Microfinance and Social Development: A Selective Literature Review

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1. The Role of Microfinance in Financial Systems and its Potential Contribution to Positive Social Outcomes

While microfinance has a relatively short history that dates back to the 1970s, it has attracted extensive attention from researchers, policy makers, corporations, and financial institutions worldwide. Microfinance comprises several services, including but not limited to, microcredit, microsavings, microbanks, microremittances, microguarantees, money transfers, and microinsurance (Armendáriz and Morduch 2010). Information and communications technology is a category of financial services that is believed to possess the power to alleviate global poverty by providing necessary financial services to the portion of the population that is generally underserved by conventional financial products and at risk of financial exclusion.

Started from a seemingly inconsequential idea of Muhammad Yunus, a Bangladeshi economics professor who made small loans to local villagers in the 1970s, microfinance has grown to a magnitude much larger and extended far beyond the experimental trials and pilot programs in its early years. With the foundation of Grameen Bank in Bangladesh, Yunus officially institutionalized the approach of microfinance in 1976 (Encyclopedia Britannica). Today, the microfinance movement is large and thriving, as evidenced by the existence of 916 microfinance institutions (MFIs) with an approximate aggregate loan portfolio of $124 billion. MFIs had 140 million active borrowers worldwide in 2018, 80% of whom were women and 65% of whom resided in rural areas (Microfinance Barometer 2018).

Microfinance can be defined differently by governments in various countries. For example, it is defined as the "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income

levels and improve living standards” by the Reserve Bank of India (2000, p. 1). Yet, most of the interpretations bear the same themes. It can be argued that the definition of microfinance has evolved from its initially limited concept, which was simply the provision of microloans to small businesses and poor entrepreneurs lacking access to the formal financial system, which is more commonly known as microcredit (Yunus 1998, Morduch 1999a). The term microcredit refers to institutions such as Grameen Bank that focused on offering loans to the unbanked. A lack of access to credit is widely accepted as the main cause of poverty in developing economies, where the poor cannot afford to put up collateral for conventional financial services and transaction costs are too expensive for financial institutions to make lending profitable. With the vision and mission to replace commercial banks, the emphasis of microcredit was primarily on improving social welfare, including poverty reduction and social reform, and nongovernmental organizations were the major players. Over time, microfinance has shifted from solely providing loans to disadvantaged people to collecting savings from low-income households, providing insurance, helping with money transfers, and even marketing and distributing clients’ output in some places, such as Bangladesh (Armendáriz and Morduch 2010). This development in concept suggests a recognition of the importance of other financial services not limited to credit for microenterprises. In incorporating more services, both financial and nonfinancial, the orientation of microfinance diverges from lending to lower-income people to pursuing the double bottom-line objectives of social outreach and financial sustainability (Bos and Millone 2015, Zamore et al. 2019). Today, MFIs serve hundreds of millions of vulnerable borrowers and thus play a key role in poverty alleviation in developing economies, especially in Africa and Asia and the Pacific. That is not to say MFIs are invincible knights in shining armor on a mission to eradicate poverty and salvage the disadvantaged. Financial viability is still a concern for MFIs, and they must essentially behave like other firms that aim to be profitable or at least break even to survive (Zamoreet et al. 2019). Although, unlike commercial banks, MFIs are generally evaluated with regard to not only their profits but also their social impacts.

The role of microfinance in financial systems, whether global or local, is to provide financial services and a substantial flow of finance to the economically marginalized populations often neglected by the formal financial sector (Kurmanalieva et al. 2003). With the evolution of microfinance in developing economies, people excluded from conventional financial systems have

access to alternatives to save and borrow (Islam et al. 2015) rather than having to rely on their family and friends, or usurers and tontine (Tsai 2004, Langeet al., 2007). In both developing and developed economies, microfinance offers an alternative to conventional financial services and plays a significant role in facilitating the financial inclusion of disadvantaged populations. While serving as bankers to the poor, MFIs face several challenges such as lack of asset collateral, absence of jobs, irregular income streams, and restricted credit history, leading to adverse selection and moral hazard issues (Giné et al. 2010, Ibtissem and Bouri 2013). Nonetheless, MFIs have continued to grow with a mandate to stimulate entrepreneurial initiatives to create endogenous growth and alleviate poverty that prevailing approaches, such as foreign aid and government-administrated programs, have failed to address (Khavul 2010). Through these objectives, the first developmental goal of financial and social inclusivity of microfinance came to light. By providing financial services to economically active yet underprivileged people, microfinance is acknowledged as one of the most important development policy innovations in the world (Qudrat-I and Lutfor Rahman 2006, Ledgerwood et al. 2013).

