

# Banking to make a difference

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A preliminary research paper on the business models of the founding member banks of the Global Alliance for Banking on Values



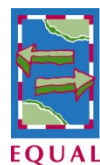
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<sup>1</sup> BRAC Microfinance is the only GA member without a banking license. It is treated separately from BRAC Bank because of its integration in the BRAC NGO. For comparison purposes, we call it a "bank" in this report.

# Introduction

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*"Let's Change the world"*

*"Geld is für der Menschen da" ("Money is there for people")*

*More than Interest*

No these are not slogans by NGO's, neither are they workshop titles from a World Social Forum, nor are they documentary movie titles. These are slogans by...who would have guessed it ... banks.

## Wild times

2008 and 2009 will not be forgotten by economists, banks or ...well anybody. These are years that have been characterized by a severe financial crisis that has created serious economic fallout. Financial institutions have shown extremely risky and irresponsible behavior. In many countries only massive government intervention has ensured that a large number of savers and depositors did not lose their savings. The financial sector has found itself in a crisis of multiple dimensions that includes lack of confidence, inadequate profitability and over-complexity leading to a negative impact on the overall economic climate.

The challenges of this financial crisis, and the role of banks, in particular, have risen high on the agenda. There is a strong call for responsible, transparent and socially responsible banks. Society, including politicians, businessmen, academics and bankers understand banking should return to its basic intermediate function, reinvesting collected deposits in the real economy. Combined with a growing ecological, social and ethical consciousness fueled by the food crisis, the climate crisis and the limited success of the fight against poverty, more and more voices in society are calling for a substantial shift of investments towards an ecological and more human economy.

But there's another side to the story. For decades already some small banks have chosen a different business approach. From their founding they have never seen profit as an end in itself, but merely as a means to an end. They have chosen to play a role in creating a sustainable world. Therefore their core business is to finance and support local initiatives, social entrepreneurs, people and businesses that contribute to helping people escape poverty and/or are successful in providing tools, products and services that contribute to sustainable development. Numerous small ecological, ethical, sustainable, value-driven, social microfinance banks are operational at this time.

It seems like they tried to fill in a serious gap left by the mainstream banks. But more and more questions are being raised about whether these kinds of banks shouldn't (only) be there to fill a gap and also to inspire the banking sector as a whole in the creation of sustainable and useful banking business models.

## The Global Alliance for Banking on Values

In March 2009 eleven banks from different continents formed the Global Alliance for Banking on Values. This Alliance was created in the belief that trends can be set to change the boundaries of mainstream finance and contributions can be made to the growth and development of social innovation in the financial sector. The Alliance presents itself as “a global alliance of innovative banking institutions focused on delivering social finance products and basic financial services while financing community based development initiatives and social entrepreneurs thereby fostering sustainable and environmentally sound enterprises and fulfilling human development potential including poverty alleviation while generating a triple bottom line for People, Profit and Planet”. Let’s introduce the founding members to make everything more concrete:

- ✓ ABS (Switzerland) is an alternative bank, established in 1990, which emphasizes ethical principles instead of maximizing profits. The bank is very active in financing social and ecological housing, organic agriculture, renewable energy, as well as small and medium-sized companies.
- ✓ Banca Popolare Etica (Italy) was established in 1999 and is the first Italian banking institution to operate exclusively in sustainable and alternative finance. It is a cooperative bank where savers meet socio-economic initiatives.
- ✓ Banex (Nicaragua) was converted into a fully-fledged banking institution in September 2008. Banex is specialized in financing micro-entrepreneurs who belong to the informal sector. Banex is the largest financial institution in Nicaragua serving small and medium enterprises.
- ✓ BRAC Bank & BRAC Microfinance (Bangladesh). Since 1974, BRAC Microfinance has served different segments of the Bangladesh population that lacks access to savings and credits provided by financial institutions. The aim is to reduce poverty through credit. BRAC Bank, founded in 2001, has a similar goal but is more focused on small and medium enterprises. BRAC Bank is also active in Afghanistan and BRAC Microfinance in Sri Lanka, Tanzania, Uganda, Southern Sudan and Pakistan.
- ✓ GLS Bank (Germany) was the first ecological and ethical bank in Europe, founded in 1974. Originally focused on financing Waldorf schools, Demeter farms and communal living projects, its focus has now widened to other independent schools, organic farms, renewable energy and more widely social, ecological and cultural projects. In 2003 GLS Bank took over the activities of the ethical and ecological Ökobank.
- ✓ Merkur Bank (Denmark) became a cooperative bank in 1985 and is active in northern Germany and Finland. It is focused on financial advice and financing to profit-making enterprises within sustainable production and not-for-profit institutions and associations within cultural and social fields.
- ✓ Mibanco (Peru) is a Peruvian microfinance bank providing credit and other financial services to micro-entrepreneurs from the Peruvian low-income majority. After a long history as a microfinance community development organization, the bank was formed in 1998.
- ✓ New Resource Bank (USA) is a new ecological bank by the people and for the people. The bank has been active in California since 2006. Its focus lies in providing pioneering and more efficient lending for green investments.
- ✓ Shorebank (USA) is a Chicago based community bank established in 1973. The bank invests in people and their communities to create economic equity and a healthy environment. The bank was established to demonstrate that banks can be a powerful tool for positive community change.
- ✓ Triodos Bank (The Netherlands) was established in 1980 to finance companies, institutions and projects that add cultural value and benefit people and the environment, with the support of depositors and investors who want to encourage

corporate social responsibility and a sustainable society. Triodos is also active in Belgium, Spain, the UK and Germany.

- ✓ XAC Bank (Mongolia), created as a merger of two initiatives in 2001, is a microfinance bank focused on its social mission to provide financial services for micro-enterprises and SMEs, as well as to the low income segment of the population in urban and remote rural areas.

## The research project

In March 2009, the Artevelde University School of Ghent started a short research project in partnership with the European Social Fund and the Global Alliance for Banking on Values. The aim of this preliminary research is to analyze and describe parts of the business model of these banks. These banks have come together in an Alliance, which suggests they have something in common. What exactly are the binding elements between these banks? Undoubtedly, as these banks have all been created in different countries or regions, by different people and run through different processes, there will also be differences between their business models and approaches.

This report is the result of four-months of research and aims to give first insights into the characteristics of the member banks of the Global Alliance. As the research period was rather limited, the research has primarily been based on the 2007 and 2008 annual reports of the banks (where available), and on the information available on the banks' websites. In addition, as part of the research process, the researchers were able to rely on the results of an expert meeting organized in May 2009<sup>2</sup> and on the continuous support and insights of Mr. Frans De Clerck (Global Alliance for Banking on Values).

In the first chapter the researchers describe and analyze common and varying elements of the business models and economic performance of the member banks of the Global Alliance. In the second chapter Banca Etica, BRAC Bank, BRAC Microfinance and Triodos Bank are analyzed more thoroughly.

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<sup>2</sup> The following experts contributed to this meeting: Peter Blom (Global Alliance for Banking on Values), Prof. Dr. Céline Louche (Vlerick School for Management), Prof. Dr. Koen Schoors (University of Ghent), Mathias Bienstman (Netwerk Vlaanderen), Frans De Clerck (Global Alliance for Banking on Values)

# Chapter 1 – Quick scan research on the characteristics of 12 member banks<sup>3</sup> of the Global Alliance for Banking on Values

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This chapter includes a description and analysis of basic information on the twelve founding members of the Global Alliance for Banking on Values. By describing and analyzing these twelve banks we try to discover binding elements between their practices and performances, but at the same time we try to point out the differences.

