MICROFINANCE AS ETHICAL INVESTMENTS?

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Abstract *Responsible investments, SRI, have double or triple bottom-lines. The investor wants financial and some ethical return. Microfinance is offering credit to the poor without collateral security aiming at poverty-reduction and is commonly given to women. This research overview of recent studies of microfinance in India investigates the effects, problems and opportunities of microfinance as a social responsible investment. The overview revealed that, overall, the aims of microfinance are being met, particularly the empowerment of women. The reduction of poverty is also fairly successful, with signs, although uncertain, of long-term effects. Microfinance is also a tool for financial inclusion of the underprivileged. The self-help group (SHG) model, working as social collateral security, is efficient in peer monitoring and main cause for repayment rates over 90 %. The SHGs also have a social role. Problems found were over-indebtedness partly due to unregulated market and in certain cases high interest rates. The conclusion is that responsible investors have mainly two choices in microfinance: the socially directed investment, subsidizing interest rates; and the commercial direction with market based rates. Both ways have ethical risks that the investor must manage. The study also concludes that financial markets can learn from the SHG model of microfinance.*

Keywords *Microfinance, India, Ethical Returns, Responsible Investments, Poverty Reduction, Women Empowerment.*

ETHICS AND FINANCE

A rapidly growing phenomenon in the world today called SRI, or Social Responsible Investments (sometimes "Social Sustainable Investments" or simply "Responsible Investments"), which reflects a growing number of institutional and private investors to put their resources in business activities that in some way could be classified as ethical. This in turn puts pressure on business to adopt their activities in an ethical direction, i.e. it becomes one of the major drivers for CSR (Corporate Social Responsibility, or CR, Corporate Responsibility, as it is more frequently abbreviated).

SRI is often defined as investments with double or triple bottom lines, combining the financial and ethical aims of the investor. Some authors prefer to distinguish "ethical investments" from "socially directed investment" or "investor activism", where the latter is interested in earning a return related to the general index level of investments, while in socially directed investment, the investor is willing to accept below-market rates of return in order to contribute to certain forms of economic activity, or to economic activity undertaken by certain groups in certain regions (Sparkes, 2001; Hudson, 2005). What these approaches have in common is the inclusion of non-financial factors with ethical, moral or values overtones in the investment decision and encompasses many different approaches such as value based investment (in line with the moral values of the investor, e.g. no investments in arms); responsible investment (any investment that is sustainable); engagement investment (investments in enterprises with a determination to change it to make it more sustainable, e.g. a polluting industry into less or no pollution); sharia funds (in line with Islamic morality, e.g. no derivatives); cleantech investments (environmental); sustainable investment (often environmental in a broader sense); ethical investment (any investment that doesn't violate environmental, social and governance, ESG (s); and others (see for example Schueth, 2003).

It is estimated that in Europe 2010, €5 billion (€5 000 000 000 000) was invested in ethical funds or activities and that this figure has grown by 87% 2008-2010 (Eurosif, 2010), which is estimated to abt. 50 % of all investments in Europe[2]. In the world the equivalent figure is $50 trillion ($50 000 000 000 000 000) (Eurosif, 2010). An example is the Norwegian Petroleum fund, the world's largest state investment fund with assets of $531 billion ($531 000000 000) (DN.no, 2011) to be invested in a responsible way (Norwegian Ministry of Finance, 2010). These funds are still a marginal share of all the investments in the world today, but they are growing fast.

FINANCIAL AND ETHICAL RETURNS

The financial community shows great interest in ethical opportunities and hopes that this is the future investments

[1] The article is based on a presentation at Vidyasagar University, Midnapur, W.B. India, Feb. 16, 2012.

[2] According to Ethix SRI Advisors, a Swedish consultant company in services for responsible investments. The estimate is based on information from "trustworthy actors on the financial markets of Sweden and France" (Ulrika Hasselgren, CEO).

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in environmental, human rights and other ethical issues and must therefore be profitable. Hudson (2005), however, argues that ethical investments cannot be expected to generate higher or lower returns as the market will value its ethical policies according to its systematic risk, just like any other stock. Empirically this argument has been corroborated by Sjöström (2011), who could not find any higher or lower return on ethical funds, while Guenster et al. (2011) found a positive relation between the eco-efficiency of the company and both its operating costs and its valuation on the stock market.

