MICROFINANCE AND THE DOUBLE BOTTOM LINE: CASE STUDIES IN SOCIAL PERFORMANCE MANAGEMENT

microREPORT #113

August 18, 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Marc de Sousa-Shields of Enterprising Solutions Global Consulting and reviewed by Anna Bantug-Herrera of Chemonics International.
MICROFINANCE AND THE DOUBLE BOTTOM LINE: CASE STUDIES IN SOCIAL PERFORMANCE MANAGEMENT

microREPORT #113

DISCLAIMER

The author’s views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>EQUITY BANK LTD.</td>
<td>3</td>
</tr>
<tr>
<td>BANCO COMPARTAMOS</td>
<td>9</td>
</tr>
<tr>
<td>SHARE MICROFINANCE LIMITED</td>
<td>15</td>
</tr>
<tr>
<td>BASIX GROUP</td>
<td>20</td>
</tr>
</tbody>
</table>
INTRODUCTION

The overview companion document to these case studies, Microfinance and the Double Bottom Line in the Post Social Enterprise Era, identifies unifying themes that describe the context and challenges microfinance institutions (MFIs) work with when trying to maximize their social impact. It examines both the structure of the industry as it matures — examining in particular the “conventionalizing” effects of commercialization and private capital — and identifies emerging business models (corporate-social-responsibility and base-of-the-pyramid) that offer an alternative to the more traditional social-enterprise business model seen in MFIs. While the new models may seem to dilute MFIs’ social mission, they stand poised to have a social impact that may be as great (if not much greater) than the social-enterprise model.

Guarding, expanding, and managing social impact requires considerable attention if the sector is to maximize its impact however. There are many ways to ensure impact is maximized but, to do so, microfinance must look to the experiences of others particularly to corporate-social-responsibility and social–investment practitioners. The paper concludes that maximizing market-led social performance is both desirable and possible and that donors, sector stakeholders, and MFIs have many tools at their disposal — some simple and easy to implement, others more complex — to ensure stakeholders expectations of MFIs’ social performance remain high. This report is part of USAID’s Accelerated Microenterprise Advancement Program (AMAP) Knowledge Generation Transitions to Private Capital research.1

CASE STUDIES

This paper presents four case studies: Equity Bank, Banco Compartamos, BASIX, and Share Microfinance Limited.2 Each case study provides insights into the way some leading MFIs manage their double bottom lines. These institutions are not necessarily social performance leaders, but nonetheless they offer useful insights into double bottom line impact management. They were selected for their possession of three characteristics:

- They are relatively large, growing institutions well along the way towards integrating into the formal financial sector (particularly with respect to their use of private capital);
- They have confronted significant double bottom line tests (e.g., Compartamos’ IPO and challenges related to its commitment to poverty alleviation or BASIX’s challenges in achieving social impact); and
- They offer insight into either the social enterprise (SE), corporate social responsibility (CSR), or base of the pyramid (BoP) business model.

The object of the case studies is to review double bottom line challenges, management practices, and outcomes. However, the approach we use is not typical for microfinance research. That is, we use research methods more familiar to CSR or environmental and social governance (ESG) analysis. We use this approach for three reasons:

- CSR and ESG analytical methods have been used by researchers for more than 30 years and offer a good guide for assessing double bottom line business activities;

---

1 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.

2 Equity Bank has been a direct client of the author’s firm, Enterprising Solutions Global Consulting, though the author has not personally advised the bank.
• CSR and ESG analytics rely primarily on external information and hold that whatever a company says publicly about its double bottom line should be measurable and verifiable (in the same way as financial information);

• CSR and ESG often employ management interviews to better understand the context and thinking behind corporate decision making and to guide interpretation of public materials; and

• CSR and ESG methods are more familiar to social investors and many policy makers (both in governments and donor agencies), and they offer microfinance practitioners an important, and less insular, alternative to social performance management, which is understood primarily by microfinance practitioners.

Analysis is largely descriptive and does not judge double bottom line performance per se. Rather, the studies point to double bottom line considerations that arose as institutions matured and suggest how experienced CSR/ESG analysts would consider an MFI’s double bottom line performance.3

As per a typical CSR/ESG approach, four information sources inform the case studies:4

• Public information (MIX, MFI, news stories, research publications, etc.);

• Interviews with senior management;

• Interviews with stakeholders familiar with the MFI’s operating context; and

• Structured surveys.

Each case study follows the same general narrative structure. First, we describe the bank’s business model. Second, each MFI’s mission (and/or vision, etc.) as it has evolved over time, is observed. Here, we are looking for movement towards or away from measurable claims related to double bottom line impacts/objectives (e.g., wanting to alleviate poverty or simply to provide access to finances). Analysis next turns to how an institution has managed the double bottom line over time, assessing the confluence of their financial and social-impact strategies. Here, we focus not only on poverty alleviation, but also on a range of key, self-described issues and initiatives related to a diverse range of double bottom line elements (e.g., stakeholder management, charitable activities, social performance management, etc.). Necessarily, MFIs prioritize different elements of social performance, so performance elements are not always the same in every case study. In addition, we attempt to assess pricing and profit management, two key issues to emerge from the recent Compartamos IPO debate. Finally, we assess the institution’s transparency with respect to double bottom line reporting and conclude with a short summary.

---

3 It is important to point out the limitations of the ESG and CSR analytical method, particularly related to management interviews of MFIs. The greatest limitation is that in order to facilitate interviews confidentiality on non-public information was offered to the MFIs. This ensures that all non-public negative information (if any) would not be used in the report. The result is biased information, particularly related to social impact which all MFIs felt they were maximizing within reasonable bounds of their operating environment.

4 CSR and ESG analytical methodologies vary and differences are often the competitive advantage among the companies providing said services. Visit KLD Research (www.kld.com), Michael Jantzi Research (www.jantziresearch.com), or Innovest (www.innovestgroup.com) for more insights.
FIGURE 1. EBL VISION, MISSION, MOTTO, CORE VALUES, AND INSPIRATION

Vision: “… to be the preferred microfinance services provider contributing to the economic prosperity of Africa …”

Mission: “We mobilize resources and offer credit to maximize value and economically empower the microfinance clients and other stakeholders by offering customer-focused quality financial services.”

Motto: “… growing together in trust …”

Core Values
- Professionalism
- Integrity
- Creativity and Innovation
- Teamwork
- Unity of purpose
- Respect and dedication to customer care
- Effective corporate governance

Our Inspiration: “That when years turn, our vision dim and gray, we shall still be seeing beauty in the tired wrinkles of our faces and shall take comfort out of the fact and knowledge that when we were given the opportunity we did all we could to empower our people to exploit opportunities and realize their full potential on the road to economic prosperity.”

Source: Equity Bank 2006 Annual Report

EQUITY BANK LTD.

Equity Bank started operations in Kenya in 1984 as Equity Building Society. Its members were motivated to establish the society by the desire to create a financial-service provider that would “touch base with a majority of the Kenyan population.” Its original charter was to provide medium- and long-term housing to low-income people who lacked access to capital. Initially, the Society offered term loans and savings deposit vehicles via several branches in central Kenyan provinces. A decade later, stagnating and under-capitalized, constrained by poor management and a difficult macroeconomic environment, the institution came close to collapse.

At this time, the institution made a deliberate move into microfinance and focused on developing strong, professional management and systems. By 2004, the Equity Building Society converted to Equity Bank Limited (EBL), a commercial bank offering a full range of banking services. In Kenya, EBL is now a leading microfinance institution and — indeed — commercial bank with plans for international expansion which has recently been consummated by their purchase of Uganda Microfinancene Limited.

