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

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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

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

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 and 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.

These ethical issues stem from governance problems, which are thorny in the best of times. There is a lot of literature on governance in profit-making enterprises, which has often influenced the studies of governance of not-for-profits, but some papers try to study governance in not-for-profits independently (Turbide et al, 2008). Even with uniquely private shareholding of not-for-profits, there are common problems such as mission drift, conflict between departing shareholders who want to capture exit value now and continuing shareholders who would prefer a longer-term perspective of keeping value in the company, as reflected in the Consensus Statement of the Council of Microfinance Equity Funds (CMEF, 2005). Even this Consensus Statement admitted that more complex problems of rewarding founder NGOs as Microfinance institutions evolve towards commercial missions remain unsolved. However, all the issues were not explicit and this paper aims to throw them up for discussion.
The first part of this paper provides background information: it resumes the facts, summarises some criticisms, and recapitulates the defence arguments of ACCION and CGAP, associated with the World Bank group\(^3\), which had provided grants to Compartamos in the 1996-2000 period. All facts and figures, unless stated otherwise, have been taken from these two notes.\(^4\)

The second part of the paper assesses the defence arguments and summarises many of the ethical issues needing further academic debate and research.

The essential theme of the defence argument seems to be an explicit choice made between outreach and sustainability, as opposed to impact. We would like to say that outreach and sustainability could have been compatible with impact in this case. However, the paper goes beyond the case at hand and looks at broader ethical issues.

I: Background information

A. The Facts

Compartamos AC was an NGO established in 1990 as a not-for-profit institution to provide microcredit to poor people. During the period 1990-2000, this NGO received donor funds of $6.3 million.

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\(^3\) The CGAP is housed at the World Bank but is independent. It is currently presided by an executive of the World Bank.

\(^4\) Where there are differences in figures between the ACCION note and the CGAP note, the more rounded off version has been maintained, since the details are not essential to the discussion.
Donors included the CGAP, financed by the World Bank as well as other international donors\textsuperscript{5}, as well as ACCION International, which was financed by US Aid. Thus, donor agencies were the principals and Compartamos AC was the agent whose mission was to aid the poor by offering them credit.

In 2000, a for-profit finance company named *Financiera Compartamos* was formed with a paid-in capital of $6 million. The goal was to make the management more professional and aggressive to reach its targeted outreach to ensure financial sustainability thorough economies of scale. The shareholders of *Financiera Compartamos* included the NGO, Compartamos AC, as well as Profund, ACCION International and IFC, the private lending arm of the World Bank group. Together, these agencies with development missions had 68\% of the shares in the for-profit *Financiera Compartamos*. The rest of the shares were predominantly with directors and managers with some outside private holding.

Thus, we can resume that public funds given to agencies were given to an NGO, who in turn invested it in a for-profit agent. As such, the finance company was a for-profit agent of a line of not-for-profit principals. Although this itself raises some governance issues, it must be reminded that many public agencies sub-contract a good part of their mission to private companies. Here, the mission of the development agencies was to raise the standard of the poor. The mission of the Mexican NGO was to raise the standard of the poor by aiding them to get credit. The mission of the for-profit was to give credit to the poor in a financially sustainable manner. The idea was to attain independence from the vagaries of donor financing.

\textsuperscript{5} The CGAP includes 12 multilateral donors like the World bank, IFC, EBRD; 4 private donors (Ford, Dell, Gates, Omidyar) and the rest are bilateral donors (essentially from OECD governments).
The for-profit Financiera Compartamos really made high profits, primarily from high interest rates and low operating expenses. It charged high interest rates of 86% p.a., net of taxes on its loans to the poor. With VAT, this was 99% p.a. The high interest rates led to high profitability. Financiera Compartamos’ ROE of 55% p.a. is higher than that of most MFIs in the rest of the world (average ROE of 7.5%) and higher than those of most MFIs and consumer lenders in Mexico. At the same time, the operating costs remained lower than those of comparable MFIs and consumer lending institutions. The high profitability financed outreach, causing the growth rate to double from 24% per year in the 1996-2000 period to 46% in the 2000-2006 period. At end-2006, the book value of the initial paid-up shares of $6 million had reached $126 million, an increase of 21 times! Outreach extended to 600,000 clients. The average loan size in 2006 was about $450, about 6% of Mexican per capita income, suggesting that Compartamos aims at poorer people than do many Microcredit and consumer finance institutions.

