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MICROFINANCE AND THE DOUBLE BOTTOM LINE IN THE POST-SOCIAL ENTERPRISE ERA

microREPORT #112

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ACRONYMS

AMAP	Accelerated Microenterprise Advancement Program
BOP	Base of the Pyramid
CGAP	Consultative Group to Assist the Poorest
CSR	Corporate Social Responsibility
ILO	International Labor Organization
IFC	International Finance Corporation
IPO	Initial Public Offering
MFI	Microfinance Institute
NGO	Nongovernmental Organization
PM	Profit Maximizing
SE	Social Enterprise
SM	Social Impact Maximization
SPM	Social Performance Management
TPC	Transitions to Private Capital
USD	United States Dollar

INTRODUCTION

The first "crisis of conscience" in microfinance did not, as many expected, result from mission drift towards larger loans that served fewer poor clients. Instead, it came from a clash of ethics over the creation and distribution of profits associated with the *Compartamos* initial public share offering (IPO) in 2007. At the heart of the discord were interest rates of over 80 percent generating a return on equity of more than 50 percent, such that the original investors earned 270 times the value of their investments.[1] Some cheered these results as proof positive that microfinance could integrate successfully in conventional financial systems; others were outraged that so much was made by so few as a result of lending to poor, rural Mexican women.

BOX 1: DOUBLE BOTTOM LINE

While all businesses have a conventional bottom line to measure their fiscal performance — financial profit or loss — enterprises that seek a second bottom line look to measure their performance in terms of positive social impact. This can include impacts on communities, minorities, the labor force, or women. The concept is similar to the triple bottom line, which includes accounting for environmental costs.

The almost unquestioned principles of microfinance are now being parsed, as is the presumed relationship between social and financial objectives. The level of debate has been exceptional: Is there an unacceptable level of profitability? Can high loan prices be justified? What is the sector's responsibility towards it clients? Answers to these questions are *essential* in defining the sector's "double bottom line" aspirations and potential.[2] Responding to these challenging questions is doubly important given the influence of private capital on the sector in its inexorable march towards commercialization.

Capital and commercialization are having two broad impacts on the sector. First, private capital profoundly influences the way microfinance institutions (MFIs) are managed and financial performance expectations are set. Second, as microfinance becomes a proven market, new capital will enter the sector with little or no poverty alleviation agenda. Pioneer MFIs are finding that newer, commercially-oriented MFIs play a type of competitive "hard ball" not widely seen before in microfinance, a critical challenge to microfinance and double bottom line hopes.

Solidifying microfinance's poverty goals as the sector adapts to private capital is *the* critical double bottom line challenge. Unassailably establishing the sector's systemic poverty alleviation im-

BOX 2: BANCO COMPARTAMOS IPO

In April 2007, Banco Compartamos, a Mexican MFI, made an initial public offering (IPO) of its stock. The IPO was oversubscribed by 13 times and the share price rose by 22% in the first day of trading, even though the offering price was twelve times the book value of the company. Investors grossed $450 million for selling thirty percent of their shares of the company, representing a 1,150% premium over the book value. Because the IPO was a secondary offering, Banco Compartamos itself did not receive any new capital. Two thirds of the gains went to not-for-profit development agencies — a Mexican NGO, the International Finance Corporation, and ACCION International — and one third went to private shareholders.

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[1] *Compartamos* will be featured in a separate case study in this series on microfinance and the double bottom line. For a more detailed accounting see Rosenberg, Richard (2007) The *Compartamos* Initial Public Offering, CGAP, Washington, D.C.

[2] The international development community has largely moved beyond the double bottom line concept to embrace "triple bottom line" objectives. Because few MFIs use triple bottom lines, however, this paper focuses primarily on financial and social performance, or double bottom line issues. Triple bottom line considerations are raised as they will certainly become important to microfinance as the sector and institutions grow.

pact is a vital element of this challenge.[3] Determining the truth of what the sector *offers* as impact and what it has *delivered* will not only establish the sector's poverty alleviation *bona fides,* but clarify and benchmark future double bottom line expectations.

Rigorous and clear impact findings will also provide management insight to social impact maximization. Growing evidence also suggests social impact maximizing strategies can provide superior financial returns over a pure profit maximizing approach, making double bottom line management a critical competitive advantage over profit-maximizing firms. Delivering strong double bottom line performance, however, is far from simple, and MFIs will need to develop sophisticated operational responses. Recent debates over social and financial performance demonstrate both how isolated the sector is relative to corporate social responsibility (CSR) and social enterprise (SE) movements, which have much double (even triple) bottom line experience to share. Paradoxically debates also show both the great social impact potential of microfinance and just how under-prepared the sector is to maximize its double bottom line.

EXPLORING THE FUTURE OF THE DOUBLE BOTTOM LINE AND POVERTY ALLEVIATION

This report is part of USAID's Accelerated Microenterprise Advancement Program (AMAP) Knowledge Generation Transitions to Private Capital research.[4] It explores the relationship between microfinance and the double bottom line with the objective of understanding how to maximize poverty alleviation as the sector evolves. Looking forward more than backwards, Chapter One employs a sector development lifecycle model to demonstrate that microfinance is approaching a "convergence point" where commercialization and private capital, invested in existing MFIs and in new market entrants, will influence the adoption of more conventional business management practices and correspondent impacts on poverty alleviation goals.

Chapter Two briefly examines three business models that will likely characterize the sector as it evolves: the traditional social enterprise MFI; the "corporate social responsibility" model; and *laissez faire,* "base of the pyramid" (BoP) businesses. Each model is presented in turn, focusing on their evolution in developed and developing countries as well as in the financial and microfinance sectors. The objective is to understand trends, issues, and challenges each model faces as they could affect microfinance. The assessment concludes that the predominate SE MFI will remain significant but will give way to profit-maximizing CSR and BoP models; models which may have equal if not greater social impacts than the SE model. A survey of MFI poverty reduction objectives supports these observations at the conclusion of Chapter Two.

Chapter Three examines important ethical considerations and approaches to poverty alleviation in the context of the approaching "convergence point". It explores the social impact implications of credit prices, and profits and stakeholder viewpoints. Chapter Four summarizes findings, arguing that donors and sector stakeholders have a critical role

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[3] Some within the World Bank, for example, argue that the only/most effective means to poverty alleviation is economic growth and microfinance has only minimal causal effects.

[4] USAID's Microenterprise Development office has funded AMAP's TPC research since 2004. For a complete list of publications and reports, please refer to www.microlinks.org.

in shaping the structure of the sector. A range of actions is called for to support two broad objectives: support the development of market based social performance standards and benchmark expectations; and developing sustainable supporting financial sector infrastructures that encourage better social impacts.

CHAPTER ONE: CONVERGENCE AND DEPARTURE: MICROFINANCE AND SECTOR LIFECYCLE

Profit and loan pricing issues raised by the *Compartamos* IPO seemed to catch many by surprise. It should not have for many reasons, two in particular. First, *Compartamos'* return on equity (50 percent average) and loan pricing (80 percent plus) are neither new nor exceptional in the sector. Second, for over 20 years leading microfinance stakeholders have almost uniformly pressed for commercialization and integration into the formal financial sector. With both the IPO and preceding bond issues, *Compartamos* was merely fulfilling a major sector goal.

Many cheered the success of *Compartamos*. Others saw only excessive profits and a black cloud shadowing the sector's commercialization goals. It may have been as shocking to *Compartamos* as well that the markets should so richly reward a company working for the poor. Many analysts believe that the IPO, which sold 30 percent of *Compartamos'* shares at a 1,150 percent premium over the book value, was an anomaly born of unprecedented global financial market liquidity at the time of the issue buoyed by Mohammed Yunus' Nobel Prize. Repeating this IPO is highly unlikely anywhere in the world, so in some ways, reactions may be based on an extreme and unique event.

The debate provoked by the issue has nonetheless been extraordinarily important. *Compartamos* will be featured in a separate case study in this series on microfinance and the double bottom line. It's a complicated story that does not need to be told here, though it offers an immediate lesson in the maxim "be careful of what you wish for," as integration into conventional financial systems has implications beyond what many previously considered. The rules of commercialization and private capital are driven by imperatives the sector may understand in principle, but whose influence is only beginning to be felt.

Fortunately, private capital follows some pretty basic rules, but like most things economic, allocation decisions are more complex in application. An overview of these "rules" is found in Box 3 on the next page. These rules apply to all capital including over 99 percent of all "social investment capital," which many erroneously believe can easily be invested in MFIs. These rules and allied allocation strategies require opportunities for cost-effective, ratable investments with clear risk-adjusted rates of returns. Better yet, instruments that have sufficient market history enable historic performance analysis across a number of economic (e.g., rapid growth or slow growth economies) or geographic (e.g., country or region) contexts. Recently developed structured finance vehicles offered by Blue Orchard and Developing World Markets are examples of new instruments that have opened the door more widely to private investors. These vehicles allowed significant access to commercial social investment capital for the first time, though ironically, much conventional private capital is buying into these vehicles as well.

THE CENTRALITY AND INFLUENCE OF CAPITAL AND MICROFINANCE SECTOR DEVELOPMENT

The USAID *Transitions to Private Capital* series has long maintained private capital is both *necessary* and *desirable* if microfinance is to serve billions and not just millions of poor.

Private capital is necessary because donors cannot provide the capital required to meet sectors' growing demand. Estimates vary, but certainly no less than USD 200 billion in portfolio capital will be required, though some claim over USD 600 billion is a better estimate if current funding trends continue. To back this amount of debt, additional equity of USD 16 billion to 48 billion will be needed (by contrast, all development capital flows combined equal only USD 60 billion annually).

In the foreseeable future, an estimated 30 to 40 percent of portfolio capital will come from private investors and not savings or retained earnings. Private capital is desirable because its insatiable and relentless drive for profit leads to efficiencies, innovation, and market growth. It is also desirable because successful investment always attracts new capital and with it, the virtuous cycle of competition.

The evolution of capital needs in microfinance has largely mirrored a fairly predictable sector lifecycle pattern from start-up to maturity.[5] The theory predicts the structure of a sector as it matures, including the impact and influences of capital (see Figure 1). Early start-up is characterized by a few firms pioneering new products or services. Late start-up and growth is marked by rapid market expansion and widening profit margins resulting from increased productivity and scale. Good profits attract new entrants, particularly when a good deal of market share remains to be had. Some companies enter the market by capitalizing start-ups while others enter indirectly through share purchases of existing firms. As profit margins narrow, capital and productivity gains required to compete are so significant that sector rationalization occurs through failures, mergers, and acquisitions. At this point typically well-financed companies buy up or push out many smaller players.[6] Those small institutions that survive are usually niche markets measured either by market geography or by product/service offering.

Populated largely by social enterprises, microfinance has a good deal of "social ownership stickiness," which has affected the advance of private equity in microfinance. Social enterprises often lack confidence in potential profit maximizing partners and, conversely, private capital rarely understands mission driven enterprise. As a result, share ownership of most MFIs remains with mission oriented owners, including many international development institutions and social investors. In conventional sectors, owners are uninhibited by social mission and calculate the value of selling or remaining in business, which further facilitates the rationalization process. For the sector, this stickiness retards entrepreneurial dynamics of the sector, the benefits of competition and growth.

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[5] The lifecycle theory applied to microfinance was first advanced in *Financing Microfinance: A Context for the Transition to Private Capital* where it predicted the financing needs of MFIs as they matured (available at http://www.microlinks.org/ev_en.php?ID=5967_201&ID2=DO_TOPIC Under Theme 5, Access to Capital.

[6] It is important to recall that the lifecycle theory is not used here to identify the causes of MFI financing challenges or sector change. For applications of lifecycle theory in microfinance see Kooi, Peter, Raising Capital through Equity Investments in MFIs: Lesson from ACLEDA, Cambodia, UNCDF/SUM and UNDP Africa, New York, NY, 2001; Meehan, Jennifer Tapping the Financial Markes for Microfinance: Grameen Foundation USA's Promotion of the Emerging Trend and Next Steps, Grameen Foundation USA, October 2004; and Schneider, Louise, Strategies for Financial Integration: Access to Commercial Debt, Women's World Banking, Financial Products and Services Occasional Paper, Women's World Banking, New York, New York, July 2004.

BOX 3: CAPITAL ALLOCATION

Risk, return, and liquidity considerations dominate capital allocation rules. Higher risk demands higher returns: higher return expectations demands higher risks. Higher liquidity, or the speed at which an investment can be turned into cash, means lower returns. Rational investors are said to seek to maximize returns within a risk and return calculation qualified by liquidity needs.

These are general rules guiding investor expectations and asset allocation strategies. Typically investors divide portfolios into segments, each with different risk-return expectations and an overall return objective, while meeting liquidity needs. Risk diversification and asset risk de-correlation are important strategic elements to managing a portfolio's risk level.

These requirements and implied asset allocation strategies make over 99 percent of social investment capital look and act just like conventional capital. Ironically, an advance in MFI fund securitizations (i.e., selling parts of funds that are invested in MFIs) has facilitated greater conventional private capital investment in microfinance than social investment. This is because securitizations are fairly large, can be rated, are relatively low cost, and have well defined liquidity rules.

Risk Management Profit maximization is, however, not always an objective, whereas risk management always is. Institutional investors, for example, are required by fiduciary law to meet average returns for investments held in each class of investments (defined by various levels of risk).

Transaction Costs also play a role in investment decision-making. Smaller transactions typically have higher costs as a percentage of investments than larger. For investors managing billions of dollars, an investment of less than $50 million is expensive and not usually made. Smaller private equity and venture capital investments are made, but usually through investments in third party funds. Small niche investments can be made and have in microfinance, but normally these are made not just for return potential (i.e., investors demand it, public relations etc.).

Investment Information requirements also affect how investors act. If, for example, an investment asset class does not have a sufficient history or a sufficiently documented/researched history, rating agencies, analysts and regulators can not easily assess its risk-return profile or, in the case of meeting institutional investor needs, define what would be a good average return. This can constrain investment making no matter the perceived return potential. Many investment funds (e.g., mutual funds) are also constrained by regulations that require daily portfolio valuations, leaving them free only to invest in stock market listed companies.

