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Microfinance: Are there ethical differences between different Norwegian microfinance institutions based on their ownership types?

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Abstract:
Microfinance is an exciting and interesting topic that lacks an extensive amount of research. Microfinance has been more and more commercialized over the last years, but few have written about the absolute effect of microfinance. Can microfinance really be the answer to the poverty in the world or is it just a social trend?

The motivation for this master thesis was the diversity of the good and negative publicity about microfinance before and after the documentary "Caught in Micro Debt" that was aired on NRK the 30 November 2010. I wanted to extend my knowledge within the field of microfinance and find out the "truth" about this topic. Are microfinance helping people to climb out of poverty or is it hurting people by charging high interest rates and making them become debt slaves?

This thesis aims at explaining the ethical differences between for-profit and non-profit microfinance institutions. The differences are investigated and discussed on basis of the different Norwegian microfinance institutions; Kolibri Capital, Mission Alliance (Alliance Microfinance), Norfund, Norwegian Microfinance Initiative and Strømme foundation (Strømme Microfinance) . I have chosen to exclude insurance and savings and to only focus on microfinance in the form of microloan.

Ethical differences are in this thesis explained from;
1) Customer segment; whether or not the microfinance institutions lend to women and people living in rural areas.
2) If the organization aims at making a profit on microfinance or not, and the size of this profit.
3) If the institutions provide education to their borrowers, e.g. teach them how to read and write, basic accounting, etc.

The thesis reveals that there are some ethical differences between the for-profit and non-profit organizations based on their customer segment, customer outreach, profit margin and education and training that is included with the loan.

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1.0 Introduction

Microfinance and especially microloans have been an enormously growing trend over the last few years. In 1998 13 million customers received microloans, in 2005 the number had increased to about 67 million and in 2010 the number were estimated to become over 200 million (Armendáriz, et al., 2010:ix). Microloans were first mostly performed by non-profit organizations, governments (especially in support of/building up the country's agricultural sector) and eventually by some rural banks in order to reduce poverty in low developed countries. Yunus (2003) describes the aim and the reason that he started with microfinance was to be able to bank the "unbankable". The unbankable is poor people that do not have securities etc. and were therefore before seen as unable to save and to pay back loans. The trend of microfinance has now spread to the banking and finance sector of countries from all over the world. Microfinance is now seen as an investment opportunity and an opportunity to earn money (especially by many commercial companies). The balance between social responsible and financial return is fragile, and the organizations operating in this market has also got a large power and responsibility for behaving ethically. The poor are a fragile group that needs to be protected and not deprived from their rights.

There is a large uncovered market for microfinance. Poor people from all over the world could benefit from getting access to finance and perhaps more importantly a safe place for their savings. The microfinance market has also proved to be strong and able to resist e.g. financial crisis, because the poor are not directly affected by various trends in the market. The poor experience a sort of "financial crisis" every day, because they work really hard to try to make their ends meet. The high repayment rates continued in the financial crisis, and this might be one of the reasons why investors run to this market. The question that easily comes to mind is; is it ethical to earn/take money from the poor people and use it to enriching themselves?

My aim with this master thesis is to look at different microfinance organizations and find out if there are different ways that microfinance is performed across these organizations and if the companies' ownership type affects the way they operate. I will look at microfinance in general, but also conduct a case study of different Norwegian microfinance organizations. This case study might help to strengthen the knowledge of microfinance and it will also be the basis for the ethical discussion of this thesis.

Is microfinance just a trend that many organizations “jumps on” without caring for the poor or are even the most financial driven companies driven by the social impact that a microloan can have on the poor people? It is important to emphasis that the poor in this case is a vulnerable group that needs to be supported and not taken advantages of by charging high interest rates and make loan conditions/give loans to people that they know are not able to pay back. It is also important to state that microfinance is perhaps not the best way to help people out of poverty, but it could be an efficient way if it is combined with other types of help, like e.g. learning how to read, write, plan, invest, accounting, etc. Microfinance should therefore be much more than just a loan. It should give the borrower help to become independent.

There are many different forms of microfinance. “Normal microloans” are loans given to people individually or in a group/collective form. The collective form is often used because the poor does not have the same security in e.g. their house, as we do in the western part of the world. The borrower could in fact own their own homes, but are unable to use it as securitization, due to the lack of a housing register in many poor countries. (A housing register is costly to implement and maintain). By lending to groups, the goal is that the social group/ peer pressure of paying back will drive/help people to pay back their loans. The groups are also mutually responsible for each other’s loans, so if one member cannot pay, then the group must pay for his/her loan (if they want to keep getting new loans from the bank, e.g. the Grameen Bank). This leads to a massive peer pressure, because nobody wants to pay for loans given to and “used up” by other borrowers. It also gives the banks a sort of security.
The people in the communities also know each other better than the bank. The bank will not be able to screen “out” the risky borrowers from meetings with the individuals. The lack of information accessible to the bank makes it hard for the banks to give out money and this leads to a high interest rate for all the borrowers. Ideally high interest rates should be charged to the “risky” borrowers and lower interest rates should be charged for the “safe” borrowers. The self-formation of groups (within the community) will exclude the high risk borrowers, because few will group-up with a risky borrower when they know that they can be responsible for paying back the loan. This gives security both for the banks and the other borrowers. The loans can also be given on an individual basic, but then the banks often require security.

Another form of microfinance is self-support groups. Here the group meets, e.g. once a week and saves together. The money that they save can be lent out to members of the group, at an interest rate set by the members. The group is therefore in some sense a “little self-supported bank”. This way of “banking” is often taught and used in the poorest neighborhoods by e.g. non-profit organizations.

1.1 Background information about microfinance

Microloans became commercially world known in 2006 when Muhammad Yunus and Grameen bank was awarded with the Nobel peace prize and the declaration of the UN Year of Microcredit in 2005 (Mersland, 2008). Many people had heard about it before, but this was a real breakthrough for the commercialization of microfinance. It was also after this point that the streams of investors to microfinance lined up to offer their capital.

1.1.1.1 Grameen Bank

One of the most famous microfinance institutions is Grameen Bank. Grameen Bank was established in 1976 in Bangladesh by Muhammad Yunus and aimed at helping poor people to get the finance they needed to start their own businesses. This way they could help themselves and climb out of poverty. The idea of microfinance started when Yunus lent $ 27 to forty-two stool makers living in a tiny village (Yunus, 2003). (He had previously helped the village with fixing their well and taught them how to sow corn (corn species) more efficiency). The loan helped the women to buy enough raw materials, so they could trade the stools for other goods. Before they got this finance, the women bought the raw material from “middlemen” for five taka in the morning, and had to sell back the stool at the end of the day for five taka and fifty poysha, leaving the women with a profit of fifty poysha (two cents). This was barely enough to feed and clothe their family and they were in no way able to break out of poverty. Like the example show, poverty is often transferred from one generation to the next generation and is an evil circle that it is hard to break. The middle men “held the families down”. Yunus saw through this how a small loan could help people to break the cycle of poverty for good.

Yunus wanted to help the poor to create/build their own way out of poverty, through self-employment. Poor people did not have the ability to borrow from the “normal” banks, because they lacked security/collateral and Yunus wanted to change this, by creating an institution that offered loans to poor people. It was also a perception that poor people could not save and were not able to pay back their loans. Grameen Bank and many other institutions have proved this wrong. The bank has got a very low default rate; due to the peer pressure that e.g. the collective groups perform on each other; the repayment rate is around 98 % (Grameen Bank). Grameen Bank has expanded its operations to countries across the globe, e.g. in Latin- and North America, Africa and Eastern Europe. The Grameen model of building a successful microfinance institution has also been used as a basis for many of the institutions that have been developed over the last thirty years. The bank has helped many people climbing out of poverty and will help many more in the years that comes.

One of the main innovations that Yunus added to the new banking sector was joint liability loans. The group was formed with five individuals and it was the borrowers themselves that put together the groups. First, loans were granted to two individuals, then another two, and at last, the last person got a loan. This was the cycle, so when the group came to get a larger loan it was the first two borrowers that got the new loan first. The principle of giving higher loans is that you start with a small loan, and once the borrower has repaid this loan she/he has proven to be trustworthy and another higher loan can be given. This way, the bank can reduce some of the risks and increase their repayment rate. If for some reason one of the members was not able to pay back the loan, the other members had to either pay back the default loan of the member or was refused from getting new loans (this has been changed in Grameen Bank II).

The repayments on the loans were paid back in weekly installments on a group meeting with eight, five people groups (40 people). This made it more cost efficient for the bank and also gave the borrowers the security that their money was placed with the bank (reduce e.g. corruption). The weekly meetings also worked as a peer pressure, because all the neighbors were “watching” each other and making sure that they paid back their loans. Joint liabilities and peer pressure has proven to be an efficient way for the bank to get their money back. Also by lending to women, it is said that the risk is being reduced, because women makes safer investments, than men, because women are more traditional and wants to reduce the risk.

Grameen Bank (Yunus, 2003:135) tries not only to provide financial services to the poor like loans, saving, insurance etc. they also try to help the people climb out of poverty. Grameen Bank has created sixteen decisions that aim at reducing poverty, hunger, promote education and hard work, reduce sickness/get care when needed, keep the environment clean, etc. It also takes up some of the cultural problems in Bangladesh, e.g. dowry. All borrowers are told to not use this practice and the aim is to improve the “value” and empowerment of the women in Bangladesh.

1.1.2 Innovations beyond Group Lending

According to Armendáriz et al. (2010) it is not just group lending that has been important innovations that has kept the drive within microfinance (although it is one of the largest, most influence innovations). Another innovation is progressive lending. This means that the lender first lends out a small loan to the new borrower. Once the loan is paid back in e.g. weekly installments over a year, then a new, larger loan is issued to the borrower. The borrower has now proven to the bank that she/he can keep her/his obligations and are willing and able to pay back the loans. The loans are given in a kind of “loan cycle”; if the first loan is paid off then the borrower can get another one. This loan cycle is one of the incentives that help to “push” the individuals to pay their obligations; if the borrower defaults, than she/he cannot get a new loan and the cycle is broken. The borrower must therefore want (and/or need) to get a second, third and a fourth loan to be able to “push them” into keeping their obligations.

Another form of innovation is to receive and pay back loans/installments through your cell phone (Sundaresan, 2008:71). The product is according to the article written by Shrivastav, A. (Sundaresan, 2008:71) trying to test this innovation in India, but the innovation is not commercially used yet. Still more adaption to the market, further innovations and the building of a strong solid mobile net must be conducted before the innovation can be commercially used.

Another form for innovations are different kind of insurance and the fact that the financial market that are being offered to the poor must in many ways be the same that is offered to people in rich countries. The poor need the same kind of security, help when they are sick, to be able to protect themselves from natural disasters, etc.

1.2 The targeting of women in microfinance

Grameen bank and many other microfinance institutions are aiming their microloans towards women. Their opinion is that if a woman gets the loan, she will improve the lives of her family and herself more that if the loan was given to a man.

One of the reasons why Grameen Bank is targeting women can be found in Muhammad Yunus own book, Banker to the Poor.

> In Bangladesh, hunger and poverty are more women’s issues than men’s. Women experience hunger and poverty more intensely than men. If one of the family members has to starve, it is an unwritten law that it will be the mother….. Poor women in Bangladesh have the most insecure social standing. A husband can throw his wife out any time he wishes. He can divorce her merely by repeating, “I divorce thee”, three times. And if he does, she will be disgraced and unwanted in her parent’s house (Yunus, 2003:72)

This is only an example of how women all around the world are being discriminating, due to e.g. cultural values, norms etc. Through being financially empowered and making their own money (no longer a “burden” but a “contributor”), the women can improve their rights and have a larger impact on the family decisions. The women are to some extent empowered. Grameen Bank did not start by targeting women. At first the bank lend to both genders. But due to high payments problems among men, the bank shifted its weight mainly toward women in the 1980s (Armendáriz et al. 2010:158).

According to Armendáriz et al. 2010 70 % of the world’s poor are women; this constitutes about 900 million women. This gives an indicator on which group of people it is important to help first through microfinance. According to Armendáriz et al. 2010 the fertility rates and illiteracy among women have been reduced in countries that have been targeted by microfinance (Bolivia, Bangladesh, Indonesia and an estimate for all low income countries).

Table 7.1
Falling fertility and female illiteracy rates, selected countries 1970-2000

	Bolivia	Bangladesh	Indonesia	All low-income
Fertility rate				
1970	6,5	7,0	5,5	5,9
1980	5,5	6,1	4,3	5,3
1990	4,8	4,1	3,0	4,4
2000	3,9	3,1	2,5	3,6
Female adult illiteracy rate				
1970	54	88	56	73
1980	42	83	41	65
1990	30	77	27	56
2000	21	70	18	47

Source: World Bank World Indicators, 2000b, CD-ROM. Fertility rates is average number of births per woman. Illiteracy is the percentage of women fifteen years and older who cannot read or write.

Table 1: Fertility and illiteracy rates in selected countries from 1970-2000. Source: Armendáriz et al. 2010, page 213.

A reduction in e.g. fertility rates will keep the families smaller and help the women to work their way out of poverty faster. It will also give the families the opportunity to feed their children properly, provide healthcare when they are sick and send their children to school (it is less school fee to pay when you have three, and not seven children). Armendáriz et al. also claims that more money is used on health and schools for the children and that it also leads to less malnutrition.

With respect to survival probabilities, income in the hands of a mother has, on average, twenty times the impact of the same income in the hands of a father (Armendáriz et al. 2010:226).

Previously it has been a norm that those who brings home the pay check are those that will be first served with e.g. food. This means that in seasons where the family has got little food and other resources it is the once that can earn money (usually the males) that are being given priority (more/or even food at all) before the women. With a microloan the women can be “lifted up” and become a more important resource to the family. This will lead her to be seen as a contributor and not a burden (because she does not make money and the family has to pay dowry when she is ready to be married). In some places women has been “kept in the family” longer and not married off at an early age, because she can contribute to the family. In poor countries, this is an improvement, because the women are often married off at a very early age (as teenagers). A microloan can also help the women to become more empowered and this can lead to an increase of their status within the family. Once the female of the family makes money she can e.g. threaten to leave the house, because she is no longer completely dependent on her husband. This can lead to empowerment. The discussion of whether or not the females are empowered has been discussed heavily. Some claim that they are not empowered or only to some extent, others claim that they are empowered. I will not go any further into this aspect of microfinance in this master thesis.

One of the main obstacles with commercialization is that the organizations that are commercialized tend to leave the female segment. It is therefore a negative correlation between commercialization and a decline in female borrowers. Some of this shift can be explained by that men often take higher risk than the females and therefore are able to make more money/profit than the females. Men also tend to take higher loans (because they are less risk averse) and it is “cheaper” for the microfinance institution to manage a large loan, than many small loans that will sum up to the same amount of money. A loan on $ 100 has the same administration costs as a loan on $ 1000. So if you lend out $100 to ten women, this will cost more than to give a $ 1000 loan to one male borrower.

1.3 Negative aspects of microfinance

In November 2010 Aftenposten (among others) reported about high interest rates and suicides among microloan customers/borrowers in India. This has enlightened a whole other side, than the view that all clients are benefitting from the microloans and that credit is a “human right” like Yunus previously has claimed. High interest rates, like in these examples, can lead to people having problems repaying their debt. If there are other microcredit institutions in the area, a person can try to lend from different institutions to pay back the loan from the first institution. This will eventually lead to larger problems for the lender. The example can easily be translated into the use of credit cards in the western part of the world today. People borrow from different credit companies, and in the end, the burden is so large that they would not be able to pay off their debt for many years.

Another well-known example is Compartamos Banco, a Mexican lender that has charged interest rates at over 100 % per year (The economist, 2008). This is at the same level as informal moneylenders in the country. This proves that the company is not helping their lenders, but rather giving them capital at a killer rate. The company says that they have got high rates, but claims that the rates are about 70 %. To verify the rent, the company says that it easier can reach a larger market, because the high rent brings in more money that they can lend out to other people. The company has grown fast and the borrowing numbers have grown from 60 000 to 900 000 over an eight year period (2000-2008). The main problem with Compartamos Banco is that much of the money that is earned of these poor individuals is going back to private investors/shareholders rather than to the borrowers. This proves that there is a difference in their "aim" (to reach more individuals) and the fact that there are some investors that makes much money on these poor individuals. A financial example; their return on equity was 55 % compared to the average Microfinance Institutions in the rest of the world that had about 7, 5 % (Ashta, et al. 2009:5). This is a financial proof that the company makes high financial returns and over 7 times more than the average Microfinance Institutions. Ashta et al. (2009) claims that the interest rates in Mexico fluctuates from 50 to 120 %. When compared to other interest rates across the world, e.g. 16 % rate at Grameen Bank in Bangladesh, 54 % rate at Banco Sol (Bolivia) and 30 % rate at Enterprise Mentors (Philippines, Mexico, Guatemala), we can see that the average rate in Mexico is high. Compartamos Banco has even though given loans at the higher end of the scale. A 100 % interest rate is high even when compared to Mexican standard.

Could someone improve their lives even with a 100 % interest rate? Some (like Compartamos Banco) claim that the increase in the income, after receiving a loan, is over 100 % and sometimes 200 %. If the borrower has enough money to buy more raw materials, a sewing machine etc. then the productivity will increase rapidly, because the individual can make more products that they can sell on the market. Even though a person makes more money than the high interest rate of 100 %, it is still not ethical. That person could have climbed even faster out of poverty, if she/he could keep more of the money that they earned, by paying a lower interest rate. This would benefit themselves and their families. The questions will be; is it ethical to demand an interest rate of 100 % (70 %)? Should other poor people pay for the willingness for a company to expand? Is it better for a person to get finance at a rate of 100 %, rather than no finance at all?

1.4 Interest rates on different loans

Relative to lenders using group-lending methodologies, microfinance lenders focusing on individuals tend to a) serve better-off clients, as reflected by average loan size; b) be slightly more self-reliant as proxied by the percentage of their financial costs covered – 106 percent relative to 103 percent for group-lending institutions; c) serve a smaller population of women clients- on average 51 percent of the clients of individual micro lenders are women versus 67 percent for group lenders and 86 percent for village banks; and d) charge lower interest rates and fees reflected in the real portfolio yield: 32 percent for village banks, 26 percent for group lenders, and 23 percent for individual lenders (Armendáriz et al., 2010:138).

The interest rates are higher in village banks and group lenders due to lower loans per borrower and more frequently repayments than on the individual loans. The operational costs estimated are 21 cents of each dollar lent to individual lenders, 29 cents to group lenders and 35 cents to village banks. This gives an overview that it is more expensive to borrow to the poorest individuals, the costs are higher (due to the same establishment costs of a loan of $ 100 and $ 10), the people are harder to reach (live in rural areas) and the repayments are made more frequently (weekly, bi-weekly, while individual loans might be paid monthly).

Armendáriz et al (2010) claims among others that group lending and village banks should have higher interest rates than the commercial banks that focuses on the upper part of the segment. Often individuals that receive individual loans are also able to give the bank collateral/security for their loans. It is therefore "safer" for the banks to lend out to these individuals than focusing on the "real poor" and the once that needs the financial capital the most. It is therefore not possible to compare different institutions based on only interest rates, other variables like gender, loan size and where the microfinance institutions are located will add valuable information that needs to be added to the comparison.

Figure 3: Reservation prices

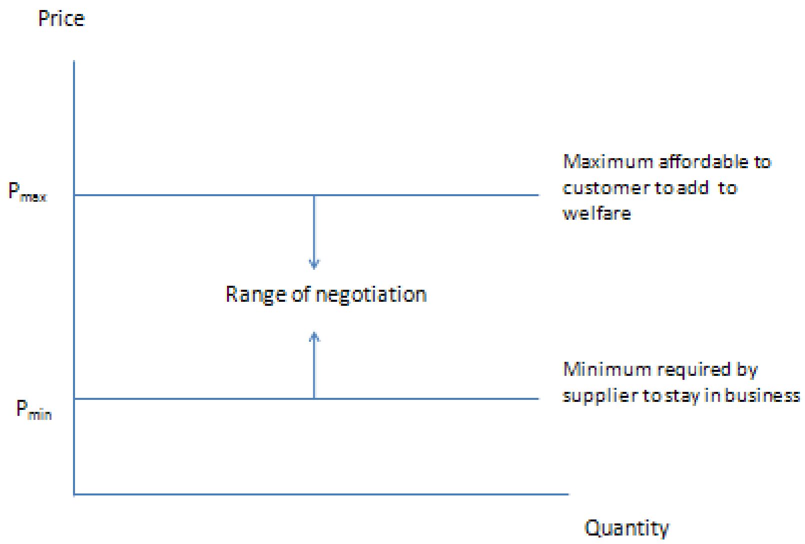

Figure 1: Reservation prices; the range of negotiation between what interest rates the poor can pay (maximum) and the interest rates that the Microfinance Institution needs in order to be sustainable.
Source: Ashta, A. (2009), page 6.

