

Mersland, Roy

Article — Accepted Manuscript (Postprint)

The Cost of Ownership in Microfinance Organizations

World Development

Suggested Citation: Mersland, Roy (2009) : The Cost of Ownership in Microfinance Organizations, World Development, ISSN 1873-5991, Elsevier, Amsterdam, Vol. 37, Iss. 2, pp. 469-478, <https://doi.org/10.1016/j.worlddev.2008.03.006>

This Version is available at:

<https://hdl.handle.net/10419/323962>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

This paper has been published as: Mersland, R. (2009), “The Cost of Ownership in Micro-Finance Organizations”, World Development. Vol. 37(2), pp. 469-478.

doi:10.1016/j.worlddev.2008.03.006

ORCID (Roy Mersland): 0000-0002-6683-2737

THE COST OF OWNERSHIP IN MICROFINANCE ORGANIZATIONS

Key words:

Microfinance, ownership, corporate governance, nonprofits, cooperatives, transformation

Abstract

We compare the ownership-cost of Shareholders Firms (SHFs), Non Profit Organizations (NPOs) and Cooperatives (COOPs) involved in microfinance. A paradoxical situation motivates us: Most providers, both historically and today, are NPOs or COOPs, while policy papers advocate SHFs. We lay out a theoretical framework to better understand ownership costs in microfinance organizations. We propose that cost variables related to market contracting favor NPOs and COOPs, whereas most cost variables related to the practice of ownership favor SHFs. We conclude that what best serves the customers is coexistence of ownership types, and we call for empirical research to test the theory.

1. Introduction

Microfinance is the supply of banking services to micro-enterprises and poor families. Private suppliers of microfinance are normally incorporated as member based Cooperatives (COOPs), Non Profit Organizations (NPOs) or Shareholder Firms (SHFs). This paper compares the costs of these three ownership types. A paradoxical situation motivates us: While policy makers normally advocate SHFs, most suppliers of microfinance are NPOs or COOPs. Compared to a few hundreds of SHFs there are thousands of NPOs and India alone has more than 100 thousand COOPs (Misra and Lee, 2007). To better understand ownership costs in Microfinance Organizations (MFOs) we lay out a theoretical driven framework and use it to compare the costs of the different types of MFOs.

The UN Year of Microcredit in 2005 and the Nobel Peace Prize to Mohammed Yunus and Grameen Bank in 2006 have given considerable public recognition to microfinance as a development tool. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microcredit Summit in their 2006-meeting in Halifax celebrated the milestone of 100 million borrowers. Nevertheless, microfinance still only reaches a fraction of the world's poor (Christen et al., 2004, Robinson, 2001). Thus, there is a recognized supply challenge in the market (Helms, 2006).

Other studies analyzing microfinance supply have compared the *welfare approach* and the *sustainability approach*, where the first measures success by how well it fulfills the short-term needs of the poorest while the second proposes a long-term “win-win” logic between poverty outreach and organizational sustainability (Woller et al., 1999, Morduch, 2000, Rhyne, 1998). This conceptual study complements existing research as it claims to be the first to present a

systematic framework to explain the intrinsic ownership-cost differences between the most common types of suppliers in the microfinance industry. Proper use of the framework could help guide future empirical work and policy guidelines on MFO ownership

To develop the framework we apply Hansmann's (1996) economic theory of ownership, which identifies several variables influencing the cost of ownership. We relate each of the variables to the microfinance industry and analytically compare the ownership cost of SHFs, NPOs and COOPs. To illustrate and support our analysis we outline several examples and share descriptive global statistics from the MIX 2006 Benchmarks (www.themix.org). The effect of each cost-variable is isolated and finalized with a proposition which indicates if the ownership costs in NPOs and COOPs are on average, higher or lower than the ownership cost in SHFs. Based on an extension of Hansmann's theory we propose that cost-variables related to *market contracts* favor NPOs and COOPs, whereas most cost-variables related to the *practice of ownership* favor SHFs. The proposed lower costs of ownership-practice in SHFs provide strong support for this ownership type as well as the welcoming of new investors into the industry. However, our analysis also indicates that NPOs and COOPs can more effectively mitigate the costs of market contracts, and that such mitigation is highly relevant since most MFOs operate in severely inefficient markets. Thus, the theory does not support policy makers' preferences for investor ownership. A mixture of different ownership types, similar to mature banking markets, is probably what best serves microfinance customers.

The rest of this paper is organized as follows: Section two lay out ownership policies and empirics, section three explains the theory and the methodology applied followed by section four and five where the cost variables for markets contracts and the practice of ownership are analyzed respectively. Section six presents a table summarizing the discussions in the former

sections. Section seven concludes and provides implications for policy makers and researchers.

2. Ownership policies and empirics in the microfinance industry

Policy papers generally advocate SHFs as the most appropriate ownership type in the microfinance market (Berenbach and Churchill, 1997, C-GAP, 2003, Chavez and Gonzalez-Vega, 1994, Christen and Rosenberg, 2000, Greuning et al., 1998, Hardy et al., 2003, Jansson et al., 2004, Staschen, 1999). The arguments are that SHFs can be regulated by banking authorities, accept deposits, provide a larger range of better quality services, be independent from donors, attract private equity capital and benefit from superior corporate governance because they are privately owned. Parts of the arguments are related to a situation where national legal frameworks consider NPOs and most COOPs as inferior banking organizations. Few NPOs are regulated and allowed to mobilize savings, and the supervision of most COOPs is generally considered outside the scope of banking authorities (C-GAP, 2003).

A consequence of current policies has been a “call” to NPOs to transform into SHF (White and Campion, 2002, Fernando, 2004, Rhyne, 2001). Accounts of successful transformations have been shared (Fernando, 2004), and guidelines on how to transform have been published (Ledgerwood and White, 2006, White and Campion, 2002). Between 1992 and 2006 about 43 NPOs were transformed into shareholder organizations (Fernando, 2004, Hishigsuren, 2006). In most cases the original NPO continues as a major owner in the new SHF (White and Campion, 2002, Ledgerwood and White, 2006). Transformed SHFs have generally been able to increase their outreach considerably (Ledgerwood and White, 2006). However, some observers fear that increased outreach doesn’t come at zero cost and warn about a possible “mission drift” (Woller, 2002). Yet, Christen (2001) does not warrant such fear.

Empirical studies on the ownership effects on the dual microfinance objectives – outreach and sustainability, are scarce. Exceptions are Hartarska (2005) who in her study on corporate governance in East European MFOs included ownership type as a control variable, and Cull et al. (2007) who controlled for profit status in their global study on the influence of lending methodologies. In none of these studies did ownership have a significant influence on the financial (sustainability) or social (outreach) performance of MFOs. However, Gutierrez-Nieto et al. (2007) did find that NPOs are more efficient in making a large number of loans while operating as cheaply as possible compared to non-NPOs.

Historically, pro-poor banking has been dominated by COOPs and NPOs such as the 17th century philanthropic English loan funds (Hollis and Sweetman, 1998), the 18th century Irish loan funds (Hollis and Sweetman, 2004), the 19th century savings banks (Teck, 1968) and the 19th century Schulze-Delitzsch and the Raiffeisen cooperatives (Teck, 1968). Still the cooperatives and the savings banks continue to flourish in several highly competitive markets (Christen et al., 2004, Peachey and Roe, 2006). In mature bank-markets where different ownership types coexist, researchers find little evidence to suggest that SHFs are more efficient than the COOPs and NPOs (Altunbas et al., 2001, Crespi et al., 2004, ESBG, 2004).