Financial inclusion hopefully comes with poverty and inequality eradication, and economic growth (United Nations Capital Development Fund 2015). Microfinance has been recognized as an important instrument to fight poverty by major organizations worldwide. For instance, the United Nations declared 2005 to be the International Year of Microcredit. In 2006, Mohammad Yunus received the Nobel Peace prize, further drawing attention to microfinance and its social welfare implications. MFIs' social aspirations commonly include poverty reduction, job creation, gender empowerment, economic growth, social inclusion, and eventually contributing to social development (De Koker and Jentzsch 2013). Microfinance has the capacity to increase self-employment and create microenterprises in developed countries (Nogueira et al. 2020). With the assistance of microfinance, households are able to expand opportunities for income accumulation, thus allowing people to provide for their families. Having access to credit can help stop poverty in the immediate term, disrupt the cycle of poverty by making money available, and facilitate potential business opportunities. Microfinance has also been known to cater to underserved and disadvantaged populations like women, disabled people, the elderly, the unemployed, and those who simply wish to meet their basic needs (Hansen et al. 2020). Families may save and even invest in better housing, healthcare, and education, making the positive impacts more sustainable and

lasting. Through the help of microfinance, entrepreneurs in developing countries and impoverished communities may survive, operate, and even thrive by creating more employment opportunities for others. Participation in a microfinance program is associated with higher levels of consumption, better nutrition, generally uplifted standards of living, and growing economies (Nogueira et al. 2020). Despite its inherent purpose to "do good," it is critical to acknowledge that microfinance is not without faults, some of which include (i) exorbitant interest rates (Cull et al. 2009); (ii) driving client over-indebtedness (Guérin et al. 2015); (iii) a questionable record on female empowerment (Karim 2011, Garikipati et al. 2017); (iv) an overemphasis on credit rather than other services (Mader 2015); (v) aggressive collection methods (Mader 2013); and, most importantly, (vi) a lack of demonstrable impact on poverty reduction (Duvendack et al. 2011, Stewart et al. 2012).

2. Review of the Empirical Literature on the Social Impact of Microfinance and Assessment of the Contribution of Microfinance to Promoting Positive Social Outcomes

Traditionally, the term MFI has referred to a sizable nonprofit organization that depended on grants, subsidies, and donations to support its social mission of poverty reduction. However, it has been argued that donor support and subsidies cannot sustain the microfinance industry's rapid rate of growth (D'Espallier et al. 2013). To counter this possible drawback, some MFIs have become financially self-sustaining over time. The Grameen Bank is an exemplar, having achieved financial sustainability through improved cross-subsidization among projects and increased efficiency (Yunus and Jolis 1999, Yunus 2007). Grameen Bank did not stop at merely being self-sustaining when commercial MFIs entered the industry. Financial returns to investors became viable, thus turning MFIs into a type of hybrid organization with the dual targets of social mission and financial sustainability. Given this hybrid nature, the achievement of the dual missions in a consistent manner can often be in doubt, and tensions between social and financial goals have surfaced in social entrepreneurship in general and microfinance in particular (Morduch 2000, Zeller et al. 2003, Austin et al. 2006, Wilson and Post 2013, Santos 2012, Stevens et al. 2015, Wry and Zhao 2018). As evidenced by an increased focus on commercialization, the most prominent explanation for this trade-off is that it is more costly for MFIs to provide financial services to economically marginalized people, making social outreach come at the expense of a firm's financial performance (Hermes et al. 2011, Abate et al. 2014, Postelnicu and Hermes 2018). This is commonly referred