As it can be read from the model above, there is a range of negotiation between what the supplier (here the microfinance institutions) needs to be able to stay in business (break-even), and the maximum amount that the customer can be able to pay and still receive welfare. The model shows that there is a vide gap between the what the suppliers needs and what the customer in theory can pay. The range of negotiation can therefore be seen as a gap that either the supplier can gain from or the customer. The higher up the suppliers lift their interest rate, P, the more they will earn and the less the customer will benefit, due to more of their profits goes to covering their loan costs/interest rates. If on the other hand the supplier lowers the interest rates/does not charge more than it needs to break even, then the customer will gain more, due to less payment to the lender and more profit can be used for further investment, food, school for their children, clothes, to repair their clothes, savings, etc. The more money (share of the profit) the customer can withhold, the faster she/he can build their way out of poverty.

Ashta (2009) argues that the microfinance institutions should have a minimum interest rate to be able to cover their costs and remain sustainable. In addition, he argues that a certain extra amount is required for growth of the microfinance institution and to serve future and potential customers.

Perhaps, this minimum should also provide some fair return to shareholders….. On the other hand,… the highest interest rates are indicated by the opportunity costs of borrowing from moneylenders subject to a cap of expected profits from projects (i.e., whichever is lower). The question of ethics is how the interest should be shared along this spectrum (Ashta 2009:6).

1.5 Different financial services that the poor people needs

The poor people need many of the financial services that are given to the "rich" people.
1) Loans: They need loans to be able to start their own businesses and work their way out of poverty. It is wise to start with a small loan first and then expand the loan, after the client has proven to be able to pay back their loan. This benefits both the borrower and the bank/organizations that issued the loans. The bank/organizations want their money back and the borrower is less likely to become a "debt slave".
Previously poor people relied on informal sources of credits like moneylenders, neighbors, relatives and local traders. These had often a limited amount of capital and demanded high interest rates in return for their services.
2) Saving: Poor people need a safe place to save their money. The allegation that poor people cannot save has been turned down a number of times. The poor people can indeed save. One of their main problems is that the poor people have not got any safe place to save their money. Before they buried their money, hid them in the house or sow them into their clothes. The money was not safe and were often stolen or given away on the requests of aid from relatives, neighbors and often husband's. Through microfinance institutions, the lenders can save their money in a safe "bank". The main limitation is that many microfinance institutions cannot accept savings, due to different and stricter laws when the institutions shall receive savings. Poor people often have a small and uneven income. Savings can therefore be an important factor to survive increased food prices, pay for their children's school or make a wise investment when the opportunity comes (Strømmestiftelsen.no). Some organizations comes to the poor people's doors to collect their savings, this helps them to reduce the travel time they otherwise would have used to go to the bank.
3) Insurance: Different forms of insurance have been introduced by microfinance institutions for their clients. It can be health insurance, company insurance, etc. A small damage like breaking a leg can mean the end of the company for the entrepreneur and lead to starvation for the whole family. Insurance will help the sick person to get the medical assistance that she/he needs and also help financially until the client is back on their feet.

4) Transfers: Microfinance institutions can help their clients to transfer their money. It can be e.g. to pay the children's school fees. The children often go to school in another city; this means that before, the parents had to travel for a day or two to pay the children's school fees.
5) Training: Some microfinance institutions offer different kinds of training to their clients. It can be basic courses in financial controls and budgets, how to make soap, advises about farming and to learn how to sew on a sewing machine.

1.6 Research questions

The questions that rise while reading about microfinance, both about the blooming positive- and the negative sides are;
1) What are the interest rates, and is it really ethical to claim high interest rates from poor people?
2) Should the microloans be fully given by non-profit organization or should it also be a marked for for-profit organization?
3) Is it ethical to earn money on poor people?
4) Is the change in finance of Microfinance Institutions just a proof of how cynical the microloan business has become?
4) Is it so that the non-profit organizations have got lower interest rates and takes higher risks (by lending to poorer people), than the for-profit organizations?
5) Do we "need" the for-profit organizations in order to have enough financial capital to borrow to the people that want and need finance?
6) Do microloans help the poor people or does it lead them into becoming debts slaves?
7) What are their alternatives? (Perhaps most importantly)
8) Is it better to get a loan with a high interest rate, than no loan at all?
9) Is the story about microfinance just an amazing fairytale or does microfinance really helps people to climb out of poverty?

In this master thesis I aim to view if there are differences among non-profit and for-profit organizations when it comes to microfinance, loans, interest rates, which people they aim to borrow to and if their loans are really helping the borrowers. With other words I aim to see if there are different ethical guidelines and approaches from a non-profit and a for-profit organizational view.

I have decided to focus on the Norwegian companies, organizations and funds that work with and invest in microfinance and loans; this is to be able to go in depth, through a case study analysis. I will also use companies and banks outside of Norway as examples to view the history of microfinance, what it was meant to be and what it has evolved to become. The discussion will have a focus on both the Norwegian microfinance institutions and the for-profit and non-profit organizations in general.

The research question for this thesis is;
Microfinance: Are there <u>ethical</u> differences between the Norwegian microfinance institutions based on their ownership type?

2.0 Theory

This master thesis will be built up around different theories about ethical principles, moral and different ownership types within the field of microfinance. Microfinance is a fairly new and interesting topic, and an important topic to study and keep on developing. There is yet not a "right formula" and the industry needs to keep on developing, innovating and improve all aspects of its performance. There has been a shift in the last century, where more and more of the industry has gone from being mostly non-profitable organization, to now that the profitable organizations are outranging the non-profitable organizations. Eight of the ten largest Indian non-profit organizations have converted into becoming for-profit organizations, e.g. SHARE, Bandhan, Equitas etc. (Ashta, 2009:4).

The thesis aims to view if there are *ethical differences* between the microfinance institutions and if it can be related to the ownership types. Much of the microfinance studies so far has been on if the companies are profitable enough, sustainable, their social impact, the impact on health, nutrition and schooling of the children from parents that has got access to microloans. Little has been researched of the ethical impact and if there is ethical drivers that make people want to invest in microfinance. My aim with this thesis is to explore whether or not non-profit organizations are more ethical than for-profit organizations.

There are three different forms of ownership types of microfinance institutions. Microfinance institutions can be either based on member-based cooperatives, non-profit organizations (donors, governmental aid, etc.) or shareholder firms (owned by people that want/expect a "return" on their money). In this thesis there are only two ownership types that are being discussed further, non-profit organizations and for-profit organizations (shareholder firms). Member-based cooperatives is mainly located in the country of origin and even though some of the firms might help evolve these member-based cooperatives (e.g. the Strømme foundation), it will not be included here. I will even though implement it in this theory part, so it can be acknowledged and it is also an important part of microfinance.

The theory used in this thesis will mainly be a mixture of Immanuel Kant and John Rawls. These are two of the basic ethical theories and are the foundation of this thesis. This gives the clear indication that this is an ethical study.

The theory of traditional utilitarianism created by Jeremy Bentham will also be viewed to get a broad perspective of the ethical principles, but it will not be used as one of the main theories. Utilitarianism is mainly a theory of cost-benefits analysis, but it also claims that people should try to create the most happiness for the greatest amounts of people.

2.1 Different ownership types in microfinance institutions

The microfinance institution can be categorized into three major ownership types; member-based cooperatives, non-profit organization and shareholder firms.

2.1.1 Member-based cooperatives

In a member-based cooperation, it is the members of the cooperation that owns the organization/bank. Examples of such organizations are credit unions, building societies, savings and credit cooperatives. The organization is built up by a group of local customers that meets, e.g. once a week to save an already established amount (everybody has to contribute equally to the "pot"). After the savings are collected, then the people in the group can lend from the "bank"/group to an interest rate decided by the group. Another approach is that each week one of the members gets the "pot"/amount saved that week, so that she/he can buy what they need to start their own business or use the money to pay for the children's tuition, to buy medicine when they are sick etc. The members are arranged in a fair order by withdrawing the names of the members from a hat and in the orders they are withdrawn, this is the order the pot will go to the different members.

Even though a member was the first to get the pot of money, she/he cannot quite the group and must stay to give the same opportunity to the rest of the group. The groups are founded in the community, and also here, peer pressure and the threat of social sanctions will help to retain a relative high response rate. Another approach is to have multiple ROSCAs (Rotating Savings and Credits associations) in this case I assumed that the members save in a pot (usually the ROSCA service last for about a year). Multiple ROSCAs can either be arranged so that the first member that got the pot, is also the first in the next ROSCA circle, or it can be a new withdrawing from a hat (so that the order will be rearranged). Arguments have stated that the last person that gets the pot in a ROSCA would be better of saving up the money themselves and also have the opportunity to flexible savings.

Armendáriz et al. (2010) argues based on interviews made by members of such groups that this is not true. Many of the respondents say that they would not have been able to save up the money themselves (at the same time), because much of it would have gone to consumption. When the members on the other hand were committed to a ROSCA, they felt that they needed to save; otherwise they would let their friends down. They ROSCA gave them with other words a sort of discipline to save and also a safe place to save.

According to Armendáriz et al. (2010) a third approach of ROSCA can be that each member saves the established amount, after the pot is collected, then the members can bid on the pot. This means that the highest bidder will get the opportunity to borrow the pot from the group. This will give the high interests/returns on their savings. The main problem with this approach is that it is often the most risky borrowers that are willing to pay a high price for the pot (the borrowers that do not want to take a high risk, stops bidding when the price becomes too high). This means that the group and its members can on one side gain a large profit, but on the other side they can also risk losing their money.

Armendáriz et al. (2010) also tells about a new form for ROSCAs, ASCA (Accumulating Savings and Credit Associations) often called credit unions. ASCA is a more formal ROSCA and here its members can either use the group to mainly save or mainly borrow. The groups have also got a more formal approach. The costs including a safe place to store the funds, bookkeeping and management become more complex and are higher than in a ROSCA. In a ROSCA either one member gets the pot or a member borrows the pot (does not need to e.g. store the funds). An advantage on the other hand is that the savers can only save and does not need to feel obligated to borrow from the ROSCA.

In 2007, the World Council of Credit Unions (2007) counted 49,134 credit unions serving 177 million members worldwide (Armendáriz et al., 2010:80).

These Rotating Savings and Credits associations, Accumulating Savings and Credit Associations, Village banks, credit unions and member based cooperatives is a good way to help the poor people helping themselves. The funds that are collected within the groups do not depend on the “outside” world. These member based cooperatives only needs the right help to start up and get an introduction in how to run their operations. This is really an independent form of self-help that can help many individuals out of poverty. Many of these member-based cooperatives are supported and the founder (usually an NGO) helps to distribute and collect the resources. Many NGOs also uses these meetings as a channel to talk about hygiene, health, malnutrition etc. this information can help to reduce the risk of diseases and improve the members living conditions (e.g. CARE and Strømme foundation).

2.1.2 Non-profit organizations

According to Hansmann (1996) a non-profit organization is an organization that has no owners that receives residual earnings. A non-profit organization can break-even or have a positive result. The difference between a for-profit and a non-profit organization is that it does not "pay out" any of the money from a positive result, but rather invests it back in the organization. Non-profit organizations are often founded by; government (founded) organizations, religious groups and other organizations/groups that aim to make the world a better place through helping people/delivering services without claiming returns e.g. freedom from Hunger, Greenpeace, etc. It is not just in developing countries that nonprofit organizations exist.

As of roughly 1990, nonprofits accounted for 64 percent of all hospitals, 56 percent of all day care for children, 48 percent of the primary medical care provided by health maintenance organizations, 23 percent of nursing care, 20 percent of college and university education and 10 percent of primary and secondary education (Hansmann, 1996: 227).

Many non-profit organizations have started with microfinance after the model of Yunus and Grameen Bank. Their common purpose has been to reduce the poverty in the world through giving people access to financial capital that they can use to climb their way out of poverty. Even though there has been prove that access to finance has been useful in lifting up the poor, it is still necessary to give aid to the poorest people in the world and people that has suffered from severe natural disasters. Microfinance can therefore in these areas be a good second "item on the list". It is also important that there is a market for all the products and services that are being offered from the people that has received a microloan and started their own businesses. With other words, the borrowers need to be able to handle the loan, make use of the loan and there also need to be a market for their products. It is therefore important that microfinance organizations demand that the borrower have a clear business plan/knows the market before giving her/him the loan.

According to Hansmann (1996) non-profit organizations operates with a fair degree of efficiency and compete effectively with owned (for-profit) enterprises. It should therefore be a myth that non-profit firms are less efficient than other owned enterprises.

Non-profit organizations tend to reach the poorest and more women (often seen as the poorest in the community) than other shareholder firms. Non-profit organizations therefore play an important part in the aspect of reaching the poorest in the rural areas. Non-profit organizations often provides group loans, helps with savings (where this is possible, because of the governmental laws) and supports and helps people to establish self-sufficient groups. Non-profit organizations tend to continue and establish organizations where there is low or no ability to earn money. A non-profit organization does not need to earn money and can therefore serve this market. A for-profit organization will on the other hand leave or not enter markets where there is no opportunity for making profits.

2.1.3 For-profit/shareholder firms

Shareholder firms or for-profit organizations are firms that are owned by investors/shareholders. Here the investors buy stocks in the organization, and they require dividends etc. in order to keep their equity within the firm. An investor is "in it for the money". Stocks can easily be sold, and the managers of the shareholder firms have got a responsibility to earn a profit/to be profitable (they work for their shareholders). A for-profit firm will only establish in places where they know that they can get a return on their money (otherwise they would not have entered the market). A for-profit firm will therefore often focus on the "upper" part of the microfinance market, where the risk is lower and the customers' ability to pay back the loan is better (because they are not the poorest segment). One example on how a for-profit firm can lead to high interest rates is Compartamos Banco in Mexico. The company charged their borrowers interest rates over 100%.

"The Compartamos initial public offering has come to symbolize an aggressive move by capitalists to profit from the poor" (The Economist).

The growing numbers of shareholder firms, investor funds etc. that are performing microfinance has increased rapidly over the last few years.

Armendáriz et al. (2010) describes this new trend as banks (from the western world, e.g. City Bank) that are expanding to reach poor people in other countries and Microfinance Investment Vehicles (MIVs) that are private funds that are investing in microfinance institutions (mostly already established microfinance institutions). The Microfinance Investment Vehicles has increased their assets with 78 % between the end of 2006 and the end of 2007. (This trend is seen to decrease over time). This makes the institutions free from reliance of donors, but at a price.

In general, commercial sources of funding are accessible only to lenders that have demonstrated that they can turn a profit, and often lenders achieve profitability by raising their interest rate on loans or serving better-off customers able to take larger, more profitable loans (Armendáriz et al., 2010:19).

The organizations are therefore able to reach more borrowers, but the main problem is often that the focus shifts from the very poor borrowers (which the organizations should aim to help) to the borrowers that are wealthier (that they know are able to pay back). Another shift, because an increase in the interest rate can be that the organizations are not able to help the people that are not willing or able to take high risk (to pay the high interest rate, you need to invest in/do business that are riskier and can thereby give a higher return) are excluded. These are the customers that the bank actually should focus on, because they are more likely to pay back their loans (lower default rate).

The for-profit organizations have mainly focused on individual and group loans.

Stakeholder	**Overall objectives**	**Expected interest rate desired**
Existing Borrowers	Availability, Impact	Low interest rates
Potential Borrowers	Availability, Impact	Mixed: High if it enables outreach but Low as future borrower
Donors	Outreach, impact (but also sustainability)	Mainly low interest rates?
Employees	Profit, growth, job stability (but some might have social objectives)	Mainly high interest rates?
Regulators	Client protection (Outreach, impact, employment?)	Not related to interest rate (Low interest rates?)
Shareholders	Profit, growth (but 2/3 also have development goals)	High interest rates (some may want lower interest rates)

Table 2: An overview of the different stakeholders, their overall objectives and what kind of rates they wants based on their own roles and objectives. Source: Ashta et al. (2009), p 10.

A stakeholder is someone that has an interest either directly or indirectly in the organization. A stakeholder can be existing- or new borrowers, employees of the firm, suppliers, donors (aid organizations that supports the organization), shareholders, governments/regulators (if an internationally organizations, both at “home” and “abroad”), managers and non-governmental organizations (e.g. Green Peace etc.). Ashta et al. (2009) has summed up the most important stakeholders (in the table above). This table above and the figure below were originally used to explain the case of Compartamos Banco in Mexico. I mean that it is still effective models that give an overview of which stakeholders a for-profit organization has and how much influence each stakeholders has on e.g. the interest rates. There will always be someone that benefits from high interest rates and someone that is getting hurt/benefits less. The table above and the model below are hereafter (in this section) referred to as the model (combined together).

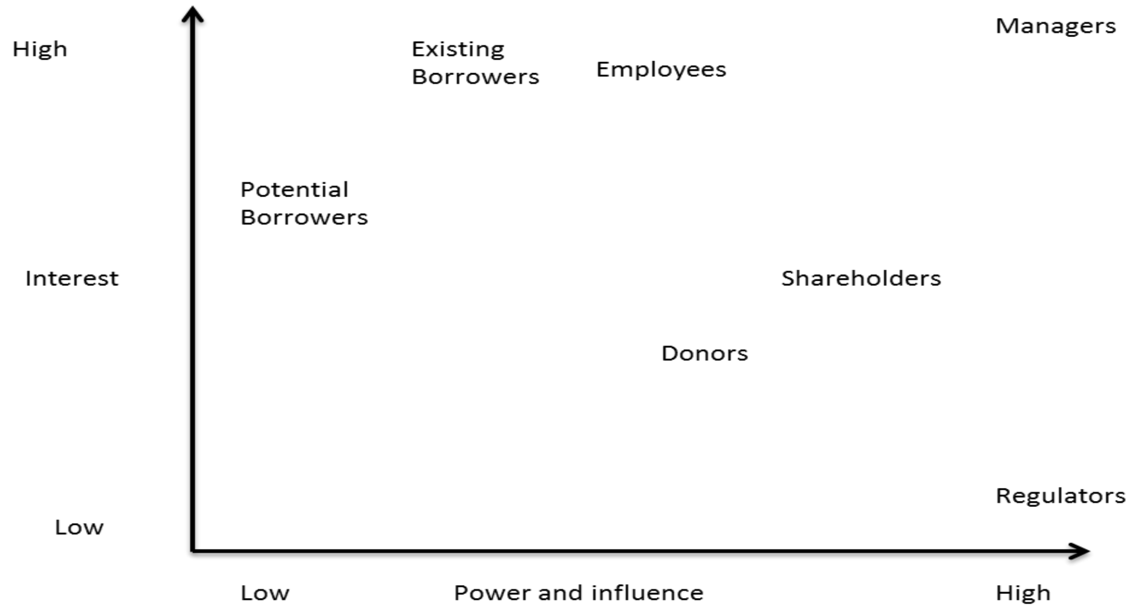

Figure 2: The relationship between what the stakeholders wants of interest rates and the power and influence of the different stakeholders. Source: Ashta et al., 2009, p 11.

From the model above we can read that in particular managers, employees and existing borrowers (if they do not want to renew their loans once the old is paid back) wants high interest rates. These stakeholders want to hold the interest rates high, so they can benefit from the high returns. Managers want high returns on the capital, so that he/she can benefit his/her shareholders and pay out dividend (keep the shareholders happy). From the model above we can see if the stakeholders want to keep the interest rates high or not and why. I will in this section only discuss the shareholders and the managers, since it is mainly these two factors that separate the for-profit and the non-profit organizations. The model is although important to get an overview over the different stakeholders that an organization has.

A manager's task in a for-profit organization is mainly to increase the wealth of its shareholders. It is the board of directors and shareholders that decides what the company should focus on, what their goals/vision/targets are and how they expect him/her to run the organizations. A manager therefore has to please the stakeholders and since the financial goals/returns are easier to measure than e.g. the social impact, this is often what the shareholders measure a firm on (to see if they want to invest or not and when invested, to see if the company goes in the right direction). The manager has (according to the model above) high power and influence and he/she also wants to keep a high interest rate. A high interest rate will lead to a high return for the organization and this will lead to a good reputation for this manager, assuming that his/her impact is measured from financial numbers.

The shareholders on the other hand invest in a company based on the financial returns they can get on their capital. The financial return must exceed the return they can get elsewhere; otherwise the shareholders will move their money to a place where they can get a higher return. Ashta et al. 2009 claim that the objectives for the shareholders are profits and growth. They also claim that 2/3 of all shareholders have development goals. Some wants the expected interest rates to be high, while others may want lower interest rates. The shareholders that want low interest rates might be the shareholders that want to invest their money in a "good cause" and has developments goals.
To sum up;

We note that shareholders and employees are primarily interested in high interest rates compatible with financial sustainability and growth and that borrowers (both existing and potential), donors and regulators are primarily interested in low interest rates compatible with outreach and impact. (Ashta et al. 2009:9)

2.2 Utilitarianism

Utilitarianism was first created by Jeremy Bentham (1748-1832) and he is considered to be the founder of the traditional utilitarianism. The theory about utilitarianism has been changed, added on and discussed further many times over the last centuries. But the main principles still stands, the principle of weighting the social costs to the social benefits. This is often referred to as a cost-benefit analysis, to see if the benefits outrange the costs of implementing it. The right action is therefore weighted on the action/policy that will create the greatest net benefits or the lowest net costs. The main problem with the utilitarianism view is the different approaches to what we can see as a benefit and a cost. Here it is also important to put in the ethical and social responsibility that the firm/organization has.