In 2006, the company obtained a banking licence and transformed itself into Banco Compartamos, in order to be able to raise deposits.

In 2007, an IPO was made by Banco Compartamos in which existing investors sold 30% of existing stock. No new stock was issued. They received $470 million (12 times the book value!). This means original investors got 100% per year compounded for 8 years. The IPO was 13 times oversubscribed and considered a huge success by any financial market standard. Pent-up demand caused the share price to surge 32 percent in the first day of trading.

Mainstream international fund managers and other truly commercial investors—not socially responsible investors—bought most of the shares. Roughly 6,000 new shareholders, including about 160 institutional investors, in Banco Compartamos own 30% of the stock. The rest was retained by existing shareholders.
Who got the money? Two thirds of proceeds went to the three NGOs and development agencies. One third of the proceeds went to private individuals.

B. The criticism

In this section, we resume the major criticism of the IPO. Although there had already been other Microfinance IPOs before\(^6\), not once had profits been so high.

a. Donor funds given before 2000 found their way into private pockets.

b. The high interest rates charged by the Financiera Compartamos whittled away the impact on the poor. Financiera Compartamos should have charged lower interest rates to the poor, according to the mission of its majority principals.

c. It is unethical to see the poor pay for private profits. Is microfinance an industry or is it an economic justice movement? Is it about poverty or profits? Can it be about both? At what point does microlending become loan sharking (Lewis, 2007)?

d. 18% of the shares were sold to Mexicans and 82% were sold to foreigners. Thus, the IPO itself transferred the wealth creation from the poor borrowers to rich foreigners, who obtained a 32% increase on the first day of trading.

C. The defence

The World Bank has been under criticism from academics and social workers from all sides to say that their donor funds do not go far enough to foster real growth and development\(^7\).

\(^6\): Bank Rakyat Indonesia (2003, listed on the Jakarta, Singapore and other stock exchanges), Equity Bank (2006, on the Nairobi Stock Exchange) and Network Microfinance Bank in Pakistan, a much smaller organization,
Now, in this Compartamos case, where the IPO was evidently a huge success with perfect execution, they found themselves being criticised for having initiated too much growth and profits!

Within two months, CGAP and ACCION published papers in defence of the Banco Compartamos IPO. Compartamos AC also listed arguments in this line on its website. The major arguments presented by them are summarised here. More details can be taken from their papers. It is noted that CGAP had been a donor. IFC, an agency of the World Bank Group was a shareholder of Compartamos.\(^8\)

As the CGAP put it, there were three main questions:

1. "Are Financiera Compartamos’ exceptional profits, and the high interest rates they are built on, defensible in light of the social bottom line the company identifies as part of its purpose, and are they consistent with the development objectives of its principal shareholders?"

2. Was the aid money that was granted to Compartamos AC in its early years used inappropriately to enrich private investors?

3. Does the IPO alter the governance of Banco Compartamos in ways that will make it harder for the company to balance social and commercial objectives, especially when there are choices to be made about whether money goes into shareholders’ pockets or clients’ pockets?"

According to the CGAP, the first two questions are valid for all profitable MFIs. However, the profits realized at the IPO stage have raised these questions too. The CGAP makes two

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8 The IFC had also guaranteed a Compartamos bond issues in 2002 but we won't go into this.
general comments before replying to these questions. Firstly, development agencies and donors subsidize activities for eventual private profits, because broader social objectives are served at the same time. Compartamos’ ultimate objective was to fund massive growth in outreach by capturing deposits, requiring a for-profit corporation. Everyone’s long-term vision was a Mexican microcredit market where many private companies were competing to provide financial services to poorer customers, and financing their operations with private commercial sources of funds rather than relying on ever-increasing amounts of fickle donor aid. Secondly, the high growth rate of Compartamos required a commercial approach. This is clearly achieved, evidenced by the doubling of the growth of outreach before and after 2000.

1. Are Financiera Compartamos’ exceptional profits, and the high interest rates they are built on, defensible in light of the social bottom line the company identifies as part of its purpose, and are they consistent with the development objectives of its principal shareholders?