One of the problems with SRI is the hybrid nature of the concept: the investment should at least follow the market return and at the same time generate some kind of ethical return. While this new institutional logic appeals to both traditional investment institutions and social movements (Markowitz, et al., 2011), it has been criticized by for example Vogel (2005) who claim that there is too much focus on the financial returns and too little on the ethical returns. The approaches that are focusing on the ethical purpose of the investment and its effects conveys a deliberate outlook in the selection of certain investment opportunities based on moral convictions and values that has a transcendental dimension, as the selection of investment opportunities is founded on consideration of something *beyond* the immediate ROI or self-interest, e.g. eradication of poverty or deadly diseases, emancipation of women or underprivileged groups, etc.

There are a number of investment activities with a basic ethical intent.Venture philanthropy, social enterprising and cleantech investments are a few examples. Microfinance is a relatively new object for SRI investments and is growing rapidly. Microfinance targets a variety of populations, such as microentrepreneurs, small farmers, women and the poor, with loans ranging from a few dollars to several thousands. The main purpose of microfinance is to reduce poverty and create growth for small-scale entrepreneurs by focusing on tiny loans to the underserved to give them access to financial services they normally don't have, so called financial inclusion; Arch (2005) estimates that only 2 % of the poor have access to such services[3]. There is a wide range of institutions servicing the microfinance market: traditional banks and finance institutions, NGO-sponsored development providers, to moneylenders, pawnbrokers and others. The high repayment rate in the upper 90 % attracts many actors seeking a good and stable return on their investments (ibid.).

This accentuates the dilemma in the hybrid nature of microfinance – as a safe haven for profit based on the struggling efforts of the poor to improve their living, or as a genuine way to reach moral goals based on a market/ entrepreneurship model of development? As Sriram (2010, quoted from Dhar, 2012, p. 9) argues: "The language of microfinance has undergone a fundamental change... Most of the early microfinance in India happened through donor and philanthropic funds, which were channeled to NGOs. As the activities scaled up, microfinance moved to a commercial format". For Yunus, however, microfinance institutions should be "social businesses" driven by social missions (Cull, et al., 2009).

There are some salient features that typical microfinance institutions offer. Firstly, the loans should be collateral-free as the poorest of the poor doesn't have any securities (Yunus, 2007). Secondly, microfinance institutions (MFI) offer their services in the remote villages: "the clients do not go to the bank; rather the banks go to the people" (ibid. p. 22). Third, loans are often organized in Self-Help-Groups (SHG). A typical SHG is "a small economically homogeneous and cohesive group of rural poor coming together to save small amounts regularly, agree mutually to contribute to a common fund and have collective decision-making for providing collateral-free loans on terms and conditions decided by the group" (Jothi, 2010, p. 92). SHGs provide a social forum for exchange of experiences and also create a social peer pressure to manage funds and repay those (Bhattacharya et al., 2008). Other forms of loan organizations are the Joint Liability Group model, the Village Banking Model, Individual Lending Model (Bhaskar & Subramanian, 2011). Fourth, women are the preferred clients as they tend to be better on investing in their families and children and enhance the human capital of the community (Yunus, 2007). Fifth, many MFIs offer financial services (Jothi, 2010) and education (e.g. Bandhan in West Bengal).

PURPOSE AND METHODOLOGY

The purpose of this study is from the perspective of the investor interested in responsible investments in microfinance answer the following questions: has microfinance achieved its ethical goals, or ethical ROI; what are the ethical effects of microfinance; and what are the problems? A meta-study of published studies in peer reviewed journals on microfinance with emphasis on India was conducted. India has been chosen because of its leading role (Augsburg & Fouillet, 2010)in and relatively widespread occurrence of microfinance activities with approx. $1, 6 billion in loan portfolios in 2009, growing at a rate of 8, 5 million new active borrowers that year (Chen et al., 2010). There are also comparatively many research reports on the phenomenon from India. This study consists of 33 articles and one book, published 2005to 2011. These data sources where studied inductively for common themes and five distinct themes emerged in the study:

1. poverty reduction and financial inclusion,
2. interest rates,
3. women's empowerment,

[3] This figure does not include traditional moneylenders with extremely high interest rates that create dependency for many (ibid.).

