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The Impact of Social Performance on Microfinance Sustainability in Formal Microfinance Institutions

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Abstract

Microfinance has an important role to play in fostering the socioeconomic sustainable development in many countries, and social performance and sustainability are the goals of formal microfinance institutions (MFIs). This study analysed the impact of social performance on microfinance sustainability of formal MFIs. The study used the regression analysis on a set of panel data from 2016 to 2024 of all formal MFIs in Vietnam. The results showed that social performance affected operational sustainability according to different trends, the breadth of outreach had a positive relationship with operational sustainability; the depth of outreach had a negative relationship with operational sustainability. While social performance had positive relationships with financial sustainability; both the breadth and depth of outreach had positive relationships with financial sustainability. Through the findings the study offers policy implication, recommends and helps the managers and policy-makers to understand this impact for effective and sustainable management of formal MFIs.

Keywords: Financial sustainability, Microfinance, Microfinance sustainability, Operational sustainability, Social performance, sustainability.

JEL classification: G19, G21, G29, O16

Introduction

The formal MFIs have an important role in deepening and widening financial inclusion in the country because they could contribute significantly in ensuring access to affordable financial services and contribute bridging the financial exclusion gap created by the traditional financial system. The operations of formal MFIs have reached many provinces and cities with the branches and transaction offices. The significant missions of formal MFIs are the formulation of the policies that are intended to increase social performance and improve the microfinance sustainability. It is important for MFIs to expand the outreach, increase operating income and reduce the costs. However, many formal MFIs are faced with various challenges including balance the social performance goal and microfinance sustainability. Social performance has now become the important goal along with microfinance sustainability which are the top targets that formal MFIs strive to achieve in their operation strategies. Therefore, we should be taking a wider view of social performance and microfinance sustainability and assessing the impact of social performance on microfinance sustainability.

In past few years, there has been a number of studies on the operations of MFIs in Vietnam, but

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there had been no studies the impact of social performance on microfinance sustainability. This study's purpose was to examine the factors that affect the microfinance sustainability including social performance. The study results will contribute to the theoretical and experimental. At the same time, the study offers policy implication and new insights for developing a more sustainable formal MFIs and further emphasizes optimal policies to formal MFIs management to change the decision-makers' perception of formal MFIs, so they can develop an effective suitable management strategy. Therefore, this study is urgently required to balance the social performance goal and microfinance sustainability. In particular, this study is helpful to decision-makers and other stakeholders of formal MFIs in Vietnam.

Literature Review

Social Performance and Microfinance Sustainability

According to Ha (2019a), social performance that represented the outreach of MFIs included both breadth and depth dimensions. Abrar (2019) revealed the breadth of outreach was shown by the number of borrower, the depth of outreach was shown by the average loan size. There were generally assumed that the larger the number of borrowers the better outreach. Ledgerwood (1999) showed the depth of outreach was measured by average loan size, and MFIs expand the depth of outreach to develop new products and market segments. Accordingly, Abdulai and Tewari (2017) also found the average loan balance per borrower was a measure of the depth of outreach of MFIs.

Microfinance sustainability can be related to operational sustainability, financial sustainability, and can be measured in two steps namely operational sustainability and financial sustainability. Ledgerwood (1999) showed that MFIs would have operational sustainability if the revenue it generates from the operations cover It's operating expenses, financing costs and loans loss provisions. UNESCAP (2006) showed that operational sustainability could be defined as the ability of the organization to meet the operating cost and build enough reserves for recapitalization. According to Ha (2019b), operational sustainability meant the ability of an ongoing institution to perform activities and services in pursuit of the planned objectives, and operational sustainability MFIs referred to the ability of MFIs to cover their operating expenses, financing costs and loans loss provisions from their operating revenues. Ledgerwood (1999) found that MFIs would have financial sustainability if the revenue it generates from operations cover It's operating expenses, financing costs, loan loss provisions and cost of capital. According to Ha (2020a), for an ideal microfinance institution, financial sustainability meant the ability to continuously operate, and financial sustainability in MFIs referred to the ability of MFIs to cover their operating expenses, financing costs, loan loss provisions and cost of capital from their operating revenues. This showed financial sustainability was a tangible parameter that was measured continuously to monitor the level of income to cover all costs to ensure the long-term development of MFFs.

