Asian Journal of Economics, Business and Accounting

13(1): 1-12, 2019; Article no.AJEBA.53032
ISSN: 2456-639X

Subsidy/Donation and Performance of Microfinance Institutions

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Authors' contributions

This work was carried out in collaboration among all authors. Author ESE collates the materials for this research and co-ordinates the activities of this research work. He also took part in the sourcing of the materials and serves as the corresponding author. Authors OEO and ACA took part in sourcing the materials, proof-read and typed the manuscript while authors POI and SUU carried out the literature and empirical review of this research work. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/AJEBA/2019/v13i130165
Editor(s):
(1) Dr. Gerasimos T. Soldatos, American University of Athens, Athens, Greece.
Reviewers:
(1) Osama Wagdi, Modern University for Technology and Information (MTI), Egypt.
(2) Kamil Alakuş, Ondokuz Mayıs University, Turkey.
(3) Mohd Nor Hakimin Bin Yusoff, Universiti Malaysia Kelantan, Malaysia.
Complete Peer review History: http://www.sdiarticle4.com/review-history/53032

Mini-review Article

Received 30 September 2019
Accepted 06 December 2019
Published 13 December 2019

ABSTRACT

Subsidies and Donations are veritable tools that are supposed to engender effective performance in Microfinance institutions. On the face value, subsidies seem to be very positive but they can be counterproductive when related to their effects on performance, efficiency and self-sustainability of the Microfinance institutions. This paper therefore focuses on the assessment and review of issues relating to Subsidy/Donation and their effect on Performance of Microfinance Institutions (MFIs) in Nigeria. The methodology adopted is descriptive in nature and secondary source of data were made use of. Our review revealed mix results on the empirical findings of effect of subsidies/donations on performance of Microfinance institutions. This review shows that Subsidies can disincentive workers and managers, thereby creating moral hazard problems (Corruption and Financial impropriety). However, when applied to effect low borrowing costs and Tax incentives/concessions, it affects performance positively. The review also shows that subsidies ought to be used only in the startup

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phases of the life cycle and to be withdrawn when the Microfinance institution improves. Overall, to achieve the double bottom lines of social and financial sustainability obligations, funding structure in Microfinance should de-emphasise subsidy dependence and encourage market based principles and commercialisation. For effective corporate governance, big Microfinance institutions at the status of Banks and big NGOs should be mandated to disclose their accounts to the public and not just mere annual returns to the Central bank of Nigeria (This may involve quoting them in Nigeria Stock Exchange).

Keywords: Microfinance institution; subsidy; donation; sustainability; outreach; poverty alleviation.

1. INTRODUCTION

A Microfinance Institution (MFI) is a specialised institution which provides financial services to Low-income groups or individuals in the form of savings, micro-credits and other services which help to improve the economic status of the small-scale producers, both in the rural and urban areas. Microfinance institution in one form or another had existed in various communities and societies as a financial tool for helping the needy even before Yunus initiated its process in Bangladesh in the mid to late seventies [1]. Lapidus [2], opined that in the Middle Ages, Recollet and Franciscan Monks helped the poor to obtain credit without paying enormous interest to the money lenders. They believed that a loan could help individuals survive and rise up from poverty. The monks promoted assistance to the poor in a form that was not charity but, instead, a discounted loan. Record has it that the first poor man's bank was established around the 15th century in Spain and Italy, and the first American poor man's bank was opened in Mexico in 1775. As these Microfinance institutions became successful, their operational costs increased and in order to keep them sustainable, Pope Leo X authorised the charging of modest interest to cover loan expenses. However, loans provided via these poor man's banks were funded based on donations and interest-free loans [3]. Many of the pre-microfinance banks have affiliations with Religious Foundations, for instance, the BBK-Fourth Savings Bank in Spain which was established in 1907. The vicar organized credit provisions to poor women on a daily basis so that they could buy fish at the port and sell it in the town at a higher cost, hence making money for their daily living [3].