to as mission drift, indicating the possible reorientation of MFIs from their original mission of serving the poor to pursuing commercial viability. Empirical evidence regarding this dual goal is inconclusive, with several studies finding a tradeoff between the social and financial performance of MFIs (Von Pischke 1996, Woller 2007, Hermes and Lensink 2011), while others have observed the opposite (Quayes 2012, Quayes 2015). A more recent study by Churchill (2020) utilized a sample of 109 countries and discovered that a trade-off exists between the financial sustainability of MFIs and their social outreach depth, but complementarity was found between sustainability and outreach breadth. In spite of the cynical and critical view of microfinance's mission drift, MFIs are still mostly portrayed in a positive light. To this day, microfinance is widely portrayed as a social business that can generate positive outcomes for the whole of society.

The amount of studies on the socioeconomic effects of microfinance that utilize a cross-national sample remains limited. Until quite recently, a rigorous investigation of the consequences of microfinance in more general terms has been difficult to conduct mostly due to the lack of reliable cross-country data, particularly from a time-series perspective (Torre and Chiappini 2020). Empirical findings are mainly based on micro-level studies in specific contexts that fail to provide insight into the bigger picture. Therefore, most evidence of the socioeconomic impact of microfinance interventions are controversial because they are limited by microeconomic foundations (Miled and Rejeb 2015). Fortunately, improvements in both the quality and availability of the required data have emerged, allowing for the examination of the impact of microfinance in a comprehensive and consistent manner. Despite that, the literature has yet to agree on one consensus index for measuring the social performance of MFIs, with most studies developing and estimating unique performance metrics from multidimensional indicators (Wassie et al. 2019). Given their initial focus on promoting financial inclusivity and supporting poverty relief, outreach to the poor has been accepted as MFIs' primary mission (Copestake 2007, Mersland and Strøm 2010). Numerous studies exploring the social impacts of microfinance have been conducted by researchers worldwide. The existing literature is broadly divided into three categories: (i) poverty alleviation; (ii) women empowerment; and (iii) impacts on other subjects including rural financial inclusion, education, nutrition, health, consumption level, and building assets (Tedeschi 2010, Garikipati 2012, Deloach and Lamanna 2011, Garikipati et al. 2017). In underdeveloped societies, microfinance is generally considered an important tool to boost the

social and financial inclusion of low-income individuals and households (Morduch 1999b), because it provides these nonbankable people with the benefits from banking services (Yunus 1999). With access to financial services, individuals are expected to improve their well-being and self-confidence. As stated by Van Rooyen et al. (2012, p. 2249): "The underlying logic is that by providing financial services to the poor, for example in the form of credit or savings, they manage their money differently, investing, acquiring productive assets, increasing their skills levels, opening new businesses, etc.". Moreover, the effects of microfinance have the potential to be beneficial to society as a whole. While reducing poverty is the original goal, microfinance also presents a series of invigorating possibilities for extending markets and fostering social change (Armendàriz and Morduch 2010).

With regard to poverty alleviation, microfinance creates employment and generates income, thus stimulating social well-being among the poor segments of society and serving as an important tool for poverty reduction in both developing and developed economies, although due to its special features microfinance is more pronounced in developing economies (Elias et al. 2015, Žiaková and Verner 2015). According to Littlefield et al. (2003) and Ali et al. (2014), microfinance services such as microcredit have been shown to improve the living standards of people, increase income and generate employment through entrepreneurship, and smoothen seasonal consumption among various societies in the developing world. Poor individuals can take advantage of increased earnings to build assets and improve their living conditions, consumption level, and health (Appah et al. 2012, Leatherman et al. 2012). Countries with higher ratios of MFI gross loan portfolio per capita are reported to have lower poverty head count ratios and higher consumption expenditure, affirming the impact of microfinance on poverty alleviation at the macro level (Miled and Rejeb 2015). There is extensive evidence to demonstrate the positive impact of microfinance on poverty reduction. Examples include Hulme and Mosley (1998) for developing countries, Kaboski and Townsend (2012) for Thailand, Sengsourivong and Mieno (2014) for the Lao People's Democratic Republic, Rahman and Khan (2013) and Rahman et al. (2017) for Bangladesh, Imtiaz et al. (2014) for Pakistan, Sehrawat and Giri (2016) for South Asian economies, Nukpezah and Blankson (2017) for Ghana, and Elsafi et al. (2019) for Sudan. On the other hand, other studies have found less favorable influences of microfinance on poverty alleviation (Banerjee et al. 2013). Nawaz (2010) claimed that while poverty was reduced among participants of the microfinance program in

