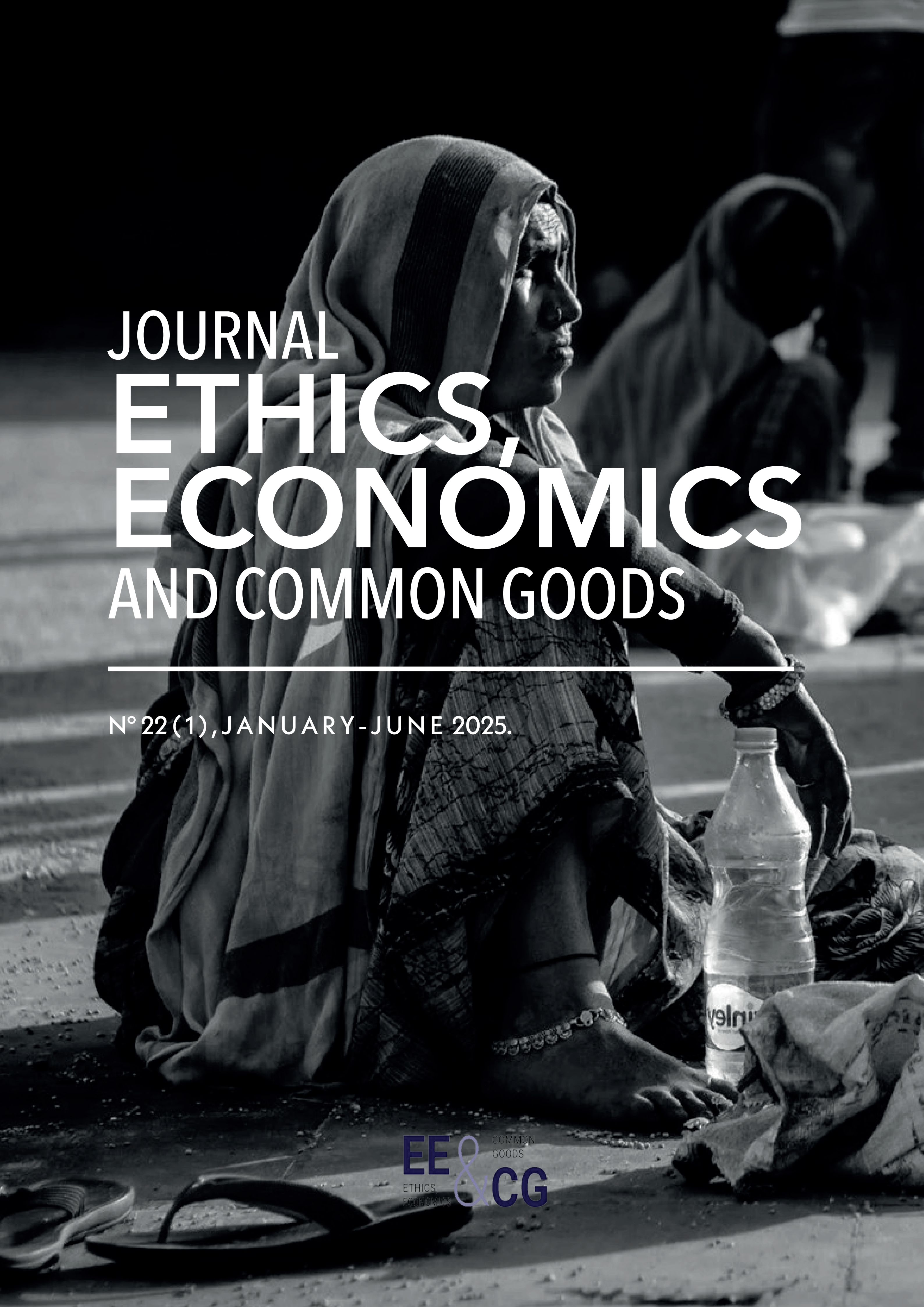

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GENERAL INFORMATION

The Journal Ethics, Economics and Common Goods aims to be a space for debate and discussion on issues of social and economic ethics. Topics and issues range from theory to practical ethical questions affecting our contemporary societies. The journal is especially, but not exclusively, concerned with the relationship between ethics, economics and the different aspects of common goods perspective in social ethics.