The research in this chapter focuses mainly on three categories of information:

1. Mission statements, banking practices and banking activities
2. The structure of the banks
3. The economic performance of the banks

This chapter is entirely based on a study of the websites of the twelve member banks of the Global Alliance for Banking on Values, on “Profiles of the Participating Banks, Global Alliance for Banking On Values, Zeist, March 2009”, on the updated 2008 information for these profiles and, where available, on the 2008 annual reports of the member banks. This chapter has also been inspired by the expert meeting referred to in the introduction. When other resources are used they are indicated as a separate reference.

## **1.1. Description and analysis of (the diversity) of banking practices and banking activities**

To clearly describe the typical elements of these twelve Global Alliance banks (GA banks) it's very important to fully understand the banks' current banking practices, to get insight into their current investment portfolio and into the nature of their current banking products, and to get a hold on the definition of their banking market (who are they working for?). But to fully understand the typical character of these banks one cannot limit themselves to research on their current practices. At least equally important is understanding the reason why these banks, seemingly so different from their 'mainstream' competitors, were founded. Who founded these banks and why? What's in their mission statement? Answers to these questions are needed to correctly interpret the current practices of these banks, and possibly also to define the special character of these banks.

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<sup>3</sup> BRAC Microfinance is the only GA member without a banking license. It is treated separately from BRAC Bank because of its integration in the BRAC NGO. For comparison purposes, we call it a “bank” in this report.

### *1.1.1. Founders and foundations of banks that bank on values*

#### FOUNDERS

Reading the stories about the founding of these twelve banks is a surprising experience. These banks have definitely not been constructed on Wall Street or in the City of London. They've been constructed by visionary people and on many occasions with no bankers at all. The most surprising conclusion is that a lot of these banks have been founded by NGO's, environmental organizations, social organizations, development organizations, neighborhood development organizations, community development organizations, and socially driven individuals. Although all of these initiatives have grown to become profit-making (although not profit-maximizing) businesses, the origins of at least nine of these banks can be brought back to an initiative by one or more non-profit organizations. Three European banks (Triodos Bank, GLS Bank and Merkur Bank) found their origins in the philosophical movement of antroposophy. Only the youngest member, the two-year old New Resource Bank (United States) seems to have been exclusively founded by business people.

#### MISSION STATEMENTS

##### *No profit maximization*

Knowing that many of these banks have been founded by non-profit organizations, one can easily imagine that their mission statements will differ substantially from the standard mission statements of mainstream banks. The main target of mainstream banks, and equally that of many big companies, can mostly be reduced to "creating maximum shareholder value". It's a quite striking feature that none of the twelve GA member banks mention this goal in their mission statements or elsewhere on their websites or in their annual reports. **Maximizing shareholder value is not a goal** for these Global Alliance banks. Without a doubt, it can be stated that this lack of pursuit of maximum private economic gain is a common element in the business model of all the Global Alliance banks. It's a common element that differentiates them strongly from their mainstream competitors.

##### *Serve the Un(der)served*

However, studying the GA banks' mission statements and their history reveals another common element apart from the absence of a profit maximization drive. Although their mission statements differ widely, induced by the different geography, socio-economic situation, and markets they are working in, and due to individual decisions these banks have taken at their foundation but also on their road of development, there is one common goal that can be extracted from these banks' missions: they have all been founded to **'Serve the Un(der)served'**.

All of these banks have been set up because there was a certain need in society that was not fulfilled at that moment by the banking sector. All these banks have been established because another bank was needed at that given time in that given market.

In some cases one of the drives for the foundation of a new bank was the fact that in certain regions there were no banking services available for the population or for a certain socio-economic group within the population. Some regions or population groups were simply not served, or were underserved, by the banking sector at that time in the country of origin of these new banks.

Moreover, in all cases, these banks were founded because specific parts of the population, specific entrepreneurs, and specific economic or socio-cultural initiatives were lacking sufficient access to credit. Of course, depending on the country of origin and the situation of that country, the 'un(der)served groups' differed substantially.

Three examples make this clear:

- The Nicaraguan microfinance bank Banex serves regional micro, small and medium entrepreneurs. More than 77% of Banex's customers are outside the capital city Managua, while the whole national banking portfolio is extremely concentrated with 80% located in Managua. Most of Banex's clients are micro entrepreneurs that belong to the informal sector
- From its start in 1980, the Dutch Triodos Bank pioneered new ways to use money positively and sustainably. For example, it financed renewable energy in its infancy stage, when it was still widely regarded as a high-risk sector and couldn't find easy access to credit
- The American Shorebank was founded in 1973 as a neighborhood bank in the declining South side of Chicago. Shorebank was created to demonstrate that a regulated bank could be instrumental in revitalizing communities being avoided by other financial institutions

### *Two clusters of banks*

Although "Serving the Un(der)served" is a mission, a goal that binds these twelve GA banks, more detailed research into the unserved market they are willing to serve, and the reasons why they are serving this market, clearly divides these banks into two groups.

One group of banks can be called '**poverty-alleviation banks**', the other group can be called '**ethical banks**'.

The poverty alleviation group consists of six banks: Banex (Nicaragua), BRAC Bank (Bangladesh), BRAC Microfinance (Bangladesh), Mibanco (Peru), Shorebank (USA) and XAC Bank (Mongolia). All of these banks have been set up to create financial services for those that are suffering from poverty. These banks want to use banking services and access to credit to empower marginalized individuals, groups and entrepreneurs to develop economically. Their aim is to foster economic development for the low-income population, and to foster community development in marginalized areas. Four of them (Banex, BRAC Microfinance, Mibanco, and XAC Bank) are primarily active in microfinance.

For example, XAC Bank in Mongolia is creating banking services aimed at marginalized citizens in remote rural areas, including nomadic herders. Typically for the vision behind banks with this poverty alleviation focus was the statement by Dr. Fazle Hasan Abed, founder and president of BRAC, at the inaugural meeting of the Global Alliance for Banking on Values in Zeist (The Netherlands) on March 3, 2009: *"Two billion people worldwide don't have access to credit and banking services, that's the challenge that lies ahead of this Alliance."*

The ethical group consists of six banks: ABS Bank (Switzerland), Banca Etica (Italy), GLS Bank (Germany), Merkur Bank (Denmark), New Resource Bank (USA) and Triodos Bank (The Netherlands). All of these banks have been established to gather customer deposits to be able to finance individuals, projects, and companies that contribute to a more sustainable, green, socially and ethically sound society. These banks differ from their mainstream competitors as they created a bank that is aimed at financing cultural, social and ecological projects. The core of their banking activities is a triple bottom line approach, that embodies the vision that financing should take into account people, planet and profit. Out of this triple bottom line approach these banks want to offer depositors (and eventually



investors) an opportunity to invest their money such that it can be reinvested in a social, ecological, sustainable, ethical way.

For example the German GLS Bank is a social ecological bank with a mission to finance social, ecological and cultural projects that try to tackle challenges in society by developing creative solutions. The Danish Merkur Bank's activities are based on three objectives: deliver to people the freedom to develop their abilities, treat people with dignity and foster production and consumption reflecting the real needs of society. New Resource Bank (USA) is a typically ecological bank, established to reach more efficient financing of green projects, green businesses, and green solutions.

**TABLE 1: DISTINCTION OF THE GA BANKS IN CLUSTERS BASED ON THEIR MAIN MISSION FOCUS**

Poverty-Alleviation Banks	Ethical Banks
Banex (Nicaragua)	ABS Bank (Switzerland)
BRAC Bank (Bangladesh)	Banca Etica (Italy)
BRAC Microfinance (Bangladesh)	GLS Bank (Germany)
Mibanco (Peru)	Merkur Bank (Denmark)
Shorebank (USA)	New Resource Bank (USA)
XAC Bank (Mongolia)	Triodos Bank (The Netherlands)

The distinction between the banks in these two clusters is a pretty clear one, but of course it can be criticized by focusing on the similarities that occur between these banks' missions and moreover by overlapping characteristics between these two groups of banks. Both types of banks have been established to counter social, ecological and sustainability challenges that happen(ed) to exist in society. And each of them individually has defined its own actual contribution to counter these social needs in light of the fairly different socio-economic situations they were facing in their country or region. So it is not the urge to counter socio-economic problems, to serve the unserved that differentiates them from each other, but the priority mission they chose to meet these challenges.