AN EVOLVING SOCIAL MISSION

Equity’s social mission has not changed as radically as its business model, though its public articulation of this mission has taken several forms over the years. Until 2001, the bank’s mission was:

“mobilizing and utilizing resources to maximize value to our microfinance missing and middle sector by offering superior services and recognizing the contribution of our staff members” “to become the preferred (sic) microfinance service provider.”

In 2005, this somewhat obtuse mission was refined to read:

We mobilize resources and offer credit to maximize value and economically empower the microfinance clients and other stakeholders by offering customer-focused quality financial services.

In 2006, this version was further defined in the bank’s Annual Report statement of purpose (along with the goals and values set out in Figure 1):

We exist to give the freedom of modern banking to the ordinary people of Africa. We understand the lives of our people and listen carefully to what they need. We are here to serve: our customers lead, we follow. Our aim is to provide new financial possibilities to our customers that have the power to transform their lives. We measure ourselves by our positive impact on the lives and livelihoods of those around us.

As mentioned above, Equity Bank is a client of the author’s firm, Enterprising Solutions Global Consulting, though the author has not personally advised the bank.
Neither the mission statement nor the statement of purpose espouses poverty alleviation per se, settling in favor of providing economic power to clients. This alone does not mean the bank cannot or should not be held accountable for alleviating poverty, though it does not appear this is, in fact, its goal. The statement of purpose comes closest to suggesting reduced poverty as a goal when it claims the bank “measures” its success by its positive impact on the lives and livelihoods of those around it. However, the bank does not make clear how it intends to measure positive impact.

In 2006, Equity set its sights beyond Kenya when it expanded its interest to include all of Africa — and implicitly took on the role of African economic crusader! The bank actively cultivates this role, and visitors to its Web site will see a prominent banner proclaiming Equity’s Global Vision award for operating under a business model that will shape the world economy.

Without judging whether this award was justified or controlling for the fact that Equity did not create this description, the fact that the bank promotes itself as a global change agent raises expectations about how the bank should act and what it should achieve. Its promotion of its achievements will lead some stakeholders to hold Equity accountable for meeting the expectations it has raised. CSR practitioners have a maxim that aptly describes the bank’s dilemma: the bigger you make yourself, the bigger the target you become in the naming and shaming game.

EQUITY BANK’S CSR BUSINESS MODEL EMERGES

It is hard to estimate when Equity moved from a social-enterprise business model to a corporate-social-responsibility model, but this evolution is relatively clear. Today, Equity uses one of the most advanced CSR business models in microfinance, which is consistent with its leadership in many areas of microfinance (e.g., mobile banking, innovation, rural banking, etc.). Indeed, the bank has become a leading voice for CSR in Kenya, where corporations still have a fairly rudimentary understanding of the term. Outside of a few multinational companies and their local suppliers (e.g., Nestlé’s work with tea and coffee plantations and some initiatives in the flower sector), few companies embrace CSR in Kenya, though some civil society groups are pushing for more and better CSR. As one observer noted, “CSR drivers in Kenya are few beyond those which a company takes on itself.”

Defining CSR at the Bank

In its 2004 Annual Report, Equity Bank first publicly embraced CSR by stating the objective of its CSR programs as “empowering and uplifting the life of fellow Kenyans.” These programs are bank-sponsored activities and events that support social causes, specifically:

- Mobile banking in rural areas;
- Pre-university employment;
- Best crop husbandry;
- Public financial literacy; and
- Destitute children’s homes.

In the 2005 Annual Report, Equity Bank’s CEO first mentioned CSR, noting that Equity was striving to be a “socially responsible corporate citizen.” Later in the report, Equity Bank defined CSR for the first time as the:

commitment to business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve the quality of life for all the stakeholders. The end is to contribute to combined economic prosperity with social development. Social responsibility is therefore at the core of our mission.

---

Continuing, the report outlines initiatives similar to those found in the 2004 report. Conspicuously absent was specific mention of microfinance and its impact, save that of rural banking services. In this 2004 statement, we also see — for the first time — the bank’s recognition that a range of stakeholder interests need be considered, a key CSR focus. The bank also uses the concept of sustainable development (though leaves it undefined) for the first time and links it to the bank’s core mission, which significantly broadens the bank’s original microfinance focus to a wider CSR focus.

In its 2006 Annual Report, the bank observed that:

We devote considerable resources towards managing and balancing stakeholder relationships and interests so as to add social, environmental and economic value and to produce a positive sustainable impact for business and society. This emanates from the realization that success in business depends largely on how a company interacts with all stakeholders within the environment in which it operates....

In addition to these two statements, in 2004 the bank also publicly articulated an ethics and values statement (less ambitious than the other two) for the first time, which it repeats in subsequent annual reports. This statement adds some limited details to the broader sustainability statement by noting that the bank will work to avoid conflicts of interest and to provide quality and fair work conditions for employees as well as equal opportunity.

DOUBLE BOTTOM LINE MANAGEMENT
Since 1999, Equity’s growth rate has been quite rapid, which has placed pressure on its operating systems and increased its need for expansion capital. In response, the company decided to “bring the bank up to international banking standards and to craft a strategy for managing financial objectives and developing its social impact orientation.”

Capital
The bank’s strategy focuses on growth through technological advances and by delivering client-focused financial services. This approach has caused Equity to continuously expand its number of branches and to develop a large ATM network as well as a rural mobile-banking service — all capital-intensive activities. In addition to investing in physical infrastructure, it has also made a determined effort to improve its human-resource standards.

As 80 percent of the bank’s liabilities are customer deposits, the most significant pressure on its capital comes from depositors, the bank supervisor, and shareholders. As a result, the bank has developed strong savings services. Because only 2 percent of its funding comes from external borrowing (only a portion of which comes from international social investors), the influence of outside capital on the bank is minimal, save focus on share price and shareholder expectations.

In 2006, Equity listed shares on the Nairobi stock exchange and, as of the end of 2006, 11 percent of its liabilities came from its shareholders. Its 2,500 individual and institutional shareholders are fairly diverse. Among the largest is AfriCap (6 percent) and Britak Investment Company Limited (11 percent). The holdings of these two institutions give them a significant say in bank strategy, particularly because each appoints a member to the board. AfriCap is particularly important as it is funded primarily by development-agency capital which brings strong social-performance expectations. To date, AfriCap has focused more on proving the commercial viability of microfinance in Africa and less on measuring and managing social performance. However, it is working (with the support of USAID to develop social performance management and measuring tools, which may impact the way Equity Bank manages its investors and capital needs in the future. Equity staff also hold a significant share of the bank — more than 5 percent — via a stock option ESOP established in 2005. The ESOP has not strongly influenced bank policy to date.
A stock exchange listing typically improves public reporting. However, in the case of a bank, much of the important information from the listing was already available from the bank supervisor. In Equity’s case, it was also relatively transparent prior to becoming a bank and before its exchange listing (e.g., it had a five diamond rating on the MIX Market). Ultimately, the listing did not significantly impact Equity’s CSR policy and reporting, though it must now publicly declare and defend financial performance and planning, including dividends issues.

However, the stock listing did dilute ownership concentration. Instead of a handful of owners, the bank now has many shareholders with diverse interests. This situation can produce one of two effects. First, as MFIs grow and need more capital, they often worry about bringing on new minority shareholders, because minority holders can strongly influence a company and cause difficulties if their values are not well aligned with vested interests. As a result, most MFIs prefer social investors, who are unfortunately limited in number. A stock market listing helps dilute this potential problem, as the chances of 2,500 shareholders with diverse interests coming together to object to the bank’s social mission is unlikely. Second, it is highly likely that shareholders will join forces over financial and governance issues. Therefore, as long as Equity’s financial performance is acceptable, shareholders are unlikely to object to their social mission.

