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THE MICROFINANCE INSTITUTIONAL SUSTAINABILITY AND EMPOWERMENT OF WOMEN BORROWER'S IN MALAYSIA: AN EMPIRICAL REVIEW

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ABSTRACT

The fundamental aims of this study to construct a new framework between Microfinance Institution's (MFIs) financial sustainability and social, economic and household women empowerment in Malaysia. The study used both quantitative and qualitative approach. The study used available online empirical recourses by the name of Microfinance Institution's (MFIs) sustainability and sustainable and social, economic and household women empowerment in different online database sources such as Google Scholars, Springer Link, Wiley, Science Direct, JSTOR, Emerald full text, Scopus, and EBSCO HOST etc. The summary of literature review revealed that it is the unique goal of MFIs for poverty reduction mission through ensuring of financial sustainability while contribution impact in the society. It has also revealed that it is the way the social mission of poverty alleviation through serving the poorest has been overshadowed by profit motive. However, profit orientation of the microfinance industry also emphasis on profit earning. The present study will be recommended for policy considerations for the successful and effective operation of microfinance programs by providing the necessary guidelines for the proper utilization of loan for women borrowers in Malaysia.

Keywords: Microfinance, Institutional Sustainability, Empowerment, Women Borrower, Malaysia

INTRODUCTION

Poor women are ignored in most parts of the society. They are marginalized and have no opportunities for self-sufficiency, and thus, become dependent on charity or welfare. Hence, poor women lose their self-confidence because they cannot be fully self-supporting. Denied opportunities deprive poor women of the pride of accomplishment. This situation, in turn, leads to psychological, social, and mental health problems.

As a result, some started believing that access to private capital is the only path to establish sustainable and effective microfinance program (Akula, 2010; Chen et al., 2010). Conversely, it also proves as profitable industry to investment for institutional investors (Evans, 2010; Gokhale, 2009b). The industry therefore, witness a rapid transformation and commercialization that intended for profitable microfinance services (Berger, Goldmark, & Sanabria, 2006; Briere & Szafarz, 2015; Campion, White, & Network, 1999; Chahine & Tannir, 2010; Chen et al., 2010; Christen & Drake, 2002; Drake & Rhyne, 2002; Hishigsuren, 2006; Janda & Zetek, 2014; Ledgerwood & White,

2006; Poyo & Young, 1999; Radhakrishnan, 2015; Rhyne, 2001, 2008; Rosenberg, 2007; Siriaram & Upadhyayula, 2004; M. Sriram & Upadhyayula, 2002; M. S. Sriram, 2010; Tiwari & Anjum, 2015; G. Woller, 2002).

It triggered the tension that MFIs' original mission of poverty alleviation might overshadowed by the profit orientation; generally known as mission drift that has illustrated in various studies (Abeysekera, Oguzoglu, & Le, 2014; Abrar & Javaid, 2014; Beatriz Armendariz, D'Espallier, Hudon, & Szafarz, 2011; Beatriz Armendáriz & Szafarz, 2011a; Caserta & Reito, 2013; Christen & Cook, 2001; Robert Cull et al., 2007; Evans, 2010; Ferdousi, 2015; Frank, Lynch, & Schneider-Moretto, 2008; B. Gutiérrez-Nieto, Serrano-Cinca, & Mar Molinero, 2009; N. Hermes et al., 2011; Kar, 2012, 2013a; R. Mersland & Strøm, 2010; Nurmakhanova et al., 2015; Olivares-Polanco, 2005; Piot-Lepetit & Nzongang, 2014; S. Quayes, 2012, 2015). Nevertheless, not all above studies found evidence of mission drift rather indicated mixed and conflicting results that makes the concern more complex and demanded more empirical studies.

However, including academics, global media and the pioneer of microcredit Muhammad Yunus express their deep concern on this movement (Bajaj, 2010; Burgis, 2008; Business, 2007; Economist, 2008, 2009; Evans, 2010; Gokhale, 2009b; Malkin, 2008; Salmon, 2011; Saltmarsh & Contiguglia, 2009; Mohammad Yunus, 2010). Though some reports pointed institutional investors are behind the reason of mission original, despite they are also well aware about their double bottom line of investment in microfinance (Brau, Cardell, & Woodworth, 2015; Dieckmann, Speyer, Ebling, & Walter, 2007; Ding, Sun, & Au, 2014; Goodman, 2006; Ledgerwood, Earne, & Nelson, 2013; Renneboog, Ter Horst, & Zhang, 2008; Rajdeep Sengupta & Craig P Aubuchon, 2008; Steger, 2012; Wilburn & Wilburn, 2014).

Empowerment is a means to achieve basic opportunities for poor women. Empowerment includes encouraging and developing the skills for self-sufficiency, with a focus on eliminating the future need for charity or welfare. In spite of remarkable economic growth, reducing the inter-ethnic income disparity and the economic imbalance, especially hard-core poverty and women empowerment, is the prime threat to declare Malaysia as a completely developed country by 2020. Existing literature reveals limited studies on the assessment of AIM microcredit performance concerning the success stories of women empowerment in Malaysia. Thus, this study will analyze the contribution of AIM to the household income and the empowerment of poor women borrowers in Malaysia. This research will propose the future direction for the effective use of credit for IGAs and the development of poor women in Malaysia.

Background of the study

The revolution in microfinance industry was observed after the year 1974 when Muhammad Younus established Grameen Bank in Bangladesh. During the early days of 2011, microfinance achieved a milestone of reaching more than 200 million poor across the globe (Maes & Reed, 2012). According to the data reported to MIX market in 2014, the total gross loan portfolio of MFIs has reached 78 billion USD. Therefore, microfinance was considered as a best available tool for sustainable development and growth. This was also endorsed as Muhammad Younus received Nobel Prize in 2007 for their contribution to reducing poverty through microfinance.

