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Beyond profit: Measuring social performance in microfinance - a comparative analysis of Bolivia and Indonesia

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ABSTRACT

This study falls within SDG Focus Goal 1: No Poverty — Target 1.4: Ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well

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as access to basic services; Target 1.2: Reduce at least by half the proportion of men, women and children of all ages living in poverty; Target 1.5: Build the resilience of the poor and those in vulnerable situations and reduce their exposure to climate-related extreme events.

This study examines the comparative approaches to microfinance institutions (MFIs) and their social performance in Bolivia and Indonesia, focusing on how each country's unique institutional contexts, regulatory frameworks, and measurement practices shape the ability of microfinance to contribute meaningfully to poverty reduction. The research analyzes the evolution of social performance management, the tensions between financial sustainability and social impact, and the innovative strategies being deployed to ensure that microfinance serves its intended purpose of reaching the poor and vulnerable. A comparative policy and institutional analysis was conducted examining primary and secondary sources including academic research, institutional reports, field mission documentation, and contemporary case studies covering developments from the 1990s to 2025-2026.

Bolivia presents a dynamic and evolving microfinance landscape where institutions are increasingly prioritizing the systematic measurement and management of social and environmental performance. With over 45,000 borrowers served by institutions like Idepro IFD, the sector is undergoing significant transformation, including mergers that combine rural and urban lending portfolios . Following the 2024 merger between Idepro IFD and the rural-focused Sembrar Sartawi, the institution has embarked on an ambitious initiative to improve the measurement of its social and environmental impact, working with international partners like SIDI to define comprehensive performance management strategies and identify meaningful indicators . Technological innovation is playing a crucial role: Idepro IFD is developing a sophisticated database enabling real-time data collection and analysis, allowing for the anticipation of client vulnerabilities such as crop fragility due to climate change and the provision of targeted training in agroecology . Field evidence demonstrates tangible social impact: a young textile entrepreneur in El Alto, using the institution's savings application, was able to accumulate capital and develop a new business, illustrating how digital tools can reach youth in the informal economy . Bolivia's microfinance sector has long been recognized for its pioneering institutions such as BancoSol, which demonstrated that serving the poor could be financially sustainable . Academic research emphasizes the importance of

integrating social elements into performance evaluation, with frameworks that combine financial and social standards to assess institutional success .

Indonesia presents a contrasting picture where Islamic microfinance has become increasingly central to poverty alleviation efforts, yet where a persistent gap between financial and social performance remains a critical challenge. Research examining 144 Islamic rural banks across 21 provinces reveals that only 12 of these banks are operating efficiently, with significant variation across regions influenced by factors such as urban infrastructure, institutional density, and the size of the Muslim population . Crucially, the study underscores a stronger emphasis on financial performance over social performance among Indonesian MFIs, despite the narrow gap between the two indicating a continued institutional commitment to both objectives . Strategic alliances and dynamic capabilities have been shown to significantly influence social performance, which in turn affects financial outcomes . Social performance is defined not only by the depth and breadth of client reach but also by broader community contributions such as scholarships, free medical assistance, food aid, and support for places of worship . The inverse relationship between total financing and poverty levels highlights the importance of expanding access to credit, while the management of non-performing financing emerges as a critical factor directly correlated with rising poverty .

Both countries demonstrate that effective social performance management requires intentional institutional commitment, robust measurement systems, and an understanding of the complex relationship between financial sustainability and social impact. Bolivia's strength lies in its proactive integration of social and environmental metrics, its embrace of technological innovation for data collection and client outreach, and its openness to international partnership in governance and performance management, yet faces challenges of balancing urban and rural lending priorities and ensuring that measurement translates into improved client outcomes. Indonesia's strength lies in its extensive reach through Islamic microfinance, its growing understanding of the factors driving institutional efficiency, and its recognition of the importance of strategic alliances, yet grapples with a persistent emphasis on financial performance over social objectives, regional disparities in efficiency, and the need to manage non-performing loans that directly affect poverty. Neither country has fully resolved the tension between financial sustainability and social mission, though both offer invaluable lessons for the global microfinance community.

KEYWORDS: Microfinance institutions, social performance, financial inclusion, poverty reduction, Bolivia, Indonesia, Islamic microfinance, impact measurement, institutional efficiency, SDG 1.

RÉSUMÉ (French Version)

Cette étude examine les approches comparatives des institutions de microfinance et de leur performance sociale en Bolivie et en Indonésie, en se concentrant sur la manière dont les contextes institutionnels uniques, les cadres réglementaires et les pratiques de mesure de chaque pays façonnent la capacité de la microfinance à contribuer de manière significative à la réduction de la pauvreté. La recherche analyse l'évolution de la gestion de la performance sociale, les tensions entre la viabilité financière et l'impact social, et les stratégies innovantes déployées pour garantir que la microfinance serve son objectif d'atteindre les populations pauvres et vulnérables. Une analyse comparative des politiques et des institutions a été menée en examinant des sources primaires et secondaires, y compris la recherche académique, les rapports institutionnels, la documentation de missions de terrain et des études de cas contemporaines couvrant les développements des années 1990 à 2025-2026.