Social and economic ethics is a rapidly changing field. The systems of thought and ideologies inherited from the 20th century seem to be exhausted and prove incapable of responding to the challenges posed by, among others, artificial intelligence, the transformation of labor and capital, the financialization of the economy, the stagnation of middle-class wages, and the growing ideological polarization of our societies.

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SCIENTIFIC BOARD

INDEX

RESEARCH ARTICLES

p. 8 Estrategia para promover la inclusión financiera en las regiones vulnerables del estado de Puebla
Jennifer Casco Cortés

p. 23 Impacto del riesgo percibido en la confianza de los usuarios en el uso de chatbots financieros de puebla, méxico:un enfoque basado en ecuaciones estructurales
Roberto Jaime Cuautle-Jiménez

p. 49 Economía criminal y lavado de dinero
Javier Joan Hernández del Ángel

p. 60 The Role of Lending Interest Rate in Mexico and Latin America to close the Ethical Gap in Financial Inclusion
Carlos Gonzalez-Rossano, Antonia Terán-Bustamante

p. 76 Los modelos conversacionales de inteligencia artificial y la publicación académica: consideraciones éticas desde una perspectiva de bienes comunes
Karen González Fernández

BOOK REVIEW

p. 90 Amor pan, J.R., Bioética en tiempos del COVID-19. Segunda edición, revisada y ampliada. Vozesnavoz Edicións. Lugo 2022.
Jesús Armando Martínez Gómez

RESEARCH ARTICLES

THE ROLE OF LENDING INTEREST RATE IN MEXICO AND LATIN AMERICA TO CLOSE THE ETHICAL GAP IN FINANCIAL INCLUSION

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ABSTRACT
This research aims to analyze the effect of lending interest rates in Mexico, addressing the related ethical gaps, which should be aligned with financial inclusion. The methodology is a review of the theoretical framework of social business, followed by a detailed study of the effect of lending interest rates in Mexico. The results point to Latin America's very high inequality levels, which is bogging down the financial inclusion model and preventing it from achieving its social sustainability objectives. Enter affordable Mexican microfinance in the financial system's global social business transformation, by applying best practices and offering a reasonable cost of funding, is an approach able to create significant customer value. As such, it is essential for effective and balanced economic growth, enabling greater financial inclusion that advances the democratization of development in line with social justice.

Keywords: Banks; Ethical gap; Financial inclusion; Lending interest rates.

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Introduccion

Business ethics involves decision-making by prioritizing the needs of clients and the interests of families together with national economic development. Banks are doing this already, but government and non-governmental institutions, advocacy groups, and mass media must continue pushing banks toward targeted market investments. Innovation among financial institutions is also needed in the development of products and services that sustainably serve low-income and underrepresented communities.

A proposed strategy for increasing financial inclusion is loan agreements that include structured interest rates to improve the success rate of financial institutions in low- income areas. So, this model allows for secure growth of institutions while facilitating social and economic development in such communities. The partnership between financial institutions and disadvantaged localities can create inclusive economic development, a critical component of enduring prosperity at both local and national levels (Kara et al. 2021). Well-designed financial inclusion strategies to equip those living in poverty and other marginalized communities with the tools they need to increase their social and economic mobility can be an effective means of eradicating poverty, inequality, and social injustice.

Through policies and procedures that are equitable and inclusive, financial institutions can play a critical role in the economic advancement of individuals and communities, which is the foundation for a more prosperous society with equal opportunity. By working with local agencies and stakeholders, financial institutions will gain insights into the specific needs and challenges of marginalized communities, allowing them to provide more effective contributions toward their well-being and economic empowerment (Feghali et al. 2021) Together, these initiatives can foster a prosperous, inclusive and growth- oriented society in which all members have the opportunity to thrive for individual and collective national progress (Koomson et al. 2020). Consequently, lending interest rates in Mexico and Latin America must be understood as another tool to reduce the ethical discrepancies in financial access. This project aims to use an exploratory approach to examine the impact of interest rates on financial exclusion and their implications for regional economic development (Arner et al. 2020; Hasan et al. 2021; Omar & Inaba 2020).

Exploring Financial Inclusion and the Ethical Discrepancy

Financial inclusion provides appropriate services for people to enter into systems (banking for micro-entrepreneurs and SMEs, for example). In Mexico, its definition is the equitable right to access financial services for a better life.

