

Ethical issues of NGO principals in sustainability, outreach and impact of Microfinance: Lessons in governance from the Banco Compartamos' IPO¹

Arvind Ashta^{a*} & Matthew Bush²

^a *Département Finance, Groupe ESC Dijon Bourgogne, BP 50608 – 21006 Dijon cedex*

Received May 2008, accepted October 2008.

* auteur à qui envoyer la correspondance, corresponding author

Abstract

In April 2007, a Mexican microfinance company named Banco Compartamos issued shares in a secondary offering IPO. Existing shares were sold at 12 times their book value. The book value itself was 21 times the paid-in-capital. The 21 fold increase in book value was mainly from charging high interest rates of 86% to poor people net of taxes. The backlash to the issue was a lot of accusations that poor people were sacrificed for rich investors. The selling investors included NGOs such as Compartamos AC, Accion as well as IFC, the private lending arm of the World Bank group. These agencies were quick to react and offered many explanations in their defence. Nevertheless, ethical issues involving principal-agent problems, where the principal is an NGO, have been left unanswered.

This paper resumes the facts, summarises some criticisms, recapitulates the defence arguments, assesses them and also summarises many of the ethical issues in governance needing further academic debate and research. Although many of the issues were raised by the extraordinary profits of the IPO, the issues go beyond the realm of discussing IPOs but all social justice associated institutions, MFIs in particular. The objective of the paper is to present a myriad of unresolved issues and to stimulate researchers to debate and clarify each of the themes presented. Most of the ethical issues are deontological, but some are teleological. Ethics shape laws, but are also shaped by existing laws and beliefs. A question is also who decides the ethics?

Keywords: Principal-agency, microfinance, IPO, business ethics, governance

¹ This communication has been presented at the 1st International Workshop on Microfinance Management and Governance, Kristiansand, Norway

² Our thanks to Gregory Balani and Syedmubin Jamal who participated with Matthew Bush in an undergraduate project on IPOs in Microfinance in a course conducted by Arvind Ashta at DePaul University in June-July 2007, from the seeds of which this paper grew. Our thanks to Marc Labie of Faculty Warocque of the University Mons Hainaut in Belgium for his encouragement. Thanks to students of the Microfinance class of 2008 at the Burgundy School of Business who were given the first part of this paper as case assignments and who came up with comments which helped complete this paper.