Social Performance and Factors Affecting Operational Sustainability

Operational sustainability refers to the ability of MFIs to cover all of its costs through their income. Therefore, operational sustainability is associated with all MFIs operations and is influenced by many factors, including:

Firstly, MFIs age: According to Bogan et al. (2007), the age was the deciding factor in the operational sustainability of MFIs. Kipesha (2013) found that the age of MFIs had a positive impact on their sustainability. According to Ha (2020b), the age reflected operational experience

and had contributed to increase the profits of credit institutions. This showed that the age contributed to increase their operational sustainability.

Secondly, depth of outreach: According to Paxton (2002), there was a trade-off between the depth of outreach and operational sustainability of MFIs. Abdulai and Tewari (2017) also showed that evidence of trade-off between the depth of outreach and operational self-sustainability of MFIs. According to Ha (2019d), the depth of outreach had a negative impact on the breadth of outreach of MFIs. This reduced the number of borrower and affected the operational sustainability of MFIs.

Thirdly, debt-to-equity ratio: Veenapani (2017) showed that operational sustainability depended on the debt-to-equity ratio of MFIs. Joseph and Kibera (2019) found that MFIs reduced the debt-to-equity ratio in the management of financial resources tended to grow at a slower rate, but more sustainably. According to Ha (2019c), many MFIs used funding sources for lending and the rapid increase in debt financing would put pressure on their profitability, and this would have a negative impact on the operational sustainability of MFIs.

Fourth, breadth of outreach: Zerai and Rani (2012) revealed there was a strong positive correlation between the breadth of outreach and operational sustainability. Abdulai and Tewari (2017) showed that a positive association exists between the breadth of outreach and operational sustainability of MFIs. Ha (2019d) many MFIs increased their outreach breadth, contributed to increase the average loan per borrower, and this had led to increase the operational sustainability of MFIs.

Fifthly, repayment ratio: Narwal and Yadav (2016) showed that MFIs might be focused on the repayment rate for attaining the level of sustainability in their operation. Jote (2018) found that improving repayment rate helped reduce the dependence on subsidies, which would improve operational sustainability of the MFIs. Ha (2019b) revealed that credit institution had a low non-performing loan rate, or high repayment rate would help them to ensure the safe operations, and this contributed to their operational sustainability.

Social Performance and Factors Affecting Financial Sustainability

The MFs are considered as a tool for poverty alleviation and financial sustainability of MFIs is the important goal of MFIs. Therefore, financial sustainability is associated with all MFIs activities and is influenced by many factors, including:

Firstly, the size growth of MFIs: According to Ahmed et al. (2016), the MFIs contributed a lot in reduction of poverty by providing access to finance to the poor's, and the size of MFIs was found to be important factors in determining financial sustainability of MFIs. The study of Khan et al. (2017) was an attempt to identify the factors that were affecting the financial sustainability of MFIs and this results showed that size of MFIs had a positive impact on their financial sustainability. According to Ha (2019c), some MFIs reorganized operations and reduced the size, but still maintained and increased the number of borrowers. This had led to reduce the cost and contributed to increase their financial sustainability.

Secondly, depth of outreach: According to Paxton (2002), there was the relationship between depth of outreach and this study found strong correlation between them. Quayes (2012) examined the relationship between depth of outreach and financial sustainability of MFIs and showed positive complementary relationship between depth of outreach and financial sustainability of MFIs. According to Ha (2020a), the credit institutions increased the credit size

to create income, but the extra income was not commensurate with their increasing expenses. This had led to decrease their income and financial sustainability.

