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*Article*

# Microfinance as a Catalyst for Sustainable Development: A Cross-National Comparative Study of the Environmental and Social Impacts

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**Abstract:** This cross-national comparative study utilizes linear regression analysis and panel data analysis to examine the relationship between MFIs' sustainability-focused policies and programs and their environmental and social impacts. Specifically, this study analyzes the impact of various independent variables, such as green lending initiatives, environmental risk management, and social impact programs, on dependent variables measuring environmental and social outcomes. This approach provides insights into the strategies and best practices employed by MFIs to align their operations with the Sustainable Development Goals. The findings from this study contribute to the growing body of research on the role of microfinance in promoting sustainable development.

**Keywords:** Microfinance Institutions (MFIs)—G21; Sustainable Development Goals (SDGs)—Q01; Green Lending Initiatives—Q57; Financial Inclusion—G28; Environmental Impact—Q56

## Introduction

Microfinance has long been recognized as a powerful tool for poverty alleviation, empowering the economically marginalized with access to financial services. However, the potential of MFIs to contribute to broader sustainability goals remains underexplored. This study investigates how MFIs incorporate environmental and social sustainability into their operational models, aligning their missions with the Sustainable Development Goals.

Microfinance has been shown to contribute not only to poverty reduction and financial sustainability but also to economic empowerment, increased well-being, and social and political empowerment for women, addressing goals of gender equality. Further, microfinance has been identified as a unique development tool that works toward reducing poverty and maintaining self-sustainability (Li et al., 2018; Ayayi & Sene, 2010; Noor & Ayaz, 2023; Parvin et al., 2020).

Existing studies have examined the role of microfinance in promoting gender equality and economic empowerment (Parvin et al., 2020; Lacalle-Calderón et al., 2018; Koveos & Randhawa, 2004), but the intersection of microfinance with green initiatives, such as clean energy financing, green agriculture, and eco-friendly business models, has received less attention (Noor & Ayaz, 2023; Parvin et al., 2020). Recent research suggests that partnerships between MFIs and the formal financial sector can create an inclusive financial system that achieves development, job creation, and inequality reduction objectives. The microfinance sector is considered an important contributor to the expansion of formal financial systems and should play a significant role in promoting greater sustainable development.

This study employed a comparative case study approach, analyzing data from MFIs in several developing countries where microfinance has been actively promoted for poverty alleviation and community development. The selected institutions have demonstrated a commitment to integrating environmental and social sustainability into their operational models.

The methodology involved collecting and analyzing both quantitative and qualitative data from the participating MFIs. Quantitative data included financial performance indicators, client outreach, and portfolio quality metrics. Qualitative data were gathered through in-depth interviews with

institution managers, staff, and clients to understand their perspectives on sustainability initiatives and challenges.

The regression analysis examined the relationship between various independent variables, such as institutional characteristics, sustainability-focused policies and programs, and control variables. The dependent variables included measures of environmental impact, social impact, and overall sustainability performance.

The findings from this cross-national comparative study provide insights into the strategies and best practices employed by MFIs to align their operations with the Sustainable Development Goals, as well as the key drivers and barriers to achieving environmental and social sustainability in the microfinance sector.

## Literature Review

Existing studies have examined the role of microfinance in promoting gender equality and economic empowerment (Parvin et al., 2020 and Wang & Ran, 2019). However, the intersection of microfinance with green initiatives, such as clean energy financing, green agriculture, and eco-friendly business models, has received less attention. Recent research suggests that partnerships between MFIs and the formal financial sector can create an inclusive financial system that achieves development, job creation, and inequality reduction objectives (Lacalle-Calderón et al., 2018). This indicates the potential for microfinance to contribute to a wider range of sustainability goals beyond just poverty alleviation and financial inclusion.

The microfinance sector is considered an important contributor to the expansion of formal financial systems and should play a significant role in promoting greater sustainable development. Microfinance has been shown to contribute not only to poverty reduction and financial sustainability but also to economic empowerment, increased well-being, and social and political empowerment for women, addressing goals of gender equality. Further, microfinance has been identified as a unique development tool that works toward reducing poverty and maintaining self-sustainability (Sohn & Ume, 2019).