So the division of these twelve banks in two clusters is exclusively based on their main mission focus. Labeling these banks into these two clusters does not imply poverty-alleviation banks lack or neglect ethical, social and ecological aspects of sustainable banking in their day-by-day banking activities. Neither does it mean that Ethical Banks are not working on poverty alleviation. Some of the ethical banks have been investing in poverty-alleviation banks and microfinance institutions.

Xac Bank from Mongolia, for example, is a poverty-alleviation bank that states on its website: *"We believe our first responsibility is to our clients – rural and urban residents of Mongolia – micro and small business people, herders and employed people without conventional access to financial services."* But their mission also states that *"they must contribute to sustainable development in Mongolia that can come only from educated and skilled people and competitive and dynamic businesses concerned equally about People, Profit and Planet."* This shows Xac Bank will not alleviate poverty through just any economic development but through sustainable development with a triple bottom line approach. Triodos-Doen and Triodos Fair Share Fund are shareholders (14.98%).

It's a striking fact that all of the banks (except Shorebank) in the poverty alleviation cluster are set up in countries that are lower on the Human Development Index (HDI) <sup>4</sup> than the

<sup>4</sup> The Human Development Index (HDI) is an index created by the United Nations Development Program. The HDI is a comparative measure of life expectancy, literacy,

countries of origin of the banks in the ethical banking cluster. It seems clear that people setting up an alternative banking approach have different priorities or main motives in Southern countries or countries with a lower HDI compared to similar founders in Northern countries with a higher HDI. It's out of the scope of this report to find a scientific explanation for this conclusion. But of course it's plausible common sense that the problem of access to banking services and credit plays a certain role in this issue. Northern countries also face problems of lack of access to banking services and credit for a certain part of the population, but to a far lesser extent than Southern countries.

**TABLE 2: HUMAN DEVELOPMENT INDEX OF COUNTRIES OF ORIGIN OF GA BANKS DIVIDED BETWEEN TWO MISSION FOCUS CLUSTERS**

Poverty-Alleviation Banks			Ethical Banks		
<i>Country of Origin</i>	<i>Place on the HDI</i>	<i>HDI Category</i>	<i>Country of Origin</i>	<i>Place on the HDI</i>	<i>HDI Category</i>
Nicaragua	120	Medium	Switzerland	10	High
Bangladesh	147	Low	Italy	19	High
Peru	79	Medium	Germany	23	High
USA	15	High	Denmark	13	High
Mongolia	112	Medium	USA	15	High
			The Netherlands	6	High

*Source: Human Development Index, United Nations Development Program, Update 18 December 2008*

At first sight, Shorebank seems to be the exception as it is a poverty-alleviation bank in a country with a high Human Development Index. But the situation of Shorebank is quite peculiar. In its early years Shorebank was a bank active only in the suburbs on the South Side of Chicago. This geographical action area was characterized by poor living standards. From the beginning Shorebank called itself *"a community development bank, to strengthen communities, particularly those that historically have had little access to credit and other financial opportunities."* Nowadays, Shorebank stands for a group of banks and has expanded its focus from one Chicago neighborhood to 37, as well as four Western suburbs. Moreover, since 2000, the banking group has expanded its main focus *"to include environmental issues believing that communities cannot achieve true prosperity without also attaining environmental well-being."* On their website nowadays their mission is: *"Shorebank invests in people and their communities to create economic equity and a healthy environment."* So based on the mission focus at the time of the bank's establishment in 1969 it's clear that Shorebank belongs to the poverty-alleviation cluster in this research. If we did the same exercise based on their current mission focus it would not be easy to put Shorebank as a banking group in either cluster.

### Transparency

*GLS Bank: "Wir lassen uns gerne in Die Karte schauen..."<sup>5</sup>*

Another significant conclusion while reading the mission statements of all these banks is that four out of the twelve banks explicitly mention transparency as a part of their mission: ABS Bank, Banca Etica, GLS Bank, and Merkur Bank. All four of these banks are in the

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education and standards of living for countries worldwide In this research we consulted the update of the Human Development Index of 18 December 2008.

<sup>5</sup> Website GLS Bank ([www.gls.de](http://www.gls.de)), Consulted in April 2009.

ethical banks cluster. Transparency seems to be part of the ethical focus of these banks. Going deeper into this topic we will discover later on that a main understanding of transparency by these banks is a complete ***openness and transparency on the details of the projects and companies that have been financed*** by the bank. This is a remarkable characteristic of these banks as such transparency is actually 'not done' in the mainstream banking sector. Banks usually refuse transparency on their loans, most of the time using the arguments of client confidentiality and competitive disadvantage. Later on in this chapter we will further explore the transparency topic, when we discuss bank practices.

#### ***Relationship depositors and borrowers***

Another significant item mentioned in the mission statements of the Global Alliance banks from the ethical bank cluster is the traditional banking role of bringing together depositors and borrowers. All of these ethical banks consider it part of their mission to offer depositors a chance to use their money more consciously. It offers depositors the possibility to help promote projects with both social and environmental objectives. These banks clearly are trying to realize a greater sustainability impact with their depositors' money.

Triodos Bank's mission statement states: *"Triodos Bank's mission is ..... to enable people, individuals, institutions, and businesses to use money more consciously in ways that benefit people and the environment, and promote sustainable development..."*

This brings back the idea of the bank as ***a meeting place between savers and borrowers***. In banking terms this refers to the classical intermediation function of banks. Banca Etica presents itself literally as *"a place where savers, driven by the common desire of a more transparent and responsible management of financial resources, may meet socio-economic initiatives, inspired by the values of a sustainable social and human development."*

In this way these ethical banks kind of re-invented the classical role of banks, which is actually gathering deposits to re-invest them in borrower's projects. A lot of opinion makers, scientists and banking specialists have reacted to the current financial crisis with a call for banks to restrict their activities to these traditional banking activities.

At the inaugural meeting of the Alliance in Zeist on March 3, 2009 Peter Blom, president of the Global Alliance for Banking on Values, said about the twelve banks in the alliance: *"When it was unfashionable to do so, they stuck to simple, core banking services that balance people, planet and profit."*

Hand in hand with transparency, this basic bankers' characteristic of ethical banks gives depositors of these ethical banks a very deep insight into what their money is actually financing. It gives clients the opportunity to have a closer 'relationship' with the investment decisions made by their bank with their savings money. This attitude is strongly in contradiction with common current banking practices, where depositors do not get any information about what their money is invested in, and where banks keep depositors and borrowers separate, not intending to be a meeting place between these two groups of clients.

Some banks even talk about an educational or emancipating impact of their activities: *"Banca Etica sets out to educate both savers and borrowers by enhancing the awareness of the former about their saving's destination, and encouraging the latter to develop their management and entrepreneurial abilities. "*

### 1.1.2. Banking practices and activities

After describing the background of these Global Alliance banks, what can be found in their mission statements and who founded these banks and for what reasons, we now take a closer look at how these bank look nowadays. What kinds of banks were made from these inspiring mission statements? What are their actual banking practices and activities?

#### COMPREHENSIVE BANKING SERVICES

One striking common feature is the **total banking services** these banks offer despite the fact that they are relatively small banks (see further in this report). Each of them delivers the whole range of traditional banking activities. Traditionally a bank has two kinds of clients: on the liabilities side of the bank's balance sheet one can find the savers, depositors of the bank, while on the assets side of the balance sheet one can find the borrowers. Like every traditional bank, the Global Alliance banks are active with both categories of clients.