Mexico is fortifying financial inclusion through regulation and services that are purpose-driven toward stability while opening up markets to private financial service actors. These include business bank accounts, savings accounts, international remittances, local currency deposits, and withdrawals, the electronic payment system, and policy-based financial regulations for broader accessibility, enabling fintech-driven operations and solutions for efficient and secure services. That has also widened the ethical gap regarding customer treatment in banking institutions and ethical expectations among customers, promoting equity and equality (Hamdan & Kassim 2020; Qureshi 2020; Urueña-Mejía et al. 2023; Ozili 2020; Karara et al. 2021; Koomson et al. 2020; Ozili 2021; Barajas et al. 2020; Kara et al. 2021).

Ethical considerations in lending practices

Financial institutions, encompassing banks, provide credit to users via a diverse array of credit operations. These institutions systematically pursue lucrative investment opportunities for their resources, a critical component in securing profitability in their transactions. The mathematical certainty of cash flow is dependent on various factors, including the cost of funds, operational expenses, management expenditures, and other associated costs. Furthermore, the lending interest rate incorporates a margin that accounts for various potential risks, such as default risks, interest rate exposure risk, and market risks.

Moreover, social consciousness necessitates the provision of services at a just value for both the consumer and the organization, thereby cultivating a robust business acumen. The endeavor to enhance collective welfare by financial institutions is articulated through their operational frameworks, reflecting their social obligations and responsibilities. Simultaneously, this pursuit confronts the obstacles that hinder the effective implementation of interest charges, thereby underscoring the need for the formulation of fair interest rates corresponding to the services provided (Ozili 2021).

The failure to adequately address operational and administrative expenses significantly influence the strategic considerations of this collective, providing advantages to diverse segments and strata, yet falling short of realizing considerable profitability. It is imperative for regulated financial institutions to champion the development of effective methodologies, innovative financial products, and strategic planning aimed at mitigating social welfare disparities while concurrently ensuring the financial sustainability of enterprises. This facilitates the establishment of a stable and sustainable economic framework. Bank credit exhibits dual economic effects: the microeconomic facet pertains to the interactions between depositors and borrowers, whereas the macroeconomic dimension encompasses a more extensive scope of bank credit (Ahmad et al. 2020).

Examination of predatory lending practices

The lending landscape in Mexico and Latin America poses a complex dual challenge. On the one hand, financial institutions often overlook niche market clients, primarily due to the relative expense associated with assessing loans for these customers compared to those for more extensive business entities. In the interim, micro-businesses frequently become targets of unethical financial practices, typically predatory lending.

The enterprises in question need more leverage, hindering their ability to negotiate advantageous terms within the inverted credit pyramid. In contrast to larger enterprises, which possess the capacity to negotiate interest rates with financial institutions, micro-businesses often operate without the benefit of formal financial advisory services or may function within informal frameworks. The prevalent informality observed within businesses in Mexico and Latin America is a significant characteristic, resulting in inadequate time and knowledge to pursue improved credit conditions. Moreover, it is common for the lender to possess a greater volume of information than the borrower, which results in micro-businesses frequently being dependent on familial relationships when it comes to determining lending interest rates. The intricacies inherent in financing and lending agreements present further challenges. This scenario results in an inverted socioeconomic pyramid for micro-businesses in Mexico and Latin America, which is also observed in developed nations. For example, microbusinesses occupy the lowest tier of this inverted pyramid (Ediagbonyaya & Tioluwani 2023; Feghali et al. 2021)

Predatory lending, defined by its exploitative strategies that trap borrowers in debt cycles, is prevalent in rural regions of Latin America. Informal lenders often impose interest rates that can exceed 200%, while some microfinance institutions engage in unethical practices, including concealing essential loan information (Smith 2019).

The examination of financial grievances in Mexico reveals a significant prevalence, as evidenced by a 2018 report from CONDUSEF indicating that 63% of complaints are associated with undisclosed charges and misleading conditions. This finding highlights the pervasive deficiencies in transparency within the financial system (CONDUSEF 2018).

Deficiencies in Transparency

Transparency is a fundamental principle underpinning ethical lending practices. Nevertheless, individuals seeking loans often need more transparent information about the costs associated with borrowing, the timelines for repayment, and the potential penalties involved. The existence of intricate documentation and hidden fees contributes to an increase in financial vulnerability (Cumming et al. 2023)

For example, Bolivian microfinance institutions (MFIs) integrate mandatory insurance with their loan offerings, which increases borrowers' costs while lacking sufficient transparency (Rosenberg 2011).