There are two major goals for microfinance institutions (Chenuos et al., 2014). The first goal of MFI is to contribute to development by approaching a maximum number of clients and reaching the poorest (Nanayakkara, 2012). The second important goal for MFIs is to reach poor clients by achieving financial sustainability. According to Olasupo et al. (2014), MFIs management should be efficient in promoting both the objectives. G. M. Woller et al. (1999) also introduced

two approaches known as "the Institutionist approach" and "the Welfarist Approach." Institutionist approach sticks with financial sustainability of institutions and poverty alleviation simultaneously whereas, Welfarists approach emphasized on reaching poor clients by using subsidized funds.

Since microfinance, promises to develop its customers and provide capital to overcome poverty. Therefore, understanding of MFIs sustainability is essential for the well-being of individuals and business (Muwamba, 2012). The sustainability achievement, in this case, means attaining the financial sustainability along with the attainment of reduction in poverty level (Nanayakkara, 2012). The term sustainability was commonly used in many fields such as environmental science, development economics, and agricultural sector development, particularly in the developing world where agriculture is the major economic sector or covers the significant share of the gross domestic production of the countries. Sustainability is commonly known as the organization's ability to cover both its operational and financing cost from its revenues and also expanding its services (M. W. Rahman & Luo, 2012). Chaves and GonzalezVega (1996) views sustainability as the organization's ability to use its financial resources or borrowings on market rates for providing financial services on regular basis. Okumu (2007) cited the definition of sustainability as the institution's ability to generate enough reserves for capitalization by covering its operational cost.

PERFORMANCE OF MICROFINANCE INSTITUTIONS

Sustainability normally taken as recovery of the full cost of MFI or generating sufficient profit to continue the operations of MFIs without depending on external supports by donors and government subsidies (CGAP, 2004). It is commonly used as financial aspects by researchers regarding financial sustainability only. Financial sustainability was one of the key measurement variables for sustainability of microfinance institutions (Ayayi & Sene, 2010; Basharat, Hudon, & Nawaz, 2015; M. W. Rahman & Luo, 2012; Sekabira, 2013; Tehulu, 2013). Several studies have mentioned that for an MFI to be sustainable, it should be financially self-sufficient (Gibbons & Meehan, 1999; Kar, 2013b; Kinde, 2012; Morduch, 1999a).

However, Bhanot, Bapat, and Connelly (2015) mentioned that in reaching sustainability, financial sustainability is just one dimension. Under 'Welfarist Approach', for an institution to be sustainable, the core function of MFIs were to reach the maximum poor clients (Hulme & Mosley, 1996; Kipesha & Zhang, 2013; Morduch, 2000; G. M. Woller et al., 1999). Mahajan and Ramola (1996) measures the sustainability of MFIs by using financial sustainability and outreach. They were concerned that increase in focus on financial sustainability may result in the shift in outreach. Millson (2013) also measures sustainability regarding both financial sustainability and outreach to the poor.

Morduch (2000) clearly discuss the winning proposition for sustainability of MFIs if both costs of operation and maximum outreach to the poor people achieved without external support by donor's funds or government subsidies. Shahidur R Khandker and Khalily (1996) discuss the sustainability of Bangladesh Rural Advancement Committee's regarding financial viability, institutional sustainability and sustainability of targeted beneficiaries. In their study, financial viability approximates program ability to recover its cost of operation from its revenues. Institutional sustainability approximate MFIs ability to continue its activities on a sustained basis and beneficiaries' sustainability implies the positive impact of microfinance services on the growth of recipients and their ability to repay their loan within given time frame (Shahidur R Khandker & Khalily, 1996).

The triangle of microfinance introduced by Zeller and Meyer (2002) also support the above studies. According to Zeller, successful microfinance institutions should be financially sustainable, have positive outreach to the poor and should be helpful in poverty alleviation. Yaron (1992) also considers financial sustainability and outreach as a benchmark for sustainable MFIs if subsidy dependence is zero. Thus, sustainability of MFIs can be measured using financial sustainability and outreach (Annim, 2012; S. Quayes, 2012; Zeller & Meyer, 2002). Rauf and Mahmood (2009) uses six dimensions of outreach to approximate MFIs performance. They used OSS and FSS to determine cost and length of outreach. Under institutionalist view, Kipesha and Zhang (2013) found that outreach has a positive correlation with both profitability and sustainability measures. Simultaneously, using Welfarists approach, results does not show the tradeoff between outreach and sustainability.

Outreach and financial sustainability have an active relationship with MFIs sustainability (Louis, Seret, & Baesens, 2013). Also, MFIs can achieve sustainability if they increase outreach to target poor and achieve financial sustainability simultaneously (De Crombrugghe, Tenikue, & Sureda, 2008). MFIs, to remain sustainable, should use appropriate processes and structures to facilitate its customers and continue its operations without any interruption (Rao, 2014).

Sustainable Microfinance Institutions

There are large number of microfinance programs are still depending on donor subsidies to meet the high costs, which means they are not institutional sustainable (Niels Hermes & Lensink, 2011). In the 1990s, the issue of financial sustainability of microfinance institutions gave rise to an important debate between the financial systems approach and the poverty lending approach (Robinson, 2001). The financial systems approach emphasizes the importance of financially sustainable microfinance programs (Robinson, 2001). This approach stresses the importance of being able to cover the cost of lending money out of the income generated from the outstanding loan portfolio and to reduce operational costs as much as possible (Robinson, 2001).

On the other hand, the poverty lending approach, however, concentrates on using credit to help overcome poverty, primarily by providing credit with subsidized interest rates (Robinson, 2001). The advocates of this approach argue that the poor cannot afford higher interest rates (Robinson, 2001). Therefore, aiming at institutional sustainability ultimately goes against the goal of serving large groups of poor borrowers (Niels Hermes & Lensink, 2011). In other words, there is a trade-off between sustainability and outreach (Beatriz Armendáriz & Szafarz, 2011b; Robert Cull, Demirgüç-Kunt, & Morduch, 2011; Robert Cull & Morduch, 2007; Niels Hermes & Lensink, 2011; N. Hermes et al., 2011). The proponents of the financial services approach, however, claim that empirical evidence neither shows that the poor cannot afford higher interest rates, nor that there is a negative correlation between the financial sustainability of the institution and the poverty level of the clients (N. Hermes et al., 2011). During recent years, the debate appears to have been settled in favor of the proponents of the financial systems approach (Niels Hermes & Lensink, 2011). In fact, the importance of striving for institutional sustainability has been embraced by most parties involved in the microfinance discussion (Niels Hermes & Lensink, 2011).