The global statistics from the MIX 2006 Benchmarks (www.themix.org) provide self reported data from 704 MFOs. Five charter types are represented; Banks, Credit Unions, Non Bank Financial Institutions (NBFIs), NGOs and Rural Banks. Banks and Rural Banks can have different types of ownership and be both privately and publicly owned. However, the Credit Unions are similar to the COOPs, the NGOs are similar to the NPOs and the NBFIs are

similar to the SHFs. Thus, in table one descriptive statistics for the three ownership types are shared.

Insert table 1 here

The smallest COOP in the dataset has more than 300 thousand dollars in assets, thus the COOPs represented are clearly not the average small COOP involved in microfinance. Few of these are in a position to self report their data to the MIX. However, the data illustrates that MFOs differ according to their type of ownership. Generally speaking NPOs are smaller in assets, but not in customers, compared to SHFs. NPOs' average loan balance is considerably lower than SHFs'. Similarly they serve more female customers. Measured as Return on Assets SHFs have higher profits, while risk profiles are fairly even with the NPOs. Lower operating expenses in SHFs seem to be related to higher average loans since the cost per loan is actually half in NPOs compared to SHFs.

3. Theory and methodology

Like Hansmann (1996) we do not advocate any particular type of ownership. Instead we search for non-legal (La-Porta et al., 1998) and non-historic (Bebchuk and Roe, 1999) variables which influence the cost of ownership. SHFs are firms limited by shares like banks and non-bank financial institutions (NBFI) owned by investors whether they are profit seeking or social investors, individuals or organizations. COOPs are customer owned organizations like credit unions, building societies, savings and credit cooperatives etc. NPOs are organizations without any legal owners. We recognize that organizational objectives are

not necessarily uniform within the same ownership type. Yet, we follow Hansmann's logical reasoning that the intrinsic differences between SHFs, COOPs and NPOs lie in who controls the organization and who receives the profit from it. In a SHF, the shareholders control the organization, decide on how to distribute the profits and are free to sell their privileges. In a COOP, the ultimate control is in the hands of its members who through their voting rights, can decide on policy issues. The members are also the only ones entitled to receive the proceeds from the operations either through dividends or rebated prices on services. A NPO may have several stakeholders influencing the organization. However, no particular group or person can legally claim ownership of it or receive residual earnings from it.

As Hansmann (1996) we view the firm as a nexus of contracts between different patrons and the firm (Jensen and Meckling, 1976). In MFOs the main patrons are employees, credit customers, savings customers, debt holders, equity holders and donors.² There are two possible relationships between the firm and the patrons. First, the patron deals with the firm through market contracts, and second, the patron can also be the owner of the firm. Both these relationships involve costs, and by analyzing these, ownership types can better be understood and compared.

Market contracts are not costless. Market failures like absence of effective competition and substantial informational disadvantages, prevail in the microfinance industry (Porteous, 2006). In all the relevant markets - employees, customers (both savings and credit), debt holders, equity holders and donors - market imperfections exist. According to Hansmann the costs of market imperfections can be reduced by assigning ownership to the affected patrons or avoid having owners (NPOs). For the purpose of this paper we will concentrate on market failures affecting customers and, when relevant, donors.

The practice of ownership involves costs. Agency costs, derived from the separation of ownership and control, as well as the cost of collective decision making, are well known from the literature and will, together with other relevant costs, be studied in this paper. The assumption is that whether assigning ownership of MFOs to investors, customers or nobody (NPOs), different costs will occur.

In our analysis we identify cost-variables found in or deduced from Hansmann (1996). We start with cost-variables related to market contracts followed by variables related to ownership. We isolate the effect of each variable and compare the cost of SHFs with the cost of COOPs and NPOs. We end each comparison with a proposition indicating, all else constant, whether the ownership cost for the studied variable is higher or lower in COOPs and NPOs compared to SHFs. In table four we summarize our analysis by assigning the term ‘higher’ or ‘lower’ to each of the studied variables. We do not at any point try to indicate how much higher or lower the cost might be. When the analysis provides no clear indication, we assign the symbol ‘?’. We generally do not try to compare cost differences between COOPs and NPOs, but recognize also that there can be considerable differences between these ownership types. Occasionally in the text we make the reader aware of such differences. We do not claim that the cost-variables analyzed are all similar in importance. Nor do we claim that we cover all relevant cost-variables.

4. The costs of market contracts

According to Hansmann (1996), the costs of market imperfections can be reduced by ownership assignment. In the following we analyze cost-variables identified by Hansmann

and apply them to the microfinance industry. We discuss how the costs of market contracts vary depending on whether the supplier of microfinance is a SHF, a COOP or a NPO.

Market inefficiency # 1: The cost of limited competition

Customers pay the price of limited competition in microfinance markets; First, in the form of high interest rates on loans or low interest on savings offered by monopoly/oligopoly MFOs, and second in the form of under-consumption, or no consumption at all, of important banking services. Where MFOs exist, the markets are normally characterized with a severe lack of competition, and most clients have limited bargaining power vis-à-vis the provider of microfinance. The median yield on gross loan portfolio charged by the 704 MFOs reporting to the 2006 MIX Benchmarks is 30,2%, the average 34,3% and the maximum 139,5%. In Mexico the MFO Compartamos has over years maintained a ROE above 50% driven by interest rates of around 100% p.a. (Rosenberg, 2007). However, in Bolivia where competition has been increasing, the average annual yield has decreased during the last decade from 50% to just above 20% in the leading MFOs (Porteous, 2006).

All else constant, since SHFs have owners with the right to appropriate the profits they should have a stronger incentive than NPOs and COOPs to exploit their customers. Yet, the Compartamos case illustrates that also NPOs can maximize their profits. Before Compartamos transformed into a SHF it also used to charge around 100% interests on the loans. However, the argument was to expand outreach to more clients not to produce profits for owners with pecuniary incentives (Rosenberg, 2007).

Also some COOPs charge high interests on loans. For example informal member owned savings and credit groups (similar to very small COOPs) often charge interests above 100%

per year. However, the argument here is to offer the net-savers a high return on savings, not to enrich investors (Allen, 2006).

The data from the MIX 2006 Benchmarks illustrates that the larger COOPs represented on average do offer considerable lower interest rates on loans compared to NPOs and SHFs, while NPOs on average actually charge higher interest rates than their peers. However, when calculating the financial margin adjusted for operating expenses and loan losses NPOs have the lowest margin while COOPs actually have the highest.

Insert table 2 here

Other ownership-costs like for instance the cost of managerial opportunism may in some contexts outperform the NPOs' and COOPs' advantage in minimizing costs stemming from limited competition. However, the exercise in this paper is to isolate the costs related to each cost-variable. Thus, when isolating the cost of limited competition NPOs and COOPs should have lower costs compared to SHFs since NPOs don't have owners that can appropriate their profits, and financial margins in COOPs benefit the members. Thus, on average the following proposition should hold:

Proposition # 1:

The ownership-cost related to limited market competition is lower in NPOs and COOPs than in SHFs.

