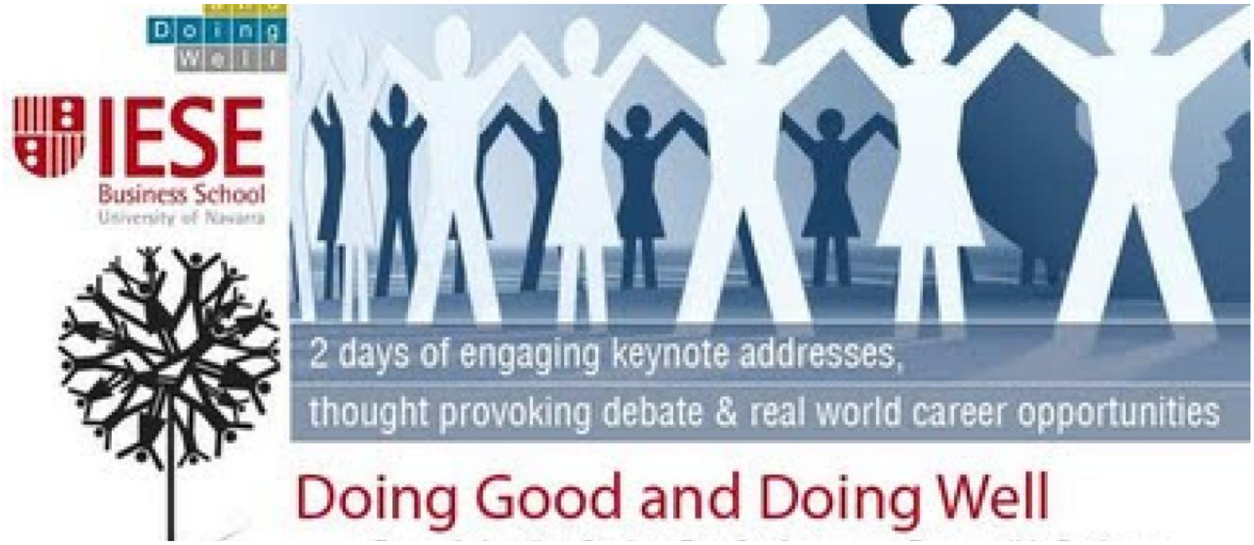
The double bottom line



By Shellie Karabell

The current economic malaise has sent investors looking for new avenues of investment - not just for the financial returns but also to make a difference in the world at large. Enter the socially-responsible investment, a niche market that is now coming of age.

INSEAD Knowledge spoke with several individuals and fund managers at the Doing Good and Doing Well conference at the IESE Business School in Barcelona this spring.

If it’s one thing that motivates an investor, it’s getting into an untapped market - and that has stimulated interest in the bottom of the pyramid, the working poor who, while having been shut out of the traditional financial mainstream, still have need of financial services to conduct cottage industries on a very small scale. Once the recipient only of grants and charitable donations, they are now in the cross hairs of individual investors and fund managers.

“Poverty has different levels,” says Mariama Ashcroft, Relationship Manager for Africa for Women’s World Banking, and a 20-year veteran of the organisation. “There’s a level above ‘destitute’ that are poor but productive – they’re doing something to earn a living, something that earns them money that they can use for their family. So we work with institutions to design and develop products that are friendly and responsive to this segment of the population."

Funded in 1979 at a global conference for women in Mexico City, where attendees realised it was time to address access to financial services for all women, Women's World Banking is not actually a bank. Rather, from its New York headquarters, the organisation promotes banking for low-income people, especially women, through 29 institutions in 40 countries around the world – particularly in Asia, Africa, North Africa, the Middle East, Latin America and Eastern Europe, including Russia and Bosnia. "In many cases we work with legislators because many of these countries do not yet have the legal framework that allows, or is friendly to, microfinance," adds Ashcroft. "We don't fund the projects themselves, but we help to find funding."

It's not just finding the funds; it's finding the right kind of investors. "Some investors come in with unrealistic expectations of high returns from microfinance investing," says Ashcroft. "So it's important for these small institutions to find the right investors, who do not put too much pressure on them to move away from their original mission of serving the poor."

In the UK, Charity Bank serves the poor using traditional business tools rather than obtaining grants. "At any given time we have about 350 borrowers with about another 150 organisations that we're working with," says Malcolm Hayday, the bank's Chief Executive. "We have 20 charities and trusts which are investors in the bank – investing on behalf of the public rather than in their own right – and we have almost 2,500 depositors/savers: private individuals, a few companies, and others who want to see their money recycled back into the community." Most of the bank's projects are in the UK; accounts can be opened online for as little as 10 pounds.