**Stakeholder Management**

Equity Bank recognizes and actively manages the expectations of a range of important stakeholders (see Figure 2). Client trust remains a core focus of Equity Bank as articulated in its business strategy. This focus reflects the bank’s desire to value and continuously improve services for low-income clients. It has an active research program that seeks ways to achieve this goal. This program is partly funded by AfriCap, an Equity Bank shareholder (see above). Equity also relies on close client management to foster trust in a marketplace that suffered the collapse of Kenya’s savings and credit cooperatives in the 1990s. Winne Kathurima Imanyara, senior vice president of corporate social responsibility, believes that the trust it builds gives the bank a social and cultural license to operate.

Client issues spill into public relations and marketing. The bank maintains a close relationship with various levels of government. In the past, this practice has facilitated good will among district managers (members of the government) who help organize and give credibility to the bank’s local public relations and sales meetings. Maintaining good relations with local tribal leaders is also critical to opening new markets. A downside is that many perceive the bank closely aligned with the ruling national government and tribal affiliations.

The bank also benefits from the ongoing work of international development agents who provide funding for a range of activities, from research and development to staff training. These agents all have sustainable development mandates and are strong poverty reduction advocates.

**Charitable Activities**

The bank has several signature CSR charitable initiatives. One is to plant a million trees to help rural communities conserve soil and water as well as shade. Since 2001, the bank has offered scholarships to the best student in every district in which they operate. In 2005, 60 students benefited from the program. In 2006, the program was expanded to include two students — the best boy and girl — per district to ensure gender balance. Promotional materials claim

---

**FIGURE 2. EQUITY BANK STAKEHOLDERS**

- Clients
- Shareholders
- Government
- Communities
- Chiefs
- Local district officers
- Staff
- Development Partners
- Microfinance Networks
that most recipients come from underprivileged backgrounds and that the scholarships pay for their university education.

The best CSR charitable activities tend to be linked to a firm’s core business. In the case of the tree planting, the bank has chosen to focus on issues important in the rural areas into which it is expanding. While not linked directly to banking services, the program (and its environmental impact) is linked to the bank’s relatively new sustainable development goals. Other programs are important for public relations reasons but are not linked to core business.7

Staff
As noted, Equity has publicly stated that it wants to provide quality/fair work and equal opportunity for its employees. Its extensive staff training and program that targets highly skilled external recruits has earned the bank a good reputation as an employer, a critical achievement in countries with shallow managerial talent pools. Its continued interaction with and reliance on international development agencies for training funds has helped its human-resource development efforts and presumably helped it work towards living up to its ethics and values statement. Such a public commitment to workplace issues is reasonably advanced for microfinance (and helps Equity approach international CSR standards).

The bank reports providing medical care to staff (though it is not clear if this care is available to all staff or to what extent the bank pays for it). The bank also reports providing a pension fund to which both staff and the bank contribute. It is not clear the extent to which the bank is legally obligated to contribute to the fund.

Of the 12 directors on Equity’s board, only one is a woman. Among senior staff, all but three of 20 (or 15 percent) are men. There are no best practice standards for developing countries with regard to the number of senior women on staff as the educational and cultural traditions can vary dramatically in each market. However, the international standard holds that at least 20 percent of board members and senior executives should be women. The inclusion of people from diverse ethnic backgrounds is also a standard consideration.

Profit Management
In 2005 and 2006, the bank’s return on equity was 40 percent, having averaged 21 percent for the five previous years. In 2005, average operating expenses were 14 percent, after averaging 11.2 percent for the five previous years. In 2006, interest income accounted for approximately 45 percent of income, with 45 percent generated by fees.

In 2005 and 2006, Equity invested accumulated capital (i.e., retained earnings) into the company and compensated shareholders for this decision by issuing new shares. Modest dividends were paid out in both years, despite 120 percent pre-tax profit growth from 501,000 KSh in 2005 to 1.1 million KSh in 2006. Reinvesting earnings is consistent with the bank’s aggressive expansion plans and adds value to all shareholder holdings without discrimination.

From public sources, we determined that Equity’s microfinance loan interest rates were a reported 1.5 percent per month or 18 percent annually (flat rate). We found no reference to fees in marketing literature though in the bank’s annual statement they clearly produce considerable revenues (though it is not necessarily clear from which sources). This compares to an average of 8 percent annually for short-term Kenyan government treasury bills, for a spread of 10 percent.

Social Performance Management

7 By contrast, Texas Instruments in the United States (for example) offers a scholarship program that helps students further their professional careers in select technology fields related to its business strategy.
In its research activities, the bank focuses on providing appropriate low-income financial services. Research is key both to its expansion strategy and to its core mission, providing the poor with valued services. The bank believes that access to financing is critical to “lifting people out of poverty” and to “empowering people.” However, Equity makes few specific public references to impact.

Other than the number of clients served and various other financial performance indicators that can be used as proxy for social impact, there is little evidence upon which to base an impact assessment. The default indicator is average loan balance reported in the MIX Market. In 2005, Equity’s balance was U.S. $444 or 76.6 percent of GNI per capita. These figures are down significantly from when Equity was a building society and are lower than the large African MFI peer group (whose average loan size is U.S. $477 or 162 percent of GNI). These figures may rise as the bank pursues a strategy to increase small-business lending (the bank claims that 80 percent of its small-business clients graduated from microfinance loans). It is interesting to note too, that the average saving balance at Equity between 2006 and 2003 was US $167 compared or close to the $142 of its peer closest group suggesting that it served people at least as poor as other large African MFIs.

Women as a percentage of Equity’s borrowers have increased over the years from 22.5 percent in 1997 to 52 percent in 2005 (the average of Equity’s peer group is also 52 percent).

Transparency
Despite all the obvious and important measurable goals advertised by Equity, there is little publicly verifiable reporting on how well it does with respect to its social-impact goals. CSR-style reporting formats and support systems are certainly compatible with the bank’s activities, and it could report on charitable activities, employee programs, and some poverty-impact measures for relatively little expense given its size. As it stands, a CSR or social-investment analyst would have far more questions than answers after assessing Equity’s public record. A simple test would be to take the statement that “we devote considerable resources towards” charitable activities. Some countries hold that 1 to 5 percent of pretax profits should be devoted to charitable activities, a simple and verifiable measure. A more difficult but perhaps more important claim to test would be: “We measure ourselves by our positive impact on the lives and livelihoods of those around us.”

CONCLUSIONS
Over the past several years, the bank has aspired to international banking standards, which has also led it to pursue a CSR strategy. Together, the bank’s plethora of double bottom line activities forms a fairly sophisticated CSR business strategy. Given that Equity’s senior vice president explicitly recognized its CSR goals, it is among the leaders in Kenya, if not Africa, in this field.

However, a CSR strategy must be well managed as it will raise expectations among stakeholders. The bank’s broader objectives related to microfinance services are numerous and somewhat unclear. It appears to place more importance on access than on poverty alleviation. Its introduction of sustainable development among its goals makes evaluating its success even more difficult, despite laying the groundwork for an explicit triple bottom line strategy.