4. impact of self-help groups, and
5. new financial institutions and enterprising.

For each one of the themes I have distinguished results and arguments as "beneficial" and "problematic" developments. The category "beneficial" has been used for any result/ argument indicating positive ethical effect of the microfinance investment, whereas the category "problematic" indicates negative or non-occurrence of the same.

Limitation

The study is not an overview of the complex (of microfinance in general. It is also limited to recent (2005 – 2011) research reports on Indian experiences, except for experiences from Grameen Bank in Bangladesh in 2001.

Results and Discussion

The results are displayed in tables and discussed for each of the themes, with emphasis on the ethical goals, ethical effects and problems. International studies are occasionally used in the discussion of the Indian experience.

Poverty Reduction and Financial Inclusion

There is support for the aim of reducing poverty from the research conducted in India. Overall, with a few exceptions, the research overview in this study indicates that microfinance is a way to economically emancipate vulnerable and weaker social groups, particularly women, and supports entrepreneurial growth. From this perspective we can conclude that microfinance in general is an ethical investment given its effects ("ethical ROI") and successful repayment rates of loans. The idea of microfinance is to create a sustainable and thriving business based on the motivation of man (read woman) to create and sustain their livelihood if they get a fair chance.

This argument can be disputed and there are stories of microfinance's pitfalls and problems. Such criticism and experiences does not, however, disprove the results of the empirical research so far published on the subject, although it cautions us to be humble in our interpretations. The results are not unanimous due to the wide variety of both social contexts and kinds of MFIs studied making comparisons difficult. The research field is also relatively young and needs continuing research - the inconsistency in results could perhaps be a result of Weiss and Montgomery's claim of methodological problems depending largely on which method the researcher used.

Although the long-term effects on poverty are difficult to assess, there are indications pointing in this direction. Bergsma (2011) reports of the Grameen Bank II and that the savings of many of their clients have increased considerably, which could be a sign of increased wealth, perhaps as a result of the activities of the bank. There are also reports that microfinance alone does not help the poor. Factors important here are education aiming at financial literacy and skill-based training; and that some categories of poor, such as marginal farmers, are uncertain about the return of their farming.

Table 1 Poverty Reduction and Financial Inclusion

Beneficial development	Problematic development
Helping people over the poverty line – 42% of Grameen bank's customers in 2001 (Yunus, 2007); Reduce some of the vulnerabilities associated with poverty (Shetty, 2010).	No significant impact in improving the economic condition among the rural participants (Kundu & Mitra, 2010).
Gradual and evolutionary growth opportunity to people from rural India (Moon, 2011).	Do not permanently move participants out of poverty (Shetty, 2010).
Increasing the economic empowerment of SHG members belonging to weaker socio-economic class (Basargekar, 2008).	Little overall change in incidence of poverty (Weiss & Montgomery, 2010).
Financial inclusion of the poor (Yunus, 2007; Kumar & Mohanty, 2011; Bhaskar & Subramanian, 2011; Maurya, 2011).	Methodological problems in establishing the effects (Weiss & Montgomery, 2005).
Microfinance program is the most promising strategic weapon for attacking poverty by way of providing development funds to so far neglected target groups (Jothi, 2010).	
Microfinance is a poverty-alleviation tool that has proven to be both effective and adaptable (Sengupta & Aubuchon, 2008).	
Growth of income larger for borrowers than control group (Weiss & Montgomery, 2005).	
Considerable positive impact on the socio-economic conditions and the reduction of poverty of SHG members and their households (Jain, 2011).	
See also Self Help Groups	

Interest Rates

The stated interest rates varied considerable in the studies. I have chosen to depict the various rates found in the articles at the head of the table, as there is some controversy whether they are problematic or not, although the most popular opinion is that they are problematic even to the extent that they cause suicides. There are also a number of arguments explaining the high interest rates, mainly high risk assessment, cost of capital, high transaction costs and in some cases the monopoly status of the MFIs.