In Africa and with particular reference to Nigeria, the advent of Microfinancing has a long-standing history that no specific date can be given. For instance, the informal micro-financial sector is mainly composed of the Self-Help Groups (SHG) that maintain Rotating of Savings and Credit Associations (ROSCAs) innately denoted to as "ISUSU" or "ETOTOS" (Igbos) "ESUSU" or 'Barn' (Yoruba) or "ASUSU" (Hausas). Most often, different groups come together as union/associations such as farmers, traders, Dancing troops, town coalitions and relations or kith and kin associations. They contribute money among themselves to be given to one another in turns either with or without interest but the principal must be paid back at a specified date. They gave these loans (contributions) to their members without physical collaterals but with communal assurances or guarantors. Such issues as the above provide a glimpse of pre-microfinance institutions that existed across centuries, regions and countries [4]. Therefore, Microlending is a global phenomenon whereby small unsecured loans are made available to the most deprived people usually in groups so that the borrowers can invest the money in business or related entrepreneurial venture in order to improve on their social and economic conditions [5]. Again, Microfinance Institutions are institutions that offer financial services mainly for loans and savings extended to the farmers, fishermen, herdsmen that operate small or micro-enterprise, to artisans, who work for wages, and to other individuals and groups both in the rural and urban areas of developing countries [6]. However, the date of pre –microfinance institutions in Nigeria may not be specified with certainty, but the date of Microfinance banks can be traced to the establishment of Community banks which its collapse led to the establishment of Microfinance banks in Nigeria. Also, community banks were set up in Nigeria due to the demise of non-performance of the then Peoples bank which also was set up in 1989 [7]. The first community bank was established in Nigeria in 1990, and that of Microfinance bank was in 2005. Generally, the framework of Microfinance bank lends itself to poverty reduction, economic growth and development than community banks especially in terms of global best practices.

Also, a look at the origin of microfinance institutions in Cameroun reveals that the services of Microfinance institutions were noticed as early as in 1963 [8]. By 1968, Cameroun has recorded 34 Credit Unions that had helped in forming the Cameroun Co-operative Credit Union League, although, Microfinance banking gained impetus in the 1980s [9,10]. Available literature also shows that the Nigerian government made some sporadic efforts in alleviating poverty and the creation of jobs for its citizenry in the recent past. Such poverty alleviating Programmes and Establishments include: Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better life/Family Support Programme, the Family Economic Advanced programme, Peoples Bank – all in the 1980s, Community Bank in 1990 and Microfinance Bank in 2005 and a host of other government subsidised Agricultural programmes [11]. These programmes were targeted at the poor and the unreached by the conventional banking sector. How far they have gone in alleviating poverty (that is, level of alleviation) in Nigeria is an issue that is beyond the scope of this paper. Well, our focus in this paper is to draw a conceptual review of Subsidy/Donations as regards its effect on performance of Microfinance Institutions without measuring specific indices in level of alleviation. Hence this review will help us appreciate the impact of subsidy/Donations generally on the performance of MFIs in Nigeria and on how best to manage MFIs especially the Microfinance banks by corporate governors. Also, the mixed or conflicting results of major findings on the subject matter of this study requires an overview of this type in order to guide further research and management of MFIs. The rest of the sections of this paper are organised as follows:

1.1 Subsidy and Donations

Having introduced micro-financing concepts generally, we can now examine the issue of subsidy and donation in the performance of microfinance institutions.

