Ethics and Morality in the Practice of Microfinance

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Introduction

Microfinance provides financial services, such as loans and savings, to the poor. In microfinance, local microfinance institutions (MFIs) administer microloans, or loans of small amounts, to borrowers. However, MFIs have been criticized for their increasingly commercialized practices. When addressing this issue, microfinance literature primarily focuses on the roles that MFIs and profits play, but neglects to shift the lens to commercialization's impact on borrowers. In response, my research assesses the ethical and moral impact of interest rates in microfinance with a primary focus on borrowers. My research asks: How does the commercialization of MFIs affect poor borrowers? I also address how borrowers stories are told. Subsequently, my paper uses Rawlsian and consequentialist theories to understand the roles of global citizens and institutions in microfinance. I argue that high interest rates and high profit do not fulfill microfinance's mission to do social good—instead, this commercialization exploits borrowers while it reaps high profits for investors.

In this paper, I will first provide a brief overview of microfinance and its impact on the international community. Next, I will assess the relationships among MFIs, borrowers, and ethics in the developing world. I apply two theories—consequentialism and Rawlsian theory—to this practice. After, I evaluate two MFIs, SKS Microfinance in India and Compartamos in Mexico. Through these case studies, I analyze the impact of MFI interest rates and commercialization on borrowers. Lastly, I conclude with an analysis of borrower profiles from Kiva, a San Francisco-based microfinance non-profit organization.