The interest rates vary between 15 – over 100 % in this study, depending on if they are subsidized or not and how the rates are calculated (effective annual rate, flat rate, rates on the full amount of a loan rather than the declining balance, net balance between microloans and microsavings, etc.). The widespread claim that the interest rates of microloans in general are high leading to borrower exploitation by abusive MFIs cannot be corroborated or refuted by this study. The difficult question is of course why the poorest of the poor are charged interest rates much higher than those charged for the richest of the rich? Answers to this question are default-risk fees, especially for commercial MFIs, high transaction costs, monopoly markets, high cost of marketing, etc.

The main argument defending MFIs interest rates is that they are charging well below traditional money-lenders, whose annual charge often is in the range of 200% or more - often the only the source of capital available for the poor. Collins (2008) and Mitra (2009) find supportive evidence of this in the fact that people are borrowing at these rates and supposedly are being able to repay the loans based on the return of their projects they have been able to realize; thus they cannot be considered too high, merely market-based. Rosenberg et al. (2009) conducted a comparative study of microcredit rates worldwide and compared them with the cost of other forms of credit often available to low-income people. They argue that "unreasonable MFI lending rates are more than occasional exceptions" (ibid., p. 22) as they find that the operating costs of tiny microloans are much higher than those of normal bank loans. From a financially sustainable perspective they claim that sustainable interest rates for microloans have to be significantly higher.

The most troublesome argument against MFIs and their high interest rates leading to escalating debt burden is the reports of farmers' suicides. From the sample of studies it is not clear, however, if the suicides are caused by the MFI's activities per se or for other reasons, as the researchers did not study the phenomenon specifically but only reported the increased number of suicides among MFI borrowers in Andhra Pradesh that was blamed on the repayment pressure of microloans. If a causal connection can be established it would certainly question the ability of microfinance as a poverty reducing instrument. Ashta et al. (2011) set out to investigate this question with elaborate statistics and found that the results are contingent upon which data that was used and their results are inconsistent. They couldn't find any significant increase in suicide rates due to microfinance in Andhra Pradesh compared to the average suicide rate in India. However, when looking at time series data, they found insignificant reductions in female suicides and significant increase in male suicides, suggesting a change in social structures as women mostly are the beneficiaries of loans. If their tentative results are reliable, they recommend MFIs to be aware of the change in social structure and provide support for men. The question of the causal link between microfinance loans and programs (especially self-help groups and joint liability groups) still remains inconclusive as more data is needed.

From an ethical perspective the key question is whether the responsible investor can accept subsidized interest rates only, according to the socially directed investment and the social business model, or if commercial MFIs can be accepted?

Table 2 Interest Rates

Levels (annual): 15-17% (Sanyal, 2009); 15-24% (Shetty, 2010); 24% (Jain, 2011); 24-27% (Sinha, 2005); 24-36% (Anand, 2008); 30% (Tripathy & Jain, 2011); 50% (Young, 2010); for-profit MFIs effective rates well over 100% (Mitra, 2009).	
Beneficial development	**Problematic development**
MFIs charges less than informal lenders, rates just cover transaction costs (Collins et al., 2008).	Leading to debt burden default (Kumar & Mohanty, 2011).
The poor would not mind paying higher fees for very short term loans (ibid.).	Due to monopoly nature of many MFI (Shetty, 2009).
In spite of high interest rates, the poor take repeated loans which demonstrate that loans allow them to earn more than the interest they have-to pay (Mitra, 2009).	Multiple level sourcing, dependence on banks, aggressive marketing, mismatching of educated staff, large transaction costs generate high rates (Anand, 2008).
	MFIs themselves get funds at a very high rate of interest (Anand, 2008).
	Crushing household debt burdens leading to suicide (Anand, 2008;Young, 2010; Kumar & Mohanty, 2011).

Table 3 Self-help Groups

Beneficial development	Problematic development
Ensures higher repayment probability (Bhattacharya et al., 2008; Feroze et al., 2011); high repayment rate (Anand, 2008); >90% (Jain, 2011); 91-97 % (Sinha, 2005); 95 % (Sengupta & Aubuchon, 2008; Swain & Wallentin, 2009; Jothi, 2010); 98 % (Sanyal, 2009; Kundu & Mitra, 2010; Shetty, 2010).	SHGs must never be allowed to become the paradigm in developmental policies for women (Lahiri-Dutt & Samanta, 2006).
SHG:s positive impact on the socio-economic characteristics of the members (Panda, 2009).	Must be fostered and monitored properly (Feroze et al., 2011).
SHG model exceptional in providing a savings-based mechanism for internal group credit to meet household needs (Sinha, 2005).	
Social inclusion of the rural poor through self-help groups (Feroze et al., 2011; Jothi, 2010).	
SHGs have an impressive economic performance (Nagaraj et al., 2009).	
Protect themselves from professional moneylenders' exorbitant interest rates (Kundu & Mitra, 2010).	
SHGs support in social issues and empovernment of women (Swain & Wallentin, 2009; Panda (2009).	