Nevertheless, these initiatives have encountered challenges in achieving traction outside a particular market segment, leading to a sluggish growth rate relative to the rising demand for financial services across multiple nations. The observed disjunction between the financial system and its intended objectives has engendered an ethical deficit in financial inclusion. This phenomenon is evidenced by escalating costs, diminished efficacy, and substantial repercussions stemming from the increasing population of individuals who lack access to the banking system, consequently contributing to systemic risk.

The existing policies enacted by financial systems have yielded an inadequate response in addressing this divide, permitting the financial crisis to persist unmitigated; financial systems prioritize divergent incentives, whereas societies articulate emerging needs, thereby disrupting the longstanding cycle that has endured for years. It was only after the financial crisis that the governing bodies of conventional financial hubs acknowledged the presence of unaddressed social needs within financial systems that either exclude or insufficiently cater to significant segments of the population (Feghali et al. 2021).

The Socioeconomic implications of elevated interest rates

The financial sector, recognized for its elevated interest rates, can adversely impact productivity, exacerbate income inequality, and influence the distribution of wealth. The Basel Accords have demonstrated limited efficacy in alleviating economic downturns, and dependence on elevated interest rates and financial derivatives may exacerbate unchecked economic expansion.

Establishing ethical, economic institutions is crucial for fostering inclusive social and economic advancement. High interest rates can retain capital within a nation; however, they may simultaneously deter prospective investors. Evidence from the Central Bank reveals an upward trend in the debt-to-GDP ratio, highlighting the escalating financial obligations faced by the government in servicing this debt. The promotion of sustainable and internally motivated development has the potential to yield enduring economic growth and enhanced productivity (Kara et al. 2021).

A comprehensive examination of existing research and scholarly articles.

Numerous academic studies within the discipline examine the substantial financial implications linked to capital investment when temporarily entering a market, ascribing these expenditures to the differences between firms that attain long-term success and those that encounter transient or moderate achievements. Nonetheless, the existing literature lacks a clear delineation or guiding framework regarding the financial benefits associated with a focused approach for sustainable enterprises to capitalize on their operational outcomes.

The presented arguments elucidate the concept of the organization of enterprises within financial markets. In the absence of regulatory frameworks and empirical evidence regarding the failure of specific companies attributable to insufficient risk management, this research aims to quantify the cost of capital as represented by the lending interest rate. This approach facilitates the measurement of the financial implications associated with risk exposure and limited liability for organizations whose social mission is focused on delivering financial services to their intended demographic (Barajas et al. 2020; Ediagbonya & Tioluwani 2023).

Themes in financial research

The selected area of investigation pertains to the ethical dimensions of financial inclusion within the specific context of Mexico. Presently, a legal framework exists that delineates the concept of financial inclusion and establishes the criteria under which citizens may gain access to a bank account. Financial institutions must provide products that satisfy fundamental criteria without charging the public. This study assumes that access to a bank account is advantageous for the public, as is access to credit funds, given that both financial instruments contribute to the advancement of the national economy and investigate the equitable lending interest rate (Feghali et al. 2021).

Analyzing Financial Inclusion in Mexico and Latin America

Current Status of Financial Inclusion

Latin America has certainly made strides in advancing financial inclusion; however, significant disparities persist. The proportion of individuals possessing bank accounts increased from 39% in 2011 to 55% in 2021, as reported by the World Bank 2021. Nonetheless, a marked disparity in access levels exists among various demographic groups.

Gender disparities are evident, with women exhibiting a 20% lower likelihood than men to access formal financial services (OECD 2021). Disparities between rural and urban regions: Rural populations, particularly in Mexico, face limited access due to geographic and infrastructural constraints (Demirgüç-Kunt et al. 2018).

As exemplified by Mexico's Programa Prospera, governments have initiated efforts to integrate financial inclusion with social assistance programs. Nonetheless, these initiatives only effectively tackle systemic inequalities with concurrent regulatory reform (World Bank 2021).