What is subsidy? A Subsidy is seen here as a gift or sum of money, tax reduction/concessions given by government to entrepreneurs, industries, individuals/groups in order to keep the prices of their products or services low or to enable them to stay in business (especially for startups); whereas donations can come from individuals or corporate bodies but mainly for charitable purposes. According to Schreiner and Yaron [12], Subsidy can emanate in six different forms:

(1) Direct grant; (2) Paid-in-Capital, (3) Revenue Grant, (4) Discount on Public Debt, (5) Discount on Expenses, and (6) True Profit Grant. While Direct Grants, Paid- in-Capital and True Profit Grants increase MFI net worth directly, they do not directly impact accounting profits in the year they were received. But Revenue Grants, discounted debt and discounted expenses increase accounting profit directly because they deflate expenses/inflate revenues. Direct grants could be anything from cash to actual gifts in kind like motor vehicles, office supplies, computers, and so on. Paid-in-capital comes from sale of shares to the government. This type of transaction is considered a subsidy because public funds are used for paying for the shares of a company. Revenue Grant like direct grants could be anything from cash to a gift where the only difference is that instead of being recorded as equity they get recorded as revenue on accounting statements. Given that revenue grants are not the result of MFI's operations, they should be excluded from revenue calculations. Discounts on public debt are the discounts which an MFI receives on debt financing versus the rate other institutions receive (hence the cost of the debt becomes lower than what it should have become ordinarily). Discounted Expenses are the costs and expenses that are absorbed by the government. Also, True Profit is the difference between accounting profits and a sum of Revenue grants, discounts on public debt and discounts on expenses. Conceptually, MFIs should not be profiting from subsidisation since the focus of such subsidy is for absorbing or cushioning operational costs impact.

One of the issues that attracts the attention of scholars in microfinance literature is whether microfinance institutions (MFIs) are financially sustainable without a subsidy and its effect on commercialisation of MFIs. Apart from the fundamental question regarding whether or not MFIs are financially sustainable without a subsidy, the main issue in early studies was about the degree of dependence on the subsidy. However, some studies reveal that the effect of a subsidy on the management of MFIs has been found to be both positive and negative [13]. It can be negative in the the sense that if it reaches certain threshold, the marginal effect on efficiency can be negative. Also, Hudon and Traca [14] argued that subsidies can be a disincentive to workers and managers in MFIs, thereby creating moral hazard problems. Examining the negative experiences of highly subsidised state-run banks, Armendariz de

Aghion and Morduch [15] and Hudon and Traca [13] found out that there are possibilities that subsidies reduce efficiency and create a targeting error which results in higher operating costs. There is no significance difference between total subsidy, subsidised equity and revenue grants to MFIs [16,17,18]. But there is a positive association between subsidy dependency and efficiency which is only established through borrowing; that is to say that subsidy generally decreases performance, but subsidised borrowing improves performance [18].

Nawaz [19] carried out a study which reveals that MFIs that are in Africa and South Asia were more heavily subsidy dependent than those located in other regions. The findings also show that the status of MFIs has significant influence on sum of subsidy received by an MFI. Specifically, MFIs that has attained status of "Bank" or "NGO" are more heavily subsidized than their remaining counterparts. Also, Institutions that provided solidarity group loans are more heavily subsidy dependent whereas other lending types like individual lending are the least subsidy dependent.

On the other hand, other arguments supporting subsidy for MFIs, generally focus on set-up costs and capacity building [20]. As described by Armendáriz and Morduch [21], large state-owned banks have been responsible in the provision of subsidised loans to the farmers. Overall, high subsidisation rates will incentivize greater use of fertilizers, use of better crops and promote overall labour productivity hence an increase in earnings of the farmers. Amidst these noble objectives of use of subsidy, David [22], noted that in Philipines, cheap credit was provided to only "favoured borrowers" thereby worsening income distribution even further.