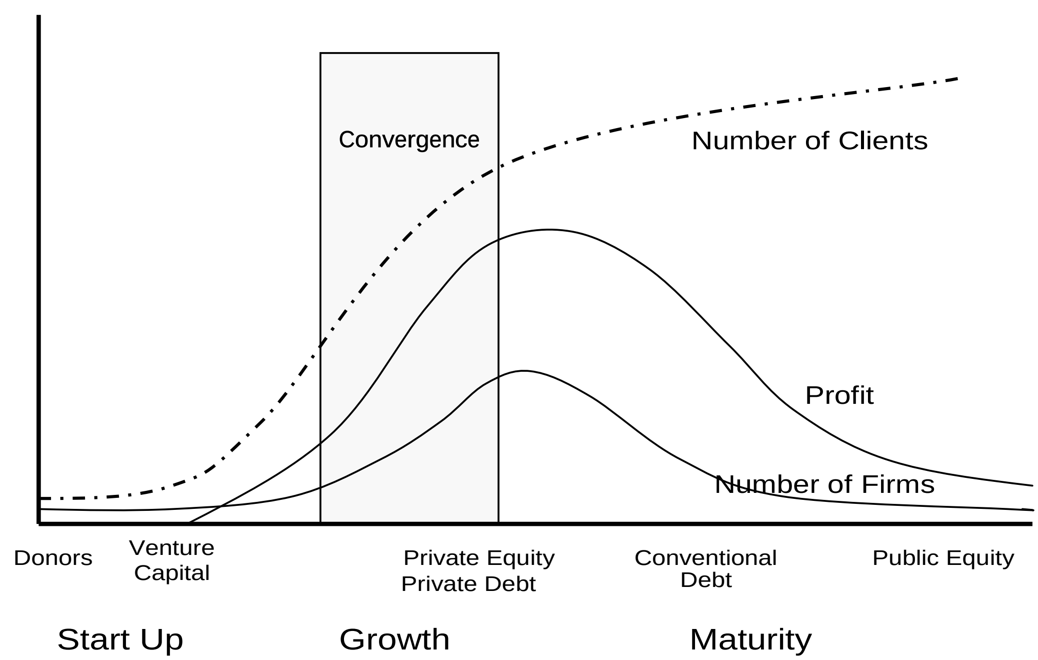
MICROFINANCE AND ITS NEXT LIFE (CYCLE)

Because no other sector has a fraction of the social enterprises found in microfinance, there is no direct analogy to predict what will happen to the sector as it reaches maturity. The history of business with social goals suggests however that at least three models will thrive after conversion.

The currently dominate *social enterprise* MFI will continue to thrive but will likely give way to profit-maximizing CSR and BoP models. As MFIs evolve from niche social enterprises to resemble conventional businesses, there are signs that many are adopting broader CSR mandates. While serving the poor remains the main focus, many stakeholders view this evolution as a dilution of poverty alleviation mandates. The final model is almost purely profit-maximizing and exists simply to serve the lower income financial market niche. These base-of-the-pyramid companies will be largely unconcerned with poverty alleviation. They will be commercially aggressive and could emerge as important, even dominate institutions.

These business models are not mutually exclusive within a given market, nor do any of them necessarily preclude impressive social impacts. The combination of each type of business model within a given market will determine the

Figure 1: Microfinance and Sector Lifecycle



The sector lifecycle is noticeable in many microfinance markets. Mexico is a prime example. Where only five years ago the sector had perhaps five viable microfinance providers, today there are at least 17 with scale including mostly non-traditional MFIs (e.g., three pawn shop lenders, two commercial banks, three consumer finance companies, four NGO MFIs, three financial cooperatives and two moveable asset lenders). One, Banco Azteca, has collected enough savings to figure in the Central Bank of Mexico banking sector systemic risk analysis. Despite relatively high prices for loans, prices are coming down. Compartamos rates are around 80 percent down, from over 100 percent or 20 percent three years ago. Rates for asset backed loans are under 30 percent down from over 50 percent at the turn of the century (by comparison, commercial bank loans to small businesses with 200 percent guarantee coverage is around 20 percent). Rates have over the years notably dropped in urban Bolivia and Kenya as competition has increased.

nature of the double bottom line challenge, as each offers a different approach to business and social impact. In many ways *Compartamos* is symbolic of change. Facing many BoP competitors and taking on private capital, *Compartamos* is defining a social impact or corporate social responsibility (CSR) "brand," and may provide a model for many other MFIs in similar circumstances.[7] There is much to learn from the *Compartamos* experience. Most importantly, the issue provoked a critical means-to-an-end debate: to what extent should microfinance rely on profit maximization to achieve its poverty reduction goals; or conversely, to what extent should social impact considerations drive the future of microfinance?

[7] Corporate Social Responsibility Brand Value © is copyrighted by Marc de Sousa-Shields and refers to the contributed value related to social and or environmental management to a total company's or organization's brand value. For the most complete information on brand value calculation please refer to Wreden, Nick (2005) Profit Brand, Kogan Page, London, England.

CHAPTER TWO: COMPETING MFI BUSINESS MODELS AND POVERTY ALLEVIATION

THE SOCIAL ENTERPRISE MODEL AND MICROFINANCE

Social enterprises are mission driven businesses that trade in goods or services for a social purpose. A defining feature of social enterprises is that success is measured in both social and financial terms. Typically started by business visionaries and financed by founders' savings, families, friends — and the occasional angel investor — the strength of social enterprise is its dynamic entrepreneurial zeal combined with a highly motivating social mission.

Social enterprises operate throughout the economy. They vary in nature and structure from traditional business using profits to support social aims (example, Newman's Own) to entirely alternative business models (Working Assets). These latter types infuse social and or environmental considerations in all they do from internal processes to product and service impacts. They often have alternative governance structures, many with cooperative or community ownership, while others involve internal and external stakeholders in governance decision making. Almost always, SEs are highly innovative either in terms of the products and services they offer (e.g., reintroduction of ancient grains, solar ovens, alternative medicines), or in the processes used (e.g., alternative low technology solar heating systems)

The brief history of modern social enterprise teaches that a mission driven business pretty much follows a standard business lifecycle; most remain small, though a few become large companies (i.e., over $100 million in revenues). According to David Vogel, author of The Market for Virtue, most successful social enterprises "are small and sell high-priced items such as fair trade coffee, ice cream with a mission to save the world, child labor-free rugs, and non-animal tested cosmetics. Growth is limited because social enterprises appeal to a small subset of consumers who want an uplifting experience so they can persuade themselves that they're not engaging in a grubby self-interested transaction." 8

In the few cases where scale has been reached (over $100 million in revenue) the SE model tends to break down and more conventional business practice becomes the norm. For many, the complexity of running a large, growing organization simply outstripped the capacity of "innovative" owner-managers, as was the case with the Body Shop. In other instances, such as Ben and Jerry's Ice Cream, excessive focus on "alternative" business practice led to severe financial weakness. Companies such as Saturn (cars) simply could not compete as a "socially responsible" automobile manufacturer, especially when other companies developed their own CSR brand. Both Body Shop and Ben and Jerry's were eventually bought by larger companies (L'Oréal and Unilever respectively) as valuable, but distressed, assets. Saturn is now managed as a traditional subsidiary of General Motors. Other businesses like Odwalla (juice) and Domini Social Investments saw significant growth (i.e., beyond industry norms) that flattened out as they began to compete more with conventional businesses (i.e., when they saturated the small subset market Vogel noted). Some businesses like Cliff Bar simply sold themselves to larger competitors, in that case to Power Bar.

No social enterprise in modern history outside of microfinance has come even close to being an industry leader. It is interesting and perhaps not surprising given the growth of CSR that several industry leaders have bought social enter-

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[8] Vogel, David, (2006) The Market for Virtue: The Potential and Limits of Corporate Social Responsibility, Brookings Institute Press, Washington, D.C.

prise. (See Chapter Two for a full discourse on CSR) Indeed this is becoming increasingly common in both the US and Europe. Leaders do this for a variety of reasons, from enhancing brand reputation to gaining control of valuable market niches, or as a way to learn about social enterprise methods.

MEASURING IMPACT FOR SOCIAL AND FINANCIAL PERFORMANCE MAXIMIZATION

Most social enterprises attempt to measure social impact. For some, dollars donated is a sufficient indicator. Others use measure sales or number of clients, as is largely the case in social investment, fair trade coffee, and microfinance. A few try to assess impacts using more complex impact data (e.g., client asset accumulation through solar panels use in rural areas or health improvements through purchase of personal hygiene products). Almost all social enterprise use anecdotal evidence — mostly for public relations purposes — which can result in overselling impact (as is claimed by some to be the case in microfinance).

Far from being disingenuous, the cost and technical limitations of social impact measurement constrain social enterprises from rigorously determining impact. Operating in competitive markets, often against companies unburdened by social imperatives, further reduces an SE's ability to do rigorous (and expensive) impact studies. As a result, proxy measures such as sales and number of clients have been the rule of SE impact measurement.

But as the SE model matures, increasingly efficient and effective measurement techniques are being developed. They are being refined not only to measure impact but to support business strategy and management. Measuring social impact helps address external business challenges, define business/product brand, understand client satisfaction, and assess markets. It also supports internal management issues of human resources and business processes. It is fair to say, however, that social impact measurement is still in its infancy in most sectors.

Social enterprises also have different measures of what constitutes financial success, with some seeking to be highly and others hardly profitable. Many social enterprises exist to simply serve a clientele (e.g., cooperative housing, long term health care, etc.). These enterprises often use the term "sustainability" instead of profitability; or they serve a market while making sufficient income to meet basic business goals. Others eschew profits on an ethical basis as exploitative, even if fewer profits limits growth and social impact. An increasing number of social enterprises seek strong financial performance. Some want high profits so they can give more to charities; others feel there is no inherent conflict between profits and serving a social calling; still others want to demonstrate and/or exploit the perceived power of combining social with financial missions.

SOCIAL ENTERPRISE IN DEVELOPING COUNTRIES

Developing country economies are populated with some of the most interesting and intriguing SEs in a range of sectors including alternative technologies, organic food producers, indigenous business cooperatives, and youth businesses.

Unfortunately, most developing country SEs are very small and face extraordinary economic challenges. Myriad barriers stand between a good entrepreneur and growth in developing countries. As anywhere, businesses yearn for stability, and developing market countries deliver anything but. Rapid inflation, unforeseen regulatory changes, capital controls, import-export fee changes, social strife, political turmoil, and periodic environmental disasters all regularly affect the fortunes of small enterprises. Economies are also often subject to oligarchic control in what Pacek and Thorniley call "Crony Capitalism," whereby a well-established business class controls most major economic activity and access to economic resources (from political power, capital, human resources etc.). This limits opportunities for small enterprise and most SEs, and creates market dynamics that seldom favor entrepreneurs.

This context is changing, argues Antoine Atmael, author of *Emerging Market Century*. But the entrepreneurial freedom and resulting "gales of creative destruction" so necessary for entrepreneurial success is still constrained in most developing countries. Businesses are rarely bought and sold, venture and equity capital are highly rationed, and market access is restricted — conditions not favorable to any small business, and particularly not to socially-oriented businesses, whose mission can also threaten the status quo (both in business and politics).

The result is that while there are many social enterprises in developing countries, few, even the most celebrated examples, are of significant size, save of course for some MFIs. Some of the most noted non-financial examples include the George Foundation in India, SEKEM in Egypt (market leader for organic products and crop remedies), BRAC in Bangladesh, and BOING (juice and related products) in Mexico.

SOCIAL ENTERPRISE IN FINANCE

There are many social enterprises with some scale in developed world financial markets. Credit unions have had commercial success in some markets — Germany, Spain, Quebec Province. Individual examples include VanCity Credit Union in Canada, and Deutsche Zentralgenossenschaftbank (German Central Cooperative Bank, the sixth largest bank in Germany). VanCity, with $10 billion in assets, and Deutsche Zentralgenossenschaftbank are significant in size, but certainly not market leaders by any stretch. Among commercial banks only ShoreBank (USA) and Triodos Bank (Netherlands) stand out as financial social enterprises with scale; although with assets of around $2 billion and $4.3 billion under management respectively, they are also dwarfed by most other commercial banks. There are also a handful of modestly large social investment firms such as Trillium Investment (U.S.), Morley (UK) or Domini Investments (U.S.).[9] Most of these businesses have over 15 years in the market (many credit unions much longer); like SE business in general, and despite significant relative scale, it is difficult to conclude that financial SEs have achieved more than modest success compared to their peers.

Some SE MFIs in developing countries have reached unprecedented scale relative to other financial institutions in their markets. ACLEDA Bank in Cambodia, Equity Bank in Kenya, MiBanco in Peru, Ag Bank in Armenia, and XAC and Khan banks in Mongolia all stand out. Rich Rosenberg of the Consultative Group to Assist the Poorest (CGAP) also argues "alternative" financial institutions with some sort of "social mission" serve some 750 million clients in the developing world, many of considerable size. These institutions include many state-owned banks (e.g., postal banks and state retail savings banks). While they do not always have the dynamic zeal of an SE and a driving commitment to social goals, they often offer important services with significant social impacts (e.g., affordable savings accounts, access to financial services in rural areas).

MICROFINANCE AS SOCIAL ENTERPRISE

The non-profit NGO MFI that flourished early in microfinance is an SE model. By their very nature early MFIs were SEs. They offered a highly innovative product to a completely new segment of the financial services market. Many began with alternative business models (e.g., cooperative, NGO, charitable organization) and often had innovative and alternative management structures.

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[9] Social investment as a whole now controls about 12 percent of all investment capital. This is an important accomplishment though it needs to be qualified by the fact that a great majority of the funds have a single social screen against tobacco.

