are strong (significant at the 1% level) positive relationships between:

- Labor productivity and MFI size. It reminds the existence of economy of scale in this industry.
- GDP per capita and KKZ. In the countries that generate high economic wealth (Sri Lanka, India), the KKZ composite index is higher. It means that the political and legal environment is often more stable and healthy in the "wealthier" place.

And there exist also strong but negative relationships that highlight the fact that the variables are mutually exclusives between:

- NBFIs and NGO types.
- Urban and rural.

Finally, four variables ("Width of outreach", "GDP per capita", "Firm size", and "Labor productivity") have been reduced through a logarithmic transformation in order to avoid scaling issues.

Table 4 – Correlation matrix

	Board size	Meetings frequency	Chairman/CEO duality	Female CEO	Board's experience	CEO's experience	Internal auditor	NGO	NBFI	KKZ	GDP per capita	Inflation rate	Firm size	Labor productivity	MFI experience	Individual	Urban	Rural
Board size	1																	
Meetings frequency	0.02	1																
Chairman/CEO duality	-0.19	-0.35	1															
Female CEO	0.32	-0.25	0.11	1														
Board's experience	-0.04	-0.15	-0.06	-0.04	1													
CEO's experience	0.15	-0.09	0.05	0.04	0.33	1												
Internal auditor	-0.10	-0.08	-0.11	0.09	0.09	0.18	1											
NGO	0.04	-0.13	0.00	0.18	-0.23	-0.20	-0.07	1										
NBFI	-0.12	-0.22	0.28	-0.04	0.25	0.08	0.13	-0.70	1									
KKZ	-0.25	-0.44	0.34	0.12	0.02	0.07	-0.06	0.12	0.18	1								
GDP per capita	-0.08	-0.51	0.37	0.08	0.07	0.03	-0.07	0.09	0.28	0.66	1							
Inflation rate	-0.21	0.23	0.16	-0.14	-0.03	-0.01	-0.12	-0.17	0.18	0.03	0.31	1						
Firm size	-0.04	0.12	0.11	0.00	0.28	0.18	0.27	-0.15	0.27	-0.05	0.14	0.40	1					
Labor productivity	-0.22	-0.05	0.21	0.12	0.22	0.07	0.12	-0.07	0.09	0.07	0.14	0.24	0.55	1				

MFI experience	0.13	0.29	-0.05	-0.03	-0.02	0.00	0.19	0.16	-0.07	-0.31	-0.30	0.17	0.10	-0.15	1			
	0.33	0.09	0.69	0.83	0.89	0.99	0.15	0.23	0.61	0.02	0.02	0.20	0.44	0.25				
Individual	-0.11	-0.06	0.19	-0.12	0.01	0.11	0.06	-0.06	0.17	0.27	0.10	0.03	0.03	-0.30	0.21	1		
	0.41	0.73	0.16	0.36	0.95	0.41	0.66	0.65	0.21	0.04	0.44	0.83	0.85	0.02	0.11			
Urban	-0.04	-0.09	0.10	0.09	0.21	-0.02	0.11	0.09	-0.01	0.06	0.22	-0.04	-0.07	-0.09	-0.12	0.18	1	
	0.77	0.61	0.46	0.51	0.12	0.88	0.40	0.50	0.95	0.65	0.09	0.78	0.57	0.49	0.38	0.17		
Rural	-0.01	-0.13	0.08	0.04	0.03	0.04	-0.12	-0.08	0.01	0.03	-0.11	0.04	-0.02	0.13	0.21	-0.03	-0.60	1
	0.96	0.47	0.53	0.78	0.80	0.79	0.39	0.55	0.92	0.85	0.41	0.78	0.90	0.33	0.11	0.81	0.00	
p-value																		
Significant at the 1% level																		
Significant at the 5% level																		
Significant at the 10% level																		

2.3. Test specification

In order to test the positive or negative impact that some governance mechanisms have on social and financial performance indicators of MFIs included in our sample, we carried out a forward stepwise regression for each of our dependent variable¹².

Regarding the large number of predictors (eighteen) in relation to the small size of our sample, the forward stepwise regression indeed is, according to Howell (1997), the best selection procedure to identify the most important predictors. A selection procedure aims to identify those variables which, taking all else into consideration, allows us to explain a significant proportion of the total variation. The independent variables are tested one by one on the basis of the degree of significance of the score test. The score test is a statistic based on the comparison between two models that allows us to make a judgment on the statistical significance of the model coefficients (Bernard, 1999). This variable selection procedure results in the model with the highest score. The variable with the lowest probability below 0.05 enters the model. The variable with the next lowest probability enters next, and so on. At each step of the procedure, the variables introduced in previous steps are re-examined. The variable with the highest probability greater than 0.1 is removed from the model, which is then re-estimated. The other variables are then re-evaluated in order to determine whether they should be eliminated in turn. A previously significant variable can lose its significance following the joint introduction of other variables and be eventually eliminated from the model. A variable can also be eliminated on the basis of a likelihood ratio test. The construction of the model is completed when no variable satisfies the criteria for entry or exit or when a model identical to the preceding one is selected. When we study the different financial and social performance predictor groups concomitantly within the framework of a stepwise regression, only those variables, which are individually the most significant, all else being equal, and which make the most significant contribution to the predictive power of the model as a whole are selected.

