

The Potential Influence of Donor Funding on Microfinance Institutions

MASTER THESIS
INTERNATIONAL BUSINESS AND POLITICS

PROGRAM:



Jonas Sandal

Date: 16/12-2011

Word Count: 25.079

Tap Count: 162.982

Pages: 78

ABSTRACT

This thesis examines the potential influence effect of donor funding on the sustainability of microfinance institutions, and analyses the role of governments in the microfinance industry. The nature of this explorative study is qualitative, and expert interviews with three different stakeholders in the microfinance industry are applied. The theoretical framework employed is that of the Balanced Scorecard Methodology as proposed by Robert S. Kaplan and David P. Norton, and Agency Theory as presented by Kathleen Eisenhardt. The thesis suggests that donor funding can have positive effect on microfinance institutions in their start-up phase allowing them access to capital they otherwise would unable to obtain. However, in general terms donor funding can have a detrimental effect on microfinance institutions' sustainability since it can create a dependency on subsidies. Additionally, it is argued that the external pressure from donors can have negative effects on the microfinance institutions. It is suggested that the microfinance institutions must look to improve other strategies and diversify their sources of income in order to ensure financial self-sufficiency. In this respect, the Balanced Scorecard framework is proposed as a mean to establish independence from subsidies.

Index

INTRODUCTION	3
RESEARCH QUESTION	14
METHODOLOGY	15
STRUCTURE OF THESIS AND EMPIRICAL DATA	15
PHILOSOPHICAL STANCE	16
QUALITATIVE RESEARCH INTERVIEWING	16
INTERVIEWEES AND THE FRAMING OF THE INTERVIEWS:	18
DELIMITATION	20
PROJECT DESIGN	21
THEORY	22
THE BALANCED SCORECARD – A SHORT INTRODUCTION:	22
CLARIFYING AND TRANSLATING VISION AND STRATEGY	23
COMMUNICATING AND LINKING STRATEGIC OBJECTIVES AND MEASURES	24
PLANNING, SETTING TARGETS, AND ALIGNING STRATEGIC INITIATIVES	25
ENHANCING STRATEGIC FEEDBACK AND LEARNING	25
THE CUSTOMER PERSPECTIVE – HOW DO CUSTOMERS PERCEIVE THE ORGANISATION?	26
INTERNAL BUSINESS PERSPECTIVE – WHAT MUST THE ORGANISATION EXCEL AT?	27
INNOVATION AND LEARNING PERSPECTIVE – CAN THE ORGANISATION CONTINUE TO IMPROVE AND CREATE VALUE?	28
FINANCIAL PERSPECTIVE: HOW DOES THE ORGANISATION LOOK TO ITS SHAREHOLDERS?	28
STRATEGIC VERSUS DIAGNOSTIC MEASURES	29
AGENCY THEORY	31
ANALYSIS	34
CAPITAL IN THE MICROFINANCE INDUSTRY	34
CROWDING OUT EFFECT	36
POTENTIAL GOVERNMENT INFLUENCE	37
BSC ANALYSIS	42
BALANCED SCORECARD VALIDITY AND CRITICISM	42
LOOKING AT MFIs FROM A BALANCED SCORECARD PERSPECTIVE	44
SELECTING THE CORRECT MEASURES	44
FINANCIAL PERSPECTIVE	47
RISK MANAGEMENT	49
PROFITABLE REVENUE GROWTH	50
TRANSACTION COSTS	53
THE CUSTOMER PERSPECTIVE	58
LAGGING INDICATORS	59
PERFORMANCE DRIVERS	61

INTERNAL BUSINESS PERSPECTIVE	63
THE LEARNING AND GROWTH PERSPECTIVE	66
<u>POTENTIAL EFFECT OF DONOR FUNDING</u>	<u>69</u>
THE POTENTIAL EFFECT OF DONOR FUNDING ON MFIs' FINANCIAL SUSTAINABILITY	69
LENDING STRATEGY	73
<u>CONCLUDING DISCUSSION</u>	<u>75</u>
<u>BIBLIOGRAPHY</u>	<u>82</u>
<u>APPENDICES</u>	<u>85</u>
APPENDIX 1 – PITHA KURDAHL	85
APPENDIX 2 – PLE DAHL RASMUSSEN	85
APPENDIX 3 – NÆNS OLE PEDERSEN	85

Introduction

This thesis looks to investigate the influence of donor funding on the sustainability of microfinance institutions. However, before going into detail with regard to the structure and design of the thesis, the following section will highlight some of the issues concerning microfinance in general and the potential influence of donor funding on microfinance institutions.

The term microfinance acts as an umbrella designation that describes the supply of banking services by financial institutions with a focus on poverty alleviation (Microfinance institutions - MFIs) to poor individuals that are not able to access the conventional financial sector. The World Bank estimates that approximately 1.1 billion people live in extreme poverty of below 1 USD a day and approximately 2.7 billion people, corresponding to about 40 % of the world's population, live below 2 USD a day (Dieckmann, 2007; 3). The extreme poverty shares in developing countries differ broadly with regional numbers stretching from 9 % in East Asia and the Pacific to 41 % in Sub-Saharan Africa (Dieckmann, 2007; 3).

The main microfinance service is the provision of microcredit, which usually consist of small loans to the poor. Typically, these loans amount to about 100 USD and can, in some cases, be increased over time depending on the geographic area (Dieckmann, 2007; 3). For example, in Eastern Europe an average loan amounts to approximately 1,600 USD, while in Asia the average loan is approximately 150 USD. In addition to this, several MFIs are, to an increasing extent, offering other microfinance services, such as micro-deposits, micro-savings, and micro-insurances to their customers (Dieckmann, 2007; 3).

Microfinance has received a lot of attention the past decade where it has been lauded as a magic bullet for poverty alleviation. The thought of removing poverty by allowing the poorest access to credit has had a broad appeal to nations, institutions and researchers

concerned with the fight against poverty. This is exemplified by the founder of the Grameen Bank, Professor Muhammed Yunus, who received the Nobel Peace Prize in 2006 for his work against poverty in third world countries. One of the main notions underlying microfinance is that poverty could be eradicated by giving poor people access to capital, which they would be able to transfer in to small businesses. Thereby, they would be working their way out of poverty and be able to sustain a reasonable way of living (Bateman, 2010; 6-9).

Whether this has been the case, is a totally different matter but the idea certainly has had a luring effect. This has also spurred the rise of a large number of microfinance institutions operating in third world countries. These institutions have offered several different credit packages to the poor, ranging from group based lending, where the group functions as collateral should anyone default, to more individual lending types. These institutions have come under increasingly scrutiny in recent years in regard to whether they actually are improving the living standards for the people they are providing with credit. Many microfinance institutions have been criticised for decreasing the livelihoods of poor credit takers. Terms such as predatory lending, loan-shark, and debt farming are recognisable from an extensive literature review. This implies that the conditions the poor borrowers are offered are too difficult in many cases to cope with, such as extremely high interest rates, time provided before repayment has to be made, excessive debt recovery methods, etc. (The World Bank, 2004; 35).

However, what this thesis also looks to investigate is what the goals of some of these microfinance institutions are. Is it sustainable development? In this case, is it possible for a microfinance institution to actually sustain itself without funding from outside sources, simply by providing the poorest with microfinance services? Many microfinance institutions have extremely high recuperation rates of the loans provided to the poor, but are they able to do this at the same time without any outside influence on their finances? Which control parameters are the microfinance institutions applying and what drives them? In other words, what internal indicators are the MFIs looking to improve in order for them to obtain financial sustainability? In addition to this aspect, is donor funding a means and perhaps a necessity for the MFIs to continue to exist? Another issue is whether the goal of the MFI is to simply attain donor funding, or is it poverty alleviation?

However, it should be emphasised that this does not necessarily imply an integrated conflict between these two goals. Obviously, a microfinance institution can have both poverty alleviation and donor funding as two separate goals, but some institutions might only be involved in the microfinance industry in order for them to obtain large sums of donor funding. In this sense, donor funding and subsidies are to be understood as the same concept throughout this thesis. Subsidies can be through direct cash or donations, indirect with in-kind assets or training facilities or through soft loans, which implies that the interest rate otherwise obtained through the market would be substantially higher (Hudon & Traca, 2011; 967). An additional type of subsidy can be tax holidays, which allows MFIs to operate within a region or country without paying or at least only paying highly favourable taxes. Furthermore, other forms of subsidies include loan guarantees, soft equity, or public goods that the MFIs might receive (Armendariz & Morduch, 2005).

If a MFI primarily seeks to make a profit, does this come at a price for the people they are looking to provide with credit? Should such institutions be entitled to receive funding from outside sources? One thing it is important to take notice of, before elaborating further on the aims of this thesis, is the different types of microfinance institutions. It is imperative to distinguish between the different types in order for one to comprehend the various goals and missions associated with these institutions.

If one were to generalise the microfinance universe, three types of microfinance institutions would appear:

- (I) *For-profit organisations*
- (II) *NGOs*
- (III) *Cooperatives*

(Dichter, 2007; 139).

Obviously, this division of the different types of microfinance institutions represents a rough generalisation, but it acts as an indicator of what the general notions are for the microfinance institutions, and what separates them from each other.

These three institutions have very different missions and agendas. *Type I* seeks profit maximisation and improvements to the financial sector in order for this to be more efficient. In this case, subsidies are being used to expand their network and to cover start-up costs. This should be characterised as a more commercial approach. For-profit organisations seek to cover costs within a reasonable time frame. When establishing a microfinance institution it requires some initial capital to cover start-up and operating costs and funds loaned to clients. Subsidies are applicable in assembling this organisation, especially when it comes to accelerating growth (Dichter, 2007; 141). Subsidies received in the start-up period are also helpful in shortening the period in which a newly started microfinance institution loses money, particularly because this period tends to be relatively long, such as three years or more. In this aspect, it should be noted that subsidies can help finance the start-up period for the MFIs covering regular costs, but subsidies can also provide additional capital, which can be included in the MFIs' portfolio. In other words, subsidies can cover direct costs, thereby shortening the period in which the MFIs might run a deficit, as well as cover a part of the capital contribution.

However, even in these cases, donor funding is relatively achievable if the recipient organisation or network is credible according to the criteria set forth by international financial institutions such as the International Finance Corporation (IFC), Kreditanstalt für Wiederaufbau (KfW), and Netherlands Development Finance Company (FMO), which are typically investors in such microfinance institutions or networks.

Subsidies can be very attractive in development finance. First of all, it not only helps accelerate growth of new microfinance institutions, but also relieves limitations that the organisations might encounter throughout a network of microfinance institutions if no sort of subsidy were available for the new institution. Secondly, subsidies will help boost the return for the investors in the new microfinance institution. Thirdly, subsidies can speed up these investors' orderly exit, a disinvestment process that could require a decade or more (Dichter, 2007; 141).

However, it is important to emphasise that for-profit organisations regard independence from subsidies as vital to their goals and missions. If they continue to receive subsidies it should only be for new activities that in time will become self-sustainable. The reason for

this view is that subsidies are costly, fickle, and habit-forming. Subsidies are especially costly in terms of transaction costs, or aggravation, time, and money (ATM). The institutions are required to spend a lot of time drafting proposals and to comply with any conditions specified by the donor (Dichter, 2007; 141-142). There is also the question of whether microfinance institutions ever could be really efficient if they depend on perpetual subsidies. Instead, Type I organisations should engage in private equity (venture capital). Capital markets are increasingly interested in microfinance, and these opportunities could provide much more finance than any grants would ever be able to do (Dichter, 2007; 142).

Type II microfinance institutions look to alleviate poverty by expanding services and enlisting more clients. These organisations view subsidies as an essential requirement for survival. This is based on the assumption that subsidies are a necessity in order for these organisations to alleviate poverty, which also is their main agenda. In this context, microfinance is viewed as a tool for poverty alleviation and is a non-profit activity carried out by an NGO (Dichter, 2007; 144).

*Type III*s wants to promote affiliation by enrolling new members, offering extended services and construct more and different types of cooperative organisations. The main goals of these institutions are to help people and make markets more equitable and efficient. In this sense, subsidies are used whenever they could be useful. These organisations extend their operations from the non-commercial to the commercial (Dichter, 2007; 146). Another goal of these cooperatives appears to be affiliation, which consists of taking on more members and providing more and expanded services. Their mission is based on making cooperation efficient and successful in strategies that help members, and benefits society at large by improving markets and/or making them more equitable from a social perspective (Dichter, 2007; 146).

In addition to these three definitions, it is also imperative to mention the debate between the *financial system* approach and the *poverty lending* approach. This debate began in the 1990s when the *financial system* approach proponents argued that it was of critical importance that the MFIs apply financially sustainable programs. The emphasis is on the ability to cover the cost of lending money out of the income generated from the

outstanding loan portfolio and to reduce the operational costs as much as possible (Hermes & Lensink; 2011; 878). The *poverty lending* approach, instead, focuses on providing credit to help overcome poverty, usually by contributing credit with subsidised interest rates. The main argument is that the poor cannot afford higher interest rates, hereby implying that the aim of financial sustainability ultimately goes against the goal of serving large groups of poor borrowers. Put another way, there might be a trade-off between sustainability and outreach.

However, the advocates of the *financial system* approach claim that there is not any empirical evidence stating that the poor cannot afford higher interest rates, nor that there is any negative correlation between the poverty level of the borrowers and the financial sustainability of the institution. Their focal point is that it is impossible to secure a large-scale outreach on a long-term basis if the MFIs are not financial sustainable. In recent years, the debate seems to have settled in favour of the *financial system* approach. Actually, most parties in the microfinance debate have realised the significance of attempting to reach financial sustainability (Hermes & Lensink; 2011; 878).

In the opinion of J.J. Pollinger, J. Outhwaite, and H. Cordero-Guzman (2007), there are three different processes in which MFIs operate:

- Survival
- Sustainability
- Self-sufficiency

If an MFI is in the survival mode, it will barely be able to cover monthly expenses and will eventually go bankrupt when money runs out. A sustainable MFI will be able to cover its annual expenses, but depends excessively on grants, donations and other sources of private and public funding besides its own income. Lastly, a self-sufficient MFI is capable of covering all of its expenses from lending and related operations. According to Pollinger, Outhwaite, and Cordero-Guzman, most organisations are in between the survival and sustainability mode (Pollinger, et al., 2007). There are two specific definitions widely applied when it comes to sustainability; operational and financial. Operational sustainability refers to the capability of a MFI to finance its expenses by the revenue generated from its core activities, where income fees and interest generated from its loan

portfolio stand out as the most important sources of income. Financial sustainability relates to the ability to finance its expenses if the MFI had to raise 100 % of its loan portfolio as a result of recapitalisation and by borrowing funds at the market rate (CGAP, 2003; CDFA, 2006).

It is not the ultimate strategic goal of all MFIs to reach financial sustainability, however. Andres Vinelli (2002) argues that there are five different reasons as to why MFIs should. First of all, it will help ensure organisational survival, and thereby continue the financial support that is necessary for many micro-entrepreneurs. If borrowers feel that the MFIs are suffering financial problems or that they will not penalise them when they do not repay, the default rate will escalate (Schreiner and Morduch, 2002; Gonzalez-Vega, 1998; Bates, 1995). Secondly, if the MFIs are pricing their products at market levels, it will enable them to attract non-bankable, but potentially achievable, borrowers who otherwise do not have access to cheaper products. Thirdly, traditional lenders will be in competition with organisations that benefit from large subsidies. Fourthly, when MFIs accomplish becoming sustainable, they will be able to raise and attract funds from variable sources. Finally, ensuring that the entire focus is on sustainability will require the management to control its costs. However, this can cause mission drift to occur, since it is easier to increase self-sufficiency by lending to individuals with better credit records. This entails that the weakest groups will not be reached. The management should therefore, concentrate on working harder and more efficiently, and create less expensive products instead of searching for borrowers that are less risky and easier to serve (Schreiner and Morduch, 2002; Vinelli, 2002). Von Pischke (2002) ultimately argues that the best practice for the microfinance industry is sustainability and to reach self-sufficiency (Von Pischke, 2002).

The focus in this thesis is on the for-profit organisations and their goals and agendas concerning their internal funding. The main reason for this is that these institutions seems to encompass a range of self-contradictory management issues when it comes to running a self-sustainable business and at the same time are highly dependent on subsidies. This is particularly apparent since the microfinance sector has attracted a remarkable 1 billion USD a year in subsidies from private and public donors for the past 20 years (Hudon & Traca, 2011; 966). There is an ongoing debate in the microfinance industry regarding the

number of sustainable MFIs operating worldwide. Deutsche Bank published a report in 2007, which stated that it is improbable that the major bulk of the MFIs will ever reach financial self-sustainability (Dieckmann; 2007; 5-6). Niels Hermes and Robert Lensink support this by estimating that of the approximately 10,000 MFIs operating worldwide, only 3-5 % will become financially self-sustaining. These 10,000 MFIs are made up of a large array of different types, such as credit unions, government agencies, private and commercial enterprises, cooperatives, and various combinations of these forms (Dieckmann, 2007; 5). Rough estimates from Deutsche Bank states that only 1-2 % of all MFIs operating world-wide (i.e., some 150 organisations) are financial sustainable. In most cases, these organisations are primarily larger, mature, regulated, and relatively well-known MFIs. Additional numbers reveal that some 8 % are reasonably close to becoming financial sustainable, but there still remain doubts as to whether this is realistic. Furthermore, these organisations are considered to be commercial organisations focusing on profitability/sustainability (Hermes & Lensink; 2011; 878). A third group of organisations are mainly NGOs (20 % of all MFIs), which are not yet sustainable and are suffering from a lack of funding. The remaining group of MFIs (70 % of all MFIs) consist of minor, start-up organisations, which are very far from being financial sustainable; hence, rely greatly on subsidies (Hermes & Lensink; 2011; 878). Interestingly, in terms of outreach, the top 10 % of the institutions represent the majority of clients served, and they also hold most of the total microfinance assets (Dieckmann, 2007; 5).

It is also worth noticing that many MFIs are substantially underestimating their dependence upon subsidies (Bateman, 2010; 58-59). In addition to this, dozens of microfinance institutions that declare to make profits still rely on subsidies in order to cover their seemingly large transaction costs (Hudon & Traca, 2011; 966).

This raises a series of questions: Would a for-profit microfinance institution be able to run sustainable banking activities without external donor funding? In this sense it is important to look into whether these donations are undermining the management structure, which the institutions are theoretically founded upon. Could this lead to a risky lending strategy and could this have adverse effects to people involved in these transactions? Basically, the main question is: What influence does donor funding have on the sustainable running of microfinance institutions? A worst-case scenario could be deteriorated management

incentives for the institution since these subsidies could prevent effective administration in regards to sustainable development. This could be worsened even further if the institutions were deprived of any subsidies. In the past decade microfinance has received a lot of positive attention from organisations, governments, etc.; which has meant that microfinance institutions have received a lot of funding. If this were to stop, due to donors growing restless, many microfinance institutions would risk severe budget deficits; which in the worst-case could force them into bankruptcy (Armendariz, 2007; 252).

The aim of this Master thesis is to contribute to the discourse regarding microfinance institutions agendas. This thesis will investigate what drives the MFIs, and look into the issues concerning the obtainment of financial sustainability, receiving donor funding, fighting against poverty and examine what control parameters these institutions are applying. In other words, this thesis will study what issues concern the MFIs when it comes to achieving financial sustainability. Examples of such parameters could be the bottom-line, existing and potential outreach, existing and potential donor funding. The thesis will look into the political and financial management aspects of these issues.

After briefly reviewing some of the issues concerning the influence of donor funding on the financial sustainability of MFIs, there can be doubts raised as to whether some MFIs would be able to sustain themselves if they were deprived of the funding they are receiving from other sources. Additionally, concerns may be that the goal of these microfinance institutions is not poverty alleviation, but instead the possibility of obtaining large sums from investors and donors who have been led to believe that having microfinance available is extremely beneficial for the poor in third world countries. Furthermore, it should be noted that there seems to be a lack of clear empirical evidence regarding the true impact of microfinance in terms of poverty alleviation. Another case where there seems to be empirical evidence lacking is on the extent to which subsidised programs generate externalities for non-borrowers. One of the main problems is that the programs have little incentive to complete any sort of impact studies, since data collection efforts can turn out costly and distracting. Additionally, the results may threaten to undermine the rhetorical strength of the anecdotal evidence (Murdoch, 1999; 621).

Research Question

What influence does donor funding have on sustainable development and efficient financial management for for-profit microfinance institutions?

- *Who is the principal in this donor vs. microfinance institution relationship?*
- *Who is managing the MFIs? What experience do they have with donor funding networking?*
- *What are the control parameters for these institutions?*
- *What measures should the MFIs apply when they look to improve their financial sustainability?*
- *How are political goals from stakeholders, such as the governments in the countries where the MFIs operate, influencing the work of the MFIs?*

Methodology

Structure of thesis and empirical data

The analysis will be structured as follows: First, the issue of whether there is enough capital in the microfinance industry and whether the capital available in the industry is being employed intelligently and efficiently will be contemplated and discussed. Secondly, the MFIs' strive to obtain financial sustainability deploying the Balanced Scorecard framework will be analysed and measures will be suggested, which the MFIs could employ. Thereafter, the potential influence of governments will be discussed and evaluated. Finally, the potential effect of donor funding on the sustainability of MFIs and on the microfinance industry in general will be analysed and discussed.

The primary empirical data applied in this thesis will be based on qualitative interviews with three different stakeholders in the microfinance industry. It is important to note that the interviewees might have a bias towards certain topics and issues and this has been contemplated before being deployed as a part of the analysis.

Furthermore, reports from various international agencies will be included to discuss the potential influence of donor funding on microfinance institutions and the role of governments in the microfinance sector. These reports consist primarily of quantitative research that has been processed and elaborated. The primary sources should be considered highly reliable since it is founded on information that has not been passed on to others or been processed in any way.

Philosophical Stance

The research applied to this thesis is exploratory in nature, which is a valuable way of investigate “*what is happening; to seek new insights; to ask questions, and to assess phenomena in a new light*” (Robson, 2002; 59). As proposed by Saunders, Lewis and Thornhill (2009), there are three primary approaches to conduct exploratory research:

- 1) Literature search
- 2) Interviewing ‘experts’ in the subject
- 3) Conducting focus group interviews

(Saunders et al., 2009; 116).

One of the main advantages of explorative research is that it is adaptable and adjustable to change. It implies that one has to be willing to change direction as a result of new data and insights that become apparent. Consequently, this thesis will be based on an interpretive perspective, allowing one to identify the meaning of individuals attribute to their responses. Furthermore, a phenomenological epistemology will be applied in regard to the collection of qualitative data; which concerns the way in which individuals make sense of the world around us (Saunders et al., 2009; 116).

Qualitative Research Interviewing

The objective of the qualitative research interview is to obtain knowledge on how microfinance institutions are operated internally and what role donor funding is playing when it comes to microfinance institutions’ ability to become self-sustainable. By applying qualitative research interviews, it will be possible to gain insight into the different issues concerning donor funding and sustainability. The choice has been made to look at the influence of donor funding on MFIs in a broad context instead of focusing on a few MFIs. It seems that the dependence on donor funding is a general trend, and is widely adopted by

MFIs in regions all over the world. Focusing on the general trends allow for a more comprehensive understanding of the different issues concerning donor fundings' influence on MFIs instead of focusing on a particular region, country or institution where only a couple of the relevant issues might be existent. The people interviewed all have a general and broad experience with the microfinance industry and are knowledgeable when it comes to donor funding and what influence it has on the sustainability of MFIs.

It is important to note that qualitative research interviews enable one to understand the interviewees' point of view and display the meaning that is connected to their experiences and thereby establish their life world (Kvale, 2007; 17).

One of the main advantages of qualitative interviews is their openness. There are no rules or standard techniques for an interview study that is based on non-standardised qualitative interviews. There are, however, methodological standard decisions in the different stages of an interview study. For example, question like: How many interviews are needed? Should the interviews be tape recorded, or should they be transcribed? How should the interviews be analysed? Should the interviewee be informed of the interpretations? (Kvale, 2007; 91-92). In this context, three interviews will be conducted with respectively Githa Kurdahl from the Danish company MYC4, Ole Dahl Rasmussen from Danish Church Aid, and Jens Ole Pedersen from Maj Invest. The interviews will be recorded on tape, which will allow for full concentration on the interview and the ability to follow new leads should they occur. At last, the interviews will be transcribed, since this will make the analysis process easier and will allow for the reader to gain insight into how the interviews were conducted. The interviews will be transcribed verbatim, since the main focus is the content of the interview. Therefore, the transcription of pauses and emotional expressions will be avoided. In this sense, it should be acknowledged that the person transcribing is influencing the process since one might be susceptible to perceiving words incorrectly.

Before the interviews are conducted, it should be noted that the interviewer is not experienced. Therefore, the lack of experience can influence the way the interview techniques are applied and the ability to make situational evaluations in regard to interview situation.

The interviews conducted for this thesis will be semi-structured, and should not be followed strictly. This is intended to maintain an openness, which allows for the possibility to follow new leads should these occur during the interviews. Furthermore, it also enables one to rephrase questions during the interview should this be deemed necessary, which lets one adjust the interviews on the way and go into depth with certain topics that might occur. Although, it should be emphasised that one needs to be aware that the question posed needs to be answered. Therefore, the purpose and structure should be kept in mind during the interview. Before conducting the interviews, Githa Kurdahl, Ole Dahl Rasmussen, and Jens Ole Pedersen were contacted by email. The research topic and the aim of the interview were explained. However, none of the questions were shared with the interviewees before the interviews, because their answers should be a result of their immediate understanding.

Interviewees and the framing of the interviews:

All of the interviewees have a broad and extensive experience with the microfinance field. They have all worked extensively with MFIs in different aspects and are well aware and knowledgeable about the issues concerning financial sustainability and the potential influence of donor funding. Therefore, the interviewees should be considered as experts in the field of the topic and their arguments will be applied in the analysis to discuss the possible influence of donor funding on MFIs' sustainability. Furthermore, they will also be used in the discussion regarding governmental influence on the microfinance sector, since they all have and work with projects where governments play a significant role when it comes to shaping the environment in which the MFIs operate.

Githa Kurdahl from MYC4 was a relevant person to interview because she is operational manager for MYC4 and has daily contact with MFIs operating in Africa. MYC4 is a Danish company, which operates as an Internet marketplace where investors from around the world can lend money directly to individuals who are doing business in Africa. This implies that MYC4 raises funds, which are channelled through MFIs to the individuals applying for the loans. MYC4 are, therefore, collaborating closely with a large range of MFIs in Africa.

The interview was conducted on September 7th, 2011 in the MYC4s office in Copenhagen and lasted approximately an hour.

Ole Dahl Rasmussen is microfinance advisor for the Danish Church Aid. He is responsible for which strategies the Danish Church Aid is conducting, as well as educating employees regarding microfinance in the Danish Church Aid's 11 regional offices around the world. Furthermore, Ole Dahl Rasmussen is Chairman of the Board for the Danish Forum for Microfinance, which is an umbrella organisation for microfinance actors in Denmark. The interview was conducted on September 7th, 2011 at the Danish Church Aid's office in Copenhagen and lasted approximately an hour.

Jens Ole Pedersen is head of microfinance investments for Maj Invest. Maj Invest is a Danish asset management company. It is the second largest Danish capital contributor to the microfinance industry besides DANIDA. In total, the company invests approximately 400 million DKK per year in microfinance institutions around the globe (Appendix 3, page 5, final section). Jens Ole Pedersen is extremely experienced within the microfinance industry and has previously worked, as Vice Director for the Tanzanian bank CRDB; which became the largest provider of microfinance in Tanzania during his time there. Additionally, he has worked as microfinance advisor for DANIDA. The interview was conducted on September 27th at Maj Invest's office in Copenhagen and lasted approximately an hour.