#### *Services for depositors*

To service depositors and savers, most of these banks have been established as a savings bank. These banks' priority was to gather the more stable type of savings that can be easily and safely converted into medium and long-term loans. But along the way the services offered to their depositors have been extended and diversified. Nowadays all of these banks offer several kinds of **deposit accounts and savings accounts**. As of December 31, 2008 the Global Alliance banks had at their disposal total deposits of US\$ 9.2 billion. Apart from that these banks offer their depositors a whole range of **payment services**.

Depositors can be almost anybody: individuals, organizations, companies. The GA banks offer accounts and payments services to the general public. Looking at their websites you can see that these banks try to attract savers and depositors who want to make a contribution to a sustainable, social, green society with their savings. Some of them specifically try to serve people that lack access to payment services and deposit or savings accounts.

Average deposits vary widely from US\$ 29 (BRAC Microfinance) and US\$ 180 (BRAC Bank) to US\$ 41,000 (Shorebank) and US\$ 63,000 (New Resource Bank) which indicates the different, possibly totally different, depositor profile in North and South. Profiles of ethical savers in the North are sometimes referred to as wealthy, open-minded "cultural creatives".<sup>6</sup>

For all of the banks of the ethical focus group, diversification has gone even further. They also offer their clients sustainable investment funds that invest in securities. These funds give clients a chance to invest in funds that take into account ethical, social and ecological criteria to select the companies and countries in the fund's portfolio. In some cases these funds execute an active voting policy on behalf of their investors. Some of the investment funds like "social", "green" or "cultural" investment funds invest in related projects with a different risk profile than those directly financed by the banks. In the case of The Netherlands there are fiscal incentives ("Groenfondsregeling") for such investment funds in favor of both investors and investees.

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<sup>6</sup> Cultural creatives: a large segment in Western society described by Paul H. Ray and Sherry Ruth Anderson in 2000

None of the poverty-alleviation banks have extended their activities to these kinds of activities.

### *Services for borrowers*

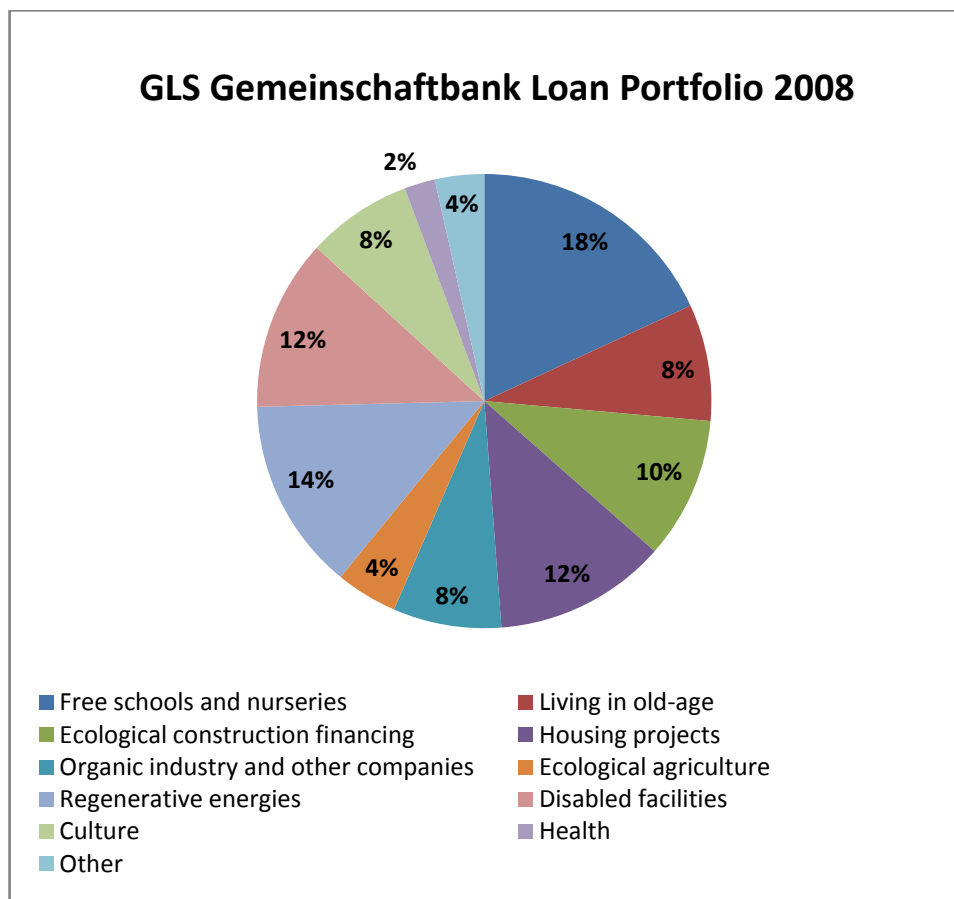
The banks offer these clients a wide range of borrowing facilities. Offering **loans** is a very **dominant** activity of these banks. Looking at their activities, it's not surprising that a lot of these banks literally present themselves as a 'savings and loans bank'. They are trying to attract savings money to be able to secure loans for their borrowing clients. This again brings us back to the identification of these banks as being focused on basic banking activities.

On December 31, 2008 the Global Alliance banks had total outstanding loans of US\$ 8 billion. Average loan amounts vary widely from US\$ 130 per loan (BRAC Microfinance) to US\$ 691,000 (ABS). The bigger banks, which are well capitalized, can go up to US\$ 35 million lending per project (Triodos Bank and their financing of wind farms).

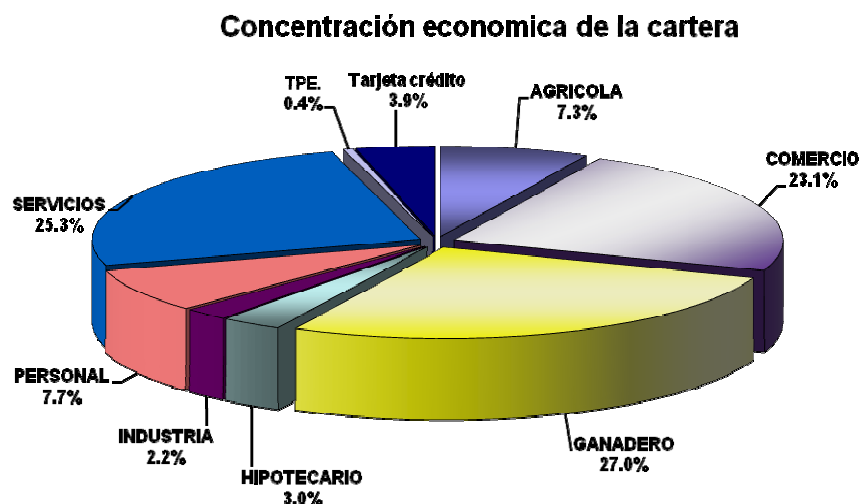
Looking at their loan activities makes it pretty clear we are talking about **niche banks**. These banks offer loans to a well-defined category of clients or for well-defined uses of the proceeds of the loan. Loans are offered to individuals, organizations and companies in certain sectors. The sectors or activities financed by many of these Global Alliance Banks are: social and ecological housing, organic agriculture, renewable energies, social services, educational services, cultural activities and, of course, economic development of the poor. A lot of these banks have small and medium enterprises as their main borrowing partners.

We give some insight into two banks' loan portfolios to make this more concrete.

GLS Bank (Germany) finances projects in ten categories (figures from 2008):



Banex focuses its efforts on small and medium enterprises in the rural informal sector, most of them outside Managua. This sector gets almost no access to credit. Banex finances them to make sure they can develop economically. Their loan portfolio in 2008 was divided as follows:



BANEX has a wide range of loans with a clear focus on the country's main economic activities, classified by economic sectors:

- Livestock (27.0%)
- Personal (7.7%)
- Housing (3.0%)
- Commerce (23.1%)
- Agricultural (7.3%),
- Services (25.3%),
- Industrial (2.2%),
- Credit cards (3.9%) and the Pinolera business credit card (0.4%).