An action is right from an ethical point of view if and only if the sum total of utilities produced by the act is greater than the sum total of utilities produced by any other act the agent could have performed in its place (Velasquez, 2006: 62).

This means that the resources are spent "to achieve the greater good for the most amounts of people" (Wikipedia). The main problem with the utilitarian view is; what should be seen as costs and benefits? Can everything be measured from a cost-benefits point of view or are there other social, ethical or moral principles that should interfere with our perception and make us choose something that has "more costs over benefits", but that is more ethically correct?

An often used example of an "extreme" use of the cost-benefits analysis is the case of Ford Pinto (the case is collected from Velasquez, 2006: 61). Ford lost market share to its Japanese competitors and wanted to make a small, fuel-efficient car to once again increase their market share. The car should weigh below 2000 pounds, cost less than $ 2000, and the car was rushed to the market (development time/time to market was estimated to be 2 years instead of the normally 4 years). The car showed to have a defect. When the car was crash tested from behind at 20 miles per hour or more, the gas tank would be ruined and gas could spray into the passenger department. This could in a real crash (if sparkles occurred) ignite the spaying gasoline and lead to severe injuries or even death. Ford knew about this problem, but decided to start producing and to launch the Ford Pinto for these reasons. First, the design met all the legal and governmental standards at that time (the requirement was that the cars gas tank should remain intact with a rear-end collision of *less* than 20 miles per hour). Second, Ford managers felt that their car was as safe as any other cars on the market. Third, Ford carried out a cost-benefit analysis, which stated that the cost of modifying the car would be larger than the benefits of the modification (reduction in deaths and injuries).

The calculation (Velasquez, 2006: 61):

Costs:

$ 11 (cost of the repair) * 12.5 million autos (estimated cars sold) = $ 137 million

Benefits:

(180 deaths * $200,000) + (180 injuries * $67,000) + (2,100 vehicles *$700) = $49, 15 million

The Ford Pinto case is a classic example that you cannot just use the cost-benefits analysis to discuss if an action is ethical or not. Some might argue that the extra cost of $ 11 per car, was worth to skip in order to make the car cheaper for the "most people". But on the other hand, should this not have been up to each person to decide? I think that many of the people who bought the car would gladly pay $ 11 extra to feel safe. The major aspects of this case; is it ethical to estimate the price of a person's life or the price of an injury? And should we not always put the life of others in front of the costs in money? A forever ongoing debate about this is in the hospital industry; how much money, time and resources should be used on one individual? How long should we keep a person alive? Should we make it up to the nature to decide or should we use all resources available to help the person and extend the person's life?

This is some of the aspects that need to be taken into account when discussing the utilitarianism. It is not enough to measure the costs and the benefits; it must also be viewed from a socially responsible and an ethical point of view.

2.3.1 The first formulation of the categorical imperative

Immanuel Kant (1724-1804) was one of the pioneers within ethical theory. One of his most famous theories is the categorical imperative.

His first formulation was;

"I ought never to act except in such a way that I can also will that my maxim should become a universal law" (Kant, I.).

Maxim is the reason a person has in a certain situation to do what he/she plans to do. This means that if you are going to decide whether or not an action is morally right or wrong, you should think about if you would like all other human beings to act in the same way, so it can become a "universal law". If not, the action is immoral and you should therefore not perform the action. One of the best examples of this is whether or not you should pollute. It might be a cost advantage if you release the toxic waste into the local river. But if all companies where to do so, then almost all rivers etc. would be polluted and this would hurt the environment and people. Fishes will die, species will be destroyed and the water supplies will be contaminated.

The main principle of the first version of the categorical imperative can be summed up;

An action is morally right for a person in a certain situation if, and only if, the person's reason for carrying out the action is a reason that he or she would be willing to have every person act on, in any similar situation (Velasquez, 2006: 79)

2.3.2 The second formulation of the categorical imperative

Kant has reformulated the first version of the categorical imperative. The second formulation is:

"Act in such a way that you will always treat humanity, whether in your own person or in the person of any other, never simply as means, but always at the same time as an end" (Kant, I.)

This means that you should always threat each human being in the same way, regardless of sex, gender, income, status, etc. It is important to respect each person's freedom and help to develop, not hinder each person's capacity to freely choose what he/she wants in their life. A person should not be used as a means for others, meaning that they can gain from "using" the other person to pursue their own interests.

The main principle of the second version of the categorical imperative can be summed up;

An action is morally right for a person if, and only if, in performing the action, the person does not use others merely as a means for advancing his or her own interests, but also both respects and develops their capacity to choose freely for themselves (Velasquez, 2006:80).

Every person is of equal value and people should therefore threat each other as free and equal in the pursuit of their interests.

2.4 Justice as fairness

The article "Justice as fairness" was written by John Rawls (1921-2002) in 1958 and has become one of his most famous works. The main points of this theory are how we should distribute the society's benefits, burdens and opportunities, like government jobs (status).

Should the benefits and the burdens be shared at an equal amount of both to all members of the society? Or should the benefits be shared according to the needs and the burdens according to the ability? E.g. the welfare state and the tax system in e.g. Norway are built up under these latter principles.

Rawls starts by emphasizing the difference between the concepts of justice and fairness. Fairness is the framework we use to discuss whether an action is morally correct or not. Justice is on the other hand the practices, what we actually perform and what is written down as rules for the community. The distribution of powers and liabilities, rights and duties is assigned through this practice.

Rawls describes the conception of justice based on two principles;

First, each person participating in a practice, or affected by it, has an equal right to most extensive liberty compatible with a like liberty for all; and second, inequalities are arbitrary unless it is unreasonable to expect that they will work out for everyone's advantage, and provide the positions and offices to which they attach, or from which they may be gained, are open to all. These principles express justice as a complex of three ideas: liberty, equality, and reward for services contributing to the common good (Rawls, 1958: 4).

Rawls emphasizes the freedom each person has to choose for him/herself, everybody should be treated equally (no discrimination) and people should try to and be rewarded if they contribute to the greater good of e.g. the community.

Rawls has claimed that all individuals are self-interested people and supposed rational. This means that these people know what their self-interests are and tries to pursuit them in order to maximize their own benefits. Rawls has therefore an own way of evaluating the adequacy of any moral principle. He starts by making up an "imaginary world". A group of self-interest people are supposed to make the rules and principles that is going to apply in this world, but they do not know what they will turn out to be in that society (e.g. if you are white colored, then you can be "born again" as black or with another skin tone.) Because they do not know this, they cannot make rules and principles that is discriminating, because they can end up by "being the once that are discriminated". The new world will therefore be "free" of discrimination on e.g. gender, race, abilities, religion, interests, social position, income, or other particular characteristics.

People tend to work to improve their own self-interests, and the main obstacle for a self-interested person is to see another person gain on your behalf. When rules are set in this “imaginary world”, then no one is able to maximize their own self-interests, because they do not know what their interest will be “in the next life”. The group of people will therefore most likely come up with a general perception, which does not strengthen any groups of people in the society.

It is unfair in e.g. a society, group or practice if someone accepts the benefits, but refuses to do his/her part (burden) in maintaining it. E.g. a person cannot send his/her children to school, get “free” medical care (from the government), etc. but refuse to pay his/her share of taxes (that pays for these “free” benefits). This action is an immoral action and if everybody had acted like him/her, then it would be no money for schools, medical care, etc. and the basis of the welfare society would fall apart. It can now be stated that every human being should get their benefits in the society, and also pays the burdens to be able to get the benefits. It is important that every human being understands what benefits and burdens that e.g. a contract, a membership group or a society expects from them. It is only when they know the benefits and burdens that they can freely choose (because they have the information needed to choose whether they want to participate or not).

The distribution of benefits and burdens in a society is just if and only if;
“1. each person has an equal right to the most extensive basic liberties compatible with similar liberties for all, and
2. social and economic inequalities are arranged so that they both
a. to the greatest benefits for the least advantage persons, and
b. attached to offices and positions open to all under conditions of fair equality of opportunity.” (Velasquez, 2006: 96)

If some of the principles conflicts with each other, then Principle 1 take priority over principle 2, and in principle 2, part b takes priority over part a.
Principle 1, the principle of equal liberty, includes the right to vote, freedom of speech, conscience and other civil liberties, freedom to hold personal property and freedom from arbitrary arrest. Principle 2 a, the difference principle says that in a productive society one must try to improve the position of the neediest members of the society, e.g. the sick, disabled and poor. The only exception of this principle is if it is thought that such improvements would burden the whole society, including the needy. Principle 2 b, the principle of fair equality of opportunity, says that everyone should be given an equal opportunity to qualify for the more privileged positions in the society’s institutions. This means that there should be no

discrimination towards race and gender and each person must also have access to the training and education needed to qualify for the desirable jobs. This means that the society should provide education for all of its members, so that even a son/daughter of a poor person has got the ability to have an education and work at the top of the society. This is the ideal world. In a morally good world/society, the benefits should be shared in according to need, maximum benefits to the least advantageous people.

2.4.1 An interpretation of Justice as Fairness

Falkenberg (2010) introduced his own version of John Rawls' "Justice as Fairness" in the course Culture and Ethics autumn 2010 at the University of Agder.
According to Falkenberg's interpretation of John Rawls we can look at justice through the three principles of "The Good" (see the model below).

1) Survival, "hand over": this means that a) peace and belonging and b) material needs like health, food, education.
2) Equal moral value for all – discrimination. This means maximum freedom, given equal freedom for all. Equal talent and motivation is treated equally. People should also be equal to the law, have the same opportunities and human right.
3) Max-min: this means to maximize the index goods for the poorest group (as much as possible for the worst off group).
When we maximize the index for the groups that are worst off, we can be able to make their life flourishing. Every person has the right to survival (according to the UN human rights), and it is therefore the countries/governments responsibility to provide this survival to their people. This is not always carried out and many countries in the world today are fully relaying on help from other countries through e.g. aid, charity, political support, support to build up the country and other forms of support.

Dictatorship, military regimens, bribery, corruption, low wages, bad working conditions (that leads to injuries, health damages and/or deaths) and child labor (preventing children to get an education) are some of the variables that can keep a country and its inhabitants from living flourishing lives or even survival of the inhabitants. Education for all children is one of the main factors that can help the child and maybe also its family to live a flourishing life. With education comes a lot of great opportunities and the population is able to build itself up and come one step closer to independence.

One of the most important factors is to not deprive people from their rights, but rather promote and work for a strengthening of their rights. Inadequate governments should be helped to become adequate, so they can be able to build up their countries and help their inhabitants to live flourishing lives. Falkenberg (2010) also argues that international/multinational companies that do business in countries where the governments are inadequate should help the government to become adequate and promote human rights. This is no longer just a governmental subject, but has now also been transferred as the social responsibility a company has when entering a low developed country. The companies should set a good moral example and not just "follow" the local rules, but try to promote universal laws like e.g. the UN human rights. An example of this; even though the country's laws says that you are allowed to pollute the local river (dump out the toxic waste), the companies should not do this, because they know what kind of damages that this toxic waste can contribute to. The companies should therefore take on some of the aspects of governance that the governments are not able to do.

As viewed in the third principle, the maxi-min principle, you should give the most e.g. food to the most needy (poorest) people. This means that an organization should always try to help the poorest and most needy first, and then "climb up" the ladder and help the once on the "next step" (the little less poor than the first once).

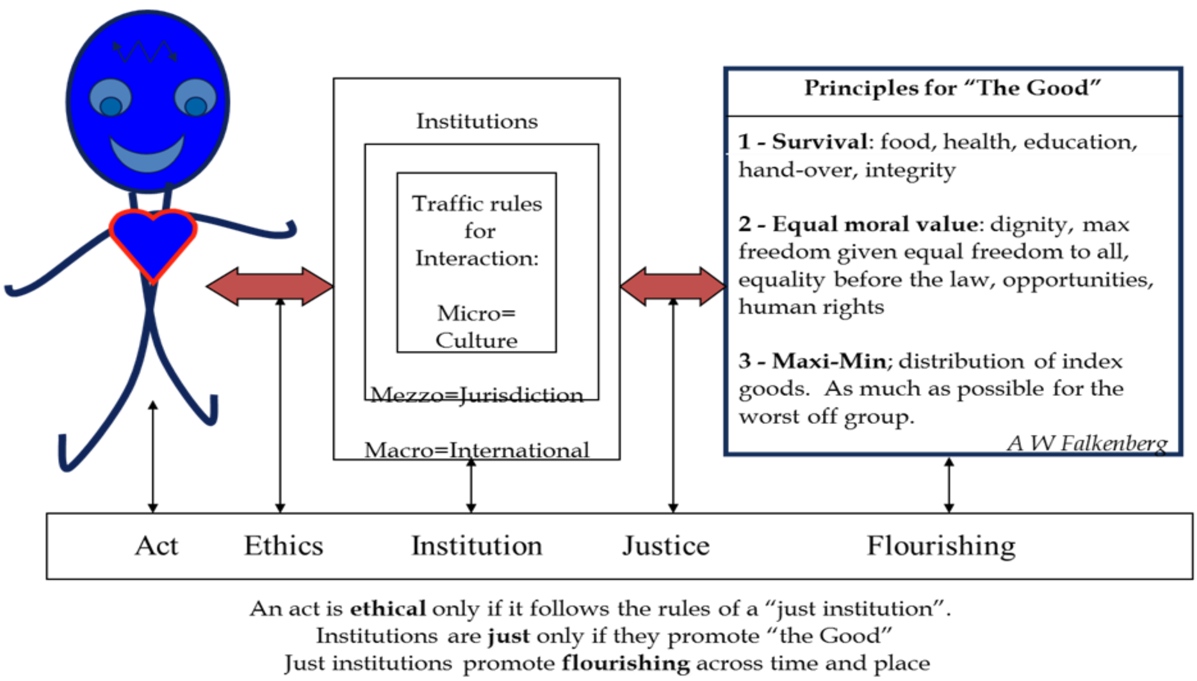

Figure 3: Justice as fairness. Source: Falkenberg, A.W. (2010) Lectures in Culture and Ethics fall 2010.

2.5 Interest rate and profit orientation

After reading a lot of background information about microfinance in different organizations, it seems like a general impression that shareholder/for-profit firms are more profit oriented than non-profit organizations. This can be summed up in the matrices below.

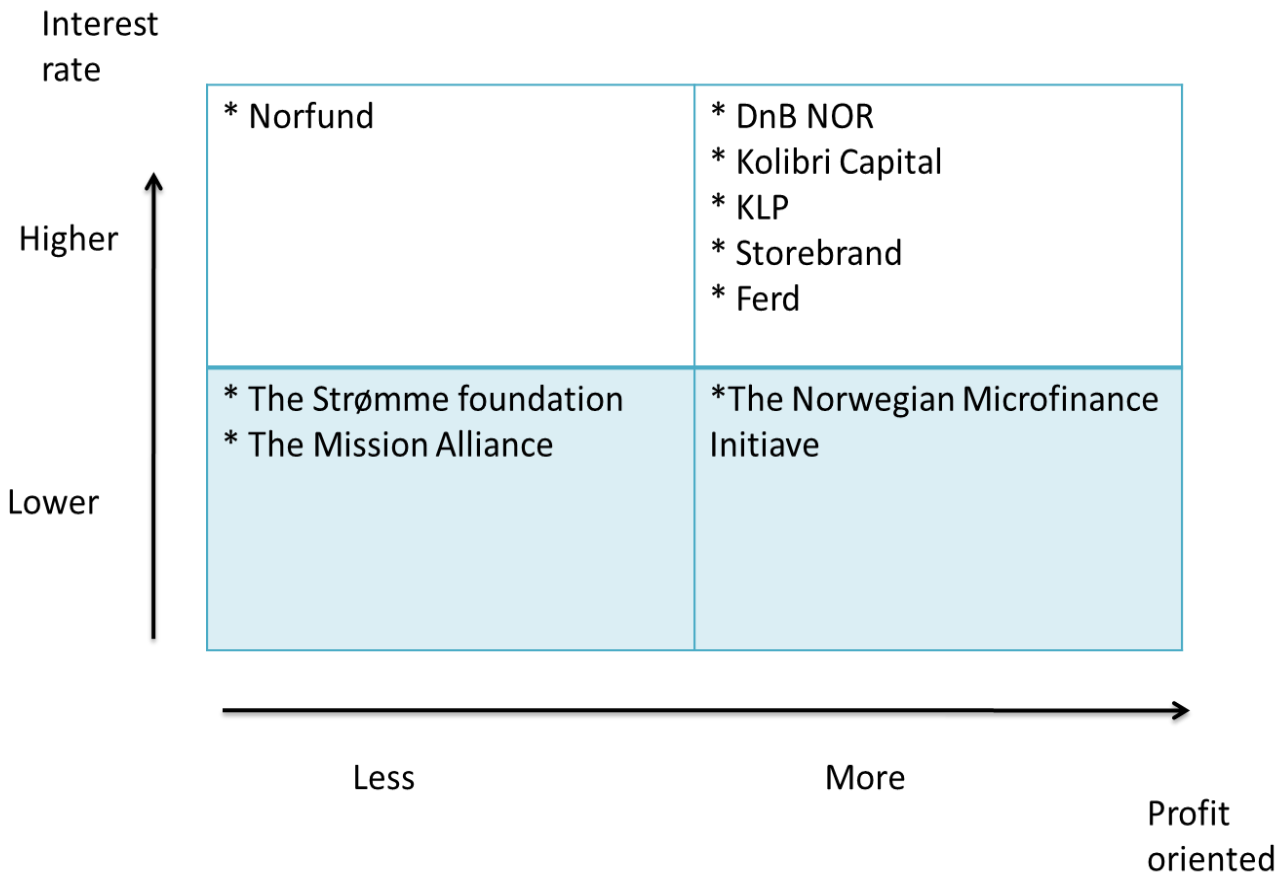

Figure 4: Interest rate and profit orientation. Source: Author.

As described in the model below, hypothetical, the “real NGOs” the Strømme foundation and the Mission Alliance should have a lower interest rate and a less profit oriented focus on their operations. Gavn Microfinance is the collector of capital for both the Strømme foundation and the Mission Alliance. This should in theory lead them to have lower financial costs, since the “investors”/lenders only gain an interest rate of 3 %. This is similar to what the Grameen Bank was charged when they lent money from other banks/government. According to Yunus (2003) Grameen Bank paid an interest rate of around 2 %. On this background, 3 % is more of a symbolic return than a real return. No investors will be financially rich from “investing” in Gavn, but the social richness of contributing to a good cause might be large.

Norfund, as a Norwegian governmental aid organization is assumed to have high interest rate (or at least higher than the NGOs), but they are not assumed to be profit driven. The Norwegian Microfinance Initiative is assumed to have a relatively low interest rate, but is assumed to be more profit oriented than the NGOs. This is assumed on the basic that Norfund will drive down the interest rate by taking the responsibility for e.g. the different exchange rates in the countries. This means that there are lower risks for the organization. This area must be invested properly, because there are differences in the Norfund expression "to have a fair interest paid on their loans" (money are not being given through charity) and the fact that Norfund is a governmental agency that aims to help poor people climb out of poverty by investing in sustainable and profitable businesses in less developed countries.
Kolibri Capital, DnB NOR, KLP, Storebrand and Ferd are assumed to try to demand both high interest rates and to be more profit oriented. This assumption is built on the fact that these organizations are banks and investment companies. Even though they are in the microfinance business based on social responsibility, giving back to the community, etc. they are still "financial", shareholder organizations and they are expected to have a profit each year and earn return for their customers/shareholders.

3.0 Method

This master thesis will be built up on different case studies. The case studies will be built up by using different sources of secondary information, like articles and books written on the subject of microfinance, previous studies about the topic, information about the different companies collected from their web pages and interviews (primary information) with people in the different organizations. The latter is to verify the information collected and to get a broader insight into the companies and how they perform microfinance. There is also some important aspects of microfinance, like interest rate charged to the institutions that they invest in/lends to, interest rates to the end borrower/consumer, etc. that the companies does not reveal on their websites. This information will therefore be a part of the survey in the qualitative telephone interview.
The thesis aims to view many of the problems that have been referred to in previous studies about the topic microfinance and to see if these problems are differently from each other (/can be viewed differently) based on the ownership type of the companies. Since the view on ethics is highly relevant in this paper, it is important to state whether or not non-profit

organizations are more ethical than for-profit organizations. Can an organization be both profitable and ethical at the same time? Or do they have to choose between the two?

The units of analysis will be the different Norwegian microfinance institutions; Strømme foundation, Kolibri Capital, Norwegian Microfinance Initiative, Norfund and Mission Alliance. Strømme foundation and Mission Alliance are clearly stated as non-profitable organizations; while Norwegian Microfinance Initiative and Kolibri Capital are stated as for-profit organizations (want to earn money that is distributed to the shareholders). Norfund are on the other hand owned by the Norwegian government and their aim is to invest money to establish sustainable and profitable companies in less developed countries. Norfund is built up as both an investment company, which invests in business opportunities, and an aid organization that invests in poor countries and tries this way to help the people of that country to climb out of poverty. Whether or not Norfund can be stated as a for-profit or a non-profit organization will be discussed later in this thesis.