In parallel with this development, donors, policy makers, and other financers of microfinance have recently made a shift from subsidizing MFIs institutions toward a focus on financial sustainability and efficiency of these institutions (Niels Hermes & Lensink, 2011). Among other things, this increased focus on financial sustainability and efficiency is due to a number of developments the microfinance business has been recently confronted with, such as the increasing competition among MFIs, the commercialization of microfinance, technological change

that also has become available for, and implemented in microfinance, and financial liberalization and regulation policies of the government (Rhyne & Otero, 2006).

At the same time, however, there remains a huge variety in MFIs in terms of their financial sustainability. According to rough estimations, only 1–2% of all MFIs in the world (i.e., some 150 organizations) are financially sustainable (Niels Hermes & Lensink, 2011). In most cases, these are larger, mature, regulated, and relatively well-known MFIs. Some 8% of all MFIs are close to being profitable (Niels Hermes & Lensink, 2011). Both these groups of MFIs are considered to be commercial organizations, focusing on profitability or sustainability (Niels Hermes & Lensink, 2011). A third group of organizations (20% of all MFIs) consist of mostly NGOs, which are not yet financially sustainable, but may become sustainable in the near future (Niels Hermes & Lensink, 2011). The remaining group of MFIs (70% of all organizations) consist of smaller, start-up organizations, which are still far from being financially sustainable and are, therefore, heavily dependent on subsidies (Niels Hermes & Lensink, 2011).

According to Ledgerwood, J. in 1999 institutional sustainability or financial performance of microfinance institution consists of profitability, portfolio quality, productivity, and financial viability (Ledgerwood, 1999). Whereas, financial viability consists of operational selfsufficiency (OSS) & financial self-sufficiency (FSS), which indicates an indicator of MFI's ability to cover its costs with earned revenues (Ledgerwood, 1999). Moreover, Armendariz de Aghion, B. and J. Morduch in 2005 used operational self-sufficiency (OSS) & financial selfsufficiency (FSS) on their study for MFI's performances evaluations (Armendariz de Aghion & Morduch, 2005).

Empirical Review of Financial Sustainability

The measurement of sustainability has become a crucial topic. MFIs sustainability was discussed in very few empirical studies in different countries. In these studies, sustainability of microfinance institutions was measured using different ratios. However, no definite measure is available for determining sustainability level of microfinance institutions (Mia et al., 2015; Rai & Rai, 2012). Tehulu (2013) in his study used FSS to measure MFIs financial sustainability in East Africa. Another study by Kar (2013) has also used financial self-sufficiency ratio as an approximation for financial sustainability of MFIs. The financial self-sufficiency ratio has become a popular measure of MFI performance, and it has been adopted by the Micro Banking Bulletin (MBB) as its principal measure of financial sustainability (Manos & Yaron, 2009). Based on FSS data published in the MBB of spring 2008, it appears that out of 340 MFIs reviewed in 2006, 244 (72%) were financially self-sufficient.

Kazemian et al. (2014) have also used financial self-sufficiency as an estimate for sustainability of Amanah Ikhtiar Malaysia. The study was focused on the relationship between market orientation and MFI sustainability. Financial sustainability for MFIs in Ethiopia was also determined using financial self-sufficiency ratio (Kinde, 2012). M. A. Rahman and Mazlan (2014a) investigated the drivers of MFIs financial sustainability in Bangladesh. Study approximated financial sustainability by using financial self-sufficiency ratios. Another study to measure the sustainability of MFIs by using FSS ratio have been done by Nwachukwu (2014).

Ayayi and Sene (2010) used OSS to estimate the sustainability of 217 MFIs for the year ranging 1998-2006. Lenssen et al. (2014) and Kaur (2014) has also used OSS to measure the sustainability of MFIs in India post-Andhra Pradesh crisis.. Ngo et al. (2014) also investigated the relationship between the scale of operation and MFIs sustainability in Bangladesh. In their study OSS ratio was used to measure sustainability. Islam et al. (2014) also used OSS to measure the MFIs financial sustainability. They investigated the impact of interest rate cap effect and cost

structure on the financial sustainability of MFIs in Bangladesh. V. L. Bogan (2012), V. L. Bogan (2008) and V. Bogan et al. (2007) have emphasized that to be financially sustainable MFIs needed to be operationally self-sufficient.

Mia et al. (2015) measured the sustainability of MFIs by using financial revenue over the asset. The result showed that MFIs failing to achieve financial sustainability were related to higher leverage. Daher and Le Saout (2015) and Chenuos et al. (2014) have measured sustainability of MFIs by using return on asset. Khandker and Khalily (1996) discuss sustainability of Bangladesh Rural Advancement Committee's (BRAC) regarding financial viability, institutional viability and sustainability of targeted beneficiaries.

Several indices were also found to determine the sustainability of Microfinance institution. Subsidy dependence index (SDI) analyzes the sustainability of four rural financial institutions (RFIs) (Yaron, 1992). These institutions include Badan Kredit Kecamatan Indonesia, Grameen Bank Bangladesh, Bank for Agriculture and Agricultural Cooperatives Thailand and Bank Rakyat Indonesia Unit Desa. SDI was designed to evaluate the progress of RFI for getting free from dependence on subsidies. It also evaluates the level of dependency on grants when RFIs are compared with a similar institution. It also investigates the degree of interest RFI should adopt to be independent of subsidies. Negative SDI indicates not only that RFIs have attained FSS but also profits exceeding the number of subsidies and also RFI have the capacity to reduce their lending interest rate. Zero SDI means RFIs have achieved FSS. Contrary, if SDI is 100 percent, the lending rate should be doubled to reach FSS.