Bangladesh, the effect was only moderate. One explanation is that if the loan is small, it is difficult for a poor client to establish or start a profitable new enterprise or business. The view is supported by Ibrahim and Bauer (2013), who found that the effect of microfinance programs was greater for individuals who received a more sizable loan. Van Rooyen et al. (2012) discovered a mixed impact, while Karlan and Zinman (2008) indicated that the socioeconomic effect of microfinance varies considerably across countries. The nonuniform distribution of benefits from country to country is one likely explanation for this phenomenon. It has also been argued that the effect of microfinance on an economy may be overstated or may even negative (Terberger 2013). Microfinance can exacerbate the economic situation of the poorest, as well as induce severe over-indebtedness among borrowers due to high interest rates (Seng 2018). If not properly managed and organized, microfinance can worsen the poverty conditions of the clients through additional debt burden.

In accordance with the important Sustainable Development Goal of promoting gender equality and empowering women, women are the predominant target of microfinance. Overall, there are three possible reasons for this emphasis on attracting female borrowers. Firstly, with respect to the cost efficiency rationale, women's repayment rates are much higher than those of men. Empirical research has shown that women are more reliable and creditworthy than their male counterparts (Aggarwal et al. 2015). Secondly, the focus on women can address the ever-present issue of gender inequality, especially in terms of employment opportunities in developing countries. Lastly, women tend to be more concerned about the well-being of their family and invest more in education, creating a multiplier effect that improves the effectiveness of a microfinance program's credit funds (Croson and Buchan 1999, Maclean 2010). Microfinance is commonly established as a tool to empower women by improving their psychosocial well-being and socioeconomic status. Female borrowers are prioritized, and the percentage of female clients in microfinance programs is much higher compared to that of their male counterparts (Hermes et al. 2011, D'Espallier et al. 2013, and Périlleux and Szafarz 2015). By putting resources into poor women's hands, microfinance can promote gender equality in the household and society, resulting in enormous development payoffs. Microcredit may also increase women's bargaining power within the household (Armendàriz and Morduch 2010), enhancing their self-confidence, role in decision-making, quality of life, and income. A traditional intrahousehold bargaining model would predict that a microfinance intervention would increase outside options for women, thus potentially

reducing violence against women because husbands have more incentive not to harm and possibly lose their wives (Caridad Bueno and Henderson 2017). As women's opportunities in agriculture, finance, and public works are expanded with the help of much-needed credit, their participation in such activities can both accelerate economic growth and mitigate the effects of current and future financial crises (World Bank 2011). As gender inequalities hinder economic growth and sustainable development, the role of microfinance in empowering women is more crucial than ever (Cheston and Kuhn 2002, Swain and Wallentin 2009). Typically, microfinance has been found to have positive impacts on education and fertility (Morduch 1999a), along with contributing to gender equality and women's emancipation (Mayoux 1998). Loans made by women also often result in better outcomes than those made by male family members, confirming the beneficial social implications of providing financial services to women. Myriad empirical studies have concluded that microfinance programs assist women's empowerment both socially and economically (Sinha et al. 2012, Othman 2015, Samer et al. 2015, Hassan and Saleem 2017). It is critical to note that the benign effect is not absolute, as the impact of microfinance on women empowerment has been shown to be affected by factors like age, education level, marital status, inherited assets, number of sons alive, and level of income, as well as the level of education of their husbands (Rahman et al. 2009, Noreen 2011, Rehman et al. 2020). The benefits of microfinance to women can also be curtailed when men feel threatened by the financial independence and power of women, and subsequently resort to violence to regain control (Dutt et al. 2016). In societies with toxic and/or misogynistic traditional norms, the male backlash may render microfinance's efforts to economically empower the female population counterproductive (Luke and Munshi 2011, Bulte and Lensink 2019). The positive effect of microfinance on women's empowerment may also be overstated as women hardly have full control over money in most cases (Armendáriz and Morduch 2010). Additionally, there is persistent evidence that women's empowerment is not a high priority in practice (Engel and Pedersen 2019).