When it launched in 2002, the bank was an outgrowth of the changing charitable landscape in Great Britain, and a European Union white paper by Jacques Delors that pointed out the social economy would be a major driver of growth and employment in the longer term. From its original opening balance of 6.4 million pounds, the bank had a closing position of 58 million pounds by the end of 2009. It is a fully-licensed bank, overseen by both the Charity Commission and the Financial Services Authority.

“We are a registered general charity that is also a bank. We have to fill out the same forms and comply with the same capital and equity regulations that the major banks have, but we’re also a registered charity,” says Hayday. “What this really means is that if we were ever wound up, our assets would have to go for public good; they couldn’t go to a private shareholder.”

The current state of traditional financing has given Charity Bank a chance to draw new customers with its double objective. “One is to give people an alternative choice as to how they use their money, and then to help build strong community-based organisations,” says Hayday. “But it takes 10 to 15 years to get that type of cultural change within a community. People save with us because hey know what their money is doing, rater than looking for maximum returns. But interestingly in recent years, the market (in terms of returns on deposits and investments) has come back towards us, so probably some of our products today are extremely competitive.”

In Brussels, the relatively new European Venture Philanthropy Association has a different approach to investor returns. “Every return in our world is a social return,” says the organisation’s Managing Director Beate Trück. “Our mission is to help efficient funding of social organisations. Venture philanthropy is a concept that applies venture capital principles to philanthropic activities.”
In other words, it’s an investment of time and money and sometimes more. “It’s not only giving financial capital, but also giving human capital,” says Trück. It’s giving access to the donor’s network as well a advice: help with a business plan, strategy, PR, IT ...”

The association’s 120 members in 22 countries (although most are in the UK) include venture capital funds, as well as classical grant-producing foundations. Some 60 per cent of the programmes are centered on children and education, and most investments go to NGOs or ‘social purpose organisations.’ “If there is a profit, it is e-invested in the social organisation,” adds Trück.

Bringing business tools to the social enterprise field is a trend that Jacques Toureille (MBA ’74) has witnessed for some 30 years with the Aga Khan Foundation, a broad private network of development agencies founded some 50 years ago in Asia by Prince Aga Khan and now active throughout the Middle East, Syria, Egypt ad Sub-Saharan Africa with some 80,000 employees.

“We are a microfinance organisation,” says Toureille, the agency’s general manager. The average loan would be in the hundreds of dollars, so these are small loans. But since the late 1990s, microfinancing of small businesses has started to become big business. “These social funding institutions are established more and more as microfinance banks,” observes Toureille. “So they have a structure like a bank, with capital; they borrow usually from international organisations or the financial markets, and some of them are even allowed to realise deposits.”

He is not happy about the changes. “They are becoming institutions that are caring more for their bottom line,” he claims. He cites the wide range of returns from microfinance loans (many of them quite high) as underscoring the problem. “People can be trying to generate a very small return, a small percentage over what they invest, and their objective is in this case to maintain the institution and ensure the institution is active over the years; then, at the other end, you’ve got people who are at the short end and they’ve been making a lot of money over a short period of time, getting extremely high returns and making a very large margin.”

Though the section of the population served by microfinance institutions has suffered during the economic crisis, the potential for other financial products to serve this group of people is huge. “Initially microfinance institutions were focused on income-producing projects; then they moved into housing, health and education, because clearly the life of a person is not only about making money but about being able to educate children and getting proper medical service, even if it generates less revenue,” Toureille observes. Beyond this, “more and more of our borrowers are insured,” he says. “If they die or they are impaired in their ability to work, there is an insurance on that and they are not required to repay the loan.” There are other possibilities: insurance around crops or livestock, but “these people cannot pay a very large premium,” he adds, “and they do not yet understand what insurance can do for them, so there is an education process.”

The integration of the bottom of the pyramid, then, could create a seamless financial sector. “Many people see microfinance as an extension of the banking system,” concludes Toureille. Although some three to four billion people live below the poverty line, many are able to borrow, repay, deposit money in accounts and use transfer services. "You do not want to push people to borrow who are not able to repay, but there is a role for microfinance institutions in which people have a concern for social issues which is equating with their concern for getting a return.”

Find article at

https://knowledge.insead.edu/entrepreneurship/double-bottom-line

---

About the author(s)

Shellie Karabell is Director and Executive Editor of INSEAD Knowledge. **View full profile**