However, according to Nanayakkara (2012), the reliance on SDI is not acceptable as it indicates the dependence level of subsidies only and does not consider the outreach. Furthermore, when MFI tends to achieve subsidy independence by using SDI, it may deviate from its mission of poverty alleviation by charging a high-interest rate to poor customers.

Another index incorporated by Christen (1995) is commonly known as financial selfsufficiency index. Three types of adjustments are made to revenues and costs when the FSS is computed: adjustments for inflation, adjustments for subsidies, and adjustments for loan loss provisions and write-offs. The adjustment for inflation counters the decrease in value of financial assets. Furthermore, the adjustment of subsidy accounts for three types of grants: concessionary borrowings, cash donations, and in-kind grants. The adjustment for loan loss provisions and write-offs accounts for variation in the recognition of delinquencies and writing off of bad loans. Christen (1995) make the points that the SDI and the FSS are compatible, and that the FSS adjusts the financial statements in line with market rates as if the MFIs were not subsidized.

A financial sustainability index was developed by Rai and Rai (2012) to evaluate the sustainability level of MFIs in India and Bangladesh in the year 2009-2010. Sustainability score of MFIs was determined using four financial indicators. These include PAR>30, OER, leverage and OSS. The base score for MFIs sustainability in the year 2010 was 63.25. The study also determines the factors which influence the sustainability of MFIs. Rai and Rai (2012) have measured sustainability by using an operational self-sufficiency ratio. Above studies depict that financial sustainability, a physical parameter, can be monitored and measured using several indicators, including return on asset, financial revenue to total asset, FSS and OSS ratios. However, CGAP, MIX market and Micro Banking Bulletin (MBB) have emphasized FSS and OSS as their principle instruments for calculating financial sustainability (CGAP, 2003; Manos & Yaron, 2009). Several studies also stress that financial sustainability is measured as financial self-sufficiency and operational self-sufficiency (V. Bogan et al., 2007; Chaves & GonzalezVega, 1996; R. Cull & Morduch, 2007; Islam et al., 2014; Lenssen et al., 2014; M. A. Rahman & Mazlan, 2014a; Rai &

Rai, 2012). Financial self-sufficiency implies MFIs ability to cover the cost of operations without dependency on subsidies, and operational self-sufficiency implies MFIs ability to cover the cost of its revenue (CGAP, 2003).

Sustainability has been commonly used in financial aspects by researchers regarding financial sustainability only. However, Bhanot et al. (2015) mentioned that in reaching sustainability, financial sustainability is just one dimension. Mahajan and Ramola (1996) measures the sustainability of MFIs by using financial sustainability and outreach separately. He showed his concern that increase in focus on financial sustainability results in the shift in outreach. Millson (2013) also measures sustainability regarding both outreach and financial sustainability. Thus, sustainability of MFIs can be measured using financial sustainability and outreach (Annim, 2012; Quayes, 2012; Zeller & Meyer, 2002). Mutually, FSS and Outreach are necessary for MFI performance without displacement of one for the other (Kar, 2013; Kinde, 2012). In a study by Annim (2012), analysis of the data show that MFIs that have better depth of outreach were operationally self-sufficient. Their study investigated the impact of FSS and OSS on outreach. Another study was done to determine the trade-off among outreach and financial sustainability by using operational self-sufficiency as a measure of financial sustainability (zero & Rani, 2012). Results suggest that outreach and financial sustainability were interdependent.

Zeller and Meyer (2002) introduced "the triangle of microfinance" which was consistent with the above studies. According to Zeller, successful microfinance institutions should be financially sustainable, have positive outreach to the poor and should be helpful in poverty alleviation. Yaron (1992) also considers financial sustainability and outreach as a benchmark for sustainable MFIs if subsidy dependence is zero. Under Welfarists approach, Kipesha and Zhang (2013) results do not show the tradeoff. Other researchers also found that sustainable MFIs achieve financial sustainability along with poverty outreach simultaneously (Adhikary & Papachristou, 2014; De Crombrugghe et al., 2008). Murdoch (2000) and Paxton (2002) clearly discuss the winning proposition for sustainability of MFIs if both costs of operation and maximum outreach to the poor people were achieved without external support of donor funds or government subsidies. Similarly, Rai and Rai (2012) also found that breadth of outreach influence OSS of MFI.

A study by Bhanot et al. (2015) supports the above argument who has also developed a sustainability index for MFIs in India. Their sustainability index does not include only financial indicators, but also include outreach measures. OSS, BO, and DO were used to determine the sustainability scores for MFIs in India. MFIs sustainability score ranges varies from 0.80 (the maximum) to 0.26 (the minimum). However, the index does not include the important financial indicator of FSS which is critical as it determines MFIs to continue its operations without depending on subsidies (CGAP, 2003; Morduch, 2000). Thus, measurement of sustainability level has been a serious problem that is not discussed. Without understanding the sustainability level of microfinance institutions, it would not be significant to investigate the drivers which influence MFIs sustainability. In the next section, we will discuss the various factors that are deemed important for MFIs sustainability by previous researchers.

Sustainability normally taken as recovery of the full cost of MFI or generating sufficient profit to continue the operations of MFIs without depending on external supports by donors and government subsidies (CGAP, 2004). It is commonly used as financial aspects by researchers regarding financial sustainability only. Financial sustainability was one of the key measurement variables for sustainability of microfinance institutions (Ayayi & Sene, 2010; Basharat et al., 2015; M. W. Rahman & Luo, 2012; Sekabira, 2013; Tehulu, 2013). Several studies have mentioned that

for an MFI to be sustainable, it should be financially self-sufficient (Gibbons & Meehan, 1999; Kar, 2013; Kinde, 2012; Morduch, 1999).