TABLE 1: SIX SINS OF “GREENWASHING” AND MICROFINANCE	
Environment	**Microfinance** (plausible counter poverty alleviation claims)
Sin of the Hidden Trade-Off	
Energy-efficient” electronics that contain hazardous materials	Clients have capital but become forever indebted and do not significantly raise their income or economically and socially vulnerability.
Sin of No Proof	
Shampoos claiming to be “certified organic,” but with no verifiable certification	Data suggests that the poor are marginally better off and that microfinance has income smoothing effects but does not increase household assets and reduce poverty. No proof that the majority of clients are better off as a result of microfinance to support anecdotal or semi rigorous evidence that clients actually increase assets.
Sin of Vagueness	
Products claiming to be 100% natural when many naturally-occurring substances are hazardous, like arsenic and formaldehyde.	Microfinance offers the poor the opportunity to pull themselves out of poverty (i.e., access to finance is a dependent not a causal variable in poverty alleviation). Demand for services is great and therefore impact must be positive and great.
Sin of Irrelevance	
Products claiming to be CFC-free, even though CFCs were banned 20 years ago..	Graduating from poverty can simply mean going from living on $1 or $2 a day to $2 or $4 a day. Economic growth is really the driver behind reduced poverty.
Sin of Fibbing	
Products falsely claiming to be certified by an internationally recognized environmental standard like EcoLogo, Energy Star or Green Seal.	Anecdotal evidence of successful stories, e.g.,, Maria now has ten sewing machines and 15 employees and this is the possible outcome for all microfinance clients.
Sin of Lesser of Two Evils	
Organic cigarettes or “environmentally friendly” pesticides	If it were not for microfinance loan sharks would flourish.

As they grew, however, the SE business model used by most MFIs met significant limitations. Particularly, there was a need for more conventional management practices and the introduction of efficiency measures used by most for-profit registered corporate business models. Clear and accountable ownership structures were also needed. These pressures encouraged MFIs to transform into one of a range of new, more conventional business models — from privately held share companies to full commercial banks. This was demanded not only by regulators but by capital providers as well.

Not all SE MFIs have been pushed to abandon their roots. Several, such as Basix in India, remain solidly SE model business. A featured case study in this series, Basix is part of a consortium of companies which attends to different low income economic development needs in the communities they work from finance to business development services. On the finance side, they have three companies providing services to different market segments. The institution also has a strong commitment to innovative business linkages and development among rural production sectors. Basix is certainly not unique among MFIs; many would include the Grameen group of companies and BRAC in the SE mix. Few SE MFIs have, however, grown to the scale and complexity of these institutions.

Most transformed MFIs remained SEs, but with much more resilient governance and a stronger focus on financial and regulatory accountability. Notably, many continued to prefer the term "sustainability" rather than profitability, even as pressure for better financial performance, improved operating costs, and systems formalization pushed them towards more conventional business models. Indeed, it has taken a good deal of support, effort, and capital to create a new sub-sector of the financial industry replete with financially successful SE MFIs.

Ironically, however, the sector has proven financial potential beyond a doubt before providing conclusive proof of the premise upon which it was built: that is, that microfinance systemically reduced poverty. After three decades of donor support and "Nobel"-sized expectations, evidence of poverty reduction remains largely anecdotal.[10] This is a grave problem, as SEs stake their credibility on assuring social impact claims.

The challenge is similar in the environmental movement; where many companies claim environmental responsibility but cannot necessarily prove it. Lack of accountability has led to the term "greenwashing": the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service. Certainly many of these critiques and attendant risks conceivably apply to microfinance (see Table 1). How many observers now doubt the sincerity of *Compartamos* social mission? Firms from Nike to Shell, and even stalwart social enterprises such as the Body Shop and Domini Social Investments, have all come under attack at one time or another for the presumed distance between what they say they do and what they can prove they do.

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[10] There is no rigorous longitudinal analysis of the poverty impact on a significant sample of clients. See Goldberg, Nathanial (2005) Measuring the Impact of Microfinance: Taking Stock of What We Know, Grameen Foundation USA or Dichter, T, (2006) Hype and Hope: The Worrisome State of the Microcredit Movement: Microcredit: All Dressed Up and No Place to Go, available at http://www.microfinancegateway.org/content/article/detail/31747; or see http://www.cgap.org/about/faq04.html . CGAP publishes a series of important examples of how microfinance can meet Millenium Development Goals but it notably fails to provide reference to a rigorously tested example of *systemic* alleviating poverty impacts (i.e., can be applied in most contexts with sustainable and ongoing significant reduction of poverty).

BOX 4: WHAT IS THE IMPACT? MFI NETWORK ORGANIZATIONS POVERTY ALLEVIATION CLAIM (SOURCES ARE INSTITUTIONAL WEBSITES UNLESS OTHERWISE NOTED)

Microfinance is an "intervention that seeks to meaningfully roll back poverty"

Michael Chu, former president of Accion International,

Financial Times January 2008

It is widely acknowledged that microfinance is a key facilitator to reduce poverty in both developing and developed countries.

Raimar Dieckmann, Deutsche Bank

….FINCA's historic campaign is to create 100 million village banks and lift millions out of poverty by 2010.

FINCA

….giving people the financial tools they need – microenterprise loans, business training and other financial services –

to work their way out of poverty

ACCION International.

Women's World Banking's mission is to expand the economic assets, participation and power of low-income women entrepreneurs by helping them access financial services and information.

Women's World Banking

Putting Poverty out of Business

Katalysis Bootstrap Fund

…combining the power of microfinance, technology and innovative solutions
to defeat global poverty.

Grameen Foundation

Research for this report found the sector as a whole has not been particularly careful with managing poverty alleviation outcome expectations and evaluating impacts. As a *brand,* microfinance is promoted as a tool for poverty alleviation: when people "buy" microfinance they typically believe they are buying Poverty Alleviation — capital letters — as part of the purchase (i.e., it is the sector's CSR brand — see Box 4). International network organizations are particularly engaged in this, and a majority of organizations claim microfinance as a poverty alleviation tool. Interestingly, only about 50 percent of MFIs assessed for this report claim direct poverty alleviation impacts, with the balance typically promoting *access* to financial services as their CSR brand. This said, few MFIs contest their presumed CSR brand;

others are even less careful. One leading MFI, for example, allows itself to be portrayed as an economic model to change the world (paraphrased from promotional literature). [11]

In response to a nascent but growing debate and potential negative publicity, some MFIs are adopting a more cautious approach to qualifying poverty impact affects. One leading MFI, for example, uses the rather awkward phrase "providing tools for the poor to take advantage of opportunities to improve their lives." Hardly a slogan to inspire poverty advocates, but a clear hedge against social impact claims.

There is action being taken to address what Thomas Ditcher labels the gap between the reality and the propaganda of microfinance's poverty impact. Breaching this gap is *imperative* if microfinance is to ensure stable and continuous development agency support and, more critically, political support against rate caps and other inappropriate interventions. Significant social performance management (SPM) efforts have been undertaken by a number of MFIs and stakeholder groups.[12] SPM projects represent important steps towards understanding impact (see Box 4). Some focus on intent and design to ensure impacts, while others concentrate on outputs and outcomes, or more rigorous proof of poverty impact. Others — in the tradition of social enterprise — focus on design through implementation and performance management to enhance social and business performance.

However impressive and potentially important, no SPM effort to date has accumulated sufficient evidence to prove microfinance's systemic poverty alleviation (i.e., longitudinal data proving sustained and significantly increased household economic improvement using rigorous sample methodologies and control groups). Until such proof is available the *Dichter Imperative* exposes microfinance and MFIs to considerable CSR brand value risk.[13]

STAY SMALL OR GET BIGGER AND CHANGE

History implies most social enterprises will stay relatively small, become the property of larger businesses, or simply fade away. Those that do grow will be challenged by non-socially driven competition to the extent that they will *either* cease to be independent businesses *or* be driven to become more conventional. The unique nature of microfinance suggests it is plausible that a very well managed MFI could be become a financial sector leader *and* maintain an intense social enterprise ethos. This will be the exception and it is more likely that as MFIs grow they will become more conventional in their business approach.

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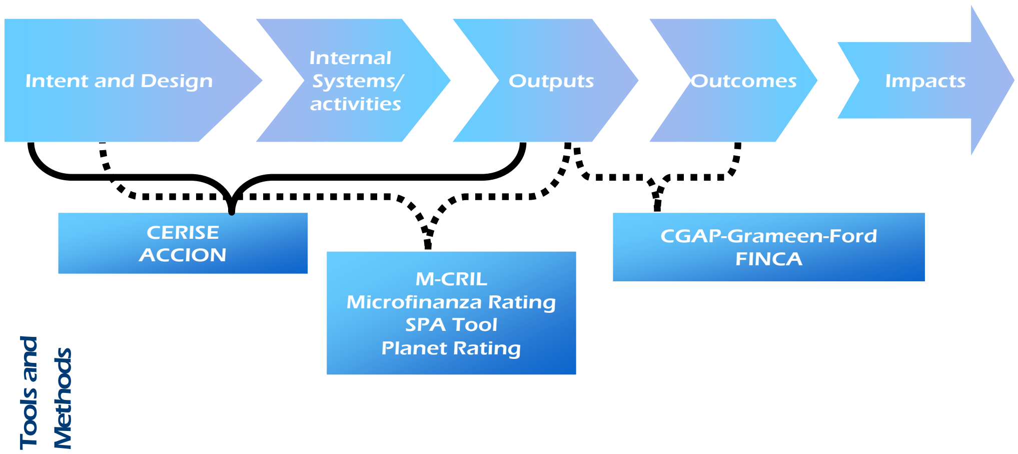
[11] The position of this paper is neither for nor against the claim that microfinance alleviates poverty. Rather, the absence of rigorous proof countered by host of compelling limited evidence of systemic impacts, our analysis simply tries to point out the potential risk of overselling impact as a part of the sector's brand.

[12] SEEP Network Conceptual Note (2006) Conceptual note on Social Performance, SEEP Network, Washington, D.C.; Hasemi, S. (2007) Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions, CGAP, Washington, D.C.; and ImpAct http://www2.ids.ac.uk/impact. For a number of relevant articles see USAID's Microlinks at http://www.microlinks.org/ev_en.php?ID=12688_201&ID2=DO_TOPIC

[13] Figure Two shows example. Social Performance Management practices and techniques only and there are a host of others not show which are equally applicable (for example, Accountability 1000, the Global Reporting Initiative, and a number of initiatives by USAID [see http://www.microlinks.org/ev_en.php?ID=10679_201&ID2=DO_TOPIC]).

FIGURE 2: SOCIAL PERFORMANCE MANAGEMENT



Source: Hashemi, S. (2007) Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions, CGAP, Washington, D.C.

Capital will be particularly influential in shaping MFIs and the sector. As SE MFIs grow and debt capital needs expand, donor capacity will be outstripped. Because savings account for less than 60 percent of MFI portfolio capital worldwide, private capital will be extremely important and influential as MFIs adapt to attract it. Many in the sector erroneously believe that social investment (variously defined) will provide funding on a less intrusive basis. Unfortunately, over 99.5 percent of the USD 2 trillion in social investment capital in the world is allocated on the bases of the same regulatory regimes and investment practices as conventional capital.[14]

As a result, the most promising sources of non-deposit capital are local or regional bond and long term certificate of deposit markets or international securitization and bond issues. These transactions can be structured to meet the needs of MFIs and a range of investor risk and liquidity needs. They are reasonably low cost to both the investor and MFI (if the issues or deposits are large enough). These vehicles also provide access to virtually limitless pools of capital as long as MFIs conform to business practices attractive to conventional (i.e., not social) private capital.

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[14] See de Sousa-Shields, Marc and Cheryl Frankiewicz, (2005) Financing Microfinance Institutions: The Context for Transitions to Private Capital is available at http://www.microlinks.org/ev_en.php?ID=5967_201&ID2=DO_TOPIC Under Theme 5, Access to Capital. See also de Sousa-Shields *et al.* (2004) *et al* Sustainable and Responsible Investment in Emerging Markets, International Finance Corporation of the World Bank.

On the equity side, lifecycle economics predict MFIs will need capital far beyond that which social investors, let alone donors, can provide. Where will this capital come from? Interviews over the years for USAID's *Transitions to Private Capital* (TPC) series speak of the sector's inability to accept conventional owners, preferring "like-minded" social investors first, and sales of minority stakes to broad ownership through IPOs second. There are few social investors able to or interested in investing in MFIs, particularly in developing countries. When capital is required, as a result, MFIs have tended to look to international investors like the International Finance Corporation and the FMO among others.

It is not clear that this strategy will safeguard social missions. If exploitative interest rates and profits were the case with *Compartamos*, where was the influence of its board, which has a significant number of social investor and development agency representatives? Social investors as owners may not guarantee any business outcome, social or financial. In fact, TPC research has argued in several publications that these types of investors may actually forestall sector rationalization by avoiding mergers, acquisitions, and failures, and in doing so, oppress creative destruction within the sector that may be the key to maximizing sector wide social impact.

Social enterprise history underscores the complications of social and financial governance objectives, which suggests that the preoccupation over guarding social mission from private capital ownership is well-founded and exaggerated at the same time. While it appears that new non-socially driven ownership can dilute a company's social mission emphasis, it does not typically change a company's market focus: Equity Bank, for example, continues to develop rural branch banking for the poor even as it has a significant share ownership by private investors. Social enterprises are bought exactly because of their market niche and corresponding brand value. This may be particularly true in microfinance. Why, for example, would a large bank purchase an MFI and then change its market focus? Large loan mission drift, for example, simply makes little economic sense from this perspective.

Box 5: CSR Management Challenges and Issues (Examples)

Processes & Management

Human Resources

Worker Safety; Human Rights; Gender and Minority Rights

Environment

Energy use; Emissions; Material Wastage

Community

Charitable Giving; Economic-Social Impact

Product/Services

Quality; Guarantees; Safety

Stakeholders

Internal

Employees; Management; Board

External

Subcontractors; Suppliers

Consumers/Clients; Vendors/Distributors

Shareholders; Community Groups

Unions; Advocacy Groups

Far from harmful, carefully selected non-social enterprise partners can add great strength to a social enterprise. They can bring better governance, fresh strategic ideas, strong financial performance focus, market opportunities, new capital, business, and political network access. Fresh debate on financial and social missions can also sharpen a company's ability to achieve both.

THE CSR BUSINESS MODEL

From the earliest efforts of companies in the late 19th century to establish utopian communities around their industrial sites, to British Petroleum's recently re-branding as an "alternative" energy "Beyond Petroleum," corporate social responsibility has in many guises been a feature of modern economics.