Delimitation

When investigating issues concerning microfinance, it quickly becomes clear that microfinance encompasses a whole range of comprehensive topics and issues. Therefore, this thesis will examine only what could be considered a small fraction of the discussion concerning microfinance, namely the effect of donor funding on the financial sustainability of microfinance institutions. In this sense, the donor funding aspect should be considered as a vital part of the delimitation. However, issues that concern the financial sustainability of MFIs will also be considered and discussed in the thesis. For instance, it is relevant to look at the general trends in the microfinance industry when it comes to capital available in the microfinance markets. Furthermore, a discussion of the role of governments in terms of their influence on the microfinance sector will be included. This is because the governments are playing a significant role in the environments in which the MFIs operate, both as an enabler of microfinance, creating the conditions for the MFIs to do business, and in the cases where governments actually are subsidising the MFIs. Thus, the role of governments will be discussed and suggestions will be made as to what role the governments should play in the microfinance industry.

Additionally, it should be noted with regard to the Balanced Scorecard analysis that this thesis looks to propose a range of measures rather than actually testing them, and should therefore, be considered as a suggestion as to what MFIs should focus on when striving for financial sustainability.

Project design

INTRODUCTION

Research question
Sub-questions

METHODOLOGY

Philosophical Stance
Qualitative Research Interviewing
Delimitation

THEORY

The Balanced Scorecard
Agency Theory

ANALYSIS

Capital in the microfinance industry
Balanced Scorecard Analysis
Governmental Influence
The effect of donor funding

CONCLUDING DISCUSSION

Theory

The Balanced Scorecard – a short introduction:

One way to investigate how microfinance institutions are looking to manage their financial business on a strategic level is to apply the Balanced Scorecard methodology as proposed by Robert S. Kaplan and David P. Norton (1992). The Balanced Scorecard gives managers a range of measures that gives a quick but extensive view of the business. It includes financial measures that point out what implemented actions will lead to. Furthermore, it complements the financial measures with operational measures on internal processes, customer satisfaction, and the institutions innovation and development initiatives (Kaplan, 1992; 71).

The Balanced Scorecard gives managers the ability to look at their organisation from four different perspectives and provides answers to four different questions:

- How do customers see the organisation? (Customer perspective)
- What must the organisation excel at? (Internal perspective)
- Can the organisation continue to improve and create value? (Innovation and learning perspective)
- How does the organisation look to shareholders? (Financial perspective)

(Kaplan, 1992; 72)

It is also important to notice that the Balanced Scorecard is more than a tactical or an operational measurement system. Organisations focusing on innovation are applying the scorecard as a strategic management system as a means to manage their long-term strategy. The measurement focus of the scorecard should be used to succeed in critical management processes:

- 1) *Clarify and translate vision and strategy*

2) Communicate and link strategic objectives and measures

3) Plan, set targets, and align strategic initiatives

4) Enhance strategic feedback and learning

(Kaplan, 1996; 10)

Clarifying and translating vision and strategy

The process of initiating the Balanced Scorecard starts with the senior executive management team working in conjunction with each other to translate its business unit's strategy into specified strategic objectives (Kaplan, 1996; 10). In order for the organisation to set financial goals, it must contemplate whether to emphasise market growth and revenue, profitability, or cash flow generation.

When it comes to the customer perspective, the management team must be particularly explicit about the market and customer segment in which the organisation wants to compete in.

After the financial and customer objectives have been established, the organisation should look to identify what objectives and measures ought to be applied to its internal business processes. This identification should be seen as one of the principal innovations and benefits that the Balanced Scorecard approach has to offer. Where traditional performance measurement systems, even those that apply several other non-financial parameters, focus on enhancing the quality, cost, and cycle time of existing processes, the Balanced Scorecard underlines those processes that are most vital for achieving successful performance for customers and shareholders. This identification will often lead to new internal processes being revealed, which the organisation must excel at for its strategy to be profitable (Kaplan, 1996; 10-11).

The final linkage, to learning and growth objectives, shows the logic for notable investments in retraining employees, in information technologies and systems, and in enhanced business procedures. Investments in these areas are likely to generate major

innovation and improvement for internal business processes, for its customers, and shareholders (Kaplan, 1996; 12).

The Balanced Scorecard helps senior managers get information from four different perspectives, but at the same time limits the number of measures used to avoid information overload. This forces managers to address only a handful of issues that are most critical (Kaplan, 1992; 71-72). Adopting the Balanced Scorecard should allow managers to shorten response time, become more customer oriented, put greater emphasis on teamwork, and reduce new product launch times. Furthermore, the Balanced Scorecard guards against sub-optimisation. Senior managers have to consider all the essential operational measures together, which will allow them to see whether improvement in one area have been obtained at the expense of another. The procedure of creating a Balanced Scorecard helps clarify the strategic objectives and identifies the vital drivers of the strategic objectives (Kaplan, 1992; 72).

Communicating and linking strategic objectives and measures

Internal communication in the organisation should serve as a signal to all employees as to what the critical objectives that must be accomplished are. This is critical if the organisation is to succeed. In this context, some organisations have attempted to decompose the top-level strategic measures of the organisation's scorecard into more specific measures at the operational level (Kaplan, 1996; 13). Furthermore, the scorecard is also at the basis for communicating and gaining commitment to a business unit's particular strategy with executive-level representatives and the board of directors. By these means, the scorecard encourages a dialogue between these participants, not exclusively about short-term financial goals, but also about the formulation and implementation of a strategy for successful long-term performance of the organisation (Kaplan, 1996; 13). At the end of the communication and linking process, all employees (including top-level executives) in the organisation should be aware of the business unit's long-term objectives, as well as the particular strategy to achieve these objectives. Individuals in the organisation will have formulated local action plans that will be

instrumental in obtaining business unit goals. At the same time, all organisational efforts and initiatives will be aligned to the necessary alteration processes (Kaplan, 1996; 13).

Planning, setting targets, and aligning strategic initiatives

The way to get the best use of the Balanced Scorecard is when it is deployed to drive organisational change. Therefore, senior managers should set targets for the scorecard measures, three to five years ahead, which could transform the organisation. By planning and setting targets the management should be able to help the organisation:

- Quantify long-term results that the organisation wants to achieve
- Identify what mechanisms enable such results and provide resources to achieve this
- Establish short-term benchmarks for both the financial and non-financial measures on the scorecard

(Kaplan, 1996, 14-16).

Enhancing strategic feedback and learning

The last management process deploys the scorecard in a strategic learning structure. This process is considered the most innovative and most important aspect of the whole scorecard management process since it provides the capability for organisational learning at the executive level (Kaplan, 1996; 15). The scorecard will help ensure that senior managers are able to monitor and adjust the implementation of a chosen strategy, and if necessary, make complete alterations in their strategy. When the organisation has short-term milestones set up for financial and non-financial measures, it will still be possible for the management to review monthly and quarterly financial results (Kaplan, 1996; 15). Even more importantly, it also enables the management to closely examine whether the business unit is accomplishing its objectives for customers, for internal processes and innovation, and for employees, systems, and procedures. The scorecard will allow the

management reviews and updates to change from reviewing the past to learning about the future (Kaplan, 1996; 15).

When the organisation looks to enhance its strategic learning, the first process should be the clarification of a joint vision that the entire organisation wants to achieve. The second process should be that of communication and alignment, which mobilises all individuals into actions aimed at obtaining the organisational goals. In this aspect, it is important to emphasise the understanding of cause and effect when constructing a scorecard, since it should enhance dynamic systems thinking (Kaplan, 1996; 15). Every individual in the organisation should be aware of their role, and understand how the pieces fit together, and how their role affects others, and finally, the whole organisation. The third process is that of planning, setting targets, and strategic initiatives. This process allows for the organisation to define specific, quantitative performance objectives across a varied set of outcomes and performance drivers. When comparing the current level of performance to what is desired, it would establish a performance gap that strategic plans can be designed to close (Kaplan, 1996; 15-16). In other words, the Balanced Scorecard is not only measuring changes, but it encourages change.

These three management processes are critical for implementing a chosen strategy, but, by themselves, they are inadequate. They need to be applied in conjunction with each other, in order for the organisation to carry out a successful strategy.

The customer perspective – how do customers perceive the organisation?

One of the main corporate missions today is for businesses to focus more on their customers. Statements such as: “We want to be number one delivering value to our customers” is a common mission declaration. Managers, therefore, have sought to prioritise how the company is performing from its customers’ perspective. The Balanced Scorecard calls for managers to translate this into specific measures that indicate what factors are most important for the customers (Kaplan, 1992; 72). The main concerns of customers tend to fall into four categories: time, performance and service, quality, and

cost. In order for managers to apply the Balanced Scorecard, they would have to articulate goals for these four categories and then convert these goals into specific measures (Kaplan, 1992; 72).

Internal business perspective – what must the organisation excel at?

Although customer-based measures are critical to the organisation, they have to be translated into measures of what the organisation have to do internally to fulfil its customers' expectations. Excellent customer performance stems from decisions, processes, and action happening internally throughout an organisation; which implies that managers have to focus on those critical internal operations that allow them to meet the demands of their customers. The second part of the Balanced Scorecard provides managers with that internal perspective (Kaplan, 1992; 74).

Internal measures should arise from the business operations that have the largest effect on customer satisfaction. Factors such as cycle time, employee skills, quality, and productivity, for instance, are important to consider in this aspect. The organisation should also strive to identify and measure its core competences, the technology level needed to secure continued market leadership. The company must decide on which competences and processes they have to excel at and provide specific measures for each (Kaplan, 1992; 74-75). In order for the organisation to achieve its goals on cycle time, cost, quality, and productivity, managers are required to design measures that are influenced by the employees' actions. This has to be translated into measures applicable at local levels, since much of these actions take place at the workstation level. By doing this, managers are ensuring that top-level decisions are linked to the actions taken by individuals that affect the overall corporate objectives and employees at lower levels in the organisation have clear targets for actions, decisions, and improvement activities that will influence the general goals of the organisation (Kaplan, 1992; 75).

Information systems play a vital role in assisting managers to disaggregate the summary measures. If an unexpected signal emerges on the Balanced Scorecard, managers can

query their information system to find the root of the particular problem (Kaplan, 1992; 75). However, if the information is unresponsive, it could prove to be a serious problem for the performance measurement and would require a more sophisticated and responsive system able to eliminate such constraints (Kaplan, 1992; 75).

Innovation and learning perspective – can the organisation continue to improve and create value?

The customer-based and internal-based perspectives identify the parameters that the organisation regards as most significant for competitive success. The objectives for achieving success are constantly changing, however. Intense international competition requires that organisations produce constant and continual improvements to their existing products and processes, and at the same time, have the ability to launch new products with expanded capacities. An organisation's capability to improve, innovate, and adopt new processes is directly linked to the organisation's value. In other words, only through the ability to introduce new products, create more value for its customers, and enhance operating efficiencies continually can an organisation expand into new markets and increase its revenues and margins. Basically, growing and, thereby, increasing value for the organisation's shareholders (Kaplan, 1992; 75-76).

Financial perspective: How does the organisation look to its shareholders?

Financial performance measures suggest whether the organisation's strategy, implementation, and execution are improving the bottom-line results. Usually, financial goals are linked to profitability, growth, and shareholder value. For instance, such goals can be put simply as: to survive, to succeed, and to prosper. Where survival could be measured by cash flow, success by quarterly growth in sales and operating income by division, and finally prosperity could be measured by increased market share by segment and return on equity (Kaplan, 1992; 77). In the light of today's business environment,

should managers even consider the business from a financial perspective? Should managers look at short-term financial measures? These questions are especially poignant given the heavy criticism because of their well-documented inadequacies, their back-looking perspective, and their inability to indicate more contemporary value-creating activities (Kaplan, 1992; 77). Another criticism of financial measures is that the terms of competition have changed and traditional financial measures will not improve customer satisfaction, quality, cycle time, and employee motivation. This entails that financial performance is a product of the operational action undertaken by an organisation, and financial success should, therefore, be the logical consequence of executing sound business strategies. In other words, organisations should not apply financial performance measures and navigate through these, but instead make fundamental improvements in their operations, which in turn will lead to better financial outcomes (Kaplan, 1992; 77).

Kaplan and Norton (1992) argue that this criticism is incorrect for two reasons. First of all, a thoughtfully designed financial control system can actually improve rather than impede an organisation's total quality management program. Furthermore, the alleged linkage between financial success and enhanced operating performance is actually quite tenuous and uncertain (Kaplan, 1992; 77). Many senior managers have been left frustrated due to the disparity between improved operational performance and disappointing financial measures. Measures of customer satisfaction, internal business performance, innovation and learning are acquired from the organisation's own perspective of the business environment and its view on central success benchmarks. If improved operational performance is not translated into financial success, however, the management have to reevaluate the basic assumptions underlying their strategies and goals. Not all long-term strategies turn out to be actually profitable strategies (Kaplan, 1992; 77). The Balanced Scorecard is only able to translate an organisation's strategy into specific measurable targets.

Strategic versus diagnostic measures

When designing a Balanced Scorecard, managers will often face the question of how many measures they should apply to their scorecard. Some organisations have scorecards with

up to 25 measures. Is it feasible for the organisation to concentrate on 25 separate things? The answer to the last question is no! If an organisation applies a scorecard viewed as 25 independent measures, it will be too complex for the organisation to implement (Kaplan, 1996; 162).

Instead, the Balanced Scorecard should be seen as the instrumentation for a single strategy. As soon as the scorecard is seen as the manifestation of one strategy, the number of measures applied becomes irrelevant. This is because the multiple measures on the scorecard should be viewed as a linkage in a cause and effect network that reports the organisation's strategy (Kaplan, 1996; 162). In this context, it is worth noticing that most organisations already have more than 16 to 25 measures in order to maintain functionality. These organisations are sceptical about whether a Balanced Scorecard consisting of no more than two dozen measures is adequate for measuring their operations. In a narrow sense, these organisations would be correct, but they fail to distinguish between diagnostic measures and strategic measures. Diagnostic measures are the measures which monitor whether the business stays in control and can signal when unexpected and unwanted events occur that requires immediate attention. In other words, organisations should have hundreds, maybe thousands, of measures that they can observe to ensure that the organisation is functioning as required, and importantly, to signal when corrective action should be taken. These measures help capture the necessary factors that enable the organisation to operate and should be monitored diagnostically, with every deviation from expectation quickly noted (Kaplan, 1996; 163).

An efficient Balanced Scorecard should also include a mix of outcome measures and performance drivers. If an organisation applies a scorecard with outcome measures without performance drivers, it will not communicate how the outcomes are to be accomplished. Furthermore, the outcome measures will not provide early indications as to whether a strategy is being successfully implemented. On the other hand, performance drivers without outcome measures might be able to achieve short-term operational improvements. However, they will be unsuccessful when it comes to indicating whether the operational improvements have been translated into expanded business with existing and new customers, and, in due course, to improved financial performance. This implies that a solid Balanced Scorecard has an appropriate mix of outcome measures, which tend

to be lagging indicators, and performance drives, which tend to be leading indicators (Kaplan, 1996; 31-32).

Returning to the case of diagnostic measures versus strategic measures, it is important to emphasise that the outcome and performance driver measures on the Balanced Scorecard should be the subjects of extensive and intensive interactions among senior and mid-level managers when they are evaluating the organisation's strategies based on new information about customer, competitors, markets, technologies, and suppliers (Kaplan, 1996; 163). Therefore, one should bear in mind that the Balanced Scorecard is not a substitute for an organisation's day-to-day measurement system, but the scorecard measures are selected in order to direct the attention of managers and employees to those factors expected to drive competitive improvements for the organisation (Kaplan, 1996; 164).

Agency Theory

Agency Theory is mainly concerned with the relationship between two parties; the principal and the agent. The theory is directed at resolving the problems that can arise in such a relationship and determining the most efficient contract governing the principal-agent relationship. There are two main problems that Agency Theory tries to deal with:

- 1) The Agency Problem: This problem will occur when the wishes or goals of the principal and the agent collide, and when it is complicated and costly for the principal to obtain information on what the agent is actually doing to fulfil the original agreement (Eisenhardt, 1989; 58).
- 2) Problem of Risk Sharing: This problem emerges when the principal and the agent have different attitudes towards risk. The principal and agent might prefer different scenarios and actions taken towards these (Eisenhardt, 1989; 58).

Within Agency Theory, there are two different perspectives: Positivist Agency Theory and Principal-Agent. Both perspectives share a common unit of analysis, namely the contract between the principal and the agent. Furthermore, they make similar assumptions

regarding people, organisations, and information, but they vary in their mathematical rigor, dependent variable, and style (Eisenhardt, 1989; 58). Although there may seem to be some significant differences in the underpinnings of the two perspectives, it should be clearly emphasised that they are complementary and together shape what we understand as Agency Theory. It is still necessary, though, to shortly distinguish between the two streams in order for the reader to grasp the real essence of Agency Theory.

Positivist Agency Theory's focal point has been on identifying circumstances in which the principal and the agent are expected to have conflicting intentions. They seek to explain which governance mechanism would be best suited for limiting the agent's self-interested behaviour. Positivist Agency is less concerned with the mathematical aspects than principal-agent research. Additionally, the positivist researchers have almost solely addressed the relationship between owners and managers of large, public corporations as a means to explain the principal-agent relationship (Eisenhardt, 1989; 59).

The positivist approach identifies two propositions, which capture the governance mechanisms. The first one concerns out-come based contracts, which are assumed to curb the agent's opportunism. The key point is that such contracts help align the preferences of the principal and agent, since the rewards for both depend on the same actions. This should entail that the conflicting interests between the principal and the agent are reduced (Eisenhardt, 1989; 59-60). The second suggestion that the Positivist Agency Theory makes is that information systems will constrain the opportunistic behaviour of the agent. The information systems will inform the principal of the agent's behaviour, which will make the agent realise that he cannot deceive the principal and, therefore, is hindered in acting opportunistically (Eisenhardt, 1989; 60).

If we look at the other perspective, Principal-Agent research, it becomes clear that the theory is more concerned with creating a general theory for the principal-agent relationship. This relationship is one which can be applied to a number of contexts, such as employer-employee, lawyer-clients, buyer-supplier and other agency relationships (Eisenhardt, 1989; 60).

Principal-Agent researchers are concerned with determining the optimal contract between the principal and agent by deploying either behaviour-based contracts or

outcome-based contracts. One assumption that the theory makes is that the agent is more risk averse than the principal, since the agent is unable to diversify his employment. Therefore, the agent should be more risk averse than the principal, who has the opportunity to diversify his investments and, thus, should be risk neutral (Eisenhardt, 1989; 60-61).

If we assume that the principal has full information, and the principal knows what the agent has done, the most appropriate contract would be behaviour-based. This is because an outcome-based contract would needlessly transfer risk to the agent, who we assume to be more risk averse than the principal. However, if we assume that the principal does not have complete information and does not know what the agent has done, the principal risks that the agent might act opportunistically. In other words, there is asymmetric information between the principal and agent. Here two concepts are presented: Moral hazard and adverse selection. Moral hazard refers to the lack of effort made by the agent. The key point is that the agent may not act as agreed upon, since the principal is unable to identify whether the agent is acting appropriately. Adverse selection refers to the agent giving a false account of his actual ability. The agent may claim to have a certain skill or ability before the contract is entered. Again, adverse selection will occur since the principal is unable to verify whether the agent has the required skills due to asymmetric information (Eisenhardt, 1989; 61).

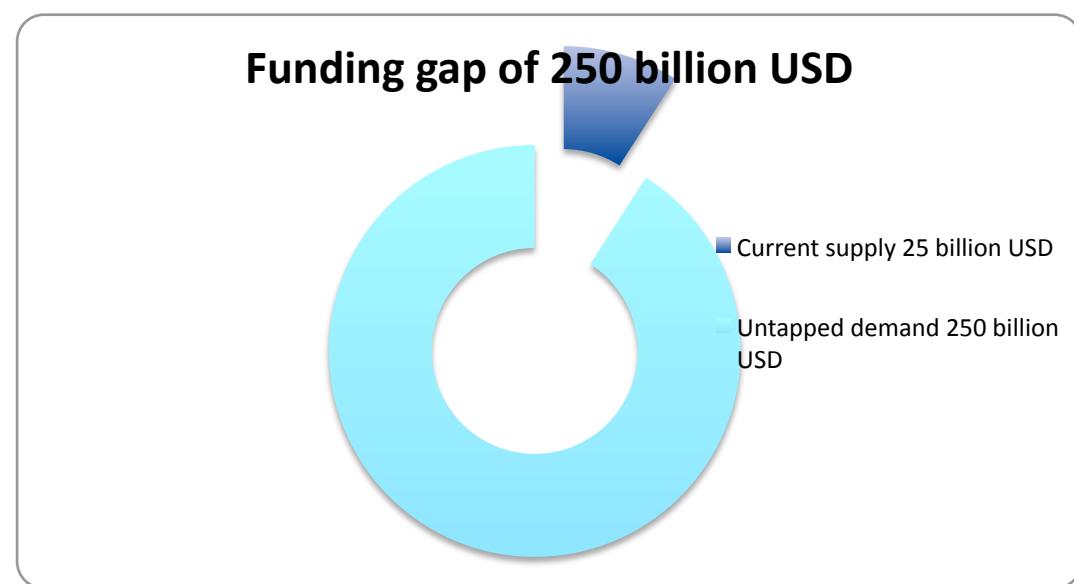
In order for the principal to deal with the unobservable behaviour of the agent, there are two options. One is to invest in information systems and, thereby, gain information about the agent's behaviour. The other option is an outcome-based contract, as mentioned earlier, which will help motivate the agent since the preferences of the agent and the principal will be aligned. This should be seen as the heart of Principal-Agent Theory. Namely, the trade-off between the cost of measuring behaviour and the cost of measuring outcomes and transferring risk to the agent. This is also known as the agency problem (Eisenhardt, 1989; 61).

Analysis

Before looking at what happens internally in the MFIs, some of the general trends within the microfinance industry will be outlined and examined with regard to the influence donor funding has on the financial sustainability of MFIs. There are several important points which are worth considering and which have a direct influence on the internal management of the MFIs. There is no general consensus when it comes to determining the effect donor funding has on MFIs. This chapter will investigate the different arguments, look to outline the different issues and estimate what effect subsidies have on MFIs' financial sustainability.

Capital in the microfinance industry

A point worth considering is whether there is a lack of capital in the microfinance industry available for the MFIs and potential borrowers. According to Deutsche Bank, the microfinance industry is still incapable of fulfilling the demand of capital, since the gap between supply and demand is remarkable. Deutsche Bank estimates that the supply is less than a tenth of the total demand of 275 billion USD (Dieckmann, 2007; 9-10). This is illustrated in the figure below:



(Dieckmann, 2007; 10)

This leaves a gap of 250 billion USD in order for the microfinance industry to meet the potential demand of what Deutsche Bank estimates to be approximately 1 billion micro-borrowers. Currently, MFIs only serve an estimated 100 million poor micro-borrowers (Dieckmann, 2007; 10).

Furthermore, the Deutsche Bank report argues that the untapped demand is spread geographically unevenly around the world, since the majority of poor people are located in India (~310 million), followed by Bangladesh (~70 million), Indonesia (~60 million), Nigeria (~45 million), and Brazil (~40 million) (Dieckmann, 2007; 10).

Although it should be noted that the above-mentioned numbers are a rough estimate, it does provide a point regarding the need for capital in the microfinance industry.

However, Ole Dahl Rasmussen from the Danish Church Aid has a significantly different view to this. He argues that what is generally lacking in the microfinance sectors is not capital, but rather the opposite problem exists. Namely, he states that there is too much capital. He asserts that regardless of what type of capital there is available, this will not be in short supply, whether it is grants with no strings attached, cheap capital with low interest rates, or what he calls “wall street” capital where the only agenda is to make a profit (Appendix 2, page 6, first section). He argues that what is really lacking in the microfinance sector is local absorption capacity. He elaborates further on this:

“I think what is lacking is local absorption capacity. There is simply a lack of MFIs. What is a MFI? That is some people, some procedures, some mechanisms to lend out money and get them back again”

(Appendix 2, page 6, middle section).

He asserts that at the moment there is approximately 150 large microfinance investment vehicles globally investing in MFIs, and they usually only lend to the same 400 MFIs. He believes that in any other market this 150 to 400 ratio would be inconceivable. This indicates an incorrectly balanced market, and Ole Dahl Rasmussen thinks that this can lead

to many of the investors that invest in microfinance becoming more concerned with spending the money for the sake of it, and not too concerned with the quality of the institutions they are investing in, or the quality of their own due diligence. This entails that some MFIs can get away with being sloppier and poorly performing (Appendix 2, page 6, middle section). This could also suggest that some donors just invest in MFIs in order for them to raise their CSR-profile and not for the sake of creating a sustainable and effective business.

This also indicates some agency problems, if one assumes that the investors are the principals and the MFIs are the agents. In this case, there is clearly no incentive for the MFIs to enhance their control systems and improve the screening of potential customers, since they will receive funding regardless of their actions.

According to Ole Dahl Rasmussen, instead there is a need for intelligent capital, or at least as intelligent as possible. By this, he suggests that the donors and investors providing the capital invested in the MFIs should be engaged in the institution and monitoring of operations. He mentions the major microfinance investment vehicle, Triodos Bank, as an example of an intelligent investor, since they usually take a seat on the board of directors in the institutions they are investing in. Instead of lending money to the institution, they are buying a share of the institution. This allows Triodos to get an insight into the strategies and general health of the institution (Appendix 2, page 6, last section). In this context, it should be noted that Maj Invest also buys a share of the MFIs they are investing in, according to Jens Ole Pedersen (Appendix 3, page 7, last section).

Crowding out effect

Another issue worth considering when discussing the effects of donor funding is that of a potential crowding out effect that donor funded MFIs might have on local markets. If MFIs expand to other markets, they might affect the local businesses negatively. Albeit, there is a general consensus among donors and investors that there is a need for supporting a wide range of institutions, there is an on-going debate about who donors and investors should select. The debate is centred around whether they should select “winners” and contribute

to institutions that have greater potential on an individual basis, or whether they should support more extensive capacity building and other services to a variety of different institutions (CGAP, 2006; 9-10). It should be noted that some donors follow both strategies, but in either case, donors and investors should be careful that they are not crowding out the local market (CGAP, 2006; 10).

Ole Dahl Rasmussen is in line with this argument. He believes that donor funding might affect the local market negatively in the sense that if you provide a MFI with funding, and accept that the business they are running is not sustainable, you might risk that you are ruining the local market and affecting the businesses which are sustainable. He mentions lower interest rates as an example of this. If a MFI supplies interest rates, which are lower than the rest of the market, the sustainable operators, which also might serve a different market segment, risk going out of business, since they are unable to compete with the subsidised interest rates (Appendix 2, page 14, middle section). He also points out that it depends on the initial analysis one makes of the market. Nevertheless, even if you are only affecting a few minor operators in the market, whether they are small businesses or private money lenders, Ole Dahl Rasmussen argues that you need to be conscious of what effect a cheaper product and service might have on the livelihoods of those people operating in that region before one risks destroying the local market (Appendix 2, page 14, middle section).

Potential government influence

One thing that is also interesting to examine is what influence local governments might have on the sustainability of MFIs. The Consultative Group to Assist the Poor (CGAP) argues that there is an emerging consensus regarding the role of governments in microfinance. CGAP suggests that governments should have a constructive part in supporting the creation of financial systems that work for the poorest (CGAP, 2006; 17). It is argued that governments are the solitary actors that can establish policy frameworks that stimulate competition among a variety of financial service providers, while at the same ensuring that customers are protected from predatory or fraudulent practices (CGAP, 2006; 17). Additionally, governments should comprise and apply appropriate practices in microfinance. Governments are, in many cases, the major partners of multiple

public (particularly multilateral) donor agencies and commonly play a corresponding role in the development of financial systems (CGAP, 2006; 17).

A crucial means to ensuring effective donor support is to involve suitable government entities, for instance, the Ministry of Finance and the Central Bank, and to ensure that these are not by-passed when assisting the development of financial systems (CGAP, 2006; 17).