There are with other words two (three) different ownership types, within the Norwegian financial institutions.

3.1 Hypotheses

The hypotheses of this paper is that non-profit organizations should be more ethical, charge lower interest rates and take better care of their borrowers, than the for-profit organizations. Some of these hypotheses are grounded on the fact that two of the non-profitable organizations is built up as charity organizations. Whether or not this has to do with the Christianity foundation that the organizations are built up from/around will not be explored further in this thesis, but can be a starting point for another study.

The other organizations are governmental owned, governmental and privately owned, privately and non-profitable "owned" (the Mission Alliance has shares in Kolibri Capital) and non-profitable "owned".

Hypotheses:

1) Non-profit organizations charge a lower interest rate than for-profit organizations.

2) Non-profit organizations take better care of their borrowers than for-profit organizations.

3) Non-profit organizations help and lends to poorer individuals than for-profit organizations.

Hypothesis number one goes against the theory that has been introduced; I have even though stated this because I mean that the interest rates must be seen from which groups of individuals that the organization lends to. Armendáriz et al. (2010) clearly states that once an organization is commercialized then the organization will tend to prioritize the upper part of the marked and can therefore claim lower interest rates (because of lower risk, easier outreach and more focused in urban areas and men). Another factor that is important is that non-profit organizations might lend directly to the organizations/run their own organizations, while the for-profit organizations lend to different microfinance institutions and one more "link" adds more costs. This will from economic theory make the product (interest rate) more expensive (higher), because each link wants to get their costs covered.

Hypothesis number two is based on the fact that many of the non-profit organizations are built from different kind of religious groups, environment protective groups, groups that aims to help starving, and/or poor people. These organizations should therefore hypothetically take better care of their borrowers' e.g. by teaching them how to read and write, give the borrower knowledge about dangerous diseases and how they can prevent themselves and their families from being infected. A for-profit organization might be socially concerned, but a for-profit organization always has the push to earn money for their owners, meaning that there are two stakeholders that draw in each direction (assuming one, the poor for the non-profit organizations).

The third hypothesis is taken from the theory of microfinance. This theory states that non-profit organization tends to lend to poorer individuals than for-profit organizations. One of the reasons for this is the fact that non-profit organizations do not have the pressure of having a positive result. They can therefore only break-even (does not have to pay money to their stakeholders) and can "take" the extra cost that it takes to serve the poorer segment. This "extra cost" would in a for-profit organization be aimed at the shareholders; to give them the return on their investment that they want. The for-profit firm would therefore have had to increase their interest rates (set the interest rate higher) to be able to serve the poorest and their investors at the same time.

3.2 Choice of method

The hypotheses will be examined by a qualitative approach. The reason why I have chosen a qualitative approach is that this thesis has a few units of analyzes. The findings in this paper could to some extent generalize the ethical differences between the Norwegian microfinance institutions (since all the main Norwegian institutions are within the sampling unit), but it cannot be used to generalize for other microfinance institutions (internationally). The aim of this master thesis is not to generalize and find "facts" (that can be said to describe other microfinance institutions in general). The thesis aims to get a broad and deep understanding of what microfinance is, how it is performed by Norwegian organizations and if there are ethical differences between the non-profit and for-profit organizations.

With a quantitative approach, you can have a broad number of respondents, and generalize your results based on finding similarities and differences in the respondents' response to e.g. your survey (by e.g. telephone, door to door, mail, e-mail or pop-up survey on web sites). The problem with a quantitative approach is often that you need to generalize the survey so that it fits "most people", the questions and answers are often to some extent fixed (you need to cross of the answer that suits the best, even if none or only a part of one answer suits you) by e.g. a Likert scale. A Likert scale can measure the attitude towards e.g. a product, a statement etc. and can be measured by numbers e.g. 1 to 5, where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree (Zikmund et al. 2010: 302). In a quantitative approach you use mostly numbers to analyze and discuss the findings, while in qualitative methods, you use words.

With a qualitative approach you can go into depth of the units of analysis. The aim with this method is to get a broader understanding of the respondents and how they e.g. think, feel, mean, etc. about e.g. a theme, topic, product, situation, etc. Often individual or group interview are used. The questions are mostly open, meaning that the respondents can answer what they mean and feel instead of being "squeezed" into an already "made" answer like in most quantitative studies. Sometimes only a theme "limits" the respondents in what they can talk about. Another form of qualitative approach is case study and secondary data (further discussed below). These are the two methods that are mainly used in this thesis. I will also conduct a semi-structured interview (meaning that the questions are set, but the answers are "open"/not categorized) with respondents from each organization. This is mainly to verify information about the organization and how they perform microfinance and not to collect data about the respondents' opinion, habits etc. The respondent will with other words be the spokesperson for the organization.

3.3 Exploratory, descriptive or causal design

When choosing a method for a study, you have to choose among three different research design; exploratory, descriptive or causal design. This theory is collected from Zikmund et al. (2010).

Exploratory research: Exploratory research is grounded research that is often used as a basic research, to see if the research is necessary to conduct. Exploratory research is used to e.g. clarify ambiguous situations or discover potential business opportunities. Exploratory research can also be conducted through investigating a topic, e.g. through studying literature, observations, previous works on the themes (secondary information), etc.

Descriptive research: A descriptive research is research that aims at describing characteristics of objects, people, groups, organizations or environment. It is used to “paint a picture” by addressing the; who, what, when, where and how questions. This design is used to describe why something is the way as it is, but it cannot provide direct evidence of causality (meaning that something causes an effect, the cause-and-effect relationship).

Causal research design: With a causal research design, the aim is to identify cause-and-effect relationships. If something causes an effect, it means it brings it about or makes it/something happen. The effect is the outcome.

Another method that can be used is a combination of all the methods above. An exploratory research can be used as a foundation for descriptive research, which again can establish the basis for a causal research.

This master thesis is build up from a combination of exploratory and descriptive research. The foundation is built upon exploratory research, through investigating different articles, books, and other previous conducted research within the field of microfinance. This foundation is carried forward in the form of describing the different Norwegian microfinance institutions and comparing the different institutions based on both secondary information (web pages, articles etc.) and primary information (interview) in the view of a descriptive framework.

This thesis does not aim to cover the causal research design. The thesis is aimed at describing the organizations and their performance of microfinance from an ethical point of view. The main research design used for the discussion and comparison of this thesis will therefore be a descriptive research design.

3.4 Case studies

According to Jacobsen (2000) a case study is a study that refers to documented history of a particular person, group, organization or an event. A case study can also be used to describe a sample of few units, a simple event, an organization, a small sample of individuals, a local community etc. Through a case study, you study the units of analysis thorough to get a deeper understanding about a special event, organization(s), etc.

The thesis will therefore start with a thorough description of the different Norwegian microfinance institutions, to get a view of the; what, how and why they engaged in the field of microfinance. A case study could also be analyzed on different important themes.

Themes are identified by the frequency with which the same term (or a synonym) arises in the description
(Zikmund, et al. 2010: 140).

The most important themes are; the act of social responsibility and ethics, does the organization reach the poorest in the rural areas or does it focus on the less-poor part of the segment (does not want to take the risk and thereby lends to only people that they know will be able to pay back, because they have more money), the interest rates (difference between non-profit and profitable organizations?), and to some extent (where data is available); does the organizations themselves or the organizations that they invest in/lends money to use hazardous paybacks methods, like violence, take the borrowers necessary products, like e.g. their tin roof etc. if they do not get their money on time. Or do they help the poor people to be able to repay their loans?

The thesis will be an ethical thesis. This has been an aspect that has to a lesser extent been discussed than the financial aspect of microfinance. Since microfinance is used more and more instead of the "traditional aid" and charity, it is important to carry on and keep focusing on the ethical aspects, rather than commercializing the whole sector and become a sector filled with profit seeking organizations.

By using case study as a method it will help me to go into depth of the Norwegian microfinance institutions, to build up a deeper understanding of the theme and why the microfinance institutions perform microfinance as they do today. The case study could also reveal how the organizations could change and improve their ethical standards, if being ethical and social responsible are important for the organization. This could in fact not be the case. Microfinance has been discussed as an ethical approach to get rid of/reduce poverty, but the commercializing of the industry might have shifted and moved the industry away from this mission. Is the ethical impact more a bi-effect than an absolute and wanted affect?

3.5 Secondary data research

Secondary data are data gathered and recorded by someone else prior to (and for purposes other than) the current project (Zikmund et al. 2010: 161).

The advantages for secondary data are that they are easily available. It is with other words almost always faster and less expensive than collecting own primary data. The new digital world has made the search for secondary data very easy, the World Wide Web is flourishing with information and the main obstacle is to filter the useful and “real, valuable information” from the rest of the searches (since everyone has the opportunity to post anything they want on the internet).
The disadvantages are that the data is not designed specifically to meet the researcher’s needs. It is therefore important to have a critical view of the data that is being collected. Can the source be trusted? Does the data available measure the same objects/cover the needs of the researcher?

The most common reasons why secondary data do not adequately satisfy research needs are (1) outdated information, (2) variation in definition of terms, (3) different units of measurement, and (4) lack of information to verify the data’s accuracy. Furthermore, in our rapidly changing environment, information quickly becomes outdated (Zikmund, et al. 2010: 161).

3.5.1 Secondary data about microfinance

A lot of different articles has been posted and studies has been conducted in the around 35-40 years that microfinance has been a subject for reducing the worlds poverty. E.g. studies on costs of ownership on different microfinance organizations (Mersland, 2009), how to reach the poor and who that aims to reach the poorest (Armendáriz et al., 2004) and interest rates ethics (Ashta, 2009).

It is a whole sea of different aspects and views on microfinance, how it needs to be performed in order to be sustainable, the commercialization of microfinance (pros and cons), the ethical/social responsibility of microfinance and positive and negative stories about the impact that microfinance/loans has had on the individuals that has got access to loans. It is therefore important to have a critical view and select the sources that seem most reliable. The sources chosen in this thesis is mainly written by people that are connected to/work at a university/college, works in microfinance organizations, that has been referred to by other articles (this shows that the source has been used/ quoted before and states the importance of the article/study) or published in famous journals and newspapers. These sources are “verified” and reliable sources and can therefore be used as a basic for further studies.

Since all the organizations in this study work in different continents and many also work through other intermediaries, it is hard to collect primary data. This thesis will therefore mainly focus on the data available, through the companies' internet pages (to build up the different cases), articles available and previous research. The different organizations will be built into different cases (where each organization is considered a case) and the secondary data will be analyzed against theory to verify the ethical aspects of the organizations, and how the company performs on the background of the ethical theory presented in part 2 (and the theory/aspects of microfinance presented in part 1). In addition I will come with some basic discussion of for-profit and non-profit organizations and how microfinance should be performed from an ethical point of view.

3.6 The survey

I have chosen a qualitative approach on my survey. The survey is divided into five main categories; about microfinance, the borrower and interest rate, risk/return, collection of loans and ethics. The questions are semi-structured, meaning that the questions are the same for all the respondents, but the answers are open. This means that the respondent can answer what they mean is the natural answer for their organizations without any limitations. The survey could be seen as a quantitative approach, but the survey is a continuation of the already chosen approaches secondary information and case study, which are qualitative approaches. The survey is also mainly a way to collect facts about the different organizations. It is therefore not the respondents' feelings, wants, meanings etc. that counts. The respondents are merely a source of information answering behalf of the company. The survey was conducted through a telephone interview. This is to reduce costs and geographical limitations. Another important reason for this is that the survey was conducted during the summertime and people is often harder to reach then due to the summer holidays (but many tend to have their phone available).

I have chosen to carry out the survey in Norwegian, even though this thesis is written in English. The reasons why I have chosen this approach is that people are often more willing and able to answer surveys that are in their native language. Therefore, (since all the respondents are Norwegian), I have chosen this as the language for the survey (appendix A is in English (translated) and appendix B is in Norwegian (the original)).

The main question, when holding the survey in another language than the thesis is written in is the translation bias. When translating, the researcher can use different words than the respondent might have/wanted to use and the meaning can therefore change as the researcher interpreters the results. One of the main problems with a qualitative approach is the researcher bias, meaning that the researcher can both affect the respondents while interviewing him/her and when he/she is interpreting the results. The researcher and language bias is reduced in this thesis, because it is not the respondents' feelings and meanings that are important in this survey. The survey aims to find out information about the company. Therefore the answers should in theory be the same no matter who the respondent that represents the firm is. In practice it will always be some sort of bias, because different people can hold different kind of information and they have also themselves interpreted the information that they have received from their company.

It is never possible to reduce all the biases and fully be able to write a valid and reliable thesis. Also in larger research projects there could always be biases due to wrong choice of respondents, wrong interpretation of the results, the respondents does not answer the truth, are affected by the researcher/interviewer etc. Often a researcher can use a quantitative approach to gain more reliability and validity (because when you have a larger sample unit it is easier to generalize the results). But with a larger sample unit, researcher often tend to generalize the surveys and the answers (e.g. yes, no, do not know, or numerical from e.g. 1 to 5), this again brings another bias, that the respondents are put into categories or "forced" to answer something that they might not mean, that does not fully reflects their opinion/meanings etc.

In this master thesis I do not aim for validity and reliability. I aim to get a deeper understanding of microfinance, how it is performed, if there are ethical differences between the organizations and whether or not this can be explained by the difference in their ownership types, non-profit or for-profit organizations. There are also some nuances; some have own microfinance institutions, some organizations directly invest in microfinance institutions (become owners), others lends to microfinance institutions etc. These aspects can help to explain why the organization performs as they do and why they have chosen this method.

The survey conducted to get information from the Norwegian microfinance institutions will be used mostly in the part 5, the discussion part. The cases in part 4 are mostly built up on secondary information collected from the organizations own homepages.

4.0 Implementation

I will start the implementation by building up the cases on the basis of the secondary information that has been available at the organizations own homepages. I will afterwards use some of the information collected together with the theory framework to build up a survey that I will use to interview a member of each organization (a member that knows the organization and how they perform microfinance well). The survey is built to emphasize the ethical aspects of microfinance, and will be used, together with the secondary information to discuss the ethical aspects of the Norwegian microfinance institutions in part 5. The aim of these cases and the interviews are to see if there are ethical differences between the different Norwegian microfinance institutions and if these ethical differences (if found) can be described/found based on the ownership types of the microfinance institutions.

Some of these ethical factors are discussed previously in the microfinance theory, like in Armendáriz et al. (2010). In this book the aspect of commercialization is discussed and the authors claims that when a company is commercialized then the company will tend to serve the upper part of the microfinance segment, the people that are better off than the poorest, people that live in urban areas (where more people can be reached at the same time), giving larger loans and shifting away from the female (claimed to be the poorest). These factors are ethical factors, due to the segments that the different organizations reach. Here the question is if these factors can be verified and transferred into the Norwegian microfinance institutions. What can the Norwegian and other microfinance institutions do in order to become more ethical?

4.1 The Strømme foundation

The Strømme foundation (Norwegian: Strømmestiftelsen) was established 21 September 1976 by Gunnar Strømme, the nephew of Olav Kristian Strømme. Olav Kristian Strømme was a priest in Kristiansand, at the Southern part of Norway. Olav Kristian Strømme was known for being a new thinker within the collecting of money to support aid projects. He used among others affects red advertisements and promoted celebrities in his collection campaigns. Strømme had a strong connection with his donors and kept them updated through the media. When Olav Kristian Strømme died in August 1976, he left a fortune of 3, 3 Million Norwegian Kroner. Gunnar Strømme used this equity to establish the Strømme foundation and continued the work that his uncle had started.

The Strømme foundation is today one of Norway's most respected aid organization. Their focus areas are microfinance, education and cultural events. Their vision is; "We want to eradicate poverty" (stromme.org). The Strømme foundation believes that poverty can be reduced through education and microfinance. They call it "Help to self-help". The poor people can climb their way out of poverty if they only get the right tools that they need and the right tools is seen to be education and microfinance.

4.1.1 Microfinance in the Strømme foundation

The Strømme foundation started its own microfinance organization, Strømme Microfinance AS in 2007. The official transfer of the assets and the "real start" for the company was not until March 31st 2009. The company (according to its annual report 2009) has reached 274 696 women and 46 034 men (totally 320 731 people) through microfinance programs initiated by Strømme Microfinance AS and its subsidiaries. 254 256 is reached through institutional microfinance and 66 515 is reached through Community Managed Microfinance (CMMF). Most Community Managed Microfinance's (a form of ROSCA) are found in Africa. Strømme Microfinance and the Strømme Foundation help the people to set up these groups and show them how they themselves can create a saving and lending bank. Strømme Microfinance is represented in Peru, Mali, Burkina Faso, Bangladesh, Sri Lanka, Cambodia, Myanmar, Tanzania, Kenya, Rwanda and Uganda. Strømme Microfinance AS has got 91 partners in four regions. The people the organization has reached are divided like this on the different regions and on the different partners.

- Asia 182 702 reached divided on 39 partners
- East Africa 91 079 reached divided on 34 partners
- West Africa 45 811 reached divided on 15 partners
- South America 1139 reached divided on 2 partners

Strømme Microfinance AS has got two subsidiaries Strømme Microfinance East Africa Ltd. and Strømme Microfinance Asia Guarantee Ltd. Another subsidiary in Bangladesh was ready to open, but lacks the formal approval from the Bangladeshi government (annual report 2009).

Strømme Microfinance, like many other non-profit organizations focuses on women. Women are often the poorest, because they do not have the same security or rights like men do. Strømme Microfinance also believes that a loan given to women would help to improve the life for herself and her family. This is because the woman feeds her family first, then herself, while a man would do the opposite. Children of women that have got access to microloans also tend to attend school more often than if the men in the household got the same loan. Some of the explanations of this could be the empowerment that the women might get through their loan. Now they might have the opportunity to contribute to the household discussion and how to use the money (at least to some extent). Before, women were seen as a burden, an extra mouth to feed; now they can support themselves and bring extra food on the table for their family. The weight has been shifted and it is no longer the man that is the only provider of the household.

Strømme Microfinance projects are built up on mainly group solidarity. The groups are formed together, 5 members in each group. The loans are given on an individual basic, but the group guaranties together that the loans will be repaid. This means that if one of the members cannot pay back, then the rest of the group is responsible for the loan. This builds mainly on the model of Yunus and Grameen Bank. The model emphasizes the affect that peer pressure can have on each member to pay. When the member's forms the groups, then no one will join together with people that they think will take major risks, because they will not risk having to pay back for them. Another important factor is that if the women are mutually responsible, then they will be willing/want to help other members of the group if they are struggling.

Loans can also be given to people on an individual basic if they have got security, e.g. a registered house, gold, jewelries etc. Or if they can get a guarantor to sign that if the borrower cannot pay, then he/she guarantors to pay back for the other person (is responsible for paying back). This can be e.g. a rich uncle, the head chief in the village etc. These forms of loans are not that common in Strømme Microfinance, because they aim at helping the poorest and the poorest are those who have got the least securities and must therefore get loans through groups built on group solidarity.

Strømme Microfinance works through different microfinance institutions. This means that they are not present in the country, but they partner up with local microfinance institutions. It is often easier to partner up with another intermediary, then starting a bank/organization on your own. Knowledge about the market, legal regulations that hinders foreign companies to establish, etc. can make it hard for an organization to establish on their own. The microfinance institutions that the Strømme Microfinance works with are mostly already established microfinance institutions and banks. Their main purpose is to offer poor people access to financial services and cover their needs. The average loan in e.g. East-Africa is about 1 000 Norwegian Kroner, and is paid back within ten months. Some institutions also lend out a few larger loans, “talent finance”, to people that runs larger companies. A “talent finance” is about 10 000 Norwegian Kroner and is paid back within two years.

4.1.2 Interest rates

The average interest of microfinance institutions are 30 %. This varies from institution to institution. The interest rate at Strømme Microfinance is put together by three components; cost of capital, risk premium and transaction costs. The interest rate should cover the cost of getting access to the finance, inflation, the cost of establishing the loans, etc. The Strømme foundation and Strømme Microfinance believes that the interest rates should follow (and flow like) the market rate in the area. The organization does therefore not subsidize the interest rates to their borrowers. One factor that can help to reduce the interest rate for the borrowers is that Strømme Microfinance takes full responsibility for any potential currency loss. This burden will therefore not be put over to the borrowers (like many commercial companies do) and the rates can be kept lower. All loans given by Strømme Microfinance are given in the local currency. According to the annual report 2010 for Strømme Microfinance, much of the capital lend out to the different microfinance institutions are lend from Norwegian banks/investors, e.g. Nordea. Strømme Microfinance and Mission Alliance created in 2011 Gavn, a Norwegian investment company (see chapter 4.1.3). Strømme Microfinance goal is to mainly use the funds available through Gavn. These funds will also be cheaper for the company to use, because here the interest paid are 3 % while the rate on some of the loans they have today is between 4 % and 7 %.