First, the CGAP note points out that profits of IPOs come from various factors:

– Dearth of competing Mexican securities. This argument stresses that international investors look at Mexico for diversification. At this point in time, there were no other Mexican IPOs of any interest.

– Financiera Compartamos had been given a banking licence in 2006. This would imply ability to get deposits, a very cheap source of finance. Thus investors can expect even higher growth rates in the future, ensuring a higher market value than the book value.

– High current profits due to high interest rates (the only debatable issue): Interest rates are high because transaction size is small. Interest rates are high for many competing
Mexican consumer finance companies also. Thus, Financiera Compartamos is not alone. Moreover, CGAP analysis showed that lower profits don’t necessarily mean much lower interest rates. At break-even level, Financiera Compartamos would still have charged interest rates of over 60%.

Moreover, CGAP does not feel that poor people did not benefit. It points out that poor people would not have borrowed, if this did not increase their welfare or profits. If poor people borrowed, it was because their microenterprise gave even higher returns.

Profits are a result of cumulated retained earnings (past profits). Dividends started only in 2004 and remained low (25% of earnings in 2006). These retained earnings increased book value. These retained earnings also financed growth (outreach). As such, existing poor borrowers paid high rates so that more poor people could benefit. Thus, the CGAP argument says that the reduced impact on existing poor customers financed the outreach to new poor borrowers.

Second, the CGAP argues that there was no other alternative: These retained earnings were essential for financing outreach because alternatives didn’t really exist.

- Donor capital is subject to fads. As a result, MFIs cannot really rely on it. Therefore, diversification of financing was essential.

- Borrowing with debt for MFIs was not common until recently. Taking more debt could have reduced rating and increased the cost of debt. Deposits were not possible without becoming a bank (until 2006).

- They could have taken private socially responsible equity earlier, but preferred to wait to take commercial equity. This is because, with only a few large private investors, the existing NGOs would have lost control. However, with the IPO made to a large number of commercial investors, control was retained, even though the NGO
holding fell to a little less than 50% because no new individual investor obtained more than 1% of the capital. Moreover, the history of private sales of equity within the Microfinance industry has shown that there were deep liquidity discounts, and none of them yielded the kind of capital gains that a public issue maintained. In all Microfinance IPOs, the market has responded very positively and the price has continued to increase.

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Third, on the question of whether benevolent shareholders were profit-oriented or client-oriented, the CGAP makes a defence that at that time, it was hoped that competition would lead to a fall in interest rates. But, competition has been slow to come in and create this effect.

ACCION goes much further. It maintains that within the Microfinance community, there is generally accepted thinking that the not-for-profit sector should unleash the power of private enterprise to increase services to the poor for a profit, thus leading the way for increased credit and other services to the poor. It claims that the success of the Compartamos IPO would bring commercial funding to ALL MFIs.

ACCION also explains that it partially exited Compartamos because its exposure to Compartamos was too concentrated due to the high market value of these shares and the need to diversify. It also wanted to promote new, riskier microfinance institutions and leave safer investments, such as Compartamos, to commercial investors.

Finally, ACCION maintains that it was the cumulative retained earnings of Compartamos that enabled it to have the strong equity base required to get a banking licence.
2. Was the aid money that was granted to Compartamos in its early years used inappropriately to enrich private investors?

The CGAP maintains that:

• All donor grants went to not-for-profits and stayed there
• No grants were made to the finance company
• ACCION made a loan to the finance company in 2000 but it was paid back
• ACCION and Compartamos AC used grant money to buy shares in Financiera Compartamos. However, the profit on ACCION, Compartamos AC and IFC shares go back to these NGOs and development agencies, where they are used for public welfare goals.
• Private shareholders also made gains, but they were not financed by public money.
• It is true that grants were used at a riskier stage, but this was their purpose.

Nevertheless, the CGAP admits a mea culpa to some extent. Their 1996 grant of $2 million to the Compartamos NGO included no covenants about future interest rates or profit levels. Such covenants would probably have been inappropriate or impractical for several reasons, but in truth, they never gave much consideration to the possibility that Financiera Compartamos would be charging such interest rates, and generating such profits, 10 years later, after private investors had been brought into the picture. They thought the motivations of the early leaders, or at least eventual competition, would keep things in reasonable bounds. They still hope—indeed expect—that competition will reduce rates and profits in the sector, but it is taking a long time.
3. Does the IPO change the governance of Banco Compartamos in ways that will make it harder to balance social and commercial objectives, especially when there are choices to be made about whether money goes into shareholders’ pockets or clients’ pockets?