Thirdly, number of branches: According to Hubbard (2004), a large branch network ensured customers could access more and more convenient the microfinance services, allowing MFIs to provide the diverse microfinance services, contributing to increasing financial sustainability. Ha (2020c) showed that some MFIs had increased the number of branches, expanding the scope of the operations that had contributed to increasing income and improving their financial sustainability.

Fourth, breadth of outreach: Kinde (2012) found that the number of borrowers improved the financial sustainability of MFIs and the study result for this variable indicated positive relationship between the breadth of outreach and MFIs' financial sustainability. However, when they examined the factors that are affecting the financial self-sufficiency of MFIs, Khan, Butt and Khan (2017) showed that breadth of outreach had a negative impact on financial self-sufficiency.

Fifthly, repayment ratio: According to Khandker et al. (1995), repayment ratio could be another indicator of financial sustainability, measuring financial sustainability required that financial institutions maintain good financial status, and repayment ratio. Meyer (2002) showed the financial un-sustainability in financial institutions arose due to low repayment ratio. Ha (2020a) found the financial sustainability in financial institutions arose due to high repayment rate which helped them to ensure their operations were safety and effective.

Research Methodology

The both primary and secondary data were used to achieve the study's purpose. The primary data collected from the MIX Market website, and the annual reports and financial reports of formal MFIs that were licensed by the State Bank of Vietnam from 2016 to 2024. The secondary data were collected from international journals, books, etc. This study tests the following hypothesis on the impact of social performance on microfinance sustainability: (i) There is a positive relationship between social performance on operational sustainability of formal MFIs, (ii) There is a positive relationship between social performance on financial sustainability of formal MFIs. The analysis models of the impact of social performance on microfinance sustainability were established as follows.

The equation of social performance and factors affecting operational sustainability of formal MFIs:

$$OSS = \beta_0 + \beta_1 AGE + \beta_2 ALB + \beta_3 DER + \beta_4 NAB + \beta_5 RR + \mu \quad (1)$$

The equation of social performance and factors affecting financial sustainability of formal MFIs:

$$FSS = \beta_0 + \beta_1 ALB + \beta_2 AGR + \beta_3 BRA + \beta_4 NAB + \beta_5 RR + \mu \quad (2)$$

Where,

The β_0 is constant term, the coefficient β_1 , β_2 , β_3 , β_4 and β_5 are regression parameters, the μ is stochastic error term. The Stata 15.0 software was used in this study, and the definitions of variables and expected signs are presented in Table 1.

Variables and symbols	Definition	Expected sign and hypotheses
Social performance and factors affecting operational sustainability		
<i>Dependent variable</i>		
Operational self sustainability (OSS)	- Operating income / (Operating expenses + financing costs + provision for loan losses)	
<i>Independent variable</i>		
The age of MFI (AGE)	Number of operational years of MFI	H1.1: + (high AGE, high OSS)
Depth of outreach (ALB)	The average loan per borrower	H1.2: - (high ALB, low OSS)
Debt-to-equity ratio (DER)	Total liabilities / Total equity	H4.3: - (high DER, low OSS)
Breadth of outreach (NAB)	The number of active borrowers	H4.4: + (high NAB, high OSS)
Repayment ratio (RR)	The value of the refunded credits / The value of the due credits	H4.5: + (High RR, high OSS)
Social performance and factors affecting financial sustainability		
<i>Dependent variable</i>		
Financial self sustainability (FSS)	- Operating income / (Operating expenses + financing costs + provision for loan losses + Cost of capital)	
<i>Independent variable</i>		
The size growth of MFI: Asset growth rate (AGR)	Growth in asset	H2.1: +/- (high AGR, high or low FSS)
Depth of outreach (ALB)	The average loan per borrower	H2.2: +/- (high ALB, high or low FSS)
Number of branches (BRA)	Number of branches	H2.3: + (high BRA, high FSS)
Breadth of outreach (NAB)	The number of active borrowers	H2.4: +/- (high NAB, high or low FSS)
Repayment ratio (RR)	The value of the refunded credits / The value of the due credits	H2.5: + (High RR, high FSS)

