ABSTRACT

Microfinance Institutions evolved with the altruistic motive of providing loans to economically weaker members of the society. Poverty alleviation through provision of very small loans to the poor was the key objective of microfinance which is now popular across the world. Microfinance's success attracted profit oriented organizations into its fold. To be sustainable they have to be cost efficient and on the other hand favorably impact the lives of the poor. Stochastic Frontier Approach is applied to estimate the cost-efficiency of Microfinance institutions across for four South Asian countries India, Sri Lanka, Bangladesh and Pakistan during the time period 2003-2010. Whether cost efficiency is a price for achieving outreach to service a large client base is examined applying OLS with the stochastic frontier cost scores regressed on number of active borrowers, percentage of women borrowers and average loan balance as measure of outreach. The results confirm that there exists a trade off between efficiency and outreach among microfinance institutions.