La Bolivie présente un paysage microfinancier dynamique et en évolution où les institutions accordent de plus en plus la priorité à la mesure et à la gestion systématiques de la performance sociale et environnementale. Avec plus de 45 000 emprunteurs servis par des institutions comme Idepro IFD, le secteur subit une transformation significative, y compris des fusions qui combinent les portefeuilles de prêts ruraux et urbains . Suite à la fusion de 2024 entre Idepro IFD et le Sembrar Sartawi à vocation rurale, l'institution s'est lancée dans une initiative ambitieuse visant à améliorer la mesure de son impact social et environnemental, travaillant avec des partenaires internationaux comme SIDI pour définir des stratégies complètes de gestion de la performance et identifier des indicateurs pertinents . L'innovation technologique joue un rôle crucial : Idepro IFD développe une base de données sophistiquée permettant la collecte et l'analyse de données en temps réel, offrant la possibilité d'anticiper les vulnérabilités des clients telles que la fragilité des cultures due au changement climatique et de fournir des formations ciblées en agroécologie . Les preuves de terrain démontrent un impact social tangible : une jeune entrepreneure textile d'El Alto, utilisant

l'application d'épargne de l'institution, a pu accumuler du capital et développer une nouvelle entreprise, illustrant comment les outils numériques peuvent atteindre les jeunes de l'économie informelle . Le secteur de la microfinance bolivien est reconnu depuis longtemps pour ses institutions pionnières telles que BancoSol, qui ont démontré que servir les pauvres pouvait être financièrement viable . La recherche académique souligne l'importance d'intégrer des éléments sociaux dans l'évaluation de la performance, avec des cadres combinant des normes financières et sociales pour évaluer le succès institutionnel .

L'Indonésie présente un tableau contrasté où la microfinance islamique est devenue de plus en plus centrale dans les efforts de réduction de la pauvreté, mais où un écart persistant entre la performance financière et sociale reste un défi critique. Une recherche examinant 144 banques rurales islamiques dans 21 provinces révèle que seulement 12 de ces banques fonctionnent efficacement, avec des variations significatives selon les régions influencées par des facteurs tels que l'infrastructure urbaine, la densité institutionnelle et la taille de la population musulmane . De manière cruciale, l'étude souligne un accent plus fort mis sur la performance financière par rapport à la performance sociale parmi les IMF indonésiennes, bien que l'écart étroit entre les deux indique un engagement institutionnel continu envers les deux objectifs . Les alliances stratégiques et les capacités dynamiques se sont avérées influencer significativement la performance sociale, qui à son tour affecte les résultats financiers . La performance sociale est définie non seulement par la profondeur et l'étendue de la portée des clients mais aussi par des contributions communautaires plus larges telles que les bourses d'études, l'aide médicale gratuite, l'aide alimentaire et le soutien aux lieux de culte . La relation inverse entre le financement total et les niveaux de pauvreté souligne l'importance d'élargir l'accès au crédit, tandis que la gestion des prêts non performants apparaît comme un facteur critique directement corrélé à l'augmentation de la pauvreté .

Les deux pays démontrent qu'une gestion efficace de la performance sociale nécessite un engagement institutionnel intentionnel, des systèmes de mesure robustes et une compréhension de la relation complexe entre la viabilité financière et l'impact social. La force de la Bolivie réside dans son intégration proactive des métriques sociales et environnementales, son adoption de l'innovation technologique pour la collecte de données et la sensibilisation des clients, et son ouverture aux partenariats internationaux dans la gouvernance et la gestion de la performance, mais fait face à des défis pour équilibrer les priorités de prêt urbaines et rurales et garantir que la

mesure se traduise par de meilleurs résultats pour les clients. La force de l'Indonésie réside dans sa vaste portée grâce à la microfinance islamique, sa compréhension croissante des facteurs déterminant l'efficacité institutionnelle et sa reconnaissance de l'importance des alliances stratégiques, mais est aux prises avec un accent persistant sur la performance financière au détriment des objectifs sociaux, des disparités régionales d'efficacité et la nécessité de gérer les prêts non performants qui affectent directement la pauvreté. Aucun des deux pays n'a pleinement résolu la tension entre la viabilité financière et la mission sociale, bien que tous deux offrent des leçons inestimables pour la communauté mondiale de la microfinance.

MOTS-CLÉS : Institutions de microfinance, performance sociale, inclusion financière, réduction de la pauvreté, Bolivie, Indonésie, microfinance islamique, mesure d'impact, efficacité institutionnelle, ODD 1.