Table 1: Summary Of The Research Model Variables

This study used regression analysis on a set of panel data, evaluated the fluctuations of variables and performed the correlation analysis. The study performed the fixed effects estimation according to the fixed effects model (FEM) and performed the random effects estimation according to the random effects model (REM). This research performed the Hausman test and

tested for the statistical significance of difference between the coefficients estimates obtained by FEM and by REM, The study chose the result between FEM and REM, and compared them with the pooled ordinary least square model (OLS) to determine the influencing factors for each model and found the impact of social performance on microfinance sustainability.

Research Results

Descriptive Statistics and Correlation Analysis

Descriptive statistics of both dependent and independent variables are presented in Table 2. The results testify that AGE, AGR, ALB, BRA, RR variables have smaller standard deviations than the average. DER and NAB variables have fluctuations, due to the large difference in debt-to-equity and breadth of outreach between formal MFIs in Vietnam in the period from 2010 - 2018.

Variable	Mean	Std. Dev.	Min	Max
AGE	17.75	6.56125	6	28
AGR	23.36139	17.4796	-6.3	69.58
ALB	.0081806	.0034304	.0022	.0153
BRA	25.69444	21.52582	4	71
DER	5.133889	5.823978	1.16	24.26
NAB	93407.61	105733	414	330300
RR	88.67083	12.97568	60.36	99.99

Table 2: Descriptive Statistics

Source: Own calculations

The analysis results of correlation between variables in the model indicate a very low degree of correlation among the variables, the presence of any multicollinearity is neglected as can be seen in Table3.

Correlation matrix for social performance and factors affecting operational sustainability						
Factors	OSS	AGE	ALB	DER	NAB	RR
OSS	1.0000					
AGE	0.1269	1.0000				
ALB	-0.3760	0.2375	1.0000			
DER	-0.4149	-0.1412	0.5260	1.0000		
NAB	0.4262	0.5864	-0.0238	-0.3406	1.0000	
RR	0.4290	0.5411	0.1782	-0.3376	0.6571	1.0000
Correlation matrix for social performance and factors affecting financial sustainability						
Factors	FSS	AGR	ALB	BRA	NAB	RR
FSS	1.0000					
AGR	-0.1915	1.0000				
ALB	0.3080	-0.5430	1.0000			
BRA	0.6021	-0.0391	0.0461	1.0000		
NAB	0.7509	-0.0316	-0.0238	0.4341	1.0000	
RR	0.6351	-0.2292	0.1782	0.7380	0.6571	1.0000

Table 3: Correlation Matrix

Source: Own calculations

Regression Results

The study analyzed the empirical results from estimating the impact of social performance and factors on operational sustainability. The OSS was taken as dependent variable and AGE, ALB, DER, NAB, RR were included as the independent variables. By applying a panel data regression, the study was carried out using FEM and REM, and compared them with OLS. The regression result of FEM and REM found that both P-values were less than the significance level of 5% (P-value = 0.000), and the results were statistically significant at the significance level of 5 %.

According to the results of the multiple regressions are presented in Table 4 and from the analysis of the REM showed that variables NAB and RR had positive impacts on the variable OSS at the significance level of 5% and 1%, respectively; the variables AGE and ALB had the negative impacts on the variable OSS at the significance level of 5%, and 10%, respectively; the variable DER had a positive impact on the variable OSS, but this variable was not statistically significant. From the analysis of the FEM showed that variable NAB had a positive impact on the variable OSS at the significance level of 5%; the variables ALB, DER and RR had the positive impacts on the variable OSS, and the variable AGE had a negative impact on the variable OSS, but these variables were not statistically significant in this model.