Given the underexplored potential of microfinance to drive environmental and social sustainability, this study aims to investigate how MFIs incorporate sustainability into their operational models and the resulting impact on environmental and social outcomes. This study employed a comparative case study approach, analyzing data from multiple countries where MFIs have demonstrated a commitment to integrating sustainability into their practices.

The main objective of microfinance is to increase the outreach of financial services to ensure poverty alleviation (Sohn & Ume, 2019). Microfinance provides people in poverty with an opportunity to obtain small-scale monetary services, such as credit, savings, and insurance, because they lack access to such services from formal banking and other financial systems.

Existing empirical research has been conducted on the financial sustainability of MFIs (Sohn & Ume, 2019). Nurmakhanova et al. claim that sustainable MFIs are those that operate profitably and do not require subsidies to succeed (Li et al., 2018).

They show that focusing on financial sustainability does not necessarily hurt the depth and breadth of outreach. However, financial sustainability is ignored by conventional portfolio selection models.

Based on the existing literature, we propose the following hypotheses:

**H1:** *MFIs that incorporate environmental and social sustainability into their operational models will have a positive impact on environmental and social outcomes, as measured by indicators such as greenhouse gas emissions, energy/water consumption, waste management, poverty alleviation, and women's empowerment.*

**H2:** *The sustainability performance of MFIs, as measured by a composite metric capturing the balance between financial, environmental, and social objectives, will be positively associated with their overall institutional characteristics, such as size, age, and geographic scope, as well as the adoption of sustainability-focused policies and programs.*

Methodology

This study employed a comparative case study approach, analyzing data from multiple countries where MFIs operate with a sustainability mandate. To gain insights into how these institutions incorporate environmental and social sustainability into their operational models, the researchers conducted in-depth qualitative interviews with key stakeholders in the microfinance sector, including MFI managers, borrowers, and representatives from environmental and social organizations.

This study collected data from MFIs in the following countries during the period from 2018 to 2023.

Table 1. Sample of Microfinance Institutions by Country (2018-2023).

Country	Microfinance Institutions	
India	✓	Bandhan Bank
	✓	Svaylamban Microfinance
	✓	Satin Creditcare Network
Kenya	✓	Equity Bank
	✓	Juhudi Kilimo
	✓	Kenya Women Microfinance Bank
Peru	✓	Edyficar
	✓	MiBanco
	✓	Micredito
Mexico	✓	Compartamos Banco
	✓	Financiera Independencia
	✓	Fondo Microfinanza
Ghana	✓	Sinapi Aba
	✓	ID Ghana
	✓	Opportunity International Savings and Loans

The quantitative data include financial indicators such as portfolio size, loan disbursements, mobilized savings, and operational self-sufficiency. Qualitative data were gathered through interviews with managers, staff, and clients of these MFIs to understand their sustainability initiatives, challenges, and best practices.

Table 2. Definitions and sources of variables for assessing environmental, social, and institutional impacts. The definitions and sources of the variables.

Variables	Definition	Sources
Environmental impact	Measures of greenhouse gas emissions, energy/water consumption, and waste management within the client businesses financed by the MFIs	World Bank and UNDP
Social impact	Indicators of poverty alleviation, gender empowerment, and community development, such as changes in household income, asset ownership, and decision-making power	World Bank, UNDP, national statistics, and MIX Market
Sustainability performance	Composite metrics that capture the institution's balance between financial, environmental, and social objectives	World Bank, UNDP, and MIX Market
Institutional characteristics	The size, age, and geographic scope of the MFIs	World Bank, UNDP, and MIX Market
Sustainability-focused policies and programs	Measures of green lending, environmental risk management, and social impact initiatives	World Bank, institution records, client-level data, and staff interviews
Contextual factors	Macroeconomic conditions, regulatory environment, and the level of competition	World Bank, national statistics, MIX Market, and expert interviews

The instrumental variable approach helps establish a more robust causal link between the institutional characteristics, sustainability-focused policies, and environmental outcomes of MFIs.

The regression analysis utilized both linear regression and panel data analysis to examine the relationship between MFIs' sustainability-focused policies and programs and their environmental and social impact.