1.1.1 Donations

MFIs indeed need both subsidies and donations especially at start-up stages for their survival [12]. One outstanding distinction is that most subsidies are provided by government agencies while donations are mainly provided by private parties (for instance, IMF, World Bank or individuals), [23]. Donation is a voluntary gift or contribution for a specific purpose to an individual or corporate entity. Donations are wholeheartedly given without any special requirement before it is given. No repayment is required. This distinction between subsidies and donations is important, as existing research suggests that the presence of an active institutional donor provides a monitoring mechanism for the efficient allocation of resources [24,25] and that the most technically efficient institutions are able to raise the most donations [26]. There is also this proposal that MFIs that have a higher proportion of donor funding versus subsidies have lower rates of portfolios at risk, fewer delinquent loans, and that their overall portfolios are less risky [17]. However, donations are not the only means of funding for pre - microfinance programmes that are expected to be providing loans to the poor. In the recent past, the government of most nations has also tried to intervene by helping in form of grants and donations for agricultural developments in post-war-torn countries, for instance, in the case of Boko Haran saga in Nigeria.

The overall issue of financial sustainability relates to an MFI's ability to cover its costs and displays its ability to operate without ongoing subsidies. Guntz [27] provides a helpful discussion about differentiating between financial self-sufficiency and operational self-sufficiency. However, ongoing donor support is crucial for MFIs to reach the world's poor [28]. The challenge for the MFIs is to be able to operate even if donors and governments are not willing to support them. Therefore, they have to have the means to cover both their operational and financial costs in order to continue to be in business. Armendariz and Morduch [21] characterised the issue of donor support as a way for the MFIs to use such subsidies only in the startup phases of their life cycle with the goal being to eventually wean themselves off such support. However, this is a very difficult task to attain since unsecured lending to the world's poorest without the safety net of subsidies and donations is deemed to be too risky by conventional standards. Hence, to achieve the double bottom lines of social and financial sustainability obligations, funding structure in microfinance is steadily moving away from subsidy dependence toward market based principles and commercialization. Donor funding is presumed to be an amplified direct basis of funding which is usually factored in capitalizing or financing undertakings of the MFI (firm) being funded. Hence, there is this notion that there is a direct connection between donor funding and performance of an organisation [29].

2. REVIEW OF RELATED LITERATURE

The review on the related literature was arranged as to; Conceptual, Theoretical and Empirical as follows.

2.1 Conceptual Review

The main business of Microfinance Institutions (MFIs) is to provide financial services by accepting savings, deposits and giving out loans to nurture small scale businesses. This type of financial services is targeted at empowering the low income earners while generating employment and alleviating poverty. The Central Bank of Nigeria [30] prescribed that Microfinance services in the financial sector can be offered in three forms viz; the formal, semi-formal and informal financial sectors. The formal sector may include all microfinance institutions at the status of 'BANKS' and 'NGOs,' while Semi – formal include other credit associations or groups/cooperatives and the informal sector may include the Self –Help- Groups (SHG), kins and kiths associations or 'ISUSU'. One of the basic principles in Microfinancing is to transform customers businesses by providing capital that would increase borrowers' earnings and ultimately eliminate poverty [31]. Morduch [32] suggested that for microfinance to attain growth and continue to provide services on a long run (be sustainable), it needs to improve outreach. Sustainability is not exactly the same with outreach even though outreach is implied [33]. Sustainability can be seen as the ability of an institution to remain financially sound despite if grants and donations are not available [34]. Again, the growth (sustainability) of any MFI depends on the volume of resources generated and this can be positively correlated with the outreach achieved by the microfinance. MFIs outreach to the poor is further classified into two dimensions; breadth and depth [35,36,37]. In figure I below, the flow of bottom line of an MFI through Sustainability and outreach is represented with respect to the propositions of Navajas, Schreiner, Meyer, Gonzalez-Vega [35] as follows.