The CGAP points out that

- After the IPO, NGOs are in minority, but retain effective control.

- The high price paid by new shareholders means they have high expectations - which come naturally from fast-growing markets, tapping deposits as a cheap source of finance and continuing high interest rates. However, any issue with high interest rates was started in 2000 when the for-profit organization was created.

The CGAP concludes that when microfinance operations move from a non-profit entity to a for-profit one, "complex issues of governance, incentives, and ethics are created". They wish they were in a position right now to make more practical observations about how to resolve these issues. "But developing a consensus around sound practice in these circumstances will take more thinking and discussion with colleagues inside and outside the microfinance community."

The purpose of this note is to add to this thinking and discussion.

II. Discussion on the Issues Raised

This discussion is being separated, to the extent possible, in two parts. The first part includes comments on the defence arguments relating to this particular IPO. The second part, the main
focus of this paper, indicates broader agendas for discussion, which go beyond this particular IPO.

A. To what extent are the defence arguments valid?

a. The arguments that grants did not go to private pockets is difficult to accept because money is fungible. Just as it is not possible to say whose tax dollars are paying for which roads, it is not possible to separate the donor money used by Compartamos AC for developing the initial business, which was then given to the for-profit Financiera Compartamos, and the private share capital given later. The private share holders eventually received returns from the existing business, as well as the new business.

b. The argument that there were no other Mexican IPOs and that international investors were looking out for one is not fully valid because international investors looking for diversification could just as easily have acquired other Mexican shares from the secondary market.

c. The argument that poor people would not take such high interest rates loans if they were not making even higher profit is not sound. Loans are taken before the event. While the average borrower may have borrowed on the basis of high expectations, there is no evidence to show that she did indeed meet those high expectations. It is equally possible that she got deep in debt and any repeat loans may be to repay the losses from the failed enterprise. The question is not only whether poor people (existing borrowers) made some profits, but also whether they could not have made more profits and the financing would have had a greater impact on these existing borrowers.
d. The argument that donor aid is fickle and subject to herd mentality and, therefore, MFIs need to get commercial backing is countered by Lewis (2007) who remarks that commercial finance is also subject to herd mentality. However, we could say that a diversified mix of the two would reduce vagaries.

e. The argument that credit rating would have increased cost of debt is also not a coherent argument, because debt gets a tax shield and increased used of debt does not necessarily raise the overall cost of capital (see Pozen 2007). It is noted that ACCION itself maintains that the high capital adequacy ratio of Banco Compartamos indicates that it is underleveraged.

f. The argument that they were waiting for competition to enter and reduce interest rates is also not totally correct because it is recognized in Microfinance literature that competition keeps microfinance from developing since borrowers can play off one lender from another (Aghion & Morduch). Thus, for Microfinance to succeed, it needs to be protected from competition. Also, Lewis (2007) indicates that, first, in countries where there is competition, interest rates have remained high. Second, in most countries, there is no competition. Third, there is nothing to ensure that MFIs won't act as cartels to keep interest rates from falling.

g. The argument that outreach and impact are incompatible also holds no water. The Grameen Bank example indicates that high interest rates could have been charged and accompanied by distribution of shares to the existing borrowers. Thus, cash inflow would have remained as high, but retained earnings would have been converted into paid-in share capital. Thus, at the time of the IPO, the existing borrowers would have participated in the high capital gains, instead of existing shareholders pocketing all the gains.

h. The argument that providing shares to Sustainably Responsible Private Equity would have diluted control also cannot be supported. First, their mission would have been closer to
that of the majority shareholders, rather than that of private investors. Second, instead of offloading 30%, the NGOs could have off-loaded 25% and retained a 50% majority.

i. All the arguments indicate that the retained earnings were kept high to reward the shareholding of directors, managers and private participants. After all, the NGOs themselves only continue their mission. However, the managers of the NGOs are also agents who are interested in keeping their jobs and have other vested interests, including capital gains from the finance company.

j. The argument that they could not have anticipated the high interest rates charged and the high profits, implying that such success was totally unplanned, indicates a lack of contingency planning.

k. ACCION states that the Compartamos IPO has served to bring a massive private sector infusion of investment to alleviate poverty. Lewis (2007), on the contrary, wonders if the IPO is "a warning that microfinance is going awry?"