The question still remains: What role should governments have in microfinance? Should they be directly involved in microfinance by delivering services to the poor or should they not be involved at all, and leave the supply of microfinance to the private sector? CGAP asserts that governments in developing countries historically have applied credit programs as a means to transfer resources to specified population segments. Currently, these credit schemes continue to exist, frequently with public donor support (CGAP, 2006; 17). However, there have been a number of negative effects of these programs (low repayment rates and establishment of a poor credit culture, decapitalisation of funds, wealthier citizens receiving the loans), which has led several donors and microfinance experts to suggest that governments should be discouraged from engaging in microfinance (CGAP, 2006; 17-18). Nevertheless, this tough stance against governments' direct involvement has not always proved effective. Furthermore, it might be too impeding. It should also be noted that some governments are convinced that they can and should have a more active and dynamic role in the microfinance industry (CGAP, 2006; 18).

CGAP points out that the increasing interest from governments in microfinance brings both opportunities and risks. On one side, well-informed governments are able to implement policies that influence the realisation of stable and sustainable financial institution that enable access to credit for the poor and provide efficient prudential supervision and regulation (CGAP, 2006; 18). In other words, governments can help eliminate impeding policies that obstruct the development of microfinance (CGAP, 2006; 18).

On the other side, some governments are still impairing the microfinance markets. Particularly, increased attention risks politicisation, primarily concerning microcredit. Several governments associate microcredit with handing out money to the poor. Furthermore, another risk that too much government intervention can bring about is that

of political criteria, rather than proper administration. This could drive decision-making on issues such as who gets access to credit and where the particular branch should be located and operated from (CGAP, 2006; 18). CGAP concludes that the primary role of governments should be as an enabler, not a direct provider of microfinance services and products, especially credit. Furthermore, they argue that the main focus of any government should be to maintain macroeconomic stability (CGAP, 2006; 18).

Ole Dahl Rasmussen from the Danish Church Aid states that it is difficult to generally say what influence political goals from governments might have on the MFIs. However, he does insist that microfinance does not operate efficiently in many places where governments are involved, particularly in developing countries (Appendix 2, page 9, middle section). He mentions that there are several examples of governments being involved in microfinance, which they use for political purposes. For instance, he refers to the country Benin, where there once operated a successful MFI called PADME (it still exists but under very different circumstances), which actually performed well on most indicators and had a high degree of sustainability. This was made possible by charging reasonably high interest rates. Although, Ole Dahl Rasmussen argues that their ownership structure was a bit unclear, since the World Bank, the local government, and some other international stakeholders had part ownerships of the organisation. The key issue, however, was that they were organised as a NGO where the government had a great deal of influence (Appendix 2, page 9, middle section). Eventually, when there was an election campaign in Benin, several politicians, including the elected president Yavi Boni, proposed that microfinance should be made available to everyone in the country and it should be cheap. Basically, PADME was forced to hand out loans at 4 % per annum, which destroyed their sustainability and they were basically taken over by the government. Ole Dahl Rasmussen argues that there are some MFIs that everyone knows are political governmental institutions, and this is bad for the sustainability in the given institution. It is also bad for the microfinance sector since they are promoting the notion that they are obliged to pay these loans back, because the money is provided by the government (Appendix 2, page 10, first section). Ole Dahl Rasmussen concludes that the general influence of governments on microfinance is really bad. Instead of being a provider of microfinance, the governments should, instead, focus on promoting and protecting the microfinance sector. For instance,

creating financial instruments, which make it possible for MFIs to run a sustainable business (Appendix 2, page 10, first section).

Head of Microfinance Investment in Maj Invest, Jens Ole Pedersen is in line with this reasoning, arguing that one of the worst things that can happen to the microfinance sector is when politicians start interfering with the work of the MFIs (Appendix 3, page 7, first section). He mentions Africa as an example where the governments' control systems concerning the microfinance industry are not working effectively. Particularly, the central banks of many African countries are characterised by not knowing what they are doing, and this is clearly impeding the development of an effective microfinance industry. Instead, investors such as Maj Invest are looking for countries where the official institutions have implemented effective control systems. Jens Ole Pedersen highlights Latin America as a place where the control systems are well developed. Often there is a supervisory unit working outside the central bank monitoring the MFIs, and ensuring they are operating as they should (Appendix 7, page 7, middle section).

Professor at New York University Jonathan Murdoch also reasons that historically, government involvement has had a range of negative consequences. First of all, MFIs that were subsidised by governments were losing money at a constant rate on the lending-side, since they had little incentive to mobilise savings. This is particularly so, since deposit mobilisation is costly and re-lending the deposits would simply induce further losses (Morduch, 2000; 620). Instead, most saving accounts were driven down by restrictions and downward pressure was placed on the interest rates on deposits. This was primarily done to keep interest rates paid to the depositors below the rates charged to the borrowers. Consequently, the real rates on deposits fell to zero or below and savers lost most incentive to establish any accounts. Eventually, almost no savings were generated, and money was put under mattresses, or was relocated into nonfinancial assets (Morduch, 2000; 620).

Secondly, Jonathan Murdoch argues that government involvement had another negative influence since loans often ended up subsidising entrepreneurs with political connections instead of poor households. There were few mechanisms in place to control the leakages.

The final consequence was the high costs and few advantages and benefits for the intended beneficiaries (Morduch, 2000; 620).

However, Jonathan Morduch also emphasises that these negative consequences have bred some false generalisations regarding the impact of government involvement in microfinance. He asserts that government involvement does not always imply trouble. Generally, governments in low-income countries have played a very small part in the development of microfinance, and this should be regarded as no accident. Basically, the microfinance movement is an NGO movement, without many of the political influences on earlier subsidised programs (Morduch, 2000; 624-625). Nevertheless, this creates some other problems, since there are good and bad NGOs, and in most cases there are almost no apparatus for efficient oversight (Morduch, 2000; 625). This argument is in line with that of Jens Ole Pedersen with regard to the role of governments. Jens Ole Pedersen argues that governments should establish institutions and systems, which can control the microfinance sector, and make sure that good microfinance practices are being encouraged.

Finally, Jonathan Morduch claims that while sustainable microfinance programs are able to avoid government involvement, subsidised programs cannot. These programs are in need of help from NGOs, foundations, international donors, or domestic governments for funding. Therefore, subsidised programs will need government aid if they are to survive with the current finding levels (Morduch, 2000; 625). This entails that the MFIs with subsidised programs should seek to create a constructive relationship with the local authority, instead of avoiding governmental influence. Jonathan Morduch asserts that the lessons from the past deficiencies indicate that there is a need for a transparent and comprehensive understanding of the limits to direct government involvement, and an obligation to enhance transparency and accountability of microfinance programs (Morduch, 2000; 625).

These arguments from CGAP, Ole Dahl Rasmussen, Jens Ole Pedersen, and Jonathan Morduch all suggest that government involvement in the work of MFIs is generally a bad thing. This is because it can reduce the MFIs incentives to run an efficient business, and

political goals can interfere with the work of the MFIs, possibly excluding some of the intended segments.

However, there also seems to be consensus that governmental influence should not be all together excluded from the microfinance sector. There are several arguments, which indicate that governments have an important role to play when it comes to making the business environments in which the microfinance industry operates in work efficiently. Ole Dahl Rasmussen argues that governments should look to promote and protect the microfinance sector, enabling the MFIs to work efficiently. Jens Ole Pedersen claims that governments should set up effective control systems, which will help the MFIs run an effective business. Jonathan Morduch is in line with this, arguing that governments should play a key part when it comes to regulating the microfinance sector in order to create efficient oversight. He also asserts that in many cases subsidised microfinance programs are in need of help from governments in order for them to survive.

BSC Analysis

Balanced Scorecard validity and criticism

The Balanced Scorecard methodology has been criticised by a variety of sources. Most notably by professor at Aarhus University Hanne Nørreklit (2000) who argues that the Balanced Scorecard methodology has a range of problems regarding its key assumptions and relationships.

First of all, she asserts that there is not a causal but rather a logical relationship between the areas analysed. For instance, achieving a high rate of customer satisfaction does not necessarily produce strong financial results. If one were to assess the financial

consequence of improved customer satisfaction or quality developments, it would require a financial calculus (Nørreklit, 2000; 82). Hanne Nørreklit states that chains of action that produce a positive level of customer value at low costs induce strong financial results. This entails that it is not a question of causality, but instead is logic, since it is ingrained in the concepts (Nørreklit, 2000; 82). Following this logic, Hanne Nørreklit argues that the Balanced Scorecard makes invalid assumptions that can lead to the anticipation of performance indicators and measurements, which are inaccurate, hence, leading to sub-optimal performance (Nørreklit, 2000; 82).

Secondly, Hanne Nørreklit claims that the Balanced Scorecard is not valid as a strategic management tool, primarily because it does not establish any organisational rooting as well as has difficulties establishing environmental rooting. As a consequence of this, a gap must be anticipated between the strategy indicated by the actions performed and the strategy planned (Nørreklit, 2000; 82).

Atkinson *et al.* (1997) also criticise the Balanced Scorecard, highlighting its failure to address:

- Employee and supplier's contributions. This entails that the Balanced Scorecard does not consider the extended value chain, which is an integral element of organisations' current networks
- The identification of the community in the environment within which the organisation operates
- The identification of performance measurement as a reciprocal process. Thus, criticising its primary focus on top-down performance measurement

(Atkinson *et al.*, 1997)

Despite this critique, it will be argued that the Balanced Scorecard methodology should be regarded as a valid framework for this analysis. Both financial and non-financial performances perspectives are important for the performance of MFIs. Financial performance is particularly important if the MFIs are to survive. The non-financial performance is essential if the potential donors and borrowers are to be served

appropriately. For instance, financial indicators alone cannot measure aspects such as donor satisfaction and improvements in poor borrowers' livelihoods. Thus, there is a need for additional indicators, which take other aspects, other than financial issues, into consideration.

Additionally, it will be argued that actions undertaken in the non-financial perspectives can have a direct causal relation to the financial performance of MFIs. For instance, if the MFIs are able produce and create new products and services, which are being delivered to a broader customer segment this will, all things being equal, have a positive effect on the financial performance of the MFIs. The Balanced Scorecard developed by Robert Kaplan and David Norton (1992, 1996, 2001, 2006) incorporates these financial and non-financial perspectives of performance well. Consequently, this exploratory research will apply the Balanced Scorecard framework to examine the primary dimensions of MFI performance and the primary performance reporting indicators that drive that performance.

Looking at MFIs from a Balanced Scorecard perspective

When applying the Balanced Scorecard to a microfinance perspective, the main thing MFIs should be aware of in their quest to reach financial sustainability, is to translate their mission and strategy into tangible objectives and measures (Niven, 2002). A MFI should choose these objectives in accordance to the environment it operates within. Obviously, there are several factors influencing the MFI's sustainability goals and not all are of equal importance. Hence, MFIs should choose the most important and appropriate factors that suit their individual situation. This leads to the categorisation of these factors into the four perspectives: financial, customer, internal, and learning and growth. In other words, measurement is absolutely fundamental and essential to the Balanced Scorecard methodology.

Selecting the correct measures

The main issue is to select and design the most appropriate and beneficial measures. Some companies apply a substantial number of measures, which mainly are in the

financial, sales, and process areas of performance (Johnson & Beiman, 2007; 44-45). Before the introduction of the Balanced Scorecard, such measures had historically been identified as key performance indicators (KPIs). KPIs that are applied in the Balanced Scorecard are designated as measures (Johnson & Breiman, 2007; 45). Many companies have experience when it comes to tracking and reporting results using KPIs; albeit, at times these KPIs may not be perfectly aligned with the company's overall strategy. Furthermore, the measures have accumulated through the years and expanded to a considerable number. This might lead managers and executives to believe that they have designed a Balanced Scorecard when they are organising existing KPIs into the usual Balanced Scorecard perspective. In fact, this is not the case since it does not fit the Balanced Scorecard methodology (Johnson & Breiman, 2007; 45).

Applying the Balanced Scorecard methodology correctly requires a systematic linkage of the strategy to the value proposition, to specific objectives, and to the measures of those objectives. A MFI's Balanced Scorecard measures should be chosen as a result of the senior management team's collective discussion about central features of their strategy, value proposition, and objectives (Johnson & Breiman, 2007; 45). Such discussion should always precede the selection of any measures. This entails that the measures should be a result of a flow from the objectives and strategy. Moreover, the measures already existing should not be the foundation of a new Balanced Scorecard if this implies that the MFI will be moving from detail (measure) to the big picture (strategy). A measure should not necessarily be included in the scorecard just because it already exists, and possibly has been applied exhaustively in the MFI. The selection of measures should only be determined by the MFI's strategy, and the objectives that are an essential part of the strategy (Johnson & Breiman, 2007; 45).

Harvard University Professor Michael Porter asserts that strategy encompasses not only what is significant to do, but also encompasses what is not significant to prioritise (Porter, 1996). This notion is especially relevant in relation to the usual KPIs that several companies already have identified. This is also in line with Kaplan and Norton's (2001) argument that managers should avoid automatically including their traditional and already existing KPIs in their scorecard.

It is important to emphasise that an efficient Balanced Scorecard should involve a mix of outcome measures and performance drivers. It should be noted that some measures (and KPIs) are sometimes referred to as outcome measures and other measures are referred to as performance drivers or performance measures. Considering lagging indicators, these tend to be of historical performance, such as profit, revenue, customer satisfaction, and market share. These should be referred to as outcome measures. Another definition is that outcome measures are the measurable results of previously taken actions, sometimes actions taken a long time ago (Johnson & Breiman, 2007; 46). The outcome measures will tend to be represented as generic or core measures in most company scorecard. Usually, they will not differentiate a company's specific business strategy.

On the other hand, the leading indicators are called performance drivers. They will, to a greater extent, tend to be more closely related to a company's value proposition. There is a key question for each traditional or core measure (lagging indicator) that is worth considering: What drives performance on a particular outcome measure? This is also an important question for the Balanced Scorecard methodology, since it provides the senior management help to translate strategy, value proposition, and significant financial objectives into more pinpointed measures of what essentially drives performance in the company (Johnson & Breiman, 2007; 46). Additionally, it can be valuable to design or select measures in terms of evaluating the management's hypotheses about how to succeed. In other words, the Balanced Scorecard methodology can be regarded as a set of tools that will enable the management to develop and assess their hypotheses about how to accomplish business success (Johnson & Breiman, 2007; 46-47). Consequently, the Balanced Scorecard methodology can provide a systematic structure that will enable the management to:

- Establish the vision and mission for their company's success
- Establish strategies for achieving success (which can be treated as a set of hypotheses in this sense)
- Establish what key objectives and corresponding outcome measures are most applicable and valuable measures (lagging indicators) of success
- Determine their hypotheses regarding what will drive effective performance on those key outcome measures

- Select the enabling objectives and measures, which will help achieving the critically required outcomes

(Johnson & Breiman, 2007; 47)

Financial perspective

Kaplan and Norton (1996) suggest four financial objectives for any company:

- Increase revenue
- Improve cost and productivity
- Enhance asset utilisation
- Reduce risk

(Kaplan & Norton, 1996)

Additionally, Kaplan and Norton (2004) assert that the financial performance of a company can be enhanced by two fundamental methods: long term growth in revenue and short term growth in productivity (Kaplan & Norton, 2004). Increasing revenue can be achieved by diversifying new products and services, strengthening client relationships to realise a wider outreach, focusing on new market segments, and improving revenue from existing customers. First of all, productivity can be improved by reducing costs. This can be accomplished by reducing direct and indirect expenditures. Secondly, utilising assets can enhance productivity more efficiently (Kaplan & Norton, 2004).

One of the main concerns for a MFI is the different costs associated with its life cycle. MFIs will face different costs from one stage to another. Initially, MFIs are bound to spend more capital on infrastructure; product developing and servicing; publicity; building operating capabilities; and expand business relationships with business partners, for instance, donors and traders. When the MFI has moved beyond this stage, it will enter

what Kaplan and Norton (1996) call the ‘growth stage’, where it will face negative cash flows and low current return on investment. This implies that its objectives have to be concerned with outreach to various segments and regions. In this stage, donor funding could play a pivotal role for the MFI in order for them to combat negative cash flows. Operations Manager for MYC4 Githa Kurdahl argues that donor funding can be helpful to the MFIs in the start-up phase since they can set up operations by building a portfolio.

“...It (donor funding) gives them an opportunity to build a portfolio, which they otherwise wouldn’t have been able too”

(Appendix 1, last section)

Jonathan Adongo and Christoph Stork (2005) are in line with Githa Kurdahl’s reasoning, having found a positive relationship between financial sustainability and the involvement of donors in the start-up phase for MFIs. This is because they are able to provide funds they otherwise would not be able to access. However, they argue that the long-term aim of the MFs should be to become independent from subsidies and donations, whether they come from governments, international organisations, or private donors (Adongo & Stark, 2005).

The next stage, called the ‘sustain stage’, will entail that the MFI should make sure that its objectives are directly related to profitability and income maximisation from existing capital. In this stage, costs will be lower than in the growth stage, and performance measures should, therefore, be related to accounting income earned and invested capital (Kaplan & Norton, 1996). For instance, return on investment and return of capital employed. Additionally, MFIs should also consider employing measures such as return on social investors, since we consider donations as a form of equity, as discussed in the methodology (Chapter 2). In the final stage, called the ‘mature stage’, the main objectives for the MFIs should be that of reducing working capital requirements and stress operating cash flow (Kaplan & Norton, 1996).

Another issue related to the financial perspective of the Balanced Scorecard is that of resource utilisation. This stresses the effective deployment of personal assets, physical

assets, and financial assets in order for the MFIs to reduce the cost of capital and achieving financial sustainability. This could be achieved by keeping the cost of capital low by rotating its portfolio efficiently, ensuring that cash to cash cycles are as low as possible, deploying its clients' savings, and improving its delayed repayments. In this sense, there are several traditional measures which could be applied, such as return on investment and return on equity (Kaplan, 1992; 77).

Risk Management

Risk management is also an area where MFIs need to focus on if they are to ensure financial sustainability. Effective risk management is essential to creating stability and growth. Operational risks are a concern for MFIs. Internal corruption can lead to huge losses (Appendix 1, page 4, second section). Additionally, there are currency risks for the MFIs. In many of the countries where MFIs operate, both the political and financial systems tend to be unstable. This implies that the local currencies can fluctuate severely, leading to potentially massive losses for the MFIs on the exchange market. Githa Kurdahl argues that MFIs take a huge risk if they choose to take loans in hard currencies such as the Euro or United States Dollar (Appendix 1, page 7, first section). Microfinance Advisor for the Danish Church Aid Ole Dahl Rasmussen is in line with this argument. He also argues that MFIs taking loans in hard currencies is taking enormous risks, since many of the countries are highly inflationary, and it can have a detrimental influence on the amount of money they have to repay (Appendix 2, page 7, middle section). Instead, he argues that MFIs should cover their need for capital by mobilising saving accounts. This is because it is the cheapest solution available and they will not have problems transporting the capital, except if there is a difference within the areas they operate; for instance, from Uganda to Malawi. Ultimately, the capital will be where they need it to be (Appendix 2, page 7, middle section). Furthermore, he argues that as a close second the MFIs should use local banks as a mean to finance their operations, since they are close by and have the correct currency (Appendix 2, page 7, middle section).

Profitable Revenue Growth

Another important aspect of the financial perspective of the Balanced Scorecard is revenue growth. If the MFIs want to reach financial sustainability they must look at various funding sources. Successful management will ensure that the MFIs seek liquidity with strategies that eventually will lead to financial sustainability. Most for-profit MFIs should, therefore, have increasing revenue as a key objective. In line with this, another objective that could be included is maintaining positive return on equity (Johnson & Breiman, 2007; 42-43). This implies that the MFIs must diversify to various sources of income, since depending on one or two sources can prove to be a risky strategy. Commercial sources of income such as interest rates from clients, trading, and insurance are probable ways of creating revenue. Another means to diversify is to establish client savings. Ole Dahl Rasmussen's argument that savings is one of the most effective ways to ensure MFIs' need for capital also applies in this context (Appendix 2, page 7, middle section). Introducing either voluntary or forced savings will inject further capital to the MFIs, which can be deployed in other regions or to cover operation costs.

Another point worth mentioning in this regard is that improving networks could help the MFIs particularly in the growth stage. However, it is important to emphasise that over dependence on too few sources of income could prove unhealthy for any MFI seeking financial sustainability.

Donor funding can also play a part in this aspect. If one considers subsidies as equity, this will entail that the MFIs should seek to improve the amount of subsidies they would be able to receive. Improving MFIs' networks with donors could prove to be a viable means to achieve higher rates of funding. In this sense, it is also suitable to look at the MFIs' dependency on subsidies. Namely, by looking at whether the MFIs are profitable enough to expand their services and products without continued subsidies from donor funds. Appropriate measures for MFIs, which do not depend on subsidies, could be "return on assets" or "return on equity". As for MFIs that rely on subsidies, it could be useful to use a measure such as "adjusted return on assets" or "financial self-sufficiency" (CGAP, 2004).

Githa Kurdahl argues that donor funding can prove helpful to the MFIs. In this regard, it can be viable for the MFIs to establish good relations with donors, since it will aid them in

their search for financial sustainability. She claims that the MFIs that have caught the eyes of a donor, and are able to successfully utilise such relationships, are also able to grow and become more established. The MFIs that are “outside” will, instead, have problems running a profitable business. Githa Kurdahl mentions MicroAfrica, which is a partner of MYC4 in Kenya with branches in Rwanda and Uganda, as an example of a MFI where the management is well aware of this issue, since they spend most of their time enhancing relationships with existing donors and expanding their donor network (Appendix 1, page 10, middle section). She states that this has become a high-profile management activity and most of the time is dedicated to dealing with existing and potential donors. However, Githa Kurdahl also asserts that currently, it is more difficult to get access to this sort of donor capital since the financial crisis has taken its toll on the donors. Although there seems to be consensus among many of the MFIs, particularly in Africa, that there is a lot of capital in the market, it is becoming increasingly difficult to get access to (Appendix 1, page 10, middle section).

This indicates several issues regarding the dependency on donor funding. Githa Kurdahl argues that the MFIs, which are not a part of a donor network, can have trouble running a sustainable business. However, at the same time it is becoming increasingly difficult to obtain donor funding due to the global financial crisis. Her statement that top-level managers spend most of their time improving their donor relationships and at the same time it is becoming harder to get access to such donor funding is worth considering. This could indicate that the prioritisation of the top-level managers in some MFIs are distorted, since spending substantial resources to improve their donor funding can prove to be unsuccessful. At the same time, it can also prove to be hazardous from the top managers’ points of view to rely too much on donor funding, if the donors should decide not to continue supporting a given MFI. This argument also applies to the issue of potential over-reliance on too few sources of income. It is imperative that the MFIs make sure to diversify their sources of income.

The managers’ time could perhaps be deployed more efficiently if they did not spend most of their time improving these relationships. Instead, they should be concerned with improving other strategies that could help the MFI to become profitable rather than relying too heavily on donor funding.

Ole Dahl Rasmussen from the Danish Church Aid argues that the top-level managers are mostly characterised by having focus on the bottom-line. They are concerned with the internal procedures, getting the loans repaid, keeping an eye on day-to-day and week-to-week operations with regard to how many of their outstanding loans are getting repaid, and how much savings they have. He argues that the prevailing concern is business no matter what type of MFI they are. Even though they have strategies, such as reaching out to certain areas or serving certain poor segments, there will primarily be a focus on the bottom-line (Appendix 2, page 11, middle section). Ole Dahl Rasmussen states that even if the MFIs declare that they have strong societal visions and objectives, when the work has to be done, the main focus will always be on the bottom-line. With special regard to for-profit MFIs, Ole Dahl Rasmussen argues that the primary focus of these institutions will be on repayment rates, profit margin, interest rates, increasing the number of loans and over time perhaps increasing the interest rates on smaller loans in order for the MFIs to cover their fixed costs (Appendix 2, page 12, last section).

In terms of donor funding, Ole Dahl Rasmussen claims that there is a sort of evolutionary logic to it, since the MFIs which primarily focus on getting donor funding might survive a couple of years because they are receiving a substantial amount of donor money. However, they risk bankruptcy, since they need to have a loan recuperation rate above 97 % or else their capital foundation will vanish very quickly. With this context in mind, the MFIs need to focus on running a sustainable business (Appendix 2, page 11, middle section).

Both Ole Dahl Rasmussen and Githa Kurdahl indicate that for-profit MFIs primarily have a focus on the bottom-line and thereby, mainly emphasise financial issues when looking to run a sustainable business. Donor funding plays a significant role in the aspect since, as Githa Kurdahl argues, MFIs without access to donor funding might experience problems with running a sustainable and competitive business. However, this suggests a couple of issues regarding the focus of the MFIs. If the MFIs look to improve their sustainability level or become sustainable, and by doing this are primarily focusing on the bottom-line and on increasing the amount subsidies, they might risk neglecting several other important aspects. First of all, Githa Kurdahl and Ole Dahl Rasmussen suggest that the top-level managers of for-profit MFIs are mainly focusing on the financial aspects. This could entail

that the other perspectives that the Balanced Scorecard methodology proposes are being neglected to some extent, which could prove detrimental to the MFI's quest to become financially sustainable.

Secondly, too much emphasis on donor funding can also prove to be a risky strategy in case the donors stop funding the MFIs. In a worst-case scenario this could lead to bankruptcy. This is also related to the issue mentioned earlier regarding top-level managers possibly spending too much resources on improving existing and potential donor relationships instead of developing other strategies that could help the MFIs to become financial sustainable. There seems to be an increasing focus on obtaining donor funding instead of securing an efficient administration for the MFIs.

Returning to the concept of applying the correct measures, an appropriate measure for the objective of increasing revenue could be "percent increase in annual revenue" (Johnson & Breiman, 2007; 47). When it comes to the objective of maintaining positive return on equity, a fitting measure could be "percent decrease or increase in return on equity". Regarding this objective, the management of the MFIs should attempt to diminish any deviations from their current return on equity with a long-term vision towards, at least, maintaining a breakeven point or increasing profitability, and consequently the positive return on equity (Johnson & Breiman, 2007; 47).

Transaction costs

One of the major concerns for MFIs is to reduce transaction costs. In this sense, transaction costs should be understood as proposed by Oliver Williamson (1979). Transaction-cost economics (TCE) has been criticised by some sceptics as leaving too much room for freedom. It is thought that the concept of TCE needs a better definition in the sense that almost everything can be rationalised if one comes up with fitting specified transaction costs (Williamson, 1979; 233). Though there seems to be a general consensus on a number of factors:

- Opportunism is a fundamental notion of transaction costs

- Opportunism is particularly important for economic activity that calls for transaction-specific investments in human and physical capital
- Information and the efficient processing of information is a critical and related concept
- The assessment of transaction costs is a comparative institutional activity

Besides these general concepts, there seems to be a lack of consensus in TCE. Oliver Williamson deals with this by proposing his idea of TCE. He argues that transaction costs are central to the study of economics and seeks to identify the critical dimensions for characterising transactions, describing the key governance structures of transactions, and demonstrating how and why transactions can be matched with institutions in an unfairly way (Williamson, 1979; 234).

Williamson emphasises the importance of understanding how contracts function and deploys Ian Macneil's classification of contracts:

Classical Contract Law: The main distinction one has to make when considering classical contract law is its attempt to facilitate exchange by enhancing discreteness and strengthen presentation. Third-party contribution is discouraged and non-compliance to such contracts is remedied by litigation (Williamson, 1979; 236).

Neoclassical Contract Law: The key notion in neoclassical contract law is that complete presentation in some cases can be too expensive, particularly when performing long-term contracts, because of the existing uncertainty. Hence, these contracts need to be flexible instead of leaving gaps. In a sense, third-party contribution is employed as a means to settle disputes (Williamson, 1979; 237-238).

Relational Contracting: Relational Contracting refers to contracts, which lead beyond those of neoclassical contract law where the reference point for enforcing adaptations was the original agreement. The reference point under relational contracting should be seen as the entire relation as it has developed through time (Williamson, 1979; 238).