In our case, the use of the stepwise regression enables, in a way, to increase the robustness of the analyses compared to a standard OLSQ, while lowering the number of independent variables. This effect is important what regards the small size of our sample, as it has been previously discussed.

The next section presents our results and comments these.

¹² We have tested the classical regression for the five dependent variables. These showed several problems. The Fisher tests were not significant for all of the three financial performance indicators, suggesting a not very robust model. However, in small samples, the F test of the overall regression model may be non-significant even though t-tests for some beta coefficients are significant, as is the case here. Dropping variables with non-significant betas may lead to a significant F in this situation. That is what happened when we conducted the stepwise regression. On the contrary, F-tests were significant at the 1% level for both social performance measures. What regards independence of observations, rather high Variance Inflation Factors (8.231 for the NBF legal form) informed us that some variables were highly correlated, which corresponds to a tolerance value of far less than 0.20 (0.121 actually). Therefore, the stepwise regression model has the advantage of narrowing down these initial biases. The stepwise regression confirms the most statistical results generated by the full model.

3. Results and discussion

3.1. Robustness of the model

A general Fisher test that analyses the significance level of the whole regression has been realized for each of them. The Fisher tests were all highly significant (at the 1% level) for the five financial performance indicators.

Further, the possible existence of multicollinearity in variables has been assessed with two different tests. First, the Durbin-Watson statistic is the usual test to see if the assumption of independent observations is met. As a rule of thumb, a Durbin-Watson statistic in a range of 1.5 to 2.5 means that one may assume independence of observations. The Durbin-Watson statistic generated values that vary between 1.5 and 2.5 for the five equations. Second, we used the Variance Inflation Factor (VIF) to assess the multicollinearity of each variable with the others. The VIF is the reciprocal of tolerance. As a rule of thumb, if tolerance is less than 0.20, a problem with multicollinearity is indicated. Therefore, when VIF is high, there is high multicollinearity and instability. The VIFs were comprised between 1 and 1.8, informing us that all the variables are loosely correlated. As a consequence, the corresponding tolerance values all approach 1.

All the multiple linear regressions have been controlled for heteroscedasticity and strict exogeneity of the residuals by examining the normality of their distribution curve. The condition of normality of residuals was met for each regression (although one could notice longer tail on the right side of the graph for Operational Efficiency and Depth of outreach).

Finally, adjusted R^2 for the five regressions were high enough to suggest that the stepwise regression model explains a large part of the variance.

The values of the standardized coefficients, the tests and p-values, related to the five performance indicators, are shown in Table 5.

First, let us mention that none of our control variables has an impact on the five performance ratios. At best, they do have an influence on two of our indicators. Labor productivity has an impact on the firm's ROA and OSS, whereas Individual loans have an influence on both Depth and Width of outreach of the firm.

The next two sections detail results what regards financial and social performance of MFIs.

Table 5 – Stepwise Regression Model: Results

N°		ROA	OSS	Operational Efficiency	Depth	Width
STANDARDIZED COEFFICIENTS						
1	Board size*	-	-	0.462 0.012	-	-
2	Meetings frequency	-	-	-	-	-
3	Chairman/CEO duality	-	-	-	-	-
4	Female CEO	-	-	-	-	-
5	Board's education	0.451 0.003	-	-	-	-
6	CEO's education	-	-	-	-	-
7	Internal auditor	-	-	-	-	-
8	NGO	-	-	-	-	-
9	NBFI	-	-	-	-	-
10	KKZ	-	-	-	-	-
11	GDP per capita	-	-	-	-0.380 0.000	-
12	Inflation rate	-	-	-	-	-
13	MFI experience	-	-	-	-	-
14	Firm size	-	-	-	-	0.899 0.000
15	Labor productivity	0.505 0.001	0.548 0.002	-	-	-
16	Individual	-	-	-	0.812 0.000	-0.198 0.007
17	Urban	-	-	-	-	-
18	Rural	-	-	-	-	-
TESTS (p values)						
Fisher		14.485 (0.000)	11.591 (0.002)	7.325 (0.012)	44.606 (0.000)	98.529 (0.000)
Durbin-Watson		1.739	1.581	1.457	1.897	1.668
Adjusted R ²		0.491	0.274	0.184	0.757	0.874
No. of observations		56	58	57	59	59

Legend (p values):

Significant at the 1% level

Significant at the 5% level

Significant at the 10% level

* Coefficients multiplied by 100

3.2. Financial performance

The only two significant influences of governance mechanisms on MFIs' financial performance are exerted by two board's characteristics.