The Strømme foundation tries to reach out to the poor in the rural areas. These people are often harder to serve, because the microfinance institutions have to go out to the people, rather than having the people visiting the bank. This will lead to a higher cost, than if the customer could go to the bank, like in urban (larger cities) areas.

The Strømme foundation claims that; “The most expensive loan for a poor person, is the loan that she or he never got.” (strommestiftelsen.no)

The person who does not get the loan that she or he needs, must often go to “loan sharks”, and pay at least 100 % interest rates. The worst part is that these people often risk their lives. If they are not able to pay back they risk being beaten or even killed. The Strømme foundation therefore aims to reach out to the poorest of the poor, so they too can have a fair opportunity to work their way out of poverty.

4.2 The Mission Alliance

The Mission Alliance (Norwegian: Misjons Alliansen) was established in 1901 by Ludvig Eriksen. The Mission Alliance is a Christian mission organization (non-profit), and their first mission was to spread the word of God in China. The Mission Alliance has always tried to help the less fortuned people in the world. They have among other things established hospitals/health clinks and schools, worked with street children, the disabled, orphans etc. Generous givers and help from the Norwegian government have made it possible for the Mission Alliance to help improve other people's lives.

4.2.1 Microfinance in the Mission Alliance

The Mission Alliance has microfinance projects in Bolivia, Ecuador, Vietnam and China (at a little scale in Vietnam and China). They started to give microcredit in 1991 in Bolivia and in 1997 in Ecuador. Their microfinance model is built on inspiration of the Grameen Bank and Yunus. The only exception is that due to legislation, the Mission Alliance does not take savings from their borrowers and others (more strict rules and regulations, you need to be regulated as a bank). This is starting to change, with the focus of becoming or confirming the earlier microfinance institutions into banks.

The Mission Alliance has, like the Strømme foundation, separated the microfinance part into the Alliance Microfinance. This could be to reduce risk or to become more focused on the microfinance part.

The Alliance Microfinance gives loans to individuals or families that want to start their own companies or expand their current business. The microloan could also be used to improve their housing conditions. The money that the Alliance Microfinance is lending out comes from support from the Norwegian government through Norad, loans in financial institutions and from generous individuals and companies in Norway.

Everyone has got the ability to get a loan; the only limitation is that the people live within the Mission Alliance project area in the country. This means that there is no discrimination due to gender, age, religion, ethnicity and culture. With other words; you do not have to be a Christian even though the organization is founded on the Christian values. The most important factor for the Mission Alliance and Alliance Microfinance are the command about loving thy neighbor/fellow human being.

4.2.2 Interest rates

The interest rates on the microfinance loans are set at the market rate. This means that the interest rate is not being subsidized and that the poor people will get the same market conditions as the rest of the marked.
Many microcredit organizations calculate and operate with the interest rates of the loan amount. The Alliance Microfinance calculates the interest rate on the outstanding balance. This means that as soon as a borrower pays, then the amount will be reduced and this reduces the interest correspondently.

"The interest rate is but together by two components: real interest rate + inflation. In many of the countries the real interest rates are higher than in Norway, due to the country's risk level. The inflation rate is also usually higher than in Norway" (misjonsalliansen.no)
This means that the interest rates cannot be compared directly between the two countries. The Alliance Microfinance wants to have the same interest rates that the rich people get on their loans. It is on the other hand also important to not lend out cheaper, because then the rich people will try to borrow (at the cheaper rate) or force the poor people to lend their money to them (misjonsalliansen.no)
The fact that the Mission Alliance has been supported by free donations from Norway has helped to keep the interest rates down. But when e.g. Diaconia-FRIF (Bolivia) must borrow money to reach more customers, then the interest rates will go up (above the countries banks rates) in order to remain sustainable.

4.3 Gavn Microfinance

Gavn Microfinance AS was established by the Strømme foundation and the Mission Alliance in 2011. It was established through their two companies Strømme Microfinance AS and Alliance Microfinance AS. The two organizations have over 20 years' experience with microfinance across three continents and are Norway's largest private operators on microfinance. The two companies has a combined fund on 560 million NOK and helps about 120 000 individuals improving their lives.
Gavn is an investment fund that companies or individuals can invest in. The minimum amount that can be lent to Gavn is 500 000 NOK. The money will be tied up for three years and the investor will get an interest rate on the loan at 3 %. Through Gavn, Strømme Microfinance and Alliance Microfinance can get access to capital, which can help them expand their help to the poor. Lack of capital is often a problem for non-profit organizations/NGO and limits their help. An interest rate on 3 % is relatively low and this indicates that people that are "willing"

to invest in this program, does it mainly for the social benefits and not the financial benefits. (It is most likely that the capital would have given higher return if it was invested in other projects, stocks, etc.)

The 500 000 that the investors invest in Gavn Microfinance will (source: gavn.no);
* Give loan to 250 families (first average loan is about $ 400, approximately 2000 NOK)
* Help 250 people within the first year (assuming a family size of 5 people)
* Since the average loan cycles is nine months, there will be four loan cycles on the three years
* 500 000 NOK will on three years help approximately 1000 families and 5000 people.

4.4 Kolibri Capital

Kolibri Capital (Norwegian; Kolibri Kapital) was established in 2000 by a group of people from the Korsvei-movement (a Christian group) and the Norwegian industry. The company saw the ability to help microfinance institutions that needed fresh capital, and at the same time they wanted to cover the increasing interest of ethical investments that grew in the rich countries, including Norway. The Korsvei-movement and the Norwegian Mission Alliance put together in 500 000 NOK of the 1 million NOK that was the company's starting capital. Since the beginning in 2000, Kolibri Capital has lent out money to microfinance institutions that has helped about 30 000 individuals (the capital/loans have been past forward from the microfinance institutions to the borrowers).

The company's main business area is to collect capital in Norway, and then invest the capital in microfinance institutions in South-Africa, Asia and South-America. Kolibri Capital is a for-profit, shareholder organization. This means that people can buy stocks in Kolibri Capital. The value of the stocks that the investors buy becomes the equity that the company lends out to the microfinance institutions. Some of the major investors (apart from the founders the Korsvei-movement and the Mission Alliance) are Ferd Holding AS, Choice Hotel Scandinavia ASA and Opplysningsvesenets fund.

The company has grown rapidly and consists (in 2011) of around 340 personal investors and institutions. The equity has grown to about 20 million.

The vision of the company is; "Help to self-help gives the opportunity to realize dreams and build a better life". (kolibrikapital.no)

Kolibri Capital has developed some ethical guidelines that the company aims to follow; prohibitions against child labor, limited use of natural resources, take care of human rights and social interests. Kolibri Capital does not give loans to any organizations that violates these guidelines or knows that the borrowers violate them.

4.4.1 Microfinance in Kolibri Capital

Kolibri Capital does not perform “direct microfinance”. The company lends their available capital to different microfinance institutions that again lends the money further to the “end lender”/the poor people that is granted the loan. Lack of capital is sometimes a problem that hinders the poor people from being able to lend money to start their own businesses. Through the capital that Kolibri Capital lends out, the microfinance institutions are able to reach a broader amount of people, than it would have without the loan. The microfinance institutions pay an interest rate to Kolibri Capital on the loan. This is the income for Kolibri Capital.

Kolibri Capital aims to be economically sustainable, and wants in the future to be able to pay its shareholders moderate, economical returns/dividend. Kolibri Capital tries to invest mostly in organizations that have Nordic ownership. At the end of 2010 (according to the annual report) Kolibri Capital had 500 borrowers divided on Latin-America, Africa and Asia, that each had got a loan between 3000 and 7000 NOK. The loans usually matured within 6-18 months.

Kolibri Capital loan customers are today D-MICRO, Sinapi Aba Trust, Diaconia-FRIF, Funbodem, Lazika Capital and La Sagrada Familia.

D-MICRO is owned by the Norwegian Mission Alliance and was started in 1997. The bank lays in Guayaquil in Ecuador. Sinapi Aba Trust (SAT) was established in Ghana by the humanitarian organization Opportunity International in 1994. Diaconia-FRIF was established in La Paz in Bolivia in 1991 by the Norwegian Mission Alliance and NORAD (it is now locally owned). Funbodem was established in Santa Cruz in Bolivia in 1987, on the initiative from the Women’s World Banking in New York. Lazika Capital was established in Zugdidi in Georgia in 2000 by Oxfam (British charity organization) and Novib (Dutch charity organization). La Sagrada Familia is a newly established non-profitable organization in La Paz Bolivia.

From the short description above, we can see that Kolibri Capital lens out mainly to microfinance institutions started by or driven by well-established charity organizations like the Norwegian Mission Alliance, Women’s World Banking, Oxfam and Opportunity International. This can be a way to reduce the risk of the portfolio. Less risk means that Kolibri Capital can be more certain that they will get their money back and they will therefore be willing to invest in these microfinance institutions. Kolibri Capital has also “felt” the corruption and risk on “their body “, through a bad investment in Norwegian Microcredit LLC (Normicro) in Azerbaijan. Here many of the employees embezzled money from Kolibri Capital and used the money for their own good (gave themselves loans), and not to loans to “actual poor people”, witch it was aimed at.

4.4.2 Interest rates

Kolibri Capital does not inform which interest rate that they charge to their lenders and perhaps more importantly which interest rate that are charged to the “end lender”. Kolibri Capital adds capital to the microfinance institutions, but it also adds another link. From theories in economics, we know that each link will lead to an extra cost for the end user, because each link wants to get their costs covered (e.g. the example of wholesalers and retail sellers). Another factor that should help to keep the interest rates down is that the company has only got one employee, the daily manager. The company also uses many volunteers and students to keep their costs down (in the annual report 2010 it is suggested to hire another person/part time position in order to be able to expand).

4.5 Norwegian Microfinance Initiative

The Norwegian Microfinance Initiative (Norwegian: Norsk Mikrofinans Initiativ (NMI)) was established in 2008 as a cooperation between the Norwegian government and private investors. The Norwegian government is represented by Norfund (described in chapter 4.1.6) (the Norwegian Development Finance Institution) and the private investors are represented by DnB NOR (through their insurance subsidiary Vital), Ferd, KLP and Storebrand (described below). The Norwegian government owns 50 % of the fund and the four others companies shares the remaining 50 %. The remaining 50 % is divided through an equal amount of shares between DnB NOR (Vital), Ferd, KLP and Storebrand.

The Mission of Norwegian Microfinance Initiative (NMI) is to contribute to the empowerment of poor people and to the creation of jobs, wealth and economic social sustainability in developing countries by investing in and supporting Microfinance Institutions (“MFIs”) (nmimicro.no)

Norwegian Microfinance Initiative invests in and lends money to mostly large microfinance “vehicles” and mature Microfinance Institutions, but they have also committed to help building up smaller Microfinance Institutions in e.g. Africa. The fund is divided into two funds. The first, NMI Global Fund invests more in large, mature Microfinance Institutions in Asia, Africa and Latin America. The second fund, NMI Frontier Fund, invests primarily in young and emerging microfinance institutions and primarily through direct investments. Here they can help the microfinance institutions to grow and become well driven institutions. NMI Frontier Fund invests mostly in Sub-Sahara (Africa) and South Asia, their focus countries are; India, Pakistan, Nigeria, Ghana, Cameron, Senegal, Mali, Tanzania, Uganda and Kenya.

Norwegian Microfinance Initiative has 600 million NOK in funds (money they can invest). The funds are shared with 360 million NOK in NMI Global Fund and 240 million NOK in NMI Frontier Fund. Together the NMI Funds have reached 79 microfinance institutions (through direct investments and loans) in 34 countries. The organization has provided more than $ 7 billion in loans to more than 12 million consumers.

- 80 % of the customers were women (9, 5 million)
- 40 % lived in rural areas (4, 8 million)
- 90 % used the loans for income generating purpose

NMI Funds seek to balance a long-term social and economic impact with fair financial return.

4.5.1 Ferd

Ferd is a Norwegian investment company. The company changed its name from Tiedemann's-group to Ferd in 2001. Ferd has been owned by the same family since 1849. Its main production areas were previously tobacco, but the company has also been known for investing in all sorts of different financial, maritime and industry in general. Ferd is today mainly an investment company, this means that the company buys and sells stocks and invests in projects like building properties, e.g. the "Tiedemann's town", (where the old tobacco factory used to stand). The company has no "own" production of any sort. The company is today owned and run by Johan Henrik Andersen.

4.5.2 Storebrand

Storebrand is a Norwegian bank and insurance company that has its roots back to 1767. Storebrand is today one of the leading players in the Nordic markets for pension, life- and health insurance, banking and asset management. Storebrand has invested about 200 million of their client's pension funds in microfinance projects. Storebrand has invested both through the Norwegian Microfinance Initiative and "privately" (on their own, outside the NMI cooperation) in different microfinance institutions. Their yearly return on microfinance is between 3-5 %. Storebrand views their investments in microfinance as both a good social- and financial investment.

“30 % interest rate can sound much in the western part of the world. But compared to the interest rates that poor people in the third world has to pay (in order to get the loan), 30 % is a fair rate” (Meisingset, C.T., storebrand.no).

She also states on Storebrand’s home page that microcredit is banking activity and not charity.

4.5.3 DnB NOR

DnB NOR was established in 1822 as the Christiania Sparebank. The bank has since then been through a lot of mergers with other Norwegian banks and insurance companies and has grown to become a large and powerful organization. DnB NOR is today Norway’s largest bank. The bank joined the Norwegian Microfinance Initiative in order to gain both social and financial return. DnB NOR has not invested directly in NMI. DnB NOR has invested through its insurance company Vital Insurance ASA. Vital Insurance ASA has invested through their customer’s life insurance fund. (In November 2011, DnB NOR implemented Vital and Postbanken in their main cooperation and the organization was renamed DNB).

4.1.5.4 Kommunal Landspensjonskasse (KLP)

KLP is a Norwegian bank that provides pension, financing, life insurance (one of the largest in Norway) and other insurance services to the local government sector, state health enterprises and businesses within the public and private sector.

KLP has not stated anything about their cooperation with the Norwegian Microfinance Initiative on their webpage. This is a bit strange if they are doing it for the social benefits, since most companies that do something for social or environmental benefits often want it to be “shown” and to give them good publicity.

4.5.5 Microfinance in Norwegian Microfinance Initiative

Norwegian Microfinance Initiative lends out funds to different microfinance institutions. As mentioned above, there are two funds, focusing on their individual areas. Norwegian Microfinance Initiative believes that access to capital is one of the most important parts of getting a person out of poverty.

“Microfinance is today only a real option for fewer than 10 % of everyone that lacks access to ordinary financial services” (Weingarten, R. Ferd Magazine 2009).

He also claims that the more capital available within the market, the lower the interest rate will be. The combination of a government owned and privately owned fund, will give access to knowledge about aid, how to help people out of poverty, possibility for innovation and a steady stream of capital.
NMI is with other words a for-profit organization that lends out money to different microfinance institutions with an expected return on their lending's.

Maximizing Development Impact and Social Performance. NMI will seek to maximize the Development Impact and Social Performance of its investments. It will emphasize particularly extending the outreach of its portfolio MFIs, assuring that these institutions reach greater scale and sustainability, and providing access to financial services to the "unbanked" poor. NMI will also focus on consumer protection and the broad social impacts of its investments. (nmimicro.no)

Social factors that NMI aims to live after and implement on the organizations that they invests in or lends to:

- Provide financial services to an increasing number of poor and low income people in a sustainable manner.
- Improving the quality and appropriateness of financial services available to poor and low income people through systematic assessment of their specific needs.
- Creating benefits for the clients of microfinance institutions and their families by (i) increasing social capital, assets and income, (ii) increase access to financial services, (iii) reducing vulnerability to economic shocks, and (iv) fulfilling basic needs.
- Improving the social responsibility of MFIs towards their clients, employees and communities.

4.5.6 Interest rates

NMI does not give any information about how high interest rates that they demand on their loans. The interest rate might vary from one microfinance institution to another, due to the maturity of the company, portfolio risks, risk in the country, inflation, etc.
"Fair Financial Returns. NMI will seek a fair financial return from its investments. It will balance its objectives for financial returns with its development and social objectives" (nmimicro.no)

NMI tries with other words to get a fair financial return from its investments. Their return on equity (Net income after tax/shareholder equity) is 9 % for NMI Global Fund and 6, 59 % for NMI Frontier Fund. Return on equity is supposed to measure how well the company generates profits from the shareholders equity (Wikipedia).
Returns on assets (Net income/Total assets) are 3 % for NMI Global Fund and 0, 94 % for NMI Frontier Fund. Return on assets is supposed to show how profitable the company's assets are in generating revenue (Wikipedia).
As the financial numbers reflect, the general ROE and ROA for the two funds are generally low. Is this an indicator that the profitable company does not make a large profit at the cost of the poor people? Does it provide only enough to break even? On the other hand, the net income was $ 2 million at only NMI Frontier Fund alone.

4.6 Norfund

Norfund was established as a company under specialized laws, under the Ministry of Foreign affairs in 1997. The Norwegian Investment Fund for Developing Countries (Norfund) was established to fight poverty through investing in- and borrowing to profitable and sustainable companies. These investments could/should contribute to development and private ownership in less developed countries. Norfund aims to invest in countries that has got limited access to finance, often because people do not want to invest there, due to high risks (politically and socially).

Norfund gets yearly funds from the Norwegian government. The funds available have been increased from 175 million NOK in 1998 to 585 million NOK in 2009.
An important premise in the establishing of Norfund was that development assistance/capital must be used to contribute to the private sector, and this will/should lead to long-term economic sustainability. Norfund believes that it is only through economically growth, that a country can develop and improve the inhabitant's living standards. Norfund was first restricted to investments together with Norwegian partners, but this restriction was removed in 2002.

4.6.1 Microfinance in Norfund

Norfund invests in microfinance not only through Norwegian Microfinance Initiative, but also on an individual basis. Norfund buys stocks/ownership in microfinance institutions and offers also loans to the same and other microfinance institutions. An example of this is (Norfund.no); in 2010 Norfund buys up 8, 9 % of the equity (about 80 million NOK) in the

Real People-Group and also offers an unsecured loan of 80 million NOK to the group. The Real People-Group gives out microfinance loans, insurance, small house loans, loans to education, etc.

Norfund has invested 651 million NOK in microfinance projects, these projects involves direct investments in institutions, through buying up shares or giving loans to microfinance institutions. 300 million NOK of the 651 million NOK is invested in Norwegian Microfinance Initiative, this means that Norfund invests heavily in microfinance outside Norwegian Microfinance Initiative (351 million NOK). Norfund invests more in small and large companies in the developing part of the world (not individuals). The organization also invests more in/focuses on banking activities and has a focus on the "upper part" of the segment. (The organization says that their main investment in microfinance is through the Norwegian Microfinance Initiative). The company claims that their focus is on the development of the country, rather than the development of individuals through microfinance.

Norfund has a more risky investment portfolio than Norwegian Microfinance Initiative, and invests therefore also in other countries and projects. One of the reasons why they take higher risks could be that their "owners" are the Norwegian government and not private owners. Their money is therefore not "lost" in the same sense as it would have been if the company was funded on private capital. Norfund also aims at helping the poor countries out of poverty and more risk-taking could lead to a higher return (if the project does not fail) than low risk projects.

4.6.2 Interest rates

Norfund does not state what kind of interest rate they demand on their loans. Norfund invests directly in different companies/organizations and gives them an opportunity to expand/grow. Norfund invests more in financial banks in poor countries and claims that the organization is a commercial organization. Their main contribution to microfinance is therefore performed through the Norwegian Microfinance Initiative.

Norfund is a "second link", which will lead to higher costs for the end user, the borrower. Norfund is even though a Norwegian governmental aid program, a profit oriented organization. This means that the company expects positive results and interest rates on their loans to both cover their costs and make a profit.

4.7 CARE

CARE (Cooperative for American Remittances to Europe) is also a charity organization that provides microfinance. CARE was established in USA in 1945 by American organizations that wanted to help Europe after the Second World War. CARE was established in Norway in 1980. CARE works today to empower and enlighten women and provides among other services, microfinance. CARE helps women in local communities to form savings and loan groups. The groups are formed with between 15 and 30 people. The members of these groups come together and save a small amount each week. The women gets access to capital, by lending from the money collected on the meeting. The group is in some sense a small bank that provides safe savings, ability to lend and insurance. CARE teaches these women how to form these banks and also how to read, write and calculate. The members of the banks decide their own interest rates and repayment time, the average interest rate is between 5 % - 10 % and repayment time varies from 1 month to 3-6 months.

CARE does not provide direct microfinance (through lending money to or investing in microfinance institutions) and is therefore not implemented in this thesis. CARE is also not a fully owned "Norwegian" microfinance institution, but an institution that is a "Norwegian link" of its American mother.

CARE is therefore only mentioned here, to cover the main microfinance institutions in Norway and recognize the work that they do for the poor women all over the world. CARE will not be a part of the further discussion about the Norwegian microfinance institutions.