These classifications disclose that contracts are very complex and the governance structures depend on the nature of the transaction. Williamson proposes three critical dimensions for characterising transactions:

- *Uncertainty*: The assumption regarding uncertainty is that it exists to some extent in all transactions (Williamson, 1979; 246).
- *Frequency*: Frequency refers to what extent a transaction takes place. Williamson characterises frequency as one-time, occasional, and recurrent (Williamson, 1979; 246).
- *Transaction-specific investments*: Williamson also recognises three categories within transaction-specific investment (also known as asset-specificity): Non-specific, mixed, and idiosyncratic. Williamson furthermore, distinguishes between four different specific asset types: *Physical*, *human*, *site*, and *dedicated* (Williamson, 1979; 246-247).

Transaction Cost Economics seeks to match the most efficient types of governance models and the most efficient type of transaction or relationship in order to minimise the transaction cost. Williamson proposes two general governance structures; markets and hierarchies. Whether a transaction will take place in either a market or in a hierarchy depends on the uncertainty (which we assume always exists), the frequency of the transaction, and the asset-specificity of the transaction. If a transaction is nonspecific and either occasional or recurrent, the main governance structure should be within a market. Williamson refers to this as *Market Governance* (Classical Contracting). Transactions concerning standardised goods and services would be most effectively in market governance (Williamson, 1979; 248).

If transactions are occasional and either mixed or highly idiosyncratic, Williamson argues that *Trilateral Governance* (*Neoclassical contracting*) is needed. Since the transactions are not recurrent, the usage of transaction-specific governance could be too expensive.

If transactions are recurring and of the mixed and highly idiosyncratic kind, *Transaction-specific Governance* (*Relational Contracting*) is recommended. Since the non-standardised nature of these transactions makes market governance risky, the recurrent nature allows for the specialised governance structure to be recovered. Williamson distinguishes between two types of transaction-specific governance structures:

- *Bilateral Governance* (*Obligational Contracting*): If the idiosyncratic investments have a mixed character, the degree of asset specialisation is not complete and

scale economies cannot be realised; hence, outside procurement could be more favourable (Williamson, 1979; 250-252).

- *Unified Governance (Internal Organisation):* When the idiosyncratic investments are high and the degree of asset specialisation is complete, economies of scale can be realised. This implies that vertical integration invariably will take place (Williamson, 1970; 252-253).

In regard to Williamson's classification of the two governance structures, markets and hierarchies, it is worth noticing that he does not account for any other forms of governance between these two poles. Robert Dwyer and Sejo Oh argue that between these two extremes, we are likely to find several intermediate forms of relational governance; for instance, partnerships, strategic alliances, joint ventures, etc. (Dwyer & Oh, 1988; 22). However, this does not alter the basic assumptions underlying transaction cost economics.

To sum up: After briefly reviewing TCE, the key assumptions that the theory outlines can be categorised into five major assumptions:

1. *Man is rational:* Every individual is assumed to be rational
2. *Utility maximising:* Every individual is assumed to be utility maximising
3. *Self-interest:* Individuals are assumed to have their own interest at heart
4. *Full information/Bounded rationality:* It is assumed that there is full information available, but at the same time bounded rationality exists
5. *Opportunistic behaviour:* If possible, individuals will seek to optimise their own utility by behaving opportunistically

In general terms, for any company to be profitable over a period, its resources should at least cover its expenditure. More precisely, reducing transaction costs will allow the firm to reach financial sustainability. According to Howitt (1985) a transaction takes place through a process of identification, meeting, and negotiating between the partners concerned. Hence, it produces costs, which should be framed in relation to their nature and source of origin (Diamond, 1984).

In the case of MFIs, providing loans to the poor is associated with risks since there are high transaction costs involved. The MFIs are not able to elucidate all information on their customers. In the words of Kathleen Eisenhardt (1989), there is asymmetric information between the principal (in this case the MFIs) and the agent (the poor borrowers). The MFIs can look to minimise their default risk by doing several things. They can adopt innovating strategies, for instance, close collection of refunding, constitute interdependent groups, create literacy programs, provide financial training for its customers and increase its monitoring. Furthermore, some MFIs apply group lending as their main lending strategy instead of providing individual loans. However, activities such as these create high operation costs. Additionally, it is worth pointing out that MFIs are prone to grant loans to bad customers since they are not able to distinguish between good and bad borrowers. Furthermore, the cost of failure will be followed by administrative costs.

Michel Lelart (2006) asserts that the most typical errors often are concerned with recruitment and management policy. Particularly, since some MFIs progressively expand the number of employees with the expanding number of customers. It also correlates with the opening of more local agencies, without evaluating beforehand the short and medium term profitability of such actions (Lelart, 2006).

In this sense, the reduction of transaction costs should be seen as one of the most efficient ways to create financial sustainable and effective MFIs. Jonathan Morduch argues that MFIs face high transaction costs when lending at small scales because determining the riskiness of potential customers and monitoring the progress of the customers is especially complicated and resource depleting when the clients are poor and situated in the informal sector. Finally, he asserts that most low-income household are not in possession of any assets to put up as collateral (Morduch, 2000; 618).

The Customer Perspective

As mentioned earlier, the main concern for customers will tend to fall into the four categories of:

- Time
- Performance and service
- Quality
- Cost

(Kaplan, 1992; 72).

This implies that the managers of MFIs should articulate goals and objectives for these categories and convert them into specific measures if they are to create an effective Balanced Scorecard (Kaplan, 1992; 72). This perspective involves a range of lagging indicators that can have an influence on the financial sustainability of the MFIs, for instance, customer loyalty and satisfaction, and customer and donor retention. In order for an MFI to succeed in these factors, it is imperative that there are performance drivers or leading factors that will contribute to the creation of customer value. This entails that the MFIs have to diversify and customise their loan products as to meet the demands of their customers, but also to serve the requirements of any possible donor that might be involved. Kaplan and Norton (1996) suggest two different clusters as a means to categorise these lagging and leading factors. Firstly, they propose a customer and measurement group, which contains market share, customer retention, acquisition, satisfaction, and profitability (Kaplan & Norton, 1996). Secondly, they propose a customer value proposition group, which involves services and products attributes, customer relationship, image and reputation (Kaplan & Norton, 1996). Furthermore, they assert that any company should identify specific customer segments in order for the company to grow and become profitable (Kaplan & Norton, 2004).

Lagging indicators

Looking more closely at some of the lagging indicators from the first cluster that Kaplan and Norton propose, one is bound to see that these indicators can prove vital for the financial sustainability of an MFI.

- *Customer retention:*

Customer retention and loyalty is an indicator of significant importance to the MFIs and one which should be monitored constantly. Every MFI should seek to implement strategies that seek to increase customer retention, since it can lead to a larger market share (Kaplan & Norton, 1996). Kaplan and Norton (1996) suggest the following measure to monitor customer loyalty: The “percentage growth of business with existing customers”. This can also be applied as an indirect measure of customer satisfaction and whether the MFI is complying with the demands of its customers (Johnson & Breiman, 2007, 41-42). The same argument can be applied when it comes to donor funding. If a MFI, given that it applies for subsidies, is able to increase its donations from an existing donor, it will also indicate customer loyalty.

Another objective relevant for the MFIs is to increase the number of products and services used by its customers. This implies that the MFIs should look to encourage its existing customers to take on other products and services that the MFIs might offer, for instances, establish saving accounts. An appropriate measure for this objective could be “the average number of products used per customer” (Johnson & Breiman, 2007; 48).

In this aspect, image also plays an important role. Githa Kurdahl argues that one of the worst things that can happen to a MFI is if a rumour starts saying that the MFI is insolvent and will not be able take in new customers (Appendix 1; page 11, first section). This is particularly the case if a MFI, for instance, has taken a huge loan from a large fund, and has to repay every quarter or six month. This can cause the MFI to cut and reduce some of its outgoing loans and use that capital to repay its own debt. Thereby, a rumour could be started in the market that they cannot renew loans and take in new customers. This will in turn affect their borrowers, portfolio, and a drop will be seen in the quality of the terms of repayment (Appendix 1, page 11, first section). As Githa Kurdahl states:

"It's always about image to your customers, so they are not in doubt when they are done repaying, whether they can get a new loan. If they start to think that once they are done repaying, they won't get a new loan anyway, why even repay initially at all?"

(Appendix 1, page 11, first section).

- *Customer acquisition:*

Besides customer retention, customer acquisition also plays a significant role in the MFIs' stride to obtain financial sustainability. Increasing the acquisition of customers entails that the MFIs should have an objective of expanding their outreach and attracting new customers, thereby, extending their market share. Wydick and Hilliker (2011) argue that MFIs could improve their operations in terms of increasing their outreach and at the same time reducing the cost of reaching out. This can be done if the MFIs utilise the existing social networks between existing and potentially new microfinance customers. The MFIs could employ these networks more effectively when reaching out to the poor since research indicates that a household may be inclined to apply for microfinance products and services because other households in the same network also do so (Wydick & Hilliker, 2011). This correct utilisation of these networks could prove to be a low-cost strategy for the MFIs when reaching out to new customers. As Hermes and Lensink (2011) argue, usually a trade-off exists between outreach and sustainability, but the use of these networks would enable MFIs to obtain higher levels of outreach without compromising the financial sustainability level (Hermes & Lensink, 2011).

Kaplan and Norton (1996) propose "the number of new customers" as one way to measure customer acquisition. Another way is to measure the "total amount of loans to new clients" (Kaplan & Norton, 1996).

Performance drivers

One of the main performance drivers in the customer perspective is customer segmentation. MFIs need to be aware that both potential and existing customers are not homogenous, since they come from different regions, have different backgrounds, different requirements and values, and different prerequisites. This is important for any MFI to take into consideration when offering products and services to a range of clients. There are typically two different methods for targeting customers that can be applied. The first one looks to serve all kinds of clients with any needs and preferences (Kaplan & Norton, 1996). The second approach looks to deal only with specific segments. This can be more than one or two segments, but the key concept is to investigate these segments thoroughly as to identify the distinctive demands and values of the customers (Kaplan & Norton, 1996). For instance, MFIs could decide which market segments to invest in by considering if they should only provide loans to the poorest, or to small- and medium sized enterprises, or to both groups (Appendix 3, page 9, first section). In other words, the MFIs should determine their depth of outreach, which refers to the poverty level of the customers. This is also directly related to the overall strategy of the MFIs as to what their social objectives are. One could argue that serving a larger proportion of clients from the poorest segment could contribute more to alleviate poverty than serving a client base with better livelihoods.

Another segmentation they could make is whether they should provide loans to only women, which several MFIs do, or to both sexes (Appendix 3, page 12, first section). Additionally, many MFIs should consider whether they want to apply group lending or individual lending; again all depending on the market segment they are trying to reach.

MFIs should decide on this basis which strategy they should pursue. Should the MFIs choose to apply the first method, they are more likely to reach a larger base of customers since they are not screening any segments. However, they risk not being able to deliver products and services required by some customers and thereby, not operating efficiently. If the MFIs apply the second method, they are likely to spend substantial funds on evaluating the different market segments and customising their products and services in

order for them to successfully and efficiently meet the demands of the targeted customers.

These considerations are also relevant in regard to any potential donors the MFIs might seek to involve. In such cases, the MFIs could be forced to specialise their operations to certain areas and objectives that the donors have an interest in. These donor organisations might also have different backgrounds and different requirements as to what segment they look to serve.

On these grounds, the MFIs should look to investigate their customers' values and decide what value proposition it will bring to their customers (Kaplan & Norton, 1996). By successfully creating value among customers and stakeholders, donors can lead to better performance in the lagging indicators.

Internal Business Perspective

Looking at the Internal Business Perspective, it becomes clear that the MFIs need to design appropriate internal business objectives. The MFIs must ensure that they are capable of producing consistent and continues improvements to their products, services, and processes. This is directly linked to the value of the MFIs (Kaplan & Norton, 1992; 75-76).

One of the most significant areas, which the MFIs should attend too, is to reduce the cost of offering and processing loans, particularly since this, in most cases, is the primary product that MFIs deliver. Woller and Schreiner (2001) offer an analysis of the relationship between outreach and financial sustainability. They find a complex and multidimensional relationship that depends on various aspects, which are both directly and indirectly identifying that the connection between depth of outreach and financial sustainability will be contingent on the way these aspects are interacting with each other (Woller & Schreiner, 2001). They look to find a possible relationship through an empirical study investigating thirteen village banks. Despite the apparent small scale of the study, there are several conclusions which are worth noticing and that can be applied to the context of improving the financial sustainability of MFIs.

Woller and Schreiner (2001) state that administrative efficiency, such as interest rates, credit officer productivity and staff salaries are determinants of financial sustainability. They look to compare these with the part of the microfinance industry that proposes areas to improve in order for MFIs to reach financial sustainability (Woller & Schreiner, 2001). Woller and Schreiner argue that MFIs should look to:

- Decrease administrative and per unit costs (as measured by loans per borrower)
- Improve staff productivity
- Obtain significant scale
- Charge suitable high interest rates

(Woller & Schreiner, 2001).

They conclude that in accordance to those practices, the banks with lower administrative costs, higher credit officer productivity, higher interest rates, and lower average salaries were positively related with financial sustainability (Woller & Schreiner, 2001). However, as opposed to those practices, Woller and Schreiner (2001) do not find any significant staff productivity measures which have a positive correlation with financial sustainability. This indicates that the management of MFIs should focus, instead, on increasing the number of clients per credit officer, or reducing the average employee salary.

Other issues which the MFIs should manage include strengthening the risk management process and increasing the number of financial products and services provided to the customers (Johnson & Breiman, 2007; 42).

An appropriate way of measuring the objective of reducing the cost of offering and processing loans could be to deploy an Operating Expense Ratio (= total operating expenses/gross loan portfolio) (Johnson & Breiman, 2007; 48). Another aspect worth mentioning in this respect is what Githa Kurdahl proposes about turn around time. She argues that MFIs should look to improve their turn around time. Turn around time is a concept that covers the time from when a borrower applies for a loan until the borrower has the money available (Appendix 1, page 11, middle section). This is an important aspect for the MFIs to improve if they want to be competitive. Donor funding can also play a role in this regard, since MFIs can have difficulties funding a loan in a reasonable time if the money is not immediately available for them. Therefore, it can be easier for the MFIs to loan the money from a fund, which has the money directly available (Appendix 1, page 11, middle section). In other words, donor funding can help the MFIs have a stable and secure capital base.

When it comes to strengthening the risk management process, a suitable measure could be the portfolio at risk, which involves loans that are more than 30 days overdue (Johnson & Breiman 2007; 48). Another issue concerning risk management is fraud risk. Githa Kurdahl argues that the MFIs should be aware of fraud risk when setting up operations in countries with poor legal institutions. This is particularly the case in many African countries, where there are, for instance, several false papers regarding collateral in

circulation (Appendix 1, 8, last section). This suggests that the MFIs must set up control systems, which are able to detect any deviations from normal procedure.

Jens Ole Pedersen from Maj Invest is in line with this reasoning. One of the main things Maj Invest examines before they invest in a MFI is how the control systems of the MFI operate. This is especially the case regarding the reporting systems for established loans and the consolidating systems of the MFIs. If the MFIs do not have control over what loans they are providing, they are not likely to receive investments in equity from companies such as Maj Invest (Appendix 3, page 6, middle section).

Finally, the MFIs should decide what measures would be appropriate for the objective of increasing the number of products and services offered. This could be measured by looking at “the number of different and distinct financial products and services offered to customers” (Johnson & Breiman, 2007; 48). A point worth mentioning is that the number of products and services offered are related to two different measures in the Customer Perspective, namely the “number of total customers served” and the “average number of products used per customer”.

The Learning and Growth Perspective

The final perspective is the Learning and Growth Perspective. This perspective involves the intangible assets and capabilities that influence the MFIs and the strategies applied to achieve financial sustainability. In other words, it emphasises the alignment of the MFIs' intangible assets to the overall strategy (Kaplan & Norton, 2004).

Previously, the Learning and Growth Perspective was referred to in the early stages of the Balanced Scorecard methodology, as the employee perspective. This is because it primarily focuses on actions required to encourage and motivate productive and efficient employees. More recently, this has been modified to include aspects such as human resource objectives, information systems, and organisational issues like teamwork, leadership, alignment, and culture (Johnson & Breiman, 2007; 43) (Kaplan & Norton, 2004).

Kaplan and Norton (2004) assert that human capital covers the strategic competences that should be available to any company, such as talent, skills, and know-how (Kaplan & Norton, 2004). This implies that MFIs should ensure that their employees are provided with programs specialised to enhance their competences and skills. There are two dimensions in this regard. First, there is the required level of re-educating employees, and secondly, the percentage of employees that need to be re-educated. This entails that employees on every level of the organisation should be motivated not only by incentive structures but also by their passion towards the overall objectives of the organisation. Ole Dahl Rasmussen from the Danish Church Aid also argues that MFIs should be careful when constructing incentive schemes since it can lead to inefficient outcomes. He argues that incorrectly designed procedures can influence credit managers negatively. This is especially the case with performance targets on the number of loans they have to issue each month; which implies that if the managers are not issuing a certain amount of loans, they risk getting fired (Appendix 2, page 11, last section).

"Therefore, you will get some absurd situations where they are lending out to people who cannot repay"

(Appendix 2, page 11, last section).

Furthermore, he highlights that there are examples of credit officers who are repaying loans they themselves have issued in the first place, in order for them to reach their performance targets (Appendix 2, page 11-12, last section).

This indicates a distortion in the management of MFIs, since forcing managers into situations where they need to repay loans from their own pocket clearly shows that external pressure, in some cases from donors, can have detrimental effects to the efficient running of the MFIs. This entails that MFIs should be aware of how they design incentive schemes for their employees, particularly with regard to performance targets concerning the number of loans credit officers have to issue each months. This could have damaging effects to the sustainability of the MFIs. If the number of bad loans keeps increasing due to internal pressure on the employees, it will eventually show on the bottom-line, and could drive existing and potential donors and investors away, leaving the MFIs without access to capital and with a large number possible bad loans outstanding. It should be noted that the donors that Ole Dahl Rasmussen refers to in this respect are donors that believe they can improve the living standards of the poor, but at the same time insist on an annual return of 5 or 6 % (Appendix 2, page 12, first section).

An appropriate aspect to measure in this perspective could be increasing staff educational learning investments. By doing this, MFIs would be able increase the efficiency of their organisation and enhance risk management. This is particularly the case since some of the operational procedures of successful MFIs have been found to be innovative and wide-ranging from country to country. Thus, it is necessary for employees in such MFIs to acquire specific skills and competences in relation to these procedures. This entails that the training of the employees to excel at these skills and competences plays a significant part in improving the overall performance of the MFI. An appropriate measure for this could be the “ratio of education/training expenses to the total expense” (Nanayakkara et. al, 2011; 9).

Another point of improvement for MFIs could be minimising employee turnover, since losing key personnel to potential competitors could prove detrimental to the success of the MFIs. An appropriate measure for this could be the “total number of employees departing voluntarily over the past 12 months/total employees” (Johnson & Breiman, 2007; 48).

When considering donor funding in regard to the Learning and Growth perspective, one interesting factor springs to mind. Existing literature has suggested that there is a lack of suitable accounting and information systems and this should be considered as a substantial shortcoming of MFIs (Mudenda, 2002; Asian Development Bank, 2000). This has a direct influence on the MFIs’ possibility to obtain donor funding, since particularly, donors feel reluctant to fund companies that have weak control and information systems. This is directly linked to Internal Business perspective and the argument of Jens Ole Pedersen regarding the control systems of the MFI. If these are not working effectively, they will have severe difficulties attracting external capital from investors such as Maj Invest; thus, the same argument can be applied to attracting donors (Appendix 3, page 6, middle section). Since many MFIs operate in extensive geographically areas, they are likely to have high administration costs. This requires the MFIs to minimise these costs by achieving higher efficiency and cost effectiveness. Investing in and improving information and communication technology can obtain this objective. An appropriate measure for this could be “investment in information systems as a ratio of total expense”, which will indicate the extent to which the MFIs invest in order for them to improve their information system (Nanayakkara et. al., 2011; 12). Additionally, it is worth pointing out that Kaplan and Norton (1996) include information system capabilities in the Learning and Growth perspective of the Balanced Scorecard methodology.

Potential effect of donor funding

The potential effect of donor funding on MFIs' financial sustainability

Githa Kurdahl from MyC4 argues that donor funding has a huge influence on MFIs, since it allows the MFIs to obtain funding at a much cheaper rate than they otherwise would be able to receive by using commercial channels (Appendix 1, page 9, first section). However, she also points out that there can be substantially high costs associated with securing such funds, since there are several hidden costs, such as the time it takes to apply for the money, the reports that have to be written and submitted back to the donors (Appendix 1, page 7, last section). Additionally, the MFIs will often have to come up with a number of guarantees. Finally, there is the whole aspect of currency risk as previously described (Appendix 1, page 7, last section).

However, she also asserts that donor funding can help improve the MFIs by allowing them the possibility to create a portfolio that they otherwise would be unable to do (Appendix 1, page 8, middle section).

Jens Ole Pedersen from Maj Invest has a substantial different view than Githa Kurdahl when it comes to the influence of donor funding on the financial sustainability of MFIs. He argues that if one looks at the total market for MFIs, one is bound to find only a relatively small number of MFIs that are sustainable. However, if you look at the total granting of loans in the market, for-profit MFIs will cover a minimum of 90 % of all loans being granted worldwide. Jens Ole Pedersen contends that donor funded MFIs have a very low prevalence on a global scale if this is associated with the amount of loans being granted (Appendix 3, page 8, middle section). Fundamentally, there has to be an incentive to make money, otherwise the microfinance industry will be unable to sustain itself. He mentions India as an example where the government created self-help groups and they never made it anywhere since all incentives to run a profitable business were non-existent (Appendix 3,

page 8, middle section). Additionally, he argues that even though it is relatively few MFIs that are sustainable, these are the ones which really have a significant impact on the developments in the microfinance industry; especially, as opposed to donor funded MFIs, which he contends are basically going nowhere (Appendix, 3, page 8, final section). He concludes by arguing that it is imperative for some MFIs to put money at risk in order for them to obtain a substantial position in the market and the microfinance industry would not be anywhere near where it is today without the possibility for MFIs to make money:

"There is no question that microfinance, with the outreach it has in the world today, would not be present if there was not an element of profit."

(Appendix 3, page 9, first section).

Jens Ole Pedersen also asserts that donor funding should not play a role in the microfinance industry, since you are basically making MFIs dependent on subsidies and are removing all incentives to run a sustainable business. He argues that any potential donor should focus instead, on improving education and let the market take care of everything else regarding microfinance (Appendix 3, page 9, middle section). He argues that especially in Africa, donors should focus on creating some educational systems and some educational institutions that can help improve the general living standards of the population (Appendix 3, page 10, last section). Furthermore, he claims that the reason why Africa is not really moving forward in the microfinance industry is simply because there are too many donors involved and there are too many politicians that want to be a part of the microfinance sector, thereby, promoting themselves as doing something to improve the livelihoods of the poor and improving their chances of getting re-elected (Appendix 3, page 10, last section).

This reasoning is in line with that of Jonathan Adongo and Christoph Stork (2005), when they analysed factors that are influencing the financial sustainability of MFIs in Namibia. They argue that grants are negatively related to the sustainability of MFI since it is

hindering the development of MFIs into sustainable, efficient and competitive organisations (Adongo & Stork, 2005).

Jens Ole Pedersen also mentions the ambitions of donors as a potential hindering factor for the MFIs they are financing. Downward pressure on MFIs from donors can lead to a series of inefficient outcomes. As an example, he mentions small and medium sized enterprises (SME that are being financed by MFIs). These SMEs are often met with demands stemming from the donors insisting that they have to export. However, Jens Ole Pedersen contends that just because you can produce products and services to a city with 100,000 inhabitants, does not entail that you have the physical or financial capacity to start exporting (Appendix 3, page 9, last section). Additionally, Jens Ole Pedersen argues that most donor organisations are well intentioned and looks to improve the livelihoods of the poor. However, when you are making a MFI dependent on grants, they have no incentive to become effective.

This reasoning of Jens Ole Pedersen is in line with what has been called the “win-win” proposition by Jonathan Morduch (2000). He asserts that there has been a consensus regarding MFIs, which follow the principles of good banking that will also be the ones able to alleviate poverty most successfully. This can be done by eventually renouncing subsidies and achieving financial sustainability. This will allow the MFIs to expand without dealing with the potential constraints imposed by donor budgets (Morduch, 2000; 617). The key argument is that during this process these MFIs will be able to serve more poor people than subsidies programs would allow them to. A major notion in this context is that poor households require access to credit, not cheap credit. Hence, un-subsidised programs will be able to charge higher interest rates without compromising its outreach. Jonathan Morduch argues that even though some microfinance practitioners find this win-win proposition self-evident, most practitioners seem to be convinced with only a part of the arguments of the proposition (Murdoch, 2000; 618). Furthermore, he asserts that despite this awareness of these recommended practices, most microfinance programs continue to be considerably subsidised.

Jonathan Morduch states that the reason why all microfinance programs have not raised their interest rates and deployed these “best practices” is that the win-win proposition is

more complicated than it would seem, since it relies on a variety of empirical assumptions and logical relationships, which are not easily generalised, and have not been tested thoroughly through empirical studies (Morduch, 2000; 618). The supporting arguments for the win-win proposition, which are relevant to discuss in this context, are the claims that:

- Financial sustainability will give microfinance programs access to commercial financial markets
- Any subsidised program is inefficient and is therefore, destined to fail

(Morduch, 2000; 620)

Looking at the first claim, financial sustainability is critical for MFIs since it allows them to access capital from commercial financial markets, instead of donor capital. Jonathan Morduch highlights a statement from CGAP from 1996, where it is argued that the only way to reach most households in need of microfinance services is if MFIs can mobilise reasonably large amounts of commercial finance at market rates. This is impossible unless they are able to charge interest rates that cover their total costs (Morduch, 2000; 622). Jonathan Morduch argues that this reasoning is flawed since MFIs with a focus on reaching poorer households, will be unable to provide sufficient commercial financing. He compares this to the difficulties poor borrowers have with obtaining loans from formal sector banks, because they lack collateral. The same issues can emerge when MFIs seek commercial funding, since it also lacks collateral to back its portfolio (Morduch, 2000; 622-623). Although the MFIs might be able to generate positive expected returns, it is not a guarantee that they will be able to obtain commercial funding. Jonathan Morduch argues further that even financially sustainable MFIs will not always be able to acquire adequate access to wider capital markets. Additionally, the MFIs with focus on the poorest borrowers will likely face the most problems when it comes to creating leverage, because their portfolios are expected to be and appear much riskier to the capital suppliers. Hence, solely depending on commercial finance can, therefore, contribute to further reductions in the depth of outreach (Morduch, 2000; 623).

Jonathan Morduch also contends that as a point of economic logic, obtaining commercial finance and subsidies is not incompatible. He mentions the Grameen Bank as an example

of an MFI that has sold bonds (guaranteed by the government) while not passing all cost on to its customers. Despite the debate regarding the price of the bonds at market rates, the principle persist that subsidisation does not exclude obtaining commercial finance for partial funding. Morduch finally concludes that the main limitation are not by definition subsidisation, but the capability to limit perceived riskiness (Morduch, 2000; 623).

The second claim that subsidised credit programs are inefficient and ultimately destined to fail also has a series of assumptions that are not fully convincing. One of the major criticisms of subsidised microfinance programs is that they are unable to survive over the long term. The argument of Nancy Barry of Women's World Banking (CGAP, 1995) is highlighted, that only a few low income entrepreneurs benefits from subsidised programs. This is because these programs are unsuccessful and never reach significant numbers, and microenterprise financial intermediaries have experienced that they cannot depend on government and donors as a source of funding over longer terms (CGAP, 1995). Jonathan Murdoch states that her arguments sum up the lessons of past failures, but newer programs are significantly different from those of the past (Morduch, 2000; 623). He also argues that as long as governments and donors are committed to alleviate poverty, there is no indication that subsidised funding will stop. Additionally, he asserts that advocates of this are not arguing without substance for allocating funds to encourage innovative and effective microfinance programs over the long-term (Morduch, 2000; 623).