However, Bhanot et al. (2015) mentioned that in reaching sustainability, financial sustainability is just one dimension. Under 'Welfarist Approach', for an institution to be sustainable, the core function of MFIs was to reach the maximum poor clients (Hulme & Mosley, 1996; Kipesha & Zhang, 2013; Morduch, 2000; Woller et al., 1999). Mahajan and Ramola (1996) measures the sustainability of MFIs by using financial sustainability and outreach. They were concerned that increase in focus on financial sustainability may result in the shift in outreach. Millson (2013) also measures sustainability regarding both financial sustainability and outreach to the poor. Murdoch (2000) clearly discusses the winning proposition for sustainability of MFIs if both costs of operation and maximum outreach to the poor people achieved without external support by donor's funds or government subsidies. Khandker and Khalily (1996) discuss the sustainability of Bangladesh Rural Advancement
Committee's regarding financial viability, institutional sustainability and sustainability of targeted beneficiaries. In their study, financial viability approximates program's ability to recover its cost of operation from its revenues. Institutional sustainability approximate MFIs ability to continue its activities on a sustained basis and beneficiaries' sustainability implies the positive impact of microfinance services on the growth of recipients and their ability to repay their loan within given time frame (Khandker & Khalily, 1996).

The triangle of microfinance introduced by Zeller and Meyer (2002) also supports the above studies. According to Zeller, successful microfinance institutions should be financially sustainable, have positive outreach to the poor and should be helpful in poverty alleviation. Yaron (1992) also considers financial sustainability and outreach as a benchmark for sustainable MFIs if subsidy dependence is zero. Thus, sustainability of MFIs can be measured using financial sustainability and outreach (Annim, 2012; Quayes, 2012; Zeller & Meyer, 2002). Ruff and Mahmood (2009) use six dimensions of outreach to approximate MFIs performance. They used OSS and FSS to determine cost and length of outreach. Under institutionalist view, Kipesha and Zhang (2013) found that outreach has a positive correlation with both profitability and sustainability measures. Simultaneously, using Welfarists approach, results do not show the tradeoff between outreach and sustainability.

Outreach and financial sustainability have an active relationship with MFIs sustainability (Louis et al., 2013). Also, MFIs can achieve sustainability if they increase outreach to target poor and achieve financial sustainability simultaneously (De Crombrugghe et al., 2008). MFIs, to remain sustainable, should use appropriate processes and structures to facilitate its customers and continue its operations without any interruption (Rao, 2014). In the next section, we discuss financial sustainability and outreach to understand the sustainability of MFIs. Microfinance, the most successful and powerful weapon in the war of poverty alleviation (Yunus & Abed, 2004). The journey of microfinance program started as an alternative type of credit institution for rural populations who has no other option. Small credit loan has been given to very poor group of people and involve them in micro-business which generate income. Tho the uniqness of microfinance ideology is its dual objectives nature; (i) profit making and (ii) social (Hartarska & Nadolnyak, 2007). Therefore an efficient microfinance institutions have to cover all administrative expenses, loan losses, financing capital and surplus for further expenses from operating income (profit making objective) and operational efficiency to reach the poorest (social objective) (Thapa, 2007). Consequently microfinance institutions attract its client through innovative approaches such as

progressive lending, group lending, collateral substitutes and regular repayment schedules (Thapa, 2007).

During 1990s the issue of financial viability focused for the first time by academic scholar and policy makers (Robinson, 2001; Tucker, 2001). Since that number of research has been conducted, policies and strategies have been changed; issues have been taken under consideration of implementation. Moreover till to date various research agreed on the extreme importance of financial viability of microfinance institutions for its long term operations in the market (CGAP, 2003; Robert Cull, Demirgüç-Kunt, & Morduch, 2009; Begoña Gutiérrez-Nieto, Serrano-Cinca, & Mar Molinero, 2007; N. Hermes et al., 2011; MIX, 2005, 2008, 2009). Number of issues has been identified for the increasing interest on efficiency and financial viability, alike the commercialization or transformation of MFIs, competition among existing MFIs, economic liberalization, government regulating policies and most importantly technological revolution in recent era (Rhyne & Otero, 2006).

More than US $ 1 billion per year has received by MFIs in donation from both govt. and private sector in last 20 years (CGAP, 2005). However about 5% of global MFIs found working efficiently without external subsidies conversely rest of them extremely depend on it to operate effectively (UNCDF, 2005). These subsidies also provided in various form (i) direct (i.e. cash, donations) (ii) indirect (i.e. asset, soft-skill, training, technology). Armendariz & Morduch argued that beyond mentioned form there few more forms (i.e. tax holidays, loan guarantees, soft equity, or public goods) of subsidies also have practiced but this information might not place open to the data collector (B. Armendariz & Morduch, 2005). However in a previous study Morduch identified this huge adjustment difference where he calculated the total direct and indirect subsidies of Grameen Bank for 1985-1996 was US$ 144 million while it was reported only US$ 1.5 million (Morduch, 1999b).

Such comprehensive donor dependency of MFIs has raised several arguments on sustainability and efficiency of MFIs. Hollis & Sweetman addressed that financial sustainability of MFIs is very important matter that should be examined keep MFIs sustainable (Hollis & Sweetman, 1998). Financial sustainability which is one of the objective of MFI defined as the ability to cover all operational cost with its generated revenue and also able to finance future growth from that (Ayayi & Sene, 2010). Lack of these capabilities are some reasons why MFIs that are strongly dependent on external subsidies generally less sustainable and efficient (Rhyne, 1998). Various study found number of active borrowers enhance the deposit scheme and internal cash flow, which brings financial sustainability in MFIs. Therefore, MFIs should practice offering trasparent and competitive interest rates to allow their borrowers to enhance financial sustainability continuously (Acclassato, 2008).