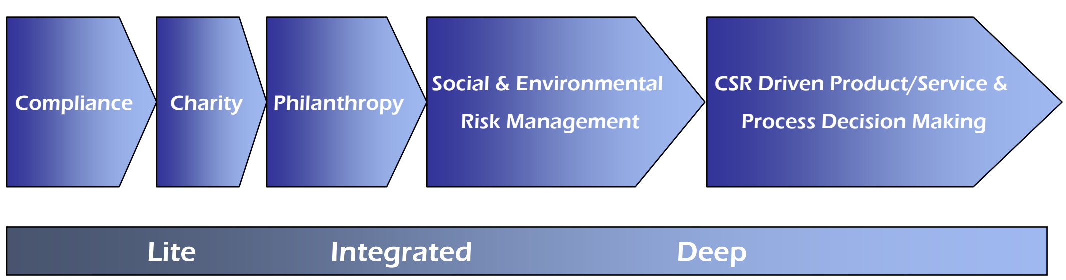
The First Law of Corporate Social Responsibility

Social responsibility and profitability are not inversely correlated.

CSR also goes by many names and has been defined in innumerable ways.[15] For the purposes of this report, CSR describes a company's attitude towards its social and environmental responsibilities, and how this translates into social and environment impacts. Considerations include both the impact of products and services *and* the means by which they are produced. Some impacts are internal and external. Gender equality and labor conditions are examples of internal and community welfare, and carbon emission examples of external impacts. Thus all companies have internal and external stakeholders, each of which has an interest in the impacts of a company's activities (see Box 5).

The extent to which a company commits to managing impacts depends on a number of variables. Figure 3 shows the "CSR spectrum," with simple legal compliance at the low end and comprehensive CSR policies that influence a company from the beginning of input supply chains to the final product at the high, or deep end. CSR informs and influences almost every decision a corporation makes at the deep end of the spectrum.[16]

Figure 3: CSR Spectrum©



There are few firms actually operating at either extreme of the spectrum. Most companies have some sort of charitable program or activity; fewer have comprehensive CSR programs affecting all business decisions. Those that do are similar to if not indistinguishable from social enterprises. There is a key difference, however: CSR firms seek profit for

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[15] See Hopkins, Michael (2007) Corporate Social Responsibility and International Development, EarthScan, Sterling, Virginia, USA. For a serious discussion on the definition of CSR and how it has affected the nature and scope of corporation's concern for and attempts to control their impact on society and the environment. See also www.mallenbaker.net.

[16] For more detailed explanation see Strandberg, Coro, 2002, The Future of Corporate Social Responsibility, VanCity Credit Union, Vancouver, B.C., Canada.

profit's sake, but recognize the importance of managing their social impact. They do not seek to change the world *per se* but do recognize that by minding their impacts the world indeed will be changed for the better. Social enterprises' *raison d'etre* by contrast is to save the world, or at least one part of it.

While some observers claim that CSR initiatives have only made the impacts of corporations slightly less awful, over 80 percent of chief executive officers surveyed by Price Waterhouse Cooper believed CSR was crucial to profitability.[17] A more recent survey for the Economist Intelligence Unit found that 54 percent of senior executives worldwide believed that CSR gave companies a distinct market position.[18] Recent consumer surveys show that 80 percent of developed country consumers prefer to buy from companies with good CSR reputations (although only 20 percent will avoid buying from companies with poor CSR records). The effect of CSR on profitability has been found to be mixed, and most analysts observe that on average CSR seem to be neither good nor bad for a company. This finding may change, warns the *Economist*, which recently proclaimed:

Box 6: CSR Drivers

Internal Drivers

Legal Compliance	Senior Executive Champion(s)
Board Champion(s)	Employees
Eco Efficiencies	Brand Advantage
Competitive Advantage	Shareholders

External

Civil Society Regulation	**Self Regulation**
Consumer Demand	Brand/Reputation
Advocacy Group Pressure sure	Social Investor Pres-

Important Tools

Social Impact Measurements	Codes of Conduct
Reporting Transparency/Verification	
Internet Communications	Shareholder Actions
Consumer Boycotts	

> *A company that is weak on both values and commercial competence is simply a bad business. One that has strong values but is badly run, without proper attention to translating values into profits, will plainly not do well. In contrast, a company that is highly competent commercially but does not bother with corporate responsibility may work just fine, but it could also prove increasingly risky. Lastly a combination of strong commitment to CSR and strong commercial competence gives a good chance of success.*

In the same issue, the magazine laid to rest once and for all the late economist Milton Friedman's enduring warning that the sole responsibility of a company is to seek shareholder value, by stating that "firms are not richly rewarded for

[17] Cited in Pacek, Nenad, and Daniel Thorniley, (2007) Emerging Markets: Lessons for Business Success and the Outlook for Different Markets, The Economist, in association with Profile Books, London, UK.

[18] Economist Intelligence Unit (2007) Global Business Barometer, available at www.economist.com/media/pdf/20080116CSRResults.pdf

CSR but it does not typically destroy shareholder value" adding "Might cleverer approaches to CSR in future produce better returns?" The message: companies ignore CSR at their own peril and that of their shareholders.

Corporate social responsibility will form an increasingly important element of a company's competitive advantage as it becomes a more conventional feature of corporate strategy. This will require increasingly "clever" CSR management of a range of corporate processes, product and services, and stakeholders. To get the most out of CSR, claims Allen White, scholar and associate of Business for Social Responsibility, managers will need to manage both tangible and intangible human and capital assets for specific conventional *and* CSR outcomes — from excellent and progressive human resource management, strong stakeholder relations, superior public relations, and exceptional internal dialogue on CSR and business issues. To do this, companies need committed, well-informed managers who excel at CSR *and* conventional business management where business and social mission goals are bound together in the DNA of a company.

Box 7: Corporate Social Responsibility Codes

There are over 250 CSR codes of conduct. Some are general in nature and others are specifically tailored to one sector. Most have voluntary compliance. The four important codes to microfinance are:

Global Compact – United Nations.- A framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. See: http://www.unglobalcompact.org/index.html

Global Reporting Initiative – A large multi-stakeholder network reporting framework that sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. See http://www.globalreporting.org/Home

Equator Principles – World Bank – A set of operational principles for World Bank project finance that ensures projects are developed in a manner that is socially responsible and reflect sound environmental management practices. See: http://www.equator-principles.com/principles.shtml

Sa-Dhan Microfinance Code of Conduct – Coalition of Community Finance Groups in India – Provides a voluntary code of conduct with three parts:
1. Core Values in Microfinance;
2. Voluntary Mutual Code of Conduct;
3. Compliance Mechanism

Done well, CSR strategies reduce costs, improve products and service quality, build brands, and enhance corporate reputations. Good CSR also provides a kind of insurance policy against business risk, a particularly important contribution in developing countries where respected companies face volatile markets and unpredictable non-market impacts on business activities. In the event of a crisis of confidence, for example, companies with good CSR brand value, often receive less damaging press, political pressure, and few client or labor demands.

Despite the *Economist's* declaration of a new era for CSR, the challenge of managing for financial and social outcomes will not lead to a radical shift *en mass* along the CSR spectrum. Advances will continue to be cautious and incremental, marked by periodic rapid advances in areas like carbon trading and emissions control. Change will continue to be driven by the same combination of forces in the foreseeable future (see Box 6). Each CSR driver will range in importance by sector and national economy, as well as competing business strategies.

An important driver/outcome of increasing sensitivity to CSR is pressure for greater accountability and transparency. Over 2,000 major companies (mostly in developing countries) have signed or are using as guidance one of 250-plus CSR codes of conduct or principles (a sample of these codes are found in Box 7). Signing a code encourages companies to meet impact standards to which they can be held accountable. Because most codes are only voluntary or non-binding, there is extensive pressure on companies by external stakeholders to publish CSR reports as a means of public oversight. The quality of reporting varies from pure public relations exercises to serious efforts to measure and report on impact. A variety of important CSR stakeholders — the United Nations, the World Bank, NGOs, other multi and bilateral agencies (e.g., ILO, CIDA etc), coalitions of companies etc. — are competing to attract companies to their reporting initiatives or codes, which has had a positive market based influence on the quality of reports (i.e., companies want to sign up to the most prestigious codes).

There is a parallel trend towards greater verification of CSR activities or to assure companies are doing what they advertise they are doing — for example, a running shoe retailer claims it is not using child labor, a chemical manufacturer says is not polluting, a car maker promoting 100 percent recyclable cars, or an MFI claiming poverty alleviation impacts. In a manner similar to financial audits and like social performance management, verification compares policy, strategic goals, and actual performance. In addition to valuable management information, verification also allows companies to confidently report CSR performance.

One of the great verification challenges is that, unlike microfinance, CSR issues are more numerous and vary greatly by industry and economy, making standardized reporting difficult. Even within sectors, radically different management approaches to CSR make standardized and thus comparable measures hard to develop. Like microfinance poverty assessments, CSR concepts are difficult and expensive to measure and open to interpretation. The result: there are many codes, little cohesion, and less verification than ideal.

CSR reporting has nonetheless grown rapidly over the

Box 8: Example CSR Activities in Developing Countries

There are host of both domestic and developed country multinational corporation examples which led to promising expectations.

- CEMEX's low income housing finance program in Mexico,
- Anglo American's small business lending in South Africa.
- HP's virtual schools in rural east Africa demonstrate profitable corporate investments in CSR.
- British Petrol Pipeline community Impact program Azerbaijan
- Tata Industry of India support for sustainable communities
- ABN Ambro Brazil Environmental risk management work
- Sharia Investment funds in the Middle East

last five years and most large and many smaller companies regularly publish CSR reports.[19] Fewer than 20 percent, however, conduct some form of third party performance verification. This is likely to change as corporate leaders now feel they can no longer resist the pressure, or lose the opportunity, to become world-class CSR companies. In response, there is an emerging and competitively driven CSR assurance industry. Vying for predominance are Social Accountability (SA) 8000, Accountability 1000, the Global Reporting Initiative, and the International Standards Organizations each of which have or will soon have verification standards (only SA 8000 and Accountability currently has verification protocols in place).[20] Some companies also use independent consultancies to verify performance.

[19] CSR reports include: Corporate Citizenship Reports, Sustainability Reports, CSR Reports or the terminology adopted by a given company. See Hopkins, page 15 for various terms.

[20] See Social Accountability (SA) 800 at http://ts.nist.gov/Standards/Global/sa8000.cfm; Accountability 100 see: http://www.accountability.org.uk; and ISO Social Responsibility at http://isotc.iso.org/livelink/livelink/fetch/2000/2122/830949/3934883/3935096/home.html?nodeid=4451259&vernum=0

CSR IN DEVELOPING COUNTRIES

Michael Hopkins, formerly of the International Labor Organization, has made the only extensive study of CSR in developing countries. His aim was to see whether CSR can simultaneously produce profitability and significant "development" impacts (e.g., such as those of the Millennium Development Goals). He arrives at the same conclusions as the *Economist*, Vogel, and others, that on balance CSR seems to neither hurt nor help profitability. As to impact, Hopkins argues while there have been impressive singular and isolated impacts, there little evidence suggesting CSR has systemic development impacts. (See Box 8 for examples)

Many leading developing country CSR issues are the same or similar to those in developed countries. A six-month review of CSR practice in developing country markets concluded that poverty alleviation, minority rights, corruption, and environment are top CSR issues.[21] The review also concluded that most of the CSR drivers found in developed countries are also present, albeit often in different forms and with different degrees of influence. For example, in many countries civil society is relatively weak and does not always enjoy the freedoms found in developed countries (particularly the press, NGOs, and academia). Government's inability or unwillingness to enforce social and environmental laws also serves to weaken civil society.

Reporting and verification of CSR activities are also emerging as critical drivers of developing country CSR, as many larger national companies strive to attain international CSR status. A recent report by KLD Analytics, a leading social investment analysis firm, shows developing country CSR reporting lagging both in numbers and quality, though some countries such as Brazil and India have seen significant advances in recent years. At the same time and from a different angle, social investment is also slowly emerging in some markets including Brazil, South Africa, and India, where companies have established social investment stock market indexes based on the best performing CSR companies. Being included on these indices is considered a significant public relations coup. It has also helped to legitimize and increase CSR reporting transparency.

Indigenous CSR standards and priorities are emerging in many developing countries, but for the most part, aspiring to developed world practice is still the standard. This will change over the course of the next ten years as an increasing number of firms from the developing world become world leaders in their own right. In the meantime, most developing country CSR programs focus on charity and philanthropy, much of which is unfocused and not related to a company's core business. The result is that CSR is generally not advanced in most countries in the developing world. As noted, there are exceptions, such as Cemex, the Mexican based cement products supplier, which has developed a low income progressive housing loan product allied with some technical assistance for homebuilders. Magitel, a cell phone provider in Armenia (amongst other former Soviet countries), provides rural clients low cost and concessional pricing to ensure permanent connectivity.

CSR AND THE FINANCIAL SECTOR

Even though almost all large financial institutions from retail to investment banks have CSR activities, the financial sector has a mixed CSR record. A few financial services firms even have somewhat advanced social and or environ-

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[21] Enterprising Solutions Global Consulting internal review found the environment was often considered an important issue. Many developing country CSR advocates feel that so many problems are the result of poverty, including and sometime especially environmental degradation, that it must be addressed before all else. For more information write mdess@esglobal.com.

mental products, services or practices. Like many non-financial counterparts, however, the most seriously engaged in CSR are still only "CSR lite," where policy and practice is limited to the margins of corporate strategy and business practice. Even the more innovative institutions typically only devote a very small percentage of resources to their CSR activities. (See Figure 3, the CSR spectrum)

Marcel Jucken, a Dutch financial sustainability expert, estimated that 6 percent of all banking activity from a sample of the largest European and North American Banks could be considered more than "CSR Integrated."[22](Refer to Figure 3) Another 25 percent of Jucken's sample could be classified as CSR Lite. Jucken noted that the bulk of activities consisted of charitable activities (e.g., Rabo Bank Foundation) with a few banks offering social and environmental financial products (e.g., community group loans, low income housing loans, green housing loans, etc.). A more recent study in North America observes similar findings, noting that more banks are creating social and/or environmental products (albeit representing only a small fraction of overall assets).