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1. INTRODUCTION: MEASURING WHAT MATTERS IN MICROFINANCE

The question of whether microfinance institutions genuinely contribute to poverty reduction has been debated since the movement's inception. While the original promise of microfinance was simple—that access to credit could enable the poor to invest in income-generating activities and lift themselves out of poverty—the reality has proven far more complex. Institutions must balance financial sustainability with social mission, reaching the poorest while remaining viable, and measuring outcomes that go far beyond loan repayment rates. SDG Target 1.4 explicitly calls for ensuring that the poor have equal rights to economic resources and access to basic services, while Target 1.2 aims to reduce poverty by half.

This study examines two countries that offer illuminating perspectives on microfinance and social performance: Bolivia and Indonesia. Both nations have been recognized as pioneers in the microfinance movement, with Bolivia's BancoSol and Indonesia's Bank Rakyat Indonesia serving as global models of sustainable microfinance . Yet their contemporary trajectories, institutional contexts, and approaches to measuring social performance differ fundamentally, providing rich comparative insights into how microfinance can fulfill its poverty reduction mission.

Bolivia's microfinance sector has long been characterized by innovation and a commitment to reaching underserved populations. With institutions like Idepro IFD serving over 45,000 borrowers, the sector is now undergoing significant transformation, including mergers that bring together rural and urban lending expertise . Critically, Bolivian institutions are increasingly prioritizing the systematic measurement of social and environmental performance, working with international partners to develop comprehensive strategies and indicators . Technological innovation is enabling real-time data collection and analysis, allowing institutions to anticipate client vulnerabilities and respond proactively .

Indonesia presents a contrasting picture where Islamic microfinance has become increasingly central to poverty alleviation efforts. Research examining 144 Islamic rural banks reveals significant challenges in institutional efficiency, with only 12 of these banks operating efficiently . The study underscores a persistent emphasis on financial performance over social objectives, raising questions about whether microfinance is fulfilling its poverty reduction mission . Strategic alliances and dynamic capabilities are shown to influence social performance, which in turn affects financial outcomes, highlighting the interconnectedness of these objectives .

The contrast between Bolivia and Indonesia illuminates critical questions for SDG 1 and microfinance policy: How can institutions balance the dual objectives of financial sustainability and social impact? What measurement systems enable effective social performance management? How can technology enhance outreach and impact measurement? And what can the world learn from two of the most distinctive and influential microfinance sectors?

2. LITERATURE REVIEW

2.1 Microfinance and Social Performance: Theoretical Foundations

Microfinance institutions operate with a dual mission: achieving financial sustainability while generating positive social impact. The concept of "social performance" has evolved to encompass not only the depth and breadth of outreach to poor and vulnerable populations but also the quality of services, the appropriateness of products, and the broader community benefits that extend beyond individual clients.

Academic research has long emphasized the need to consider "wider impacts" beyond direct client benefits. As Chowdhury, Mosley, and Simanowitz argue, analysis of poverty impacts must also consider effects on non-client beneficiaries, including impacts on health, community governance, labor markets, and the economy as a whole . This broader perspective recognizes that microfinance's contribution to poverty reduction operates through multiple channels.

Sierra Pierna, Muriel Patino, and Rodríguez López provide a comprehensive review of microfinance performance evaluation in Bolivia, noting the introduction of social elements to measure success and the development of evaluation approaches combining social and financial standards . These frameworks may be applied internally (assessment) or externally (certification and rating), reflecting the growing sophistication of social performance management.

2.2 Bolivia: Integrating Social and Environmental Performance

The Idepro IFD Merger and Strategic Transformation

Bolivia's microfinance sector is undergoing significant institutional change. In May 2024, Idepro IFD, a major microfinance institution with over 45,000 borrowers, absorbed its former partner Sembrar Sartawi through a merger . This merger brought together institutions with different lending profiles: Sembrar Sartawi tended to lend in rural and agricultural areas, while Idepro IFD is more rooted in urban areas, focusing on trade and services .

Following the merger, Idepro IFD began developing a new strategic plan, with international partner SIDI (a supportive institutional shareholder) involved in governance . Critically, one of the organization's new objectives is to improve the measurement of its social and environmental

performance, in order to strengthen the impact of its financial products and services on customers, their families, and the environment .

Developing Social and Environmental Performance Management

SIDI's support team worked with Idepro IFD to define a social and environmental performance management strategy and identify indicators for measurement . The process began remotely and culminated in an on-site mission coinciding with Idepro IFD's governance meetings, including the newly created Impact Committee .

The response from Idepro IFD's leadership was striking: "How can we go further than defining objectives? How can we concretely measure our social and environmental impact? How can we integrate this with our customers?" Their involvement was particularly motivating for the SIDI team .

Technological Innovation for Impact Measurement

Idepro IFD is developing a sophisticated data management project that will enable each division to feed back information and identify processing requirements for day-to-day operations . This database represents a crucial asset for improving social and environmental performance measurement and even for anticipating certain risk situations.

For example, the system can help identify the fragility of crops in the face of climate change, enabling the institution to offer customers training in agroecology so that they can diversify their crops or optimize their water resources . This proactive approach transforms data from a retrospective reporting tool into a forward-looking instrument for client support.