The function of Microfinance Institutions and Financial Technology (Fintech)

Microfinance institutions (MFIs) have provided credit access to marginalized communities. In Mexico, for example, Compartamos Banco, recognized as the largest microfinance institution in the country, has provided loans to many female entrepreneurs (Rosenberg 2011). Furthermore, by leveraging mobile technology, fintech enterprises have played a crucial role in reducing transaction costs and enhancing financial inclusion (CGAP 2021).

The emergence of Konfio, a fintech enterprise situated in Mexico, exemplifies the application of artificial intelligence in assessing creditworthiness, leading to accelerated and more comprehensive lending services. Nonetheless, the existence of fintech enterprises operating within regulatory uncertainties has raised significant ethical considerations (OECD 2021).

Challenges Associated with Lending Interest Rates (LIRs)

The ethical disparity in financial inclusion constitutes a considerable obstacle for lending interest rates (LIRs) in Mexico and Latin America, hindering access to credit for a multitude of individuals and enterprises.

The interest rates associated with microfinance in Latin America are notably high, with annual averages ranging from 60% to 100% in Mexico (Morduch 2000). The aforementioned rates, although reflective of operational risks and associated expenses, impose an inequitable burden on borrowers.

International Comparison: In South Asia, stringent regulations establish a ceiling on microfinance interest rates ranging from 24% to 30%. Conversely, the absence of protective measures in Latin America renders borrowers vulnerable to potential exploitation (Rosenberg et al. 2009).

Identified deficiencies within the current body of literature

The relationship between the lending interest rate in microfinance and the ethical objective of achieving a balance between efficiency and fairness remains ambiguous. The emphasis on high-cost credit within the Doing Business ranking of the Trading Across Borders index, alongside the analysis of lending interest rates in the context of customer service competition, fails to offer insights that are directly aligned with the advancement of financial inclusion. This is particularly evident when considering the restricted access to microfinance credit for lower-tier markets. Within the framework of microfinance, a profit-oriented strategy that emphasizes the provision of antiquated services to current clientele, without any genuine effort to lower expenses, is likely to advantage prospective new entrants into the market rather than the economically disadvantaged beneficiaries (Banna et al. 2022)

The current measurements indicate potential progress in relation to the Primary Development Goals. Nevertheless, a significant gap persists in comprehending the unique effects of loan interest rates in Mexico and the broader Latin American on financial inclusivity. The observed deficiency arises from a lack of comprehensive consideration of ethical frameworks in lending practices across LATAM, insufficient analysis of the long-term impacts of high interest rates, and scarcity of regulatory viewpoints tailored to the region (Eggertsson et al. 2024).

Analysis of Global Models

Global models of microfinance suggest that interest rates, along with their average levels, exhibit independence from local average bank deposit rates. This represents a global concern pertaining to financial ethics. The disparity between microfinance yields and bank deposit rates is projected to attain 100% by the onset of the 22nd century. The disparity between global bank deposit rates and microfinance loan rates is projected to diverge by 50% from unity by the year 2032. The presence of minimum ethical compliance is established when microfinance interest rates are positive (Ahamed et al. 2021; Bhattacharyyaya et al. 2021).

The significance of Lending Interest Rates in the context of Financial Inclusion

The role of interest rates is pivotal and highly contentious in the discourse surrounding financial inclusion. For an extended period, the public discourse has centered on the under-capitalization of smaller banking institutions that extend credit to low-income individuals, a phenomenon that is often associated with elevated interest rates stemming from substantial intermediation costs. The phenomenon of individuals of modest means engaging in borrowing from shadow banking institutions has resulted in a delineation between these sectors. The concept is referred to as the dual perspective on money, wherein banks with elevated loan-to-deposit ratios are perceived as representing the affluent sector, while shadow banking is characterized as a mechanism that perpetuates financial exclusion. The primary function of these institutions is to facilitate lending rather than to accept deposits of funds. This position generates interest margins that are not derived from interest yield, predominantly influenced by the central bank, but rather from loan spreads. In large and developed economies, it has been established that the historical ratios of nonperforming loans typically range from 0 to 2 percent per annum (Lee et al. 2023; Narulala et al. 2023; Ozilili 2021).

This paper's principal contribution lies in the assertion that the shadow financial system is amenable to effective regulation and supervision. The ethical disparity observed among various institutions that extend credit to low-income individuals can be substantially mitigated through the establishment of a uniform legal interest rate applicable to both borrowing and depositing funds. In instances where individuals from lower-income brackets lack sufficient funds for deposits or borrowing on a particular day, it is imperative that the state intervenes to provide support.