Lending strategy

Returning to the arguments of Jens Ole Pedersen, he asserts that donor funding can also have a detrimental effect to the MFIs' lending strategy because they will become indifferent to whom they are lending the money to, expecting to receive donor funding to cover their expenses the next year. He mentions Uganda as an example where it was widely believed that a sustainable microfinance sector had been built by the help of subsidies, but as soon as the donors withdrew everything collapsed (Appendix 3, page 11, middle section).

Githa Kurdahl has a somewhat different approach to this issue, arguing that the MFIs, which are able to obtain the best donor fund deals, will be able to lend out at a lower interest rate and thereby, be able to outmatch other competitors. She claims that this has a direct influence on their lending in terms of pricing and the products offered. Githa Kurdahl asserts that there is a lack of transparency in the market and it is difficult to find out whether the MFIs are efficient and competent in performing microfinance business, or if it is because they are able to access cheap capital (Appendix 1, page 11, middle section).

This indicates a distortion of the market since donor funding can lead to microfinance markets becoming opaque. This lack of transparency can make it harder for potential investors to find efficient and sustainable MFIs. Eventually, this can lead to heavily subsidised MFIs outmatching the MFIs that are actually trying to run a sustainable business.

Jens Ole Pedersen has a drastic view to the effects of donor funding on MFIs' ability to become sustainable, since he compares the dependency on donor funding to that of drug addicts. Basically, he states that there has to be an element of risk for the people involved otherwise they will never work hard enough to get a profit in return and consequently will never create sustainable MFIs (Appendix 3, page 11, middle section).

Marek Hudon and Daniel Traca have a significantly different view than Jens Ole Pedersen to what effect subsidies have on MFIs. They argue that subsidies do not necessarily have to compromise the efficiency of MFIs, as long as the extent of subsidies is moderate and controlled (Hudon & Traca, 2011; 971). However, over-subsidisation of MFIs can prove to be counterproductive. If the level of subsidies remains moderate, though, these MFIs will be able to obtain higher productivity and improve the financial sustainability more than MFIs that are not subsidised (Hudon & Traca, 2011; 971). Providing intelligent subsidies (for instance, subsidies for staff training, subsidies for setting up new branches in untapped areas, etc.) can especially enhance the performance of MFIs (Hudon & Traca, 2011; 971). It can be argued that this argument contributes to the view that aiming only for financial sustainability might not be an effective notion when considering the long-term viability of microfinance work in general.

Concluding Discussion

After examining some of the general trends within the microfinance industry, a major issue worth noticing is whether there is lack of capital in the microfinance industry. The findings are not entirely clear since the arguments put forward by Ole Dahl Rasmussen diverge from the findings made by Deutsche Bank. Deutsche Bank asserts that there is a significant funding gap in the microfinance industry with an untapped demand of approximately 250 billion USD. Despite this being a rough estimate, this assertion deviates severely from the argument of Ole Dahl Rasmussen, who argues that the microfinance industry is not lacking capital, but rather intelligent capital. He contends that the microfinance sector requires local absorption capital since there are too few MFIs being invested in. Ole Dahl Rasmussen states that at the moment, there are approximately 150 large microfinance investment vehicles on a global scale investing in about 400 MFIs, despite the fact that there is around 10,000 MFIs operating worldwide. This indicates an incorrectly balanced microfinance market and could possibly lead to some investors financing MFIs in order to raise their own CSR-profile, instead of being concerned with the quality of their own due diligence and the quality of the MFIs they are investing in.

Finally, this also indicates some agency problems, since in some cases there might not be incentives for the MFIs to enhance their control systems and improve the screening of potential customers. This is because they would be able to receive subsidies from external donors regardless of their actions.

Another finding is that donor funding might induce a crowding out effect on the existing local markets, since subsidised MFIs will be able to outcompete otherwise sustainable MFIs. Lower interest rates provided by subsidised MFIs are an example of this problematic.

When it comes to applying the Balanced Scorecard methodology to a microfinance institution perspective, what was examined were the direct and in-direct factors that will affect the financial sustainability of MFIs when applying the Balanced Scorecard

methodology. One aspect that should be emphasised significantly is the application of appropriate measures for any MFI looking to create an effective Balanced Scorecard.

Looking at the Financial Perspective, the areas to improve includes the objective of enhancing the risk management of the MFIs. This particularly comprises the issue of avoiding currency risks. Another objective to improve is that of maintaining a profitable revenue growth. This involves diversifying the sources of income since it can prove risky to rely on only a few sources. An appropriate measure in this regard could be “return on assets” or “return on equity”, as long the MFIs are not dependent on subsidies. Otherwise, a measure could be the “adjusted return on assets”. If the MFIs want to improve revenue, suitable measures could be the “percent increase in annual revenue”, and if the objective is to maintain positive return on equity, the “percent decrease or increase in return on equity” could be a proper measure.

With regard to donor funding, it is indicated that subsidies can have a positive influence on the MFIs since the involvement of donors in particularly the start-up phase for MFIs enable them access to the capital they otherwise would be unable to access. A positive relationship between the involvement of donors in the start-up phase of MFI and financial sustainability is found. It should be noted that there are diverging arguments regarding whether the long-term objectives of MFIs should be to become independent from subsidies or rely on it as a source of funding. There is an indication that the successful MFIs are the ones that have established good relationships with donors, and the MFIs unable to access this source of funding could encounter problems with running a profitable business. However, obtaining donor funding has become increasingly difficult due to the financial crisis. With regard to the management of MFIs, it is suggested that the top-level managers are primarily focused on dealing with existing and potential donors, indicating a distortion regarding their prioritisation. This is because they are spending substantial resources on improving donor relationships when it has become increasingly harder to access funds, instead of improving other strategies that can improve the sustainability level of the MFIs. It is argued that the MFIs relying primarily on donor funding might survive for a couple of years, but eventually they risk bankruptcy. This is particularly because it takes high loan recuperation rates and donors might stop funding a MFI for a variety of reasons, leaving the MFI without any alternative access to

finance. This also related to the issue of over-relying on too few sources of income. This demonstrates that it is imperative for MFIs to diversify their sources of income and that over-relying on donor funding might turn out to be a dangerous approach. It also indicates that the top-level managers are focusing too much on obtaining donor funding instead of securing an efficient administration of the MFIs.

Additionally, it is suggested that the managers of MFIs are primarily having a focus on the bottom-line and the financial issues comprised, potentially neglecting the other perspectives proposed by the Balanced Scorecard methodology.

Another issue MFIs should be aware of in terms of the Financial Perspective is that of risk management. The MFIs should look to avoid currency risks particularly since many MFIs operate in politically unstable countries where large fluctuations can happen to local currencies, potentially causing massive losses for the MFIs on the exchange market. Therefore, MFIs should refrain from take loans in hard currencies such as the Euro and United States Dollar, and should instead obtain their primary finance from mobilising savings accounts and utilising local banks as a way to finance their operations.

The key objectives of the Customer Perspective involve customer retention, increasing the number of products and services used by existing customers, and customer acquisition. A proper measure for customer retention could be the “percentage growth of business with existing customers”, which can also act as an indirect measure of customer satisfaction. This is related to issue of securing a solid image. It is suggested that it is vital for MFIs to ensure they have reliable images for their customers.

Measuring the number of products and services used by existing customers could be done by looking at the “average number of products used per customer”. Finally, an appropriate measure for customer acquisition could be “the number of new customers” or the “total amount of loans to new clients”.

The main objectives of the Internal Business Perspective include reducing the cost of offering and processing loans, strengthening risk management, and increasing the number of products and services offered. If the MFIs are to obtain financial sustainability, they should look to lower their administration costs, achieve higher credit officer productivity, receive higher interest rates, and lower the average salaries. When it comes to strengthening risk management, the MFIs should ensure that they have strong control and reporting systems in place, particularly when it comes to the established loans.

The MFIs could deploy an operating expense ration, which could be the “total operating expenses/gross loan portfolio”, as a measure for objectively reducing the cost of offering and processing loans. A suitable measure for strengthening the risk management processes could be “the portfolio at risk”, which involves loans that are more than 30 days overdue. An appropriate measure for the objective of increasing the number of products and services offered could be “the number of different and distinct financial products and services offered to customers”.

Finally, the most important aspects regarding the Learning and Growth Perspectives are to increase the investment in staff educational learning, minimise employee turn over, and improve information and communication technology. One way to measure the investment in staff educational learning is to look at “the ratio of education/training expenses to the total expense”. A suitable measure for the objective of minimising employee turnover could be “the total number of employees departing voluntarily over the past 12 months/total employees”. Lastly, the target of improving information and communication technology could be measured by looking at “the investment in information systems as a ration of total expense”.

One major aspect of that relates to the development of correct measures in the Learning and Growth Perspective is that of creating incentive schemes. It is indicated that incorrectly constructed incentive schemes can lead to a series of inefficient outcomes, particularly in the case of credit officers lending to people knowing that they will not be able to repay. This can happen because they need to meet specified performance targets on the number of loans they have to issue each month. Additionally, there are examples of credit officers who are repaying loans out of their own pockets in order for them to

reach their performance targets. This demonstrates a clear distortion in the management of the MFIs, and could stem from external pressure, in some cases from donors who demand a certain amount of loans being issued and recuperated. This could prove to be detrimental for the MFIs' quest to reach financial sustainability. Thus, incentive schemes have to be carefully designed.

When it comes to the potential influence of governments on the microfinance industry and the sustainability of MFIs, the key findings are that there seems to be consensus that the general effect governments have on the microfinance industry are negative. This is because political goals and objectives often are influencing the efficient development of a sustainable microfinance sector, and potentially excluding some intended segments. Instead, governments should prioritise the creation of strong and stable financial institutions and control systems that can facilitate a constant and sustainable microfinance industry. Instead of being a provider of microfinance products and services, governments should focus on promoting and protecting the microfinance sector. Additionally, governments can play a pivotal role in the terms of the survival of some MFIs, since many subsidised microfinance programs would not be able to sustain themselves if they were without the funding and support of local governments.

After reviewing the potential influence of donor funding on the sustainability of microfinance institutions, one of the key findings is that donor funding has a significant influence on the sustainability of MFIs since they would be able to obtain capital at a much cheaper rate rather than through commercial channels. Furthermore, donor funding can help mitigate the start-up costs some firms are faced with, thereby, helping them building a portfolio. However, in this aspect, it is also worth noticing that MFIs will have to face some costs in the process of obtaining donor funding, since there are several hidden costs associated with this, such as the time to apply for the money, reports that have to be written and submitted to the donors.

However, there is also considerable difference in the opinions of my interviewees when it comes to estimating the effects of donor funding on MFIs' sustainability. Jens Ole Pedersen argues that when providing MFIs with donor funding one creates dependency, which is distorting the incentives of the MFIs to apply strategies that would ensure financial sustainability. This indicates that if the MFIs are not risking money, they will not be inclined to follow effective strategies. Another point that is contended is whether the subsidised MFIs are actually having a significant influence on the developments in the microfinance industry. This is because it is argued by Jens Ole Pedersen that the MFIs that are making a substantial impact on the industry are large for-profit sustainable MFIs, which are covering a minimum of 90 % of all loans being granted worldwide. This indicates that the only MFI capable of making a real impact on poverty alleviation are MFIs that are not just large in size but also run a sustainable operation.

The reasoning that MFIs relying on subsidies will never be sustainable is in line with what Jonathan Morduch has called the win-win proposition. This proposition contends that the only way for MFIs to reach financial sustainability is to renounce subsidies and follow the principles of good banking. This argumentation relies primarily on two claims which argues that financial sustainability will give MFIs access to commercial financial markets and that any subsidised program is inefficient and therefore, destined to fail.

However, there are several factors that indicate that these claims rely on a series of empirical assumptions and logical relationships, which should not be considered as easily generalised. Additionally, they have not been tested extensively enough through empirical studies. Regarding the first claim, there is no evidence that MFIs will be able to access commercial financial markets more easily if they do not rely on subsidies. There are also issues indicating that the second claim relies on a set of assumptions that are not fully convincing. This is because most of the empirical evidence is based on past failures, and new programs that are notably different from those of the past are not per definition inefficient as long as governments and donors are committed to alleviating poverty, which there is no indication will stop. Instead, the funding from donors and governments could be allocated to encourage innovative and effective microfinance programs over the long-term, which demonstrates that subsidies could have an important role to play in the creation of sustainable MFIs.

Regarding the potential influence of donor funding on MFIs' lending strategy, there are also diverging arguments with Jens Ole Pedersen assertion that donor funding can have a detrimental effect on the MFIs' lending strategy. There is a risk that the MFIs will become indifferent to who they are serving with loans, because they will expect to receive funding to cover their expenses, and therefore, will be without incentive to create sufficient control and screening systems. This indicates that donor funding will have a negative effect on the sustainability of the MFIs since subsidies can remove any motivation to strive for financial self-sufficiency.

However, another aspect worth taking into account in this regard is the argument of Githa Kurdahl who states that the MFIs able to obtain the best donor fund deals will be capable of lending with a lower interest and thereby, potentially outmatching other competitors. Nevertheless, this could imply that otherwise sustainable MFIs can be priced out of a given market, since they will be unable to match the subsidised interest rates. Furthermore, this indicates that if donor funding has a direct influence on the pricing and microfinance products offered, this could induce opaque microfinance markets. This is because it can become difficult to find out whether the MFIs are operating as efficient and sustainable businesses or just relying on subsidies. Thereby, this risks that investor finance subsidised MFIs could lead to sustainable MFIs going out of business.

So what influence does donor funding have on the sustainability of MFIs? After reviewing this issue it is argued that donor funding can have both a positive and negative influence on the MFIs' sustainability. It can help MFIs particularly with the start-up phase, with access to capital they otherwise would be unable to obtain, and thereby absorb some of the costs that are related with setting up a microfinance institution. However, there are several negative aspects to donor funding as well. Mainly the risk of creating dependency on subsidies stands out as a particular negative feature. Adding to this, the problems created by external pressure on MFIs from donors can lead to incorrectly designed incentive schemes. Therefore, MFIs when established must look to improve other strategies and sources of income that can ensure financial self-sufficiency. In this sense, the Balanced Scorecard methodology provides a framework that can establish this independence from subsidies.

Bibliography

Adongo, Jonathan & Stork, Christoph (2005). *Factors Influencing the Financial Sustainability Of Selected Microfinance Institutions in Namibia*. NEPRU Research Report, No. 39.

Armendariz, B., & Morduch, J. (2005). *The economics of microfinance*. Boston: MIT Press, 2005.

Asian Development Bank (2000). *The Role of Central Banks in Microfinance in Asia and the Pacific*,. Asian Development Bank, Manila, 2000.

Atkinson, A.A., Waterhouse, J.H. and Well, R.B. (1997) *A stakeholder approach to strategic performance measurement*. Sloan Management Review Spring, 25–37

Bate, Milford (2010). *Why Microfinance Doesn't Work*. Zed Books Ltd, 2010

Bates, T. (1995). *Why do minority business development programs generate so little minority business development?*. Economic Development Quarterly, Vol. 9, Issue 1, pp. 3-14, 1995.

Community Development Finance Association (CDFA) (2006). *CDFA Glossary of Community Development Finance*. February 2006.

Consultative Group for Assistance to the Poorest (CGAP). (1995). *The missing links: financial systems that work for the majority*. CGAP Focus, No. 3, October.

Consultative Group for Assistance to the Poorest CGAP (2003). *Microfinance Consensus Guidelines – Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance*. Washington, CGAP, 2003.

Consultative Group for Assistance to the Poorest CGAP (2004). *Annual Report 2004*. Washington, CGAP, 2004

Consultative Group for Assistance to the Poorest CGAP (2006). *Good Practice Guidelines for Funders of Microfinance*. Washington, CGAP, 2006, 2nd edition, 2006.

Diamond W. D. (1984): *Financial intermediation and delegated monitoring*. Review of Economic Studies, 1, pp 319 – 414, 1984.

Dichter, Thomas & Harper, Malcolm (2007). *What's Wrong With Microfinance?*. Practical Action Publishing, 2007.

Dieckmann, Rainer (2007). *Deutsche Bank Research: Microfinance: An emerging investment opportunity*. Deutsche Bank Research, 2007.

Dwyer, Robert F. & Oh, Sejo (1988). *A Transaction Cost Perspective on Vertical Contractual Structure and Interchannel Competitive Strategies*. Journal of Marketing 52 (2)

Eisenhardt, Kathleen M. (1989). *Agency Theory: An Assessment and Review*. Academy of Management: The Academy of Management Review 14 (1)

- Gonzalez-Vega, C. (1998). *Do Financial Institutions have a role in assisting the poor?*. Strategic Issues in Microfinance. Eds. M.S. Kimenyi, R.C. Wieland and J.D. Von Pischke. Brookfield, VT, Ashgate, pp. 11-26, 1998.
- Hermes, Niels & Lensink, Robert (2011). *Microfinance: Its Impact, Outreach, and Sustainability*. World Development, Vol. 39. No. 6. pp. 875-881.
- Howitt P. (1985). *Transactions Costs and the Theory of Unemployment*. American Economic Review, 75, pp 88-100, 1985.
- Hudon, Marek & Traca, Daniel (2011). *On the Efficiency Effects of Subsidies in Microfinance: An Empirical Enquiry*. World Development, Vol. 39, No. 6, pp. 966-973.
- Johnson, Christian C. & Beiman, Irv (2007). *Balanced Scorecard For State-Owned Enterprises*. Asian Development Bank, 2007.
- Kaplan, Robert S. & Norton, David P. (1992). *The Balanced Scorecard – Measures That Drives Performance*. Harvard Business Review, January - February 1992.
- Kaplan, Robert S. & Norton, David P. (1996). *The Balanced Scorecard*. Harvard Business School, 1996.
- Kaplan, R.S. & Norton, D. P. (2001). *The strategy focussed organisation: how balanced scorecard companies thrive in the new business environment*, Harvard Business School Press, Boston, USA.
- Kaplan, Robert, S. & Norton, David P.. (2004). *Strategy Maps : converting intangible assets into tangible outcomes*. Boston: Harvard Business School Press, 2004.
- Kaplan, R.S. & Norton, D. P. (2006). *Alignment: Using the Balanced Scorecard to Create Corporate Synergies*, Harvard Business School Press, Boston, USA, 2006.
- Kvale, Steinar (1997). *InterView – En introduktion til det kvalitative forskningsintervju*. Hans Reitzels Forlag, 2007.
- Kvale, Steinar, (2009). *InterView*. Hans Reitzels Forlag, 1997. 1. Edition, 14.
- Lelart Michel (2006): *De la finance informelle à la microfinance*. Agence Universitaire de la Francophonie, Archives contemporaines, 2006.
- Mudenda, E. (2002). *Microfinance regulation and supervision in Zambia*. Development Bulletin No 57 Feb 2002, Australian National University, Canberra, Australia.
- Murdoch, Jonathan (2000). *The Microfinance Schism*. World Development, Vol. 28, No. 4. pp. 617-629. Elsevier Science Ltd, 2000.
- Murdoch, Jonathan (1999). *The Microfinance Promise*. Journal of Economic Literature, Vol. XXXVII, pp. 1569 – 1614, 1999.
- Nanayakkara, Gemunu & Error, Iselin R. (2011). *An exploratory study of the performance of microfinance institutions using the Balanced Scorecard Approach*. www.bai-conference.org/BAI2011/papers/8.others/8212

- Niven, P. R. (2002). *Balanced Scorecard Step by Step: Maximizing Performance and Maintaining Results*. NY: John Wiley and Sons Inc, 2002.
- Nørreklit, Hanne (2000). *The balance on the Balanced Scorecard – a critical analysis of some of its assumptions*. Management Accounting Research, 11, 2000.
- Pollinger, J.J., Outhwaite, J. and Cordero-Guzmán, H. (2007). *The Question of Sustainability for Microfinance Institutions*. Journal of Small Business Management, Vol. 45, Issue 1, pp. 23-41, 2007.
- Porter, Michael (1996). *What is Strategy?* Harvard Business Review, Vol. 74, November-December, 1996.
- Robson, Colin (2002), *Real World Research*, 2nd edition, Blackwell, Oxford, 2002.
- Saunders, M., Lewis, P. and Thornhill, A. (2009), *Research methods for business students*, 5th edition, Prentice Hall, Harlow, 2009.
- Schreiner, M. and Morduch, J. (2002). *Opportunities and Challenges for Microfinance in the United States,' in Replicating Microfinance in the United States*. Eds. J. H. Carr. and Z. Y. Tong. Washington DC, Woodrow Wilson Center Press, pp. 19–61, 2002.
- The World Bank (2004). *Financial Sector Policy and the Poor*. The International Bank for Reconstruction and Development/The World Bank, 2004.
- Von Pischke, J.D. (2002). *Current Foundations of Microfinance Best Practices in Developing Countries in Replicating Microfinance in the United States*. Eds. J. H. Carr. and Z. Y. Tong. Washington DC, Woodrow Wilson Center Press, pp. 65–96, 2002.
- Williamson, Oliver E. (1979). *Transaction-Cost Economics: The Governance of Contractual Relations*. Journal of Law & Economics 22 (2).
- Woller G., Schreiner M., (2001). *Poverty Lending Financial Self-Sufficiency And The Six Aspects Of Outreach*. SEEP Working Group Paper.
- Wydick, B., Karp, H., & Hilliker, S. (2011). *Social networks, neighborhood effects and credit access*. World Development, 39(6), 974–982.

Appendices

Appendix 1 – Githa Kurdahl

Appendix 2 – Ole Dahl Rasmussen

Appendix 3 – Jens Ole Pedersen

Appendix 1 – Githa Kurdahl

Hvilken rolle har du I din organisation? Du er operations manager hvad dækker det over?

Det dækker primært over de ting der med at gøre med platforme, vi har en masse ting der skal køre til daglig for at pengene kommer ind på platformen og ned til vores partnere. Så både i forhold til de eksisterende partnere, og få det til at køre, samt løse de problemer der opstår, og så også i forhold til nye partnere. Vi er en lille entreprenant virksomhed, så vi har ingen faste procedurer og strukturer, så en del af mit arbejde består i, at oparbejde strukturer og finde ud af hvem er ansvarlige for hvad? Vi har startet kontor op i Kenya, som er rimeligt selvkørende, som tager sig af mange af de daglige udfordringer, fx sørger de for at lånene bliver åbnet, har daglig kontakt med vores partnere, tager ud og laver spot checks, men de har stadig brug for support og koordinering af de forskellige dele af virksomheden. Har været ansat i MyC4 siden 2009, fastansat fuldtid siden april, tidligere arbejdet i Kenya som praktik. Helt tilbage fra 2008.

Hvad er organisationens hovedformål?

Vi er en slags fundraiser, som har fundet en alternativ måde at arbejde på, gennem crowd funding, der er masser af kapital på markedet som er målrettet mod mikrofinansieringsinstitutter, men det er ikke altid at de kommer ud og arbejde, så vores hovedformål er, at få finansieret alle de her gode afrikanske virksomheder som mangler kapital, og så gøre det på en transparent måde så vores investorer føler at de ved hvad deres penge bliver brugt til og de kan tjene penge på det.

Hvilken vision har I for jeres organisation, hvor ser i den om 5-10 år?

Vi har ret store ambitioner, det har MyC4 altid haft, vi vil gerne være i mange lande, og kunne blive brugt af alle mulige forskellige grupper og interesserter. På kort sigt er vores vision at nå break even, det er vi ikke endnu, men vi er tættere på end vi har været før. Inden for det næste halvandet år skal vi være break even, og ellers vokse og få folk til, at bruge MyC4 som et værktøj.

Er der noget specielt fokus i har når det kommer til de fattige i arbejder med? Fokus på uddannelse? Adgang til kredit?

Vi synes det er vigtigt at kombinere kapital med kapacitetsopbygning, men det er ikke der vi ser vores rolle. Vi har lært af erfaring at vi ikke kan diktere markedet. Da vi startede havde vi idéer om, at vi ville være i nogle bestemte industrier og i nogle forskellige geografiske områder, og så fik vi vores partnere til, at fokusere og det viste sig, at de ikke altid var lige gode til det, så vi er blevet mere markedsdrevne i den forstand at vi er i meget tæt på kontakt med vores partnere, og spørger dem hvad de mener, vi kan bruge os til, og hvor mener I at I har et gab, og så forsøger vi at udvikle nye produkter, så jeg vil ikke sige, at vi har et bestemt forhold til fattigdom. Vores filosofi er at vi gerne vil skabe økonomisk vækst, og sprede et budskab, at man kan gøre forretning med Afrika, og det handler ikke kun om at yde bistand, og der er nogle rigtig gode business cases og ved at skabe økonomisk vækst på den måde, også kan være med til at udrydde fattigdom.

For at opfylde disse mål hvilke områder fokuserer i på strategisk? Er det blive selv-finansieret? Større outreach?

MyC4 er en privat virksomhed, det er en for-profit virksomhed, vores going concern er altid i fare zonen, da vi ikke har nået break even, men selvfølgelig ikke for enhver pris, men skal ske på en bæredygtig og organisk måde. Vi har lært på den hårde måde at man ikke kan gå fra 0 til 100 fra den ene dag til den anden, så vi prøver at få opbygget nogle strukturer som kan facilitere den vækst vi har brug at nå break even. Vi skal fordoble vores portefølje inden for 1.5 år.

Jeg kan se ud fra jeres hjemmeside at I har indtægter for 50.000 euro og udgifter tæt på en 1 million euro. Er det forsat hvad der gør sig gældende eller er i tættere på break even?

Det er årsrapporten fra sidste år du refererer til. Hvis du går bare et år tilbage så havde vi et stort kontor her, vores egen IT-afdeling, vi var 10 fuldtidsmedarbejde og en af de største udgifter for os har været lønomkostninger, så vi har skåret ret markant ned, vi har outsourcet vores IT-afdeling, og forsøger at opbygge en organisation der koordinere i stedet for at lave det hele in house. Så har vi introduceret nogle nye indtægtskilder. Vi tager bl.a. en enactment fee, dvs. investorer som ikke har været aktive i over et år betaler et gebyr hver måned, og det har vi gjort for, at aktivere folk, vi har over en mio. euro stående på en bankkonto, som ikke bliver investeret fordi vores investorer ikke er aktive. Så vi vil rigtig gerne have de penge ud og arbejde, frem for at stå her i Danmark. Så det er måde, at aktivere vores investorer, men samtidigt en indtægtskilde. Og så har vi introduceret en closing fee, hvilket vi også havde i starten, men var nødt til at fjerne det, da vi var en i modvind på nogle af de tab vi havde på vores porteføljer, men nu har vi fået rettet op på porteføljen og har et ret begrænset tab nu. Det går i den rigtige retning.

Hvordan udvælger i de mikrofinansieringsinstitutter i arbejder sammen med? Sætter I nogle krav til disse?