Field Evidence of Social Impact

Mission visits to El Alto, a town perched at 4,149 meters altitude, revealed tangible evidence of social impact . Among the clients met was a young woman working in the textile industry. Using the savings application developed by Idepro IFD, she was able to start saving—a significant achievement in a context where most young people have cell phones but few have access to

banking services . Being able to save every month proved very practical, enabling her to develop a new business with the accumulated funds.

This case illustrates how Idepro IFD has succeeded in reaching a young audience, largely operating in the informal economy. Field visits confirm improvements in living conditions and the ability to save, not just borrow .

Historical Context and Pioneering Institutions

Bolivia's microfinance sector has long been recognized for its pioneering institutions. BancoSol, established in the 1990s, demonstrated that serving the poor could be financially sustainable and became a model for microfinance globally . The country's experience has contributed significantly to understanding how microfinance institutions can achieve both outreach and sustainability.

Academic research emphasizes the importance of integrating social elements into performance evaluation. Sierra Pierna, Muriel Patino, and Rodríguez López's comprehensive review of microfinance performance evaluation in Bolivia notes the development of evaluation approaches that combine social and financial standards, applied either internally (assessment) or externally (certification and rating) .

2.3 Indonesia: Islamic Microfinance and the Efficiency Challenge

The Scale and Scope of Islamic Microfinance

In Indonesia, the world's largest Muslim-majority nation, Islamic microfinance has become pivotal in mitigating poverty . Research examining the efficiency and impact of Islamic microfinance across the archipelago provides critical insights into the sector's performance.

A study of 144 Islamic rural banks across 21 provinces used Data Envelopment Analysis (DEA) to evaluate efficiency and panel data regression to determine effectiveness . The findings reveal significant challenges:

Metric	**Finding**

Efficient banks	Only 12 of 144 (8.3%)
Efficiency factors	Urban infrastructure, MFI density, regional disparities, size of Muslim population
Performance emphasis	Stronger focus on financial than social performance

The Financial-Social Performance Gap

The research underscores a critical tension: Indonesian MFIs demonstrate a stronger emphasis on financial performance over social performance . Despite this gap, the narrow difference between financial and social performance suggests institutions remain committed to both sustainability and social objectives, aligning with the institutionalist perspective that influences sector practices in the region .

This finding raises important questions about whether microfinance is fulfilling its poverty reduction mission. If institutions prioritize financial performance, do they continue to reach the poorest and most vulnerable clients? The evidence suggests that while the commitment to social objectives persists, financial considerations dominate.

Strategic Alliances and Dynamic Capabilities

Research on 235 CEOs and top leaders of MFIs across Indonesia demonstrates that strategic alliances significantly influence dynamic capabilities, which in turn significantly influence social performance . Social performance, defined as both the depth and breadth of reach, contributes to improving the quality of life of people experiencing poverty around MFI operations.

Critically, social performance has a significant effect on financial performance, creating a virtuous cycle where attention to social outcomes enhances institutional sustainability . The study emphasizes the importance of MFIs establishing strategic alliances and strengthening their dynamic capabilities to improve social performance.

Social performance in the Indonesian context includes not only client outreach but also broader community contributions:

- Scholarships for education
- Free medical assistance
- Basic food assistance
- Building or renovating places of worship

Effectiveness Analysis and Policy Implications

Analysis of effectiveness reveals critical insights for poverty reduction:

Factor	**Relationship to Poverty**
Total Financing (TF)	Inverse relationship—more financing associated with lower poverty
Non-Performing Financing (NPF)	Direct correlation—higher NPF associated with higher poverty
Financial Efficiency (FE)	Regional variations in impact

The inverse relationship between total financing and poverty levels highlights the importance of enhancing financial inclusion and expanding access to credit . This finding supports the fundamental premise of microfinance: that access to financial services can contribute to poverty reduction.

The management of non-performing financing emerges as crucial, correlating directly with rising poverty levels . This finding underscores the importance of prudent lending practices—not just extending credit but ensuring it is extended responsibly.

Regional variations in how financial efficiency impacts poverty emphasize the need for targeted inflation management to support sustainable poverty reduction efforts . One-size-fits-all approaches are insufficient; policies must be tailored to local contexts.

Historical Context

Indonesia has long been recognized as a pioneer in microfinance, with Bank Rakyat Indonesia (BRI) serving as a global model for sustainable microfinance operations . The country's experience

has demonstrated that large-scale, commercially-oriented microfinance can reach millions of clients while maintaining financial viability.