Sevaral previous studies explained that there are a significant relation between financial self-sufficiency and operating efficiency. Although the prime tensions are subsidies undercut both efficiency and scale within the microfinance institution, and pervert the market by supporting more inefficient institutions (M. Hudon & Traca, 2011). In a different study found that smart subsidies enhance microfinance institution's efficiency and help to develop better infrastructure (B. Armendariz & Morduch, 2005). However it is surprising that only limited studies have identified evidence of subsidies impact on the microfinance performance (M Hudon, 2006) and (R. J. Cull, Demirgüç-Kunt, & Morduch, 2006). Microfinance institutions are a special form of financial service provider, but it doesn't mean that operational efficiency and sustainability are not important for them like traditional bank. However, assessment and measurement mechanism may vary from microfinance institutions compare to traditional financial institutions. Production oriented non-

government MFIs have been revealed as the most efficienct from previous studies (Begoña Gutiérrez-Nieto et al., 2007).

Acclassato in 2008 revealed that interest rate ceilings do not protect small businesses. In actual practice, interest rate ceilings damage microfinance institutions (Acclassato, 2008). The findings also mentioned that microfinance institutions need to price loans in a realistic way to be sustainable and to reach a large number of clients. The study has recommended the promotion of transparency on interest rates to stimulate competition among MFIs as a way of protecting borrowers. Moreover, the financial sustainability of MFIs is based on the capability to meet all costs on an adjusted basis and alludes to the use of the institution's own available sources in operating without on-going subsidies from donors or losses (Guntz, 2011).

Furthermore, a different examination by Agbodjan on the results of the prudential regulations showed that the non-observance of some "prudential ratios" by MFIs did not adversely affect their financial and organizational performance. Moreover, in view of the very strong correlation between the sustainability and the profitability of these institutions, the recommended strategy should consist of the removal of the framing of lending rates to make these neighbourhood credit institutions more profitable (Agbodjan, 2002). In addition, the cost efficiency of MFIs is affected by average loan size, proportion of net assets, financial sufficiency, financial leverage, business experience, and proportion of farm loans (Gregoire & Ramírez Tuya, 2006). In 2012, Kinde showed that the financial sustainability of Ethiopian MFIs has been affected by the breadth and depth of outreach, dependency ratio, and cost per borrower. He has also concluded that during the study periods, the microfinance capital structure and staff productivity have insignificant effects on the financial sustainability of MFIs in Ethiopia (Kinde, 2012). Thapa (2007) showed that MFIs is considered as financially self-contained if their operating incomes are able to sustain all loan losses, administrative costs, and financing costs after synthesizing inflation rates and subsidies from donors and treating all funding as if it had a commercial cost.

The FSS of MFIs depends on the performance of the return on assets (ROA) and return on equity (ROE) (Tucker & Miles, 2004). The authors concluded that providing financial service to the poor is an expensive proposition, which can be a deterrent for numerous MFIs to reach self-sufficiency, and may require them to acquire continued subsidies. The cost argument has an important flaw: client retention, which is a critical aspect of financial sustainability and a key measure of social influence, is significantly higher in rural markets (Epstein & Yuthas, 2013). The study suggested that by operating in rural markets, MFIs may be able to increase both social influence and financial performance. However, in a different study, the authors asserted that MFIs can significantly improve their financial sustainability and social influence by increasing the focus on trust (Epstein & Yuthas, 2011).

Without maximizing the loan size and increasing the cost of monitoring, the difficulties to meet expenses on partial unsecured and small loan can be covered. Therefore to develop better financial situation MFIs should improve the policy to standardize interest rate threshold or maximize the number of borrower per loan office based on collective delivery method (De Crombrugghe et al., 2008). MFIs operate primarily in nations with a relatively minimum degree of overall economic independence and where government intervention in the economy can reduce their sustainability (Crabb, 2008). His observation has resolved the issue with regard to how remarkable is the economic environment in host countries where MFIs operate as a factor in their ability to reach their goal.

Al Atoom and Abu Zerr conducted three phases of analysis: taking four financial factors of financial sustainability, introducing the countries' macroeconomic regime factors, and

integrating both micro- and macro-factors together. Results showed that Jordanian MFIs have more financial sustainability than those of other Arab and Asian countries (Al Atoom & Abu Zerr, 2012). Moreover, these MFIs have less significant effect on the financial sustainability of the world's MFIs. Their study recommended that the government should improve the macroeconomic regime policies, financial policies, and monetary policies to help MFIs achieve sustainability. This recommendation finds support in the observation that the country-level context is an important determinant of performance of microfinance institutions and a continues defects for the environment where it has pointed (Ahlin, Lin, & Maio, 2011).

Profit margin, operational self-sufficiency (OSS), ROA, and gross loan portfolio-to-total asset ratio considerably affect the other components by establishing the financial sustainability dimension (Anduanbessa, 2009). Borrowers' outreach is growing as evidenced by the opening of branches in almost all regions of Tanzania; nevertheless, landing activities are still brought to around city areas (Chijoriga, 2000). His study concluded that operational performance demonstrates less loan repayment rates. Conversely, capital structure reveals a high dependence on donor or government subsidy. Moreover financial sustainability increases through well mechanisms practice of external governance in microfinance institutions (B. S. Bassem, 2009). The study also proposed that other factors, such as regulation and the use of the individual lending methodology, can lead to sustainability.

Interest rates, administrative efficiency, loan officer productivity, and staff salaries are significant determinants of FSS, but staff productivity measures and institutional scale are unrelated to FSS (G. Woller & Schreiner, 2002). The study found a statistically significant and positive relationship between FSS and depth of outreach. However, earning profits is possible while serving the poor, but a trade-off emerges between profitability and serving the poorest (Robert Cull & Morduch, 2007). They concluded that raising fees to extremely high levels does not ensure higher profitability, and the benefits of cost-cutting diminish when serving better-off customers. Consultative Group to Assist the Poor came up with the guideline for microfinance institutions on the financial terms' definitions, ratios and adjustments in 2003 and other rating agencies, multinational banks, donors, NGOs, private voluntary organizations etc. agreed on that guideline. The guidelines generally divided in four categories of financial ratios: (i) profitability/sustainability, (ii) liability/asset management, (iii) portfolio quality, and (iv) productivity/efficiency.