Furthermore, large financial institutions should be equipped with a countercyclical shock absorber designed to mitigate the impacts of catastrophic events. This mechanism must be robust enough to address not only favorable economic conditions but also to withstand severe disruptions, akin to the tumultuous periods experienced during the sovereign debt crisis of the late 1970s and early 1980s, as well as the anticipated challenges in the post-COVID-19 landscape. Furthermore, the informal sector constitutes a significant challenge to tax revenue generation.

Therefore, establishing a stable legal interest rate environment for lower-income individuals is essential to enhance the cost-effectiveness for financial institutions providing loans and deposits to this demographic, while simultaneously bolstering tax collection from the formal sector (Allais 2024; Shneiderman 2020).

The Present Context of Lending Interest Rates in Mexico and Latin America

This article centers on adopting an ethical framework in public policy to promote financial inclusion in Mexico and the broader Latin American context. The argument posits that the interest rates applied to loans from banks and other financial institutions may indirectly influence the prevalence of poverty within the population. To further improve the landscape for financial inclusion in Mexico and Latin America, a primary instrument that may be employed in public policy, wherein the sovereign government plays a pivotal role in promoting the creation of new banks dedicated to social responsibility. The fulfillment of this function will be assured through the implementation of their interest rate policies. This approach presents advantages for the banking sector and governmental entities (Appiah-Otoo & Song 2021).

After financial crises, notably the one that occurred in 1994, the most vulnerable segments of society disproportionately experienced the adverse effects. Examining the implications of interest rates as a reflection of the actual cost of borrowing, it is clear that there exists a societal responsibility in Mexico and throughout Latin America to allocate savings towards marginalized populations. This approach would facilitate their investment in human capital or pursuing initiatives within an equity framework.

The ethical vacuum created by financial institutions necessitates intervention through public policy measures. The extensive distribution of information regarding a country's lending interest reduces the banking spread owed to the central bank. That, in turn, leads to lower lending rates, which stimulates both consumption and investment, ultimately decreasing poverty levels. In the absence of alternative access to the financial system, elevated lending rates surpassing the impoverished population's financial capabilities merely contribute to the continuation of their disadvantaged circumstances (Schwert 2020; Abadidi et al. 2023; Gudgeonon et al. 2020).

Examining the ethical implications associated with the establishment of lending interest rates

Proposed Ethical Framework for Lending in Latin America

The proposed ethical framework for lending in Latin America is grounded in several fundamental principles: Affordability, which dictates that interest rates must correspond with the repayment capacities of borrowers; and Transparency, which necessitates that loan terms, fees, and penalties be articulated in clear and accessible language (Ledgerwood 1999). Lenders must furnish comprehensive details regarding the total cost of the loan, encompassing interest rates and any supplementary fees. Transparency is paramount for the facilitation of responsible lending practices and the advancement of financial inclusion within the context of Latin America. Accountability necessitates that regulatory oversight and borrower feedback mechanisms effectively enforce ethical compliance (OECD 2021). To address the ethical gap in financial inclusion within Latin America, developing a robust framework that fosters Transparency and accountability in lending practices is necessary.

Regional Adaptations

An important consideration regarding the ethical gap, which is recognized to influence the outcomes of financial inclusion in Mexico, pertains to the necessity of adapting the strategies employed by the participating institutions to the unique conditions of the various geographical contexts in which they operate. The issue stems from the fact that, facilitated by advancements in telecommunication and data processing technologies, it has become feasible to engage with numerous clients regardless of geographical location. Institutions, irrespective of their scale, strive to achieve the lowest possible cost in engaging with these entities. However, cost is not the sole criterion to consider.

The objective—particularly when articulated within the value proposition—is to develop a solution or product that optimally meets the client's requirements (Guerra-Leal et al. 2023).

Although numerous product features are designed to accommodate clients in diverse geographic regions, it is erroneous to presume that a uniform interest rate would be adequate. A universal approach cannot be uniformly applied across diverse regions. The matter is complex, encompassing municipal and state authorities, multinational enterprises, cultural and religious institutions, and various individual and niche interest groups. Within these complex networks, the intentional efforts become intricately intertwined. We assert that lending interest rates ought to be modified to correspond with clients' expected performance levels and selectivity in terms of their ability to generate profits from the resources they acquire through borrowing (Qi et al. 2023; Zhu & Liu 2021).