And if so, how much involvement in engagement and active ownership does the responsible investor have to consider in order to avoid abusive practices and unwanted negative effects such as suicides?

Self-Help Groups (SHG)

I have clustered the various models of microfinance delivery under the most common one that features in the reports: the Self-Help group (SHG). The SHGs differ in size, function (only credit or both credit and savings) and structure (only women or mixed genders). SHGs are reported to have a beneficial impact on repayment, a positive impact on socio-economic aspects (particularly the empowerment of women) and social inclusion among members, and working as a shield against other moneylenders.

Pioneered by the Grameen Bank and a basic reason for their success in lending to the poor, the SHGs act as an intermediary between the individual borrower and the main capital provider. These groups (that can vary in name, composition, function and size) exercise peer pressure and serve as a guarantee of repayment rate in absence of collateral securities. The repayment rates are impressive, not only because of social pressure from the group, but also that these groups perform a number of functions. There are reports of a number of effects, such as decision-making ability, literacy, help in social and family problems, and especially the empowerment of women. Not all groups are successful though - governmental development programs failed mainly because the groups were handpicked, rather than willingly coming together and create their own networks. No general problems of SHGs were reported in the studies.

The groups, when functioning as reported in the studies, are excellent examples of collective trust. Microfinance based on self-help groups dominated by women can thus be seen as an evidence of the argument that the more trust and fairness on the financial market, the more efficient it is, seen in objective outcome terms of repayment.

Women's Empowerment

Empirically, the emancipation of women had almost total support from the chosen studies. The problematic developments consisted of moral arguments against using women as an economic virtuous example, and in special situations (disasters) women's economic morality is not enough.

The effects of the microfinance system on women's empowerment are almost revolutionary as reflected from these studies. An investment in microfinance including the structures common in India (SHGs, women beneficiaries) has created an "ethical return" of an unprecedented nature as displayed in Table III. One example of the new outlook for women could be as follows (Roodman, 2012):

> "Almost all women spoke of the widening of their world because of the SHG. They said that it was not as if they had not been out of their villages earlier. More than the geography, it was the agenda for which they now travelled [to visit a bank], and the fact that they travelled, not with family members, but with friends from other castes, that made them feel that their world had become larger. (Orissa women)"

There were few problems reported: one study points to problems of social costs and coverage and argues that microcredit cannot by itself empower women and alleviate

Table 4 Women's Empowerment

Beneficial development	Problematic development
Better living standard and quality of life for women (Moon, 2011; Maurya, 2011; Jothi, 2010; Swain & Wallentin, 2009).	Moral hazard in constructing the woman as a generally virtuous economic contexts, how morality is invoked in economic arguments (Young, 2010).
Women's access to and control over their savings, credit and income have improved (Moon, 2011).	SHGs must never be allowed to become the paradigm in developmental policies for women (Lahiri-Dutt & Samanta, 2006).
Economic empowerment results in women's ability to influence or make decision, increased self-confidence, better status and role in household (Vetrivel & Chandra kumar amangalan, 2010).	Microcredit delivery cannot achieve vulnerability reduction for women in multiple disasters unless complemented by effective financial services, integrated policy planning and disaster management between government, non-governmental organizations and the community (Ray-Bennett, 2010).
Women are using entrepreneurship to change their lives and those of others and, in the process, are changing the places where they live (Hanson, 2009).	
Microfinance groups have the potential to promote women's social capital and normative influence, thereby facilitating women's collective empowerment (Sanyal, 2009).	
Improved freedom to move and interact with the officials and other women (Moon, 2011).	
Strong evidence of positive impact of SHG s on the socio-economic characteristics of women (Panda, 2009).	
Empowered women members substantially and contributed to increased self-confidence and positive behavioral changes (Jain, 2011).	
Access to credit gave the women a sense of self-worth (Shetty, 2010).	