First, the Board's **experience and education** (variable 5) has a significant positive (0.451) impact on the ROA of MFIs operating in South-Asia. This highlights the need for sufficient skills and knowledge of any board of directors, and stays in line with former guidelines (Rock, Otero and Satzman, 1998; Campion and Frankiewicz, 1999). Further, the **Board size** (variable 1) has a positive impact (0.462) on Operational Efficiency. This result suggests that a large number of Directors positively influences the rationalization of operational costs, although it is generally admitted that the larger the board is, the more difficult it is to reach agreements between its members and to set strategic guidelines for the institution. This result contradicts Hartarska's (2005) finding that board size has a negative impact on profitability and could mean a better allocation/division of tasks within the MFIs of our sample.

These are the sole governance mechanisms that seem to have a significant impact on the financial performance of MFIs.

Nothing can be said what regards the governance factors determining the Operational Self-Sufficiency.

If we look at control variables, another way to enhance both the ROA and the OSS is to increase **Labor productivity** (variable 15). If for an equal number of clients, an institution has the capability to hire a fewer number of employees, all else being equal, operating expenses will be lowered and the return on assets be higher, which is quite logical.

3.3. Social performance

Other variables seem to have an impact on social performance. The **GDP per capita** (variable 11) negatively (-0.380) influences the Depth of outreach, suggesting the fact that MFIs being located in a wealthy country negatively influence the average size of the loan accorded to borrowers, which could mean that borrowers in these "richer" countries need less money.

Logically, the MFI's **size** (variable 14) has a high positive impact (0.899) on the firm's number of clients. All else being equal, with higher total assets, an institution might serve a larger number of clients.

Individual banking (variable 16) has a positive influence (0.812) on the Depth of outreach but negative impact (-0.198) on the Width of outreach. However, despite the significant coefficients, it looks tough to draw conclusions on this variable as only four MFIs possess this attribute.

Moreover, our analyses have not confirmed some previous results related to the impact of the CEO/Chairman duality, the CEO's gender, and the stability of the political and legal environment on performance.

Finally, somewhat surprisingly, nothing can be said on the role played by the **legal structures** (variables 8 and 9) in MFIs' performance. For example, one could have expected **NBFIs** (variable 9) to have a significant impact on the credit offer, due to the fact that this type of institutions often works on larger scale. For instance, in India, Non Bank Financial Institutions deal with 73% of the whole microfinance's clients (M-CRIL, 2007).

The lack of univocal results related to legal structures and financial performance does not frame with recent theoretical approaches (i.e., Welfarist versus Institutionalism) but is in line with some researchers' conclusions (Dichter, 1996; Labie, 2004; de Briey, 2005; Mersland and Øystein Strøm, 2009) who argue for the non predominance of any type of legal status. In microfinance, there might exist a plurality of intervention mechanisms, and there is space for differentiated MFI, that could work in a complementary way: in different geographical environments, on different scales, for different types of clients, and given, with or without subsidies (de Briey, 2005).

Conclusion

This article studied the effect of corporate governance on Microfinance Institutions' performance. Using a dataset of 59 rating reports in five South Asian countries for the period 2002-2007, we were able to study how various internal and external governance mechanisms influence different dimensions of financial and social performances.

We found that not all known governance mechanisms affect performance, and that no mechanism is able to affect all five performance ratios, namely ROA, OSS, Operational Efficiency and Depth and Width of outreach.

To begin with financial performance, we retain from the stepwise regression that labor productivity, appropriate knowledge and trainings of the board, as well as the number of Directors sitting at the board, can be considered as three effective mechanisms in microfinance, as they positively impact either ROA, OSS or Operational Efficiency. In addition, what regards social performance of MFIs, none of the nine governance mechanisms seems to be an appropriate tool to enlarge the outreach of an institution. These results seem to show that different variables affect financial and social performance and that even different types of financial performance are explained by different factors.

Moreover, our analyses have not been able to confirm previous results (Hartarska, 2005; Mersland and Øystein Strøm, 2009; Mueller and Uhde, 2009). This lack of significance can, at least partly, be attributed to the small size of our sample. This important limitation indeed decreases the reliability of results. However, it should be noted that the distribution curves met the condition of normality and that the observations were uniformly spread along the regression lines.

Finally, if a few answers in microfinance have been found, more questions remain. That is why we would like to suggest some recommendations for possible further researches. While some traditional governance mechanisms seem to work, more detailed data (i.e., more governance mechanisms, a larger sample of institutions, etc.) are needed to better understand how various governance mechanisms affect the performance of Microfinance Institutions. The dynamic evolution of MFIs and their governance structure could also be better reflected by looking at consecutive rating reports, that is to say, reports written during different years for the same institution. Lastly, the opposite relation could also make sense. Can a healthy financial situation drive better governance practices?