The Social Performance and Women empowerment of Microfinance Institutions

The depth of outreach may be defined as the "poverty level of clients served by MFI" (Rao, 2014; Rauf & Mahmood, 2009). The DO narrates the line of poverty, or the extent poor does not have access to regulated financial institutions. The proxy for DO is the average size of loan because other indicators of DO are usually expensive to collect. In recently published studies, DO was measured by average loan balance/size per borrower (Bhanot et al., 2015; Nanayakkara, 2012; Okumu, 2007). According to Mersland and Strøm (2010), for an MFI, the risk associated with variation in the average size of the loan is unpredictable. Results describe that when loan size is small, MFI will be more cost effective. As average loan size increases, it increases the average operational cost thus increasing the average profit of an MFI. However, Kumar Kar (2011) found that MFI should be careful in increasing the size of the loan as the risk associated with the loan also increases. Thus, the optimal size of the loan should be decided carefully. The increase in loan size also enhances the possibility of loan default also increases and affects MFI profitability. MFIs with smaller ALPB usually reach a large number of poor clients which shows a better depth of

outreach. Similarly, MFIs whose ALPB is large tend to reach less poor clients, thus resulting in a mission drift (Kar, 2013).

Gashayie (2014) found that ALPB and NAB have no significant relationship with financial sustainability of MFIs (Kar & Swain, 2014). However, several studies found that ALPB has a negative correlation with MFI financial sustainability (Hermes et al., 2011; Louis & Baesens, 2013; Zerai & Rani, 2012). However, Paxton (2002) using Subsidy Dependence Index (SDI) found that NAB and ALPB have a significant positive relation to MFIs financial sustainability. Quays (2012) also found that depth of outreach (DO) have a significant positive relationship with MFI financial sustainability. Several other studies also found that both ALPB and MFIs financial sustainability were positively related (Daher & Le Saout, 2015; Kar, 2013; Kinde, 2012; Nwachukwu, 2014). The breadth of outreach refers to "the scale of operations of an MFI" (Rao, 2014). Several studies have used number of active borrowers as a measure of the breadth of outreach (Kinde, 2012; Rai & Rai, 2012; Rauf & Mahmood, 2009). Results of Louis and Baesens (2013) show that OSS, FSS, and BO are positively related, whereas the DO has a weaker impact on MFI profitability. Similarly, Rai and Rai (2012) also found that breadth influence OSS of MFI.

Some inconsistent results from different studies were found in the measurement for the breadth of outreach. Limited studies measure BO is using a number of women borrowers (D'espallier et al., 2011; Janda & Turbat, 2013). According to D'espallier et al. (2011) and Janda and Turbat (2013) when MFI focus on female borrowers their performance regarding repayment increases. Furthermore, those MFIs in which female borrowers are more than male were less exposed to loan write-offs and their loan default ratio is low. However, Ayayi and Sene (2010) evaluated that female borrowers have no significant effect on the sustainability of MFIs. The literature shows that sustainability of MFI is based on four measurement variables, including FSS, OSS, depth of outreach and breadth of outreach. Researchers are facing problems in determining the consistent measurement for sustainability. In the next section, we discuss the issues in the measurement of sustainability of MFIs. Micofinance is the alternative approach of collateral free loan service provider to the poorest populations in rural area. Traditional bank has ignored these populations because the lack of collateral and the weak legitimate practice will be unable to secure loan repayment if the client reneges on loan. The borrowing options therefore was shut down for the poor from traditional credit service provider and the circumstances lead to the contineus poverty and economic inequality. Collateral free micro-credit loan service therefore received enthusiastic acceptance (Beck, Demirgüç-Kunt, & Levine, 2007). Moreover the innovative approach of micro-lending to the social bottom line (reach out to the poor) and client's involvement in profit genareting micro-enterprise ensure comparetively very high loan repayment (B. Armendariz & Morduch, 2005).

Nevertheless the high repayment of loans yet unable to make sure the profitability for microfinance institutions. Therefore microfinance institutions still extensively depend on various local and international donors. As a result, the great debate on microfinance profitablity and sustainability yet to be solve (Morduch, 1999b). In a different perspective there is a call for more commercialization of microfinance program to access the available large asset and finance their further operational expenses, thus greater number of poor populations will be served (Ghosh & Van Tassel, 2008; Morduch, 2000). Once microfinance institutions able to reach their profitability from their own operations they can start borrowing from the commercial sector and reduce donor dependency. Pursuing the profitability will increase the poorest populations in a loan which is the prime concern of microfinance program.

However the controversy arises here too on whom to serve (target group), and the level of poor people to serve (poverty level). Navajas et al. argued that microfinance institutions lending credit to the households those are nearly to the poverty line, however most of them are the richest among the poor (Navajas, Schreiner, Meyer, Gonzalez-Vega, & Rodriguez-Meza, 2000). There are some families whose income about to poerty line, on the other hand some living under lower subsistence frontier. Few of them employed, few might involved in setting up micro-venture and others are unemployed. The very poor can realize the benefit of microfinance from its consumption smoothness (Morduch, 1998; Zeller & Johannsen, 2006). Sevaral studies also confirmed that competition in microfinance indudtry also effets outreach of microfinance institutions in different region (Hartarska & Nadolnyak, 2007; Olivares-Polanco, 2005).