Table 5 New Financial Institutions and Enterprising

Beneficial development	Problematic development
Significant contribution to both the savings and borrowings of the poor in the country. The main use of microcredit is for direct investment (Sinha, 2005).	Lack of robust financial inclusion policy and strategies (Kumar & Mohanty, 2011). Lack of industry regulations leading to confusion and anarchy, and exploitation giving bad name to the entire industry (Anand, 2008).
Redefining traditional notions of credit, reaffirming self-employment and creating social businesses (Yunus, 2007).	Absence of non-financial support services (Sinha, 2005).
Lubricant for micro enterprise development (Shetty, 2008).	MFIs should provide financial services: day-to-day money management, building of long-term savings, and general purpose loans (Collins et al., 2008).
Government-directed microfinance: wide recognition and inequitable impact in the rural community (Tripathy & Jain, 2011).	Government-directed microfinance: administrative mismanagement (Tripathy & Jain, 2011); increased consumption inequality (social banking, Kochar, 2011).
Significantly improved the access to financial services of the rural poor (Jain, 2011)	Many MFIs not financially sustainable (Sengupta & Aubuchon, 2008).
Microfinance Bill 2011 by the Government of India in July 2011 (Kumar & Mohanty, 2011).	Subsidized and non-subsidized credits create a huge difference among costs of credit leading to biased funding of profitable projects (Anand, 2008).
	International organizations pushing MFIs away from their primary objective of delivering financial services to the poor (Augsburg & Fouillet, 2010).
	Multiple borrowing from different MFIs leading to overburdened credit capability (Anand, 2008; Schicks & Rosenberg, 2011; Augsburg & Fouillet, 2010).
	Subsidized interest rates leading to non-sustainable SHGs (Pati, 2009).

their poverty. Another is Ashta's et al. (2011) findings of significantly increased male suicides in Andhra Pradesh suggest that changed social roles can be painful.

New Financial Institutions and Enterprising

The final theme reflects the entrepreneurial field of microfinance which is a relatively new industry and is attracting a wide variety of different actors and organizations: traditional banks, state banks, NGO's, private banks, MFIs, SHGs etc., and a lack of regulations, structures and services, which leads to opportunities and problems, e.g. the innovative character of the industry, MFI sustainability, and suggestions on industry regulations.

The original idea of microfinance has enabled the underprivileged to have access to credit (also savings and insurance). The new form of banking enables the poor remote rural population to be financially included and start a micro enterprise, "the pollinators of the development process" (Shetty, 2008, p. 88). Arch (2005) thus argues that MFIs are economic actors that transverses the social and economic arena.

The financial success of most MFIs is attracting a number of investors and the debate is lively whether the MFI industry should be regulated by the government in order to avoid exploitation of the poor for short term gains. Legislation on the (is on its way in the Parliament. One of the problems is over-indebtedness that threatens the borrowers' ability for repayment and sometimes leads to social tragedies. This is partly due to aggressive marketing of some MFIs and difficult to control due to lack of information (credit control) between MFIs.

The debate is also if MFIs will be a sustainable alternative, if they will abandon their social mission, and if they should be subsidized in any way. In short, these debates go as follows: MFIs will drift from their original social mission, either through pressure from international banking industry or by their own profitability, with focus on microsavings and profitable customers. Augsburg & Fouillet (2010) finds that the former is happening based on a case study in Andhra Pradesh in 2006, while Bergsma (2011) with data from the Philippines claims that MFIs that offer microsavings are more financially sustainable and there is no significant evidence of abandoning their poorest clients. There are also arguments that the new and immature markets where MFIs are operating have not yet found its most efficient levels (Rosenberg et al., 2009).

This line of argument is unfolded by Cull et al. (2009, p. 169). From a social responsible investment (SRI) point of view, they claimthat, using data from the world's leading microfinance institutions, "investors seeking pure profits would have little interest in most of the institutions we see that are now serving poorer customers". The model of collateral-free loans based in order to support the creation of micro-entrepreneurs will eventually come to the cross-road where some investments may need subsidized interest rates for the underprivileged (according to the socially directed investment and the social business model), and some investments for successful entrepreneurs is best suited for commercial for-profit microfinance institutions on a market-driven basis for the continued expansion of microfinance.