Det gør vi ikke. Vi har lært at det kan vi ikke rigtigt, det skal være markedsdrevet. Det vi stiller krav om er at de skal kunne dele noget af risikoen. Vi har risk-sharing agreements, og de skal kunne tage en bestemt procentdel af risikoen, så hvis et lån defaulter, så dækker de noget af lånet. Der har vi faktisk nogle partnere der dækker 100 %. De fleste af vores partnere ligger på 50 % og op og det skal de være i stand til at gøre. Udover det skal der være et strategisk fit i forhold til transparens. Det er meget vigtigt for os, at de er gennemsigtige i omkring deres aktiviteter og hvis du låner penge ud til en låntager, og der står at lånet er udbetalt i dag, og det er så og så mange penge til den og den rente, og det og det formål. Hvis vi så går ud dagen efter skal det selvfølgelig passe. Der er nogle MFI'er der ikke har den samme mentalitet omkring det, og det er vigtigt for os, at det er nogle partnere vi kan bygge et godt

samarbejde med omkring de værdier vi har som virksomhed. Udover det skal de selvfølgelig kunne tage en hvis volumen, en hvis vækst, fordi vi bruger rigtig mange ressourcer på vores partnerships, vi laver spot checks hvert halve år, hvor vores credit ops manager Titus i Nairobi tager ud og går igennem deres loan files, besøger låntagerne og giver dem anbefalinger i forhold til hvor de kan styrke deres organisation og identificere områder som kan måske kan blive kapacitetsopbyggende. Og så laver vi annual reviews, hvor Eric som er East Africa Director tager ud og går igennem deres set up, deres procedure, deres governance, og kommer med anbefalinger til dem. Det sætter vores partnere stor pris på, da man normalt skal betale ret mange penge for at få rating agencies osv. ud og se på deres organisation, så det er noget vi selvfølgelig bruger penge på, og vi er derfor nødt til, at have nogle partnere som kan skabe noget forretning for os og komme med lån på platformen. Det er en del af den første fase, kan de leve op til de her ting, og kan vi også se at der er en pipe line, har de rent faktisk nok business, for der er ret stor konkurrence i Østafrika. Lige nu er halvdelen af vores portefølje i Uganda og ikke så meget i Tanzania og Rwanda, så for os er det også i forhold til landene, vi vil gerne spredte vores risiko i forhold til landene. Man kan se med Kenya i 2008 med post election violence hvor der var en masse MFI'er der mistede deres portefølje, så der blev vi nødt til at se på det lidt overordnet.

Hvor stor er default raten?

Hvis du ser på hele vores portefølje, alt hvad vi har disperset så har vi en default rate på ca. 30-35 % , vi har haft rigtig store tab især i Kenya hvor vi havde en stor fraud case med en partner som ikke havde rent mel i posen, og det er 2 år siden vi fandt ud af det og vi har brugt mange ressourcer på at forfølge det i det kenyanske retssystem og det kører stadig. Det er ikke noget vi går ud og fortæller vores investorer for vi har selvfølgelige haft rigtig store udfordringer på at få deres tillid igen, så vi har det sådan at hvis ikke har nogle store nyheder så er det ikke noget vi kommunikerer ud, men det er stadig noget vi kæmper med og så havde vi store tab i Vestafrika, men der var det simpelthen på grund af manglende kapacitet og for hurtig vækst hos vores partnere, så det har været vores første priorititet, at det ikke er godt nok, at vi mister over en

tredjedel af pengene. Så nu er vi nede på et tal der er markant lavere, og så selvfølgelig fordi vi har introduceret de her risk sharing agreements, så vores partnere er nødt til at betale en del af tabet.

Er der en minimum grænse for hvor meget de skal dele af risikoen?

Vi har ikke lavet nogen policy på det, men det kommer lidt an på institutionen. Lige nu er vi ved at snakke med en partner i Tanzania, med en riktig god social profil, men det er en lille institution, de har nogle gode strukturer en god kundebase, spændende lån, gode internationale kontakter, men ikke så meget kapital, så der vil vi sige, at der vil vi ikke kræve 100%, men det er også fordi vores risk share består af 2 dele. Det ene er hvor meget dækker du af lånet og hvor meget er du i stand til at putte ind på en risk share fund, eller komme med en bank garanti på din udstående portefølje. Vi har valgt at sige, at vi skal være gennemsigtige i forhold til vores investorer. Vi har stjerner på vores providere(partneren) og hvis du kigger på dem kan du se et break down på forskellige parametre, og der er det her en vigtig del, så for vores partnere er der incitament for dem til sige, at vi tror så meget på vores portefølje, at vi godt vil tage en stor del af risikoen, og på den måde får vi en bedre rating og dermed bedre funding. Vi har lån der ikke bliver finansieret på platformen, fordi der ikke er nok kapital eller fordi lånene ikke er interessante for vores investorer, så selve platformen er en markedsplatform, hvor vores partnere skal konkurrere mod hinanden, og der er det her en af de ting, hvor de kan gøre sig positivt bemærkede over for vores investorer.

Hvor stor en del af jeres budget er dækket af subsidier?

Da vi startede fik vi støtte fra DANIDA, men kun det første halve år, der gik de ind og støttede alle vores valutatab, altså hvis du låner 100 euro ud så får du 100 euro tilbage. Det er ikke tilfældet nu. Lige nu har vi store tab på valutaen, hvilket er en stor udfordring for os, men DANIDA er ikke involveret længere. Vi fik et grant fra Government of Luxembourg, og vi har fået nogle EU-penge, men de bliver som regel øremærket til kapacitetsopbygning hos vores partnere, og det er også hvad vi siger til vores partnere: Vi kan godt tilbyde noget capacity building, men det er afhængig af

hvilken soft money vi selv kan skaffe. Det er sådan vi ser det. Vi kalder det soft money og det går ikke ind i MyC4 A/S, der har vi ikke nogle subsidier der skal dække vores drift. Der har vi taget nogle lån, vi har aktionærer og Mads Kjær spytter penge ind i hver måned, og så prøver vi så vidt muligt at tjene vores egne penge. Så vi ser det som det er noget der gør os attraktive for vores partnere at vi er i stand til at skaffe noget soft money, som kan bruges til at hyre nogle konsulenter, hyre agencies til at arbejde med vores partnere, især Gatsby i Uganda har fået en masse støtte og virkelig formået at vende deres udvikling, og er kommet ud som en meget stærkere organisation, og det havde de ikke været uden den support, men vi ser det mere som et supplement, det er ikke noget vi er afhængige af.

Er der nogle krav forbundet til de penge I har modtaget?

Ja, du ansøger til et formål, vi er i gang med at ansøge om nogle EU-penge nu som også ville være til et specifikt formål, og så skal du selvfølgelig kunne dokumentere hvad pengene bliver brugt til. Og der har det primært været kapacitetsopbygning, de fleste subsidier er målrettet Afrika, så vi har skaffet nogle penge til vores Kenya-kontor, hvor vi også forsøger at bygge noget kapacitet op. Så ja, det er målrettet, men kommer an på hvad det er for nogle penge du får. Så vi har ikke brugt det i forhold til selve lånene.

Så du vil ikke sige at det har den store indflydelse på den finansielle ledelse af jeres organisation?

Lige nu har vi en række ting vi rigtig gerne vil lave som er forbundet med MyC4 A/S, og som er forbundet med vores forretningsmodel, og med nogle strategiske beslutninger og der har vi valgt at sige. at du kører vi efter plan A, og vi ikke får nogle penge og vi selv skal finansiere det, og plan B hvis de her penge kommer ind kan vi gøre nogle ting, som vi ellers ikke ville gøre, men som vi rigtig gerne vil gøre. Det har ikke været så meget tidligere, men i og med at vi er ret pressede i forhold til medarbejde og ressourcer, så er vi nødt til at undersøge om vi kan gøre brug af nogle

de penge der er derude. Men vi kan ikke være afhængige af det, for det er et bureaukratisk helvede, det tager hurtigt år at få et grant.

Vil gerne høre dit syn på donorfunding I mikrofinansieringsverdenen? (Niels Hermes og Robert Lensink angiver i "Microfinance: Its impact, Outreach, and Sustainability – World Development, at ud af de ca. 10.000 MFI der findes er kun 1-2% finansielt bæredygtige, og estimerer at kun 3-5 % vil blive bæredygtige. !) ->

Hvilken indflydelse har det på MFI'erne?

Kæmpe indflydelse, men det er også noget vi kan mærke. Vi er ikke donor funds, så når vi snakker med MFI'er om at gå i partnerskab med os så er vi jo på en måde i direkte konkurrence med de her donors, og vi går meget op i, at det skal være bæredygtigt og give mening for alle involveret, inklusiv vores investorer, det nytter ikke, at de har tab på alle lån de laver. Så når vi taler med vores partnere og potentielle partnere, så er det noget der kommer op, for de siger at vi kan få penge fra denne her fund til en bestemt rente, og vores rente er meget højere, og så er vi selvfølgelig lidt i konkurrence med dem, men omvendt så har vi langsomt forstået at der er ret store udgifter forbundet med at få de her penge for MFI'erne, både i form af skjulte omkostninger. Den tid det tager at få pengene, de rapporter der skal skrives og sendes tilbage, ofte skal de komme med en række garantier, og så er der hele valutarisikoen, vi låner i lokalvaluta og det er vores investorer der tager det tab, og det er ikke tilfældet for alle fonde, langt fra, og hvis MFI'er vælger at låne i hard currencies, altså Euro, dollar, så tager de en ret stor risiko, så kan de lide ret store tab på valutaen. Og så er der helt nede på mikroniveau, hvis du får et stort beløb, men du kan ikke låne alle pengene ud fra den ene dag til den anden, så du har et kæmpe beløb stående på din konto, hvor du betaler rente af de penge, men de er ikke ude og arbejde. Men der er en tendens til kun at fokusere på renten, det koster det og det, er den her rente man betaler, og derfor ser man ikke de andre udgifter, hvilket er en udfordring for os, da vi ikke kan konkurrere på renten, vi har alle vores udgifter er inkluderet i renten og nogen udgifter i forhold til risk share som selvfølgelig skal lægges oveni, men uddover det så er udgifterne ret minimale. De fleste af vores partnere har en sekretær siddende som laver lånprofilerne, og tager sig af de daglige

opgaver. Vi plejer at kalde det front desk funding eller front desk fundraising, og ofte med de her donorpenger så kræver det, at det er top management der bruger tid og ressourcer på at få pengene hjem?

Så du vil ikke sige at subsidierne er med til at gøre organisationerne stærkere?

Jo, det giver dem en mulighed for at bygge en portefølje op som de ellers ikke ville have. Og selvom vi konkurrerer mod de donors, så ser vi helst at vores partnere har en kombination, vi har ikke lyst til at vores partnere skal være 100% finansierede af os. De har forskellige muligheder for at opnå finansiering, den ene af os, den anden er at låne penge i en bank, hvilket der er mange der også gør, der skal de som reelt have noget hard collateral, bygninger, land og pantsætte det. Nogle lande hvor de er deposit taking, dvs. de har savings fra deres kunder som de kan låne, hvilket også er den billigste form. Og så er der soft money, og shareholder capital som bliver skudt ind. Ideelt set skal der gerne være en kombination. Der skal gerne være et miks, så vi ser donorer som vigtige, men for os er det en udfordring, at det ikke er så gennemsigtigt hvad det egentligt koster, at få de her donorpenger.

Flere for-profit MFI har som målsætning at blive finansielt bæredygtige - hvad er din respons til denne målsætning og den afhængighed der tilsyneladende er af subsidier?

Der er forskel på donor funding. Der er den mulighed at man går direkte går ind og giver pengene, hvilket nogle MFI'er får, penge til at købe en bil, lønninger, porteføljeopbygning, hvis de taber de penge er det okay for det er "bare" nogle de har fået. Som jeg så refererer til er der mange af de donor funds som tager en rente hvor pengene skal betales tilbage, og der er en periode på 2-3 eller 5 år til at betale pengene tilbage. Selvom det måske er billigere penge end de kan få kommersielt, så er det stadig en forretningsmæssig måde at bruge de penge på. Så jeg tror når de snakker om at de gerne vil være bæredygtige, så er det primære, at komme væk fra det med at skulle få penge. Mange af de MFI'er som vi arbejder med er entreprenante folk, som gerne vil vise, at de kan få tingene til at køre. Hvis du har den afhængighed kan donerne diktere hvad organisationen skal bruge pengene til.

Hvilken indflydelse har politiske målsætninger, fra fx stakeholders(interessenter) som regeringer I de lande hvor MFI opererer på deres arbejde?

I Østafrika virker det ikke som om at det er en særlig stor ting. I Indien hvor regeringerne og politikerne har en langt større aktiv rolle, men det er ikke noget vi hører når vi er ude og snakke med vores partnere. Det eneste er at i Rwanda, hvor de er gode til at regulere industrien, hvilket giver en større stabilitet. I Kenya er en af de største udfordringer, at der er rigtig mange dårlige låntagere, og de har ikke egentlig mulighed for at registrere dem og det juridiske system er ikke godt nok til at forfølge dem. Der er mange falske papirer i forhold til sikkerhed, du tror du har sikkerhed i fx et stykke land, men finder så ud af at du er nr. 3-4 eller 5 i rækken, fordi de papirer du har fået er falske, så på den måde spiller den offentlige sektor en rolle i at få forstærket det juridiske. De har prøvet i Kenya med nogle credit bureaus og det har ikke fungeret. Jeg ved at i Rwanda sker der en masse gode ting i øjeblikket i forhold til industrien.

Hvem sætter dagsordenen I dette donor vs. MFI forhold?

Donorerne har forskellige måder at arbejde med deres porteføljer på, så det tror jeg ikke man kan generalisere. Det virker som om at når først de har fået pengene så fungerer det meget godt for vores partnere. Det er mere når pengene skal betales tilbage til sidst og der skal laves rapporter. Der er den usikkerhed om vi nu kan få penge så vi kan forsætte. Du får måske pengene, og så har du måske et år hvor du kan bruge dem, og efter det så skal de betales tilbage, og der skal findes nye donorer. Jeg ved ikke hvor involverede donorerne er. Jeg tror det kommer meget an på deres strategier.

De partnere i samarbejder i med. Hvordan er ledelsesstrukturen der? Hvilken erfaring har de med donor funding networking?

Det er tydeligt at dem der først er kommet ind i varmen hos en donor og kan finde ud af det, bliver også lidt større og bedre etableret, og så er der de MFI'er som er "udenfor" og har lidt problemer med at komme ind, de har problemer med at få det til at køre. MicroAfrika som er en af partnere i Kenya, og som har branches i Rwanda og Uganda, der kan man se at ledelsen ved hvad de laver, men de bruger også stort set alt deres tid på det, det er en ledelsesaktivitet. Når de får en fund går de videre til at finde den næste. De ved hvordan man skal gøre, men det virker som om at det ikke er så let i øjeblikket. Det var nemmere før finanskrisen. Min kollega Eric havde været til møde med alle de største MFI'er i Kenya, og de havde alle sammen siddet rundt om bordet og snakket om hvor meget kapital der var, og hvor mange donorer der var. Så var der en der havde spurgt, hvem rundt om bordet der rent faktisk havde set nogle af de penge, hvilket der ikke var nogen der havde. Der er en form for konsensus, med at der er rigtig mange penge, men når det kommer til stykket, så er de ret svære at få fat i.

Hvilken indflydelse har donor funding på management strukturen?

Det virker som at det er top management der tager sig af det, hvis du kommer ud i en branch eller afdeling og snakker med manageren der, så ved de ikke noget omkring donor funding, andet end vi har de her penge, og vi kan låne dem ud til den her rente. De er uvidende om alt det arbejde der ligger bag. Det foregår bag lukkede døre, og det er noget de øverste tager sig af. Der er rigtig meget networking, konferencer. Du ser de samme som er ude og promovere deres institutioner, og de MFI'er som har de bedste top level managers, som er dygtigst er dem der opnår mest funding. Det er et spørgsmål om at markedsføre sig, og de bruger meget tid på det, så de er væk fra deres institutioner. Derfor kender de alle sammen hinanden.

Hvilken indflydelse har dette på MFI'ernes udlånsstrategi?

De MFI'er som får de bedste deals kan låne ud til lavere rente og dermed udkonkurrere de andre, så det har en direkte indflydelse på deres udlån i form af prissætningen og produkter osv. Så det er svært at gennemskue markedet og vide om det er et udtryk om at MFI'erne er effektive og dygtige og at de rent faktisk kan have

en rentabel virksomhed til en bestemt rente, eller om det er fordi de har fået nogle billige penge. Fordi renten består af forskellige komponenter og en af de vigtigste er cost of capital, og hvis din cost of capital er lav kan du låne ud med en bedre marge. Det har en direkte indflydelse fordi, igen når jeg snakker om donor funding, så tænker jeg på når du skal betale tilbage med rente. Jeg tror det er sjældent at donorer går ind og finansierer porteføljen med gratis penge, grants. Det er som regel målrettet mere bløde formål. Så der hvor de kan skaffe penge til en lavere rente er de mere konkurrencedygtige på markedet.

Hvilke interne drivere er de mest primære for institutionerne? Hvilken retning går det? Kigger man på genfindingsprocenten? Antal mio. Udlånt?

Bundlinjen! Er det rentabelt det vi laver? Hvordan kan vi blive ved med at være konkurrencedygtige. Men det kommer også an på markedet. I Kenya er der et enormt konkurrencedrevet markedet. Der skal du virkelig være dygtig for ikke at blive udkonkurreret. I øjeblikket handler det meget om mobile money, og effektiviserer dine aktiviteter, og hvis du ikke er med så bliver du udkonkurreret. Hvorimod hvis du tager til Tanzania så er det mere langsomt og det handler mere om at få bygget en portefølle op og få det til at køre. Markedet betyder virkelig meget. Det handler om at have penge nok. Det værste der kan ske for en MFI, hvilket de alle sammen siger, er at der kommer et rygte om at den her MFI ingen penge har. Dvs. hvis du bliver nødt til at afvise kunder, hvis du ikke har penge, som er et problem som mange af dem står overfor, især hvis de har lånt et stort beløb fra en fond fx, så skal de måske betales tilbage hvert kvartal eller hvert halve år. Og når de penge skal tilbagebetales bliver de nødt til at stoppe eller skære lidt ned for udlånenene, så de beholder kapitalen til at betale tilbage. Og der kan hurtigt komme et rygte i markedet om, at de ikke kan betale tilbage og så påvirker det deres låntagere, deres portefølle, du vil kunne se et dyk i kvaliteten. Det handler hele tiden om dit image overfor dine kunder, så de ikke er i tvivl om, at når de færdige med at betale, så kan de få et nyt løn. Hvis de begynder at tænke at når de færdige med at afbetales, så kan de alligevel ikke få et nyt løn, og hvorfor skal man så betale tilbage i første omgang overhovedet? Funding betyder meget. I alle de markeder vi arbejder i handler det meget om turn around time. hvor

langt tid går der fra du som låntager går ind og ansøger om dit lån, og til du får pengene i hånden. Og så selvfølgelig renterne. Der er en række parametre hvor de skal være konkurrencedygtige. Der spiller funding ind på det hele. Det er en af de udfordringer vi står over for. Vi har svært ved at nå og funde lånene på en uge og sende pengene derned. Der er det nemmere for dem at låne penge for dem(MFI) at låne penge fra en fond der har pengene stående.

Hvilke parametre er de vigtigste at have for øje når man kigger på jeres/deres finansielle ledelse?

Volumen! Det er altid volumen når det har med mikrofinans at gøre. Fordi det nytter ikke noget blot at hæve renterne. Hele pointen med mikrofinans er at du grupperer dine lån og effektiviserer dine processer, men i sidste ende handler det om at have en så stor portefølje som muligt, med kvalitet selvfølgelig. Hvor man bruger så få ressourcer som muligt på at manage den. Og det er det samme for os. Der har vi samme udfordringer som vores partnere, og hvor vi har gjort fejl tidligere. Vi havde en alt for tung organisation, men der havde vi meget fokus på volumen og ikke så meget kvalitet, hvilket vi har lidt under. Så nu er det igen volumen, men det bliver nødt til at være kvalitet, dvs. gode lån, ledet af gode institutioner, gode relationer til vores partnere, gennemførte produkter. Lånprodukter betyder meget, det skal selvfølgelig være gennemarbejdet?

Gør I noget for at udvikle og styrke jeres egne medarbejde og jeres partneres kompetencer?

Vi gør det på flere måder: Igennem vores spot checks, som er en blanding af en kontrol for os, er lånene nu rigtige, er det kvalitetslån osv. Men vi kommer også med anbefalinger og så vores annual reviews. Derudover prøver vi at have en partnerkonference en gang om året, hvor vi inviterer alle vores partnere. Her er en masse knowledge sharing med deres erfaringer med fx delinquency management eller vi hyrer eksperter på området til at komme, eller gruppearbejde. Det havde vi i januar sidste år i Nairobi, et 3-dages program som det virkede som om vores partnere fik en

masse ud af og så søger vi hele tiden penge, så vi kan hjælpe dem med kapacitetsopbygning. Men det er ikke en del af vores kerneområde. Der er aktører på markedet som specialiserer sig i det, så det prøver vi at få penge til, og der er ingen tvivl om at vores partnere ønsker det. De er ret begrænsede i deres midler, det er hele tiden en udfordring. Nogle af vores partnere er gode til at hele tiden at uddanne og traine deres medarbejdere og loan officers. Det er vigtigt for os at huske at vi arbejder med selvstændige partnere, vi har ikke franchises med MyC4 partnere i forskellige lande der kører på samme måde. De kører på forskellige måder, har forskellige historier, strukturer, målsætninger, kapitalbase osv. Så vi prøver på at tilpasse os så godt vi kan. Vi kan ikke selv tilpasse vores medarbejdere til at blive eksperter i forskellige områder. Det er vi for få til. Vi prøver at være all round alle sammen, men de kompetencer vi har i Kenya, Eric og Titus har 10-15 års erfaring fra branchen og vi kan mærke at vores partnere reagerer rigtig positivt på det. Især til partnerkonferencen i år gav de udtryk for at de synes det var en god udvikling. Tidligere havde vi folk her der fløj herfra (Kbh) til Kenya, Østafrika eller hvor det nu var. Så skulle vi pludselig fortælle hvordan de skulle køre tingene. Nu har vi fået rigtig gode reaktioner på, at de føler at vi har nogle ressourcer de kan trække på, som kender markedet, de lokale forhold, og som kender de forskellige spillere, og som har erfaring med de ting de kæmper med. Det har været en rigtig god udvikling og det er noget vi har tænkt os at forsætte med. Simpelthen at styrke det kontor dernede, med hjælp af lokale kompetencer og lokal arbejdskraft.

Hvilke andre strategier kunne implementeres hvis en/din organisation skulle være uafhængig af subsidier?

Godt spørgsmål. Jeg ved ikke hvordan det er i Latin Amerika eller Asien, andet end deres MFI'er er meget større og bedre kørende end i Afrika. I Afrika er der problemer i forhold til governance. Mange af de MFI'er der starter op er dårligt ledede, har dårlig kontrol og kæmper meget med fraud. De er ret svage. Hvis du ser på planetratings, som laver ratings af MFI'er over hele verden. De afrikanske MFI'er de kommer slet ikke op på niveau med de andre. Det er lidt utopisk at snakke om at de afrikanske MFI'er ikke skal bruge subsidier, og skal være selvkørende, fordi de er så langt fra at

være velkørende. Der er simpelthen så meget arbejde der gøres endnu. En af vores tidligere kollegaer arbejder nu for planet ratings, sagde til mig lige da hun startede: at vi var nødt til at forstå at man ikke kan kapacitetsopbygge, hvis der ikke er noget kapacitet. Det synes jeg gør sig gældende for ret mange MFI'er i Afrika. Man skal starte fra bunden og bygge dem op. Der er mange som er semi-gode. Men der findes meget få Tier 1 MFI'er der, så der er stadig et kæmpe stykke arbejde, så vi tænker ikke at de ikke skal gøre brug af subsidier. Det vi siger er at vi kan gå ind og finansiere nogle andre typer lån. For mange af subsidierne og fondene fokuserer på mikro-mikro niveau, og sætter nogle grænser for at de ikke må større end 1000 euro. Der går vi ind og siger at vi kan finansiere lån fra 1000 euro op til 15000 euro, vi har været helt oppe på 30000 euro. Vi vil prøve at finansiere nogle segmenter der i øjeblikket ikke bliver finansieret og på den måde supplere hinanden. De har forsat brug for hjælp til, at få det til at køre. De opererer i de nogle ret ustabile markeder. Du kan se nu med den kenyansk-ugandiske schilling har tabt rigtig meget værdi og central banken i Kenya har lige øget deres rente fra 8% til 16% fra den ene dag til den anden. Og hvis du låner penge der, og har en prisstruktur som er afhængig af, hvor du får din kapital fra, så skyder renten pludselig op. Så der er stadig ret stor usikkerhed, så der skal de blive bedre til at navigere i de markeder de opererer i. Der er lang vej endnu, man ved aldrig rigtig hvad der sker. Hvilket er spændende os men selvfølgelig også en stor udfordring.

Appendix 2 – Ole Dahl Rasmussen

*Hvilken rolle har du I din organisation? Jeg kan forstå at du er mikrofinansrådgiver.
Hvad indebærer det?*

Hvis vi starter oppefra så indebærer det, at det er mig der har den primære indflydelse, på vores mikrofinansstrategi. Lige nu har vi nogle mikrofinans guidelines, som forklarer hvordan vi laver mikrofinans, hvordan vi ikke laver mikrofinans, hvornår vi ikke laver mikrofinans. Jeg har den primære indflydelse på de strategier, hvilket også giver sig udtryk dag til dag, når FKN skal have en mening om et eller andet der har at gøre med mikrofinans, så er det mig der omsætter den strategi til hvad vi så mener om den ting. Hvis vi går et skridt ned så implementerer FKN strategierne igennem vores regionale kontorer, vi har 11 regionale kontorer. Der sidder nogle programmedarbejdere som er ansvarlige for vores projekter. Min primære opgave er at uddanne de programmedarbejdere i vores strategi, men også i god mikrofinans, dårlig mikrofinans, så de kan kende forskel på om det ene eller andet er godt eller dårligt. Endelig, og lidt længere ude så er der alle vores projekter som bliver implementeret igennem vores partnerorganisationer. Det er dem der faktisk implementerer tingene, der kommer jeg også til at få et kvalitetssikringsansvar for hvordan de gør det. Helt konkret betyder det hvis man skal have et projekt gennemført som indeholder mikrofinans hvor budgettet er på over en halv million, så skal jeg godkende det. Jeg håber ved, at uddanne, at det ikke sker så tit. Vi er ret underlige i forhold til den store mikrofinanssektor, fordi vi stort set ikke arbejder med MFI'er. Vi arbejder hovedsageligt med små landsbybanker/låne-spare grupper. Det skyldes simpelthen, at de befolkningsgrupper, som vi har prioriteret, at arbejde med bor nogle steder hvor MFI'er ikke finder det profitabelt eller bæredygtigt at nå ud til dem. Jeg er lige kommet tilbage fra Malawi, hvor der er en relativt veludviklet mikrofinanssektor, men det vil der typisk ikke være i de områder vi arbejder, der vil typisk ikke være adgang. Fx 10 km til hver af de her mikrofinansafdelinger, hvilket simpelthen er for langt.

Hvor stor en rolle spiller mikrofinans I forhold i Folkekirkens Nødhjælps hovedformål?

Fundamentalt set ikke så stor. Den måde vi tænker på vores arbejde er at vi laver 5 forskellige ting; political space, som er governance arbejde og lobby arbejde, arbejde med hiv og aids, fødevaresikkerhed, minerydning, og katastrofeindsatser. Og som det fremgår så er mikrofinans ikke en af de 5 ting, så på den måde ikke kernen, men man finder mikrofinans under mange af de her områder. Så mikrofinans er mere et værktøj i de her strategier. Vi lavede en undersøgelse i 2007, der viste at vi var den NGO i Danmark, der lavede flest mikrofinansprojekter. Vi fandt 50 af vores projekter der havde en eller anden form for mikrofinans og det tal er absolut ikke gået ned. Vi har de 11 regionale kontorer, med vores katastrofeindsatser arbejder vi i 20-25 lande og med mikrofinans i 12 lande.

Hvordan ser i mikrofinans udviklingen for jeres organisation inden for de næste 5-10 år?

Vi vil aldrig blive en mikrofinansorganisation. Vi kommer aldrig til at have projekter, og steder hvor vi kun arbejder med mikrofinans, fordi de grupper vi arbejder med, de vil altid have brug for mere end mikrofinans, og den måde vi arbejder gør at vi, som jeg plejer at sige, går efter et afkast på 100%. Det er ikke noget med at pengene skal tilbage. Det vi laver skal være bæredygtigt, men pengene skal helst blive der hvor vi har brugt dem. Så derfor bliver mikrofinans ved med at være en del af det. Jeg tror vi kommer til at lave mere af det. Det er simpelthen en efterspørgselsting, selvfølgelig helt ude fra lokalsamfundene, men også fra de partnerorganisationer vi arbejder med. Vi kan se, at den måde vi laver det på nu er noget de synes de kan bruge, så hvis jeg fx laver en erfaringsudveksling med vores Malawi-kontor og vores Uganda-kontor, så ender det som regel med Uganda-kontoret synes det er sådan en god ide, og når der er gået et års tid, så har de mikrofinans i endnu flere projekter.