From a wider perspective, empirical findings on the benevolent influences of microfinance on multiple aspects of society are myriad. MFIs directly affect household income through encouraging productivity, increasing diversity of production, providing insurance and marketing schemes, and maximizing the utilization of available resources (Dejene 2007, Belwal et al. 2012, Fletschner and Kenny 2014). Apart from financial support, microfinance propagates the idea of

human rights and democracy, along with the empowerment of disadvantaged and underrepresented people (Da Silva 2007, Chaudhry and Nosheen 2009, Montgomery and Weiss 2011). For instance, Wydick (2002) found a positive effect of microcredit on child schooling in Guatemala, while the presence of MFIs greatly improves child health in Indonesian villages (Deloach and Lamanna 2011). Microfinance increases short-term agricultural investment, wages, and consumption (Kaboski and Townsend 2012). Imai and Azam (2012) found that it raises income and food consumption in Bangladesh. Additionally, microfinance programs can be incorporated into other social programs aiming to be educational such as group-based health education, marketing, and job skill training, especially in low- and middle-income countries. A recent example is the study by Maldonado et al. (2020) in western Kenya where women attended group-based microfinance and health education sessions for 1 year. The findings illustrate the potential of employing microfinance and education to achieve positive maternal, newborn, and child health outcomes. Generally, microfinance has a positive effect on both the economic growth and development of a country (Lopatta and Tchikov 2016, Lopatta et al. 2017, Bansal and Singh 2019). All in all, the most valid, reliable, practicable, and fair quantitative evaluation of microfinance social performance remains controversial, making it difficult to agree on one methodology to measure the potentially positive social outcomes of microfinance. Although the data on financial performance are often clear-cut and rich, the data on social performance tend to be nonexistent or inadequate. There has been substantial progress in improving the evaluation of microfinance's social effectiveness based on standards commonly agreed upon by leading stakeholders in the industry. In practice, social rating and performance assessment using the social performance indicators developed by CERISE, a French nonprofit organization, are the most commonly utilized standards-based evaluation methods (Pierna et al. 2020). Despite their popularity, the authors note that the social performance of microfinance cannot rely on standards-based methods only as they fail to cover all dimensions of microfinance's theory of change, and future studies should employ specific evaluation frameworks and indicators to assess its effectiveness more comprehensively. Appraising the social returns of microfinance is also crucial because it allows for the comparison of measured impact to measured costs to estimate the change due to a given financial statement (Morduch and Ogden 2019). Moreover, publicly released and readily available social performance scores may help MFIs signal to stakeholders (e.g., their investors) that they are fulfilling their social missions and that their operation and decision-making are ethically sound. Ultimately, it is

vital for policy makers, socially oriented donors, investors, and stakeholders to understand the exact impacts of microfinance on distinct aspects of social performance. Therefore, a combined application of varied evaluation approaches is necessary to fully and accurately measure the magnitude of the social performance of microfinance.