As shown above, any good MFI is expected to perform the basic roles of Outreach to the poor and self sustainability. Outreach to the poor is measured in terms of its 'breadth' and 'depth'. Outreach 'breadth' has to do with the number of clients to whom microfinance services are provided, and is normally expressed in terms of number of active borrowers. Here, 'breadth' does not mean market penetration type of assessment as is obtainable in Conventional Finance Institutions (CFIs) since market penetration is just the number of customers to a percentage of the total. Whereas MFIs are constrained by double bottom lines, an attempt to meet the supply-side challenge and increase the spread or the size of poor-clientele base is very important. This has to do with inclusiveness of Microfinance services. Depth of outreach on the other hand, is the quality of an outreach to the poor and is measured principally by three variables — average loan amount, average loan amount adjusted by GNI (or GDP) per capita and percent of female loan clients. Reaching out to the poor by implication calls for an MFI to be more socially responsible. Despite outreach to the poor, self sustainability is another issue that underlies the performance of an MFI which is observed in their profit efficiency and cost-efficiency strategies. Profitability or sustainability of an MFI is

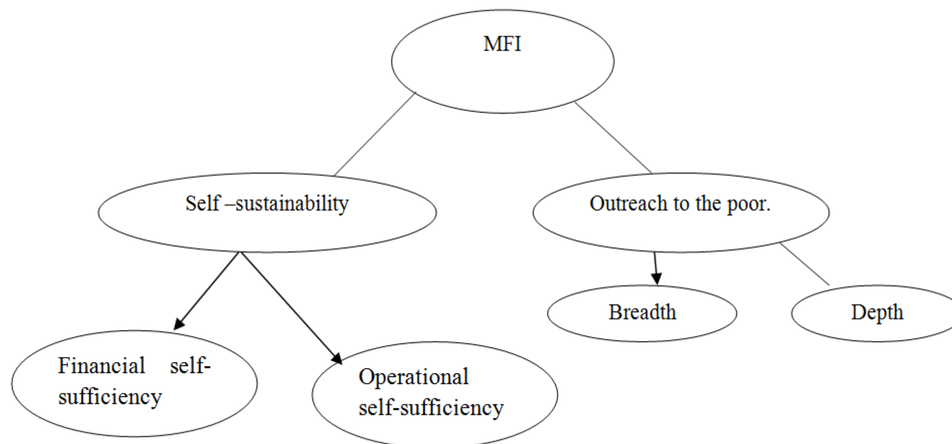

Fig. 1. A typical conceptual model of bottom line of a microfinance institution

measured by Financial Self-Sufficiency (FSS), Operational Self Sufficiency (OSS), Return on Assets (ROA) and Return on Equity (ROE). Both FSS and OSS basically measure how the institutions cover their administrative costs through client revenues. ROA and ROE measure how well the microfinance institution utilizes its total assets and equity capital respectively to generate returns [37].

2.1.1 Microfinance institution's status

Microfinance institutions'operations are guided by their regulatory status. Nawaz, [19], identified about seven classical status of a typical Microfinance institution as:

(1) Bank: These are licensed financial intermediaries regulated by a state banking supervisory agency. It can provide a number of financial services including; deposit-taking, lending, payment services and money transfers.
(2) Non –banking financial intermediaries (NBFI): These are institutions that provide similar services to those of a bank but are registered under a separate category. The separate license may be due to lower capital requirements, limitations on financial service offerings or supervision under a different state agency.
(3) Non – Governmental Organization (NGO): This is an organization registered as a non- profit for tax purposes or some other legal charter. Usually, its financial services are more restricted, most often, they do not include deposit-taking. Also, such institutions are typically not regulated by a banking supervisory agency.
(4) Rural Bank (RB): This includes banking institutions that target clients who live and work in non –urban areas and who are generally involved in agricultural-related activities.
(5) Co-operatives: These include non–profit member-based financial intermediary. It may offer a range of financial services including lending and deposit-taking for the benefit of its members. Although it is not regulated by a state banking supervisory agency, it may come under the supervision of a local or national co-operative council.
(6) Regulated MFI: Under this category, regulation of MFI can be in inform of entry restriction and/or some prudential supervision by an authority. Generally, Regulated MFIs are allowed to collect deposits and increase their loanable funds. In most countries, typical banking regulations do not cover microfinance activities; however, MFIs can operate as regulated or non –regulated or in some countries can choose between being regulated and being unregulated. Also, MFIs can be subject to either mandatory entry regulation, prudential regulation or some other entry regulation and consequent monitoring, that is, 'Tiered regulation'.
(7) Savings: This is a type of MFI which collects savings (deposits). This category is not distinguished between compulsory savings and voluntary savings. That is to say, the savings deposits collected may be either compulsory or voluntary savings.
(8) Other services: These include MFIs that provide other services in addition to loans. These may be related to Training, Enterprise Development, Health, Education, Environment, Agriculture, etc.