Market inefficiency # 2: The cost of “lock-in” market power

Monopolistic exploitation can occur also after beginning to patronize with a MFO. The use of non-tangible collaterals, like credit history and group guarantees, has been the main innovation in microfinance and has made it possible for MFOs to mitigate the risk of lending (Aghion and Morduch, 2005, Ghatak and Guinnane, 1999). However, an unexplored side-effect of the innovations can be that they may increase the difficulty in shifting between credit providers. Establishing new credit groups is complex Marr (2006), and if an existing credit group wants to shift from one MFO to another, all the members have to jointly agree. Single members wanting to shift need to be accepted into new credit-groups. Similarly, the importance of credit history in lending appraisals may lead to a lock-in situation. Starting with a small loan a credit history can be built and increases in loan amounts can often be expected (Aghion and Morduch, 2005). Yet, credit history is an intangible asset which in markets without effective credit rating bureaus is difficult to transfer from one MFO to another.

The cost of “lock-in” market power in the microfinance industry has not, as far as we know, been subject to major research efforts. However, contracts allowing easy shift of suppliers becomes more important as competition increases and the need to remain in good standing with a single lender decreases (Vogelgesang, 2003).

Currently there is a tendency in the industry to shift from group methodologies to individual lending. Of the 704 MFOs reporting to MIX 2006 Benchmarks 136 practice different forms of group methodologies only, while the rest practice either pure individual lending (252 MFOs) or a combination of individual and group lending (316 MFOs). Individual lending allows bigger loans (Cull et al., 2007), and maybe the shift towards individual lending is a response to increased competition and the need to reduce the cost of lock-in market power?

Similar to the cost of limited competition, the cost of lock-in can be mitigated by assigning ownership to customers (COOPs) or ownerless organizations (NPOs) with fewer intrinsic incentives to exploit the customers.

Proposition # 2:

The ownership-cost related to “lock-in” market power is lower in NPOs and COOPs than in SHFs.

Market inefficiency # 3: The cost related to the risk of long-term contracting

Most microfinance services offered today are short term services like demand or short time deposits, money transfers and credit for working capital or emergencies (Aghion and Morduch, 2005). However, important banking services like insurance, longer term time deposits, business credits to finance fixed assets, agricultural credit, credit for higher education or for housing all require longer term contracting. Yet, in countries with highly volatile markets (employment, commodities etc.), where contract law and enforcement is inadequate and public regulation is a scarce resource (Todaro and Smith, 2006), such long-term contracting is problematic. Offering 10 years repayment time on housing loans would in most microfinance markets be a significant risk for both the customer and the MFO. Thus, housing loans in microfinance, like for instance in D-MIRO in Ecuador, are normally structured as short term (6-12 months) repeated loans to finance step-by-step house building.

By making the customers the owners of the firm, the cost of long term contracting can be mitigated. What customers might lose as customers, they will gain as owners, and vice versa. This variable therefore supports the existence of COOPs. However, in larger COOPs with

many members an individual borrower has a very small ownership stake compared to the 100% liability of the loan. Thus, for the following proposition to hold true it requires members with relatively uniform needs and use of services, like for instance a building society or a micro-insurer. When it comes to comparing SHFs and NPOs, neither the theory nor the evidence as we know it, indicate differences in costs between the two types.

Proposition # 3:

The ownership-cost related to the risk of long term contracting is lower in COOPs with uniform member needs than in SHFs.

The cost of asymmetric information

Asymmetric information increases the cost of market contracting. In microfinance, a situation of asymmetric market information is present in particularly four relationships; MFO – borrowers, MFO – depositors, MFO – donors and MFO – debt holders, the latter being outside the scope of this paper.

Market inefficiency # 4: The cost of asymmetric information between MFOs and borrowers

In a principal – agent model the principal, the MFO, knows little about how the agent, the borrower, will use a loan or if the loan will be repaid. Hence, all banks establish expensive screening and selection processes together with follow up and monitoring of the customers to minimize agency-costs (Freixas and Rochet, 1997). In addition, microfinance often mitigates risks through the use of group guarantees. Involving neighbors, family members and friends in selecting and monitoring clients reduces the costs of adverse selection and moral hazard. In addition, a borrower will be less inclined to default when knowing that friends and family

members will have to bear the loss. To further decrease the cost of asymmetric information, ownership of the MFO can be fully assigned to the borrowers, like in a credit cooperative. However, a well known challenge in larger COOPs is individuals exploiting the firm at the expense of other members. This is probably why most COOPs have difficulties in expanding outside their local communities, and why a common bond between the members is seen as a prerequisite for successful COOPs (Magill, 1994). For example in Uganda where there are more than one thousand COOPs a study including 147 of the largest COOPs revealed that on average they only had 640 members (Deshpande et al., 2006). Thus, we propose that on average smaller COOPs have lower costs of asymmetric information between MFOs and borrowers compared to SHFs.

We do not propose that borrowers are more inclined to repay their loans to NPOs than to SHFs. However, asymmetric information between borrowers and MFOs also involves the risk that the MFO will use superior knowledge to exploit customers. In many markets this is a major problem as MFOs tend not to reveal the true cost of borrowing. Real interest rates are covered in creative contracts including countless types of commissions and fees (C-GAP, 2003, Porteous and Helms, 2005). Regulation efforts and consumer education programs like those carried out by AMFIU in Uganda (www.amfiu.org.ug) are being installed to increase transparency in and understanding of microfinance operations. NPOs, COOPs and SHF all alike tend to conceal their real interest rates. However, on average owners with pecuniary incentives to exploit customers should be more inclined to veil information. Thus, all together, we propose the following proposition:

Proposition # 4:

The ownership-cost related to asymmetric information between the MFO and the borrower is lower in NPOs and COOPs than in SHFs.

Market inefficiency # 5: The cost of asymmetric information between MFOs and depositors

One of banks' major functions is to monitor borrowers on behalf of depositors (Freixas and Rochet, 1997). However, the depositors are in a poor position to determine exactly how the bank is managing their money (Diamond, 1984). Since the owners of SHFs don't share profit but only losses with their depositors, they have pecuniary incentives for opportunistic behavior, including risky lending (Jensen and Meckling, 1976, Hansmann, 1996, Rasmussen, 1988, Arun, 2005).

In several SHFs most shareholders are NPOs, socially oriented funds or donors with limited incentives to exploit depositors (Goodman, 2005, Ivatury and Abrams, 2005, Ivatury and Reille, 2004). Yet, there is a strong push in the industry to attract more profit driven investors, both local business people (Jansson et al., 2004) and international investors (Ivatury and Reille, 2004, Abrams and Stauffenberg, 2007). Since owners of SHFs are free to sell their shares and several donors have a limited time horizon to their investments, more profit minded investors will probably enter the industry in the years to come. In the Compartamos IPO in Mexico in April 2007 truly commercial investors bought most of the shares (Rosenberg, 2007).

As a response to asymmetric information between banks and depositors, governments impose regulation and deposit insurance schemes. Today, even a country like Congo (DRC), crippled by conflict and poverty, has a banking law aimed at reducing depositors' risk. During the last

decade emphasis has been placed on how to effectively regulate microfinance operations and organizations, and most of the important bilateral and multilateral agencies have commissioned policy documents and guidelines (Berenbach and Churchill, 1997, Christen et al., 2003, Chavez and Gonzalez-Vega, 1994, Christen and Rosenberg, 2000, Greuning et al., 1998, Hardy et al., 2003, Jansson et al., 2004, Staschen, 1999). However, what seems generally overestimated is the capacity of such schemes to effectively monitor institutions in countries where corruption blossoms and banking authorities are generally weak. Another issue seemingly not being taken much into account is how the presence of deposit insurance schemes can encourage SHFs to take on more risk than COOPs (Fisher and Fournier, 2002).