4.8 Survey

The survey is built up with five different main categories (see appendix A); about microfinance, the borrowers and the interest rates, risk/return, collection of loans and ethics. I have chosen these five categories to highlight the main points in microfinance and the ethical aspects. The survey is built as a basis for the further discussion of the topic and aims to explore and find further information that was not available at the companies' web sites. Some of these questions (and the reason why the information is not posted) could be that the company has not got the information or that they do not want to reveal this information. If the companies does not have this information, an explanation why could have an impact on the further discussion of ethics. Could it be that the investment companies, funds etc. does not want to know information on e.g. interest rate, because they are more concerned about their own profit/return on their investments?

Some of these questions are quite similar and aims to capture as much information as possible.
The main aspect of the survey is to find out exactly;
* How the companies perform microfinance.
* How the companies are structured (to verify if they are non-profit or profitable firms).
* Discuss the social responsibility based on already performed surveys/the theory foundation of microfinance, like the target group of the organization. If the target group/borrowers are mainly women, the organization is viewed to mainly be a non-profit organization. Another important factor is whether or not the organizations invests in/lends to institutions located in rural or urban areas. When the organizations become for-profit organizations/commercialized, then they tend to move up to the upper part of the segment.
Another important factor is if the institutions provide training for their borrowers and what kind of training, e.g. education, teaches them how to read and write, basic accounting, etc.

Hansmann (1996) discusses that the non-profit organizations can perform business in markets that have few profit opportunities (can only breakeven). The non-profit organizations do not have to have a positive result and pay dividend to its shareholders; therefore the rush to profit is limited/ vanished in these organizations. A for-profit organization lives on the other hand mainly to serve their shareholders. It is the shareholders that influence what the company should, e.g. invest in, focus on (areas), etc. The shareholders can at any point sell themself out (sell their shares in the company) of the company if they are not pleased with the company, its policies, the return on their investments, etc. The focus of a shareholder organization is therefore (and should therefore) be on the shareholders, the stakeholder that keeps the company alive. A non-profit organization does not have this pursuit of being profitable and can therefore merely focus on their cause, in this case to help the poor and reduce the poverty in the world.

The commercialization of microfinance has been discussed with both positive and negative inputs. Some claim that the commercialization gives the opportunity to serve more individuals, due to higher access to funds (e.g. Banco Compartamos). Others have claimed that it has shifted the focus away from the poor, because these companies are not able to serve the poor with a profit. This leads the poorest borrowers to the non-profitable organizations, while the for-profit organizations focus on the upper part of the marked.
Is this ethical? The for-profit organizations often claim that they are investing in/lending money to microfinance institutions based on the wish of helping the poor and reducing the poverty in the world. When looking at the different segments that the institutions serve (and

the profitable numbers), it could be wrong to say that these institutions are doing it for the benefit of the poorest in the world. Social responsibility is often performed by company on behalf of themselves. One could have asked if the companies would have done the same if they did not get any publicity around the action and had to keep quiet about the “good” they provided to the people. Many social responsibility actions could be viewed as a way to lift up the company and are actually actions of selfishness. A question that comes up is; is it better and more ethical to be social responsible with an intentional background than to not be social responsible?

5.0 Discussion

After conducting the survey with the five Norwegian microfinance organizations, it became much clearer what their different ownership types were and that there are some ethical differences between a non-profit- and a for-profit organization. The ethical differences are in this paper focused on the market segment that the different organizations focus on; here described as the most ethical market segment is to focus on the poorest borrowers (since the women are stated to be a major part of the world’s poor, a majority of female borrowers/females as focus group will mean that the organizations to some extent is ethical) and the focus on investing in/lending to organizations and people in rural areas instead of urban areas (because the poorest are believed to live on the country side).

This discussion section will be a comparison and analysis of the different Norwegian microfinance organizations and the basic ethical differences between a for-profit and a non-profit organization. The theories that will be used is mainly the ethical/moral theories in chapter two combined with the theories about microfinance collected from books, articles, etc. written on the topic (much of it was described in chapter one). I will start this chapter by defining the different ownership types and find out which categories that the Norwegian microfinance organizations belong to.

5.1 Ownership types

In chapter two I defined the different ownership types within microfinance into three categories; member-based cooperatives, non-profit organizations and for-profit/shareholder firms. In this part I will also excluded the member-based cooperatives, due to the fact that it is the members of the cooperatives like, ROSCAs, which owns their own organization (the contributor, e.g. the non-profit organization merely helps to build up the organization and gives them an implementation on how they can manage their own organization efficiently). Norway has therefore only the division between non-profit and for-profit/shareholder organizations. The reason why there also is a division between the for-profit and shareholder firms is that even though an organization is a for-profit firm, it might not be a shareholder firm, e.g. Norfund (fully owned by the Norwegian government, and a for-profit firm).

Norwegian Microfinance Initiative and Norfund are both for-profit organizations. This means that they want to earn a profit from their investment in microfinance (and they make a profit from their investments). Kolibri Capital is also a company that is built up as a for-profit organization. The company has since its start in 2000 only had small profits, that all has been invested back into their organizations. Kolibri Capital has therefore not paid out any dividend and could be stated according to Hansmann (1996) to be a non-profit organization, since a non-profit organization is defined as a company that does not pay out dividends to its shareholders. Even though this definition, Kolibri Capital states themselves as a for-profit organization and they also claim that they want to pay out dividends in the future (when they are able to pay out dividend). Therefore Kolibri Capital is stated as a for-profit organization in this thesis. In the interviews Norwegian Microfinance Initiative, Norfund and Kolibri Capital underlined that they were commercialized companies. The interview objects also claimed that there is nothing wrong in being a for-profit organization as long as the profit is low and the poor get advantages through getting access to a larger sum of capital. The companies also underlined that one of the most important factor for becoming investors in microfinance institutions and/or provide loans to microfinance institutions is the gain of social capital. It was the social benefits that made these companies interested in the field of microfinance and the reason why they decided to invest in this field. All the for-profit organizations started their investments in microfinance, due to the ability to help poor people to get access to financial products and to help them to climb out of poverty. Their investments were therefore to some extent created from a wish to help the poor, the only difference is that these organizations want to make a profit on these investments and share it with their shareholders.

The non-profit organizations are in this thesis the Strømme foundation and Mission Alliance. These two are two of Norway's largest non-profitable organizations. The Strømme foundation and The Mission Alliance conducts microfinance through their microfinance organizations Strømme Microfinance AS and Alliance Microfinance AS. These institutions are created to get an in-depth focus on microfinance, but also to some extent to reduce risk. Alliance Microfinance owns some of their own microfinance institutions or has built up the institutions that are today owned by locals. Both of the organizations also lend money to or invest in other microfinance institutions so that they can get access to cheap capital and the organizations also help with knowledge and technology. Strømme Microfinance and Alliance Microfinance want their microfinance institutions to be sustainable. This means that the institutions should not live “artificial” through subsidies. Although the organizations might help to subsidize the microfinance institutions in the beginning, they want to remove “this support” as quickly as possible so the organizations can be able to live on their own. Both the organizations started with microfinance because they saw a need for capital in areas where they were already involved in (through other mission and development work). This could have made an impact on the way they perform microfinance, because the companies where able to “feel” the things that the poor were struggling with and they saw what they could do to fix this or help them improving their lives through giving them access to capital.

Mission Alliance is the oldest of all the Norwegian microfinance organizations. It was founded in 1901 and started with microcredit in 1991. This means that Mission Alliance has had long experience (110 years) within the field of charity (and spreading the word of God, which is one of the ground stones in the development of Mission Alliance) and also within microfinance (20 years). The Strømme foundation also started as a charity organization in 1976 and started with microfinance for about 20 years ago. As we can see, both of the non-profit organizations have got a long experience within their field and they also started as charity organizations that aimed at helping the poor.

Norfund (established in 1997), Kolibri Capital (established in 2000) and Norwegian Microfinance Initiative (established in 2008) are relatively new organizations compared to the non-profit organizations. Kolibri Capital and Norwegian Microfinance Initiative were established directly to focus on microfinance, while Norfund was established as an investment fund that aimed at investing in small and medium sized businesses. Norfund means that it is through increasing private ownership (through investments and loans), that the inhabitants in the developing part of the world can help themselves to lay their path out of poverty. All of these organizations are built on a balance between for-profit and social impacts that they can have on the poor.

To sum it up; Norfund, Kolibri Capital and Norwegian Microfinance Initiative are all for-profit and commercialized organizations. Mission Alliance (through Alliance Microfinance) and Strømme foundation (through Strømme Microfinance) are on the other hand non-profit organizations.

5.1.1 The close ties

After reading the annual reports of the different organizations and interviewing the interview objects I found that there are quite close ties between all the Norwegian microfinance organizations. The Mission Alliance and The Strømme foundation have together started their own collection of funds that they can lend out to microfinance institutions; the collection organization is called Gavn Microfinance AS. Gavn Microfinance AS is divided (equally) between the Alliance Microfinance AS and Strømme Microfinance AS (50 % of the shares each). The two organizations aims at be able to fully support their loans through this organization. Gavn Microfinance AS loans money from private people or companies with an interest rate of 3 % (this is a low interest rate/return on the money for the lender). The social impact is on the other hand viewed to be large.

The Mission Alliance is also one of the founders of Kolibri Capital, together with the Korsvei-movement and other Norwegian companies. Kolibri Capital has also lent money to both the Mission Alliance organizations and to the Strømme foundation. Norfund has also got close ties with Kolibri Capital and one of its employees sits in the borrowers committee in Kolibri Capital. As already stated, Norfund and Norwegian Microfinance Initiative has a close bond (founded together). Ferd is also one of the major shareholders in Kolibri Capital and the Strømme foundation has also got shares in Kolibri Capital. This means that the ties between the Norwegian organizations are very close. The question will therefore remain; does this improve the way that microfinance is conducted, through the information and knowledge that could be shared between the organizations or does it hinder the companies from making good and efficient investments (because they choose to invest in each other/”scratch each other’s backs” instead of investing in the most efficient organizations/institutions). The efficiency or the lack of efficiency due to these close ties are not being discussed further in this thesis, but could be a basis for further research.

5.2 Market segment

In the theories about microfinance based of previous studies, e.g. Armendáriz et al. (2010), Mersland (2008), Ashta et al. (2009), Ashta (2009), all claim that once an organization is commercialized the organization tend to move up to a “higher” segment. In this case the higher segment is the individuals that are “less” poor than the poorest. This theory is supported from Hansmann (1996) that claims that non-profit organizations can focus on the lower segments in the market. The reason for this focus is that the non-profit organizations do not need to earn a profit that they can share/give out to their shareholders (like for-profit organizations have to). The organization can therefore simply focus on breaking even and supply the marked with the needed service. The for-profit organizations are in theory created to serve their owners (maximize profits/wealth of their owners).

The market segment is measured by the percentage or amount of female borrowers. The importance of female borrowers is large because a large overweight of the poor people in the world are female. The other factor that decides the market segment is whether or not the microfinance institutions are located in urban or rural areas. The poorest segment tends to live on the countryside/rural areas, while the people that live in the urban areas are often described as “less poor”. Another important factor is that it is easier to serve people in the urban areas because the population density is larger than in the rural areas. The cost of providing capital to these borrowers will go down, because the organization can more easily achieve economies of scale, due to more people, shorter travel between customers and loan groups, etc.

5.2.1 The for-profit organizations

The commercialized organizations in this thesis, Norfund, Kolibri Capital and Norwegian Microfinance initiative tend to serve the upper part of the marked, as implied in the theory of microfinance.

I will start by discussing Norfund. Norfund claims that much of their microfinance investments are focused through Norwegian Microfinance Initiative. This means that the company itself focuses more on investing in small, medium sized and larger companies in the developing part of the world. Norfund sees the country’s sectors combined and mean that an investment in a company (rather than in microfinance) could benefit the country as a whole more or at the same amount as investing in microfinance. Norfund has therefore a different focus area on their own investments (the investments made “outside” of the Norwegian Microfinance Initiative). Norfund also focuses more on lending to banks and larger institutions. The main goal for Norfund is to reduce poverty and help people in countries in the developing part of the world to build strong and financial sustainable companies. Norfund has gone away from serving the poorest segment in their “private investments”.

Kolibri Capital has not got an actual number of how many women that they serve through their loans to microfinance institutions. The company claims that the microfinance institutions lends to a majority of women, but the company does not have any reports that states how many. Kolibri Capital says that they aim at reaching the poor. Some of the institutions they lend to lay in rural areas, but most of their loans go to institutions that lay in urban areas. This gives a divided answer, since the focus on the poorest segments means focusing on women that lives in rural areas. It is possible to say that at least to some extent that Kolibri Capital does not focus on the poorest segment (hard to state an absolute fact, due to lack of information).

Norwegian Microfinance Initiative has clear reports that reports how their investments and loans are being spent in the different microfinance institutions. The Norwegian Microfinance Initiative has got (through their funds) 80 % female borrowers and reports that 40 % of their borrowers live in rural areas. Although the number of women that are being reached are high (80 %), most of the women/borrowers lives in the urban areas. This means that Norwegian Microfinance Institution is trying to reach a poor segment (the women), but their lack of focus on the rural areas does not provide them with the poorest segment within microfinance.

The numbers and comments above confirms micro financial theory, that claims that the commercialized organizations will tend to lend to a higher market segment then the non-profitable organizations. This is described with the fact that the for-profit organizations have to make a profit that can be divided to the shareholders, while the non-profit organizations can manage by breaking even or having a small positive return that are invested back into the organization. Another answer could be that the for-profit organizations are mainly “in it for the money” and their focus is therefore not on the lowest market segment.

5.2.2 Non-profit organizations

The non-profit organizations in this thesis are Alliance Microfinance (Mission Alliance) and Strømme Microfinance (Strømme foundation). I will start by discussing Alliance Microfinance.

Alliance Microfinance is a non-profitable organization that aims at reaching and serving the poorest segment. Their institutions are located in the poorest neighborhoods like in slums, rural areas and among farmers and fishermen (a poor segment in these countries). Alliance Microfinance has strategically placed their institutions in these areas and some of the institutions are arisen from their original work among the poorest in these neighborhoods. The targeting of women is divided in their different organizations. In Vietnam the microfinance loans are given only to women (100 % female share). In other countries they are divided into about 60 % women and 40 % men. The Alliance Microfinance does not want to discriminate due to gender and therefore lends to the people in the poorest segments regardless if they are men or women. Another factor that plays an important part here is that the Mission Alliance

and eventually the Alliance Microfinance has been in these areas for many years and have helped many individuals to climb out or up the poverty ladder.
Alliance Microfinance should have focused a bit more on the female part of the borrowing group, but since all the loans are given to individuals in rural areas this gives an impression that it is still the poorest segment that the organization focuses on.

Strømme Microfinance is a non-profitable organization that aims at helping the poorest segment. About 85 % of the individuals that they serve are women (annual report 2009). The female part of the lending group has in 2010 dropped to 77 % (annual report 2010). One of the reasons for this fall could be that the female segment is being covered (can therefore focus more on male borrowers) or it could be that the organization is moving up a segment. The Strømme Microfinance also performs microfinance basically through microfinance institutions that are established and performing microfinance in rural areas. The social impact is important for Strømme Microfinance and they therefore try to maximize the social impact through helping the poorest segments.
Even though the percentage of female that are served has gone down from 85 % to 77 %, the amount of women targeted though microfinance has increased. In 2009 Strømme Microfinance served 274 696 women and 46 035 men. In 2010 Strømme Microfinance served 304 323 women and 88 214 men. The increase in female borrowers have increased with 29 627 individuals, while the increase in male borrowers has increased with 42 179 borrowers. Still there is an overweight of female borrowers in their portfolio. Strømme Microfinance seems to be focusing on the lowest part of the segment, even though they have increased their amount of male borrowers, they are still mainly focusing on the rural part of the segment.

In this paper and through the work of this thesis I have been able to confirm many of the already stated theories about microfinance. Among others, that non-profit organization tends to focus on the lower part of the segment, while the commercialized companies tend to focus on the upper part of the segment.
Even though these statements has to some extent been confirmed, Alliance Microfinance and Strømme Microfinance should have focused more on the female part of the borrowers to be able to fully state and underline that the theory is true and that it can be completely transferred to the Norwegian microfinance institutions.

Hypothesis number three; non-profit organizations help and lends to poorer individuals than for-profit organizations are therefore to some extent confirmed.

5.3 The ethical discussion

This ethical discussion will be based on Kant, Rawls and Falkenberg's interpretation of Rawls presented in part 2. The aim with this section is to find out how ethical the different Norwegian companies are and perhaps what they can do differently to become more ethical.

5.3.1 Categorical Imperative

Since this is an ethical thesis, I will start by taking in one of the most famous writers within the field, Immanuel Kant. One of his most famous works, the categorical imperative, describes the essence of ethical standards. His first formulation of the categorical imperative states that: "I ought newer to act except in such a way that I can also will that my maxim should become a universal law" (Kant, I.)

This statement states that everyone should make decisions that are based on thoughtful ideas and plans. The actions should be such that everyone could do the same action without having any negative impact. The action should be able to become a "universal law", meaning that everyone should be able to do the same as you do.

The second formulation: "Act in such a way that you will always treat humanity, whether in your own person or in the person of any other, never simply as means, but always at the same time as an end" (Kant, I.).

This formulation states that a person should never take advantage of another human being only to be able to cover its own needs. These imperatives builds up under the ethical standards that you should act after an ethical standard and also the fact that you should never use other human beings for self-gain.

When we "translate" this ethical theory into the world of microfinance, the first important thing to state is how vulnerable these poor individuals are. These are individuals that are not able to take care of themselves at the same level as e.g. a Norwegian that is going to take up a loan in a bank. Illiteracy and lack of business experience are also common problems among the poor. It is therefore important that the microfinance institutions take care of these poor, vulnerable individuals rather than taking advantages of them. High interest rates, too much indebtedness (e.g. loan to multiple organizations) and lack of the ability for entrepreneurship are factors that can easily change a loan that intentionally aimed at helping to become the underground for these individuals (and could even lead to suicide in the worst cases).

When the institutions conduct microfinance it could be helpful to remember the words of Immanuel Kant. If all the microfinance institutions lived and performed after these "rules" there would be no charging of high interest rates, because the organization that is giving the loans would not have been happy to get a loan at this rate if he/she were the individuals in desperate needs for finance. The second categorical imperative also state that a person should not use another person in order to gain own benefits. The microfinance institution like Banco Compartamos has clearly violated the second categorical imperative. Although they said that their high interest rates were needed in order to reach more customers, it is clearly stated that it was many private investors that earned a lot of money from these poor individuals. Much of the high interest rates were actually used to pay out dividends.

When I have investigated the Norwegian microfinance institutions, I have seen that there is not much profit taken out by the different companies. The non-profit organizations, Alliance Microfinance and Strømme Microfinance claim that their aim is to break even or have a small profit from their investments that they can invest back into the organization to strengthen the organization. Strømme Microfinance say that it is hard to break even in microfinance and are always prepared for a negative result. All profits are always invested back in the organization, hence the theory of non-profit organizations.

Kolibri Capital claim that most of their years have been characterized by negative results or small amounts of positive results that has been invested back into the company. The company has therefore not paid out any dividends at this point. Kolibri Capital aim is to be able to pay out dividend to its shareholder, but though a small dividend. The company underlines the social impact of the investment and that this must be focused on rather than the financial return.

Norfund is even though a governmental owned fund, the fund that had the highest return, 10 % in 2010 (the company states that this was a very good year for the company and that this is the highest return the company has experienced). Norfund invests in larger projects that are able to give a higher return than the basic return on microfinance investments. I was quite surprised to see that a government investment fund (which perhaps should have been built on a more aid based ground) was the fund with the highest return.

Norwegian Microfinance Initiative tries to have a fair balance between their financial return and their social investments. The company seems to be able to have and perform after this balance. The return on equity is 9 % for NMI Global Fund and 6, 59 % for NMI Frontier Fund. The return on equity is supposed to measure how well the company generates profits from the shareholders equity and a percentage between 15 % and 20 % is considered a desirable return. Norwegian Microfinance Initiative has got a smaller return on equity than what is desired. Returns on assets are 3 % for NMI Global Fund and 0, 94 % for NMI Frontier

Fund. Return on assets is supposed to show how profitable the company's assets are in generating revenue. Both the return on assets and the return on equity are quite low/in the lower segment. This can either mean that the company is not an efficient company (that much of the income goes away in an inefficient organization) or that the company demands low interest rates (does not maximize its profits).

It seems like all the Norwegian players have got a modest financial return requirement for their microfinance investment. The focus on social impact is high and the organizations are running quite ethical, after the standard of not having a high financial return. There are though some differences between the non-profit and for-profit organizations based on their outreach (into rural areas and the focus on women) and the way they perform microfinance (e.g. education of the borrowers, etc. I will come back to this below in the discussion part).

5.3.2 Justice as Fairness

In this section I will discuss both Rawls (the original "inventor" of the principle justice as fairness) and the interpretation of Falkenberg. The basic principle of justice as fairness is that a group of people is created and the group is then going to decide what the laws for the future should be. The group of people is then going to be "born again" into this new world and they are not able to know what they will be reborn as. The group makes these laws under the veil of ignorance. The thought is that the group will not make laws or norms that were discriminating to e.g. race, color, culture, behavior, social status, work, amount of money etc. because these laws or norms could be used against them if they are created in e.g. a race that the group had made law/norms against (much of the world's discrimination comes from people and culture and not from laws made in/by the society/governments).