Innovations in Ethics

Beyond the ethical and social innovations in financial inclusion that have been discussed and hold potential for further development, many ethical innovations can be embraced and explored not only through public policy but also by all stakeholders involved. This collaborative effort aims to enhance, broaden, and ensure the sustainability and profitability of financial inclusion for the population. The innovations encompass the crowdfunding of cooperatives and community banks, supported by cross-subsidization from various governmental policies (Arner et al. 2020).

The encouragement and assistance of public banking systems, new types of social currency, more flexible central bank liquidity regulations, local currency units that protect against volatile inflation, central bank databases for citizens, decreased information and interest rate search costs, expanding on the example and incentives from tax havens to promote consistent financial inclusion as an extension of trade shock and severe economic decline, the formation of cultural networks that prioritize the values of thrift, solidarity.

The integration of the lender and the borrower, the expansion of financial education, including related to sports, natural wonders, gossip and spending hubs, the reduction of high-risk aversion and increased discount rates of formal study agents, lifting penalties for survival in the formal economy, the inclusion of financial technology companies that are taxed for formal financing, the increase in the number of banking agents, the reduction of terminal fees, and the digitization of financial communication methods (Gabor & Brooks 2020; Bazarbash et al. 2020).

For instance, Crediclub represents a Mexican microfinance institution that effectively integrates financial literacy initiatives with its lending services, ensuring borrowers have a comprehensive understanding of their loan obligations (CGAP 2021).

Recommendations for policy and regulatory frameworks

Definitions pertaining to ethical considerations, financial aspects, and interest rates must be articulated with clarity and precision, ensuring they are devoid of any ambiguity. Promoting digital finance within the framework of ethical guidelines and legal regulations is essential.

The operations should exhibit efficiency, transparency, and security as fundamental characteristics. Regulators must establish standardized regulations regarding interest margins and examine the incongruence between bank lending practices and wage levels.

Zero tax payments should be promoted as a means to alleviate interest rates for individuals who experience financial exclusion. Internationally supported initiatives aimed at enhancing tax efficiencies must be established. Collaboration on horizontal fiscal policies among nations within the digital finance market must also be advocated (Raihan et al. 2023).

Interest Rate Caps

When evaluating the implementation of an interest rate cap, it is crucial to meticulously examine the empirical evidence regarding the potential ramifications.

There exists a correlation between reduced interest rate caps and enhanced financial inclusion. It is fundamental to acknowledge that correlation does not equate to causation, and legitimate grounds exist to scrutinize whether this observed positive correlation is directly attributable to implementing smaller interest rate caps. The imposition of elevated interest rates imposes more rigorous limitations on the capacity of financial institutions to adjust to the associated costs and risks of loan provision, which is anticipated to reduce a bank's propensity to extend credit. Conversely, empirical studies have indicated a positive correlation between a decrease in the interest rate cap and the share of loans initiated by banks, whereas a negative correlation has been identified between a decrease in the interest rate cap and the average balance of bank-initiated loans (Klaar et al. 2023; Geide- Stevenson & La 2024).

A comprehensive analysis of a diverse sample of SMEs in Mexico indicates that elevated interest rate caps are, in part, reflected in increased lending rates, even when considering the inherent risks and characteristics of the businesses involved. The findings indicate that the mean borrowing rate for small and medium-sized enterprises (SMEs) is roughly 3.6 times greater than the 36% interest rate ceiling. In contrast, the consumption rate is about 3.12 times higher than the 32% interest rate cap. The findings indicate that interest rate caps do not align with principle seven regarding responsible banking (Raihan et al. 2023).

Governments should consider the implementation of interest rate caps akin to those established in India. This approach would mitigate the potential for borrower exploitation while concurrently promoting the sustainability of lenders (Rosenberg et al. 2009).

Standardized Disclosures

The importance of financial literacy cannot be overstated, particularly for populations and communities that are often underserved. The complexities inherent in loan and deposit offerings pose significant challenges in the formulation of standardized benchmarks. The establishment of standard interest rates serves a crucial role in the assessment of retail banking operations. Public policy necessitates consistent transparency. The aim is to attain financial inclusivity devoid of bias (Klaar et al. 2023).