Being small niche banks experienced in financing certain sectors and activities makes these banks quite special. This aspect is of course still more remarkable as these banks are specialized in sectors, people and activities that are un(der)served by other banks. GA banks have pretty good insight into the banking needs of the niche clients they are working for. They know the sector they are financing very well and they gather a lot of expertise in the businesses they are investing in. Sometimes GA banks already finance sectors in periods when these sectors are considered too risky by regular bankers while later all banks get interested in this market niche. This is for example what happens nowadays with the financing of renewable energy. But knowledge of the sector by GA banks gives them a high potential for flexibly adjusting basic banking products to meet the specific needs of their clients. This sometimes gives them the opportunity to offer tailor-made products. That's

why researching the banking practices of these banks, one discovers some ***pioneering products*** and innovative and inspiring banking ideas. Some examples:

- Part of the Danish Merkur Bank's market priorities is to foster sustainable and fair trade. This is why they established specific credit facilities that facilitate sustainable trade from developing countries to Denmark, Norway, Sweden and Finland. Merkur prefinances developing countries' fair trade producers' export contracts to Scandinavian countries. Once the export has to be paid by the Scandinavian importer, the importer pays directly to Merkur Bank. An interesting part of this product is how Merkur Bank gathers the money to grant these kinds of loans. Merkur Bank offers Sustainable Trade Accounts for individuals in Denmark. Only money deposited on these accounts can be used by Merkur Bank to offer Sustainable Trade Credits. This Sustainable Trade Account is a common savings account, but savers choose this account because they want their money to be lent to people in other parts of the world who are denied access to credit at reasonable rates.
- Similar links between depositors and borrowers have been organized by Shorebank (United States). Shorebank offers Development Deposits. With the proceeds of these accounts, Shorebank can finance urban development projects in Chicago, Detroit and Cleveland. Borrowers convert deteriorated apartment buildings into income-producing properties, expand their small businesses and upgrade their homes and property. But depositors can also opt for Eco Deposits. Proceeds of these accounts are used by Shorebank Pacific to lend to companies that use energy efficiently, reduce waste and pollution, and conserve natural resources.
- New Resource Bank (United States) is a full-service community bank that wants to offer innovative loans to foster environmentally conscious projects or to induce environment-friendly home and office construction. One of their pioneering products is the residential solar lending program. As shifting to solar energy is a big investment for homeowners that only pays itself back after a substantial number of years, New Resource Bank offers a solar lending loan to homeowners. The homeowner can get solar energy and pay back a monthly bill to New Resource Bank that is comparable to their existing electricity bill. This way New Resource Bank removes a big blocking factor for investments in solar energy by individuals. Without any extra costs, a homeowner can make the shift to their own solar energy.

Although GA banks are typical savings and loans banks, they don't hesitate to induce, initiate or support other forms of financing when they are confronted with the financing needs of their niche clients that cannot be solved by loans.

GLS Bank for example has established two funds to meet the other needs of some of their clients. GLS Treuhand is a fund that offers fundraising expertise to their client organizations, and consults with individuals and organizations on private legacies. GLS Beteiligungsaktiengesellschaft, on the other hand, assists companies with finding equity capital. A substantial part of its investments have been made in wind energy farms and in Micro Finance Fund Germany.

#### TRANSPARENCY ON LOANS

Knowing the general reluctance of banks to deliver transparency on their financing deals, the five European banks of the Global Alliance take the opposite approach. Each of them publicly lists the loans they have granted. By delivering this transparency they are not only creating an openness that's generally unseen in the financial sector, they are also proving to be very accountable in the way they fulfill their financing promises. This accountability is



of course highly rewarded as they have attracted savings money with the promise to reinvest it in an ethically, socially responsible, environmental-friendly and sustainable way.

On the other hand, this transparency adds something extra to the bank's attractiveness for savers and depositors. Clients can really know what their money is used for. By publicly and openly presenting their intermediation function, these five European banks seem to intensify the relationship between the depositor and the borrower.

Most of these five European banks simply publish a list of financings on their website. Some, like Banca Etica, in a traditional Excel list, and some of them like GLS Bank, with a broad description of each project that has been financed. A bank like Triodos has experimented with this transparency. With a depositor's client login you can enter your postal code on the website. The website then offers you an overview of the projects that have been financed by Triodos in your neighborhood. This experiment makes the use made of your savings extremely tangible.

## 1.2. Description and analysis of the structure of the banks

It's out of the scope of this preliminary research to describe the internal processes and procedures of these banks. We cannot, however, pass over certain obvious characteristics of their structure. We want to briefly focus on the size of the GA banks, on the number of branches and co-workers and on their shareholding structure.

### 1.2.1 Size of the GA banks

Although there is no universal ranking of banks by size, we can without a doubt state that in the current banking sector the GA banks are relatively **small banks**. Balance sheet totals of the GA banks rank between US\$ 164.4 M for the smallest member XAC Bank to US\$ 3.3 billion for the biggest member Triodos Bank. These figures are very small compared to, for example, the total assets under management by big international banks like:

- ✓ Bank of America            US\$ 1843.9 billion
- ✓ BBVA                        US\$ 766.1 billion
- ✓ HSBC                        US\$ 2547 billion
- ✓ ING                         US\$ 1877.5 billion
- ✓ SMBC                        US\$ 1107 billion

There's **a big difference in scope** within the group of GA banks. The biggest member bank, Triodos is almost twentyfold the size of the smallest member banks like Banex, New Resource Bank and XAC Bank.

**TABLE 3: SIZE AND STRUCTURE OF THE GA BANKS AT THE END OF 2008**

Bank	P/E	Balance Sheet Total (in US\$ M)	Number of Offices / Branches	Number of co- workers
<b>ABS</b>	E	744.80	5	79
<b>Banca Etica</b>	E	862.80	12	195
<b>Banex</b>	P	179.70	30	616
<b>BRAC</b>	P	675.17	2826	26749
<b>Microfinance</b>				
<b>BRAC Bank</b>	P	1050.90	652	6061
<b>GLS Bank</b>	E	1428.40	7	197
<b>Merkur Bank</b>	E	221.30	4	50



<b>Mibanco</b>	P	958.70	103	2860
<b>New Resource Bank</b>	E	170.20	1	30
<b>Shorebank</b>	P	2671.80	589	15
<b>Triodos Bank</b>	E	3330.70	7	475
<b>XAC Bank</b>	P	164.40	74	955

### 1.2.2. Organizational structure of the banks

Figures also show a **big difference in the number of branches and number of co-workers**. But there doesn't seem to be a linear causal relationship between the balance sheet total and the number of offices and number of co-workers. As can be seen in tables 3 and 4, an important explanation for the difference between these banks seems to be their ethical or poverty alleviation focus. More precisely within the poverty alleviation focus, it's the Southern banks that have a different structure from the Western ethical banks.

- ✓ Western ethical banks seem to have a rather centralized structure, with very few branches or offices, and a relatively low number of personnel. They are highly reliant on internet banking for deposits and payment services.
- ✓ Southern poverty-alleviation banks (which are all poverty-alleviation banks except for Shorebank) are organized totally differently as they are characterized by a far larger number of branches/offices and bigger number of co-workers.