The linear regression models took the following forms:

**Environmental Impact** =  $\beta_0 + \beta_1$  Institutional Characteristics +  $\beta_2$  Sustainability-focused Policies and Programs +  $\beta_3$  Contextual Factors +  $\epsilon$

**Social Impact** =  $\beta_0 + \beta_1$  Institutional Characteristics +  $\beta_2$  Sustainability-focused Policies and Programs +  $\beta_3$  Contextual Factors +  $\epsilon$

These models assessed the impact of various independent variables, such as green lending initiatives, environmental risk management, and social impact programs, on dependent variables measuring environmental and social outcomes.

To account for potential endogeneity concerns, this study also employed an instrumental variable approach. The IV analysis involved the following models:

**Environmental Impact** =  $\beta_0 + \beta_1$  Institutional Characteristics +  $\beta_2$  Sustainability-focused Policies and Programs +  $\beta_3$  Contextual Factors +  $\beta_4$  Instrument +  $\epsilon$

**Social Impact** =  $\beta_0 + \beta_1$  Institutional Characteristics +  $\beta_2$  Sustainability-focused Policies and Programs +  $\beta_3$  Contextual Factors +  $\beta_4$  Instrument +  $\epsilon$

**Table 4.** Correlation Matrix of Variables.

Variable	Environmental Impact	Social Impact	Size	Governance	Green Lending	Env. Risk Mgmt.	Country-Level Policies	Macroeconomic Conditions	Access to Env. Finance	Social Impact Programs
Environmental impact	1									
Social impact	0.62	1								
Size	0.45	0.49	1							
Governance	0.43	0.46	0.35	1						
Green lending	0.51	0.45	0.38	0.41	1					
Environmental Risk Management	0.47	0.38	0.32	0.39	0.43	1				
Country-level policies	0.39	0.35	0.25	0.34	0.36	0.33	1			
Macroeconomic conditions	0.31	0.28	0.21	0.25	0.27	0.24	0.32	1		
Access to environmental finance	0.48	0.41	0.33	0.29	0.42	0.37	0.30	0.25	1	
Social impact programs	0.23	0.52	0.27	0.31	0.19	0.17	0.22	0.19	0.15	1

This cross-national comparative study employed econometric regression models to analyze the relationship between MFIs' sustainability-focused policies and programs and their environmental and social impacts. Specifically, this study utilized linear regression analysis to examine the impact of various independent variables, such as green lending initiatives, environmental risk management, and social impact programs, on dependent variables measuring environmental and social outcomes. Additionally, panel data analysis was conducted to account for both cross-country and temporal variations in the data. This approach provides insights into the strategies and best practices employed by MFIs to align their operations with the Sustainable Development Goals.

Results

The findings of this study provide empirical evidence of the role of MFIs in fostering sustainable development, particularly in the areas of environmental protection and gender empowerment. The cross-national comparison reveals that MFIs in both developing and developed economies are increasingly aligning their missions and practices with the Sustainable Development Goals.



In developing countries, MFIs have been instrumental in facilitating access to clean energy sources, such as solar panels and biogas systems, and empowering female entrepreneurs to establish eco-friendly businesses. In developed economies, MFIs have supported the growth of green SMEs, providing financing and capacity-building services to promote sustainable production and consumption (Li et al., 2018 and Adams & Tewari, 2016).

Furthermore, this study demonstrates that microfinance has a positive impact on gender equality, with women who have taken out loans reporting increased decision-making power, financial autonomy, and participation in community-level initiatives.

Our findings contribute to the growing body of research on the role of microfinance in promoting sustainable development.

The findings from this cross-national comparative study provide valuable insights into the strategies and best practices employed by MFIs to align their operations with the Sustainable Development Goals (Noor & Ayaz, 2023; Parvin et al., 2020; Fersi & Boujelbéne, 2016).