2.4 Comparative Dimensions: Institutional Approaches and Performance Measurement

Dimension	**Bolivia**	**Indonesia**
Sector Characteristics	Mix of urban and rural lending; post-merger integration	Islamic microfinance dominant; large-scale operations
Key Institutions	Idepro IFD, BancoSol, Sembrar Sartawi	Islamic rural banks (144 studied), BRI
Performance Emphasis	Growing focus on social and environmental measurement	Stronger emphasis on financial performance
Efficiency Profile	Not quantified in recent data	Only 8.3% of banks efficient
Social Performance Definition	Client well-being, savings capacity, climate resilience	Client outreach + community contributions (scholarships, medical aid, food, worship)
Innovation	Digital savings apps, integrated databases for impact measurement	Strategic alliances, dynamic capabilities
Key Strength	Proactive integration of social metrics; technological innovation; international partnership	Extensive reach; Islamic microfinance model; understanding of efficiency drivers
Key Challenge	Balancing urban/rural priorities; translating measurement to outcomes	Financial-social performance gap; regional disparities; NPF management

3. RESEARCH QUESTIONS

This study addresses the following research questions:

1. What are the key characteristics of Bolivia's approach to microfinance and social performance, including recent institutional developments, measurement strategies, and evidence of client impact?
2. What are the key characteristics of Indonesia's approach to microfinance and social performance, including Islamic microfinance operations, efficiency challenges, and the relationship between financial and social objectives?
3. How do the two countries compare in terms of institutional frameworks, performance measurement practices, and the balance between financial sustainability and social impact?

4. METHODOLOGY

This study employs a comparative policy and institutional analysis methodology to examine microfinance institutions and social performance in Bolivia and Indonesia. The research design integrates secondary analysis of academic research, institutional reports, field mission documentation, and contemporary case studies to develop comprehensive understanding of microfinance operations, performance measurement practices, and outcomes in both countries.

Research Design: The comparative approach is appropriate for examining how different institutional contexts, regulatory frameworks, and cultural factors shape microfinance performance. Bolivia and Indonesia were selected as cases that offer complementary insights: both are recognized pioneers in microfinance, yet their contemporary trajectories and challenges differ fundamentally.

Data Sources: Primary and secondary sources analyzed include:

- SIDI field mission documentation on Idepro IFD in Bolivia
- Malaysian Theses Online research on Islamic microfinance in Indonesia
- FinDev Gateway publications on microfinance in Bolivia and Indonesia

- Academic research on strategic alliances and social performance in Indonesia
- Journal articles on microfinance performance evaluation in Bolivia
- Imp-Act programme research on wider impacts of microfinance
- Historical documentation of pioneering institutions including BancoSol and BRI

Analytical Framework: The comparative framework examines four dimensions:

1. **Institutional Context:** Regulatory environment, market structure, and institutional characteristics
2. **Performance Measurement:** Approaches to evaluating financial and social performance
3. **Social Impact:** Evidence of poverty reduction, client outcomes, and community benefits
4. **Innovation and Adaptation:** Technological, strategic, and organizational innovations

Time Period: The analysis covers developments from the 1990s to 2025-2026, with particular emphasis on recent innovations and research.

5. RESULTS

5.1 Bolivia: Institutional Transformation and Social Performance Integration

Post-Merger Strategic Development

Idepro IFD's merger with Sembrar Sartawi in May 2024 created a combined institution with complementary lending portfolios: Sembrar Sartawi's rural and agricultural focus alongside Idepro IFD's urban trade and services orientation . Following the merger, the institution engaged in developing a new strategic plan with active involvement from international partner SIDI.

A key objective emerged: improving the measurement of social and environmental performance to strengthen the impact of financial products and services on customers, their families, and the environment .

Social and Environmental Performance Management

SIDI's support team collaborated with Idepro IFD to define a comprehensive performance management strategy and identify appropriate indicators . The process engaged Idepro IFD's newly created Impact Committee and Board of Directors, demonstrating institutional commitment at the highest levels.

The response from Idepro IFD's leadership was notable for its depth of engagement: questioning how to go beyond defining objectives to concretely measure impact and integrate findings with customer relationships .

Technological Innovation for Impact Measurement

Idepro IFD is developing an integrated database enabling all divisions to contribute information and identify processing requirements for daily operations . This technological infrastructure supports:

- Real-time social and environmental performance monitoring
- Anticipation of client vulnerabilities, such as crop fragility due to climate change
- Targeted customer training in agroecology for crop diversification and water optimization

The system transforms data from retrospective reporting into a proactive tool for client support.

Field Evidence of Client Impact

Mission visits to El Alto revealed concrete evidence of social impact . A young textile entrepreneur, using Idepro IFD's savings application, was able to accumulate capital and develop a new business. This case illustrates:

- Successful outreach to youth in the informal economy
- The value of accessible digital savings tools in contexts where banking services are limited
- The progression from saving to investing in income-generating activities

Field observations confirmed improved living conditions and enhanced ability to save among loan beneficiaries.

Historical Context

Bolivia's microfinance sector has long been recognized for pioneering institutions like BancoSol, which demonstrated the viability of serving poor clients sustainably . The country's experience has contributed significantly to global understanding of microfinance operations.

Academic research emphasizes the importance of integrating social elements into performance evaluation. Sierra Pierna, Muriel Patino, and Rodríguez López's comprehensive review documents the development of evaluation approaches combining financial and social standards in Bolivia, applied through internal assessment or external certification and rating .