The study applied Hausman test to distinguish between the REM and FEM, and choose the suitable model for the study. Hausman test result obtained a P-value of 0.5393, greater than the significance level of 5 % and by running the Hausman test REM was accepted to be the appropriate model. In comparison with the OLS Pooled model, REM was more suitable than the OLS Pooled model. Therefore, REM was used to analyze and test the next steps. The multicollinearity test result showed no serious multicollinearity in this model. Because the model had a result of Mean VIF = 3.32, and VIF of variables from 1.97 to 5.23. Testing for a variance change was considered with the P-value = 0.9861 and was greater than 0.05. This result showed it did not have the variance change phenomenon in this model. The study also checked the autocorrelation of the model, P-value = 0.2300 was greater than 0.05 so this model did not have serial correlation.

Independent variables	Dependent variable (OSS)	
	REM	FEM
AGE	-2.179** (-3.06)	-1.590 (-1.93)
ALB	-2040.1* (-2.22)	1196.3 (0.39)
DER	0.359 (0.64)	0.420 (0.70)
NAB	0.000105** (2.66)	0.000137** (3.30)
RR	1.036*** (3.45)	0.601 (1.30)
cons	86.95***	85.29***
P-value	0.0000	0.0000

Table 4:Regression Results For Social Performance And Factors Affecting Operational Sustainability

Note: Statistics in parentheses * p<0.05, ** p<0.01, *** p<0.001

Source: Own calculations

The study analyzed the empirical results from estimating the impact of social performance and factors on financial sustainability. The FSS was taken as dependent variable and ALB, AGR, BRA, NAB, RR were included as the independent variables. By applying a panel data regression, the study was carried out using FEM and REM, and compared them with OLS. The regression result of FEM and REM found that both P-values were less than the significance level of 5% (P-value = 0.000), and the results were statistically significant at the significance level of 5 %.

According to the results of the multiple regressions are presented in Table 5 and from the analysis of the REM showed that variables ALB, BRA and NAB had positive impacts on the variable FSS at the significance level of 5%, 1% and 1%, respectively; the variables AGR and RR had the negative impacts on the variable FSS, but both these last two variables were not statistically significant. From the analysis of the FEM showed that variable BRA and NAB had positive impacts on the variable FSS at the significance level of 10% and 5%, respectively; the variables ALB and AGR had the positive impacts on the variable FSS, the variable RR had a negative impact on the variable FSS, but these variables were not statistically significant in this model.

The study applied Hausman test to distinguish between the REM and FEM, and choose the suitable model for the study. Hausman test result obtained a P-value of 0.5408, greater than the significance level of 5 % and by running the Hausman test REM was accepted to be the appropriate model. In comparison with the OLS Pooled model, REM was more suitable than the OLS Pooled model. Therefore, REM was used to analyze and test the next steps. The multicollinearity test result showed no serious multicollinearity in this model. Because the model had a result of Mean VIF = 3.13, and VIF of variables from 1.51 to 4.28. Testing for a variance change was considered with the P-value = 0.4563 and was greater than 0.05. This result showed it did not have the variance change phenomenon in this model. The study also checked the autocorrelation of the model, P-value = 0.2127 was greater than 0.05 so this model did not have serial correlation.

Independent variables	Dependent variable (FSS)	
	REM	FEM
ALB	1431.5** (2.66)	533.2 (0.34)
AGR	-0.00596 (-0.06)	0.0361 (0.31)
BRA	0.313*** (3.52)	0.292* (2.73)
NAB	0.000102*** (6.08)	0.0000895** (3.22)
RR	-0.279 (-1.47)	-0.182 (-0.64)
cons	99.12***	98.55***
P-value	0.0000	0.0000

Note: Statistics in parentheses * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Source: Own calculations

Discussions

Discussions of Social Performance and Factors Affecting Operational Sustainability

The results of REM in Table 4 showed that a significant effect of the age on the operational sustainability with coefficient -2.179 with the significance level of 5%. The result showed that for one unit increase in the age, the operational sustainability was anticipated to decrease by 2.179 units, when the remaining variables in the model were kept constant. This result disagreed with the expected sign and hypotheses and disagrees with the analysis results of Bogan et al. (2007), Kipasha (2013) and Ha (2020b). Because, most of the formal MFIs were established in recent years and maintained their operational self-sustainability indicator by more than 110% in their operational years. Through this result showed that the experience did not yet play the important role in improving the operational sustainability as it did not yet provide chance for the formal MFIs and borrowers to understand each other and served each other more efficiently over the years.