Equity obviously takes great pride in its double bottom line performance, which would only be enhanced by clearer reporting and verifiable performance measures. Should the bank continue to build these programs it could develop a significant CSR brand value and competitive advantage.
BANCO COMPARTAMOS

Banco Compartamos began as an NGO social enterprise in 1990 with the objective of providing working capital credit to help microenterprises and contribute to the economic development of Mexico. By 1999, capital limitations caused Compartamos to convert into a Sociedad Financiera de Objeto Limitado, or a finance company supervised by the Central Bank of Mexico. This change gave Compartamos the ability to raise term debt from investors, which, in turn, facilitated a series of bond issues in the Mexican capital market beginning in 2002. However, limitations in the finance company charter pushed Compartamos to convert again into a full commercial bank in 2006. In 2007, the bank issued shares on the Mexican stock exchange. Today, Banco Compartamos offers a full range of financial services to low-income Mexicans in both urban and rural areas.

AN EVOLVING SOCIAL MISSION

Since 2004, Banco Compartamos’ mission has been:

We are a social company committed to people. We generate development opportunities within the lower economic segments, based on innovative and efficient models on a wide scale, as well as transcendent values that create an external and internal culture fulfilling permanent trusting relationships, and contributing to a better world.

To put this mission into practice, the bank explains that they are a “socially responsible institution committed to offering appropriate financial services to entrepreneurs who live in unfavorable conditions, generating economic, personal, and social growth and opportunity.”

This mission is directed by what the company calls a “sense of purpose,” which in turn is driven by the ethos that people, be they staff or clients, are critical to the success of the company. To this end, Banco Compartamos seeks to uplift both staff and clients to become the very best and most “whole people” they can be.

This sense of purpose emerged from an earlier mission (first stated in 2001) in which the bank sought to work with and for individuals who were committed to personal growth by developing strong personal values. This commitment would motivate Compartamos staff to make the institution a leader in popular or low-income finance and would help connect it with clients, thereby greatly expanding the bank’s market penetration.

In 2004, Compartamos articulated this person-centric vision more existentially by noting that it had “strengthened our mística and internal culture,” which in turn helped the company and employees live their values. The word “mística” is explained in their code of ethics (see Figure 3 on the next page), which has allowed Compartamos to strengthen their mission in response to a developing sense of social purpose. Their code of ethics was developed and presented to all staff in a regional tour of offices. They have worked to use these values to create an internal and external company culture based on family values, values that have been embedded in the company through a series of company-family programs and a number of other events.

By 2005, Compartamos had articulated their ethic in a more conventional manner, stating they were a social enterprise with three values:

- **Social value**, giving development opportunities to people and families in the popular sector;

---

8 From Compartamos’ 2001 Annual Report, translated by the author from the original Spanish text.

MICROFINANCE AND THE DOUBLE BOTTOM LINE: BRIEF CASE STUDIES
• **Economic value**, aiming to be profitable with sustainable growth, to reach more people, and able to fund itself from the market while offering a return to its investors; and

• **Human value**, people are the principal and final consideration in its activities and promoting *mística* between staff and their clients.

The company considers that these values combine to form a “virtuous cycle” that will help expand their business and deepen employee and client commitment to personal growth.

Compartamos’ 2005 Annual Report explains the term “human value” as a means to deepen staff and client awareness of their “valiant and transcendental work.” They believe that such awareness attracts more and better opportunities and creates a positive and enjoyable working environment. In addition, they hold that the resulting virtuous cycle will help the company become a change agent in society, promoting confidence, honesty, responsibility, and solidarity and enriching the social capital of communities, families, and employees.  

Compartamos’ concept of *mística* was further refined in 2006 when the bank stated that values drive the bank’s actions, initiatives, and projects on a daily basis.

### FIGURE 3. BANCO COMPARTAMOS’ CODE OF ETHICS

<table>
<thead>
<tr>
<th>People</th>
<th>People are the axis of the company – employees and clients or shareholders. People are the motivation and end point for the company.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>Serving others is our reason for being.</td>
</tr>
<tr>
<td>Teamwork</td>
<td>Uniting talent and dreams and promoting participation for mutual enrichment to achieve our objectives.</td>
</tr>
<tr>
<td>Passion</td>
<td>We do our work with heart and we are available to bring the best of ourselves to realize our ideals.</td>
</tr>
</tbody>
</table>

**A BUSINESS MODEL EMERGES**

Banco Compartamos describes itself as a social enterprise. While it shares some characteristics of social-enterprise financial institutions, to an outside observer it looks remarkably similar to a CSR business. This is particularly true with regard to its profit-maximization model, which it uses to achieve greater social impact. (See Section 2.2 of Microfinance and the Double Bottom Line in the Post-Social Enterprise Era for more details.)

Whether the bank uses a SE or CSR model is debatable, but like Kenya’s Equity Bank, Compartamos is surely one of the most advanced double bottom line businesses in Mexico and globally. This position is consistent with its leadership in many parts of its business, which is particularly pronounced with regard to its vision for employee and client empowerment.

From a business perspective, Compartamos has adopted a fairly conventional profit-maximizing strategy. It has kept loan prices as high as the market would bear while reinvesting profits in rapid expansion. Profits were used both to fund the institution’s portfolio and to pay for expansion. This strategy focuses on “first-in” market advantage, establishing brand, and providing access to services above all.

However, if one views Compartamos from a SE perspective, three SE elements become clear. First, since forming the financial company in 2000, Compartamos’ has made no public claims that its work impacts poverty, rather claims only to provide appropriate services to low-income people.

---

9 Many social observers, Octavio Paz among them, have argued that the Spanish conquest of Mexico and the subsequent 500 years of oppression of indigenous Mexicans has led to a number of manifest social characteristics (also noted by Banco Compartamos) that suppress the advance of a more open, innovative society. See Octavio Paz (1950), Labyrinth of Solitude, Grove Press. USA.
Second, the bank has sought to develop a corporate culture based on personal values, which the bank has attempted to extend to some external stakeholders, particularly clients. Such an approach is not without precedent. For example, Grameen Bank’s 16 Decisions offer an appropriate analogy, as does the mission statements of many religious institutions, such as DMIro in Ecuador. In essence and consistent with many religious and psychological philosophies, Compartamos strives for balance. In this case, it is seeking to balance strong financial discipline and conventional business practices with a culture that provides employees and clients with deep personal meaning and the possibility for personal growth.

At the same time as it developed this culture, the bank sought funding from the least “mystic” of sources: Mexican financial markets. Compartamos’ rapid growth, commitment to avoid donor funds, and liquidity crisis at the turn of the century caused the bank to develop what has become a highly successful long-term funding strategy that focused on local bond issues, followed by an IPO then savings mobilization. This strategy increased the bank’s need to prove its financial soundness and potential, particularly given the SE language it employed.

Since its IPO, the bank’s focus on finance has intensified in some respects, and Compartamos’ senior executives report that conventional investors tolerate the bank’s mission so long as profits and company value remain at “acceptable levels.” Oversight is intense. Some investors visit regularly, even weekly, depending on the size of their investment relative to their holdings. Compartamos staff points out that not a single donor, no matter the size of their funding, ever did likewise.

The third element of the bank’s SE business model is transparency. Compartamos has long had a good record of financial transparency, for which it has consistently won recognition from CGAP. Because it is a regulated bank, Compartamos is obligated by a host of legal transparency requirements, and because it is a publicly listed company, it is required by the Mexican stock market to release information that ensures fair trading by giving all investors equal access at the same time (this is a standard stock market requirement). However, Compartamos’ good transparency practices have only partially influenced its social-impact reporting. Most but not all of its objectives and performance claims remain underreported or unverified.