The interpretation of Falkenberg (2010) divides the moral standards into three different categories;

1) Survival, "hand over": this means that a) peace and belonging and b) material needs like health, food, education.

2) Equal moral value for all – discrimination. This means maximum freedom, given equal freedom for all. Equal talent and motivation is treated equally. People should also be equal to the law, have the same opportunities and human right.

3) Max-min: this means to maximize the index goods for the poorest group (as much as possible for the worst off group).

When we maximize the index for the groups that are worst off, we can be able to make their life flourishing. Armendáriz et al. (2010: 222) has an example; should the mother take extra care of one child (assuming two children) or should she treat the children equally? In many developing countries in the world today, the boys of the family are taken better care of (given extra food, clothes and medical attention) than the girls. The reason for this division is often that it is the men that "bring home the money"; the girls are often seen as an extra mouth to feed. A loan given to a woman can help to improve/reduce this inequality, by "rising up" the female borrowers and empower them through their ability of being financially independent.

This theory underlines the importance of maximizing the happiness for the greatest amount of people, in a world where all individuals are given what they need in order to survive and where the world is free of discrimination. This is one view of "the perfect world", but unfortunately the world is not such a perfect place. The world we live in today is filled with poverty, wars and conflicts. Microfinance is drawn out by someone as a "solution" to the poverty in the world; others have stated that microfinance is not the answer to the poverty and that microfinance actually makes the poor worst off (Documentary: Caught in Micro Debt, NRK).

Giving the poor people in the world access to financial capital could help to reduce the poverty; the main problem is when rich people want to make money on what actually (in my opinion) should be viewed as charity or at least a social responsibility. This leads to a rapid wish for growth to be able to expand to other markets, high interest rates (to be able to pay the cost of this rapid growth) and leaving the poorest segment (so they can earn more money). All of these factors reduce the person's ability to work their way out of poverty. Rapid growth is not only a bad way to expand any company, but it also has a negative effect on the borrowers. Once a person must pay for the rapid growth of the company, the individual will have less money for themselves, due to high interest rates that take a major cut of their income. Many of these people will also not be able to pay back the loans, because the interest rates are higher than they can manage. Many microfinance institutions claim that they do not claim as high interest rates as the income level increases with. They say that the borrower might get a 100-130 % increase in their income and the interest rate is only 70-100 % (the Banco Compartamos case). Even though the "difference" between the interest rates and the increase in income is 30 %, the differences would have been much larger if the borrowers had to pay a lower interest rate. The lower the interest rate is, the faster the individual will be able to climb their way out of poverty. (Interest rates will be discussed further under section 5.4).

In the cases where the microfinance institutions are claiming high interest rates, paying high dividends to their owners and focusing on rapid growth, it seems like it is the financial aspects of microfinance that are in the focus of these organizations. The social impact that these loans might have (should in theory have been reduced significantly, due to the high interest rates) seems to be more like a bi-effect, than the absolute and wanted affect. The goal of the organizations seems to be financial, like in the case of Banco Compartamos, even though the company themselves claims to be ethical and that they were doing it to expand to more borrowers and “help” more individuals.

The different Norwegian microfinance organizations seem to be concerned about the social impact of their investments/loans. The non-profit organizations seem to focus on how they as best as possible can help the poor people to climb out of poverty. The commercialized organizations seem to have (at least to some extent) been able to combine the social and financial impact of their organizations. Their financial returns are kept at a low range, and the market segment, even though it could have been improved by focusing more on the rural areas, focuses to some extent on the poorer segment. The for-profit organizations has in the interviews underlined that they are commercialized companies that aims at combining a social and financial return. “We do not perform charity at all. We are a government-private cooperation that seeks to balance the social and financial return”, (Weingarten (Head of NMI) to Finansavisen).

5.3.3 Create the greatest amount of happiness – utilitarianism

So, do the organizations promote the most amount of happiness for the greatest amount of people? My answer to this question is; if the companies can keep their interest rates low and not move from the lower to the upper market segment (because the interest rate is low), then the companies can create the most amount of happiness for the greatest amounts of people. The microfinance institutions should always try to help the less advantageous in the society.

Microfinance is like a modern kind of aid and the commercialization of microfinance has shifted some of the previous focus. Even though the commercialization has brought with it a lot of new capital (that has made it possible for microfinance to reach more clients), it has also shifted the weight from the poorest to the less poor. In order to be an ethical, fully social responsible organization, the weight must be shifted back to the poorest segment and to create happiness and help the less fortune in the society. This was once the mission of microfinance and this mission need to be reevaluated and once again be used as a foundation of microfinance investments and loans. Even though there are a lot of individuals in poor countries that are without any financial services, those who barely survives should be prioritized and helped first. These individuals are struggling to make their ends meet and it is not fair for them that individuals that have “enough” food (more than the others), gets access to microfinance before them, only because the commercialized companies view these people as better to repay than the poorest people.

5.3.4 Education and training

There are a lot of different philosophies and opinions about education and training within microfinance institutions. Some, like Grameen Bank, means that training is overrated and that it is only the access to financial capital (loan) that matters (Yunus 2003:140). Yunus believes that the poor has the knowledge that they need and that the only hinder in becoming entrepreneurs is access to financial capital. Other institutions mean that basic knowledge about how to read, write, basic accounting, and budget will help the borrowers. In addition, some might help the borrowers to provide skills that they can use as a foundation of their business, e.g. how to sew on a machine, how to grow vegetables (or other farm product. The important part is to learn what kind of products that are best suited for the local conditions), to make soap, etc. Some institutions also learn the borrowers about diseases like HIV, Cholera and how the people can protect themselves from these diseases.

When I conducted the survey and asked what kind of training that was provided to the borrowers in the institutions, there were many vague and short answers, especially within the for-profit section. It might be quite hard for many microfinance organizations to know what is performed in the microfinance institutions that they invests in or borrows to. Many of the organizations invests in many microfinance institutions at the same time, each institutions can have their own norms and ethical standards. Many of the Norwegian organizations are also not directly involved in the daily running of these institutions and does not have a direct overview of their partners (they cannot properly monitor the institutions). Another important factor is that many of these microfinance institutions are in the developing part of the world, while the head offices of the organizations (that lends and invests) are in Norway. This distance reduces the ability to monitor the institutions and the organizations are therefore in lack of control. In some of the large institutions, the loan of the Norwegian contributor is only a small part of the financial contribution. In these organizations the power and influence of the Norwegian contributions decreases.

The Alliance Microfinance has got a long experience within the field of microfinance and is the only institution that runs their own microfinance institution or provides capital to institutions that was previously owned by the organization. This gives them more control than the other organizations has. Alliance Microfinance works together with their “mother”, Mission Alliance, to provide training for their new borrowers. Alliance Microfinance is the financial part of the organization, while Mission Alliance is the charity/aid part. Before the borrowers are able to get a loan, she/he needs to attend to an obligatory course. This course aims at providing them with valuable information about the loan, how the loan will affect the borrower (both positive and negative), interest rates, costs, repayment schedules, etc. This information is given verbally, so illiteracy should not stop the borrower from understanding the impact and consequences of the loan. Mission Alliance underlines the importance of getting the customers to understand what the loan means; there should be no hidden costs and the borrowers shall be able to understand what they are agreeing to. Mission Alliance also offers basic training program/information courses on how to run a business, making a balance (debt, equity and assets), basic accounting and some marketing. These training programs are voluntary to attempt to and free of charge for the borrower. Mission Alliance covers these costs through donations from Norway and support from Norad. These training programs are seen as a part of the work to reduce poverty and are conducted by Mission Alliance.

Strømme Microfinance lends mainly money to different microfinance institutions. This means that the organization is a second link and loses some of its ability to affect the institutions directly. Strømme foundation has had a different approach to this problem. The foundation helps the microfinance institutions by giving them the ability to teach the borrowers what they need to/should know, through financial support and human capital. Strømme foundation provides financial help (through loans or in a few cases direct investments, through Strømme Microfinance) and help to teach the borrower how to read and write, conducting training programs, and teaching them how to run a business successful or provide the borrowers with new skills. The Strømme foundation says that they start by making loan groups, then they try to/work to be able to send the children of the borrowers to school, afterwards they focus on the parents and try to provide “speed schools” that are aimed at teaching the adults to read and write in a short time. Strømme foundation does not just offer a loan, but they also offer an opportunity to both financial “support” and social support the institutions through education.

The Strømme foundation also helps to provide (through financial support to the microfinance institutions) training programs in financial control, savings, investments, planning, efficient farming and training in other income giving fields. The training program varies from microfinance institution to microfinance institution, but the basic knowledge about the loan and what it will mean for the borrower is obligatory. The cost of this training is provided by the Strømme foundation and is a part of their way to help to reduce poverty.

Kolibri Capital has no reports or surveys that say if the institutions that they lend to provide some sort of training or education in addition to the loan. Kolibri Capital states that they believe that there are some forms of training with the loan in some of the institutions. Kolibri Capital is a quite small investment company and they might not have the same impact as the larger organizations could have.

Norfund says that they are following the consumer protection principles created by the CGAP and that they want the microfinance institutions/banks to do the same. The borrowers should therefore know how the loan is going to influence them through e.g. interest rates, repayments and management of a loan. Some of the institutions also provide courses in basic accounting, balance, investments etc. This training is mainly covered by the microfinance institution, but it could also be covered by Norfund and other organizations that invest in microfinance.

Norwegian Microfinance Initiative says that some of the organizations that they invest in or lend money to have training programs for their borrowers, but this is not the norm. The training programs is a sort of "financial literacy program"; it includes what the loan is, what it will mean for the person that gets the loan, which obligation it will lead to, basic accounting, budgets etc. The program is meant to help the borrowers to as best as possible be able to pay back their loans.

The emphasis on courses to understand the loans and training programs to provide literacy, skills, financial support, etc. seems to be larger among the non-profit than the for-profit organizations. One reason for this division could be that the non-profit organizations carries out or finance much of these courses and trainings themselves, while this is not the focus area for the for-profit organizations. The non-profit organizations seem to be more involved in their microfinance performance than the for-profit organizations. The for-profit organizations are more investment companies that mainly invest (through loans and equity investments) in microfinance institutions and perform microfinance more on a financial level. These organizations also tend to have a larger investment portfolio than the non-profit organizations.

The ethical discussion here is whether or not these training programs and courses actually help the borrowers or if they are mainly a cost for the microfinance institutions. Yunus has stated that this training is unnecessary. When a person is going to start a successful business whether in Bangladesh or in Norway it is important to have some basic skills that can help you to put "your idea into life". Many Norwegian companies go bankrupt every year, often due to lack of financial control and knowledge. These individuals might have done it better if they had some financial understanding, understanding of the market, etc. These parallels can be drawn to the market in Bangladesh and other countries. Without the ability to read, write, make a simple budget, basic accounting, etc. the company is more exposed to failure. This failure rate could be reduced through the training programs made available for the borrowers. It is therefore quite important to have a solid training program that prepares the borrowers well before entering the business marked. Based on this view, the non-profitable organizations seem to have a larger social impact than the for-profit organizations that has not got these requirements/helps to provide these skills to "their borrowers". Their interest in this field also seems lower than in the non-profit organizations that speak warmth about their training programs.

Hypothesis two; non-profit organizations take better care of their borrowers than for-profit organizations are to some extent proven in the discussion above. The non-profit organizations tend to combine charity/aid work and microfinance, while the for-profit organizations tend to focus mainly on microfinance (providing capital to poor people).
In some of the most extreme cases of for-profit organizations, the organization has simply used its borrowers to gain profit for their shareholders and themselves (Banco Compartamos). Here it seems like the positive impact that these greedy organizations might have had, is more a bi-effect, then the absolute and wanted effect.

5.4 Interest rates

I will start the discussion of interest rates with a few words from Ashta;
"As soon as they would become borrowers, they would prefer lower interest rates" (Ashta, et al. 2009:13). This sentence is collected from the article written by Ashta and Hudon. The article discusses the high interest rate that was taken by Banco Compartamos in Mexico. The article focuses on the different stakeholders and how these different stakeholders affect the interest rates (through power and influence) and what kind of interest rate that the different stakeholders want for the company (discussed in section 2.1.3).
From this section we can see that there are some stakeholders that will prefer a high interest rate, while others prefer a lower interest rate. The power and influence changes after how powerful these individuals are within the organization. Managers have a high power and they are viewed to use this power to maximize the return for the company. When the return for the company is high, then the managers will have "done a good job", assuming that it is their job to maximize the welfare of their shareholders. The future borrowers would on the other hand want the interest rates to be low. A high interest rate would mean that they need to earn extra

money in order to pay down the loan. The lower the interest rate is, the faster the poor can climb their way out of poverty and improve their lives.

The interest rates should always be kept as low as possible. When the interest rates are low, it is easier for the company to attract more borrowers. As the interest rate increases, more of the borrowers will “fall” off, because they are not able to pay these high interest rates. This will lead the companies (with high interest rates) left with the risky borrowers, because risky borrowers tend to be willing to pay a higher interest rate, than the “normal” borrower.

When I conducted the survey, many of the organizations were reluctant to give me information about their interest rates. Most of the organizations stated that their interest rates were according to the marked interest rate in the country. Most of the organizations gave me examples of interest rates that are demanded from the end borrower and to the microfinance institutions.

It is difficult to claim if there are ethical differences from the interest rates levels that where collected in the survey. First of all, the microfinance institutions are spread in different countries all over the world. The different countries has got a different political systems, different amount of access to capital, different risk levels, different inflation rates, etc. Second, the different microfinance institutions focus on different market segments (here the amount of women and the outreach to rural areas). As discussed above, it is more expensive to serve borrowers in rural areas. The population density is lower and more time and effort is needed to serve the same amount of people living in urban areas (where the density is high). This time and effort will lead to higher costs, and thereby a higher interest rate.

Mersland (2010) and Armendáriz et al. (2010) have among others made extensive surveys and found that banks has got the lowest average interest rates, next is the non-governmental organizations and the highest interest rate are found in village banks/cooperative groups. Much of this interest rate difference can be directly focused back to the market segment/borrowers of the organization.

In this thesis I will discuss the difference in the interest rate not based on the number/rate, but on the components that adds up the rate that will be given to the borrowers.

Alliance Microfinance say that their interest rate is combined of a financial cost (the cost it takes for the organization to get the money/finance) + operational costs+ inflation + a small profit (so the microfinance institutions should be able to be sustainable and live without support) + a small amount to cover for future losses. The organization tries to have an interest rate that is in consistency with the market rate in the country.

Strømme Microfinance says that their interest rate is a combination of financial cost, inflation and administration costs. It is important for Strømme Microfinance that their partners are cost efficient, so the borrowers do not have to pay for unnecessary administration costs. Strømme Microfinance claims that they most of the time has got a negative financial return on their investments/loans and that the organization only wants to break even.

Kolibri Capital says that their interest rates (on the loans given to the microfinance institutions) are the same as the market rate in the country. Kolibri Capital does not want to subsidize the institutions, but does not want to be greedy either. Kolibri Capital lends money to foundations, banks, non-profit organizations, etc. The "end borrowers" (the person that gets the loan founded by capital from Kolibri Capital) pays for both the "administration costs" in Norway and the administration costs of the microfinance institution (a share of the administration costs). Since Kolibri Capital is a for-profit organization, the borrower will have to pay a profit to Kolibri Capital and the microfinance institution. The more links you add to a value chain, the more organizations are going to want their profit share from the end borrower. This form of commercializing capital (together with Norwegian Microfinance Initiative and Norfund) will in theory lead to a higher cost for the end customer, assuming that each link will add an extra profit margin and a cost cover, that the end customer has to pay.

Norwegian Microfinance Initiative says that they have a financial cost that lays the foundation for their interest rate. Then they add an amount of money that is going to cover their administration costs and a small profit margin. The interest rate will be according to the local market rate plus a small profit. With other words, if the market interest rate is 13 %, then Norwegian Microfinance Initiative will lend out to 13 % + a small profit margin. The organization is merely a financial investor (does not fully own its own institutions) and invests in both equity (buying shares in the microfinance institutions) and loans (lending to the institutions). It is important for Norwegian Microfinance Initiative to choose strong, microfinance institutions that can run their operation in a sustainable manner.

Norfund tries to operate with the market rate in the country plus an extra amount according to the risk on the investment/loan. A large, solid microfinance institution will therefore get loans to a lower interest rate than a small, newly established institution. Norfund underlines that they are a commercialized organizations that aims to make a profit on microfinance. Even though they say that they are trying to keep their interest rate at an acceptable level.

The discussion in this part is hard to execute, because there are a lot of components that adds to the ethical debate, e.g. the real interest rate, outreach, etc. I have not found any evidence for the hypothesis that non-profit organizations charge a lower interest rate than for-profit organizations. I have neither found evidence of the opposite.

The different organizations seem to have focused on different customer segment. Mission Alliance (Alliance Microfinance) and Strømme foundation (Strømme Microfinance) seems to focus on the poorest segment. Kolibri Capital, Norfund and Norwegian Microfinance Initiative seem to focus on the middle/upper part of the segment. The last group has focused on people in the urban areas, while the first group has focused on people in the poor areas like slums and in rural areas.

One of the main factors that have been pushing for the commercialization of microfinance is access to credit. Many have stated that donor funded non-governmental organizations has only a limited source of capital, that will prevent them from being able to expand and reach new borrowers. Once the donors gives less support or withhold funds (e.g. due to financial crisis, etc. when people are less likely to share their finance), then the organization will have to stop lending out money and the borrowers are not able to renew their loan. This goes against the loan circle that wants the borrowers to renew their loans/get larger loans, once they have proven that they can pay back the first loan. Neither of the Norwegian microfinance organizations is fully run by donated funds. Even the non-profit organizations lends money in the Norwegian (and other) financial markets that they relend to microfinance institutions.

The main differences between the for-profit and non-profit organizations are whether or not the organization aims at making a profit that they share out to their shareholders and the customer segment.

5.4.1 Ethical discussion about the interest rate

All the individuals in the survey stated that the most important thing for the poor was not the interest rate, but the fact that she/he was able to get a loan. Many also stated that their only other option was to lend money from family (if they had the ability) or from local moneylenders. These moneylenders are known for demanding high interest rates and to have terrible conditions for their borrowers. They are also known from having hard repayments methods and threatens with (and executes) violence if the borrower cannot repay their loans.

The ethical discussion is whether or not it is ethical to claim high interest rates from poor people. Many of the organizations claim that they have lower interest rates than the alternative local moneylenders. But is this enough? In my opinion, after deepening my understanding of microfinance is that even though an organization might claim lower interest rates than the alternatives (local moneylenders/loan sharks), it is still not ethical if there are some shareholders in the rich part of the world that makes a lot of profit of these poor individuals. These individuals would have been better off if they were able to keep more of the profit for themselves, rather than making the owners of the microfinance institutions richer. If the individual could have kept a larger amount of its wage, she/he would have been able to climb faster out of poverty. The more money that is available for further investments and consumption, the better off the individuals will be.

My question is; why is there such a large focus on that the poor is better off with a loan at a high interest rate than if the person had not got access to the loan? In my opinion this sounds like an excuse for keeping the interest rates high.

It is fair that companies can make a small profit from microfinance, but this should not be used as an excuse for demanding high interest rates from the poor. A small profit could be like "a thank you for giving me the opportunity to borrow money", but a large profit, like in the case of Banco Compartamos, is no way near an ethical return.

Another important factor is that the Norwegian microfinance organizations should help the microfinance institutions to build up efficient institutions that can help them drive down the administration costs in the institution (hence the interest rates). If the administration costs go down, then the institutions can demand a lower interest rate from their borrowers. The Norwegian organizations have got both the power and ability to help the institutions where they are one of the major providers of capital. In institutions where they have a lower amount of capital, this ability will decrease. Alliance Microfinance lends money to mostly microfinance institutions that is either run by the organization (or Mission Alliance) or institutions that was previously owned by the Mission Alliance. This gives them much power and ability to affect how the institution is run. Strømme Microfinance invests more in non-profit, then for-profit microfinance institutions. Strømme Microfinance has an active membership in many of these institutions and helps them among other things with technical support, finance for the training of the borrowers, etc. Kolibri Capital lends money to microfinance institutions. The organization is quite small and has only a loan portfolio on 20 million Norwegian Kroner. This is small compared to the other for-profit financial funds like Norwegian Microfinance Initiative (with about 600 million Norwegian Kroner) and Norfund (with about 585 million Norwegian Kroner). Kolibri Capital lends mostly to stabile and well known microfinance institutions and tries thereby to reduce the financial risk. Kolibri Capital emphasizes Norwegian and other Nordic institutions, mainly because these are "safer" than investing through an unfamiliar foreign institution. Norwegian Microfinance Initiative invests in both direct investments (through equity), loans, and also through investing in other funds that invest in microfinance. This organization is a quite large and therefore quite powerful in the world of microfinance. Norwegian Microfinance Initiative should use this power to benefit the poor; it can be to give them better loan conditions, access to more capital, etc. The organization aims to help the poor in a good morally way, and does not want to take advantages of any of the borrowers. They have therefore created firm guidelines of who (market segment) the money should go to, how the borrowers should be treated, etc. Norfund has also got a high investment portfolio. In addition they have the strength of being a governmental fund with support from the Norwegian government. This support can help Norfund to be able to have an impact on the local governments and help them to build up the countries and reduce the factors that deprive the people from living flourishing lives, e.g. corruption, child labor, dictatorship and military regimes.