The financial sector landscape in developing countries is similarly dotted with good but limited intentions. The most active CSR programs are usually found in multinational banks, but not exclusively. Many developing country banks, insurers, and some investment houses have signed on to one or more important international codes. Many large financial institutions also have impressive charitable activities such as HSBC's worldwide program to support education. ABN Amro Brazil has a notable environmental risk management and CSR program which make it a pioneer in Brazil's relatively vibrant CSR movement.[23] Others institutions like CitiBank (USA) and Rabo Bank (Netherlands) have significant involvement in microfinance.

Few banks, however, have developed social and environmental products and services. Fewer yet use CSR principles to direct and or inform lending, save environmental risk assessment in a few countries like Brazil. Barclays and Standard and Charter, among other banks in South Africa, are well known for black empowerment lending initiatives. Like the directed lending policy in India mandating commercial bank involvement in microfinance, or the community reinvestment act in the U.S., banks in South Africa are responding more to a "policy push" than "market pull" which makes it unclear if they would have as much CSR on their own.

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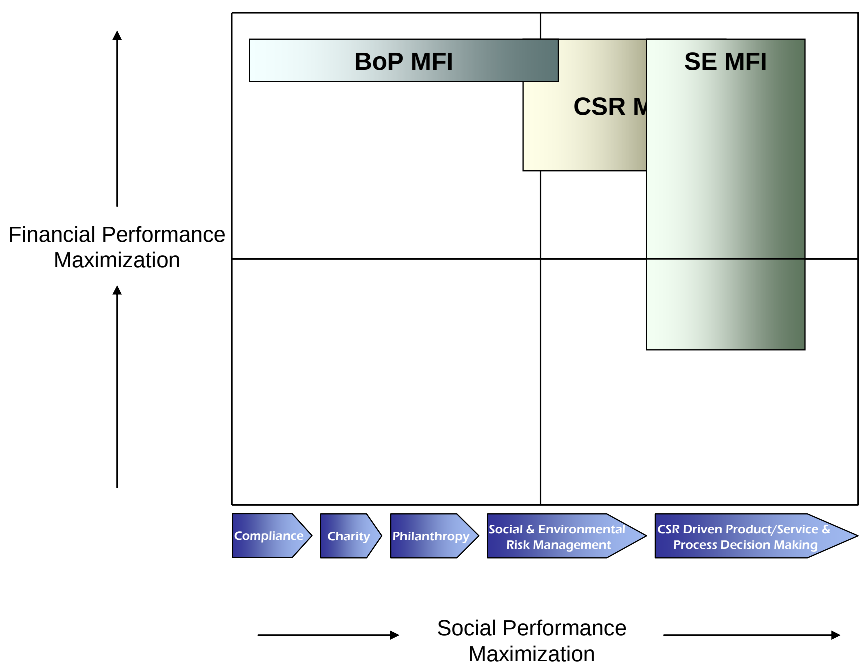
[22] Jucken measured sustainability with a primary focus on environmental impacts).

[23] See http://www.corporates.abnamro.com/corporates/docs/country/brazil.jsp

CSR AND MICROFINANCE

Few MFIs manage a broad range of CSR issues. They rarely excel at leading edge human resource management, pay little attention to the environment, and seldom engage in broader community development initiatives. MFIs' singular focus on poverty alleviation and limited scale (until recently) is for many ample reason not to address other CSR issues. If we were to place them on the CSR Spectrum, they would be far to the right but low on the vertical scale (see Figure 4).

Figure 4: Microfinance Business Models Profit and CSR Spectrum



As MFIs grow, this is changing. Several MFIs, with the support of Hivos Foundation and Triodos Bank (both of the Netherlands), have been working to institute the Global Reporting Initiative (GRI) which will inevitably broaden their CSR outlook. Equity Bank in Kenya has a senior vice president for CSR; the CEO of ACLEDA Bank in Cambodia, also a GRI participant, notes the strategic and competitive importance of CRI and attracting social investors. *Compartamos* in Mexico has been recognized as one of the best places to work in Latin America on two occasions. Others, like Prizma in Bosnia-Herzegovina, are innovating sophisticated social impact management, reporting, and verification schemes. Some MFIs have begun serious efforts in the area of consumer protection and client indebtedness. Others, like Freedom From Hunger, integrate health and education initiatives with microfinance. Grameen is pioneering allied social enterprise. Finally, there is also emergent interest in "green microfinance," particularly in indigenous and rural communities, where the natural resource management is a critical element of the social economy.[24]

[24] See Green Microfinance LLC at http://www.greenmicrofinance.org/index.php?option=content&task=view&id=10&Itemid=eferences .

Many MFIs are beginning to resemble conventional business peers who use CSR to inform and develop business strategy. SPM efforts have helped advance and broaden social responsibility concepts in microfinance as well. Arguably this has or will have the effect of moving microfinance up and towards the left of the Microfinance Business Models Profit and CSR spectrum (Figure 4, whereas a social enterprise approach would move up and to the right.

CSR AND MICROFINANCE IN THE FUTURE

By virtue of a century-old social compact, companies have unavoidable social responsibilities, and no matter what latter day "Friedmanites" like to claim, making a profit has never been the unique term of this contract. Until recently, larger businesses have been expected to not just comply with the law but to engage in some minimal charitable activities. In some developing countries, larger companies are often encouraged by government to build roads, schools, and clinics. More generally and in developed countries particularly, the Internet, rising consumer affluence, social investors, ultra-sensitive global brands, and increasingly savvy advocacy groups amongst other forces are increasingly holding companies, large or small, directly, or as part of a supply chain, over the fire of social and environmental accountability.

All companies are being increasingly held accountable for their impacts, and financial services companies are no exception. Those that do not meet expectations will almost certainly experience an erosion of their "CSR brand" (or poverty alleviation brand) *a la Compartamos*. This brand is an intangible asset whose value is determined by the manner in which a company manages CSR issues and challenges set out in Box 5. The value to a company, particularly an SE or company with a significant CSR profile, is considerable: according to Innovest, an investment advisory, CSR brand value can generate up to 15 percent of a firm's profits.[25] This value is highly sensitive, and if poorly managed, can lead to significant CSR brand value erosion. Just ask British Petroleum or Royal Dutch Shell how much they had to

Box 11: The Second and Third Laws of Corporate Social Responsibility

The Second Law of CSR states that the crisis a *company averts* through good CSR practice is always less painful than the costs, uncertainties and legislation that certainly follows the crisis they don't avoid.

Adhering to **The Third Law of CSR** which states to avert CSR Brand Value crisis, companies must know and understand their stakeholders.

Effective stakeholder management is part of this. It is surprisingly inexpensive, for example, to sort out and manage stakeholder interests and claims on a company. What is more, simple stakeholder engagement processes can not only identify business risk, but almost always unearths opportunities as well. Mathew Kiernen of Innovest, an investment advisory employing environment and social governance analysis, has argued for some time that companies anticipating and managing environmental and social governance issues well consistently outperform those that do not. Major pension funds using Innovest products, naturally, agree.

invest to improve their CSR brand value after respective environmental and social misadventures (Brent Spar and Nigerian oil fields). In finance, the CSR brand value may pose even greater risk The great public trust and confidence required by this sector can be lost through a single poorly managed CSR challenge (e.g., high interest rates).

The Internet has inexorably changed CSR. It is the new a*uto da fé* of corporate social and environmental accountability — witness the Internet-based reaction to the *Compartamos* IPO, where practitioners on all continents joined in and aroused vigorous public debate, much of it intensely critical.[26] Increasingly well-informed and more often than not cynical "Internet citizens" can determine the fate of a company's CSR brand value even without a direct stake in a company. Public relations to counter a CSR crisis have shown to do little good, as that only ignites stakeholder imagination and an already poor view of business. In the case of *Compartamos*, chat rooms, blogs, list serves, committee rooms, and leading poverty advocates are all discussing ways to fix the "problem." Many influential stakeholders, including Nobel laureate Mohammed Yunis, are pushing arbitrary limits to profits or rate caps, fulfilling the prophecy of the second law of CSR: that crisis almost certainly leads to regulation. Now more than ever, MFIs and stakeholders must adhere to the Third Law of Corporate Social Responsibility, which requires companies to understand their stakeholder's needs and interests as if they were their own. This does not mean a company must always please all stakeholders all of the time, but rather that to avoid crisis, companies need to continuously dialogue with stakeholders and manage expectations.

Managing stakeholders will become increasingly important as MFIs integrate into a risk intolerant conventional financial system. There will be strong pressure for MFIs to move from a singular poverty focus to a broader CSR modality as conventional capital and regulation encourages operational standards to conform to fairly conventional business models. Stakeholder dynamics will also change as more will hold the profit-maximizing ethos. Conventionality will tolerate only so much "social entrepreneurialism" and, as a result, a broader CSR focus will assuage socially minded stakeholders while offering a more comfortable model for profit motivated stakeholders.

For MFIs with SE leanings, this shift may be unpalatable as a singular focus on poverty alleviation will necessarily be diluted to accommodate other CSR issues. For some, this change implies a significant loss of CSR brand value. But for others, this tact will offer new opportunity. It has already helped MFIs such as Equity Bank and its stakeholders broaden their view of poverty alleviation to increase small business lending. *Compartamos'* focus on developing its employees has led it to be one of the best places to work in Latin America. This has resulted in low turn over of staff in a highly competitive professional labor pool. Some hypothesize that a strong CSR brand value will also help MFIs weather economic, political, and environmental crises better than other institutions.

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[25] Innovest does not use the term CSR Brand Value. Instead they focus on Environmental and Social Governance which is essentially the same but more palatable to institutional investors who are their clients.

[26] Importantly, while the debate overall generated a good deal of excellent dialogue and some better understanding, much of it was based on incomplete or ideologically directed information often forcefully debated by stakeholders entirely unfamiliar with *Compartamos* and or microfinance. The point to note is that there is no right or wrong analysis, but that opinions were formed about microfinance and *Compartamos* based on less than complete analysis and information which formed impressions of both. In some debates, microfinance practitioners of some influence in Asia did not even know which country *Compartamos* operated in let alone its operating context, yet felt comfortable setting arbitrary rate caps. See the Microfinance Practitioners (MicrofinancePractice@yahoogroups.com)and the Development Finance (devfinance@ag.ohio-state.edu)list services.

CSR related risk remains, however, albeit spread across a range of social and/or environmental considerations. The greatest immediate risk surrounds stakeholder expectation management, particularly as MFIs grow and more demonstrable social impacts are demanded. Key to managing expectations will be social and environmental reporting and verification. MFIs taking a CSR approach will be bound by the movement's truth-in-advertising expectations.

Microfinance will get no free pass in the CSR community, and social performance or impact proof will be required. In the absence of such proof, we have seen MFIs position themselves away from poverty alleviation brand as a means to modify stakeholder expectations. Better CSR brand value management will be a must, for if there is one CSR maxim that holds true it is "the nail that sticks out gets hit first." Nike, WalMart and British Petroleum, among others who excel in some ways in CSR, all attract great negative attention to their processes and impacts. MFIs advancing a CSR model will not escape similar scrutiny. The main difference for CSR MFIs will be the requirement to manage several CSR issues, albeit less deeply.

THE BASE OF THE PYRAMID MODEL

An estimated 4 billion people around the world live on less than $2 per day. Ignored for the most part by the formal economy, this is the base of the economic pyramid, a market recently made popular by C.K. Prahalad who views the poor as a market opportunity second to none. The sheer size of the BoP market is exciting corporate interest, and management and technology innovations are enabling firms to sell at the base. Decreasing transaction costs have come about through better market information, allowing for targeted market segmentation and niche development. Innovative distributing strategies such as shared distribution systems have also decreased transaction costs. The most important advances however have been corporations' ability to innovate appropriate products and services for the low income market, such as no frills mobile phones, appliances, and food products.

Some BoP theorists claim that simply serving the base will alleviate poverty as it helps to "integrate" the poor into the formal economy. Competition will encourage more appropriate and higher quality products and services at lower prices, offsetting the so called "Poverty Penalty" or higher prices and or lower quality the poor typically suffer for most of life's basics – food, water, and medicine.[27]

Prahalad argues that selling to the base also affords the opportunity to work with civil society and local governments to create new business models that more purposefully alleviate poverty, and at a more fundamental level, than simply selling to the poor. Unfortunately to date, few sectors have proven to be as amenable to the kind of multi-stakeholder best practice approach found in microfinance.[28] Other products and services certainly have important impacts on the poor, but few hold the promise to self-perpetuate poverty alleviation as microfinance portends.

For critics of the BoP, other than addressing the "high cost of being poor," there are no obvious poverty alleviation effects of selling to the base. In practice, the only concrete and systemic impact of the theory has been to encourage large companies, particularly developed country multinationals, to consider selling to the poor. Others, expanding on Prahalad, suggest the only way to alleviate poverty is to focus on the poor as *producers* rather than just as consumers; others want to think of the poor as business partners and innovators. Several efforts, such as that led by Stuart Hart at the Centre for Sustainable Global Enterprise, have been working to join the interests of companies such as Johnson and Johnson and Dupont with those of the poor. Despite promise, the impact of these efforts remain local, costly to

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[27] Prahalad, C.K. and Allen Hammond, *Serving the World's Poor, Profitably* in Harvard Business Review on Corporate Social Responsibility, Harvard Business Press, Boston MA, USA. Pp 1 -26

[28] For example, it took significant negotiation for a Unilever and an UNICEF to work together on a health project because the former wanted to use their soap to promote personal hygiene but the latter did not want to be associated with a profit driven commercial venture.

develop, not easily replicable, and often ephemeral. A recent World Bank study found that the poor tend to prefer jobs to being entrepreneurs and that microenterprises do not create much salaried employment, suggesting that "poverty alleviation" are not necessarily led by poor entrepreneurs.[29]

N.E. Landrum argues that the poverty impact of BoP is largely serendipitous and that it is impractical to think BoP strategies alone will alleviate poverty. As we are seeing in the U.S. today, consumption driven economics rarely build lasting wealth and income gains. Easing the "poverty penalty" through lower cost consumer items will have some impact, but it is hard to imagine more than marginal gains given the multidimensional nature of poverty. Moreover, consumers at the base — the poor — have little consumer protection and are exposed to all sorts of exploitation despite their collective market significance (as some claim to be the case in microfinance).