Last but not least, despite its various positive social outcomes, microfinance is not without faults. The most notable concern relates to ethical problems (Hudon and Sandberg 2013). Some scholars have argued that instead of breaking the cycle of debts, microfinance actually exacerbates the chain of poverty and undermines the poor (Bateman 2010, Karim 2011, Bateman and Chang 2012). They claim that, somewhere along its evolution, microfinance has taken a wrong turn, or committed mission drift, in its course to provide credit for economically marginalized populations and instead has become an entirely money-making opportunity, as evidenced by the outrageously high lending rates imposed on the poor. Raising interest rates, while commonly interpreted as the only way to create financial institutions that could expand and grow, would not make positive social results sustainable (Otero et al. 1994). Nevertheless, most scholars agree that without financial viability MFIs cannot sustain themselves and the worst-case scenario would occur in which fewer institutions are able to provide financial services for underserved communities. Some MFIs have also been found to prefer richer customers to poorer ones as poorer clients are more costly to serve (per unit transacted) and are therefore riskier, which defeats the purpose of the foundation of microcredit programs: serving the poor. Besides possible financial damage, microfinance has been shown in some instances to harm participants physically as well as psychosocially (Fernando 1997, Rahman 1999, Bateman 2010, Karim 2011, Engel and Pedersen 2019). There are multiple explanations for why microfinance participation may increase psychological stress and violence among borrowers. One possible reason is that repayment pressures can force borrowers to seek loans from other sources, which compounds indebtedness, eventually pushing them further into poverty and depression (Kulkarni 2011). Another is peer pressure, which spawns from the group collateral mechanism of microfinance. This mechanism utilizes both external and internal shaming to ensure the maintenance of high repayment rates, where group borrowers often resort to violence and shaming rather than offering support to members facing default (Engel and Pedersen 2019). With the constant ghosts of poverty, natural disasters, health problems, unemployment, and poor financial decision-making lurking around the corner, poor people are likely to suffer more negative

psychosocial consequences from added debts and the shame of possible default. Therefore, a careful investigation should be conducted to fully consider the negative influences of microfinance on communities.

3. Key Implications for Policymakers for Strengthening the Social Impact of Microfinance

MFIs play an increasingly critical role in tackling crucial political and economic objectives such as poverty alleviation and improving opportunities for marginalized and economically disadvantaged groups (Mumi et al. 2020). MFIs have a dual mandate: (i) ensure financial stability and (ii) attain mission objectives. The success of MFIs in attaining this dual mandate is dependent on domestic legal systems, and thus it is essential for policy makers to recognize the dual nature of MFI outcomes (Mumi et al. 2020). For instance, policies that enable MFIs to structure their organization in ways conducive to the prevailing legal system need to be implemented to enhance MFIs' ability to achieve their objectives (Mumi et al. 2020).

Furthermore, some governments adopt know-your-customer procedures, which have been identified as obstacles to financial inclusion for the poor (Siwale and Okoye 2017). To directly address such barriers for poor customers, especially those who are new to banking services, Alexandre et al. (2011) proposed a phased approach. Specifically, the policy objective should be to allow immediate account opening with minimal barriers for the poor and to have a progressive tightening of know-your-customer regulations as their usage of financial services expands.

On the other hand, some scholars have opined that prudential regulations should be enforced in the commercial banking sector in general and applied to microfinance in particular. Otherwise, MFIs might be inclined to provide more loans to high-income clients (Sample and Campaign 2011). Having a domestic microfinance policy and rules can help MFIs achieve financial soundness and accountability. Nevertheless, they may not necessarily result in increased outreach to the marginalized community, especially those in rural areas (Brouwers et al. 2014). For instance, in Zambia, poor microfinance regulations were attributable to the initial lack of understanding of the MFI business model by the regulators responsible for the drafting of the regulations.

The commercialization of the microfinance industry has also been an ongoing concern for policy makers and industry observers (D'Espallier et al. 2017). The original favorable impacts of microfinance on social development need to be retained (Kar 2013). Since there is no obvious and commonly accepted assessment metric for social performance, social performance ratings conducted by specialized and independent microfinance rating agencies need to be introduced (Beisland et al. 2020). These social ratings can serve as a market signaling mechanism (Akerlof 1970) through which the asymmetric information between microfinance capital providers, such as investors and donors, and MFI decision-makers can be reduced (Beisland et al. 2020). Furthermore, since social indicators can vary due to the different levels of importance assigned to each of them, social rating agencies need to be made more transparent to lessen the information asymmetries between heterogenous socially motivated investors and the focal MFIs (Beisland et al. 2020).