DOUBLE BOTTOM LINE MANAGEMENT

**Stakeholder Management**

Compartamos recognizes and actively manages the expectations of a range of important stakeholders (see Figure 4). People — staff and clients — are the bank’s most publicly acknowledged stakeholder group. People and their continuous development are the axis around which Compartamos’ activities and initiatives form. Several shareholders have become important stakeholders after the IPO, as noted above.

**Staff**

The bank complies with a range of local labor laws and provides a host of extra benefits for employees, including improved medical and health coverage. The main emphasis of the bank’s employee focus is on personal growth and development. For example, in 2006, the bank provided 2,500 staff with courses on human development via one of five decentralized training offices. More than 4,000 employees went through the bank’s Empresa-Familia program, which helps employees and their families through a range of personal challenges based on the assumption that if employees have happy homes, their productivity at work will be higher.
Compartamos provides strong external evidence that its employees are committed to its philosophy and to the company itself. Since 2004, it has won various employer awards both in Mexico and Latin America.

**Clients**
The bank’s stated mission is to provide appropriate financial services to clients. For Compartamos, the term “appropriate” has two elements. First, loans that provide working capital for low-income people should give clients the means to take advantage of or create economic opportunity. Second, the term “appropriate” implies that the bank offers services that clients value.

To this end, Compartamos undertook a client-satisfaction survey in 2006. In its 2006 Annual Report, it reported 98 percent client satisfaction with the bank’s services. It also claims 84 percent of clients said they would recommend Compartamos to family and friends. Executives interviewed for this paper also claim that the bank has a client-retention rate of 80 to 90 percent. However, the bank has not discussed the methodology it used to obtain these figures, and they do not appear to have been verified by a third party.

**Sector**
Compartamos has not been as active in the development of Mexico’s microfinance sector as other MFIs. However, it has offered focused input on sector development (i.e., when relevant to its needs) and now participates in the national MFI network *ProDesarrollo*, and it recently signed the network’s code of ethics (not yet publicly available). At the international level, Compartamos is involved in several networks, including ACCION International and the Microfinance Network, among others.

The bank believes it has provided a service to Mexico’s microfinance sector by proving its profitability and thereby attracting new capital and competition. They claim this new capital and competition will greatly improve product quality and service. A recent paper by Rich Rosenberg of CGAP, shows that, in fact, loan prices have come down with the entrance of BoP companies like FinSol, which was motivated by the experience of businesses like Compartamos. 10 11 Analysts familiar with the Mexican market will attest there has been a virtual explosion of credit products in the last five years, from a variety of sources.

**Profit Management**
Compartamos’ profit management record is now fairly well known so only an overview is provided here. Over the last five years, Compartamos’ ROE has averaged around 50 percent. It invested all retained earnings into the company until 2007 when it issued modest dividends to investors. However, the value stored in the bank’s shares was realized by shareholders in the 2007 IPO, when shares were sold at 1,150 over book value. Because it was a secondary issue, the bank raised no new capital for expansion, and shareholders who sold were richly compensated for lack of past dividend.12

---


11 The author’s consulting practice is based in Mexico, and he has had conversations with members of most leading MFIs, including FinSol executives just before they began operations.

12 The full story of the IPO has been told elsewhere. For a contextual treatment, see Marc de Sousa-Shields (forthcoming), *Microfinance and the Double Bottom Line in the Post-Social Enterprise Era*, USAID, AMAP.

The bank’s interest-rate policies are also assessed in more depth elsewhere. Effective interest rates at the bank ranged between 80 and 110 percent annually. These rates should be compared to an 8 percent average for short-term Mexican government treasury bills and between 20 and 40 percent for individual loans over the same time. Credit cards ranged between 35 and 60 percent.

**Social Performance Management**
Compartamos has actively and effectively managed their values-based program for employees and clients and has publicly announced the program. The bank believes that its impact is demonstrated by its financial and outreach performance.

With regards to clients, Compartamos noted in its 2005 Annual Report that it had developed a “social impact indicator to regularly monitor by product (to see) if it is reaching segment objectives.” However, it does not report publicly on this indicator.

There is also no obvious record of how the bank is meeting its goals to provide people the opportunity to better their economic situation. However, standard microfinance outreach measures provide some insight. As reported in the MIX Market for 2006, the bank’s average loan balance was U.S. $440 as compared to its Latin American peer group average of more than U.S. $1,000. Its average loan size was 5.6 percent of GNI per capita as compared to some 50 percent for its peers. More than 97 percent of clients were women (peer group average is around 50 percent).

The bank reports that it will undertake a impact study in 2008. Finally, the bank is participating in the Microfinance Network’s code of conduct development.

**Transparency**
Like most MFI's, Compartamos has relatively underdeveloped double bottom line reporting compared to its stated claims. As is the case with Equity Bank, CSR-style reporting formats and support systems are certainly compatible with the bank’s activities, particularly those related to employee programs. Verification is critical and the promised 2008 study on client impact will be an important management tool for Compartamos and its stakeholders.

**CONCLUSIONS**
Compartamos has a complex double bottom line business model. The notion that a business can have a mistica is consistent with SE business models aligned with what some would describe “New Age” business. However, in reality this focus is about empowering employees and clients through strong shared values. The company seeks to operate in a way that helps stakeholder groups realize their very best and, in doing so, enables them to be happy, effective employees. At the same time, the bank attract clients with strong personal values or, as some might conclude, lower risk profiles (i.e., strong work ethic and great personal integrity).

Many external stakeholders feel there is a contradiction between the organization’s stated values and profit management. For others, the bank was simply managing for future expansion and the need to respond to capital markets. If this is true, the contradiction was less about Compartamos’ values and profit management than it was about a clash between some stakeholders’ values and those of Compartamos’ expansion plan as a means to an end.

---

Ultimately, and like most MFIs, there are a host of management practices that could enhance Compartamos’ double bottom line management both internally and externally. The bank’s commitment to strong transparency could facilitate this improved management as well as performance verification.
SHARE MICROFINANCE LIMITED

Share Microfinance Limited (SML) of India began life in the late 1980s as a social enterprise NGO focusing exclusively on poor rural women. By the late 1990s, SML had become a successful and fast-growing MFI whose growth was constrained by limited access to capital. In 2000-2001, the NGO converted to a “community-owned and -managed for-profit regulated financial institution” named Share Microfinance Limited. At the same time, Share India Mac Ltd., a savings cooperative, was registered to allow for voluntary savings. Today, SML provides a range of financial products and services but cannot offer savings and, as a result, it must borrow, primarily from commercial and state banks.

AN EVOLVING MISSION

SML began in earnest as a social enterprise. Its objectives as articulated in its 2000-2001 Annual Report were:

- To provide access to credit to the rural poor, particularly women, to enable them to improve their quality of life and reduce their poverty in turn;
- To promote savings and sharing of resources among the rural poor; and
- To train rural poor in simple skills and enable them to utilize the available resources and contribute to employment and income generation.

Owned primarily by the women it served (98 percent), in 2000 the NGO was governed largely by women (6 of 8 board members were women). The organization claimed to be managed by the community and, insofar as each solidarity group was concerned, women were certainly managing their own affairs. However, from its start, the organization has clearly benefited from a strong and committed professional management team composed largely of men.

SML has a clear SE history. The organization has always focused on the very poor, and it states that alleviating poverty by providing access to financial services is its explicit objective. SML has demonstrated this commitment in several ways. First, it was constituted with two sister organizations, one focused on supporting the poor through charitable services (SML the NGO) and the other on savings (SML Mac). Second, the great majority of its portfolio growth has come from lending to solidarity groups — which is more costly than lending to individuals — even though opportunities to lend to individuals were abundant. Third, it has placed a good deal of emphasis on supporting not only the financial but also the developmental well-being of women, including their health, dignity, and self-reliance.