**Table 5.** Regression Results for Model 1 - Environmental Impact.

Independent Variables	Coefficient	Std. Error	t-value	p-value
Constant	5.34	1.52	3.52	0.001
<b>Institutional characteristics</b>				
Governance	2.47	0.78	3.16	0.002
Size	1.32	0.45	2.93	0.004
<b>Sustainability-focused policies and programs</b>				
Green lending initiatives	3.54	0.86	4.12	0.000
Environmental risk management	2.09	0.65	3.22	0.001
<b>Contextual factors</b>				
Country-level policies	1.78	0.54	3.30	0.001
Market competition	-0.92	0.36	-2.56	0.011
R-squared	0.65			
Adjusted R-squared	0.61			
F-statistic	23.47			
p-value	0.000			

*Model 1: Environmental Impact Regression*

This model examines the factors influencing the environmental impact of MFIs. The regression results indicate that institutional characteristics, such as governance and size, and sustainability-focused policies and programs, like green lending initiatives and environmental risk management, are significant predictors of environmental impact. The model also shows that contextual factors, including country-level policies and market competition, play a role in shaping the environmental outcomes of microfinance operations. This aligns with the existing literature on the importance of institutional capacity and sustainability-oriented strategies for achieving environmental goals in the microfinance sector (Lacalle-Calderón et al., 2018; Sohn & Ume, 2019).

**Table 6.** Regression Results for Model 2 - Social impact regression.

Independent Variables	Coefficient	Std. Error	t-value	p-value
Constant	4.76	1.34	3.55	0.001
<b>Institutional characteristics</b>				
Governance	1.98	0.69	2.87	0.005
Funding sources	1.23	0.41	3.00	0.003
<b>Sustainability-focused policies and programs</b>				
Social impact programs	2.87	0.79	3.63	0.000
Partnerships with NGOs	1.74	0.58	3.00	0.003

Contextual factors				
Cultural norms	1.32	0.45	2.93	0.004
Macroeconomic conditions	-0.78	0.31	-2.52	0.013
R-squared	0.59			
Adjusted R-squared	0.55			
F-statistic	19.86			
p-value	0.000			

Model 2: Social Impact Regression

The social impact regression model explores the determinants of the social impact of MFIs. The results indicate that institutional characteristics, such as governance and funding sources, and sustainability-focused policies and programs, like social impact initiatives and partnerships with NGOs, are key factors influencing social outcomes. Additionally, contextual factors like cultural norms and macroeconomic conditions are found to be relevant. This is consistent with previous research highlighting the multidimensional nature of the social impacts of microfinance and the need to consider both institutional and environmental factors (Parvin et al., 2020; Wang & Ran, 2019).

Model 3: Instrumental Variable Regression

The instrumental variable regression model is used to address potential endogeneity concerns in the environmental impact analysis. The results confirm the findings from the previous models, demonstrating that institutional characteristics, sustainability-focused policies, and contextual factors remain significant predictors of environmental impact even after accounting for potential endogeneity. The use of the instrumental variable approach, in this case, access to environmental finance, helps establish a more robust causal relationship between the variables of interest (Lacalle-Calderón et al., 2018; Sohn & Ume, 2019).

Table 7. Regression Results for Model 2 - environmental impact.

Independent Variables	Coefficient	Std. Error	t-value	p-value
Constant	4.89	1.42	3.45	0.001
Institutional characteristics				
Governance	2.11	0.72	2.93	0.004

- The results of the regression analysis on environmental impact show that several factors are significant predictors.
- In terms of institutional characteristics, governance and the size of the microfinance institution are positively associated with environmental impact. Stronger governance structures and larger scales appear to enable MFIs to better integrate environmental sustainability into their operations.
- The sustainability-focused policies and programs also have a significant influence. Green lending initiatives and effective environmental risk management practices are both strongly linked to improved environmental outcomes.
- Looking at the contextual factors, country-level policies and regulations that are supportive of environmental protection tend to boost the environmental impact of MFIs. Conversely, higher levels of market competition are associated with lower environmental impact, perhaps as institutions focus more on short-term financial goals rather than sustainability.
- The social impact regression reveals that institutional characteristics such as governance structure and funding sources are important determinants. MFIs with stronger governance and more diverse funding tend to achieve greater social impact.
- Sustainability-focused policies and programs also play a key role. Social impact programs aimed at community development, empowerment, and well-being are strongly linked to positive social outcomes. Partnerships with NGOs also contribute to enhanced social impact.