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[29] de Mel, Suresh, McKenzie, David and Christopher Woodruff (2008) Who are the microenterprise owners ? Evidence from Sri Lanka on Tokman v. de Soto, World Bank Policy Research working paper ; no. WPS 4635

BASE OF THE PYRAMID AND MICROFINANCE

If there was a sector exemplifying Prahalad's ideal BoP sector, it must be microfinance. Microfinance is a niche within the broader financial sector and unlike selling soap, appliances, or low cost medicine, it claims the potential to help build poor household wealth and income — microfinance is not about saving a few pesos or yuan on detergent, its primary development objective has been poverty alleviation. Like the challenge set out by Prahalad, microfinance has certainly overcome cost barriers to reach the poor. Notes Larry Reed, formerly head of Opportunity International, the central proposition of microfinance is:

> "…the ability to break large sums of money down into small units and then collect repayment, and the infrastructure needed to provide a place for staff to work from, clients to meet, and data stored."

Consistent with BoP economics, microfinance also seeks to integrate the poor into the formal economy so they too can access the products and services used by higher income markets to augment and increase household assets. If the theory is correct, demand will create a massive and stable market for microfinance, attracting more and stronger institutions offering an increasingly affordable and larger range of pro-poor services, and creating a virtuous supply and demand cycle that helps billions escape the grasps of poverty.

Civil society has been a critical element in creating this cycle. At the international level the multi- and bilateral donor activities led by the Consultative Group to Assist the Poorest is complemented by private foundations, dozens of national microfinance associations, MFIs, and various other stakeholder support organizations. Government and financial regulators often provide input to the development of the sector through sound regulatory regimes and economic development policies.

CONVERGENCE AND DIVERGENCE: NEW MODELS FOR MICROFINANCE?

Are new business models with divergent double bottom line objectives evolving in the sector? Do CSR MFIs exist, and are they, as theory suggests, more cautious about their CSR brand value? Are SE models smaller and more poverty alleviation focused? Do BoP institutions have a poverty focus at all? Understanding these questions about the evolving structure of microfinance business models is critical to predicting the potential social impact and social performance management challenges of the sector.

A survey of 27 MFIs drawn from 269 institutions on the Mix Market with a five diamond rating for transparency were categorized as having an SE, CSR, or BoP business model. They were also categorized as having either a poverty alleviation or capital access mission.[30]

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[30] Assessments included analysis of mission statements found in annual statements, websites and Mix Market profiles. See Appendix One for key findings for each institution in the sample.

TABLE 2: MFI MISSIONS AND BUSINESS MODELS						
Institutional Objective (N 27)						
Poverty Mission	58%					
Access Mission	42%					
MFI Enterprise Model (N 27)						
	Percentage of Sample	**Poverty**	**Access**			
Social Enterprise	78%	67%	33%			
Corporate Social Responsibility	19%	20%	80%			
Base of the Pyramid	4%	0%	100%			
Institutional Objective and Enterprise Model by MFI Asset Size (N 27)						
		Institutional Objective		**MFI Enterprise Mode**		
Asset Size ($US)	**% Sample**	**Poverty**	**Access**	**Social Enterprise**	**Corporate Social Responsibility**	**Base of the Pyramid**
Small - to 20 million	70%	63%	32%	94%	6%	0%
Medium - 20 + to 100 million	15%	50%	50%	60%	40%	0%
Large + 100 million	15%	0%	100%	50%	25%	25%
Data from the Mix Market and MFI websites. Sample drawn from a population of 269 MFIs through a stratified selection. See Appendix One for more details on survey method.						

Findings suggest that each of the three business models is present in the sector[31] (see Table 2). Findings also show that the double bottom line objectives predicted by the lifecycle theory and historic analysis of each model are also

[31] Both the relatively small size and nature of data interpretation cautions readers to interpret findings as general observations rather than precise findings. Analysis assessed mission and vision statements listed on each institution's Mix profile and was supplemented by deeper analysis of webpages and or other documentation. See Appendix One for more details on sample and definitions

present. SE models are much more likely to be small and to have overt poverty alleviation goals (70 percent) than CSR MFIs (20 percent) or BoP (none) model. CSR and BoP models are also typically larger than their SE counterparts as predicted, and are more likely to have access to financial services goal.

A similar analysis of SE, CSR, BoP and donor funders was less categorical. Fifty eight percent of funders had an explicit poverty alleviation mission, only 21 percent focused on access and 16 percent had broad economic or social development goals. Fifty-five percent of donors, representing over half the sample, claimed an explicit poverty alleviation mission and none had access goals. Smaller funders tended to have a strong poverty alleviation focus, though 33 percent targeted access. Seventy-one percent of CSR and SE funders had poverty alleviation goals suggesting that target markets are still social investors. A sub-set of investors known to focus on capturing private capital showed a strong focus on financial return based on portfolio diversification and asset de-correlation effects of MFI investments, suggesting a private capital target.

CHAPTER THREE: MICROFINANCE AND THE POST SOCIAL ENTERPRISE DILEMMA

The changing nature of microfinance and the specter of non-poverty alleviation driven business models represents a growing dilemma for microfinance: *will mission driven microfinance maximize poverty alleviation, or will poverty alleviation be the outcome of profit maximizing microfinance?*

This is not a merely a theoretical question as it challenges the fundamental premise that has driven microfinance from relative obscurity to Nobel Prize worthiness: microfinance is about poverty alleviation. That profit maximization may in fact be the way to ensure billions are served with appropriate financial services is an unpleasant prospect for many. The result is that microfinance discourse is unfortunately obscured by two reasonably entrenched ethical perspectives, each aligned with one of the three business models presented in this paper. The first is a social impact maximization perspective (SM) and is associated with SE MFIs. The second is a profit maximizing (PM) approach which is strongly associated with the BoP model and less but still strongly to the CSR model.[32] The debate has formed around two contentious issues: one, the price charged to the poor for services; and two, the scale and distribution of profits made in microfinance.

The debate goes like this. SM proponents believe that microfinance is a tool to alleviate poverty and that its goals should be reflected in everything an MFI does. If this is true, then high interest rates and large profits become problematic as they can be construed as exploitative. This has lead many SM proponents to call for interest rate restrictions to be imposed either legislatively or voluntarily. This view and resulting conclusions are countered by the PM perspective that asserts once microfinance is proven a viable commercial sector, the market is the best mechanism to produce and allocate pro-poor appropriate financial products and services. Once competition sets in, then prices and profits naturally fall as market penetration increases.

INTEREST RATES: THE HIGH PRICE OF POVERTY ALLEVIATION?

How rate caps would work in practice is unclear, particularly legislated rates which in the past have typically had disastrous effects on credit supply and demand behavior. Caps go against at least two keystones of sustainable microfinance. The first is that MFIs need time to reduce operating costs, and higher interest rates are an important *but* interim step that facilitated greater efficiency. Second, higher interest rates are thought to result from a lack of competition, and over time as competition increases, rates will naturally go down (as has been the case in some urban microfinance markets in Latin America). Along the way competition will drive continuous innovation and development. A litany of weak and unsustainable lending programs have been the result of caps in the past, so from the market driven view, rate intervention could unwind many of the gains made in the sector to date.

Belief in the "competition effect" is consistent with BoP and mainstream economics which maintain non-intervention or letting markets do the work reaching the poor. It is similarly the most efficient means to sustainably lower the

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[32] Alignment of ethical perspectives and business model is not exact. As noted for example, some SE MFIs are strongly profit maximizing, though few in microfinance seem to claim this objective. Some CSR MFIs have very strong social impact maximization goals which can govern financial objectives.

prices of financial services. From the BoP perspective, markets have repeatedly proven that only time and patience is required for the market to erode monopolistic pricing behavior. For them, there is no moral dilemma in high prices and resulting strong profits, as the market will ultimately correct for "excesses" assuming a relatively free market environment. (allowing for possible short term market regulation against oligopolies, price fixing, and some consumer protection) An alternative course of action to doing nothing would be to have donors and civil society continue to support microfinance, but with a greater emphasis on fomenting competition.[33]

For proponents of SM, it is not logical that exploitation in any form can be accepted; they reject models that led to any perceived exploitative behavior (i.e., high prices and or making "excessive" profits). This is a noble sentiment but one based on an ethical framework that insists on upending or at least circumventing a pretty powerful economic system: capitalism. More immediately naïve, the SM model is intended to remedy markets that are typified by decidedly "non-market" crony capitalism. Either way, SM *ideals* run counter to the history of fairly efficient and effective industrial development which, as the lifecycle theory so neatly presents, shows a period of wide profit margins as a natural *and* necessary part of sector development. Higher prices help firms pay for start up investments, create operating efficiency, and penetrate new markets. As competition increases, prices naturally decline as a percentage of delivery costs (in every non-regulated market — refer to Figure 1). Private capital plays an incredibly important financing role at each stage and without it, markets stagnate.

Rate caps disrupt this natural evolution as they discourage the entry of private capital to growing sectors. Unless by some magic, capital suddenly becomes enamored with less than risk-adjusted rates of returns, regulations impose allocation decisions, or MFIs improve operating ratios to those of commercial banks (i.e., around 3 to 6 percent) it is inconceivable to imagine how caps will encourage significant new capital to the sector. Without capital how will new markets be penetrated? Without new capital competition will stagnate and with it the dynamism that lowers prices, improves quality, and deliver innovative services.

HOW MUCH PROFIT IS TOO MUCH PROFIT?

Lifecycle evidence shows time and again that profits begin negative, turn highly positive, and then narrow through the life of a product or sector. Capital is attracted to a sector at stages appropriate to its risk tolerance level, from highly risk tolerant in the beginning when return potential is highest, to highly intolerant at maturity when returns are more predictable but much lower. Capital may not be the idea that drives development but it is certainly the fire that helps to cast the mold. A microfinance observer notes:

> *"It is regrettable to have a negative view of profit from a moral perspective since long term profits can only be achieved by repeatedly delivering to clients goods and services they want. Similarly, profit itself is a far better form of accountability than a litany of performance measures mandated by some bureaucrat half a world away, or for that matter in the same country."*

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[33] Of course, should high interest rates persist in the presence of significant competition and high market penetration, then legislated or binding "voluntary" norms should be encouraged by governments.

Clement Wan, on the Microfinance Practitioners List Service

The SM aversion to profit maximization and assumption that "sustainability" is a sufficient financial aim is antithetical to the entirely consistent allocation habits of private capital (be it conventional or social). Any attempt to govern the rate of return will have the predictable outcome of discouraging capital entry, not only because returns will not meet risk adjusted rates of return expectations, but also because capital is highly suspicious that one control will lead to another. Finally and simply put, there are more than enough competing investment opportunities for private capital to never consider another microfinance investment.

Box 10: Competition, Profit Maximizing and Interest Rates

Rich Rosenberg paper *CGAP Reflection on Compartamos Initial Public Offering* compares a number of MFIs with different business models in Mexico. In it, he notes there is not much difference between the markets *FinSol* (a BoP business) and *Compartamos* (hitherto an SE model) operate (i.e., the low income, consumer and producer markets) or the interest rates they charge (81 and 86 percent respectively). There is a difference, however, between these rates and the 27 to 30 percent charged by the *Caja Popular Mexicana* (CPM) and commercial vendor lenders who charge 15 to 30 percent monthly.

The rates *Compartamos* has charged have dropped by around 25 percent or about 10 percent annually over the last five years largely in response to competition such as Finsol, *Banco Azteca* other consumer lenders. Interestingly, other SE MFI lenders have rates of between 89 and 100 percent.

A striking difference between CPM the lowest cost lender and Compartamos is that after over 56 years in business the latter serves an estimated 200,000 poor (or about 3,600 new clients per year)* while the 17 year old *Compartamos* serves 780,000 clients (or 45,880 per year in business). Finsol has just over two years in operation and has around 85,000 clients (or about 42,500 per year). Of course, it should be noted that CPM also has a savings base of 3,333,022 accounts, totaling $928 million dollars with the average savings account size around $280 dollars. The majority of these accounts are not held by the poor, however.

* CPM has over 1 million members (clients) with an estimated 20 percent of which are considered poor.

Moderating profits will certainly limit the sector's ability to attract private capital beyond a small pool of concessional social capital, be it debt or, particularly, equity capital. The market rewards profit maximization as the *Compartamos* IPO clearly indicated. Without private capital it is unclear how the sector will expand beyond the outposts of the financial sector, unless of course SM-driven MFIs can achieve the improbable task of reforming the sector in their image. Financial cooperatives are a good example. Cooperatives have been around for over 100 years and many have demonstrated exemplary financial and strong social performance. If they are such a competitive alternative, why are they not larger players in the financial sector? The simple answer is that their structure and purpose does not encourage rapid growth and development, nor can it easily accept or attract capital or generate profits sufficient to compete against alternative business PM models.

The question, in the end therefore, is not so much about rates and profit but of competing development theories. The bitter alternative for SM proponents is to accept that the means might justify the end, and that potentially undesirable medium term outcomes associated with PM may ultimately be outweighed by serving billions of poor sooner than an SM approach. The SM dilemma is that its belief of a viable alternative development path is implausible given what we know about SE business models and SM approaches. The SM irony is that this belief is held despite not knowing the extent to which microfinance really can alleviate poverty.

Wishing that the SM alternative is possible is not sufficient. Nor will it protect or advance poverty impact expectations. Once microfinance is proven to be commercially viable, many more BoP models such as FinSol and Banco Azteca in Mexico will invade the sector (see Box 10). When they come, SM styled MFIs will *per force* have to abandon the "gentleman's capitalism" found in some markets. No more market area accords, no more promises not to poach loan officers or executives, no more implicit fee and pricing agreements; it will be, as one market leading MFI director said, "a bruising game of commercial hardball." Hoping that a new social enterprise and or social impact maximizing sector will arise is logically consistent with development goals and perhaps a potentially achievable long term goal. In the interim, however, attracting private capital, along with all its conventionalizing influences, must be a central objective of microfinance if billions of poor are to be served.