4. Summary of Findings and Conclusion

The definition of microfinance has evolved from its initially limited concept of simply providing microloans to small businesses and poor entrepreneurs lacking access to the formal financial system, which is more commonly known as microcredit. Over time, microfinance has shifted from solely providing loans to disadvantaged people to collecting savings from low-income households, providing insurance, helping with money transfers, and even marketing and distributing clients' output in some places. In incorporating more services, both financial and nonfinancial, the orientation of microfinance diverges from lending to lower-income people to pursuing the double-bottom-line objectives of social outreach and financial sustainability. Nowadays, MFIs serve hundreds of millions of vulnerable borrowers and thus play a key role in poverty alleviation in developing economies, especially in Africa and Asia and the Pacific. However, financial viability remains a concern for MFIs, and they must essentially behave like other firms that aim to be profitable or at least break even to survive. The role of microfinance in financial systems, whether global or local, is to provide financial services and substantial flows of financing to the economically marginalized populations often neglected by the formal financial sector. In both developing and developed economies, microfinance offers an alternative to conventional financial

services and plays a significant role in facilitating the financial inclusion of disadvantaged populations.

Microfinance has been acknowledged as one of the most important development policy innovations in the world and an important instrument of organizations to fight poverty worldwide. MFIs' social aspirations commonly include poverty reduction, job creation, gender empowerment, economic growth, social inclusion, and eventually contributing to social development. Microfinance has the capacity to increase self-employment and create microenterprises in developed and developing countries. With the assistance of microfinance, households are able to expand opportunities for more income accumulation, thus allowing people to provide for their families. Having access to credit can help rapidly stop poverty, disrupt the cycle of poverty by making money available, and facilitate potential business opportunities. Families may save and even invest in better housing, healthcare, and education, making the positive impacts more sustainable and lasting. Through the help of microfinance, entrepreneurs in developing countries and impoverished communities may survive, operate, and even thrive to create more employment opportunities for others. Participation in a microfinance program is associated with higher levels of consumption, better nutrition, improved standards of living, and growing economies.

With regard to poverty alleviation, microfinance creates employment and generates income, thus stimulating social well-being among the poor segments of society and serving as an important tool for poverty reduction in both developing and developed economies. Microfinance services such as microcredit have been shown to improve the living standards of people, increase income and generate employment through entrepreneurship, and smoothen seasonal consumption in various economies in the developing world. Poor individuals can take advantage of increased earnings to build assets and improve their living conditions, consumption levels, and health. Microfinance is also commonly regarded as a tool to empower women by improving their psychosocial well-being and socioeconomic status. MFIs directly affect household income by encouraging productivity, increasing diversity of production, providing insurance and marketing schemes, and maximizing the utilization of available resources. Apart from financial support, microfinance propagates the ideas of human rights and democracy, along with the empowerment of disadvantaged and underrepresented people. Microfinance programs can be incorporated into other social programs

aiming to be educational such as group-based health education, marketing, and job skill training, especially in low and middle-income economies.

Despite its inherent purpose to "do good," microfinance is not without faults, some of which include (i) exorbitant interest rates; (ii) driving client over-indebtedness; (iii) a questionable record on female empowerment; (iv) an overemphasis on credit rather than other services; (v) aggressive collection methods; and, most importantly, (vi) a lack of demonstrable impact on poverty reduction. Some scholars have argued that instead of breaking the cycle of debt, microfinance further exacerbates the chain of poverty and undermines the poor. In providing credit to the economically marginalized segment of the population, some MFIs have turned the whole scheme into a money-making opportunity through outrageously high lending rates imposed on the poor. Achievement of the dual mission of social outreach and financial sustainability is often in doubt, and tensions between the two goals have surfaced through the history of social entrepreneurship in general and microfinance in particular. Besides possible financial damage, microfinance can indirectly harm participants physically as well as psychosocially. There are multiple explanations for why microfinance participation may increase psychological stress and violence among borrowers, such as repayment pressure, peer pressure, shame of default, and compounding indebtedness.

A tool to accurately measure the social performance of microfinance is needed. Unfortunately, determining the most valid, reliable, practicable, and fair quantitative evaluation of microfinance social performance remains controversial, making it difficult to agree on one methodology to measure the potentially positive social outcomes of microfinance. Although the data on financial performance are often clear-cut and rich, the data on social performance tend to be nonexistent or inadequate. There has been substantial progress in improving the evaluation of microfinance's social effectiveness based on standards commonly agreed upon by leading stakeholders in the industry. A combined application of varied evaluation approaches is necessary to fully and accurately measure the magnitude of the social performance of microfinance.

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