Title: Relationship between microfinance institutions' self-sustainability and financing sources: Moderating role of external governance

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Abstract: The self-sustainability of microfinance institutions (MFIs) is a growing concern as they work as non-profit organizations to achieve global poverty reduction goals. This study aims to examine the MFIs' self-sustainability using an efficiency measurement technique based on Data Envelopment Analysis (DEA). It also determines the influence of different financing sources on MFIs' self-sustainability as well as the moderating impact of external governance on this relationship. It uses the Generalized Method of Moments (GMM) estimator to analyze the panel data from 661 MFIs in 86 countries during the 2010–2018 period. The DEA analysis reveals that MFIs are still in the intermediate stage of self-sustainability in terms of technical and cost efficiency. The second-stage regression results reveal that financing sources such as retained earnings and equity have a robust positive and statistically significant effect on the MFIs' self-sustainability, implying that MFIs that rely more on these two sources are more likely to be self-sustainable. The moderation analysis reveals that good governance accelerates the positive effect of financing sources on MFIs' efficiency. Given these empirical findings, MFIs' decision-makers can benefit from considering their own funding and equity. Quality governance can be ensured by government agencies and regulatory bodies to support the MFIs' sustainability.

Keywords: Microfinance institutions (MFIs) Self-sustainability Data Envelopment Analysis (DEA) Technical and cost efficiency Financing sources

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