Mandatory disclosure requirements should facilitate the clarity of loan agreements, ensuring that borrowers fully understand their repayment obligations and associated costs (CONDUSEF 2018).

Programs for Financial Literacy

Financial literacy initiatives seek to bolster public confidence and motivation by tackling the deficiencies in experience and knowledge. Information is disseminated through multiple channels, including educational classes, printed brochures, and online blogs, thereby facilitating consumers' comprehension and utilization of banking products. The programs utilize a diverse array of sources, encompassing educators, consultants, specialists, and financial entities within developing countries (Garcia-Mora & Mora-Rivera 2023).

In an effort to enhance financial literacy across Latin America and the Caribbean, banking institutions are implementing educational programs. Bancoex engages in the facilitation of global financial access. The efficacy of these programs in Mexico remains unsubstantiated; however, the collaboration between institutions and universities has the potential to enhance financial education. The current endeavor necessitates a significant investment of time and effort to yield observable outcomes (Garcia-Mora & Mora-Rivera 2023).

Collaborations among governmental bodies, non-governmental organizations, and financial institutions possess the capacity to alleviate the susceptibility of borrowers via targeted educational programs (Smith 2019).

Oversight and compliance

Considering the mobility of microfinance clients, it is imperative to evaluate the effectiveness of the current surveillance mechanisms and sanctions employed by creditors and the extent to which client investors possess knowledge regarding these mechanisms. The presence of inefficient monitoring mechanisms coupled with stringent sanctions may dissuade prospective investors, thereby exacerbating capital costs. Creditors serve a crucial function in the oversight of governance, a role that can be significantly improved by incorporating external information for capital providers (Enríquez 2024).

The efficient monitoring theory posits that individuals select hierarchical roles to enhance the oversight of risky behaviors. Mexican microfinance institutions pursuing external debt are more inclined to secure financing at reduced interest rates when internal stakeholders do not impede governance mechanisms.

The evidence suggesting that specific shareholders participate in credit committees and determine interest rates substantiates this hypothesis. Individuals with insider knowledge are vested in customers' success and may exploit the capacity for loan repayment. Shareholders of microfinance institutions who hold insider status may incur elevated interest rates. Examining organizational form enhances our comprehension of the governance structures within microfinance institutions. The trajectory of sustainable banking is contingent upon the governance mechanisms employed by debt holders in managing debt contracts. The competitive landscape within the banking sector may undermine the sustainability of long-term relationships between banks and their customers. External fund providers advocate for responsible borrowing practices. Effective external debt management enhances sustainability within the industry (Enríquez 2024).

Independent audits and mechanisms for borrower feedback are critical for enforcing ethical standards (OECD 2021).

Challenges and opportunities for policy interventions

We must enact policy modifications that incorporate financial education within educational institutions to equip students with knowledge regarding personal finance, investment strategies, and risk management principles. This approach addresses financial exclusion by emphasizing the generation of formal employment opportunities. The existence of the informal economy results in significantly elevated interest rates and disparities in the costs associated with financial intermediaries. A significant absence of social safety nets, labor protections, and stable employment regulations characterizes individuals in the informal sector. We must address these issues through policy interventions (Enríquez 2024).

Conclusion

The ethical dimensions associated with financial inclusion pose significant challenges to its advancement in Latin America, particularly in the context of Mexico. Despite the significant growth in credit and financial services enabled by microfinance institutions (MFIs) and advancements in fintech, persistent concerns still need to be addressed. The issues at hand include excessively high interest rates, predatory lending practices, and a lack of transparency, which contribute to the perpetuation of debt cycles and the worsening of inequalities within marginalized communities (Bateman 2010; Rosenberg 2011).

A comprehensive approach is imperative to tackle these challenges effectively. By adopting the suggested ethical framework that emphasizes accessibility, openness, and responsibility, initiatives to enhance financial inclusion can be realigned with their foundational objective of empowering marginalized communities. The implementation of regulatory reforms, including the limitation of interest rates and the establishment of consistent loan disclosures, constitutes essential measures for safeguarding borrower interests while concurrently promoting the financial stability of institutions (CONDUSEF 2018; Rosenberg et al. 2009).

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