B. Ethical issues raised

In this section, we are going beyond the case to broader questions of ethics and governance. As we can see, this is a complicated case involving complex governance issues. The principal agency problems are highlighted in Figure 1. There are a number of principal agency relationships, including sub-agents. However, this fact alone does not raise ethical questions, except that, at each stage, the questions posed can be different.

a. A first problem, within the field of deontological ethics rather than teleological ethics, is related to Mission conflict: whether NGOs should create for-profit entities. As pointed out earlier, NGOs use contractual relationships with for-profits all the time. However, this is
an arms-length relation. In this case, the NGO had created a controllable for-profit organization. Thus, the ethical issues are not the same because the principal-agency relationship is different. It may be noticed that this is exactly the inverse problem to the one being debated in Corporate Social Responsibility where Friedman (1970) feels that the managers are misappropriating funds by distributing them as donations: if shareholders wanted to give donations, they could do so from the dividends they receive. This issue also has reverberations in the Grameen Danone case reported in Yunus (2007): Muhammed Yunus wants to create social businesses in which the investors get a zero return. However, Danone wants to be careful to get at least a 1 to 3% return, to show that it is balancing economic and social goals at the same time. As such, the debate is wider than the narrow debate of whether NGOs can start for-profits. It encompasses all cases where an organisation with one mission is attempting to create another organization with a different mission. A related problem is at what level of profits should a double bottom line institution operate? What amount of profits should be sacrificed for social motives? Are there cases which justify grants to for-profits? Who should decide this?

b. A second problem, with an overlapping of deontological and teleological ethics, is created by the presence of minority private shareholders. If all the shareholders had been not-for-profits, the problem of capital gains would not have arisen because all the gains would have gone back for developmental objectives. However, if minority private shareholders gain, the question comes in whether the minority wasn't, in fact, controlling the majority to ensure that impact on poor people was sacrificed so that the majority NGOs could have peace of mind through viability. Private shareholders would also gain from the ultimate capital gains (increase in book value AND increase in market value). Thus, what is being

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9 However, as pointed out by Ashta (2008) neither Yunus nor Danone executives have really got the point: its not the level of dividends which is important because the price of the shares will capture any growth component which will also lead to capital gains.
questioned is the end result "did private shareholders gain?" Nevertheless, this teleological question would not have been posed if there were no NGOs involved. So, the question is deontological: "did private shareholders misuse funds"?

An alternative question is why an NGO included minority shareholders to start with. The NGO itself is a piece of paper, managed by real people. What is the relationship of these directors of the NGO with the outside shareholders?

There is a lot of literature on minority rights and duties of majority shareholders to preserve values for minority. This literature has undoubtedly influenced legislation in this respect. Could the NGO shareholders have done otherwise than to maximise profits for the minority private holders? Would it have been ethical for NGOs to sacrifice the profits of the minority private shareholders just to ensure its own mission? Thus, existing laws on other fields may make NGOs respect rights of minorities even when those minorities have come in knowing fully well the social objectives of the venture.

c. A third problem, highlighted above, is the problem of incentives through employee shareholding. Employee shareholding with directors and managers is a favourite tool of private equity to boost performance (Pozen, 2007). However, in a setting of NGO missions to aid the poor, the objective of the employees (agents) gets aligned with profits and shareholder "value", not shareholder "values", where the latter concerns the professed value of the majority NGO shareholders. Again, it is the deontological misalignment which is being questioned.

d. A purely teleological question is whether outreach and sustainability by themselves are worthwhile goals for donors, NGOs and development agencies. On the one hand, there is the argument that donors and NGOs work to make themselves obsolete. However, without
impact on the poor, what is the purpose of reaching them and why bother to sustain the 
NGO? True, some limited impact must have occurred if they were borrowing, but the 
impact would have been much greater if the interest rates were lower or if they had been 
partners in shareholding.