In general, many of the Norwegian and international microfinance institutions are able to build strong and social responsible microfinance institutions. These institutions can help many people to climb out of poverty; through getting access to finance and the ability to fully use their skills to income generating activities. It is though, important that the financial aspect and greed does not get the ahold of the institution. This could eventually make it worst or have no impact on the borrowers, and deprive them from the intentional "good" that a microfinance institution should add to the borrower. The microfinance organizations/institutions (whether Norwegian or international) should therefore aim at keeping their interest rates, profits and administration costs down. When they invest in foreign institutions, (not perform microfinance directly) then they should choose those institutions that are able to have a low cost structure. If this is not available, then they should invest in the microfinance institution and help the institution to reduce their cost structure. This reduction should not be taken on the expense of the poor (moving up to a more profitable segment).

5.4.2 Double bottom line

One of the latest additions in the discussion of microfinance is the double bottom line. The double bottom line is if it is possible to be both socially responsible and at the same time be a good investor (Wikipedia). Is it possible, to both be socially responsible and make money, and at the same time not hurting or using someone?

To start this discussion I will use some words from the annual report of Microcredit summit 2011,

If the commercial operators had been less greedy and focused on a double bottom line, the problems in India could have been avoided (the problems' were that the different borrowers had sometimes eight different loans from different providers. The peer pressure worked "against its purpose" and some of the clients committed suicide) (annual report 2011:18).

On the background of this quote, Armendáriz et al. (2010) and Tulchin (2011) it seems that microfinance can be performed with a double bottom line. The question merely sums down to the profit margin and the customer segment that the organizations chooses to have. According to Tulchin (2011) the social impact of helping the individuals with education, can increase the social impact that the organization has on the individual and also the overall social impact.
If the profit margin is high and the company makes a lot of money on the poor, this violates the socially responsible part of the double bottom line. High (unnecessary high interest due to the wish of high profit or a high cost structure) interest rates and abandoning the poorest segment will also reduce the socially responsible part. The second part, to be a good investor is about being able to create a profit from the money that is being invested. This profit can either be made for self-gain or on the behalf of other customers/shareholders. These two factors that create a double bottom line speak against each other. If the financial return in microfinance is high, then this will in general reduce the social responsibility factor, because the company will demand "unnecessary" high interest rates to cover/generate this high profit.

In order to keep a double bottom line, the companies should be sustainable and make a small profit. All profits above this small profit will hurt the end borrower and reduce the social responsible factor of microfinance.

5.4.3 Profit orientation and interest rate level

After conducting the survey and reading reports, articles etc. about the different Norwegian microfinance organizations, I have decided to change Figure 4: interest rate and profit orientation, so it can represent the real facts about these institutions (figure 5 below)

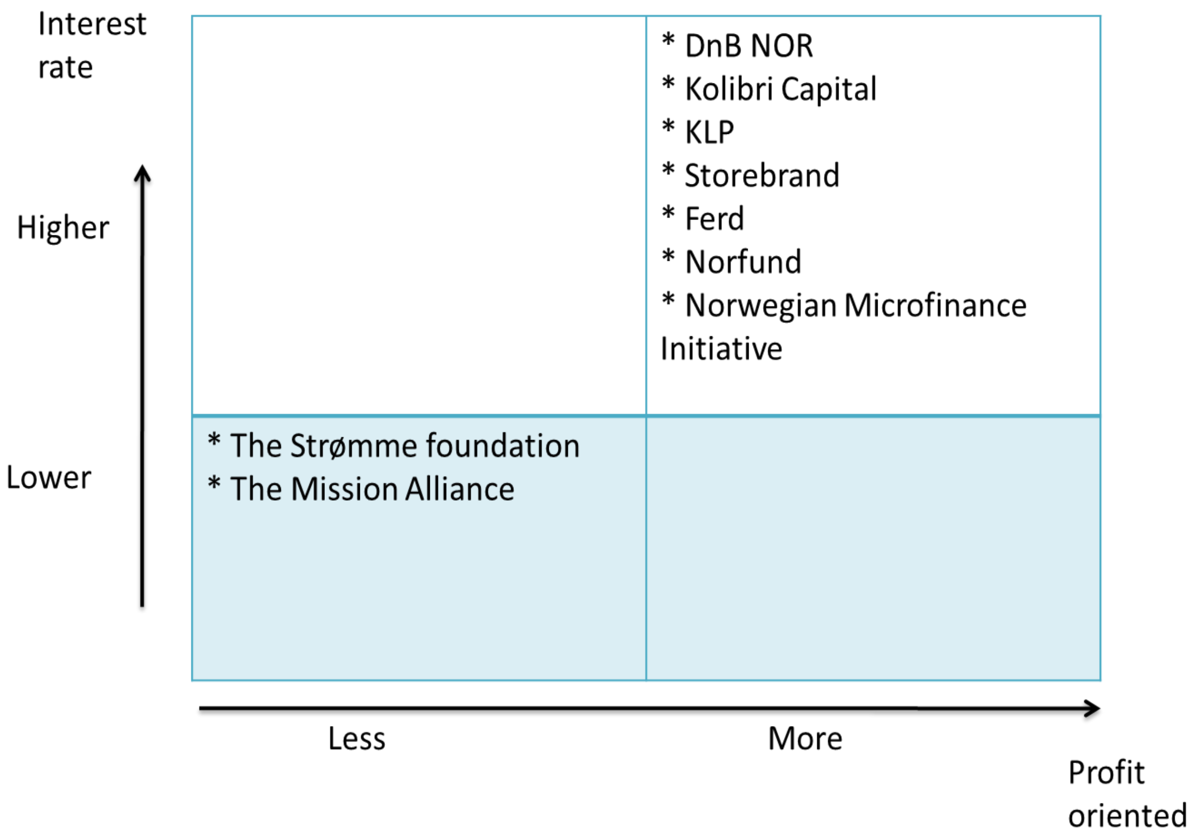

Figure 5: Interest rate and profit orientation, readjusted after the survey. Source: Author.

I have decided to change the places of Norfund and Norwegian Microfinance initiative. Before conducting the survey I was under the impression that Norfund was focusing on the poorest segments in the market. This focus has shifted, because Norfund invests mainly in banks (that provides microfinance) and small and medium size enterprises. Their main part and focus on microfinance is through the Norwegian Microfinance Initiative.
Norwegian Microfinance Initiative has also shifted from being viewed to having lower interest rates then they had (the low interest rate was based on the assumption of a non-profitable Norfund). The interest rates are in this connection viewed as the interest rates that the companies charge when they lend out finance to the microfinance institutions. Since Strømme foundation and Mission Alliance only wants to cover their cost and not make a profit (only a small profit that is invested back in the institutions), they are viewed to have the lowest rates. Kolibri Capital, Norfund and Norwegian Microfinance Initiative, aims at lending out money to the market interest rate and also adding a profit to their investments. Some of this profit is aimed at the shareholders of the firms. This will lead to a higher interest rate, because each "link" will apply costs that will increase the interest rate for the end borrower. The reason why I have not chosen the end rate for the consumers is;

1) Not all the organizations were willing or able to provide information about these rates.
2) Many of the organizations perform microfinance in different countries, which make it hard to compare, due to different risk levels, market rates, inflation, etc.
3) The different organizations aim at covering different market segments. Since it cost more to give the poorest market segment a loan, it cannot be compared directly.

6.0 Conclusion

It is still a long way to go before microfinance is fully available to all the poor individuals that needs it to be able to create flourishing lives for themselves and their families.
"Global estimates of the unbanked and under-banked adults range between 1 and 2 billion people" (Armendáriz et al., 2010: 24).
In the beginning of the paper I referred to Armendáriz et al. (2010) that stated that about 200 million individuals had got access to microfinance. This leaves a number of people just waiting for their turn to get access to this "miracle".
But is microfinance really the miracle cure that some people wants it to be? After the Nobel Peace Prize was given to Grameen Bank and Muhammad Yunus in 2006, there have been a lot of positive discussions about microfinance and how it can help people out of poverty. With the Nobel Peace Prize and the acknowledgement of microfinance came a massive commercialization, and many for-profit organizations and funds entered/started investing in this market. This has raised a lot of ethical questions. With this commercialization came a focus on how ethical it was to profit from the poor individuals. These poor individuals have often not the same knowledge and hunger and deprivation can lead them to make deals that they will not benefit form. It is therefore the institutions responsibility to not deprive these individuals of their rights and help them to improve their lives. High interest rates and too many loans (multiple loans) will hinder the individuals to be able to climb their way out of poverty. Organizations and companies in the western part of the world have the ability to help these poor individuals. Many of the organizations that invests in microfinance are powerful organizations, that have both the financial and human capital that can be and should be used to make their investments as ethical as possible.

In this master thesis I have looked at different ways to organize the microfinance institutions and looked at if there are ethical differences between the different forms of institutions. To illustrate (and see if there were some differences), I used the different

Norwegian microfinance organizations as case studies. There were ethical differences between the organizations based on their ownership types. According to theory and practice the for-profit organizations served the “less” poor, meaning people that lived in urban instead of rural areas. Surprisingly, the for-profit organizations served about the same percentage of female borrowers as the non-profit organizations. The main difference between the for-profit and non-profit organizations was the level of education that the individual received with the loan. The for-profit organizations mainly had a course that was given to the borrowers to make sure that they understood the loan, while further education was seldom. These courses were paid by the microfinance institutions (in the end, the borrower).

The non-profit organizations had almost always a course in how to read and write, simple finance and budget, decision making, marketing (varied from institution to institution) in addition to the course that thought the borrower about the loan. These courses was paid by the non-profit organizations (through donations and support from Norad) and not passed forward to the borrowers. The non-profit organizations also tended to focus on the poorest individuals, meaning individuals that lives in rural areas.

I found that even though there are an ethical separation in the market segments, the commercial Norwegian microfinance institutions tries to keep their profits relatively low. The market segment should even though be shifted to the poorest individuals (at least to some extent) in order for the for-profit organizations to become more ethical.

It seems like some of the charity aspect that microfinance first had has been “lost” in the new era of microfinance. Microfinance can be built upon an old saying; “if you give a man a fish, he has got food for one day. If you teach him how to fish, he has got food for his entire life”.

This means that it is not just normal aid (handing out food) that can help individuals to feed themselves. Previous aid has been seen as inefficient and it became a need to help the countries “on their own terms” rather than just handing out food. This practice needs to be used when there are major food crisis, natural disasters and sometimes in wars. Microfinance could therefore be an efficient way of helping people to climb out of poverty.

After my opinion and knowledge about this topic, microfinance institutions should find back to the “earlier” days, when microfinance was mainly viewed as charity and a way to help the poor people. It is still room for some commercialized organizations, but these organizations must keep their profit margins low. The organizations need to choose whether they want to be a social responsible organization that aims at helping the poor people, or if they want to be a highly profitable organization. The line between profitability and social responsibility is thin, and the organizations need to find out what side they want to be on.

Microfinance institutions should always try to be as efficient as possible and keep their interest rates at the lowest rate as possible. It is only then the organizations can create the greatest amount of happiness for the greatest amount of people.

The basic categorical imperative; “I ought never to act except in such a way that I can also will that my maxim should become a universal law” (Kant, I.) and the second that says that an individual should never use another individual for self-gain, could be used as basic ethical lines within a microfinance organization (as well as other organizations).

These lines give us an ethical wakeup call; would we have wanted people to charge high interest rates, if we were the poor individuals? Also Rawls tries to underline that we should create the most good for the worse off. What could be better than to help a woman or a man out of poverty and give them the ability to send their children to school and to eat enough and healthy food each day? These are basic human rights that many poor people are deprived of every day.

I recommend that the microfinance institutions see the value of adding education through their portfolio. “Words are stronger than swords” and education is the most powerful weapon against poverty. Microfinance institutions should be willing and able to provide reading and writing skills, basic knowledge about finance, accounting, decision making and investments, so the borrowers has the right tools to successfully build up their own businesses. The microfinance institutions should also try to keep their interest rates as low as possible. The more money the individual can have left after paying their weekly/monthly repayment the more money she/he can use on their family and also climb more rapidly out of poverty. The more individuals that can successfully be lifted out of poverty, the larger social impact does the organization have and the more ethical is the organization.

Further studies that can be made on this topic is if there are some ethical differences between microfinance organizations from other countries in the world, e.g. USA, England, Germany, France, etc. Another approach is to see if the heavy investments from the Norwegian government, through Norfund and Norwegian Microfinance Initiative, has a larger effect on microfinance (due to the government support), than a private organization on the same size would have.

Perhaps should the microfinance market be shared into two pieces? A market for the commercialized organizations that aims at reaching the upper part of the marked and an own market for the non-profitable organizations that aims at reaching the lower part of the market.

Even with such split in the market, the microfinance institutions and the organizations investing in/lending to them should keep their costs, profits and interest rates down.

At last, microfinance should be performed by social responsible organizations, both non-profit and profitable organizations. These organizations should be efficient, claim low interest rates and focus on the lowest market segment. It is possible to be an ethical organization, even though you earn a profit on the investment. The most important part is that the profit is small and does not deprive the borrowers of valuable capital that could have been used for further investments, food for their families and the ability to climb faster out of poverty. The constant nag for profit should be reduced and the social responsibility that comes with the investment should rather be valued higher. Companies could use this as a way to prove their social responsibility and front it as a good deed, rather than seeing it as only a profitable investment.

Microfinance needs to be locked at as mainly a social responsible investment and not just a way to make profit.

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* Strømme foundation: www.strømmestiftelsen.no

Appendix 1: Interview guide translated into English

I have decided to hold the interviews in the native language of the respondents, Norwegian. This can reduce the reliability and validity of the interviews conducted in this paper, since there is a translation bias (since people translate/use different words). Since the interviews is more a collection of facts (to verify and deepening the understanding of the case companies) and not the opinions of the respondents, this bias has been reduced. The interview guide is posted in both Norwegian and English, so the readers of this paper can understand the interview guide and also reduce the translation biases.

The points under some of the questions is only highlighting important points that needs to be asked about/elaborate if the respondents does not answer clearly (need for further elaboration). These points are therefore not a part of the questions.

Interview guide:

Telephone number:

Hi. My name is Cathrine Fin. I am a student at the University of Agder and this summer I am writing my master thesis about the topic microfinance. I would like to conduct a 30 minute interview with one of your employees about the topic microfinance. Do you have someone that can help me with some information about the company and how you conduct microfinance, please?

Thank you for your help.

About microfinance:

1) When and why did (company name) start with microfinance?

2) How does (company name) perform microfinance?

- Loans to institutions?
- Own projects?

3) Why has (company name) chosen this organizational structure?

4) Does the (company name) demand some conditions in order to cooperate with the microfinance institutions?

5) Where is the money (company name) lends out originated from?

- Gifts?
- Investors?
- Government/support?

The borrowers and interest rates:

6) What kind of interest rate does (company name) has on its loans to microfinance institutions (if the company is not directly lending out money/directly involved in its own microfinance institution)?

7) What kind of interest rate does (company name) demand from the end user/the real borrower?

- If no/not able to provide, Why? Is not the demand for knowing the real interest rate relevant for lending out money?

8) What kind of target group does (company name) aim to reach?

- Women
- Men
- Both genders
- The poorest
- Poor

9) How does (company name) make sure that the money reaches the target group?

10) How does (company name) deal with illiteracy among the borrowers?

11) What kind of control has (company name) that the borrowers understands the consequences of the loan?

12) Is there some training involved with receiving the loan?

- What sort?

13) How is the cost of this training covered?

- Higher interest rate?
- A single sum?

Risk/return:

14) Which risk does (company name) take by performing microfinance?

15) Has (company name) made some efforts to reduce the risk?

16) Which expected return (rate of return) has (company name) on the microfinance investments?

Collection of loans:

17) Which collection methods does (company name)/the companies that (company name) invests in/lends money to use to collect money for neglected loans?

Ethics:

18) Which (if the company has) ethical guidelines does (company name) follow?

- Could you send me these?

19) What is the highest interest rate that (company name) operates with? Ethical reflections around this rate?

20) Which benefits does the poor have from loaning at that rate?

21) Many claims that it is unethical to demand high interest rates from the poor, others claim that this is necessary in order to be able to expand and reach more poor people. Is ethical to demand high interest rates from the poor?

22) Where is the limit, only to demand interest rates to cover the costs, or also to make a profit?

23) What does (company name) mean about this statement: microfinance should only be performed by charities/non-profit organizations?

24) How has (company name) reacted on the documentary ”Trapped in micro debt” and the negative press that has been around and after this documentary?

25) Do you have any other aspects that (company name) mean are important to add to the discussion of ethics in microfinance institutions?

26) Do you have something to add about (company name) and microfinance?

Thank you for your help.

Appendix 2: Interview guide original

The original interviews were held in the native language of the respondents, Norwegian. I have therefore decided to have the interview guide posted in both English (above) and Norwegian (below).

Intervjuguide:

Telefonnummer:

Hei. Mitt navn er Cathrine Fin. Jeg er student ved Universitetet i Agder og skriver i sommer masteroppgave om temaet mikrofinans. Jeg ønsker gjerne å gjennomføre et intervju på ca. 30 minutter med en av deres ansatte om temaet mikrofinans. Har du noen du som kan hjelpe meg med litt informasjon om selskapet og hvordan dere utfører mikrofinans?
Tusen takk for hjelpen.

Om mikrofinans:

1) Når og hvorfor begynte (selskapet) med mikrofinans?

2) Hvordan utfører (selskapet) mikrofinans?

- Lån til institusjoner?
- Egne prosjekter?

3) Hvorfor har (selskapet) valgt denne organisasjonsmodellen?

4) Stiller (selskapet) noen krav/betingelser for samarbeid med mikrofinans institusjonene?

5) Hvor er pengene (selskapet) låner ut opprinnelse fra?

- Gaver?
- Investorer?
- Myndighetene/støtte?

Låntakere og renter:

6) Hva slags rente har (selskapet) på utlånene til mikrofinans institusjonene (hvis ikke direkte utlån/direkte involvert i egne mikrofinans institusjoner)?

7) Hva slags rente krever (selskapet) av sluttbrukeren/den reelle låntakeren?

- Hvis nei/ikke mulig å oppgi, Hvorfor? Er ikke krav til sluttrente relevant for utlån?

8) Hva slags målgruppe ønsker (selskapet) å nå? (ut til)?

- Kvinner
- Menn
- Begge kjønn
- De aller fattige
- Fattige

9) Hvordan sørger (selskapet) for at pengene når målgruppen?

10) Hvordan forholder (selskapet) seg til analfabetisme blant låntakerne?

11) Hva slags kontroll har (selskapet) får at låntakerne forstår konsekvensen av lånet?

12) Er det noen opplæring i forbindelse med lånene?

- Eventuelt hva?

13) Hvordan dekkes kostnadene til denne opplæringen?

- Høyere rente?
- Engangs sum?

Risiko/avkastning:

14) Hvilken risiko tar (selskapet) ved å utføre mikrofinans?

15) Har (selskapet) noen tiltak for å redusere risikoen?

16) Hvilken forventet avkastning (sats) har (selskapet) på mikrofinans investeringene?

Innkreving:

17) Hvilke innkrevingsmetoder bruker (selskapet)/selskapene (selskapet) investerer i/låner til for å kreve inn pengene på forsømte lån?

Etikk:

18) Hvilke (hvis selskapet har) etiske retningslinjer følger (selskapet)?

- Har du muligheten til å sende disse til meg?

19) Hva er den høyeste rentesatsen (selskapet) opererer med? Etiske refleksjoner rundt denne satsen?

20) Hvilke fordeler har de fattige ved å låne til denne renten?

21) Mange hevder at det er uetisk å kreve høye renter av de fattige, andre hevder at dette er nødvendig for å kunne ekspandere for å nå flere fattige. Er det etisk å kreve høye renter fra de fattige?

22) Hvor går grensen, kun kreve renter for å dekke kostnader, eller også for å tjene penger?

23) Hva mener (selskapet) om utsagnet: mikrofinans bør kun utføres av veldedige/ikke-profitt organisasjoner?

24) Hvordan har (selskapet) reagert på dokumentaren ”Fanget i mikrogjeld” og de negative avisoppslagene som har vært rundt og i etterkant av dokumentaren?

25) Er det noen andre aspekter som (selskapet) mener det er viktig å ta med i diskusjonen om etikk i mikrofinans institusjoner?

26) Har du noe å tilføye om (selskapet) og mikrofinans?

Tusen takk for hjelpen.