**TABLE 4: NUMBER OF CO-WORKERS PER US\$ 100 M ASSETS**

Poverty-Alleviation Banks		Ethical Banks	
Banex	342,8	ABS	10,6
BRAC Microfinance	3961,8	Banca Etica	22,6
BRAC Bank	576,7	GLS Bank	13,8
Mibanco	298,3	Merkur Bank	22,6
Shorebank	22,0	New Resource Bank	17,6
Xac Bank	580,9	Triodos Bank	14,3

These simple figures show that Southern poverty-alleviation banks need a **different organizational structure** than ethical banks. It seems "microfinance" banks focused on poverty alleviation need to be available closer to their clients than ethical banks. One of the main arguments could be that poverty alleviation banks are in many instances trying to serve people that are living in the outlands, and not in the capital cities where most banking services are centralized.

The differences between ethical banks and microfinance banks on the number of co-workers and on the number of branches and offices are so great that we can assume that these kinds of banks will use a totally different organizational structure. This is only outlined in the scope of this research, but it would be extremely interesting to analyze both organizational schemes and their impact on several other business related items like client relations, cost structure and cost management, decision procedures, ...

### 1.2.3. Shareholding structure & legal structure

Several legal structures are of course used by these 12 GA banks. But generally one might consider that two legal structures, the limited company and the cooperative company are omni-present within the Global Alliance.

Cooperative GA banks are no copies of the cooperative banks and credit unions from the beginning of the twentieth century. These original credit unions substantially contributed to the provision of finance for their own members. A lot of those original cooperative banks became main stream banks and lost their social mission, although some of them rediscovered their roots lately. The cooperative GA banks could be called 'new' cooperatives that are established not only to serve their own members, but increasingly to also fulfill the needs of others.

It is interesting to see is that GA banks that are not structured as a cooperative bank have sometimes tried to create substructures or solutions to bring cooperative characteristics into the bank.<sup>7</sup> The Foundation for the Administration of Triodos Bank Shares (see further) is a good example of trying to combine a traditional legal structure with more cooperative characteristics.

Not only the legal structure, but also the shareholding structure is quite different for these 12 GA banks. ***No real common characteristics*** can be found in the GA banks' ***shareholding structure***.

Equity accounts for 4.3% (Banca Etica) to 21% (BRAC Microfinance) of the financing of the GA banks. Speaking about shareholders we have to get back to the founders of these banks. We already mentioned that many of these banks were established by non-profit organizations. Many of these founding organizations can still be found in the shareholding structure of the banks. The most outspoken examples are BRAC Microfinance Program which is still a fully-owned part of the BRAC NGO, and the Peruvian community development organization ACP (Accion Comunitaria del Peru) which still holds 60% of the shares of Mibanco.

Some of these banks have a relatively limited number of shareholders, like Banex (13), Shorebank (75 shareholders), New Resource Bank (250), and Xac Bank (9).

A limited number of shareholders does not exclude big variety in the nature of these shareholders. Shorebank's 75 shareholders are individuals, foundations, religious organizations, financial institutions, insurance companies and major companies.

The micro-finance banks, like Banex, Mibanco and Xac Bank depend heavily on institutional shareholders for the overwhelming majority of their equity capital. Most of their shareholders are multilateral or private foundations or funds that have been especially established to (amongst other initiatives) support microfinance institutions. Amongst them figure development banks like IFC and EBRD, but also foundations and investment funds of other GA members, like Triodos Hivos Foundation, Triodos Fair Share Fund and Shore Cap International.

Other banks like ABS, Triodos, Merkur Bank, GLS bank, Banca Etica, and BRAC Bank have a rather dispersed shareholding from 2,800 up to more than 30,000 shareholders.

Banca Etica for example has 64 local shareholder groups around Italy, together representing more than 30,000 shareholders. To prevent a given shareholder from getting more power than others, the votes each shareholder has at the annual general meeting are not linked to the number of shares each shareholder owns. Banca Etica uses the one man, one vote rule. Quite exceptionally in Italy, local authorities can be shareholders, which is also the case with Banca Etica.

Triodos on the other hand has almost 12,000 shareholders. However, 49% percent of shares are in the hands of big institutional investors like banks, insurance companies and pension funds. No shareholder can hold more than 10% of all

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<sup>7</sup> This will be discussed further on in chapter 2

shares. The Foundation for the Administration of Triodos Bank Shares defends the mission and the values of the Triodos Bank. This foundation owns all the shares and issues depositary receipts without voting rights to the public. The board of the foundation is appointed by all depositary receipt holders, with every receipt holder having a maximum of 1000 votes.

Merkur Bank is a cooperative bank with more than 2800 member shareholders, including individuals, organizations and institutions. Clients are promoted to become members. One quarter of the clientele has become a shareholder.

A striking feature is the fact that these banks are **not listed on the stock exchange**, except for BRAC Bank, because being listed is a legal obligation for a bank in Bangladesh. It is common knowledge that stock listed companies and banks have been pushed by their shareholders to prioritize short-term profit seeking before stable and long-term healthy management. In the current financial crisis questions have been raised by several businessmen, journalists, academics and experts as to whether banks as an important pillar for the economic development of regions and countries should be allowed to be listed on the stock exchanges.

GA Banks (except BRAC Bank) have chosen to keep away from stock exchanges. They are trying to attract shareholders that share their vision and mission and are not trying to maximize shareholders' value in the short term. This attitude has some consequences in terms of share liquidity. Some banks have organized internal markets for their shares. Not being listed also has consequences on the constant fulfillment of capital needs in a permanent high-growth situation.

Of course, capitalization brings challenges for these banks. In connection with the banks' high growth (see further on in 1.3) and the upcoming regulations on solvency due to the banking crisis, the banks will surely need extra capitalization. To attract sufficient capital traditional demands for high share liquidity high return on equity, and a legal structure able to attract institutional shareholders that are typical factors within listed companies, will undeniably get on the agenda. These issues might put a lot of pressure on the actual business models these banks are using. A high growth rate for the banks will certainly imply a good balance between attractiveness for extra capital and maintenance of the typical alternative business model of the GA banks.

### **1.3. Description and analysis of the economic performance of these banks**

An international financial crisis broke out in 2008. After years of enormous profit figures high street banks had to declare small or high losses. Some banks failed; others were narrowly saved by government intervention. The safety of people's deposits and savings accounts was questioned, which sometimes led to escape behavior with a run on the bank. There were reports of banks losing lots of their deposits and clients. On the other hand, businesses complained about a drying up of financing from the banks.

Looking for the causes of this high exposure by banks, some commonly accepted explanations were an extremely high exposure to risk in products merely or no longer linked to the real economy, a huge financial interdependence of banks on each other and a complete loss of confidence by the public.

It is impossible to compare GA banks' performance with other banks' performance within the scope of this research. However, in light of the current crisis, it is interesting to be able

to describe how GA banks performed in 2007-2008. How were they financed, what happened to their deposits and their loans, were they able to stay profitable?

For standardization and comparison reasons we have recalculated all bank figures in US\$. One disadvantage of this standardization is, of course, the exchange rate bias it generates. Given that in 2008 the US\$ became stronger than in 2007, all non-American banks growth figures for 2007-2008 in US\$ will be lower than in their local currency.

### 1.3.1. Balance sheet totals

As shown in table 5, all twelve banks were in a **serious growth scenario** from 2006 to 2008. None of these banks was in a position of stand-still or reduction. Moreover, the growth figures are quite impressive. From 2007 to 2008, the total consolidated assets of these banks grew by 20.7%.

Although these banks are in different stages of their evolution and are active in totally different markets and regions, they all seem to be part of a booming business.