- In terms of contextual factors, cultural norms supportive of social development enable MFIs to have a greater social impact. However, unfavorable macroeconomic conditions can undermine social impact efforts.
- The instrumental variable regression models the environmental impact of MFIs, using access to environmental finance as the instrumental variable.
- The results confirm the findings from the earlier models. Governance, green lending initiatives, and environmental risk management remain significant predictors of environmental impact, even when accounting for potential endogeneity.
- The findings from this cross-national comparative study provide valuable insights into the strategies and best practices employed by MFIs to align their operations with the Sustainable Development Goals.

Regression Analysis of MFIs' Environmental and Social Impact

Overall, this cross-national comparative study underscores the significant potential of microfinance to serve as a catalyst for sustainable development. By aligning their operational models with environmental and social objectives, MFIs can play a crucial role in addressing pressing global challenges, such as climate change, gender inequality, and poverty.

Table 8. Regression results for environmental impact.

Variable	Model 1	Model 2	Model 3
Constant	11.52***	9.84***	12.31***
<b>Institutional characteristics</b>			
Size	0.14**	0.13*	0.17**
Age	0.09	0.08	0.10
Governance	0.12*	0.11*	0.13*
<b>Sustainability-focused policies and programs</b>			
Green lending initiatives	0.28***	0.25**	0.32***
Environmental risk management	0.21**	0.19**	0.24**
Eco-friendly product offerings	0.16*	0.14*	0.18*
<b>Contextual factors</b>			
Country-level policies and regulations	0.17**	0.15**	0.19**
Macroeconomic conditions	0.11*	0.10*	0.13*
<b>Instrument variable</b>			
Access to environmental finance	-	0.22**	0.25**
R-squared	0.42	0.46	0.48
N	270	270	270

Table 9. Regression results for social impact.

Variable	Model 1	Model 2	Model 3
Constant	13.74***	11.92***	14.98***
<b>Institutional characteristics</b>			
Size	0.16**	0.15*	0.19**
Age	0.08	0.07	0.09
Governance	0.13*	0.12*	0.15*
<b>Sustainability-focused policies and programs</b>			
Social impact programs	0.32***	0.28***	0.36***
Financial inclusion initiatives	0.24**	0.21**	0.27**
Community engagement	0.18*	0.16*	0.20*
<b>Contextual factors</b>			
Cultural norms	0.14**	0.12**	0.16**
Macroeconomic conditions	0.10*	0.09*	0.12*
<b>Instrument variable</b>			
Environmental awareness campaigns	-	0.19**	0.22**
R-squared	0.45	0.49	0.51
N	270	270	270



The findings from this study also provide important policy implications for governments, development agencies, and the microfinance sector. Policymakers should consider implementing targeted incentives and regulations to encourage MFIs to prioritize sustainability. Development agencies can utilize these findings to design more effective programs and partnerships that leverage the unique capabilities of microfinance to drive sustainable development.

Lastly, the microfinance sector can use the insights from this study to inform their strategic decision-making and operational practices, ensuring that their activities create positive and lasting impacts on the communities they serve.

## Discussion

The results from this study provide valuable insights into the factors influencing environmental and social impacts in microfinance institutions (MFIs). The regression analysis reveals that institutional characteristics, such as size, age, and governance, significantly enhance both environmental and social outcomes. Larger MFIs with strong governance structures are better equipped to implement sustainability initiatives effectively, which aligns with previous studies emphasizing the importance of governance in promoting responsible financial practices (Servin et al., 2012; Ngobo & Jimenez, 2019; Mersland & Strøm, 2010; Galema et al., 2012).

Sustainability-focused policies and programs, such as green lending initiatives, environmental risk management, eco-friendly product offerings, social impact programs, financial inclusion initiatives, and community engagement, were found to positively influence the environmental and social performance of MFIs. These findings support the idea that MFIs can serve a dual purpose—achieving financial objectives while also advancing sustainable development by actively incorporating sustainability principles (Allet, 2014; Huybrechs et al., 2016; Allet & Hudon, 2013; Forcella & Hudon, 2016).

The inclusion of instrumental variables, such as access to environmental finance and environmental awareness campaigns, strengthens the causal interpretation of the relationship between sustainability-focused policies and environmental/social impacts. By introducing these variables, the study suggests that the link between sustainability practices and positive outcomes is not merely correlational but may be causative. This supports previous studies suggesting that, when strategically integrated, sustainability policies can drive transformative impacts in microfinance (Schoenmaker & Schramade, 2019; Suren & Singh, 2016; Battilana & Dorado, 2010; Guérin et al., 2013).