CHAPTER FOUR: CONCLUSIONS AND NEXT STEPS

Capital pressures on MFIs to conform to more conventional business models, and new capital moving into the sector, will inexorably redefine the structure of microfinance. The SE MFI will face considerable challenges maintaining the same degree of focus on social mission compared to when they were small and the sector had not been "proven visible." This may change as the social enterprise experience increases understanding of how to manage complex social and financial business goals, and as the conventional business sector better understands opportunities afforded by a strong social mission. In the absence of a clear picture of poverty alleviation impacts and given the interest of sector development and as private capital moves in, it is in the best interest of the sector to support the three competing business models — SE, CSR, and BoP — as competition will push financial and social mission innovation leading to a stronger sector and better, less costly services to the poor.

The real question for microfinance, however, is not which model will dominate but how to support dynamic, market-based competition that maximizes the sector's double bottom line performance. This is particularly critical as the sector passes through the "convergence" of its lifecycle, as private capital has and will continue to have significant and lasting impacts on the nature of microfinance's poverty alleviation potential. In this, each model has its strengths.

Iconic SE financial firms such as ShoreBank, VanCity, and Triodos Bank demonstrate the possibilities of a strong focus on social performance, and will lead continuous product and service innovations that advance social and financial performance. SE MFI models such as Basix provide a leadership model for the sector, though clearly, the ability to manage a large and successful SE MFI is more complex and challenging than a straightforward CSR or BoP MFI. This contributes to the seeming size limitations of SE business in general. This constraint notwithstanding, a well run social enterprise can be highly responsive to market needs and to taking risk in the name of social progress that other businesses will not. SE MFIs may never dominate the sector but they are vitally needed, as they are well suited to the new market development in low income housing, community and household economic development, as well as in rural areas, among youth, and indigenous communities. Social performance and impact gains will be strong among SE MFIs even if limited in depth of outreach.

CSR MFIs with a broader social impact agenda will raise social impact expectations albeit less grandly, while offering a more attractive model for private capital. The CSR model will divide attention to various social impacts but will likely allow for faster growth among urban and peri-urban populations with a fairly standard stable of products and services. CSR MFIs will be less innovative in some ways than SE MFIs, but driven by competition, they will certainly innovate fairly conventional products and services for the low income market (i.e., less innovative than risk taking SEs). This brand of MFI can and should tap into a large and fast growing global network of firms with similar visions and needs. Developing or signing onto one or more of the most appropriate codes of conduct will help cement in place some minimal impact standards for low income financial market participants.

If the poverty impact of microfinance turns out to be a *natural outcome* of serving the base, BoP businesses should be encouraged to form (e.g., as IFC and CGAP are currently doing, but perhaps with greater resources). BoP businesses will push competition like never before, and should lead to lower prices, broader product offerings, and improved market penetration. Social impact measurement will still be important as a means to provide incentives and benchmarks for improved performance.

NEXT STEPS

All the best intentions to maximize the poverty alleviation effect of microfinance may be for naught if poverty alleviation is the *natural outcome* of client focused financial services for the poor. If this is true, it may not matter how microfinance is delivered and on what terms, and SM proponent critiques of profit maximization may, as some cynics claim, may be more about preservation than development effectiveness. Conversely, if economic development or some other factor is far more important to poverty alleviation, anything done in microfinance to maximize impact may only have marginal impacts and not merit such attention.

As most things economic, however, half truths apply; much critical work remains in the post-social enterprise era to ensure healthy and fair competition which *maximizes returns to the poor*. This challenge is as vital as it will be difficult. There are two broad categories of stakeholder actions to consider: social performance management, and improvement and sector building activities.

SOCIAL PERFORMANCE

The objective of these recommendations is to support the development of market based social performance standards that set appropriate benchmarks and incentives for continuous performance for poverty alleviation impact improvements. Actions include:

1. Measure and Benchmark Poverty Alleviation

Prove without a doubt the nature and level of poverty alleviation possible through microfinance and adjust business and development strategies accordingly. A campaign to establish realistic microfinance poverty alleviation brand expectations will help to establish sector social performance benchmarks.

2. Raise the Bar on Social Performance Management

Invest heavily in social performance management for all three business models. This will ensure that whatever poverty reduction impact the sector is found to have can be increased. Increasing the sophistication of social and financial performance maximization among those institutions seeking a strong double bottom line is especially important to ensuring BoP institutions are held to higher standards.

3. Integrate Microfinance in Global SE and CSR Networks

Microfinance has to become less introverted. It has to reach out to social enterprise networks nationally and internationally. It needs to integrate not just into financial systems but into global CSR networks, as well as seeking social investors who may be bound by conventional capital rules but are willing to find ways to invest.

4. Social Performance Management Transparency

MFIs must publically report on financial and social performance in a structured and verifiable manner.

5. Join or Create Benchmark Setting Codes

Support may be required for MFIs to sign up and be accountable to existing international codes of conduct. Regional and/or sector-based microfinance conventions and codes may also be supported.

SECTOR BUILDING

It goes without saying that a healthy financial sector requires considerable infrastructure investment. Some ideas found below, such as regulatory support, are hardly new. They have been included here at the risk of repetition to underscore how important infrastructure development is to sector building in general, and to sustaining the strongest possible double bottom pressure as microfinance integrates into the conventional financial systems.

1. Support Competition

Competition must be consciously supported *among all three business models*. New market players should be incentivized to start up or assist existing financial institutions to enter new markets. Supporting competition alone is not sufficient to ensure strong sectoral social impact. Donors must help to create market environments that ensure a variety of players exist, including locally and internationally owned MFIs that adopt variations on the three business models.

2. Encourage Sector Rationalization

Donors and development stakeholders like FMO and IFC need to sell their stakes of well established MFIs to more capable private capital owners. They may even consider taking less than below "market value" (i.e., discount to compensate private capital for its higher risk assessment of MFIs — which is likely the real market price in any event). In more mature markets, donors should encourage regulators to weed out weaker institutions through regulations that force mergers, acquisitions and failures if necessary. Together these actions will help to infuse a long over due rationalization dynamic in some markets.

3. Build Sectors Not MFIs

Donors should continue to build sectors and not just individual MFIs. Structured sector development programs that work to increase institutional capacity, create competition and improve market infrastructure and regulation all at the same time are good examples of sector building projects. This will help bring "market dynamics" to the sector faster.

4. Build Financial Infrastructure and Strengthen Regulations

Significant investment in a sound financial infrastructure needs to be made in credit bureaus, financial consumer protection agencies, credit registries, sector associations (including integration of MFIs into banking associations), national funding sources (including appropriate deposit regulation), and supporting the development CSR associations. Macro level regulatory change also needs to continue apace, for, needless to say, strong regulatory regimes are a precursor and a complement to a healthy financial system.

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ANNEX ONE: DOUBLE BOTTOM LINE CHECKLIST

INTRODUCTION

The most effective double bottom line management strategies link social impact to an organization's core business values. There are two considerations: internal and external. Connecting staff, directors, and executives to the double bottom line is a proven and powerful way to increase social performance. Stakeholder considerations that are *internal* to the company focus on a range of workplace issues (compensation, benefits, leave policies, etc). Connecting staff to an *external* double bottom line activity, such as charitable or volunteer programs, is also critical, and a way to make the pursuit of improved double bottom line performance a conscious and daily goal.

External considerations of the double bottom line in microfinance have focused on poverty alleviation or access to financial products for the poor: these objectives are an MFI's core business. Many MFIs also have social objectives in areas as diverse as health, education, and other types of charitable or business interests. The closer these issues can be aligned to an MFI's products, services, or processes, the stronger the impact. Health insurance, educational loans, bill payment, and financial education services are examples.

The number of issues that are typically considered for double bottom line management is quite large. Below is a check list of main considerations, followed by more information and references.

MISSION AND VISION STATEMENT

Many MFIs have good mission and/or vision statements. Too often mission statements are not well articulated. A clear mission or vision statement is fundamental to providing organizational leadership a strong course for action and as source of inspiration for staff and stakeholders as well. "Help to end poverty in Mongolia" is a good, clear mission statement.

At the same time, mission statements provide strategic guidance for management to pursue organizational goals. Within them, there must be sufficient breadth to pursue a general goal but enough clarity to ensure management can build an institutional plan for satisfying mission.

Some institutions provide strategies, operational goals, or other clarifications to a mission statement which provide management with further, more practical guidance. To continue our example, the mission statement "Provide appropriate and affordable financial services to the poor in Mongolia" provides clear operational goals.

Analysis for this paper found that the more statements of objectives, goals, strategies, and policies an institution has for its double bottom line work, the less clear its objectives becomes. This also obscures an institution's double bottom line objectives, despite good intentions. Institutions serious about maximizing double bottom line impact have strong, clear mission and vision statements that allow management to easily interpret and work towards them.

Double Bottom Line Checklist

Mission and Vision Statement

- A clear mission or vision statement.
- Mission statement provides strategic guidance to fashion organizational goals.
- Operational strategies, ethical codes, statements of purpose complement and add clarity to mission or vision.
- Double bottom line activities aligned with mission statement.

Stakeholder Relations

- Identify internal and external stakeholders.
- Prioritize stakeholders by the importance of their influence, interests and demands on the company.
- Determine what is important for the institution and its stakeholder's interests
- Define what is actionable or what activities a company can take to address or respond to stakeholders
- Provide continuous information feedback & expectation setting.

Double Bottom Line Management Strategy

- Professionally designed and managed double bottom line strategy.

Lead from the Top, Middle, and Bottom

- Involvement of top management
- Senior managers delegated responsibility for double bottom line management.
- Staff in each area and level of the business assigned responsibility.
- Double bottom committee led by Senior Executive and or Board Member.

Manage for Double Bottom Line for High Performance

- Double bottom line managers have clear responsibilities found in their job descriptions.
- Annual work plans and objectives with quarterly activities planned.
- Organizational structure and clear reporting lines established.

Measures to Make it Real

- Measure what can be measured.
- Social performance management planning and systems in place.

Communicate with Assurance

- Transparent reporting of double bottom line performance.
- Coordinated and consistent communications plan/training.

Reporting

- Full clear and honest reporting on all public double bottom line claims (e.g., staff treatment, community development, client impact)
- Publicly available reporting.
- Use of double or triple bottom line accounting methods (e.g., Global Reporting Initiative, Accountability 1000, SA 8000 and the ISO XXX).
- Signatory to codes of conduct (e.g., consumer protection, association code of ethics, internally developed code etc.).

Verification

- Use of third party verification system (e.g., GRI, association codes, or Accountability 1000).
- Private third party verification (e.g., expert consultant).

Public Relations

- Consistent message communicating objectives and performance.
- Reinforce executives' understanding of an MFI's double bottom line programs.
- Manage external stakeholder expectations.

STAKEHOLDER RELATIONS

Effective double bottom line management has strong connections with the range of stakeholders that affect their business. Effective stakeholder processes have five steps:

1. Identify – Who are your stakeholders?
2. Prioritize – Influence, interests, demands.
3. Filter – What is important to the institution and to stakeholder interests?
4. Action – What should/can you act on?
5. Engage – Continuous information feedback & expectation setting.

Benefits from good stakeholder relations are numerous and depend on the type and nature of the relationship a stakeholder has or wants with an institution. Clients are normally the main stakeholder of an MFI, and this relationship is relatively well known, particularly from a business perspective. Some very successful double bottom line companies also involve clients in committees, charitable activities, et cetera to further deepen relations. Some MFIs also think of suppliers as potential collaborators for stronger double bottom line performance, particularly if they provide similar services (e.g., insurance, banking cards etc.).

Similarly, MFI management should treat staff as a key stakeholder, and, as per above, connect them strongly to the mission and double bottom line outcomes. Training, compensation, benefits, etc. are important, but large double bottom line returns are also available through linking administrative staff to clients, for example, or developing employee-led charitable activities.

DOUBLE BOTTOM LINE MANAGEMENT STRATEGY

Double bottom line performance is closely linked to quality management. Just as with any activity within a business, the more professionally managed, the better the performance. The most effective double bottom line management is managed like any other important function within the MFI, no matter if it is a small charitable program or the launching of a suite of corporate social responsibility activities.

LEAD FROM THE TOP, MIDDLE, AND BOTTOM

There is a saying in corporate social responsibility that in order to achieve great performance, great management is required. While this is critical, the saying really should be: "Great double bottom line initiatives may come from executives, but the most successful are managed and led at all levels of a company."

Senior managers must be involved in and responsible for double bottom line management. Staff responsible for execution of double bottom line activities should be found in each area of the business. Often an institution will form a committee of those responsible to coordinate double bottom line work; so should an MFI do this as well?

MANAGE FOR DOUBLE BOTTOM LINE FOR HIGH PERFORMANCE

Those responsible for executing double bottom line management, including MFI management, should have double bottom line responsibilities clearly laid out in their job descriptions. Annual work plans and objectives with quarterly activities should be planned out just as with any other business activity. Some form of double bottom line bonus is also recommended.

MEASURE IT TO MAKE IT REAL

One of the most important measures in microfinance is poverty alleviation or access to financial services to the poor. MFIs seldom measure the former and often rely on proxy measures for the latter. Most observers understand that measuring these impacts is very difficult and expensive at best. However, as an MFI grows, it is incumbent upon it to measure these impacts, particularly as larger institutions attract all sorts of stakeholder attention, and not always positive. Emerging social performance measurement tools provide a good place for an MFI to start to work on cost effective means to measure impact while gaining significant management information at the same time.

As with any business activity, the more an institution can measure, the better it can manage. It is not possible to list all the possible activities here. To get a good sense of what can be measured, see the Global Reporting Initiative or the USAID AMAP's social performance management overview paper for sample double bottom line activities and measures.[34]

COMMUNICATE WITH ASSURANCE

Double bottom line companies, particularly MFIs, are often called on to prove their impact. History shows that just like financial performance, the more transparent a company is at reporting its double bottom line gains, the better it can manage and be held reasonably accountable for its impacts. Many companies have been targeted by interest groups or governments for corporate social responsibility because of reporting that is less than true — stretching or obscuring the facts. Conversely, honest and transparent companies are praised and supported. This enhances their "CSR brand value," even if companies report only modest accomplishments.

Communications, as in all aspects of business, must be coordinated and consistent. There are three steps to make communications easier, which are explained below.

1. Reporting

Like financial accounts, there are numerous double and triple bottom line accounting methods, each with their own strengths and weaknesses. The Global Reporting Initiative, Accountability 1000, and the International Standards Organization have all been used by financial institutions. None are designed for MFIs specifically but each has some degree of flexibility to accommodate microfinance issues. Some MFIs have signed on to codes of conduct which can also serve as the basis for double bottom line reporting.