The study result indicated that the depth of outreach significantly affected the operation sustainability. As expected, the coefficient of the depth of outreach was negative and statistically significant at the 10% level. This result showed that for one unit increase in the depth of outreach, the operation sustainability was anticipated to decrease by 2040.1 units, when the remaining variables in the model were kept constant. This implied that formal MFIs with more the depth of outreach had lower the operation sustainability. This result agreed with the expected sign and hypotheses and agreed with the analysis results of Paxton (2002), Abdulai and Tewari (2017) and Ha (2019d). This result showed there was the trade-off between the operational sustainability and the depth of outreach. This meant that formal MFIs focused on attaining the operational sustainability goal was unlikely to increase the average loan per borrower. This could worsen the situation of the average loan per borrower, and the formal MFIs could not provide enough the borrowers' needs, and leading to their exclusion from finance markets.

The regression result indicated a significant effect of the breadth of outreach on the operational sustainability. As expected, the coefficient was positive and statistically significant at the 5% level. This result showed that for one unit increase in the breadth of outreach, the operational sustainability was anticipated to increase by 0.000105 units, when the remaining variables in the model were kept constant. This meant that high breadth of outreach formal MFIs contributed to increase the operational sustainability. This evidence agreed with the expected sign and hypotheses and was in line with findings developed in Zerai and Rani (2012), Abdulai and Tewari (2017) and Ha (2019d). Many formal MFIs increased the number of active borrowers, expand operations, increase their income and contributed to improve their operational sustainability in the period 2010-2018. This meant that formal MFIs focused on attaining the breadth of outreach goal was likely to provide microfinance products and service to many the clients and increase the operational sustainability.

The econometric model result exhibited a very significant effect of the repayment ratio on the operational sustainability. As expected, the coefficient was positive and statistically significant at the 1% level. This result showed that for one unit increase in the repayment ratio, the

operational sustainability was anticipated to increase by 1.036 units, when the remaining variables in the model were kept constant. This meant that high repayment ratio formal MFIs had higher the operational sustainability. This result agreed with the expected sign and hypotheses and concurred with the findings in the study of Narwal and Yadav (2016), Jote (2018) and Ha (2019b). Many formal MFIs had high repayment ratio, which helped them to ensure their operations were safe over the years, and a high repayment ratio helped to regenerate the loan capital, this contributed to increase their efficiency and operational sustainability.

Discussions of Social Performance and Factors Affecting Financial Sustainability

The results of REM in Table 5 indicated that a significant effect of the depth of outreach on the financial sustainability with coefficient 1431.5. The study noted a coefficient that was significant at the 5% level. This result showed that for one unit increase in the depth of outreach, the financial sustainability was anticipated to increase by 1431.5 units, when the remaining variables in the model were kept constant. This finding was broadly in harmony with the findings of Paxton (2002), Quayes (2012). However, evidence of this study was in contrast with the finding of Ha (2020a). Many formal MFIs improved the depth of outreach to meet the client needs, contributed to increase their income and improved the financial sustainability. This meant that formal MFIs focused on attaining the depth of outreach goal was likely to increase the average loan per borrower, generated more income, and improved their financial sustainability.