To minimize the agency costs related to asymmetric information between depositors and MFOs, ownership can be attached to the depositors (COOP) or it can be given to an organization without owners (NPO), with overall fewer incentives to exploit depositors (Cuevas and Fischer, 2006).

Proposition # 5:

The ownership-cost related to asymmetric information between the MFO and the depositors is lower in COOPs and NPOs than in SHFs.

Market inefficiency # 6: The cost of asymmetric information between MFOs and donors

Donors influence the microfinance industry (C-GAP, 2006). As depositors donors don't know precisely how MFOs use the money received. Even though (some) donors impose costly monitoring schemes like auditing, rating, follow up visits and on-site experts, there is still a considerable risk that the MFO will distort the use of a donation. Therefore, since NPOs have no owners and implicit fewer incentives to exploit donors; all else being equal, donors prefer

contracting with NPOs (Easley and O'Hara, 1983, Glaeser and Shleifer, 2001, Hansmann, 1996). In addition, several donors face legal constraints in partnering with SHFs since the shareholders can appropriate public funds (e.g. the Danish and Norwegian agencies for development, DANIDA and NORAD). In the Compartamos case where private individual shareholders captured over \$150 million from the IPO, it has been fiercely debated whether donor grants received by Compartamos over the years have now made their way into private pockets (Rosenberg, 2007).

If we assume that donors have a preference for poorer clients, it should be relatively unproblematic for them to provide funds to COOPs as long as the members are below a defined poverty level. Thus, several donors are involved in expanding the outreach of the rural COOPs in for example Uganda, Malawi and Tanzania. However, most donors will probably find it difficult to partner with COOPs serving middle class members.

If we accept that in theory, donors prefer to partner with NPOs and COOPs with poor members, how can we explain an increasing number of donors recommending NPOs to transform into SHFs? We believe that the answer(s) are found in understanding the combined effect of the 12 variables studied in this article, but recommend additional research aimed at better understanding donors' behavior. However, *ceteris paribus*, the following proposition should hold:

Proposition # 6:

The ownership-cost related to asymmetric information between the MFO and the donors is lower in NPOs and COOPs serving poor members than in SHFs.

5. The cost of ownership-practice

Hansmann (1996) argues: *[...] ownership has two essential attributes: exercise of control and receipt of residual earning. There are costs inherent in each of these attributes*” (Hansmann, 1996, p. 35). In what follows we analyze six cost-variables related to the practice of ownership.

The cost of controlling managers

With a few exceptions (e.g. PT Bank Dagang Bali in Indonesia) the owners and the managers of MFOs are separate bodies where the first delegates most decision making authority to the latter. The separation of ownership and management leads to agency costs (Fama and Jensen, 1983b, Fama and Jensen, 1983a, Jensen and Meckling, 1976). Hansmann (1996), defines these agency costs as: *“the sum of the costs incurred in monitoring [the management] and the costs of managerial opportunism that result from the failure or inability to monitor with complete effectiveness”* (Hansmann, 1996, p. 38). We start by analyzing the monitoring costs followed by studying the costs of managerial opportunism.

Ownership variable # 1: The cost of monitoring the management

The cost of monitoring management can, according to Hansmann (1996), be divided in three: 1) owners’ costs of informing themselves about the operations, 2) the cost of communicating between the owners, and 3) the cost of communicating owners’ decisions to the management. These costs depend on the importance, frequency and duration of the relationship between the owner and the firm.

Members of COOPs entrust their valuable savings, make frequent use of the services and often continue being members over a long period of time. Normally members live relatively

close to each other and in the neighborhoods of the COOP. This could indicate that COOPs have an advantage compared to other forms of MFOs. However, a major problem in larger COOPs is the high number of owners which leads to a substantial duplication of effort in becoming informed. The high number of owners also leads to a problem of “free riders” where each and every one has little incentive to effectively control management. Therefore, cooperatives generally require costly and bureaucratic processes to keep the members informed and alert (Normark, 1996). There is the additional challenge that many members of cooperatives have low levels of literacy and numeracy and limited knowledge about monitoring managers and banking operations. Therefore, even though members have personal incentives to monitor management, the overall monitoring costs in COOPs, particularly in large COOPs, are high.

Some argue that NPOs don't have costs of monitoring management since there are no owners to inform or to communicate with. The fact is quite different. Most organizations, including NPOs, delegate monitoring to boards (Fama and Jensen, 1983b). Board members in NPOs are mostly middle and upper class professionals (Labie, 2001). Some of these pay high importance to their duties, but generally NPOs struggle to recruit board members who are willing to dedicate the time and effort needed to effectively oversee the operations (Labie, 2001). To balance the need for professional board members, some NPOs have members from international donors sitting on their boards (e.g. several of the FINCA affiliates). While this might improve the oversight of operations it also increases the costs of communications, travels, board fees etc.

Most SHFs have few owners. This reduces the cost of monitoring; yet, with more than one owner the cost of duplication of efforts cannot be avoided. An element pushing the cost is the

number of owners situated in the north while most MFOs operate in the south, and often ownership is shared between distant owners e.g. European and American (Goodman, 2005). Nevertheless there are good reasons to believe that the costs of monitoring managers in SHFs are generally lower than in COOPs and NPOs.

Proposition # 7:

The ownership-cost related to monitoring managers is higher in COOPs and NPOs than in SHFs.

Ownership variable # 2: The cost of managerial opportunism

When ownership and control are separated, it is impossible to completely prevent managers from getting involved in self-dealing transactions – those not fully aligned with owners' interests. Owners with strong incentives, e.g. owners with pecuniary incentives, to monitor management can reduce these agency costs. This logic is implicit in most ownership literature and is highlighted by microfinance policy makers advocating the need for owners with their own money at stake (Helms, 2006, Jansson et al., 2004).

Yet, history has proven that large groups of firms, like nonprofit hospitals and savings banks, have been able to survive without having owners with personal pecuniary incentives to control management. This indicates that there must be alternative governance mechanisms to ownership control that keep managers working hard. The often mentioned alternative mechanisms are; competition, legal and moral constraints, public regulation, incentive pay aligned with owners' interests, and the management labor market (Hansmann, 1996, Denis, 2001, Jensen, 1993).

However, it should not be forgotten that most MFOs operate in countries ripe with corruption, where the legal frameworks are mixed, law enforcement is weak and effective government regulation is uncertain. Therefore, there are good reasons to believe that the effects of some of the alternative governance mechanisms are more limited in most microfinance markets. Similarly, as mentioned, competition is in most markets still weak. Adding to this is the challenge related to the lack of managerial capacity in the industry (C-GAP, 2004) which reduces managers' incentives to improve performance. Since no better options are available for the owners, managers can continue to produce slack results.

Increased use of incentive pay could solve some of MFOs' governance challenges. However, aligning the interest of banking managers too much with the interests of owners with pecuniary incentives is problematic in banking firms, since this could induce managers to take higher risks at the expense of depositors and other debt holders (John and John, 1993).