We have three categories of Microfinance banks in Nigeria. The central bank of Nigeria (CBN) Regulatory and Supervisory Guidelines of 2012 of Microfinance Banks stipulates that there should be separate ownership and licensing requirements for Microfinance banks in Nigeria. But this has been superseded by the new 2018 ownership requirements of the CBN. Since the 2018 guideline is a review of 2012, we present first, the 2012 guidelines as follow;

1. Unit Microfinance Banks; This type is authorised to operate in one location without Cash centres/Branches and with a minimum paid-up share capital of N20 million (twenty million Naira).
2. State Microfinance Bank; This type is authorised to operate in one State or Federal capital territory (FCT) with Branches/Cash centres within a State, although with written approval from the CBN and a minimum paid-up share capital of N100 million (one hundred million Naira).
3. National Microfinance Bank; This type is authorised to operate in more than one State or Federal capital territory (FCT) with Branches/Cash centres in all the States of the Federation, although with written approval from the CBN and with a minimum paid-up share capital of N2 billion (Two billion Naira).

So, the Central Bank of Nigeria (CBN) reviewed the Authorised paid-up share capital of Microfinance Banks on October 23, 2018 as mentioned earlier as follows;

1. Unit Microfinance Banks; - N200 million (Two hundred million Naira).
2. State Microfinance Banks; - N1 billion (one billion Naira).
3. National Microfinance Banks; - N5 billion (five billion Naira).

But the effective date for operationalisation of this review for existing Microfinance Banks in Nigeria is April 1, 2020 while any intending Microfinance Bank operator in Nigeria after 23rd October 2018 must comply with the above directive [38]. According to the CBN [38], the MFB sub-sector has been contending with certain challenges such as, "inadequate capital base, weak corporate governance, ineffective risk management practices, a dearth of requisite capacity and mission drift." These are some of the challenges it intends to tackle in the new reviewed regulatory framework.

2.1.2 Microfinance Institutions's sustainability and corporate

Governance Challenges: Corporate governance challenges in MFIs are very unique in terms of subsidy/donation for sustainability when compared to that of the conventional banks. It is true that specific corporate governance characteristics (Managing directors/ CEOs and loan officers) in particular, are same with conventional banks, but many other factors impact on the governance of MFI. This is because MFIs have a dual mission which requires that they have to balance between social Impacts and Financial objectives. Also, they have issues in the ownership of MFI in the sense that traditional board of directors consist either of owners or represents the interest of owners. This type of ownership at times, cause conflicts of interests between the individual directors. Again, Varottil [39], tried to explain the governance relationship between these directors by stating that board members in MFIs can be classified into four categories which include the founder/CEO, professional executives, private investors (both commercial and social), and outside directors. Hence, aligning the interest of the individual directors with the interest of the institution is a challenging matter.

To buttress our point, Hartarska [37], carried a study using data from three surveys that were administered from 1998 to 2001 from 38 MFI's. The data contained information on board characteristics, mechanisms of external control and MFI performance and focused on Central and Eastern Europe. The study revealed that external governance mechanisms are not productive, and that supervision by central banking authorities does not impact either sustainability or the outreach of MFIs. She also reports that out of all external governance mechanisms, only auditing appears to have an impact on performance measurements, specifically on outreach. Overall, corporate governors should be very particular about this very 'Dual Mission' of MFIs. Apart from aligning the interests of individual directors with their MFI, the corporate governors are to maintain operational self-sufficiency (OSS) and financial self-sufficiency (FSS) for sustainability. Well, part of the challenges facing corporate governors of MFIs in Nigeria and Africa in general, is that these institutions are characterised by high transaction costs occasioned by weak infrastructure, undeveloped rural markets, high labour costs and corruption [15,40].