Jeg kan forstå at I laver låne-sparegrupper. Er der andre fokusområder når I forsøger at hjælpe de fattige?

Jeg vil sige at vores andet væsentligste fokusområde er noget vi kalder protection. Man kan godt set dele en hvilken som helst mikrofinanssektor op i nogen der provider, nogen der kommer med pengene, dem der faktisk håndterer pengene.

Nogen der promoterer, det er mikrofinanssammenslutninger, eller hvad vi rent faktisk gør når vi laver låne-sparegrupper og så nogen der arbejder med protection. I takt med at vi ser mikrofinans eksplodere, så er der flere og flere MFI'er, som ikke gør som de burde, og fordi de er drevet af forskellige ting ender med at være skadelige for sårbare og udsatte grupper som vi arbejder med. Så udover de her låne-spare grupper er vores væsentligste funktion på en eller anden måde, at virke som en slags beskytter. Det handler om basal finansiell uddannelse af de her grupper, det handler om at holde øje med, at der er transparent prissætning af de her produkter, og det handler om at hjælper dem når de kommer i knibe. Vi arbejder bl.a. sammen med en organisation i Indien som hjælper enker fra mænd der har begået selvmord pga. mikrofinans.

Hvilke strategiske områder fokuserer I hovedsageligt på?

Vores primære fokus er at det skal være noget de grupper vi arbejder med kan bruge, det kan du måske godt kalde outreach. Selv hvis vi kunne finde noget mikrofinans, som var bæredygtig og som havde en stor effekt, hvor vi kunne se en stor stigning i lånestørrelsen, så ville vi ikke gøre det, hvis det ikke passede til de grupper vi arbejder med, og så har man også udelukket en masse typer af mikrofinans. Vi har fundet den her mikrofinans model med låne-spare grupper som vi synes fungerer godt. De er rigtig bæredygtige på den måde, at vi har sat dem op med en investering på minus 100 % og så flyver de. Når vi går tilbage, fx i Cambodia har vi nogle der startede i 1996. Vi kan ikke se, at der er forsvundet penge, og vi kan ikke se at de lukkede. På den måde er bæredygtigheden høj, men hvis vi sammenligner med resten af mikrofinansen, så er forskellen måske at der ikke er nogen ekspansion indbygget i, der starter en ny gruppe når vi betaler for, at den bliver startet med en investering på minus 100%. Hvis man gør det op så er det billigere, at starte sådan en gruppe pr. medlem end det er at starte en rigtig MFI. For en MFI har som regel en direktør og bestyrelse som også tænker på, at låne penge eller sætte penge til side for at ekspandere, og det har de små grupper her ikke, så det er den væsentligste forskel.

Stiller I nogle krav til de partnere i arbejder sammen med?

Vi stiller ikke krav til at de opretter de her låne-spare grupper. Hvis de synes det passer ind i deres formål og deres strategi, så støtter vi dem i det. Hvis de gerne vil det så stiller vi krav til, at de har undersøgt vores mikrofinans guidelines. Den stiller vi krav om, at de følger, den går bl.a. ud på at de undersøger alternative strategier, er mikrofinans nødvendigvis den bedste strategi for den her befolkningsgruppe, de skal undersøge de andre mikrofinansaktiviteter der er i det område for, at sikre at de ikke ødelægger noget der fungerer godt i forvejen. De skal sikre sig at det mikrofinans vi laver ikke sætter nogle marginaliserede menneskers livelihood, deres indtægt og besiddelser over styr så de bliver endnu mindre. De skal også sørge for, at der er noget for dem der ikke passer ind i det her mikrofinanskoncept. Vi er i gang med at undersøge hvad de mest marginaliserede grupper de egentlige gør for, at vi laver bedre mikrofinans. Vi kan faktisk ikke finde nogle tegn på, at de bliver udstødte eller at de ikke kommer med. Jeg indsamlede husholdningsdata fra 1500 husholdninger i det nordlige Malawi for at undersøge det, og det ser ud som om, at de her låne-spare grupper de har deltagere hele vejen ned. Men derfor kan man ikke udelukke, at der er nogen som bliver udelukket. Så der stiller vi krav til hvordan vi hjælper de mest marginaliserede grupper. Det er derfor at mikrofinans tit er en del af nogle andre ting vi laver.

(FKN) Jeg kan forstå at jeres organisation finansieres af udover indsamling og private donationer men også finansieres af virksomheder, fonde og med penge fra blandt andre Danida, EU, FN-organisationer og internationale fonde. Ifølge jeres årsberetning modtager I omkring 215 mio kr. Fra Danida, 84 mio. Kr. Fra EU-bevillinger og ca. 57 mio kr. Fra internationale donorer. Hvor stor en del af mikrofinansbudgettet er dækket af ekstern finansiering?

Det hele bliver dækket. Vores afkast er minus 100 %. Vi kommer ikke engang med penge som kan lånes. De små låne-spare grupper – alle penge man kan låne i dem er nogle som ens naboer eller en selv har sparet op, så der er rimeligt langt til at vi får nogle penge tilbage. Der er en lillebitte undtagelse. Nogle gange hjælper vi partnerorganisationer, med hvis de gerne fx vil bygge et nyt hovedkvarter, så kan det være pænt dyrt for dem, fx i Malawi så er den billigste rente 15 % pr år. De penge kan

vi låne dem meget billigere, så der laver vi nogle gange et samarbejde med fx Oikos, de stiller pengene til rådighed, og vi garanterer og så låner vores partnerorganisationer så de penge. De bliver ikke betalt tilbage til os, men til Oikos, så det er en lille bitte undtagelse og det er ikke noget der har en særlig stor post. Jeg tror vi låner omkring 3 mio. ud. Så jeg vil næsten være tilbøjelig til ikke at kalde det mikrofinans, fordi det er støtte. Så svaret er 100 %.

Hvor stor andel er det samlede mikrofinansbudget?

Meget interessant spørgsmål, det er meget svært at gøre op. Jeg lavede et skøn, som jeg ikke lige kan huske, men skal gerne skal finde til dig. Der blev lavet en rapport over den danske mikrofinanssektor "State of the sektor" hedder den fra Dansk Forum for Mikrofinans, deri står det til tal. Gå ind på mikrofinans.dk og finde rapporten.

Vil gerne høre dit syn på donorfunding I mikrofinansieringsverdenen? (Niels Hermes og Robert Lensink angiver i "Microfinance: Its impact, Outreach, and Sustainability – World Development, at ud af de ca. 10.000 MFI der findes er kun 1-2% finansielt bæredygtige, og estimerer at kun 3-5 % vil blive bæredygtige. !) ->

Hvilken indflydelse har det på MFI'erne?

Første spørgsmål, der tror jeg mere på en analyse af Richard Rosenberg, der var blevet træt af at høre på det argument. Så han tog nogle data fra mixmarket og sagde at vi cutter det nu, hvor mange MFI'er dækker så deres egne omkostninger til drift og finansiering. 1000 i landene han så på. Det er jo et andet tal. Jeg tror tallet er større. Jeg nok også at mange der er mange former for afhængig. Meget af den eksterne kapital der kommer ind i mikrofinans kommer i form af sociale investeringer, hvor de skal betale det tilbage, men de accepterer en rente under markedet. Der tror jeg at markedet får tiltrukket er så kæmpe stort, og hvis det er det man mener når man siger bæredygtig, at de bliver nødt til at låne penge til en lavere rente, så kan det godt være at tallet kun er 2 %, men så er det nødvendigvis ikke et stort problem, fordi markedet, jeg tror det var microplace, der lavede en analyse som viste at markedet for sådan

noget, en lille smule godt og en lille smule under markedets afkast. Mere socialt afkast og lidt mindre finansielt afkast, det marked er kæmpe stort. Det er jeg enig med dem i.

Hvilken indflydelse har det på MFI'erne? Det er jo et virkelig interessant spørgsmål, jeg tror overordnet set, det der mangler i mikrofinanssektoren det er ikke penge, der mangler ikke kapital, det er nærmere det omvendte problem, der er for meget kapital. Uanset hvilken slags type kapital, om det som minus 100% afkast kapital, som hjælper fx erhverv, bygger IT-systemer, vi betaler hele festen, eller om det er at du kan låne det lidt billigere og så får vi et socialt afkast, eller det er den helt skarpe wall street, som også vil have afkast. Jeg tror at ingen af de 3 typer af kapital er en stor mangelvare i mikrofinans. Jeg tror det hænger omvendt sammen, hvis der er en situation af det så er der for meget kapital. Lad mig forklare det? Jeg tror det der mangler er absorptionskapacitet lokalt. Der mangler simpelthen MFI'er. Hvad er en MFI? Det er nogle mennesker, nogle procedurer, nogle mekanismer til at låne de her penge ud og få dem ind igen. Hvordan kan man se det? Det kan man bl.a. se på at, sidst jeg tjekkede var der ca. 150 store microfinance investment vehicles, som investerer i MFI'er, de låner som regel ud til de samme 400 MFI'er. Og 150 til 400 i ethvert andet markedet, vil det være fuldstændigt forrykt at der kun er 400 institutioner man kan låne til hvis man er 150 investorer. Det siger et eller andet om at der er en forkert balance. Hvad betyder det så? Jeg tror det betyder, at mange der investerer i mikrofinans er meget optagede at komme af med pengene, og så er de måske lidt mindre optagede af at kvaliteten af de institutioner de investerer i eller kvaliteten af deres egen due diligence. Det betyder så at MFI'erne kan slippe af sted med at være mere sløsede og faktisk dårligere performene. Så man kan sige, det der er brug for er intelligent kapital, så intelligent som muligt. Det skal være noget kapital der virkelig gør noget ud af at engagerer sig i institutionen og holde øje med hvordan den klarer sig. Sådan nogle som Triodos fx, er et eksempel på en meget intelligent investor, fordi de som regel tager en bestyrelsespost i den institution de nu investerer i. De låner ikke penge til dem, men de køber en andel. Så har de en bestyrelsespost og følger med og engang imellem undersøger de sundheden af den institution. Det synes jeg er godt.

Jeg ved ikke om det svarede på spørgsmålet. Hvis man ser på effekten af donor finansiering, så har man vel næsten også sagt i forhold til anden finansiering.

Ja fx i forhold til at skulle finansiere institutionen via højere renter

Ja, der synes jeg faktisk det er meget interessant at tage perspektivet fra en MFI, man kan faktisk gøre det pr telefon, man kan ringe til nogle mikrofinanschefer eller nogle finanschefer i nogle af de MFI og tale lidt med dem om hvordan de får deres kapitalbehov dækket. Jeg vil tro at der hvor de først kigger hen, er om de kan mobilisere opsparing. Og det er som regel fordi det er det billigste, hvis de kan mobilisere opsparing, så får de ikke nogle problemer med at transportere kapitalen, jo lidt hvis der er forskel på områderne, fx fra Uganda til Malawi, men så er kapitalen der hvor de skal bruge den. Plus det er den rigtige valuta. Jeg vil tro at mange af dem i deres top 3 nævner, lokale banker jeg tror det er nr. 2 sted de går hen fordi det er tæt på og den rigtige valuta. Måske på en 3. plads der kommer noget som social kapital i hård valuta eller måske kommer social kapital, altså kapitalen udefra institutionerne, udefra i lokal valuta. For der er bare nogle risici, selv hvis det er i lokal valuta fordi de skal tale med nogle der er langt væk og fordi de måske stiller nogle krav ... lyd utydelig. Og så på en 4 plads kommer ekstern kapital i hård valuta. Jeg tror det kommer meget langt nede, fordi der er kæmpe valutakurs risiko og de fleste af de her lande er høj-inflationslande, hvor valutakursen kommer til at have en virkelig dårlig indflydelse på hvor meget de skal betale tilbage. Det har selvfølgelig også en indflydelse på den lokale rente, men det er bare en meget større risiko. Så jeg tror tit man overvurderer hvor vigtig man er, og det er måske også derfor, at der er for meget kapital og for lidt absorptionskapacitet, for man skal være virkelig dygtig, hvis man skal absorbere den hårde valuta. Så det vil sige at det er den dårligste type og heller ikke særligt intelligent.

Flere for-profit MFI har som målsætning at blive finansielt bæredygtige - hvad er din respons til denne målsætning og den afhængighed der tilsyneladende er af subsidier? Hvor går udviklingen hen af?

Der er nogle som ligesom siger, at vi står ved en skillevej. Vi kan enten sige, at nu skal det her altså være business, and the only business for business is business. Så lad os gå den her vej og så skal MFI'er være bæredygtige, og i øvrigt også være professionelle

virksomheder. Og så er der nogle der siger, at den anden vej vi kan vælge her er, at lad os kigge på, hvor vi kommer fra, og så lave fattigdomsorienteret, måske ikke bæredygtig, og bruge nogle af de her donorpenge. Det jeg synes jeg kan se er, at det er ude af trit med hvor jeg tror på udviklingen går hen. Jeg tror ikke på, at det er en skillevej. Det er en fin metafor, men man skal passe på med metaforer, for måske har de noget struktur i sig, som ikke findes i virkeligheden. Jeg kan i højere grad se differentiering. Vi har FKN som accepterer et afkast på minus 100% i den ene ende, og i den anden ende har vi SKS og Compartamos som laver en IPO og scorer kassen. Og det har jeg sådan set ikke noget imod. Jeg synes det er fint at SKS og IPO scorer kassen, og jeg tror vi har brug for, med nogle reservationer og det kan vi altid diskutere, men selve den udvikling synes jeg er fremragende, og jeg tror vi har brug for den type af markeds Kapital, hvis vi virkelig vil udvide sektoren, og hvis du tale om inklusiv finans, så er det jo finanssystemet der bare rækker længere ned, og det er klart at det skal være bæredygtigt. Men samtidigt så har vi den anden side sådan nogle som FKN, hvor det vi måske har indset, det er at ikke så meget, at den her totale finans/mikrofinans er pissegodt, men det er at hvis vi bruger nogle af de mekanismer, som de bruger mikrofinanssektoren, så kan vi faktisk lave de samme udviklingsprojekter, som vi plejer bare mere bæredygtigt, så det er sådan set bare en udvikling af bæredygtighedsbegrebet, fordi vi sammenligner ikke med at du er helt finansielt uafhængig, nej vi sammenligner med de andre projekter vi har med et afkast på minus 100%. Det gør ikke noget for mig, at man ikke er finansielt bæredygtig. Det kommer an på hvilke sociale afkast man leverer, hvilke mennesker man når, det kommer an på hvor meget man går op i, at man faktisk har en effekt. Men de krav burde man måske også stille lidt mere insisterende. Hvis vi forestiller os at vi en dag oprettede en rigtig MFI, så ville de jo med det samme blive mødt med krav om at nå de allerfattigste, evaluere grundigt og i øvrigt have en rettighedsbaseret tilgang osv. Selvfølgelig må vi stille de krav om leveret et afkast på minus 100%

Hvilken indflydelse har politiske mål, fra fx stakeholders(interessenter) som regeringer I de lande hvor MFI opererer på deres arbejde?

Helt generelt tror jeg det er svært at sige noget om. Der er nogle steder hvor det går fint, eller det er ikke mange steder hvor det går fint når regeringer er indblandet i mikrofinans i deres eget land, slet ikke i ulande. Til gengæld er der masser af eksempler på det modsatte, hvor regeringer er indblandede i mikrofinans, som de så bruger til politiske hensyn. Jeg har ikke vildt meget lokal viden. Jeg kender grundigt til mikrofinanssektoren i nogle lande og 2 af dem af jeg kan komme i tanke om er det gået rigtig dårligt. I Benin fx, der har engang siddet en succesfuld MFI der hed Padme, som faktisk performede godt på de fleste indikatorer, havde høj bæredygtighed og det gjorde de selvfølgelig ved at tage en rente på 2-3 % pr måned. Deres ejerskabsstruktur var rimeligt uklar, de var ejet af Verdensbanken og nogle andre international stakeholders og så regeringen. De var ejet på den måde, at de var organiseret som en slags NGO og der havde regeringen en stor indflydelse. Det førte så til, da der blev valgkamp, jeg lavede et interview med dem på det tidspunkt, at de mærkede et pres fra lokale politikere og det kunne de modstå. Så kom der valgkampen og pludselig sagde Yayi Boni, som ellers var succesfuld og demokratisk valgt præsident, der skal være mikrofinans til folket, det skal være billigt, Padme skal levere lån til 4 % pr. år. Det er klart at så ryger bæredygtigheden, og de blev basalt set overtaget. I Malawi er det, det samme. Der er nogle MFI'er som alle ved er politiske regeringsinstitutioner. Det er dårligt for bæredygtigheden i institutionen, men det er også dårligt for selve mikrofinanssektoren, for man lærer alle, at det her lån behøver man ikke betale tilbage, fordi det kommer fra regeringen. Så hvis du spørger mig om hvad den generelle indflydelse regeringer har på mikrofinans, så er det at den er vildt dårlig. Altså hvis vi taler om de 3 områder, provide, promote og protect, så skulle regeringen koncentrere sig om de to sidste, promote og protect og holde sig fra den første. Så kan de lave nogle finansieringsinstrumenter lige som IFO, men det synes jeg egentligt også bistandsregeringer skulle holde sig udefra. Det kan vi godt lade en socialt investeringssektor, der selv ejer pengene, tage sig af.

Hvem sætter dagsordenen I dette donor vs. MFI forhold?

Det kan man ikke sige noget generelt om. Det er selvfølgelig klart, at donorer har deres agendaer og de bliver taget med på en eller anden måde, men jeg tror de

succesfulde MFI'er har metoder til at sætte deres egen dagsorden og holde styr på det. Det er kun hvis man kan finde ud af håndtere donorer på en god måde, at man kan blive en succesfuld MFI, for ellers bliver man en fragmenteret organisation, der bare løber hen hvor pengene er. Men jeg tror ikke, at fordi man har nogle penge man gerne vil have tilbage, og gerne vil have lidt afkast på, hvis man har det, så har man heller ikke så stort et "say" i MFI'ers strategi. Medmindre man gør det på den måde ,at man køber en share i MFI'en. Og det synes jeg er en meget transparent måde at gøre det på. Så tager man også et ansvar, og det er tydeligt hvad man kommer med, og man kan ikke sige, det er klart det er en slags donorkapital og Triodos kan godt nøjes med et mindre afkast, men Triodos løber også en kæmpe risiko ved at købe en andel af en MFI. Og det er tydeligt når de gør det, så er de interesseret i et afkast. Det vil jeg anbefale.

Efter din erfaring: Hvem leder MFI'erne? Har de erfaring med donor funding networking?

Dem har jeg ikke mødt så mange af. Jeg har måske mødt en 30-50 chefer på det øverste niveau. Langt de fleste af dem synes jeg er kendtegnet ved at oppe bundlinjen, de er fokuseret på deres interne procedurer, få pengene ind igen, holde øje med dag til dag, uge til uge hvor mange af deres lån som der kommer ind igen, og hvor meget opsparing de har. Helt overvejende så er det business. Uanset hvilken type de så er. Så kan de godt være at de i deres strategi skal nå ud til diverse områder. Eller som Opportunity International Bank of Malawi – hvis vi kan lave et projekt med en meget social partner, hvor den sociale partner formidler en kontakt til en særlig gruppe, og så sponsorer en af de mobile banker de har, så de rent faktisk kan komme derud uden, at vi behøver at betale. Det vil de rigtig gerne, siger de, de har rigtig stærke missioner og visioner, men når arbejdet skal gøres så er fokus på bundlinjen. Det skal hænge sammen. Der er en slags evolutionær logik i det, fordi de MFI'er som ikke har det fokus, som har et fokus på at skaffe mange donormidler, kan godt være at de overlever et par år, fordi de skaffer mange donormidler, men så dør de af sig selv, fordi hvis man låner pengene ud hver 3 måned, så skal man kunne have en tilbagebetalingsprocent på lidt under 97 før pengene forsvinder meget hurtigt. Derfor bliver de sikkert nødt til at fokusere på det.

Hvilken indflydelse har donor funding på MFI'ernes udlånsstrategi?

Jeg tror at de dygtige MFI'er og de dygtige donorer, de kan finde ud af et set up, hvor MFI'erne låner ud til nogen de ellers ikke vil have lånt ud til, nogle ikke så profitable grupper, nogle der ikke er i byerne, måske landbrugslån der er over et lidt længere tidsperiode med en lidt højere risiko. Igen, donor funding er et meget bredt begreb, så jeg vil sige at donor funding spænder fra lige under wall street, som der faktisk ikke er så meget af, det kommer an på om vi snakker equity eller bare gæld, begge dele er der ikke særligt meget af hvis vi snakker international kapital. Så spændet går fra lige under det til meget social kapital, fra et afkast på måske 6 procent pr år, ned til nogen der accepterer et negativt afkast på et par procent. Man kan tage det ned til vores minus 100 %, og det er et meget stort spænd. Hvis du fx kigger på dem jeg snakkede om før, så er det nok nogen der ligger et sted i midten, men hvis du kigger på dem der ligger lidt neden under, som investerer i mikrofinans, fordi de tror at det gør noget godt for verden, men som stadig insisterer på et afkast på 5 eller 6 %. Mange af dem har negativ indflydelse, fordi de presser institutionerne til at leve op til afkastet, til at vokse, og det kan give sig udslag hele vejen ned til MFI'erne, og deres procedurer sådan at de enkelte kreditmedarbejdere de får performancemål på hvor lån de skal give ud hver måned, og hvis de så ikke gør det, så kan de blive afskediget. Derfor får man nogle absurde situationer, hvor de låner ud til folk der ikke kan betale tilbage, og det er jo noget almindelig forbrugerbeskyttelse som også er en kæmpe ting i øjeblikket, men lige efter det kommer eksempler på at ansatte, kredit officers, selv betaler løn tilbage fra deres kunder for at holde deres performancemål. Det er selvfølgelig rigtig dårligt, men det tror jeg er vist de ligger helt oppe tæt ved markeds Kapital, og hvis de i øvrigt ikke er dygtige nok. Og så helt ned til at de er ligeglade, og de bare prøver på at komme af med pengene. Der kan være forskellige indflydelser.

Hvilke parametre er de vigtigste at have for øje når man kigger på MFI's ledelse?

Hvis vi er blevet enige om at mikrofinans er alle finansielle ydelser til fattigere befolkningsgrupper, så kan man finde MFI'er der har en meget stærk social mission

og nogle der har en meget svag social mission. Jeg plejer at begrænse mikrofinans til fattige befolkningsgrupper med et socialt formål. Men selv hvis vi gør det, så vil der være nogle, som har et meget svagt socialt formål, og som prioriterer det meget lidt. Deres opmærksomhed vil være på tilbagebetalingsrater, profitmargen, på renter, og på stigende udlån, først lidt og så mere og kan man få højere renter på mindre lån for at dække de faste omkostninger. I den anden ende der vil fokus være på; hvem vi låner til og hvor stor effekt de har. Alle har fokus på begge dele men i varierende grad. Ingen er særligt gode til at måle deres sociale performance. Det er drønhamrende svært.

Hvilke andre strategier kunne implementeres hvis en MFI skulle være uafhængig af subsidier?

Sådan en kan man ikke lave alle steder, og det er heller ikke alle steder at der er efterspørgsel på mikrofinans, forstået på den måde til den pris det koster at leverer den. Det er ikke er alle steder, der er et marked for mikrofinansielle ydelser. Det tror jeg stadigvæk der er mange steder, mange stiller sig selv det spørgsmål, hvis de virkelig er så succesfulde, hvis det virkelig går så godt, hvorfor har markedet sig så ikke taget sig af dem? Hvorfor er det ikke ekspanderet helt vildt? Det er jo fordi der reelt set i den rene Milton Friedman forståelse af et markedet , så er der nok ikke et marked for det. Så afkastet er ikke så stort, at det kan betale sig og udvide derud til. Det betyder ikke, at man ikke kan lave mikrofinans der, det betyder bare at man skal være klar til at acceptere lidt lavere løn, acceptere donor funding og der er den væsentligste strategi, at levere nogle produkter der er tilpassede hvor man er. Man har et produkt der passer til den efterspørgsel der er. Det nytter ikke at sælge en række produkter, som man har i fx Sudan, hvor de virker, til Botswana. Selvfølgelige duer det ikke, det skal matche den efterspørgsel der er. På landet i Afrika fx er det drønsvært at lave mikrofinans. Jeg tror at bæredygtighedsmæssigt, så er der ikke et marked for det, fordi folk bor så spredt, så det kan bare ikke betale sig, medmindre man får noget donor funding til at hjælpe med at komme derud.

Skulle subsidieafhængige MFI'er stoppe med at lægge låg på deres renter og dermed videregive nogle af udgifter til deres klienter, eller skulle de forsætte med at modtage subsidier?

Jeg synes ikke at donorerne skal stille krav om, hvad renten skal være. Det skal MFI'erne selv. MFI'erne skal sætte den sådan at de kan dække deres løbende omkostninger. Igen det kommer an på om du befinner dig heroppe (Wall street) og hernede (sociale formål). Hvis du befinner dig nede, hvor man accepterer en høj grad af ubæredygtighed, så skal der gerne være en grund til det. Det skal gerne være, fordi vi kan se, at vi når ud til nogle andre befolkningsgrupper, eller at vi tilbyde nogle produkter, der er mere tilpassede. De områder vi arbejder i, selv hvis der ligger en filial eller en MFI lige ved siden af, så er det usandsynligt at mange af vores befolkningsgrupper vil gå derind, fordi lånene er for store. De er vildt små i Malawi henseende. Hvis man nu får en MFI til at udbyde et produkt, som er mindre, så vil man måske gerne acceptere, at det ikke er bæredygtigt. Jeg tror ikke at der er en religion på den måde, som er det eneste sande, fx at man skal være fuldstændigt bæredygtigt. Grunden til at jeg siger, at de selv skal sætte den er, at den ikke ødelægger det lokale finansielle marked. Det kan være drønfarligt, hvis man udbyder et produkt til en lavere rente til den der ellers bliver udbudt, og der faktisk er et udbud, så vil de bæredygtige udbydere som der faktisk er, som måske betjener et andet markedssegment, de kan pludselig ikke overleve længere. Men det kommer så an på den analyse man laver inden man går i gang, og som vi også laver, hvordan ser markedet ud? De fleste steder hvor vi går i gang, der er det meget simpelt, der er ikke særligt meget. Folk tager nogle lån, men så er det fra deres naboyer, og det kan godt være vi måske ødelægger markedet for nogle private pengeudlåner, og selv det synes jeg vi skal være os selv bevidste, hvis vi leverer en ydelse som er billigere, så ødelægger vi markedet og det betyder, at de går ud af business. Jeg tror 2 ting, dels det vi laver det ER bæredygtigt, det bliver ved med at være der og dels de kan nok rimeligt hurtigt åbne igen. Hvis jeg skulle låne penge ud til en MFI, så ville jeg kræve, at jeg kunne se at hvis jeg holdte op, så kunne den i det mindste blive ved med, at servicere det jeg havde sat i gang.

Så eksemplet før i Malawi det man betaler for, det er den her bus der kører ud og betjener de områder, der skal renten jo kunne betale lønnen til ham der kører ud,

benzinen, vedligeholdelse af bussen, afskrivning af bussen, men det betyder at jeg har været med til på en bæredygtig måde, at levere mikrofinansielle ydelser til nogen, der ellers ikke ville have fået det.

Appendix 3 – Jens Ole Pedersen

Hvilken rolle har du i din organisation? Jeg kan forstå at du er Head of Microfinance Investment, hvad indebærer det?