TABLE 5: BALANCE SHEET TOTAL AND GROWTH

	Balance sheet total 2007 (in M US\$)	Balance sheet total 2008 (in M US\$)	Growth 2006 – 2007	Growth 2007 – 2008
<b>ABS</b>	686.3	744.8	6.6%	8.5%
<b>Banca Etica</b>	773.7	862.8	16.1%	11.5%
<b>Banex</b>	162.6	179.7	47.8%	10.5%
<b>BRAC Microfinance</b>	630.3	675.2	56.0%	7.1%
<b>BRAC Bank</b>	691.1	1050.9	54.5%	52.1%
<b>GLS Bank</b>	1171.0	1428.4	20.8%	22.0%
<b>Merkur Bank</b>	195.6	221.3	17.5%	13.1%
<b>Mibanco</b>	611.8	958.7	4.7%	56.7%
<b>New Resource Bank</b>	126.4	170.2	211.5%	34.7%
<b>Shorebank</b>	2377.8	2671.8	11.0%	12.4%
<b>Triodos Bank</b>	2774.5	3330.7	22.5%	20.0%
<b>XAC Bank</b>	122.9	164.4		33.8%
<b>TOTAL</b>	<b>10,324.0</b>	<b>12,458.9</b>		<b>20.7%</b>

### 1.3.2. How are the banks financed?

First of all we want to take a look at the liabilities side of the banks. How have the banks been able to finance this growth?

TABLE 6: FINANCING OF GA BANKS AT THE END OF 2008<sup>8</sup>

	Poverty Alleviation (P) / Ethical (E)	Financing by equity	Financing by deposits	Financing by borrowed funds
<b>ABS</b>	E	7.0%	91.1%	0.0%
<b>Banca Etica</b>	E	4.3%	91.2%	0.6%
<b>Banex</b>	P	9.4%	21.0%	69.8%
<b>BRAC Microfinance</b>	P	21.0%	34.3%	45.2%
<b>BRAC Bank</b>	P	7.5%	80.1%	3.2%
<b>GLS Bank</b>	E	5.4%	81.9%	0.0%
<b>Merkur Bank</b>	E	13.1%	75.3%	2.3%
<b>Mibanco</b>	P	8.5%	51.2%	24.7%
<b>New Resource Bank</b>	E	15.2%	84.0%	0.0%
<b>Shorebank</b>	P	6.4%	64.0%	30.2%
<b>Triodos Bank</b>	E	8.6%	87.9%	1.0%
<b>XAC Bank</b>	P	10.6%	36.7%	51.0%

Table 6 shows a striking difference in the way the banks are financed.

All **ethical banks** are **heavily financed by their client deposits**. This fits perfectly well with their mission to be a savings and loans bank. To be able to grant savings to the companies and projects they want to support, these banks need to gather savings and deposits from the depositor's market. These banks are for 75.3% to 91.2% financed by their client deposits. Adding equity and deposits, we can see that ethical banks are financed from 87.3% to 99.2% by their shareholders and their depositors. This comes together with a **strong independence** of these banks **from the interbank market** (from 0% to 2.3%). The ethical banks in the GA are not dependent on funding and loans by other banks for their liquidities. Questions can be raised as to whether this is voluntary or an occasional fact. Is this independence from the interbank market caused by a policy to foster that independence and restrict activities to a level that can be driven by client deposits? Or has this situation simply been a logical consequence of an oversupply of deposits to these banks that outstrips the loan demand?

A totally different picture appears when we analyze the same figures for the **poverty-alleviation banks**. These banks cannot rely on a similarly strong deposit base. This situation is most striking for microfinance banks like Banex, BRAC Microfinance, Mibanco and XAC Bank, which are financed by deposits for 21%, 34.3%, 51.2% and 36.7%. These microfinance banks **rely heavily on other borrowed funds** for the financing of their activities, from 24.7% for Mibanco to 69.8% for Banex. Also the poverty alleviation-bank Shorebank shows a high dependency on borrowed funds (30.2%). BRAC Bank is the exception, being equally independent from the interbank market and relying on equity and deposits like the ethical banks. Apart from BRAC Bank, one can also raise the question of whether this situation was created by policy decisions by these banks. Have these poverty-alleviation banks been focusing on granting loans to poor individuals and entrepreneurs, and less on gathering deposits? Isn't this actually a logical decision to make when you see that their mission is to tackle poverty through financing? Or is this situation simply a consequence of the lack of available deposits in the markets they are serving? Is it impossible in those poorer markets to make a difference based on the deposits you can

<sup>8</sup> This table is only representing the most important liability categories for banks. There are also other liabilities on the balance of these banks, so the three published categories do not add up to 100%.

gather, and are these banks for this reason always partly relying on other borrowed sources to create their leverage effect?

In general terms one can easily conclude that the poverty-alleviation banks are more dependent on the interbank market, international institutions and microfinance investment funds to get their financing. And in light of the current financial crisis this surely can be seen as a serious threat. The drying up of borrowed funds from the interbank market caused several banks in the world a lot of problems in 2008. The GA banks didn't show any sign of slowing down in their access to borrowed funds in 2008. To assess the possible danger that these funds will dry up one should study more deeply the composition and the quality of these funds for each bank individually.

### 1.3.3. Attracting deposits

Although we saw a big difference between the 12 GA banks in their ability to rely on deposits for their financing, all these banks face **big growth in the volume of deposits** made by their clients. In 2008 the consolidated volume of deposit accounts for the 12 banks grew by 22.5% to US\$ 9.2 billion.

Table 7 shows that this increase is the result of a growth in deposits at all 12 banks. Moreover, this was not a one-year shot as in 2007 all of the banks had already shown strong growth in deposits. Looking at the number of accounts clients have with these banks, one can easily see that the growth is mostly due to a growth in clients, a growth in the number of accounts (excluding the standstill at Shorebank).

This is a remarkable conclusion in a period that has been characterized by people losing trust in their banks. It seems like the vision and characteristics of these value-driven banks have gained growing popularity in this particular period whereas mainstream banks are under criticism for their risky behavior.

Interesting topics could be researched in the future on which characteristics make these banks suddenly more popular, and how this popularity has been affected by the current financial crisis.

TABLE 7: DEPOSIT ACCOUNTS AT GA BANKS

	Volume of deposit accounts 2007 (M US\$)	Volume of deposit accounts 2008 (M US\$)	Volume growth 2007 - 2008	Volume growth 2007 - 2008	Number of accounts 2007	Number of accounts 2008	Growth 2007 - 2008
<b>ABS</b>	623.10	678.60	5.5%	8.9%	21,240	22,470	5.8%
<b>Banca Etica</b>	716.40	786.80	16.3%	9.8%	-	19,000	-
<b>Banex</b>	28.20	37.72	11.1%	33.8%	55,741	71,998	29.2%
<b>BRAC Microfinance</b>	198.00	231.83	26.9%	17.1%	6,397,635	8,090,369	26.5%
<b>BRAC Bank</b>	556.80	841.50	62.5%	51.1%	200,000	465,768	132.9%
<b>GLS Bank</b>	972.20	1,170.20	16.3%	20.4%	80,000	90,000	12.5%
<b>Merkur Bank</b>	152.10	166.60	19.1%	9.5%	17,956	21,550	20.0%
<b>Mibanco</b>	299.10	490.70	30.2%	64.1%	-	-	-
<b>New</b>	105.30	143.00	508.0	35.8%	1,280	2,266	77.0%

Resource Bank	%						
Shorebank	1,440.90	1,683.20	2.0%	16.8%	40656	40,409	(0.6%)
Triodos Bank	2,379.70	2,927.60	19.2%	23.0%	130,644	169,517	29.8%
XAC Bank	53.80	60.30	-	12.1%	103,288	113,789	10.2%
<b>TOTAL</b>	<b>7,525.60</b>	<b>9,218.05</b>		<b>22.5%</b>			

For now the conclusion is clear: these banks have recently attracted a fast-growing amount of deposit money. Have they been capable of converting these extra deposits into extra loans?

### 1.3.5. Loans

All 12 GA banks have had **big growth in loans outstanding**. In 2008 loans by all 12 of the banks grew by 23.3% to almost US\$ 8 billion.