Calomiris and Kahn (1991) suggest that since deposits can be withdrawn on demand the managers get an incentive to control expenses. Hollis and Sweetman (2007) confirm this argument. Using data on the nineteenth-century Irish loan funds they find that operating expenses as well as salaries increased with lower levels of funding financed by deposits. Data from the MIX 2006 benchmarks may indicate a similar situation today as indicated in table three.

Insert table 3 here

Table three illustrates that higher levels of financial intermediation seem to result in lower costs. In the microfinance industry this situation has normally been explained with economies of scale as indicated in the table. However, it may be that the microfinance industry and its policy makers have overlooked the potential in having depositors as an important governance mechanism to lower the cost of managerial opportunism. This opposes established authorities denying NPOs to mobilize deposits. It should therefore spur interest among researchers.

Labie (2003) suggests that organizational culture and cross-control between managers plays a major role in controlling NPO managers. Others suggest that having a clear mission, well defined target public and close alignment with important stakeholders, particularly the customers, will reduce agency costs (Lapenu and Pierret, 2005). We share such views. However, lack of ownership control cannot be fully balanced with other governance mechanisms. Thus, in line with (Rasmussen, 1988), we propose that SHFs have an advantage compared to COOPs and NPOs.

Proposition # 8:

The ownership-cost related to managerial opportunism is higher in COOPs and NPOs than in SHFs.

Ownership variable # 3: The cost of collective decision making

When ownership is shared between different owners there are likely to be different opinions regarding policies and strategies. The universal approach to dealing with this problem is to adopt a voting scheme. However, regardless of being able to reach a decision with the help of a predefined voting scheme, heterogeneity in interests between owners results in increased costs of collective decision making. These costs can, according to Hansmann (1996), be

divided into three groups: 1) decisions taken which are not aligned with all owners' interests, 2) the often considerable time and effort it takes to participate in the decision making process and, 3) resolving conflict between owners.

In theory, investors have a single well-defined objective - to maximize the financial returns on their investments. However, owners of SHFs are a heterogeneous group consisting of profit seeking investors, "green" investors, donors with holistic motivation and multilateral agencies like the IFC of the World Bank (Ivatury and Reille, 2004, Goodman, 2005). When these are to align their preferences, the cost of collective decision making increases. As far as we know, no study is available regarding the cost of collective decision making in SHFs with owners having heterogeneous objectives. Particularly in transformed SHFs where the original NPOs have teamed up with commercial investors, we assume that the cost of collective decision making can often be high. Elisabeth Rhyne (2001) describes how different owners in Banco Sol in Bolivia (transformed from Prodem) at certain stages struggled to maintain control with one block pushing hard for faster profits while another block was seeking to maintain Banco Sol's unique identity. This power-play is costly. Nevertheless, to improve monitoring and decrease agency costs, policy advocates continue to recommend the inclusion of profit minded investors as a counterweight to domination by the original NPO (Jansson et al., 2004). Whether the benefit of including profit minded owners outweighs the cost of having owners with diverging interests should be the subject of further research.

In COOPs there is a diverging interest between net-borrowers and net-depositors (Cuevas and Fischer, 2006, Ledgerwood, 1999). Balancing the interests of depositors and borrowers, where depositors push for increasing deposit interest rates and minimizing risk in lending, and borrowers push for reduced interest rates and increased lending risk, is a costly and difficult

task. Still, Falkenberg (1996) suggests that the diverging interests between net-borrowers and net-depositors can be an effective mechanism to reduce the costs in cooperative enterprises. Having some owners claiming higher interest rates on their deposits and other owners claiming reduced interest rates on loans can impose slim and efficient operations. The data reported in table one from the MIX 2006 benchmarks may support Falkenberg's proposition. Here the median operating expense ratio to loan portfolio in COOPs is 14% compared to 20,8% in SHFs and 27,7% in NPOs. However, since loan amounts differ considerable additional research is needed for confirmation. Besides, since COOPs, to maintain success, need to invest in time consuming communication processes between members and management, they can easily develop into bureaucracies or management controlled organizations (Spear, 2004, Normark, 1996, Cornforth, 2004, Rasmussen, 1988). Thus, all together, we suggest that the cost of collective decision making is higher in COOPs than in SHFs.

Since NPOs are governed by missions and bylaws and not by owners, it can be argued that the cost of collective decision making is limited. However, missions change and their interpretations vary. Trustees and founders often diverge in opinion, and board meetings can be temperamental. Therefore, we find it difficult to propose whether the cost of collective decision making is higher or lower in NPOs than in SHFs.

Proposition # 9:

The cost of collective decision making is higher in COOPs than in SHFs.

Ownership variable # 4: The costs related to access to equity capital

The type of ownership influences access to equity capital. NPOs have no other sources to draw upon other than excess earnings and uncertain funding from donors. COOPs can also turn to their members. Further growth in NPOs is hampered by a severe equity constraint (Gibbons and Meehan, 2002), and the ability of COOPs to attract extra capital from their generally poor members is limited. The possibility of increased access to equity capital is a major reason for transforming from NPOs to SHFs (Fernando, 2004).

SHFs are unrivalled when it comes to possible access to equity capital. There are a limitless number of sources and the available capital is almost infinite. Many commercial investors have entered or are about to enter the microfinance industry (Ivatury and Abrams, 2005, Ivatury and Reille, 2004, Goodman, 2005, Abrams and Stauffenberg, 2007). By mid-2004 commercially oriented, but still donor dominated, investment funds had invested nearly US \$1.2 billion, as loans or equity, in about 500 MFOs. Most of the investments were concentrated in a small number of SHFs (Ivatury and Abrams, 2005).

Proposition # 10:

The ownership-cost related to access to equity capital is higher in NPOs and COOPs than in SHFs.

The costs related to capital “lock-in”

Capital “lock-in”, defined as the difficulty of disinvesting capital, can be studied from at least two angles: capital efficiency and service availability.

Ownership variable # 5: The costs of capital efficiency as a result of capital “lock-in”

If NPOs are inferior in accessing equity capital, they are even more sluggish when it comes to reducing capital investment when demand declines. As competition increases, some NPOs risk being overcapitalized. Nimal A. Fernando, the microfinance specialist of the Asian Development Bank, raises the question as to whether the NPOs BRAC and ASA in Bangladesh have too much cash on their hands.³ Another example is Diaconia FRIF in Bolivia, with total capital of more than USD13 million where nearly 98% is equity. To illustrate; Diaconia FRIF's equity is about 2/3 of Banco Sol's while their loan portfolio is less than 10%⁴.

While a SHF can easily move capital from managers' hands to owners' hands, the capital placed in a NPO is either lost or stays with the institution until its dissolution. Similar to a SHF, a COOP can pay dividends, either in cash or as rebated prices on services, and thereby reduce its capital investment. However, this is not easily done since COOP managers tend to be powerful (Rasmussen, 1988). Hence, on average, SHFs are also more effective in capital disinvestment than COOPs.

Proposition # 11:

The ownership-cost related to capital efficiency as a result of capital "lock-in" is higher in NPOs and COOPs than in SHFs.

Ownership variable # 6: The costs of service availability as a result of capital "lock-in"

"Lock-in" of capital can be an advantage for poor households. When capital cannot be moved, the services cannot easily be taken away from the customers. When SHFs decide to close operations or shift to more profitable market segments, NPOs will normally tend to stay in

business even if their financial return is far below a regular market return. This is also true for COOPs who cannot abandon their own members.