Det indebærer at jeg skal finde investeringsmuligheder og investeringsobjekter på vegne af 3 investorer, som de 3 investorer der har puttet penge i den første danske mikrofond, så de grundlæggende kan tjene nogle penge, men at de i samme moment også kan gøre noget, der kan sørge for, at deres CSR-profil ikke bliver svækket, men nærmere styrket.

Hvad er organisations hovedformål?

Vi gør det at vi yder ikke lån, vi foretager kun investeringer i egenkapital. Dvs. at det vi investerer i er aktieselskaber, som driver mikrofinansvirksomhed i enten Asien, Afrika eller Latin Amerika. Som en konsekvens af det vi gør og ønsker at opnå er i høj grad at gennem de investeringer vi foretager, og der igennem styrker kapitalgrundlaget og styrker evnen til at leve videre for de her MFI'er, også oplever at folk som får lån herfra, i hvert fald en del af dem, har muligheden for at bevæge sig opad af den finansielle rangstige. Den måde man normalt udtrykker det på er hvad man kalder en double bottom line, hvor man i princippet både har en profit, men også har en social impact. Vi har jo en dansker som er meget fokuseret på ham selv, nemlig Tom Heinemann. Det der er hans primære fokus er ikke så meget alt muligt andet, men i høj grad at Tom Heinemann kan blive berømt. Jeg har selv arbejdet meget i ekstremt fattige lande, så hvis du stiller dine spørgsmål rigtigt, så er de fleste mennesker i fattige lande grundlæggende utroligt venlige mennesker. De er også kvikke nok, så de finder også meget hurtigt ud af, hvad for et svar du vil have. Og det svar det giver de i lønlig håb om, at de så får en præmie for, at de nu har opfyldt det, du gerne vil opnå. Om de har fået det eller ej, det ved jeg ikke noget om. Men på toppen af det og langt før Tom Heinemann, har der været nogle universiteter af

forskellig karakter, som har foretaget, hvad de kalder en akademisk indfaldsvinkel til om mikrofinans det hjælper. Og det synes jeg er ganske udmærket. Men det der er problemet med mange af de her undersøgelser, det er at de får bevilliget nogle penge af universitet eller andre til, at foretage en undersøgelse. De har bare ikke tid nok. Jeg har den store fordel, at jeg arbejdet med et stort projekt i 7 år, som oprindeligt var startet i Danida. Danida stillede en garantifond på 2 mio. DKK. Vi stillede det krav at vi måtte bevare det som en hemmelig, således at folk ikke vidste at vi havde det. Vores eksponering nede i den bank jeg var direktør i var på 100 mio. dollar. Så kan du selv regne ud, at den garantifond er på nul og niks. Og man kan ikke, medmindre man tror på, at mikrofinans er en tryllestav der kan fjerne fattigdom med et slag, det gør det ikke! Mikrofinans er et langsigtet projekt, der skal arbejdes med. Jeg kan komme frem med mange eksempler, hvor der over en 4-5-årig periode pludselig sker nogle ting. Det er en proces man skal igennem, hvor folk ligesom begynder at bevæge sig, nogle bevæger sig meget hurtigt, nogle meget langsomt, og nogle bevæger sig slet ikke. Vi har jo også i Danmark folk som får lån i banker, nogle de kan sagtens betale, de får også noget ud af de lån, der er nogle som også sagtens kan betale tilbage, men får knap så meget ud af de her lån. Og der er andre som ikke kan betale tilbage, og de kommer så i det vi i Danmark kalder Ribers, eller et debitorregister, hvor de bliver forment adgang til andre lån i andre pengeinstitutter, fordi alle kan gå ind og se, at den her person ikke kan betale tilbage, så man har afskåret sig selv til at betale tilbage. Det kan man IKKE i ulandene, fordi de har ikke den samme organiseringsgrad i deres samfundssystemer, som vi har. Der er nogle fattige mennesker, som er gode til at udnytte de her ting, og der er andre som ender i en gæld, som det bliver svært for dem at betale tilbage, og tingene går i det hele taget ad pommern til. Det man skal huske, når man yder mikrofinansieringslån er at mikrofinansieringslånene skal være fokuserede på, det man kalder income generating activities. Det der er sket i nogle lande er at man primært drevet af mange velmenende mennesker fra vores del af verden, siger at så må de også have pensionsplaner, og hvordan skal man få en pensionsplan, hvis man får mikrofinansieringslån? Men det som jeg har diskuteret med mange rundt omkring i verden er, at de tror at det behov, som vi har i den del af verden, som vi nu er i, må være det samme behov, man har i andre lande (ulande). Og grundlæggende skal man vel sige, at hvis vi kigger tilbage bare 100 år, så var der ikke en kinamand der tænkte på, at få en pensionsplan. Og så synes man også man skal lave

mikrohusfinansiering. Man skal bare huske på en ting, og det er at husfinansiering ikke er income generating activities, hvilket betyder at de eneste der har mulighed for det er dem, som allerede har en fast indkomst. Dem som ikke har en fast indkomst, og som er afhængige af, at de kan sælge noget frugt eller noget andet på et marked, de ender simpelthen i en fælde, fordi de har en meget uregelmæssig indtægt, og det betyder at de ikke kan betale de her lån tilbage, og så ender de i en suppedas, og det er der også nogle i Danmark der har gjort. Vi har utroligt mange, som er teknisk insolvente, men de har dog en indtægt, det har man ikke i ulandene. Derfor skal man fokusere, og det er meget vigtigt for os, jeg tager ud og besøger folk, og vil gerne se hvad det er for nogle typer mennesker man yder lån til, på indkomstskabende aktiviteter. Der er der desværre i en række kredse, de kalder sig som hovedregel akademiske kredse, den holdning, at man skal skabe pensionsplaner, fordi de skal jo også kunne trække sig tilbage på et tidspunkt. Gennemsnitslevealderen i mange fattige lande er jo altså væsentligt lavere end den er hos os. Og det har vi nogle diskussioner omkring, og de synes jeg er en underlig snegl. Men min erfaring fortæller mig, at indenfor de første 12 måneder kan du ikke vurdere noget, og mange af de her rapporter vurderer på en periode på 12 måneder. Og der kan du ikke se nogen forandring. Du er nødt til at have 4-5 års kontinuerlig proces før du kan se, at der sker nogle forandringer. Og det er der altså nogen, som ikke kan finde ud af. Men tilbage til donorerne. Jeg synes donorerne skal holde sig væk fra det her system. Latin Amerika er uden nogen som helst form for sammenligning det største mikrofinansieringsmarked i verden, det er vel dobbelt så stort som resten af verden til sammen. Og dernede fungerer det, og det fungerer særdeles udmærket. Selvfølgelig har de også nogen som går på rumpetten, det har vi også i Danmark. Man siger det er værre hvis fattige mennesker går på rumpetten, men jeg tror ikke det er værre for dem, end det er for nogle danskere ikke, at kunne betale det de skylder. Jeg står ikke nødvendigvis alene med det her, men der er mange, som aldrig har arbejdet med mikrofinans. Jeg har kørt 380.000 km i bil i Tanzania, som jeg stort set været rundt i alle hjørner af det land, der er 22-23 gange større end Danmark. Vi ydede ikke direkte mikrofinans, vi ydede lån til det der hedder cooperative mikrofinansvirksomheder, det hedder SACCOL, som hedder en Saving and Credit Cooperation. Grundlæggende var der over 1 mio. medlemmer i de her SACCOL's i Tanzania, så vores outreach var meget stor i et land som Tanzania. Hvis man kigger på alle de lån, vi har udbetalt, så er

man på udbetalte lån akkumulerede på omkring 7-800 mio dollar. Alt i alt har vi vel tabt, jeg forlod dem sidste år, men var i kontakt med dem senere, 200.000 dollar maksimalt. Så succesen er til at få øje på.

Hvilke steps er de vigtigste i den her 5-6-årige periode du snakker om?

Vi kan trække eksempler frem med en bonde, som måske starter med have en acre, hvilket svarer til omkring 1/3 af en hektar. I december 2009 samlede vi alle vores MFI'er i en række forskellige geografiske områder, hvor vi så byggede op for, at de skulle have en organisation, der skulle tale med os og tale deres sag i forhold til os. Der var der en, der nåede op på, i løbet af de her 7-8 år, at have 80 acres, fordi han forstod at investere i lastbiler, købe jord andre steder. Og nogle de kom jo ikke meget udover 1 eller 2 acres, og det er alt sammen et spørgsmål om talent. Vi har også en person, som startede med at gå 50 km hver vej for at sælge fisk, og da jeg forlod eksporterede kaffe i 2010 for 22 mio. \$, og det er over en periode på 8 år. Og det hænger sammen med, at han har altså ikke gået på CBS, men der er nogle mennesker som er født med det her talent, og det er ligegyldigt, om de har læst eller ikke har læst, det skal de nok finde ud af. Han var en af de eksempler. Og nogle af de mest succesfulde mennesker vi havde, og som efterhånden var blevet helt almindelige kunder i banken, og det er man når man eksporterer kaffe for 22 mio. US\$, var rent faktisk i en situation, hvor de mest succesfulde rent faktisk ikke havde en uddannelse, dermed ikke sagt at sådan gælder det alle steder, men de er lettere at få øje på end de andre. Man kan også lære så meget, at man har så mange blokeringer, at man ikke kan se mulighederne, fordi man har fået at vide, at det ikke kan lade sig gøre, og der er altså nogen, som ikke kender til de blokeringer for de vidste ikke, at det ikke kunne lade sig gøre. Mennesker er forskellige og har forskellige muligheder for at udnytte deres egen kapacitet. Personen som jeg lige snakkede om, han startede med små lån og efterhånden kunne vi godt se, at han havde forstand på det, så han fik lån og lån helt op til 5 mio \$. Og det er mange penge i et land som Tanzania. Så mikrofinans kan sagtens skabe for dem der har talentet, nogle helt utrolige ting. For dem der ikke har talentet, og det er ligegyldigt om du har en uddannelse eller ikke har en uddannelse, så skaber det lige så mange store problemer. Så mikrofinans er grundlæggende en god

ting, men vi skal ikke se bort fra, at mikrofinans ikke også skaber problemer for andre, for det gør det. Så mikrofinans er ikke en tryllestav, så bare man kan få vristet det ud af hovedet.

Hvad skal der til for en organisation som jeres skal udvikle sig?

Vi startede som nr. 5, da jeg startede og endte som nr. 1. Vores egenkapital voksede fra 15 mio \$ til 175 mio \$ på 7 år, så det gik stærkt. Vi gik fra 540 ansatte til 1325. Vi fokuserede primært på at støtte lokalbefolkningen. Mange lande i Afrika er kendetegnet ved at de har enten en indisk overklasse, ikke så meget hvid mere, men i højeste grad en indisk eller en kinesisk overklasse, som for det første har haft nogle bedre finansielle muligheder for, at starte deres virksomhed op, end mange afrikanere. Afrikanerne er som jeg ser det, kendetegnet ved at de modsat til mange andre har fået at vide igennem generationer, det duede alligevel ikke, de skulle gøre som andre fortalte dem de skulle gøre det. Dvs. de har langt hen af vejen en betydelig grad af mangel på selvtillid. Så det vi gjorde var, at fokusere på den her befolkningssgruppe, og fokusere på at få skabt nogle rollemodeller, så lokalbefolkningen kunne se, at der faktisk var nogle der kunne. Og at det var et spørgsmål om at få fat i den lange ende, og få det til at fungere.

Hvordan udvælger i de MFI'er i vil investere i?

Det gør vi ved at vi skanner. Hvis vi tager Indien. Vi har tre investorer. Den største vi har er PKA, som er pensionskasse og administrationsselskab, som har en investingsportefølje på 123-124 mia. danske kroner, så den er relativt stor. De har skudt 200 mio. ind i det her. Så har vi PBU, som er pensionskassen for børn og ungdomspædagoger. Som har skudt 100 mio. ind. Og så har vi IFO, som er en statslig institution, som yder lån til projekter i ulandene, som dog er kendetegnet ved at der altid skal være en dansk partner. De tre har investeret rundt regnet 400 mio. danske kroner, plus at vi også selv har investeret noget, for det skal man, det vil pensionskasserne have, så man selv har en risiko. Det kendetegnende ved PBU og PKA er, at den dominerende del af deres medlemmer faktisk er kvinder, og det faktisk

kommet fra græsrødderne, presset af at man godt vil prøve at se, om det her ikke kunne lade sig gøre. Det er den første og så vidt jeg ved den eneste, SparInvest har tumlet lidt med ideen, men jeg ved ikke hvor langt de er nået, de kom frem med en pressemeldelse, at nu havde de også etableret en fond, men mere ved jeg ikke. I Europa er der temmelig mange, og der er også mange i USA. I USA er de oftest kendtegnet ved, at det er stjernelige privatpersoner, som føler at de skal gøre et eller andet for alle de penge de har tjent. I Europa er det oftest pensionskasser som er inde over og mange investerer både i egenkapital, men yder også lån. Vi yder ikke lån, det tror jeg at jeg har gjort nok i min tilværelse, så vi foretager kun egenkapitalinvesteringer, hvilket grundlæggende er langt mere risikobetonet. Men når du skyder egenkapital ind i virksomhed, og specielt en finansiel virksomhed, så har du jo muligheden for at nyde godt af den gearing som egenkapitalen giver i forhold til de udlån du kan yde. Så grundlæggende skal den økonomiske udkomme, du kan få af en sådan investering være højere, da risikoen også er højere.

Hvilke parametre kigger i så på når i investerer?

Vi kigger i høj grad på hvordan deres kontolsystemer fungerer. Det er noget jeg bruger meget tid på, det er at se på hvordan og hvorledes er deres rapporteringssystem for lånet etableret, indtil den konsoliderede balance og det konsoliderede system som de nu engang har, hvor langt tid tager det, og hvad er det for kontroller der foregår. Der er jo ingen grund til, at vi putter egenkapital ind i virksomhed, som ikke har kontrol med hvad det er for lån de yder. Dernæst går vi så ind og kigger på, hvad er det for typer af mennesker de låner til, og vi vil meget gerne have, at de yder lån til landbefolkninger, ikke nødvendigvis fordi de er bønder, de kan ligeså godt være småhandlende på markeder. Det kigger vi meget på. I Latin Amerika er det et langt mere udviklet marked. Nu har vi jo noget der hedder Finanstilsynet som kontrollerer, med større og mindre held, danske pengeinstitutter adfærd. I Afrika eksisterer sådan noget desværre ikke. Det er ofte landenes såkaldte centralbanker som står for det, og de er et stykke hen af vejen kendtegnet ved, at de ikke aner hvad de foretager sig. Det kender jeg en del til. I Indien har der været en krise sidste år i en enkelt delstat, og det værste der kan ske, og det var hvad der rent faktisk skete i

Indien, er at politikerne begynder at blande sig, og så skaber du altså nogle problemer. I Latin Amerika kontrolsystemerne langt mere veludviklede. Der er det oftest en kontrolenhed, en supervisory unit uden for centralbankerne, som står for kontrollen af MFI'erne og de er langt længere fremme i kontrolsystemerne, og kontrollen af MFI'erne fungerer nu som de skal. Og det bruger vi også meget tid på at sikre. Og så kigger vi til slut på hvordan den politiske situation er i landet. Men de lande som vi arbejder med, du kan sige at Indien har problemet at politikerne gerne vil blande sig, men grundlæggende er Indien, i mine øjne, et langt mere stabilt land, fordi det er jo et fuldt sammenligneligt demokrati med demokrati vi foretager. Det er faktisk mere demokratisk end USA, for i USA skal du melde dig som vælger. Og i mange af de Latin amerikanske lande er der heller ikke den samme sikkerhed med hensyn til vælgernes indflydelse, men der er sket betydelige forbedringer på de politiske systemer i Latin Amerika. Vi kigger meget på de politiske systemer og hvordan de fungerer, og retssystemerne som engang imellem kan være en udfordring, især i Afrika.

Jeg ved at investeringsfonden Triodos, køber en andel i MFI'erne når de investerer? Er det noget Maj Invest også foretager sig?

Ja, det gør vi også.

Gør I noget for at forbedrer kompetencerne hos de partnere I investerer i?

Det gør vi selvfølgelig. Du må tænke på at inden vi foretager den endelige investering, så foretager vi det der kaldes due diligence. Der foretager vi både en finansiel due diligence, og en juridisk due diligence, som er meget omfattende. Vi bruger vel mellem 50-100.000 dollar, derfor er vores minimumsinvesteringsbeløb altså også 3 mio. dollar. Det betyder at vi ikke kan investere i små MFI'er. Vi går meget længere end nogen anden investeringsfond jeg kender, og grundlæggende er jeg vel den eneste, som jeg overhovedet har stødt på, som har rent faktisk erfaring i at yde mikrolån. Så derfor synes de faktisk, at vi er nogle gode investorer at få ind.

Vil gerne høre dit syn på donorfunding I mikrofinansieringsverdenen? (Niels Hermes og Robert Lensink angiver i "Microfinance: Its impact, Outreach, and Sustainability – World Development, at ud af de ca. 10.000 MFI der findes er kun 1-2% finansielt bæredygtige, og estimerer at kun 3-5 % vil blive bæredygtige. !) andre estimerer det er væsentligt højere -> Hvor stor tror du at den finansielle bæredygtighed er inden for mikrofinansieringsindustrien?

Hvis du kigger på det totale markedet, og hvis du kigger på antallet, så er det nok et relativt lille antal der er bæredygtige, men hvis du kigger på den totale bevilling af lån i markedet, så vil jeg sige at for-profit MFI'er de dækker vel i dag som minimum 90 % af alle de lån der ydes på verdensplan. Så det vil sige, at donorstøttede har en meget, meget ringe udbredelse. Der er grundlæggende nødt til, at være et incitament der hedder, at man tjener penge. I Indien der havde man self-helps groups, som blev lavet i regeringsregi, og de blev aldrig til noget. Man startede nogle NGO'er op, og nogle af de største i dag af for-profit er NGO'er, som er startet og som så har transformeret sig selv fra, at være en NGO til at være en for-profit MFI, som aktieselskab. Der er ingen af de store og dem der virkelig batter noget i Indien eller Latin Amerika, i Afrika er det faktisk forbløffende mange, men der er forbløffende få, som virkelig batter noget i Afrika. Så man kan også vende det om og sige, at det kan godt være, at der er relativt få som er sustainable, men hvis du kigger på antallet lån der er givet, så er det den lille effektive gruppe som yder lånene, og som virkelig har en indflydelse på at der sker nogle ting i den her verdensdel, i modsætning til dem der er donor-finansierede eller donor-saboterede. Og de kommer grundlæggende ingen steder. Der er ingen diskussion om at mikrofinans, med den udbredelse det har i dag i verden, ville ikke være tilstede såfremt der ikke var et indtjeningselement. Der er nogle som sætter penge, som risiko for at yde det her, og det er dem der har den alt dominerende indflydelse på markedet.

Flere for-profit MFI har som målsætning at blive finansielt bæredygtige - hvad er din respons til denne målsætning og den afhængighed der tilsyneladende er af subsidier?

Det er simpelthen at give dem narkotika. Du kommer ikke videre, du bliver ved med at være afhængig. Og jeg ved godt, at donorerne synes det er noget pjat, men det er

faktisk sandt. Og ligegyldigt hvor du kigger hen i verden, så findes der ingen dominerende MFI'er som er støttet af donor-organisation overhovedet.

Hvilke effekter kan donor funding have på samfundsmæssige målsætninger?

Ingenting, efter min bedste overbevisning. Det er noget skidt. Hvis det stod til mig så ville jeg sige, at donorer skulle fokusere på uddannelse og på sundhed. Punktum. Lad det andet klare sig selv. Det der er det gode ved det, og som vi kigger meget stærkt på, og som jeg selv har prøvet i Tanzania med stor succes, det er SME'er small- and medium sized enterprises. Eller micro-enterprises, og det er også en del af det, vi gerne vil finansiere og investere i når de er der. Vi kigger i øjeblikket på en i Paraguay, vi kigger på en i Sydafrika som er nyetableret. Der er ikke nogen diskussion om, at det bliver et stort og voksende marked. Der hvor man skal passe på, og hvor igen donorer og andre velmenende mennesker kommer ind, og har for store ambitioner, og siger at vi skal have de her (SME'er) til at eksportere. Men fordi du kan producere noget i en by på 100.000 indbyggere, så har du altså ikke kapaciteten, og du har ikke den finansielle kapacitet til at begynde at eksportere. Det kan man simpelthen ikke, man skal fokusere på den by der ligger tættest på, hvis man gerne vil ekspandere. Og der mener jeg at det er naivt at tro, at man kan få SME'er til at eksportere. Hvis du kigger på danske virksomheder, før de når en given størrelse og før de har en finansiel rygrad begynder de ikke at eksportere, for det er risikobetonet, at begynde at eksportere. Vi har så den fordel, at i mange OECD lande, hvor vi kan sige at rent faktisk er der nogen som begynder at eksportere med det samme, men det hænger sammen med at deres produkter er anderledes. Det er ikke almindelige fremstillingsvirksomheder. Grunden til at vi fokuserer meget på SME'er nu, og det er primært i mikroenden, det er at et af de store problemer i de her lande, det er at få skabt arbejdspladser. Mange lande, og specielt Afrika, er kendtegnet ved at befolkningssammensætningen er skæv, hvilket betyder at befolkningstilvæksten er så stor, at der er et betydeligt antal unge mennesker, som ikke kan få jobs. Derfor er det vigtigt, at man får skabt nogle fremstillingsvirksomheder, for det er der jobs bliver skabt i verden. I Afrika eller Indien for den sags skyld kan jo ikke leve af og være serviceindustri. De er nødt til at få skabt nogle arbejdspladser. De eneste

arbejdspladser der bliver skabt er jo fremstillingsvirksomheder. Og det er det vi fokuserer på. Den vi kigger på i Paraguay er en der fokuserer meget på landbrug, det der hedder value-chain, hvor du kigger på nogle SME'er, som er med til at forædle landbruksprodukter opad i systemet. Og det er der vi fokuserer, og det er der vi kan være med til, at skabe arbejdspladser. Men vi er slet ikke involveret i andet end vores vurdering, men selve långivningen det ligger 100 % i det institut, som vi skyder egenkapital ind i.

Hvem sætter dagsordenen I dette donor vs. MFI forhold?

Jamen, jeg mener grundlæggende, at de skal holde sig væk. De skal bruge tid på sundhed og uddannelse, punktum. Det er det landene har behov. Og i høj grad hvis du kigger på Afrika, så få skabt nogle uddannelsessystemer, og nogle uddannelsesinstitutioner som kan frembringe folk. Viden skaber for det første et bedre demokrati, og for det andet også nogle mennesker, som har en bedre kapacitet i al almindelighed, og det er det man skal gå ind og kigge på efter min opfattelse. Og det vi kan se på, det er at en af grundene til, at Afrika ikke rigtig bevæger sig på mikrofinansieringsområdet, for det gør de ikke, det er simpelthen fordi, der er for mange donorer inde over, og der er for mange politikere, der gerne vil ind over det. De tror på, at hvis de kan eksponerer sig selv og gøre noget for de fattige, så kan de blive genvalgt næste gang. Bare for et eksempel, et parlamentsmedlem i Kenya, har vel en indkomst, uden at betale skat, som er $2 \frac{1}{2}$ så høj som et dansk folketingsmedlem.

Hvilken indflydelse har donor funding på managementstrukturen i MFI'erne?

Det er der problemet opstår. Det har de fleste donororganisationer slet ingen interesse i. De kigger på at ville hjælpe fattige mennesker, det er alt sammen meget velmenende, men når man gør en organisation afhængig af at få grants, altså gaver, hvorfor skulle de så blive effektive.

Hviken indflydelse kan det have på MFI'ernes udlånsstrategi?

De er ligeglade, fordi de forventer jo, at til næste år får de også penge. Og hvis du gerne vil kigge på et skole klokkeklart eksempel ,så skal du tage til Uganda på et tidspunkt, hvor de fortalte og lavede mange artikler om, hvordan de havde fået opbygget mikrofinanssektoren i Uganda og alt sammen fungerede, så trak de sig ud og så klappede det hele sammen med et brag. Det er næsten lige som, at blive narkoman, det kan lyde hårdt, men det er faktisk det du skaber. Du er velmenende i det du gør, men man skal bare være opmærksom på, at sustainability kun skabes når folk har deres egne penge som risikomoment. Så arbejder de hårdt på, at de kommer hjem igen.

Hvilke strategier kunne implementeres hvis MFI skulle være uafhængig af subsidier?

Så skulle de holde sig væk, punktum. Jeg kan slet ikke se hvad man skal derind i, fordi du har i princippet ødelagt fundamentet. Det kan godt være du har cement, men der er sgu for meget sand i. Jeg er ked af det, men det er grundlæggende min holdning, du skaber simpelthen afhængighed.

Hvilke parametre er de vigtigste at have for øje når man kigger på MFI'ers finansielle ledelse?

Det er simpelthen at de har kontrolsystemer. Der er to typer af MFI'er. Der er MFI'er der giver individuelle lån, det kræver en type folk som skal gå ind og foretage en personlig vurdering af om det er en person, som vi tror på kan køre videre, eller også, som er meget dominerende i Indien, hvor man yder gruppelån, hvor man i princippet tror på, og hvad også grundlæggende har bevist sit værd; nemlig at man skaber grupper, af i det her tilfælde 5 måske maksimalt 10 kvinder, som har et kendskab til hinanden, og som hænger finansielt sammen. Så hvis en af dem i gruppen ikke betaler så skal de andre betale. Det er sådan systemet fungerer. Det skaber det man kan kalde finansiel selvdisciplin med et pænt udtryk. Hvis du har en hyldevare og hurtigt skal have skubbet noget udover kanten, så er gruppelån fremragende, fordi der samler du kvinder og i en række tilfælde der opkræver du afdrag eller ydelse hver uge. Du samler dem i nogle såkaldte center meetings. Det er en meget typisk indisk måde at

gøre det på, og det gør man også i Mexico, hvorimod i mange andre lande i Latin Amerika, der er det individuelle lån de yder. Så det er 2 meget forskellige typer af lån man yder, og det er 2 meget forskellige måder, at gøre tingene på. Den måde vi gjorde det på i Tanzania, var igennem de her SACCOS, der ydede vi så lån til dem. Det var så et cooperativ, så grundlæggende skal man sige, at hvis nogen ikke betalte så skulle hele bøtten betale. Men der blev så lavet det, at når en skulle have et lån, så skulle vedkommende komme med 2 garantors, som var det første man kaldte på hvis vedkommende ikke kunne betale, og hvis de så heller ikke kunne betale så var det hele gruppen der betalte. Der foretog man en individuel vurdering af den her person, og det gør man mange steder i Latin Amerika i dag undtagen faktisk Mexico. Jeg har læst meget om for at finde ud af hvorfor. Hvis jeg skal komme med et bud, og det er ingen form for bevisbyrde, men aztekerne havde en måde at leve på, i Mexico, og inkaerne havde en anden måde at leve på, og det kan sagtens hænge sammen med nogle traditioner op igennem tiden. Inkaerne var jo en forholdsvis kortvarig civilisation. Men der kan være nogle forskellige kulturelle ting der gør at man yder det ene eller det andet. Grunden til at Indien gik i gruppelån var jo fordi Bangladesh startede med gruppelån med Grameen Bank. Men i Afrika er det svært det meget. I Tanzania var det meget individuelt baseret. FENCA og andre forskellige organisationer, som også ydede mikrolån var baseret på gruppelån, vi havde ikke gruppelån.

Så du vil sige at det afhænger af kulturelle forskelle?

Det tror jeg på det har og også hvad det er man bliver introduceret til på det tidspunkt mikrofinans bliver introduceret i et givent land. Det er mere mandskabskrævende at yde individuelle lån. I Bolivia er det kun individuelle lån. Jeg mener også at jo flere institutioner der kommer frem med profit for øje desto lavere rente fordi konkurrenceelementet opstår. Og det er Bolivia et vældigt godt eksempel på. Der 4 stort set lige store institutioner og de konkurrerer knaldhårdt og det virker.