5.2 Indonesia: Islamic Microfinance and Efficiency Challenges

Efficiency Analysis of Islamic Rural Banks

Research examining 144 Islamic rural banks across 21 provinces reveals significant efficiency challenges :

Metric	**Finding**
Efficient banks	Only 12 of 144 (8.3%)
Efficiency factors	Urban infrastructure, MFI density, regional disparities, size of Muslim population
Performance emphasis	Stronger focus on financial than social performance

The low proportion of efficient banks indicates systemic challenges in achieving optimal resource utilization. Efficiency varies significantly across regions, influenced by factors including urban infrastructure development and the concentration of microfinance institutions.

The Financial-Social Performance Gap

The research underscores a critical finding: Indonesian MFIs demonstrate a stronger emphasis on financial performance over social performance . Despite this gap, the narrow difference between

financial and social performance suggests institutions remain committed to both sustainability and social objectives, aligning with the institutionalist perspective that influences sector practices in the region.

This finding raises important questions about whether microfinance is fulfilling its poverty reduction mission. The emphasis on financial performance may lead institutions to prioritize clients who are easier to serve rather than the poorest and most vulnerable.

Strategic Alliances and Dynamic Capabilities

Research on 235 CEOs and top leaders of MFIs across Indonesia demonstrates that strategic alliances significantly influence dynamic capabilities, which in turn significantly influence social performance . Social performance includes:

Dimension	**Description**
Depth of reach	Contributing to quality of life improvement for people experiencing poverty
Breadth of reach	Extending services to underserved populations
Community contributions	Scholarships, free medical assistance, basic food assistance, building/renovating places of worship

Social performance has a significant effect on financial performance, creating a virtuous cycle where attention to social outcomes enhances institutional sustainability . This finding challenges the notion that financial and social objectives are necessarily in tension.

Effectiveness Analysis and Poverty Reduction

Analysis of effectiveness reveals critical insights for poverty reduction :

- **Total Financing (TF):** Inverse relationship with poverty levels, highlighting the importance of expanding access to credit
- **Non-Performing Financing (NPF):** Direct correlation with rising poverty, emphasizing the need for responsible lending practices

- **Financial Efficiency (FE):** Regional variations in impact, indicating need for targeted policy approaches

The inverse relationship between total financing and poverty supports the fundamental premise of microfinance: that access to financial services can contribute to poverty reduction. However, the NPF finding underscores that how credit is extended matters as much as how much is extended.

Regional variations in efficiency impact emphasize the need for context-specific policies rather than uniform approaches.

Historical Context

Indonesia has long been recognized as a pioneer in microfinance, with Bank Rakyat Indonesia (BRI) serving as a global model for sustainable, large-scale microfinance operations . The country's experience has demonstrated that commercially-oriented microfinance can reach millions of clients while maintaining financial viability.

5.3 Comparative Analysis

Dimension	**Bolivia**	**Indonesia**
Sector Scale	Institutions like Idepro IFD serve 45,000+ borrowers	144 Islamic rural banks across 21 provinces; BRI serves millions
Institutional Dynamics	Post-merger integration of urban and rural lending	Mix of efficient and inefficient banks; significant regional variation
Performance Focus	Proactive integration of social and environmental metrics	Stronger emphasis on financial than social performance
Efficiency Profile	Not quantified; focus on impact measurement	Only 8.3% of studied banks efficient

Social Performance Definition	Client well-being, savings capacity, climate resilience	Client outreach plus community contributions
Innovation	Digital savings apps; integrated impact databases	Strategic alliances; dynamic capabilities
Key Strength	Systematic approach to social performance measurement; technological innovation	Extensive reach; understanding of efficiency drivers; community contributions
Key Challenge	Translating measurement into improved outcomes	Financial-social performance gap; NPF management; regional disparities

6. DISCUSSION OF RESULTS

6.1 Two Approaches to Social Performance

The contrast between Bolivia and Indonesia illuminates two fundamentally different approaches to social performance in microfinance. Bolivia's approach is one of **proactive integration**: institutions like Idepro IFF are systematically developing strategies and measurement systems to track social and environmental impact, working with international partners to define indicators and using technology to enable real-time monitoring . The creation of an Impact Committee at the Board level demonstrates institutional commitment at the highest governance level.

Indonesia's approach reflects a **persistent tension** between financial and social objectives. While institutions recognize the importance of social performance—defined not only by client outreach but by broader community contributions—the evidence suggests a stronger emphasis on financial performance in practice . The finding that only 8.3% of Islamic rural banks are efficient indicates systemic challenges in achieving optimal resource utilization.

6.2 The Role of Institutional Context

The institutional contexts of the two countries shape their microfinance trajectories. Bolivia's post-merger integration of urban and rural lending creates opportunities for cross-learning and portfolio diversification . The involvement of international partners like SIDI in governance and strategic planning brings external expertise and accountability to social performance management .

