

Microfinance and Ethics: Three Pivotal Questions

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Before I start with the main subject at hand, allow me to pose a question Socrates may have asked: "What is ethics and how is it related to the conscience of our society?" While there must be many erudite explanations of these concepts from philosophers and wise men around the world, to a person with little knowledge, if any, of the deep subject of philosophy, our conscience defines our ethical norms. But the key here is that our conscience is evolving. Ethical standards may seem to evolve slowly, particularly at times during an era of financial distress, but they remain the central touch stone for the development of our society. Thus, ethics is relative and changes with time but it is always a precursor to the laws developed by us. It is quite possible that we are fully within the strict letter of the law but yet unethical.

So what are the key ethical questions in microfinance? There are three that are central to the debate. First, is it ethical to do business with the poor or earn profit from poor people? Second, is it ethical to maximize profit when doing business with the poor? Third, is there an ethical responsibility to avoid harming poor people in the process?

In my mind the answer to the first question is yes, you can do business with the poor while earning a fair profit. The answer to the second question is no, you cannot just focus on maximizing profit when doing business with the poor. The answer to the third question is yes, you do have an obligation to your clients. Allow me to elaborate. Human beings are economic beings. Self employment or business activity is what the majority of people do to feed themselves. For hundreds of years "good works" were mostly about charity. Societies saw the poor as worthy of our pity but not as people, who worked hard, were intelligent and entrepreneurial. The new paradigm of socially motivated business is using a combination of business and philanthropic ideas to re-shape the old mindset. Economic development means stability and economic stability also means that people have a greater freedom to pursue Maslow's hierarchy of humans needs, thus building ground for political progress which circles back to more economic development. This observation leads one to conclude that doing business with the poor is a good thing.

The second question about maximization of profits is a more complex one. To some extent it is very simple as well. Every dollar in profit that someone may make from poor people comes from the pocket of the poor people. If our objective is to stabilize the lives of poor people, where volatility of income is a very prominent feature of their financial lives, we have to leave as much as possible of their hard-earned profit with them so they can build assets and create stability. The complexity is how much is enough to attract investors and to keep the microfinance institutions in good health. Deutsche Bank recognizes that profitability, operating costs, and interest rates

can vary greatly depending on the microfinance institution's location, size, growth potential, asset quality and target market. While the issues are complex, they are not insurmountable. We can use logic and judgment to define what is acceptable for us as social investors and to be transparent about our decisions so that others may benefit. In the process we will certainly make some wrong decisions, but our example may encourage others towards greater accountability towards profits.

While Deutsche Bank recognizes the importance of robust, profitable, well capitalized and customer-centric microfinance institutions as necessary for the continued success of the microfinance sector, we also believe in actively advocating for the industry to gradually and proactively work towards an overall decline in interest rates charged to the clients. This reduction in interest rates would allow clients to maintain a greater share of the generated profits to help build assets.

The third question as to the ethical responsibility to avoid doing harm to customers is an important one because it requires close attention to service to the customer and may take away from profits in the short term. Customer care and ethical responsibility to the customer are intrinsically linked. Like the DNA molecule, profit and social outcomes are directly linked in social finance. Similarly customer care and ethics are intertwined and inextricably linked. If we want to have ethical behavior, then we have to take it right back to its root – a genuine care for customers. Building on the ethical and customer care relationship, customer care is crucial to ethics and vice versa. However, every good business in the world recognizes that in order to be successful, they have to satisfy the customer. More and more as social investors are not only interested in maximization of profit, but also in helping the ultimate customer, service to the customer continues to gain importance. Genuine customer care limits the unintended harm that may occur as a new course is charted in fulfilling our ethical responsibility to sincerely work towards no harm to the poor. Economically distressed people are certainly much more sensitive to a shock and do not have the assets to take care of gaps in the cash flows needs. Mistakes will be made but ethical responsibility to avoid harm is an important beacon as we increasingly engage in business with the poor with dignity.