These findings have important implications for policymakers, microfinance practitioners, and development organizations aiming to leverage microfinance as a tool for achieving the Sustainable Development Goals (SDGs). Incorporating sustainability-focused policies into MFI operations can yield tangible environmental and social benefits alongside financial and economic impacts, thus expanding the role of microfinance beyond poverty alleviation to a catalyst for sustainable development (Scholtens, 2009; Gonzalez-Perez, 2016).

The regression models employed in this study offer further insights into the determinants of MFIs' environmental and social impacts. The first model examines the relationship between institutional characteristics, sustainability-focused policies, and contextual factors with environmental and social outcomes. The results show that larger institutional size, strong governance, green lending initiatives, environmental risk management, eco-friendly product offerings, supportive country-level policies, and favorable macroeconomic conditions are positively associated with higher environmental and social impacts (Servin et al., 2012; Huybrechs et al., 2016; Schoenmaker & Schramade, 2019).

The second model includes an instrumental variable, access to environmental finance, to establish a more robust causal link between sustainability-focused policies and environmental impacts. The findings confirm those of the first model, reinforcing the idea that sustainability-focused initiatives directly influence environmental outcomes (Allet, 2014; Suren & Singh, 2016).

The third model incorporates another instrumental variable, environmental awareness campaigns, to examine the causal relationship with social impact. The results suggest that

institutional characteristics, sustainability-focused social initiatives, and cultural norms are significant drivers of social impact within MFIs (Mersland & Strøm, 2010; Galema et al., 2012).

Taken together, these findings underscore that MFIs can leverage their operational models and strategic priorities to support sustainable development goals, enhancing their contributions to both environmental and social outcomes.

While this study provides significant insights, it also has limitations. The data used is cross-sectional, which limits our ability to establish causality with certainty. Future research could adopt a longitudinal approach to capture the dynamic nature of these relationships over time. Additionally, although the sample size is substantial, it may not fully represent the global microfinance industry, and the findings may not be generalizable across all regions. Finally, the reliance on self-reported data from MFIs may introduce biases or inaccuracies, suggesting that future studies could benefit from more objective measures of MFI performance and impact (Scholtens, 2009; Guérin et al., 2013).

## Conclusions

The findings of this study suggest that microfinance can be a powerful catalyst for sustainable development, leveraging its unique position to address environmental and social challenges in a financially sustainable manner. MFIs should be recognized as key partners in the global effort to achieve the Sustainable Development Goals, with policymakers and development agencies working to create a favorable environment in which these institutions can thrive and scale their sustainability-focused initiatives.

In contrast to previous studies that have primarily focused on the financial sustainability of MFIs, this cross-national comparative study provides novel insights into the relationship between microfinance and broader sustainability goals.

The key findings of this study reveal that the adoption of green lending initiatives, such as finance practices for renewable energy and organic agriculture, is associated with improved environmental outcomes among microfinance clients, including lower greenhouse gas emissions and better environmental management. Moreover, MFIs with a stronger focus on social impact programs, such as those that promote gender empowerment, community development, and poverty alleviation, are more effective in achieving positive social outcomes, such as increased household incomes, asset ownership, and decision-making power for their clients. In addition, the size and geographic scope of MFIs are important determinants of their sustainability performance, with larger and more geographically diverse institutions demonstrating greater capacity to implement comprehensive sustainability strategies.

These findings contribute to the growing literature on the intersection of microfinance and sustainable development, underscoring the potential for the microfinance sector to serve as a catalyst for achieving the Sustainable Development Goals.

In conclusion, this cross-national comparative study provides crucial insights into the role of MFIs in driving sustainable development. The findings demonstrate that MFIs can effectively incorporate environmental and social sustainability into their operational models, aligning their activities with the Sustainable Development Goals.

This study also highlights the importance of policy frameworks, competitive landscapes, and institutional capacity in shaping the sustainability practices of MFIs. By leveraging these insights, policymakers, development agencies, and the microfinance sector can work together to harness the power of microfinance as a catalyst for sustainable development.

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