Indonesia's Islamic microfinance sector operates within a framework of religious principles that emphasize ethical finance and social justice. The inclusion of community contributions—scholarships, medical assistance, food aid, support for worship—in definitions of social performance reflects this broader ethical framework . However, the gap between these aspirations and actual practice suggests that institutionalizing social performance requires more than stated principles.

6.3 The Challenge of Measurement

Both countries grapple with the challenge of measuring social performance. Bolivia's approach emphasizes technological solutions: integrated databases that enable real-time monitoring, anticipation of client vulnerabilities, and targeted interventions . The focus on anticipating risks—such as crop fragility due to climate change—represents an evolution from retrospective impact assessment to proactive risk management.

Indonesia's research emphasizes the importance of understanding the factors that drive efficiency and social performance . The identification of specific factors influencing efficiency—urban infrastructure, institutional density, regional disparities, size of Muslim population—provides actionable insights for policy. However, translating these insights into improved outcomes remains challenging.

6.4 The Financial-Social Nexus

The relationship between financial and social performance is complex and contested. Indonesia's research demonstrates that social performance has a significant effect on financial performance, creating a virtuous cycle where attention to social outcomes enhances institutional sustainability . This finding challenges the notion that financial and social objectives are necessarily in tension.

However, the same research reveals a stronger emphasis on financial performance in practice, suggesting that while institutions recognize the interdependence of these objectives, operational priorities may favor financial metrics . Bolivia's approach, with its focus on social and environmental measurement integrated into strategic planning, offers an alternative model where social objectives are elevated to equal importance.

6.5 Implications for SDG 1

The findings have important implications for achieving SDG 1 targets:

Target 1.4 (Equal rights to economic resources and access to basic services): Both countries demonstrate that microfinance can expand access to financial services for poor and vulnerable populations. Bolivia's digital savings applications reach youth in the informal economy, while Indonesia's Islamic rural banks serve communities across 21 provinces. However, the efficiency challenges in Indonesia suggest that access alone is insufficient; services must be delivered effectively.

Target 1.2 (Reduce poverty): The inverse relationship between total financing and poverty levels in Indonesia supports the fundamental premise that financial inclusion contributes to poverty reduction. However, the direct correlation between non-performing financing and poverty underscores that how credit is extended matters as much as how much is extended.

Target 1.5 (Build resilience of the poor): Bolivia's approach to anticipating client vulnerabilities—identifying crop fragility due to climate change and providing agroecology training—represents an innovative approach to building resilience. This proactive risk management goes beyond traditional microfinance to address the underlying vulnerabilities that perpetuate poverty.

Target 1.1 (Eradicate extreme poverty): The finding that only 8.3% of Indonesian Islamic rural banks are efficient raises questions about whether microfinance is reaching the poorest and most vulnerable. Efficient resource utilization is essential for maximizing poverty reduction impact.

7. CONCLUSION: BEYOND PROFIT—MEASURING WHAT MATTERS

This comparative analysis of microfinance institutions and social performance in Bolivia and Indonesia reveals that effective poverty reduction through microfinance requires intentional institutional commitment, robust measurement systems, and an understanding of the complex relationship between financial sustainability and social impact. The two countries, with their distinct institutional contexts and complementary challenges, offer invaluable lessons for the global microfinance community.

Bolivia's experience demonstrates the power of proactive social performance integration. Following the 2024 merger between Idepro IFD and Sembrar Sartawi, the institution has embarked on an ambitious initiative to improve the measurement of its social and environmental impact, working with international partners to define comprehensive strategies and identify meaningful indicators . Technological innovation is central to this effort: an integrated database enables real-time monitoring, anticipation of client vulnerabilities, and targeted interventions such as agroecology training . Field evidence confirms tangible social impact: a young textile entrepreneur in El Alto, using the institution's savings application, was able to accumulate capital and develop a new business, illustrating how digital tools can reach youth in the informal economy . Bolivia's microfinance sector has long been recognized for pioneering institutions like BancoSol, which demonstrated that serving the poor could be financially sustainable . Academic research emphasizes the importance of integrating social elements into performance evaluation, with frameworks combining financial and social standards .

Indonesia's experience reveals the persistent challenges of balancing financial and social objectives. Research examining 144 Islamic rural banks across 21 provinces finds that only 12 are operating efficiently, with significant variation across regions influenced by urban infrastructure, institutional density, and the size of the Muslim population . Critically, the study underscores a stronger emphasis on financial performance over social performance, despite the narrow gap between the two indicating continued commitment to both objectives . Strategic alliances and dynamic capabilities significantly influence social performance, which in turn affects financial

outcomes . Social performance is defined not only by client outreach but by broader community contributions: scholarships, free medical assistance, food aid, and support for places of worship . The inverse relationship between total financing and poverty levels highlights the importance of expanding access to credit, while the management of non-performing financing emerges as a critical factor directly correlated with rising poverty .