This last question is framed by ACCION in terms of "fairness" of prices to clients. What is 
the difference between MFIs and predatory lenders? At what point does an MFI become a 
predatory lender? At a time where the Western world has slowly been taking away anti-
usury laws, so as to allow lenders to take the risk of giving credit to "poor" borrowers, 
who is to decide the morality of 100% interest rates: the society (government) or 
commercial investors?

In France, Attuel-Mendes and Ashta (2008 forthcoming) find that the lifting of usury 
ceilings has neither increased interest rates nor increased bank micro-lending. Thus, if 
micro-credit in Mexico is booming at 100% interest rates, why don't banks in France 
succeed in lending at these rates? Are ethics and practices being influenced by culture?

e. ACCION also raises the question of the compensation to founding members of an NGO 
as such institutions increasingly turn to becoming for-profit. This question had already 
been raised by CMEF (2005) who consider that, while it is legitimate that founders benefit 
for value created, "appropriate mechanisms for compensation are complicated by the non-
profit structure of the NGO and the presence on the balance sheet of donated funds". This 
view bifurcates NGO MFI founder-shareholders in two parts: individuals and non-profits. 
If the NGO MFI had been started uniquely by individuals, and if a commercial enterprise 
offered to buy out the founders, it is obvious that the founders should have the right to sell 
and the right to capture the increase in value. After all, why should all the increase in 
value go to the commercial enterprise who is taking over?
However, when the invested money belongs to not-for-profits, do they have the right to make a profit? The question goes back, as CGAP put it, to the time when the not-for-profit entered the MFI. As such, we go back to the initial question above of whether a not-for-profit should invest in shares at all? Does the not-for-profit have the right to make money on its portfolio? Can it maintain the value of portfolios by investing in shares and, if not, can it invest in bonds? If so, does maintaining value include participating in governance of the targeted companies? How about participating in managements?

While it is increasingly recognized that governments should not take private initiatives because of high entrenchment costs, the question comes: can successful social enterprises ever be terminated?

f. An interesting question is based on asymmetric information. One of the reasons given for high interest rates is that the risk is high because MFIs suffer from asymmetric information which they overcome, to some extent, by group lending, progressive lending, incremental lending etc. However, Lewis (2007) remarks that, between the professionally run MFIs and the poor uneducated illiterate borrower, who do you think is suffering from asymmetry of information regarding laws and alternatives?

g. An interesting approach to look at these questions is to contrast Rawls work on justice and fairness (Rawls, 1974 a & b; Fisher & Lovell, 2006) with the Integrated Social Contract theory (Donaldson and Dunfee, 1994, 2000; Fisher & Lovell, 2006). Rawls argues that social rules should be based on a veil of ignorance: everybody should be interrogated on legal rules and should reply as if they didn't know their sex, their handicaps, their level of intelligence etc. According to this view, the end-result would be a maximin situation where people try to ensure that the worst case scenario for anyone is not too bad. Inequalities would be tolerated if this helped raise the standards of the least well off. As opposed to this, the ICST proposes that only economic actors should do this
exercise. Thus economic laws would be shaped only by people who are willing to participate in the economy. If we were to stretch this argument, should microfinance ethics be shaped by microfinance actors or by all actors? If laws and ethics are cultural should only Mexican microfinance actors be questioned or should all microfinance actors be concerned? The limits of ICST and the difficult of applying Rawls can thus be seen.

**Conclusion**

Although we have reviewed the criticism and defence arguments of the CGAP, and found some of them wanting, we have to agree that the work is not easy. Ethics shape laws, but are also shaped by existing laws and beliefs.

The paper, nevertheless, raises, in more detail, future agendas for thought raised by the Banco Compartamos IPO. Many of the key questions of governance go beyond microfinance to all institutions dealing with social justice.

The paper also has not gone into the reverse area: should for-profit businesses invest in not-for-profits? The ethical issues are the same as summarised in corporate social responsibility and corporate philanthropy: what are the ethics of managers (who are the agents) who decide to put their firm's money into not-for-profit channels? The debate keeps recurring from Friedman (1970) to Marshall (2006). The paper raises ethical questions and is a bonanza for future research to reply to these questions.

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10 Symbolic of the anti-green movement.
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