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Appendix 1

Table A – MFIs’ full name and country of origin

N°	Abbreviation	Full name	Country
1	SEEDS	Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd	Sri Lanka
2	UPAP	Urban Poverty Alleviation Program of NRSP	Pakistan
3	KASHF	Kashf Foundation	Pakistan
4	ASASAH	Asasah Limited	Pakistan
5	AFSL	Arohan Financial Services Ltd	India
6	ASA-GV	Activists for Social Alternatives - Grama Vidiyal	India
7	ASOMI	Asomi	India
8	ASSIST	A Society for Integrated Rural Development	India
9	AWS	Aadharsha Welfare Society	India
10	BANDHAN	Bandhan	India
11	BASIX	Bhartiya Samruddhi Finance Limited	India
12	BGFL	Bazaari Global Finance Ltd	India
13	BISWA	Bharat Integrated Social Welfare Agency	India
14	BSS	Bharatha Swamukti Samsthe Private Limited	India
15	BWDA	Bullock-cart Worker’s Development Association	India
16	CARD	Community Action for Rural Development	India
17	CDC	Community Development Centre	India
18	CFTS	Cashpor Financial and Technical Services Ltd	India
19	CRESA	Centre for Rural reconstruction through social action	India
20	ESAF	Evangelical Social Action Forum	India
21	GK	Grameen Koota	India
22	GSGSK	Gandhi Smaraka Grama Seva Kendram	India
23	IASC	Indian Association for Savings and Credits	India
24	KAS	KAS Foundation	India
25	LEAD	League for Education and Development	India
26	MIMO	Mimo Finance Pvt. Ltd	India
27	MT	Mahaseman Trust	India
28	NB	Nirmaan Bharati	India
29	PF	People’s Forum	India
30	PRM	People Re-Construction Movement	India
31	RASS	Rashtriya Seva Samithi	India
32	SANGAMAN	Sangamam Women’s Multipurpose Thrift and Credit Co-Operative Society Ltd.	India
33	SARALA	Sarala Women Welfare Society	India
34	SCNL	Satin Creditcare Network Limited	India
35	SSFC	Shah Sandhu Finance Company Pvt. Ltd.	India
36	SHEPERD	Self Help Promotion for Health and Rural Development	India
37	NRDSC	Nepal Rural Development Society Centre	Nepal
38	SB BANK	Swabalamba Bikas bank Ltd	Nepal
39	CSD	Centre for Self Help Development	Nepal
40	BISCOL	Bindabasani Savins Cooperative Society Ltd	Nepal
41	VYCCU	VYCCU Savings and Credit Cooperative Ltd	Nepal
42	PGBB	Pashchimanchal (Western Region) Grameen Bikas Bank Ltd	Nepal
43	NUBL	Nirdhan Uthan Bank Ltd	Nepal
44	CBB	Chhimek Bikas Bank Ltd	Nepal
45	BURO	Buro	Bangladesh
46	ASOD	Assistance for Social Organization and Development	Bangladesh

47	SKDRDP	Shri Kshethra Dharmasthala Rural Republic of India Development project's Microfinance	India
48	SKSM	SKS Microfinance Private Limited	India
49	SML	Share Microfin Ltd	India
50	SMS	Saadhana Microfin Society	India
51	SNEHA MACS	Sneha Mahila Mutually Aided Thrift & Credit Cooperative Society Limited	India
52	SNFL	Sarvodaya Nano Finance Ltd	India
53	SSIFSL	Spandana Sphoorty Innovative Financial Services Limited	India
54	SU	Sahara Uttarayan	India
55	SWAWS	Sharda's Women's Association for Weaker Sections	India
56	SHAKTI	Shakti Foundation for Disadvantaged Women	Bangladesh
57	TMSS	Thengamara Mohila Sabuj Sangha	Bangladesh
58	VSSU	Vivekananda Sevakendra O Sishu Uddyan	India
59	WSE	Welfare Services Ernakulam	India

Appendix 2

Figure 1 – KKZ definitions

The WGI authors define governance as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. The WGI measure six broad definitions of governance capturing the key elements of this definition:

1. Voice and Accountability: the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

2. Political Stability and Absence of Violence/Terrorism: the likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism.

3. Government Effectiveness: the quality of public services, the capacity of the civil service and its independence from political pressures; and the quality of policy formulation.

4. Regulatory Quality: the ability of the government to provide sound policies and regulations that enable and promote private sector development.

5. Rule of Law: the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence.

6. Control of Corruption: the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Source: Kaufmann, Kraay and Mastruzzi (2009), *World Bank*.