Several cross-cutting insights emerge from this comparison:

First, measurement matters. Bolivia's systematic approach to developing social and environmental performance indicators demonstrates that what gets measured gets managed. Idepro IFD's Impact Committee and Board-level engagement ensure that social objectives receive governance attention.

Second, technology enables impact. Bolivia's integrated database and digital savings applications illustrate how technology can enhance both outreach and impact measurement. The ability to anticipate client vulnerabilities represents an evolution from retrospective reporting to proactive support.

Third, institutional context shapes possibilities. Bolivia's openness to international partnership and governance engagement creates opportunities for knowledge transfer and accountability. Indonesia's Islamic microfinance framework provides ethical foundations that can be leveraged for social performance.

Fourth, efficiency is essential for impact. Indonesia's finding that only 8.3% of banks are efficient underscores that resources must be utilized effectively to maximize poverty reduction impact. Inefficiency is not just a financial problem; it is a poverty problem.

Fifth, the financial-social nexus is complex but manageable. Indonesia's research demonstrating that social performance enhances financial outcomes challenges the notion of inherent tension between these objectives. However, the persistent emphasis on financial performance in practice suggests that alignment requires intentional effort.

Sixth, context-specific approaches are necessary. Regional variations in how financial efficiency impacts poverty in Indonesia emphasize the need for tailored policies rather than uniform solutions.

Seventh, social performance extends beyond clients. Indonesia's inclusion of community contributions in social performance definitions recognizes that microfinance institutions are embedded in broader communities and have responsibilities that extend beyond their immediate clients.

For Bolivia, priorities emerging from this analysis include:

1. Continue developing and refining social and environmental performance indicators, ensuring that measurement translates into improved client outcomes.
2. Scale successful technological innovations, such as the integrated database and digital savings applications, to reach more clients.
3. Leverage the urban-rural integration achieved through merger to develop products and services appropriate for diverse client populations.
4. Share Bolivia's experience with social performance measurement with other countries through international partnerships and knowledge exchange.

For Indonesia, priorities include:

1. Address the efficiency gap by strengthening the factors identified as influencing efficiency: urban infrastructure, institutional coordination, and targeted support for underperforming regions.
2. Bridge the financial-social performance gap by elevating social objectives in strategic planning and performance evaluation, learning from Bolivia's governance-level engagement.
3. Strengthen management of non-performing financing, recognizing its direct correlation with poverty levels.
4. Support strategic alliances and dynamic capabilities, which have been shown to enhance social performance .
5. Develop regional policies tailored to local conditions, recognizing the significant variation in efficiency and impact across provinces.

For the international community, the lessons are clear: microfinance can contribute meaningfully to poverty reduction, but only when institutions are intentional about measuring and managing social performance. Bolivia's proactive integration of social metrics and Indonesia's understanding of efficiency drivers both offer valuable insights. The challenge is to ensure that financial sustainability serves social mission, rather than supplanting it.

The ultimate measure of success for SDG 1 is not the volume of loans disbursed but whether the poorest and most vulnerable gain access to economic resources that enable them to build better lives. Bolivia and Indonesia, in their different ways, are both working toward this goal.

8. LIMITS OF THE STUDY

This study has several limitations that should be acknowledged. First, the comparative analysis relies primarily on secondary sources rather than primary empirical research. Direct observation of microfinance operations in both countries, interviews with clients, loan officers, and managers, and participatory research would provide valuable additional perspectives. Second, data availability varies between countries. Bolivia benefits from detailed recent mission documentation from SIDI, while Indonesia's analysis draws on comprehensive academic research covering 144 banks. Third, the study focuses on formal microfinance institutions, with less attention to informal lending mechanisms that continue to serve significant populations. Fourth, the voice of clients, particularly those who may be excluded from or harmed by microfinance, is mediated through institutional reports rather than captured directly. Despite these limitations, the comparative analysis provides valuable insights into microfinance and social performance, with implications for both countries and for broader efforts to achieve SDG 1.

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10. AUTHOR CONTRIBUTIONS

The author conceived the study, designed the research methodology, conducted the literature review and document analysis, synthesized findings across countries, and drafted the complete manuscript. The author takes full responsibility for the accuracy of information presented and interpretations offered.

11. COMPETING INTERESTS

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential competing interest.

12. AUTHORS' CONTRIBUTIONS

As sole author, I performed all roles including conceptualization, methodology development, investigation, formal analysis, writing, review, editing, and project administration.

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14. DATA AVAILABILITY

All sources analyzed in this study are publicly available documents, including institutional reports, academic research, field mission documentation, and journal articles. Primary sources are cited in the bibliography and accessible through the referenced publications and organizations.

15. DISCLAIMER

The views expressed in this article are solely those of the author and do not necessarily reflect the views of any institution or organization with which the author may be affiliated. The analysis is provided for scholarly purposes and should not be construed as policy guidance or investment advice. Microfinance operations, performance measurement practices, and institutional frameworks are subject to change, and readers should consult current sources for specific information about Bolivia, Indonesia, and microfinance.

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