The risk of capital divestment is similar to what in the microfinance industry is termed “mission drift” (Woller, 2002). Christen (2001) reported little evidence of mission drift in transformed SHFs in Latin America, while Woller (2002) argues that mission drift is inherently more evident in SHFs than NPOs. What should also be kept in mind is that today’s owners of a SHF are not necessarily tomorrow’s. Different from NPOs and COOPs shares in SHFs can be sold. Besides, most investors, including those seeking a double bottom line, naturally seek opportunities with increased returns. This indicates that there can be a cost related to serving the poorest, and since NPOs and COOPs cannot easily divest or change market segments they tend to stick with their customers even if profits are slack. The benchmarks from table one may illustrate at least the NPOs willingness to serve poorer clients. Median loan amount is less than half compared to SHFs and 82,1% of customers are women. At the same time their financial return is low with a ROA of 0,2%. The COOPs in the dataset are not representative for most rural based small COOPs, however since COOPs are totally bound to their members divestment or “mission drift” are to them a minor concern.

Also, studies from other sectors, like US health centers, indicate that nonprofits perform better than the for-profits in serving the underserved (Khoury et al., 2001). Thus, taken together the following proposition should hold.

Proposition # 12:

The ownership-cost related to service availability as a result of capital “lock-in” is lower in NPOs and COOPs than in SHFs.

6. Comparing ownership types

Table four summarizes the analysis in sections four and five. Based on an extension of Hansmann's (1996) theory, we propose that cost-variables related to microfinance market contracts generally favor NPOs and COOPs, whereas most cost-variables related to the practice of ownership favor SHFs. The propositions are a starting point for better understanding the cost of ownership in MFOs and should become subject for empirical testing.

Insert table four here

7. Conclusions and implications

We have studied the cost of ownership in microfinance organizations. Our analyses indicate that the costs of microfinance market contracts are generally higher in SHFs than in COOPs and NPOs, while the costs of ownership-practice are respectively lower. The cost-variables analyzed are not all similar in importance, and local contexts will influence their importance. However, the proposed lower costs of ownership-practice in SHFs provide strong support for the continued promotion of this ownership type as well as the welcoming of new investors into the industry. Nevertheless, such promotion should not be done at the expense of COOPs and NPOs who, according to the theory, can more effectively mitigate the costs of market contracts. Such mitigation is highly relevant since most MFOs operate in severely inefficient

markets. Probably the development of markets with a mixture of ownership types is what best serves the customers.

Comparing the theory with current policies indicates that policy makers consider the costs of ownership-practice to be more important than costs related to market contracts. Whether this is based on a comprehensive analysis or ideological preferences remains unanswered. We propose that the costs of market contracts have not been sufficiently included when advocating ownership policies in the microfinance industry. Certainly the problems related to asymmetric information between depositors and MFOs are being debated. Yet, the response to these problems, through prudent regulations, supervision and deposit insurance schemes, seems to be inadequate. In developing economies suffering from very weak institutional frameworks as well as imperfect markets and incomplete information (Todaro and Smith, 2006), installing prudent regulations seems far fetched.

Several policy papers seem to be guided by agency theory applied to the relationship between owners and management. In addition to this, we recommend future policy papers as well as academic research to broaden their theoretical perspectives. A better understanding of NPOs and COOPs and their possible role in market economies is needed. Adequate use of stakeholder theory to help identify ‘Who’ and ‘What’ really counts in MFOs can help (Mitchell et al., 1997, Freeman, 1984, Freeman, 1994).

We argue that ownership costs are intrinsic and thus cannot be completely neutralized. However, they can be balanced. Particularly in the microfinance industry the use of hybrid ownership forms where NPOs are major owners in SHFs is common. Also common are NPOs being fully governed by international donors similar to owners of SHFs. Besides, some

international lenders to NPOs may provide long term uncollateralized loans where the rate of interest depends on the profits, and the lender can be given a position at the board. These examples illustrate that practitioners are aware of costs related to ownership. Such balancing measurements may offer particular promise in meeting the multiple needs of MFOs. Thus, researchers should study the effects and side-effects of such measurements.

The history of the savings banks can probably provide important insights to better understand the existence of NPOs in the microfinance industry. As NPOs today, also the first savings banks were in need of equity capital from donors; either wealthy philanthropists, local authorities or community funds like corn chambers meant for lean years. The NPO ownership type, still present in most savings banks, gave the donors the assurance they needed to support the new initiatives. However, as the banks grew and started to depend more on commercial funding and deposits, the nonprofit form was kept, but now as a response to asymmetric information between depositors and the banks (Hansmann, 1996, Hansmann, 1989, Pampillon, 2003, Ograda, 2003, Pohl, 2003, Rønning, 1972). A question which remains unanswered is why transformation of NPOs into SHFs is needed today when it wasn't needed before. Legal frameworks provide a part of the answer. Thus, a revision to adapt the legal frameworks to NPOs' and COOPs' needs seems appropriate. The history of the savings banks and their continued success in several markets should demonstrate that being commercially oriented and mobilizing savings is not necessarily incompatible with being an NPO.

Imperfect markets and exploitation of customers are likely to continue in most developing countries for several decades. At the same time, some donors will continue to search for partners with less intrinsic motivation to exploit them. Hence, we expect COOPs and well performing NPOs to continue to play an important role in the microfinance industry.

However, this is only possible if adequate legal and policy support is given. Historically, support of novel ownership forms has been important to underpin the growth of pro-poor banking systems like the savings banks in England and Norway, the cooperative and mutual banks in Germany and the USA (Teck, 1968, Hollis and Sweetman, 1998, Rønning, 1972). Therefore, if COOPs and NPOs are to continue to play a dominant role in the industry, alongside the needed SHFs, they will need better policy and legal support. Further research on how to better understand and support NPOs and COOPs is needed.

Notes:

1. www.woccu.org
2. Service providers including rating agencies, networks, auditors, credit bureaus, providers of technical assistance etc. are also important patrons of MFOs. However, they are considered outside the scope of this article.
3. Question raised by Mr. Fernando on the 25th of September 2006 at the devfinance@ag.ohio-state.edu discussion list.
4. Rating report 2006, www.planetrating.com and information from www.mixmarket.org

Table 1: Selected benchmarks for MFOs according to their type of ownership

Indicators:	SHFs	COOPs	NPOs
Number of MFOs	230	74	282
	Median	Median	Median
Age of MFO (years)	8	10	10
Total assets (US\$)	8 124 068	6 500 227	3 757 662
Number of active borrowers	11 007	4 852	10 947
Gross loan portfolio (US\$)	6 395 958	5 401 213	2 834 596
Average loan balance per borrower (US\$)	562	1408	227
Percentage of women reached	55%	51,9%	82,1%
Return on Assets (ROA)	1,5%	0,3%	0,2%
Portfolio at risk > 30 days	2,2%	4,2%	2,6%
Write-off ratio	0,9%	2,0%	1,0%
Operating expense/Loan portfolio	20,8%	14,0%	27,7%
Cost per loan (US\$)	144	156	70

Table 2: Median portfolio yield and financial margins in MFOs

	Portfolio Yield	Financial margin
COOP	23%	3,5%
SHF	34,2%	2,7%
NPO	38,6%	1,8%

Table 3: Median efficiency ratios in MFOs in relation to level of financial intermediation