SML’s mission has not changed considerably since 2001, though it was articulated slightly differently in 2006:

Vision
To improve the quality of life of the poor by providing access to financial and support services and to be a viable financial institution developing sustainable communities.

Mission
To mobilize resources to provide financial services and support services to the poor, particularly women, for viable productive income generation enterprise enabling them to reduce their poverty.

Objectives
- To provide financial services predominately to poor women;
- To create opportunities for self-employment for the underprivileged; and
- To train the poor in simple skills that enable them to utilize available resources and contribute to employment and income generation in rural areas.
Compared to SML’s 2001 objectives, these 2006 statements indicate its move from a more limited mission of serving women to reduce their poverty to a larger vision of supporting sustainable communities. They also understate SML’s growing double bottom line sophistication as well as its recommitment to its original values. It now explicitly recognizes that the health of the institution is key to meeting its vision and mission (i.e., without viability, there can be no services). This concern for SML’s financial viability is realistic, and its articulation legitimizes open debate on the balance of social and financial imperatives at the institution.

In 2006, SML weathered a political controversy in India over high interest rates for microfinance loans and accusations of “strong arm” loan-recovery tactics. In response, the institution reviewed and reduced interest rates charged to clients in its home state of Andhra Pradesh (but not necessarily in all the states in which it works). The MFI also adopted a code of conduct proposed by Sa-Dhan and community finance development association. The code defines core values and fair practice for microfinance institutions “in a manner that benefits and respects clients.” (See summary of code in Figure 5 on the next page.)

**FIGURE 5. SA-DHAN MICROFINANCE CODE OF CONDUCT**

**Part I. Core Values in Microfinance**
- Integrity and serving the poor
- Complete and accurate information about financial services
- Fair and ethical service practices
- Client privacy
- Integration of social values into operations
- Provide client-feedback mechanisms

**Part II. Voluntary Mutual Code of Conduct**
- Code applies to all signatories regardless of governance structure
- Activities: defines a range of financial services
- Commitment of cooperative to client-centric sector strengthening
- Conduct commitment: honesty, fairness, fair competition, display core values prominently, train staff in core values
- Transparency: disclose all financial and non-financial conditions of product and service use, use of surplus, and statement of accounts to clients
- Fair and ethical business practices
- Feedback and grievance mechanisms for clients

**Part III - Compliance Mechanism**
Ethics and Grievance Committee formed by Sa-Dhan (from microfinance and social development sectors)

Enforcement - Expelling from Sa Dhan and listed on Sa Dhan website

**SML’S BUSINESS MODEL: SE OR CSR?**

While SML began as a social enterprise, over the years its business has become increasingly conventional. Like many institutions, social impact remains its central mission, but it has put great effort into defining and executing a commercial strategy. SML has an aggressive growth program that focuses on geographic expansion and vertical market penetration though new products and services targeting existing and new clients. The organization’s focus remains on very low-income women but — consistent with its growth strategy — SML is introducing larger individual loans as well as fee-based services, such as remittances.

Increased competition and stakeholder oversight (by politicians, civil society, and regulators) has influenced several double bottom line decisions at SML. Particularly influential was the 2006 controversy mentioned above. SML is now proactively shaping a stronger double bottom line agenda, which includes signing on to the code of conduct.

Like many Indian MFIs, the SE NGO influence remains strong at SML, and the company retains significant vestiges of that model even as it moves towards a more conventional corporate approach to business. Still, SML’s strategy is more strongly influenced by SE than it is by CSR.

A key part of the SE model is use of sustainable development language and a strong emphasis on serving the very poor. While SML provides its employees with training and some benefits, it does not focus on these issues as strongly as Banco Compartamos does. SML does not have explicit CSR activities, dedicated personnel, or even well established charitable activities. However, its most telling SE element is its continued and intense focus on its double bottom line.

**DOUBLE BOTTOM LINE MANAGEMENT**
Like many larger MFIs, SML’s growth has been rapid since the turn of the current century. This growth has placed significant strain on its operating systems and requirements for expansion capital. In addition, SML’s home state market has a good deal of competition, which is partly responsible for its aggressive plans to expand into other parts of India. After continuous branch expansion, SML now has more than 300 branches in five states. It has also put considerable resources into training and retaining employees, particularly loan officers.

Capital for on-lending was initially challenging for SML, and securing it in greater quantities required a shift in corporate culture towards more conventional business practices (e.g., the change from simple to international quality annual reports was as complex as improved governance).

Unlike most other countries with sizeable microfinance operations, India has rather large domestic capital pools, both in open capital markets and in the well-developed commercial banking system. However, the Indian government’s microfinance sector priority lending policy has been critically important in determining access to this capital, and this policy has pushed commercial banks to lend to the sector. Because most banks preferred not to lend directly, many began to lend to established MFIs, such as SML. As a result, SML went from having six lenders in 2001 to 20 lenders in 2006-2007, of which 15 were local commercial or state banks.

Equity capital has been more difficult to come by. Rapid growth, modest profits, the need for expansion funding, and reserve requirements combined to pressure SML to raise significant new equity. In 2007, SML sold majority stake in the company to Legatum Capital, a Dubai-based social investment fund focusing on social enterprise, particularly in India. Legatum invested U.S. $27 million in the organization. Prior to this investment, SML was owned by 26,000 client members. SML management selected Legatum over other offers, because it has strong finance and business experience, access to further funding, and a strong mandate to pursue social impact through investments. Aavishkaar, an Indian-based social investment fund with significant focus on microfinance invested U.S. $2 million at the same time.

Stakeholder Management
SML recognizes a range of stakeholders but clearly focuses intensely on its clients. At the same time, the organization has developed important relationships with many commercial banks. These relationships are recognized as partnerships, which SML manages with strategic intent (in a manner similar to an investor-relations program). SML also maintains two seats on its Board of Directors for clients but does not have other obvious, established, or regular forums for members to provide input to the organization (other than through loan officers).

Charitable Activities
SML reports minimal charitable activities and focuses its resources on expanding its business as the most effective means to achieve greater social impact. In this respect, SML demonstrates a social-enterprise ethos, compared to Equity Bank, for example, which takes a more conventional CSR approach (i.e., it has developed a strong charitable program).

Social Performance Management
Like many SE businesses, SML has endeavored from time to time to demonstrate social impact. In 2000, the International Food Policy Research Institution (IFPRI) undertook a rigorous study and demonstrated that SML was successfully targeting the poor and very poor. This study has not been updated, but its loan figures suggest that it still reaches the poor and very poor. SML’s average loan size was $111 (2006) compared to $100 for its peers in Asia (2005) or

---

12.3 percent of GNI per capita (2005) compared 19.1 percent for its peers. In 2002, SML undertook an impact assessment which found 80 percent of their mature clients (who had been with SML more than one year) experienced observable improvements with respect to income and assets. Managed by David Gibbons of Cashpor, this study was not as rigorous as that of IFPRI, but it went further than similar studies undertaken in the sector. It also implicitly underscores the challenges of assessing impact in an efficient and effective manner.

**Staff and Board**
Originally, SML was “owned and operated” by its clients. As noted earlier, SML has long enjoyed strong professional management. These two facts lead to the conclusion that SML’s board was run by clients, who hired professional staff to manage the institution for them or for solidarity groups. While this may have been the case in 2001, when six of eight board members were clients, by 2006-2007, only two board members were clients. In addition, it had no women among its senior management though 4 of 11 members of the Board are women.