However, the problem with subsidized interest rates is that the self-help groups are not sustainable in the long run. Previous government subsidized credit was according to Bhattacharya et al. (2008, p.1) "mostly disastrous". A possible conclusion is therefore that subsidized interest rates might make the dependency of the beneficiary permanent to well-meaning philanthropists, development assistance organizations, or governments ("vote banks", Augsburg & Fouillet, 2010), which is contrary to the purpose of microfinance in raising people out of poverty on a sustainable self-sufficient basis.

CONCLUSION

This paper is written from the perspective of the investor who wants to make a responsible investment, in the case of microfinance a *socially* responsible investment. Is microfinance in India an ethical investment? In the overview of recent research on microfinance in India there is support for the claim that it has achieved its ethical goals: poverty reduction, financial inclusion of the poor and empowerment of women. From an economic and social development perspective it is an encouraging development and in the case of the empowerment of women verging on the revolutionary. This may also be true on a global level: Janamitra Devan at the World Bank (2011) claims that "many countries are beginning to see financial inclusion as part of the basic infrastructure of their economies. We believe that significant progress is possible within our lifetimes that will make a real difference in the lives of poor people". In that sense we can speak of a good ethical return on a microfinance investment.

However, there are a number of issues that have to be discussed. First of all, the research in this field is largely anecdotal, it lacks a holistic overview, and furthermore the reports on poverty reduction are partially inconsistent. There are a number of cases where debt burdens defaults has led to problems. The suicides in Andhra Pradesh, whether caused by MFIs per se or not, is casting a dark shadow on the entire industry, but has also created an awareness of the pitfalls: excessive interest rates, over-indebtedness, financial sustainability (including the seriousness and time perspective of the MFIs), usury, etc. These issues must not be forgotten and be dealt with as microfinance expands at its current rapid pace. There is a considerable reputation

risk involved in microfinance investments and an adequate governance policy and practice must be implemented if the investor wants to achieve its ethical goals. Making funds available to the underprivileged is one of the most responsible investments possible, given that the funds are managed in a responsible way.

A main consideration is which direction the investor will take: the socially directed investment (social banking) or the investor activist investment (investment with, in this case, a double bottom line). In the vast landscape of microfinance both are possible. The former appeals to the basic intentions of microfinance in supporting the poor and accepts below-market returns on investments and could be directed to the numerous NGOs, foundations and other organizations that operate in the country. Focus should be on low interest rates to cover costs in order to support the poorest in their attempts to create microbusinesses. The latter appeals to the SRI hybrid concept and seeks both financial returns at the general index level as well as an ethical return. Here the investment can be directed to the commercial MFIs operating on marketing terms; still with the ethical return in sight. In both forms, the research shows that MFIs must provide both financial and non-financial services if both financial and ethical returns are to be successful.

A key question is the model of microfinance, as opposed to charity, where money is "invested" in the poor that generate returns paid back to the investor. The research of the Indian experience is impressive in its support that this model to a great extent works: it supports a micro entrepreneurial spirit to rise out of poverty, as opposed to passive recipients of charity which creates dependency on benefactors. Charity funds may have their place, but the microfinance model aims at a sustainable process out of poverty. The social banking model, when subsidizing interest rates, is a compromise between charity and market oriented microfinance and indications are that such efforts are not sustainable. On the other hand, SRI based on commercial microfinance is different from many other SRI investments (e.g. cleantech) – investment in the labor of people struggling for survival. Dichter (2010), for example, noticed that the poorer the borrower, the more likely the borrower's economic activity is for the purpose of survival with little likelihood that activity will become a genuine and thriving business.In such situations, a SRI investor cannot abandon the investment if it does not meet the index. The ethical return in the double bottom-line of the investment must take precedence over the financial.

Finally, the microfinance model has taught us that finance markets rely on trust and has shown us that it works efficiently in an otherwise complex market with no collaterals, low degree of automation, high operating costs for tiny loans, lack of competition etc. It is an interesting phenomenon that trust seems to work in the developing world, and particularly among women, which is a lesson that can be taught to the male-dominated financial sector of the developed world.

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