Competition, Ethical Mandate, and Sustainable Finance: Evidence from Development Financial Institutions in Malaysia

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Abstract

Development Financial Institutions (DFIs) play a vital role in promoting socioeconomic development by financing priority sectors underserved by commercial banks. As policy-oriented institutions, DFIs are ethically mandated to support responsible lending, inclusive growth, and sustainable development. However, increasing market concentration and competitive pressures may affect their ability to fulfil these objectives. This study examines the competitive conditions and market structure of Malaysian DFIs and evaluates the ethical and sustainable finance implications of their financing behaviour. Using panel data from ten DFIs over the period 2009–2020, the study employs both structural and non-structural approaches to assess competition. Market concentration is measured using concentration ratios and the Herfindahl–Hirschman Index, while competitive conduct is analysed using the Panzar–Rosse model. The findings indicate monopolistic competition with a tendency toward oligopolistic concentration among dominant institutions. Although such concentration may enhance stability, it raises governance and accountability concerns. Evidence of consumption-oriented lending further signals mission drift, underscoring the need for stronger governance frameworks and mandate-based performance evaluation to ensure alignment with ethical and sustainable development objectives.

Keywords

Business ethics, Sustainable finance, Responsible lending, Development Financial Institutions, Market structure.