The outcome of the regression analysis indicated there was a statistically significant effect of the number of branches on the financial sustainability. As expected, the study noted a coefficient that was significant at the 1% level. This result showed that for one unit increase in the number of branches, the financial sustainability was anticipated to increase by 0.313 units, when the remaining variables in the model were kept constant. This meant that larger number of branches had higher the financial sustainability of formal MFIs. This result agreed with the expected sign and hypotheses and was consistent with the research findings like Hubbard (2004) and Ha (2020c). Many formal MFIs increased the number of branches, expanded operations, attracted many clients, increased their income and contributed to financial sustainability in the period 2010-2018.

The regression result indicated a significant effect of the breadth of outreach on the financial sustainability with the coefficient was positive and statistically significant at the 1% level. This result showed that for one unit increase in the breadth of outreach, the financial sustainability was anticipated to increase by 0.000102 units, when the remaining variables in the model were kept constant. This meant that high breadth of outreach formal MFIs had higher the financial sustainability. This result agree with the analysis results of Kinde (2012) and disagree with the analysis results of Khan et al. (2017). Many formal MFIs increased the number of active borrowers, expanded their operations, increased their income and contributed to the financial sustainability. This meant that formal MFIs focused on attaining the breadth of outreach goal was likely to provide microfinance products and service to many the clients and increase the financial sustainability. The formal MFIs achieved dual goals because of industry evolution that had caused the formal MFIs to strategically move towards for sustainability purposes and pursuing the poverty alleviation goals.

Conclusions

This study's purpose was to analyze the impact of social performance on microfinance sustainability of formal MFIs. The study analyzed this relation using a panel data regression

method with research data from all formal MFIs in Vietnam from 2016 to 2024. The two prominent models were identified and these research results were accurate according to the characteristics of the formal MFIs in Vietnam.

The results found that the three factors that had positive relationships with the operational sustainability were the breadth of outreach and the repayment ratio. The two factors that had negative relationships with the operational sustainability were the age and the depth of outreach. The debt-to-equity ratio had insignificant relationship with the operational sustainability. The three factors that had positive relationships with the operational sustainability were the depth of outreach, the number of branches and the breadth of outreach. The size growth and the repayment ratio had insignificant relationships with the operational sustainability.

The results showed that social performance affected operational sustainability according to different trends, the breadth of outreach had a positive relationship with operational sustainability; the depth of outreach had a negative relationship with operational sustainability. While social performance had positive relationships with financial sustainability; both the breadth and depth of outreach had positive relationships with financial sustainability. The formal MFIs achieved dual goals, both achieving social performance goals and achieving financial sustainability.

Microfinance sustainability are an important area to the MFIs. Microfinance services are tailored to meet the needs and aspirations of the inhabitants, and emphases are towards poverty reduction. Thereby, MFIs contribute to the socioeconomic development of countries. This study will help researchers and managers develop their expertise on the impact of social performance on microfinance sustainability. Based on the study results, the article recommends the following to improve the social performance and increase the microfinance sustainability.

Firstly, this study found positive interactions between social performance and financial sustainability, so that the immediate policy recommendation is for formal MFIs to focus more on the social performance goal and financial sustainability.

Secondly, this study also found interactions between breadth of outreach breadth and operational sustainability, but the trade-off relations between depth of outreach and operational sustainability of formal MFIs. Thus, the immediate policy recommendation from this study would support the encouragement of formal MFIs to emphasize on breadth of outreach and operational sustainability of formal MFIs.

Thirdly, formal MFIs are credit institutions that are allowed to deposit mobilization to lend to borrowers. Therefore, to ensure microfinance sustainability, formal MFIs must also follow the general principle of ensuring safety for banking operations. The formal MFIs should focus more on improving repayment ratio, expand the breach of outreach that contribute to promote the microfinance sustainability.

Fourthly, formal MFIs should expand the number of branches that contribute to increase outreach breadth and promote the financial sustainability.

Fifthly, the primary purpose of formal MFIs is to provide financial services to ever larger numbers of low-income clients. So that, the formal MFIs always maintain a combination of the social performance and microfinance sustainability, and an appropriate strategic option can bring the social performance and more microfinance sustainability.

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