2.3 Theoretical Framework

The underlining theories in this study include but not limited to the following:

2.3.1 The theory of social capital

The modern development on the concept of Social capital came from three key authors [41,42,43]. Although, they were the first to introduce the term 'Social Capital,' they did that independently. social capital can be utilized to reduce poverty levels worldwide [44]. Narayan and Pritchett [45] argue that the village's social capital has statistical significant social and causal effect on the income of the households. In microfinance, Group lending has the effect of low rates of default without collateral as it enhances social capital and builds new social capital among participants, which encourage microfinance [46]. Improvement in social capital has led to social interactions among clients which motivate informal risk sharing among group members, thus, decreasing default rates in MFIs [46]. Cassar et al. [47] also argue that relational social capital in the form of individual trust between persons and social homogeneity within groups has an optimistic effect on the borrowing group performance.

2.3.2 Agency theory

There is always the likelihood of conflict of interest between the management of micro

financial institutions and the social investors. As postulated by Jensen and Meckling [48], agency costs usually arise from differing interest between debt holders and equity holders especially when there is the risk of default which may result to underinvestment [49]. The MFIs usually get grants and donor funding to finance change in deposit exploitation. Grant financing occasionally creates incentive challenges. The social investors and grant financiers usually aim at scaling up MFI market outreach while the management of the MFIs may strive for profit making. According to Cohen [50], in microfinance sector, the agency costs are significantly higher and this is usually due to information assymmetry. Since MFIs are legal entities, the regulating agency may set minimums for parity investment as a mechanism to diminish extreme risk taking ultimately affecting the agency costs and altering MFIs financing option which may impact on the institution's productivity.

2.3.3 Theory of life cycle

Empirical literature on microfinance mainly focus on NGO-MFI transformation in form of a life cycle model [51]. In this theory, according to institutional life cycle theory framework of examination, majority of the microfinance institutions are initially NGOs with a social vision, funding processes with donations and concessional loans from benefactors. Fehr and Hishigsuren [52], opines that the theory of life cycle indicates that the cradles of backing are linked to the stages of MFI expansion. Donor bequests and soft loans include the mainstream of the backing in the determinative stages of the institution [52]. As MFI develops, private liability money becomes obtainable. In the last phase of MFI evolution, traditional impartiality funding becomes accessible. There tend to be increased rivalry in MFIs as they upsurge in number and recording a spread in directives by enabling a change in the capital model of the industry [53].

2.4 Empirical Review

The impact of subsidy on performance of MFIs has been an issue of continuous debate in the sense that there are some arguments in support of subsidy's positive impact on performance of MFIs while few others are in favour of negative impact of subsidy on performance of MFIs [22, 54]. Nevertheless, some other scholars agree only on, the positive impact of subsidy on performance only as it concerns borrowings as against on equities and revenue grants [17,25]. Specifically, Nawaz, [19], carried out a study on effect of subsidy on performance of Microfinance Institutions using Return on Equity and Return on Assets data obtained from Mix Market website. His findings show no significant impact on all MFIs from Africa, South Asia and Latin America on Return on equity. Also, his findings on return on assets reveal high positive significance for performance of MFIs in Africa and South Asia whereas the MFIs in the Latin American region show a less significant impact. Cull, Demirguc and Morduch [54], carried out a study and found out that older and more commercialized microfinance institutions attract more subsidies than the less old ones and as such, tend to perform better. Whereas Dlamini [55], found that the inclusion of subsidies in a sustainability regression resulted in a decline in the ability of MFIs to attain operational and financial sufficiency thus signifying a negative effect of subsidy on sustainability of MFIs in Africa. Also found out by Dlamini [55], was that MFIs in wealthier and developed countries were more sustainable than new and young MFIs in poor and developing countries. Still analysing the issue of subsidy, Hudon and Traca [56], World bank [57] and Dlamini [55] noted that on the face value, that interventions in the form of subsidies seem to be very positive but they can be counterproductive when related to their effect on performance, efficiency and self sustainability of the MFIs. However, Irokwe and Nnaji [11], opined that heavy Tax burdens militate against effective performance of Microfinance Banks (MFBs) in Nigeria and suggested for increase in subsidies to these MFBs in form of Tax incentives or concessions. All these findings show that subsidy is good for management (promotion) of MFIs but should be applied with caution. Also, Bogan [29] carried out a study on the prime funding model for MFIs for the period 2003 to 2006. The findings of the study revealed that that the basis of funding MFIs is for the monetary performance of the institutions.