	Operating expense ratio	Personnel expense ratio	Total assets (US\$)
Non financial intermediation	25,5%	13,9%	4 427 864
Low financial intermediation	17,9%	10,5%	6 511 754
High financial intermediation	15,7%	7,2%	12 827 330

Table 4: Ownership costs in Cooperatives and Nonprofits compared to Shareholder Firms

Proposition number	COST VARIABLES:	COOPs	NPOs
	<u>Cost of market contacts:</u>		
1	Limited competition	Lower	Lower
2	“Lock-in” market power	Lower	Lower
3	Long-term contracting	Lower	?
4	Asymmetric information, MFO – borrowers	Lower	Lower
5	Asymmetric information, MFO – depositors	Lower	Lower
6	Asymmetric information, MFO – donors	Lower	Lower
	<u>Cost of ownership:</u>		
7	Cost of monitoring	Higher	Higher
8	Cost of managerial opportunism	Higher	Higher
9	Cost of collective decision making	Higher	?
10	Access to equity capital	Higher	Higher
11	Capital efficiency as a result of capital “lock-in”	Higher	Higher
12	Service availability as a result of capital “lock-in”	Lower	Lower

References:

- ABRAMS, J. & STAUFFENBERG, D. V. (2007) Are public development institutions crowding out private investment in microfinance. *MFInsights* Washington, Microrate.
- AGHION, B. A. D. & MORDUCH, J. (2005) *The Economics of Microfinance*, London, MIT Press.
- ALLEN, H. (2006) Village Savings and Loans Associations - sustainable and cost-effective rural finance. *Small Enterprise Development* 17.
- ALTUNBAS, Y., EVANS, L. & MOLYNEUX, P. (2001) Bank Ownership and Efficiency. *Journal of Money, Credit, and Banking* 33, 926-954.
- ARUN, T. (2005) Regulating for development: the case of microfinance. *The Quarterly Review of Economics and Finance*, 45, 346-357.
- BEBCHUK, L. A. & ROE, M. J. (1999) A theory of path dependence in corporate ownership and governance. *Stanford Law Review* 52, 127-171.
- BERENBACH, S. & CHURCHILL, C. (1997) Regulation and Supervision of Microfinance Institutions. *Occasional Paper* The MicroFinance Network.
- C-GAP (2003) Guiding principles on regulation and supervision of microfinance. *Microfinance Consensus Guidelines*
- C-GAP (2004) Key Principles of Microfinance. .
- C-GAP (2006) Good practice guidelines for funders of microfinance Washington, CGAP.
- CALOMIRIS, C. W. & KAHN, C. M. (1991) The role of demandable debt in structuring optimal banking arrangements. *The American Economic Review* 81, 497-513.
- CHAVEZ, R. & GONZALEZ-VEGA, C. (1994) Principles of Regulation and Prudential Supervision and Their Relevance for Microenterprise Finance Organizations. IN OTERO, M. & RHYNE, E. (Eds.) *The New World of Microenterprise Finance* West Hartford, Kumarian Press.
- CHRISTEN, R. P. (2001) Commercialization and Mission Drift. *Occasional Paper* Washington, CGAP.
- CHRISTEN, R. P., LYMAN, T. R. & ROSENBERG, R. (2003) Guiding principles on regulation and supervision of microfinance. *Microfinance Consensus Guidelines* Washington, CGAP.
- CHRISTEN, R. P. & ROSENBERG, R. (2000) The rush to regulate: Legal frameworks for microfinance. *Occasional Paper* CGAP.
- CHRISTEN, R. P., ROSENBERG, R. & JAYADEVA, V. (2004) Financial Institutions with a "Double Bottom Line": Implications for the future of Microfinance. *Occasional Paper* Washington, C-GAP.
- CORNFORTH, C. (2004) The Governance of cooperatives and mutual associations: a paradox perspective. *Annals of Public & Cooperative Economics*, 75, 11-32.
- CRESPI, R., GARCIA-CESTONA, M. A. & SALAS, V. (2004) Governance mechanisms in Spanish Banks. Does Ownership matter? *Journal of Banking and Finance* 28, 2311-2330.
- CUEVAS, C. E. & FISCHER, K. P. (2006) Cooperative financial institutions - Issues in Governance, regulation and supervision. *World Bank working paper* No. 82. Washington, World Bank.
- CULL, R., DEMIGÜC-KUNT, A. & MORDUCH, J. (2007) Financial Performance and Outreach: A global Analysis of Leading Microbanks. *The Economic Journal* 117, 107-133.

- DENIS, D. K. (2001) Twenty-five years of corporate governance research...and counting. *Review of Financial Studies* 10, 191-212.
- DESHPANDE, R., PICKENS, M. & MESSAN, H. (2006) Uganda - country-level savings assessment CGAP savings initiative. Washington, CGAP.
- DIAMOND, D. W. (1984) Financial Intermediation and Delegated Monitoring. *Review of Economic Studies* 51, 393-414.
- EASLEY, D. & O'HARA, M. (1983) The Economic Role of the Nonprofit Firm. *The Bell Journal of Economics* 14, 531-538.
- ESBG (2004) European Banking Consolidation: A considered analysis of the retail banking market and the position of the European Savings Banks Group. . Brussels, ESBG.
- FALKENBERG, A. W. (1996) A yardstick for justice and ethical evaluation of economic organizations. *Journal of Socio-Economics* 25.
- FAMA, E. F. & JENSEN, M. C. (1983a) Agency Problems and Residual Claims. *Journal of Law and Economics* 26, 327-349.
- FAMA, E. F. & JENSEN, M. C. (1983b) Separation of Ownership and Control. *The Journal of Law and Economics* 26, 301-327.
- FERNANDO, N. A. (2004) Micro Success Story, Transformation of Nongovernmental organizations into regulated financial institutions. . Manila, Asian Development Bank.
- FISHER, K. P. & FOURNIER, E. M. (2002) Does Corporate Governance Matter in Deposit Insurance? . CIRPEE Working Paper.
- FREEMAN, R. E. (1984) *Strategic management: A stakeholder approach*, Boston, Pitman.
- FREEMAN, R. E. (1994) The politics of stakeholder theory: Some future directions. *Business Ethics Quarterly* 4, 409-421.
- FREIXAS, X. & ROCHET, J.-C. (1997) *Microeconomics of banking*, London, MIT Press.
- GHATAK, M. & GUINNANE, T. W. (1999) The economics of lending with joint liability: theory and practice. *Journal of development economics* 60, 195-228.
- GIBBONS, D. S. & MEEHAN, J. W. (2002) Financing Microfinance for Poverty Reduction. . The Microcredit Summit Campaign.
- GLAESER, E. L. & SHLEIFER, A. (2001) Not-for-profit entrepreneurs. *Journal of Public Economics* 81, 99-115.
- GOODMAN, P. (2005) Microfinance Investment Funds. . Luxembourg, ADA.
- GREUNING, H. V., GALLARDO, J. & RANDHAWA, B. (1998) A Framework for Regulating Microfinance Institutions. . The World Bank.
- GUTIERREZ-NIETO, B., SERRANO-CINCA, C. & MOLINERO, C. M. (2007) Microfinance institutions and efficiency. *OMEGA - The International Journal of Management Science* 35, 131-142.
- HANSMANN, H. (1989) The economic role of commercial nonprofits: The evolution of the U.S. savings banks industry. IN ANHEIER, H. & SEIBEL, W. (Eds.) *The Third Sector: Comparative Studies of Nonprofit Organizations* De Gruyter.
- HANSMANN, H. (1996) *The ownership of enterprise*, Cambridge, Massachusetts, The Belknap Press of Harvard University Press.
- HARDY, D. C. D. I. O., HOLDEN, P. & PROKOPENKO, V. (2003) Microfinance institutions and public policy. *Policy Reform* 6, 147.
- HARTARSKA, V. (2005) Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States. *World Development* 33, 1627-1643.
- HELMS, B. (2006) *Access for All*, Washington DC, CGAP.
- HISHIGSUREN, G. (2006) Transformation of Micro-finance Operations from NGO to Regulated MFI. . IDEAS, USA.