Professor Yunus invested his idea of micro-lending to the poor who are unserve by commercial bank because of their poverty in 1970s in Bangladesh. The poor commonly considered as proper client for microfinance because they can involve in profit making venture and repay their interest for loan have taken (Morduch, 2000). Poverty and vulnerability create entrepreneurial spirit in the mind of poor people and influence them to change their destiny (Junyon Im & Sun, 2014). But they need law enforcement to protect private properties; thus poor borrower will have incentives to genaret wealth and enrich prosperity (Ding et al., 2014; Peng, Sun, Pinkham, & Chen, 2009). From the sustainability perspective, profitablity of microfinance institutions could be very close issue to the outreach of social bottom line as it will keep sustain the institutions to serve more client (Muhammad Yunus, 2007). Conversly profit seeking for microfinance institutions also has negative impact on outreach as it increase operational cost to serve poorer populations (R. Cull, Demirgüç-kunt, & Morduch, 2007; R. Mersland & Strøm, 2010). However a recent study propose a comprehensive model that include financial sustainability and outreach as endogenous variables and the results disclose that financial sustainability does not badly affect to the depth or breath of outreach (Nurmakhanova et al., 2015).

Another examination has taken place by Julia Meyer (2015) where she analyze the interaction between social and financial returns in microfinance. A multivariate regression models has ran using 1,508 observations on microfinance institutions for the period of 2004 to 2010. The result found strong evidence that microfinance institutions can achieve higher portfolio yields from more social outreach (Meyer, 2015b). Shakil Quayes (2015) has conducted a panel investigation on possible trade-off between outreach and performance using 764 microfinance institutions from 87 countries. The empirical results of this study revealed that financial performance of MFIs can be boosted by the reach out to the poor (S. Quayes, 2015). However both recent studies confirm microfinanc institutions can achieve better financial performance from their social outreach, however some market oriented strategies need to be applied.

A study on Savings and Credit Cooperative Societies (SACCOs) of Tanzania revealed that both product development and market development have significant contribution on outreach performance (Jeje, 2014). However sometime this relationship of outreach and financial perfomance can be represent negative from the country contex. Indeed a study has been taken place with an assumption that financial performance and outreach in Ethionpian microfinance institions is not related. The hypothesis has tested with three outreach and two financial sustainabilty indicators based on 5 microfinance institutions. The study concluded with negative trade-off between financial performance and outreach in Ethionpian microfinance institions (Gashayie, 2014).

Schreiner proposed an outreach framework in 2002 where author mentioned there are six aspects of social benefits of microfinance program for its poor clients, such as (i) cost of outreach

to clients, (ii) worth of outreach to clients, (iii) depth of outreach, (iv) breath of outreach, (v) length of outreach and (vi) scope of outreach (Schreiner, 2002). The costs of outreach to clients define the transaction costs and price costs charged to the clients of microfinance program. However the worth of outreach to clients entails the willingness of microfinance clients to pay. On the other hand, the depth of outreach represents the added value of active microfinance clients to the society. Welfare theory claim that depth is the weight of a clients in the social welfare function, therefore weight depends on the preference of the society (Schreiner, 2002).

The most popular proxy for depth of outreach is average loan size. Smaller average loan size proclaims that microfinance reaching out to the poorer clients, showing greater outreach depth. Alternatively, indirect proxies of depth of outreach could be: (i) location, with rural areas preferred to urban areas; (ii) sex, with outreach to women preferred; (iii) ethnicity, minorities are preferred; (iv) education, less education is preferred; (v) access to public services, whereby a lack of access is preferred; and (vi) housing; with small and vulnerable houses preferred. Conversely breath of outreach measured by the number of clients has been served by the microfinance institutions or the active number of borrowers. The future time frame or the duration of the supply of microfinance services refers to the length of outreach. And lastly, the number of microcredit products or services provided to the clients will represent the scope of outreach of microfinance institutions.

A difference has been made between the achievement of social promise and the poverty alleviation of microfinance institutions by the standards report of the Social Performance Task Force (SPTF, 2009). On the other hand Zeller et al. argued that social performance measurement and social impact measurement is not the same. Social performance measurement should concentrate to the reach out measurement of microfinance program, whereas social impact measurement is associated with the outreach to poverty, the development in welfare, and the enhancement of quality of life of poorer clients (Zeller, Lapenu, & Greeley, 2003).

CONCLUSIONS AND RECOMMENDATIONS

From the review of empirical evidence on the effect of microfinance institutional financial sustainability on social development and women empowerment in Malaysia, the current study observed that the current literature in this field is scarce. Most studies were based only on the descriptive presentation of microcredit programs. There are very few studies assessed the performance of the AIM with respect to the Social contribution as well women empowerment in Malaysia and compared with international context. The summary of literature review revealed that it is the unique goal of MFIs for poverty reduction mission through ensuring of financial sustainability while contribution impact in the society. It has also revealed that it is the way the social mission of poverty alleviation through serving the poorest has been overshadowed by profit motive. However, profit orientation of the microfinance industry also emphasis on profit earning. Thus, some microfinance institutions rediscover their operating efficiency through earning profit while some chose to serve better-off clients with bigger loan to manage their various costs. The studies also concluded that trade-off between serving the prime mission of poverty relief through reach out to the social mission and women empowerment and seeking financial self-solvency through serving better-off clients.

However, this study found that social mission and women empowerment achieved through financial performance is the going concern issues as of MFIs performing better financial performance. This finding might put institutional investors in dilemma. However, if profit orientation of MFIs overshadows their social objective, then dual mission might occur, but it's yet to confirm through empirical studies. Furthermore, some studies claimed that commercialization

of microfinance institutions forces the interest rate increment to earn adequate profit to adhere shareholder demand. Logically lower interest rate helps poor to manage their repayment. However, managing small loan in rural area is also a matter of high operating cost. Some studies therefore indicated that institutions often serve better-off poor clients with the bigger loan size to minimize their operational cost in some region. But if microfinance institutions choose to serve wealthier clients that would be considered as social mission and women empowerment.

Therefore, microfinance institutions in around countries confined in both goals, but yet to unanswered through empirical studies. Especially there are very limited studies found on about social mission and women empowerment achieved through financial performance in Malaysia. Thus, this study aims to identify the effects of the microfinance institution's (MFIs) financial sustainability on social development and women empowerment in Malaysia and comparisons between the microfinance institutions (MFIs) of the Bangladesh.

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