3. CONCLUSION

Subsidy and Donation are veritable tools that are supposed to engender effective performance in MFIs if well applied. It can breed complacency among managers of MFIs. Hence, Hudon and Traca [14], argued that subsidies can disincentive workers and managers in MFIs, thereby creating moral hazard problems. Managers may see it as 'windfall' and may be tempted to misappropriate them. But it can be effective when it is applied to reduce borrowing

costs and also for tax incentives/concessions. We noted also in our review that it is only the big MFIs or MFBs that can attract sizeable amount of subsidies or Donations. It is expected that MFIs should use subsidies only in the startup phases of their life cycle with the main aim of weaning themselves off such support eventually. Overall, the review highlights positive effect of subsidy and donation on performance of MFIs, although, it could be abused. The challenge of balancing the social and financial objectives of MFIs still persist especially in the event of commercialisation as a tool for sustainability

4. IMPLICATIONS OF THE STUDY

Our review revealed mix results on the empirical findings of effect of subsidies/donations on performance of Microfinance institutions (MFIs). In particular, this study also revealed paucity of literature on the effect of subsidies/donations on performance of Microfinance institutions in Nigeria. On the average, the review shows a positive significant effect of subsidies/donations on performance of MFIs subject to certain limited thresholds. Specific levels of the threshold were not generally agreed on by scholars. That is to say, that the level of dependency on subsidies by MFIs was not statistically agreed on by scholars. This I suppose, was due to the fact that each MFI has its own peculiarities that may affect its level of dependency on subsidy, for instance, size, age, market share, existing regulatory policies of government, economic and social environment of the particular MFI.
The challenge on the management of ‘Grants, subsidies or donations’ were highlighted and one way out of this challenge, is by strengthening the corporate governance frameworks and regulatory frameworks.

The recent conventional reasoning for effective corporate governance of MFIs is to de-emphasise dependency on subsidies and encourage market based principles and commercialisation. But Social responsibility obligations of some of the MFIs may be affected by commercialisation.

5. RECOMMENDATIONS OF THE STUDY

It has become necessary for us in this review to make the following recommendations:

1. To achieve the desired double bottom lines of social and financial sustainability obligations, funding structure of microfinance institutions in Nigeria should encourage less of subsidy dependence in favour of market based principles and commercialization. This will strengthen the sustainability drive of the MFIs, especially in Microfinance Banks.
2. For effective corporate governance, big MFIs at the status of Banks and big NGOs should be required to disclose their accounts to the public and not just mere annual returns to the CBN. Also, such institutions should be quoted in the Nigeria stock exchange. The reason for this suggestion is that huge financial transactions are being handled by these big MFIs nowadays without public purview. Through this means, accountability and transparency will be encouraged in the accounting reporting of these MFIs.

COMPETING INTERESTS

We hereby declare that our paper has no competing or conflicting interest against any person or third party. We did not intend to make or take any undue advantage against any third party.

The authors did not receive any form of funding from any third party. The authors personally funded this research work.

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Peer-review history:
The peer review history for this paper can be accessed here:
http://www.sdiarticle4.com/review-history/53032