- HOLLIS, A. & SWEETMAN, A. (1998) Microcredit: What Can we Learn from the Past? *World Development* 26, 1875-1891.
- HOLLIS, A. & SWEETMAN, A. (2004) Microfinance and Famine: The Irish Loan Funds during the Great Famine. *World Development* 32, 1509-1523.
- HOLLIS, A. & SWEETMAN, A. (2007) The role of local depositors in controlling expenses in small-scale financial intermediation: An empirical analysis. *Economica*, 74, 713-735.
- IVATURY, G. & ABRAMS, J. (2005) The Market for Foreign Investment in Microfinance: Opportunities and Challenges. *Focus Note* CGAP.
- IVATURY, G. & REILLE, X. (2004) Foreign Investment in Microfinance: Debt and Equity from Quasi-Commercial Investors. *Focus Note* CGAP.
- JANSSON, T., ROSALES, R. & WESTLEY, G. (2004) Principles and Practices for Regulating and Supervising Microfinance. . Washington, D.C., Inter-American Development Bank.
- JENSEN, M. C. (1993) The modern industrial revolution, exit, and the failure of internal control systems. *Journal of Finance* 48, 831-880.
- JENSEN, M. C. & MECKLING, W. H. (1976) Theory of the Firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3, 305-360.
- JOHN, T. A. & JOHN, K. (1993) Top-Management Compensation and Capital Structure. *Journal of Finance* 48, 949-974.
- KHOURY, A. J., WEISMAN, C. S. & JARJOURA, C. M. (2001) Ownership Type and Community Benefits of Women's Health Centers. *Medical Care Research and Review* 58, 76-99.
- LA-PORTA, R., LOPEZ-DE-SILANES, F. & SCHEIFER, A. (1998) Law and Finance. *Journal of political economy* 106, 1113-1155.
- LABIE, M. (2001) Corporate governance in microfinance organizations: a long and winding road. *Management Decision* 39, 296-301.
- LABIE, M. (2003) Corporate Governance in the Non-Profit Sector: A Framework for Microfinance Organizations. *19th EGOS Colloquium* Copenhagen Business School, Warocque Research Center.
- LAPENU, C. & PIERRET, D. (2005) Handbook for the analysis of the governance of microfinance institutions. Paris, CERISE-IRAM.
- LEDGERWOOD, J. (1999) *Microfinance Handbook*, The World Bank.
- LEDGERWOOD, J. & WHITE, V. (2006) *Transforming Microfinance Institutions*, Washington, The World Bank and The MicroFinance Network.
- MAGILL, J. H. (1994) Credit Unions: A Formal-Sector Alternative for Financing Microenterprise Development. IN OTERO, M. & RHYNE, E. (Eds.) *The New World of Microenterprise Finance* West Hartford, Kumarian Press.
- MARR, A. (2006) The limitations of group-based microfinance and ways to overcome them. *Small Enterprise Development* 17, 28-40.
- MISRA, R. & LEE, N. (2007) Primatry Agricultural society linkage - the best remote self-help groups in India can do? *Small Enterprise Development* 18, 25-36.
- MITCHELL, R. K., AGLE, B. R. & WOOD, D. J. (1997) Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review* 22, 853-886.
- MORDUCH, J. (2000) The Microfinance Schism. *World Development* 28, 617-629.
- NORMARK, P. (1996) A role for cooperatives in the market economy. *Annals of Public & Cooperative Economics* 67, 429-439.
- OGRADA, C. (2003) Savings banks as an institutional import: the case of nineteenth-century Ireland. *Financial History Review* 10, 31-55.

- PAMPILLON, F. (2003) Los modelos historicos europeos de cajas de ahorros. *Papeles de economia española* 97, 62-79.
- PEACHEY, S. & ROE, A. (2006) Access to finance - What does it mean and how do savings banks foster access. *Perspectives* World Savings Bank Institute (WSBI).
- POHL, H. (2003) El desarrollo de las cajas de ahorros en Alemania hasta la tercera decada del siglo XIX. *Papeles de economia española* 97, 80-92.
- PORTEOUS, D. (2006) Competition and Microcredit Interest Rates. *Focus Note* Washington, CGAP.
- PORTEOUS, D. & HELMS, B. (2005) Protecting microfinance borrowers. *Focus Note*. Washington, CGAP.
- RASMUSSEN, E. (1988) Mutual Banks and Stock Banks. *Journal of Law and Economics* 31, 395-421.
- RHYNE, E. (1998) The Yin and Yang of Microfinance: reaching the Poor and Sustainability. *Microbanking Bulletin* 2.
- RHYNE, E. (2001) *Mainstreaming Microfinance, How lending to the poor began, grew and came of age in Bolivia*, West Hartford, Kumarian Press.
- ROBINSON, M. S. (2001) *The Microfinance Revolution*, Washington, The World Bank / Open Society Institute.
- ROSENBERG, R. (2007) CGAP reflections on the Compartamos initial public offering: A case study on microfinance interest rates and profits. *Focus Note*. Washington, CGAP.
- RØNNING, B. R. (1972) *Norsk Sparebankvesen inntil 1850*, Oslo, Gyldendal Norsk Forlag.
- SPEAR, R. (2004) Governance in Democratic Member-Based Organisations. *Annals of Public and Cooperative Economics*, 75, 33-59.
- STASCHEN, S. (1999) Regulation and Supervision of Microfinance Institutions: State of Knowledge. . Eschborn, Germany, GTZ-Working Paper.
- TECK, A. (1968) *Mutual Savings Banks and Savings and Loan Associations: Aspects of Growth*, New York, Columbia University Press.
- TODARO, M. P. & SMITH, S. C. (2006) *Economic Development*, Essex, England, Pearson - Addison Wesley.
- VOGELGESANG, U. (2003) Microfinance in Times of Crisis: The Effects of Competition, Rising Indebtedness, and Economic Crisis on Repayment Behavior. *World Development* 31, 2085-2114.
- WHITE, V. & CAMPION, A. (2002) Transformation - Journey from NGO to regulated MFI. IN DRAKE, D. & RHYNE, E. (Eds.) *The Commercialization of Microfinance* Bloomfield, Kumarian Press.
- WOLLER, G. (2002) The promise and peril of microfinance commercialization. *Small Enterprise Development* 13, 12-21.
- WOLLER, G. M., DUNFORD, C. & WOODWORTH, W. (1999) Where to Microfinance? *International Journal of Economic Development* 1, 29-64.