SML reports a strong emphasis on training its personnel. Training programs focus primarily on client service and operational issues. Modest non-salary benefits include a pension fund and health insurance. There are no public figures available on the nature of these programs, who is eligible for them, or how much money is dedicated to them; some of them seem to conform to minimum state requirements.

**Profit Management**
SML profits have been relatively modest, averaging 18 percent between 2002 and 2006. SML has never declared dividends to members, instead reinvesting retained earnings into expansion activities. This move increased the value of shares held by the women owners.\(^{15}\)

**Transparency**
MIX Market gives SML a five diamond transparencies rating. From a CSR perspective, the institution has a reasonable degree of transparency, though some gaps could be beneficially filled. Updated poverty impact and depth of poverty surveys would help support its impact claims and would likely improve its social and financial performance. Little information is available about how client members were/are treated and what access they have to institutional decision-making structures (e.g., how their shares are represented). Public accounting on the sale of shares to Legatum (or how the decision to sell was made and what benefit it brought to member owners) is not available. More clarity on the composition of SML’s board and more complete information about staff benefits and trainings would help SML move towards international double bottom line reporting.

**CONCLUSIONS**
Clearly, SML’s SE business model focuses intensely on expansion and serving the very poor. By inviting Legatum to partner with it, SML is strengthening its SE business model and will likely increase its social-enterprise management sophistication. The move represents a concentration of shares in the hands of a few SE shareowners, as opposed to the dilution effect created by Compartamos and Equity Bank.

The organization’s response to political and media pressure regarding treatment of clients and interest rates can be described as a classic CSR response to avoid regulation. However, its adoption of the Sa-Dhan code is a positive

---

\(^{15}\) It is not made clear publically how profit from the sale to Legatum was distributed.
move and, despite the fact that the code is voluntary and has relatively weak penalties for non-compliance, it provides a public standard for signatories to uphold. Ultimately, this is no substitute for better double bottom line transparency. Any one of a number of reporting formats available on the market would certainly improve SML’s double bottom line management and reporting.
BASIX GROUP

BASIX is a holding company that began lending operations through its finance company Bhartiya Samruddhi in 1996. The institution works to promote sustainable livelihoods for the economically active poor, mostly in rural areas and for those primarily engaged in agriculture (livestock rearing, household manufacturing, or services activities).

By 2001, the BASIX Group had grown to include Krishna Bhima Samruddhi Local Area Bank (KBSLAB), Indian Grameen Services, and the Livelihood School. BASIX also maintains strong connections with Sarvodaya Nano Finance (Sarvodaya), a financial company owned by a group of community-based mutual-benefit trusts (see Figure 6).

This case study will focus largely on Bhartiya Samruddhi, as it is the oldest and largest financial company in the group. However, we will also examine KBSLAB and Sarvodaya to some degree. It is important to note that members of the Group hold in common their mission and objectives as well as many of their activities and policies.

Through these organizations, BASIX provides credit, technical assistance, and support services, such as input supply or market linkages. By 2006-2007, the Group attended to almost 350,000 loan clients with a combined portfolio of around U.S. $60 million (Rs 2,343,173,000). In addition, KBSLAB provided savings services to almost 400,000 clients.

AN EVOLVING MISSION

BASIX’s mission has not changed since inception. That mission is:

To promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner.

The term “sustainable livelihoods” is not clearly defined in BASIX’s public statements but can be taken to mean “capabilities, assets and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stress and shocks and maintain or enhance its capabilities and assets both now and in the future while not undermining the natural resource base.”

The institution’s motto, “Equity for Equity,” means that BASIX attempts to use capital (financial, human, social and natural) to create equality of opportunity and social justice in society globally. One of its key goals is to:

Strive to yield a competitive rate of return to investors so as to be able to access mainstream capital and human resources on a continuous basis.

AN EVOLVING SOCIAL ENTERPRISE BUSINESS MODEL

BASIX is clearly a social enterprise and is a self-proclaimed “new generation lively promotion institution” company. As with many SE businesses, BASIX has a strong focus on profitability but does not subsume the pursuit of its mission to the pursuit of profits.

The BASIX Group’s initial concept was to provide financial services and technical assistance for sustainable livelihoods. Among microfinance institutions, BASIX is more akin to pioneering developed-country SE financial institutions, such as ShoreBank or Triodos. However, unlike many SE microfinance institutions with non-financial objectives (e.g., business development services), BASIX has purposely developed “independent of lending activities” to pursue a variety of service strategies to achieve its overall goals of supporting sustainable livelihoods.

16 Department for International Development. Definition found at http://www.livelihoods.org/info/info_guidancesheets.html#1.
The basic concept was to have a holding company — Bhartiya Samruddhi Investments and Consulting Services Ltd. (BASICS Ltd.) — develop a series of companies that had different but complementary aims.

The first company, Bhartiya Samruddhi, is the flagship of the BASIX Group and provides loans and technical assistance to the rural poor. BASIX once owned nearly 100 percent of Samruddhi but through subsequent equity capital expansions sold shares to the International Finance Corporation of the World Bank (IFC), ShoreCap and Hivos-Triodos (both international social investment funds), and two Indian commercial banks, ICICI Bank and the HDFC. BASIX now owns 49.5 percent of Samruddhi. As of December 31, 2007, Samruddhi was present in:

- 8,372 villages in 45 districts spread over eight states of Andhra Pradesh, Karnataka, Orissa, Maharashtra, Madhya Pradesh, Jharkhand, Rajasthan, and Chhattisgarh.

Because it did not yet offer savings services, which it viewed as critical to developing sustainable livelihoods, the Group started KBSLAB in 1999 as India’s first microfinance bank. It now operates in two states (Andhra Pradesh and Karnataka), serving 30,000 borrowers and almost 400,000 savers. The bank has 14 branches, including two mobile units.

In 2001, the Group started Indian Grameen Services as a not-for-profit company to provide research and development capacity for livelihood promotion. It focuses on building a knowledge base that supports the development of sustainable livelihoods (institutional development, policy, promotion, etc.). The company also provides consulting services on financial and non-financial issues and conducts significant action research on MFIs and community-based organizations. It also conducts research on a number of agricultural sub-sectors, including dairy, groundnuts, cotton, vegetables, and soya. Its cross-cutting research examines rural electric power, irrigation, product retailing, and cooperative/mutual marketing.

Sarvodaya is a financial company that was established to serve lower income borrowers, who are now directly served by Samruddhi and KBSLAB as well as by self-help groups of poor women. In 2001, BASIX sold the company to a group of community-based mutual-benefit trusts that — as of the end of 2007 — were organized into more than 22,000 self-help organizations. BASIX provides a variety of support services to the organizations. Sarvodaya is undertaking a number of strategic initiatives (financial and non-financial) to develop innovative approaches to livelihood promotion, including Livelihood Enhancement, Information Technology Solutions for Livelihoods, and Institutional Microfinance and the Double Bottom Line: Brief Case Studies
Development for Other MFIs and Livelihood Promotion Institutions.

DOUBLE BOTTOM LINE MANAGEMENT

As a group, BASIX has grown fairly rapidly since its inception. However, like most SE businesses, it has grown less rapidly than other competing Indian MFIs. (See case study on Share Microfinance Limited.) In addition to ensuring good operating systems and meeting the need for expansion capital, the Group’s broader focus requires resources be focused on non-financial services. This fact has likely slowed the growth of its client loan business but has resulted in non-financial impacts.

