

## To whom should we be fair? Ethical issues in Balancing Microfinance Stakeholder Interests from Banco Compartamos Case Study<sup>1</sup>

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### Abstract

*In the world of microfinance, interest rate ethics is an important issue, thrown into the limelight by the Initial Public Offering of Compartamos which resulted in millions of dollars of gains, some of which found their way into private pockets. These high gains were based on high interest rates, raising ethical questions. The paper then uses a stakeholder analysis to explain the interests of different stakeholders in this case and present that fairness to one group of stakeholders is often at the expense of another group. We take the position that in this case, specifically, the firm objectives could have been met without such ethical trade-offs. The specifics of the case are then generalised to all NGOs participating in for-profit firms.*

*Keywords: Agency problem, business ethics, fairness, governance, microfinance, stakeholder,*

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### 1. Introduction

Microfinance is today a well-known instrument in development policies. With between \$800 million and \$1 billion to microfinance of subsidies per year (2004) and more than \$5 billion of assets under management at the end of 2007 mainly through socially-driven investment funds (CGAP, 2008), donors and social investors contribute to the boom of the sector. Microfinance institutions (MFIs) have reached more than 130 millions clients, most of them previously excluded from the traditional financial sector<sup>2</sup> (Daley-Harris, 2008). The **Mexican MFI named Banco Compartamos is one of its most famous and controversial leaders.**

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<sup>2</sup> For examples of recent contributions related to microfinance Ashta, A. (2009 forthcoming) 'Microcredit Capital Flows and Interest Rates: An Alternative Explanation', Journal of Economic Issues, Copestake, J. (2007) 'Mainstreaming Microfinance: Social Performance Management or Mission Drift?', World Development, 35(10): 1721-1738, Cull, R., Demirguc-Kunt, A. and Morduch, J. (2007) 'Financial Performance and Outreach: A Global Analysis of Leading Microbanks', Economic Journal, 117(517): F107-33, Hermes, N. and Lensink, R. (2007) 'The Empirics of Microfinance: What Do We Know?', Economic Journal, 117(517): F1-10, Hermes, N., Lensink, R. and Mehrteab, H. T. (2005) 'Peer Monitoring, Social Ties and Moral Hazard in Group Lending Programs: Evidence from Eritrea', World Development, 33(1): 149-169, Hudon, M. (2009) 'Should Access to Credit be a Right?', Journal of Business Ethics, 84(1): 17-28, Mersland, R. (2008) 'The governance of Microbanks: Lessons from history', paper presented at the Governance in Microfinance, Kristiansand, Norway (June 2-3)..