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[34] Global Reporting Initiative http://www.globalreporting.org/ReportingFramework/G3Guidelines. See also Woller, Gary, (2006) mR #35 Evaluating MFIs' Social Performance: A Measurement Tool, http://www.microlinks.org/ev_en.php?ID=9959_201&ID2=DO_TOPIC

Ultimately, however, an MFI needs to report as empirically as possible its double bottom line claims and objectivities. This does not mean client impact only, though this is usually the largest consideration. If an MFI says publicly that it treats its staff well, that needs to be defined and measured. Clarity and complete honesty is best practice. Some MFIs for example proudly declare that among their double bottom line accomplishments they contribute to pension funds or social security, when all it is doing is complying with the law.

There are numerous reporting formats to use, and larger MFIs may want to use an experienced consultant for the job. At a minimum, public claims on all double bottom line issues need to be clearly described and measured in so far as possible to be credible.

2. Verification

Many larger corporations now have double bottom line reports verified by a third party. Accountability 1000, for example, can arrange for an audit of claims. Experts in GRI reporting can also be found. Basix of India has used a GRI reporting format. (See de Sousa-Shields, 2008, Microfinance and the Double Bottom Line Cases Studies, AMAP, USAID.)

3. Public Relations

Reporting out on any double bottom line activities or performance claims relies on the credibility and clarity of information being offered (see above reporting and verification). Consistent and well planned reporting is critical. Top executives should be properly briefed in order to have a consistent message communicating objectives and performance. This is critical not only to avoid risk of miscommunication, but also to reinforce executives' understanding of an MFI's double bottom line programs and to manage external stakeholder expectations.

ANNEX TWO: SAMPLE MICROFINANCE INSTITUTIONS

A stratified sample of 37 MFIs drawn from a population of 269 institutions listed on the Mix Market with a 5 diamond transparency rating. Analysis first assessed mission and vision statements listed on each institution's Mix profile supplemented by assessments of information drawn from institutional Web pages and or documentation. Please refer to the Mix Market for sample:

http://www.mixmarket.org/en/demand/demand.global.results.asp?token=&refreshSearch=demand&seDisc=5

What follows is indicative information used to assess institutions.

Al Amana, Morocco

The mission of Al Amana is to promote microenterprises, by making credit available to commercial micro-entrepreneurs and artisans currently excluded from traditional financial systems.

Association Pour la Cooperation avec la Micro Enterprise, Haiti

The mission of ACME is to bring a meaningful and enabling solution to the capital needs of the greatest number of clients in the medium and lower part of the informal sector, without burdening them with useless constraints. We also aim to grow with our clients as they evolve economically and socially.

AREGAK, Armenia

AREGAK supports the economic empowerment and improvement of living standards of low income families, small and medium entrepreneurs through provision of high quality, accessible and sustainable financial services

Banco Ademi, Dominican Repulic,

ADEMI's mission is to create new jobs and to increase personal and family income by strengthening microenterprise in the Dominican Republic, mainly by giving loans and by providing technical assistance.

Fundación Social, Colombia

Como empresa de la Fundación Social, el BCSC desarrolla su actividad dentro de un marco comprehensivo de Responsabilidad Social Empresarial ligada intrísecamente a su actividad, y que se concretan en los siguientes propósitos: - Ser líder en el mercado popular y bancarización - Desarrollar al interior de la entidad comunidades de personas animadas por los principios de la Fundación Social - Influir significativamente en la solución de los principales problemas de la sociedad con énfasis en vivienda, microfinanzas, percepción del papel del negocio bancario y procesos de reinserción - Alcanzar niveles de rentabilidad y generación de dividendos adecuados para los accionistas, como resultado de un desempeño empresarial destacado

Capitec South Africa

Capitec Bank is a retail bank listed on the JSE Securities Exchange, South Africa. We provide accessible and affordable banking facilities to clients via the innovative use of technology, in a manner which is convenient and personalized.

CMAC Arequipa, Peru

CMAC Arequipa's mission is to offer financial services to segments of the population that have difficult access to the traditional financial system, in a self-sustainable and profitable way.

Coop Chone, Ecuador

Fomentar, promover y liderar la cooperacion entre sus miembros para mejorar la calidad de los servicios a los usuario.

Caja Nor, Peru

Promover y gestionar el desarrollo económico social de las capas menos favorecidas de la población de manera productiva en forma innovadora, eficiente y autosostenible, que permita la inclusión en el sistema financiero

Diaconia Funadación Diaconia – FRIF, Bolivia

Contribuir a mejorar los ingresos de las personas de escasos recursos de las zonas urbanas, periurbanas y del area rural por medio del facil acceso al credito para microempresa y vivienda a popular. Background and Main Challenges Lograr impactos en el nivel de ingreso de nuestros clientes, mejoramiento de vivienda, reduccion de pobreza.

EDPYME PROEMPRESA, Peru

"EDPYMES PROEMPRESA's mission is to offer financial services for the growth and entrepreneurial development of small and micro enterprises in Peru that are working to achieve excellence; generating important profits and consolidating this specialized financial corporation".

Faulu, Uganda

Our mission is to be a leading provider of financial services to promote holistic transformation of the community and maximize shareholders' value. We enable low income entrepreneurs to increase their incomes through participation in a loan program that fosters good business ethics and values; and which encourages an attitude of self-reliance and democratic participation so that they are capable of determining and meeting their development needs.

Finca, Peru

To contribute to the self-valuation of the women with economic and social disadvantages in Perú, facilitating the integral development of their human capacities. To promote the development of their entrepreneurial spirit, the strengthening of their social discipline and the daily practices of equity, solidarity, respect, responsibility and honesty values.

First Microfinance Bank, Pakistan

The Bank aims to reach out those who are currently not able to receive adequate financial services, throughout the country, in rural as well as urban areas. The target audience is the poor and underprivileged of Pakistan, especially women.

Fundación Alternativa, Ecuador

To generate, promote and execute, systematically and with synergy, initiatives with financial and social profitability that allow the capturing and optimization of resources for measurable reduction in poverty.

Generar, promover y ejecutar, sistémica y sinérgicamente, iniciativas con rentabilidad financiera y social que permitan la captación y optimización de recursos para la reducción medible de la pobreza

Fundación para el Desarrollo de Honduras, Honduras

We are a microfinance institution with christian values, with an independent relationship with Visión Mundial Honduras, contributing towards the sustainable development of families, through services for poor people, with an entreprenuer capacity.

International Microloan Fund 'IMON' - formerly NABWT, Tajikistan

The Mission of the IMLF "IMON" is to assist in poverty reduction and to enhance the quality of life throughout Tajikistan.The Mission shall be achieved through:- training and business consultancy- creating business development opportunities with the clients of the Fund- job creation

K-Rep, Kenya

The mission of K-Rep Bank is to provide banking and microfinance services to low-income people on a commercially viable basis

K-Rep Bank provides financial services to all because it believes that this is a basic human right that every Kenyan, especially the low-income, small and micro entrepreneurs must have access to. It further believes that the access to this service is an essential ingredient for eradicating poverty developing this country.

Micro Development Fund, Serbia and Montenegro

MISSION: MDF is Microfinance focused organization established to support improvements in the social and economic living standards of economically active and poor people in Serbia. The AIMS of MDF are to:

Reduce poverty through enhancement of the economic situation and general living conditions of socially and economically disadvantaged people.

Enhanced job creation by improving individual and group capacities to start up and expand businesses.
Micro-entrepreneurs are supported to start, expand and improve their businesses by providing loans and other related services.
Advocacy and promotion of the small business environment in Serbia.

Values:

The MDF staff promotes positive constructive attitudes being creative, participatory and self-motivating.
The MDF is flexible to innovations and accepts the Long Life Learning concept.
In its work, the MDF applies the best microfinance practices transparently.
MDF is to assist its target group respectfully.

Mikromaliyye Credit Institution, Azerbaijan

Impact fundamental social and economic changes for the active poor

Opportunity Bank A.D. Podgorica, Montenegro

Opportunity Bank works to improve the standard of living and quality of life amongst its clients and their families, with no discrimination, regardless of ethnicity, religious, or political affiliations. Opportunity Bank strives to provide stability for its clients, allowing them to help themselves in dignity, with self-confidence, and building confidence in financial institutions.The Bank's core values are respect, commitment to the poor, integrity and stewardship. These values are reflected in all aspects of our work and especially in the manner in which we treat our clients.

Pride Tanzania, Tanzania

The mission of PRIDE-Tanzania is to create a sustainable financial and information services network for micro- and small-scale entrepreneurs to increase incomes and employment and stimulate business growth.

• We are committed to the economic empowerment of the working poor with the view to address poverty related courses in our society.
• We promote gender equality;
• We believe in Optimal and sustainable use of Local Resources
• We are supportive of actions leading to environmentally friendly interventions in all sphere of our society.
• We are supportive of HIV/AIDs intervention programs including awareness creation and care for the victims both the sick and the orphans.

Promujer, Bolivia, Nicaragua

Promujer (Programs for Women) is a non-profit international development organization whose mission is to help women lift themselves and their families out of poverty. Pro Mujer provides training and small loans so women can initiate or improve small businesses and increase their income.

Small Enterprise Foundation, South Africa

To provide financial and support services to the poor in order to enable them to rise above the poverty line and to provide financial services to low income micro-entrepreneurs to enable them to stabilize and grow their enterprises.

Soro Yiriwaso, Mali

The mission of Soro Yiriwaso is to increase the economic opportunities of Malian entrepreneurs, especially women.

VisionFund, Cambodia

VisionFund is a Christian company that provides financial services to help the poor liberate themselves from poverty

XacBank, Mongolia

..to contribute to the socio-economic development of the country by providing access to comprehensive financial service to all citizens and legal entities, including those who are normally excluded, e.g.low-income and remote rural households.

Second, but equally important, to maximize the value of shareholders investment, while creating a profitable and sustainable financial institution.

ANNEX THREE: MICROFINANCE INSTITUTION FUNDERS

A stratified sample of 18 MFI funders drawn from a population of 97 institutions listed on the Mix Market. Analysis first assessed mission and vision statements listed on each institution's Mix profile supplemented by assessments of information drawn from institutional web-pages and or documentation. Please refer to the Mix Market for sample:

http://www.mixmarket.org/en/supply/supply.global.results.asp?token=&refreshSearch=supply

Aavishkaar Goodwell, India and The Netherlands Aavishkaar Goodwell aims to improve access to affordable financial services for millions of families in order to contribute to poverty alleviation and sustainable development.

Belgian Investment Company for Developing Countries, Belgium

The mission of the Belgian Investment Company for Developing Countries (BIO) is to promote the creation of a strong private sector in developing and/or emerging countries, to enable them to gain access to sustainable development and lasting social prosperity and thus reduce poverty.

Calvert Foundation, USA

Calvert Foundation's goal is to maximize the flow of capital to disadvantaged communities in order to foster a more equitable and sustainable society.

Microcredit provides small loans to entrepreneurs in impoverished areas, empowering them to work their way out of poverty

AfriCap, South Africa

The Fund's objective is to support the commercialization of the Microfinance industry, by bridging the transition from a sector traditionally funded by donors to a scenario where the leading MFIs are raising most of their funds from commercial sources, be that voluntary savings, wholesale deposits, inter-bank liquidity or private investment capital.

Cordaid, The Netherlands

To provide poor and vulnerable people in developing countries long-term access to quality financial services that enable them to create employment, increase their income and improve their living conditions. (The Finance Business Unit mission only)

Dexia MicroCredit , Luxembourg

Dexia Micro-Credit Fund represents a new class of assets that combines a dimension of considerable social impact with an attractive risk/return profile. Investors in the fund (retail banking customers, large investors, funds of funds) are attuned to the concept of socially responsible investment and cooperation between the North and South hemispheres. The first commercial investment fund designed to refinance microfinance institutions specialized in financial services to small companies in emerging markets.

Doen Foundation, The Netherlands

DOEN Foundation, which was established by the Dutch Postcode Lottery in 1991, works towards the achievement of a liveable world in which everyone has a place.

Fin Fund, Finland

Finnfund will promote business activities indirectly by participating in financing the financial sector - especially microfinance and infrastructure. These operations will be selective: mainly in countries in which Finland has long-term development co-operation relationships, for the most part in Africa, principally together with other development finance institutions and primarily within projects that have major positive development and environmental effects.

ACCION International, USA

ACCION International's new global guarantee fund - The Global Bridge Fund was introduced in January 2005 with the purpose of contributing to the expansion of micro finance throughout the world.

From ACCION Website….giving people the financial tools they need – microenterprise loans, business training and other financial services – to work their way out of poverty

Hivos Triodos, The Netherlands

The Fund's objective is to improve levels of employment and access to financing for low income groups in developing countries

From the Hivos Triodos Web site… Microfinance is an important tool in combating poverty in developing countries.

Kiva, USA

Kiva lets you connect with and loan money to unique entrepreneurs in the developing world. By choosing a loan on Kiva, you can "sponsor a business" and help the world's working poor make great strides towards economic independence.

International Finance Corporation of the World Bank, USA

IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

Microfinance Alliance Fund, Philippines

To promote social and economic justice in SE Asia by increasing low-income people's access and participation in the formal financial sector.

PSKS, Bangladesh As a second tier apex organisation provides fund to partner organizations (POs) : non-government, semi-government and government organizations, voluntary agencies and societies, local government bodies, for assistance for generating income and employment opportunities for the landless and assetless for alleviating poverty.

Omydiar Network, USA

..a global society that is continually advancing social progress.

responsAbility, Switzerland, While aiming at an economic return, responsAbility always strives for clearly defined social benefits as well. By focussing on income generating activities on the part of microentrepreneurs and SMEs, responsAbility aims at improving the economic situation and at alleviating poverty in developing countries.

http://www.responsability.ch/en/1_1ziele.html

Social Fund for Development, Yemen

To lessen the negative impacts of government economic policies on vulnerable groups by helping provide basic services and programs for income generating activities.

Triodos Fair Share Fund, The Netherlands

Its mission is to give poor people in developing countries access to financial services by contributing to a sustainable financial sector.

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