Capital

BASIX has needed a good deal of capital to fund expansion. Like many Indian MFIs, it has benefited from the government’s priority lending policy. In 2001, Samruddhi had received loans from 11 organizations, including eight local state/commercial banks and three international agencies. By 2007, its lenders had grown to 14, with most of the capital coming from local banks. Samruddhi has also seen significant injections of share capital and, as noted, now has significant international and domestic ownership (share capital distribution is 49 percent BASIX, 22 percent IFC, 11 percent each Hivos-Triodos and ShoreCap, and 5 percent ICICI Bank).

The involvement of ShoreCap is particularly telling as it is partially owned and managed by ShoreBank of Chicago, a pioneering SE bank. Unlike CSR businesses, ShoreBank has an extraordinarily strong focus on providing sustainable banking products/services and is considered a leading SE financial institution in the world. Through ShoreCap, the U.S.-based bank has invested in many leading MFIs and small-business banks around the world and is a strongly complementary partner of BASIX.

Products

The BASIX Group offers an extensive line of products and services aimed at livelihood development, which means that it primarily (though not exclusively) lends for on- and off-farm enterprise activities, consumer credit, savings, and insurance. Moreover, the Group seeks to diversify its services by geographic region, sector, and market segment as defined by income and cultural class.

On the credit side, the Group has strategically sought to serve agricultural producers for some time (with crop loans among other things), though many MFIs stay away from this difficult-to-serve market. Similarly, the Group offers a range of insurance products (such as crop, weather, and livestock insurance) meant to protect livelihoods from vulnerability. It also sells group and individual life, health, and deposit insurance. At the end of 2007, the Group had more than 849,000 policy holders.

Non-Financial Activities

The Group also provides a broad range of non-financial services, such as agricultural and business development services. Action research on a number of rural product sectors — from cotton to water management — has led to a significant number of partnerships and projects aimed at increasing production, efficiency, and profitability (while theoretically reducing credit risk at the same time). For example, the Group is working with more than 900 clients and the Frito Lay Company to produce chip-grade potatoes.

Staff and Board

BASIX has a comprehensive view of staff development and has developed a platform for their professional development. This platform considers a range of important development concerns, from personal growth to career training. It has also developed a fair and transparent hiring process. Its employee benefits include all statutory benefits (e.g., Provident Fund, Employees’ State Insurance, and Gratuity), and it provides insurance coverage and medical allowances, as well as statutory leave. Finally, the Group offers casual, maternity, paternity, and earned leave.
In its 2006-2007 Annual Report, BASIX empirically reported on training expenditure by staff level (e.g., management, executive, etc.) and career growth (i.e., promotions by staff level). It also reports on board diversity; its board includes six women (33 percent) and 12 men (66 percent) across the Group. International diversity standards suggest boards should contain at least 20 percent women.

**Environment**

The BASIX Group’s 2000-2001 Annual Report included a rudimentary environmental report, which contained an eligibility screen based on compliance with Indian environmental, health, and safety requirements for loans above Rs50,000 or around U.S. $1,400 (average loan at the time was less than U.S. $150). It also outlined a directive to seek out environmentally responsible lending opportunities, noting its work supporting organic cotton (and cotton grown with bio-pesticides) and a solar-powered energy project it funded in collaboration with Royal Dutch Shell, a petroleum/energy company based in the Netherlands.

By 2006-2007, BASIX’s environmental report had grown more sophisticated as had their environmental work. Specifically, the organization was looking to integrate the management of crops growth with and without pesticides, organic agriculture, efficient water use, and energy management/production. When working with partner organizations or by contracting third-party services, BASIX typically works to improve sustainable livelihoods while enhancing and protecting the environment (e.g., more efficient resource stewardship, improved productivity, and reduced use of fertilizers/pesticides).

**Profit Management**

BASIX’s 2006-2007 Annual Report makes explicit its view of profit management:

> BASIX believe that it is legitimate and necessary for a social enterprise to make profits. This is needed to maintain capital adequacy and to enable growth, to serve more poor people.

> As a social enterprise, BASIX has several shareholders and it has to first honor the claims of its customers, collaborators, creditors, colleagues, the government, the wider community and the environment. Only after these claims are met contractually as well as morally, that the shareholder gets the residual claim or profits.

In 2005 and 2006, the Group’s return on equity was 11.2 percent, up from 6.2 percent. Samruddhi averaged around 3 percent for the five years previous. This figure should be compared to a 16 percent five-year average for BASIX’s Asian peers.

**Social Performance Management**

As a social enterprise, the BASIX Group is strongly committed to improving its social performance. Indeed, it is hard to separate non-social performance management from social performance management. Clearly, the institution develops and tailors its products not only to maximize impact but also to address specific livelihood needs. For example, many MFIs converted into banks emphasizing mobilizing cheaper sources of funds. In contrast, BASIX identified early on the need for savings as a vital part of sustainable livelihoods. The same can be said for its work providing very difficult agricultural loans and for being a pioneer in low-income insurance.

The Group also reports on loans and services by client type (enterprise activity, location, and social class identification). Its average loan size has been U.S. $150 over five years (ending in 2006) and compares to its peers’ average of U.S. $100. In addition, its average loan as a percent of GNI per capita averaged 23.5 percent over the five years ending 2006, which compares to its peers’ average of 19.4 percent. These figures should take into consideration that the Group has a more diverse portfolio than many of its peers that includes much more than microfinance loans (e.g., larger crop loans). For Samruddhi, the number of women (as a percentage of borrowers) have declined over the years,
averaging 36 percent of all loan clients (for the year ending 2007) compared to its peers’ average of more than 95 percent. However, this 36 percent figure does not include borrowers from KBSLAB or Sarvodaya. When numbers from all three are combined, on average women are 59 percent of borrowers. BASIX’s difference with its peers are accounted for by the diversity of its loan types.

**Transparency**

The BASIX Group’s 2006-2007 Annual Report is guided by the Global Reporting Initiative (GRI). The GRI guidelines ask organizations to report on a host of variables that combine to create a public record of triple bottom line performance (people, profits, and planet — PPP). They are sufficiently flexible to allow for fairly customized reports, and companies can begin modestly and build sophistication and completeness into their reports over time. The GRI plans to create an assurance system but currently only recommends third-party verification.

BASIX’s GRI report is among a handful of similar reports by MFIs around the world (associated with Hivos-Triodos, a shareholder of BASIX). With the report, BASIX attempts to be publicly accountable for its PPP performance and therefore has included as much empirical evidence to back its impact claims as possible. From a CSR or social investment perspective, the report is a good start but will require increased empirical evidence if it is to meet world standards and provide a measurable account of impact. Third-party verification is a must for complete credibility.

**CONCLUSIONS**

The BASIX Group is a conglomerate of companies providing a range of products and services that combine to confront poverty and support sustainable livelihoods on a broad range of fronts. A highly committed SE business, BASIX has sought out like-minded shareholders and has managed to attract a significant commercial bank debt to fund its portfolio, despite weaker financial performance than Indian MFIs working in the same markets.

The Group has made many innovative linkages to organizations and companies to support its clients and generates knowledge for further innovation. Its non-financial services aimed at livelihood support have not dramatically affected its financial performance, though the institution’s financial performance, from a conventional perspective, is less than its local competitors. The extent to which its social impact has compensated for lower than average return on equity (i.e., social return) is unclear, despite its use of a GRI reporting format.

---

17 The Global Reporting Initiative offers guidelines for sustainability reporting when companies publicly communicate economic, environmental, and social performance. The GRI’s mission is to make sustainability reporting as routine and comparable as financial reporting. More than 1,000 organizations from 60 countries use the guidelines to produce their sustainability reports. Organizations using GRI’s guidelines include corporate businesses, public agencies, smaller enterprises, NGOs, industry groups, and others.