**TABLE 8: LOAN ACTIVITY BY GA BANKS**

	Volume of outstanding loans 2007 (M US\$)	Volume of outstanding loans 2008 (M US\$)	Volume growth 2006 – 2007	Volume growth 2007 - 2008	Number of loans 2007	Number of loans 2008	Growth 2007 – 2008
<b>ABS</b>	527.20	574.40	10.7%	8.9%	765	830	8.5%
<b>Banca Etica</b>	351.10	394.60	18.1%	12.4%	2,754	3,615	31.3%
<b>Banex</b>	125.40	133.14	48.0%	6.2%	54,700	47,688	(12.8%)
<b>BRAC Microfinance</b>	534.50	660.34	49.2%	23.5%	6,397,635	5,056,528	(21.0%)
<b>BRAC Bank</b>	483.70	764.20	66.0%	58.0%	118,258	186,851	58.0%
<b>GLS Bank</b>	704.20	850.90	24.7%	20.8%	4,000	6,600	65.0%
<b>Merkur Bank</b>	142.70	170.00	38.5%	19.1%	4,059	4,275	5.3%
<b>Mibanco</b>	509.60	781.20	46.3%	53.3%	283,361	-	-
<b>New Resource Bank</b>	62.20	112.50	893.0%	80.9%	123	258	109.8%
<b>Shorebank</b>	1,444.90	1,639.30	6.9%	13.5%	6,855	7,330	6.9%
<b>Triodos Bank</b>	1,505.30	1,790.10	19.1%	18.9%	6,181	9,381	51.8%
<b>XAC Bank</b>	86.02	118.10	-	37.3%	60,719	62,788	3.4%
<b>TOTAL</b>	<b>6,476.82</b>	<b>7,988.58</b>		<b>23.3%</b>			

Generally one can conclude that together the banks have been able to convert their extra deposits into extra loans. In 2008, 22.5% in extra deposits resulted in 23.3% extra loans.

As all of the banks position themselves as being traditional intermediation banks that convert savings and deposits money into useful loans for useful goals like ecology, fighting poverty, sustainability, ... in the long-term their ability to really convert savings into loans will be very important to keeping client confidence and client attractiveness. Once people have chosen to deposit their money in a smaller less-known but greener, more ethical, more sustainable bank, they want their money to be used to make the difference. They don't want their money to be placed on another bank's account because their GA bank cannot reconvert it into useful loans.

So the link between deposits and loans is far more important to these GA banks than to mainstream banks, because the nature of that link seems to be one of their unique selling points.

Table 9 shows that most GA banks **score fairly high on reconversion capability**. Microfinance banks that cannot finance all their loans by deposits and are very active on the interbank market don't have a reconversion problem at all. Most other banks are still capable of finding enough loans to place the growing amount of deposits.

But some **European ethical banks** like Banca Etica (50.1%) and Triodos Bank (61.1%) and, to a lesser extent, GLS Bank (72.7%) seem to be **struggling with their popularity**. The perception of these banks as being savings and loans banks that use deposit money to finance ethical, ecological, and social projects and companies is in danger when they are no longer able to find enough borrowers to grant loans.

Of course this preliminary research is not capable of finding causes for and solutions to this problem. It is evident that there is a time lag between swiftly incoming deposits and the careful process of analysis, risk assessment and the establishment of collateral for loans. But are there enough long-term financing needs in the sectors they feed? One might suggest that these banks need to broaden the sectors and activities they want to finance. But this is of course, a very sensitive question, as clients expect these banks to keep having the highest possible ethical standards. A lot of customers, partners and shareholders would not allow the banks to lower their ethical standards.

**Table 9: Deposits – Loan Relationship 2008**

	Volume of customer deposits (US\$ M)	Volume of loans outstanding (US\$ M)	Conversion rate of deposits into loans
<b>ABS Bank</b>	678.60	574.20	84.6%
<b>Banca Etica</b>	786.80	394.60	50.1%
<b>Banex</b>	37.72	133.14	353.0%
<b>BRAC Microfinance</b>	231.83	660.34	284.8%
<b>BRAC Bank</b>	841.50	764.20	90.8%
<b>GLS Bank</b>	1,170.20	850.90	72.7%
<b>Merkur Bank</b>	166.60	170.00	100.2%
<b>Mibanco</b>	490.70	781.20	159.2%
<b>New Resource Bank</b>	143.00	112.50	78.7%
<b>Shorebank</b>	1,683.20	1,639.30	97.4%
<b>Triodos Bank</b>	2,927.60	1,790.10	61.1%
<b>XAC Bank</b>	60.30	118.10	195.9%



#### Opportunity box

Now that these 12 banks have gathered together in the Global Alliance for Banking on Values one might ask themselves if this Alliance could bring together the above-mentioned strengths and weaknesses of these banks and work towards common solving strategies.

This research on the economic performance of these banks has shown two patterns that face important economic challenges or involve important economic or reputation risks in the near future.

- ✓ The first is the dependency of Southern poverty-alleviation banks on the interbank market for their financing, due to the fact that the amount of loans outstanding is much higher than the amount of customer deposits in the banks.
- ✓ The second is a rather low conversion of deposits into loans by some European ethical banks due to the growing popularity of these banks with depositors.

These two challenges or risks seem to be very complementary. Of course bank deposits have to be correctly covered, but part of the growing attention of savers and depositors in these European GA banks could be directed to other GA banks and especially microfinance banks which are nowadays too dependent on the interbank market. This would indirectly convert part of the European investment potential into useful microfinance loans in the South. This process is already taking place with several GA banks substantially investing in microfinance institutions worldwide generally through specific investment funds and by attracting higher risk profile depositors for these investments.

Currently, the intention is to create a special interbank market within the Global Alliance. Food for thought.

Another important issue related to loans is the **number of bad loans**. Recent history has shown how important this factor can be for financial institutions. It's important to banks that not too many borrowers are failing to repay their loans. One might expect GA banks to have a big bad loans share in their portfolio as they have been offering loans to the (un)served: people, organizations, businesses or sectors that are not served by other banks. One might think these borrowers are not served because they are considered too risky for several reasons and banking activity with these clients is not profitable. We'll see further on that GA banks manage to make a decent profit from these banking activities to the unserved.

The GA banks' provisions for bad loans as a percentage of their outstanding loans varied between 0.0% (Banca Etica) to 4.3% (Mibanco) in 2007. There has been an evolution over time that has seen these banks' bad loans rates dropping. This has partly been a result of the niche focus of the banks that has given them growing specialization and knowledge of their clients. Even when banks were focusing on markets and sectors thought to be more risky their specialization resulted in fairly low bad loan rates.

In 2008, almost all these banks needed to increase their provisions for bad loan losses. In this research we have not been able to search for the underlying causes of this evolution. But one might imagine that this must have been a consequence of the financial crisis and the resulting recession. In the next chapter on the profits of the GA banks, we'll see that, except for the two American banks, these higher provisions for loan losses have not resulted in a year of losses instead of profits.

TABLE 10: BAD LOANS

	Provisions for bad loans as % of outstanding loans 2007	Provisions for bad loans as % of outstanding loans 2008
<b>ABS</b>	2.2%	2.0%
<b>Banca Etica</b>	0.0%	N/A
<b>Banex</b>	3.4%	4.3%
<b>BRAC Microfinance</b>	2.0%	3.5%
<b>BRAC Bank</b>	2.1%	4.6%
<b>GLS Bank</b>	0.5%	1.2%
<b>Merkur Bank</b>	0.1%	0.3%
<b>Mibanco</b>	4.3%	N/A
<b>New Resource Bank</b>	1.6%	3.6%
<b>Shorebank</b>	0.4%	1.8%
<b>Triodos Bank</b>	0.0%	0.3%
<b>XAC Bank</b>	0.7%	1.1%

### 1.3.6. Profit

We already mentioned earlier in this report the lack of a pursuit of profit maximization that characterizes the GA Banks. Profit is not a means to an end for these banks. But a “decent profit” is, of course, an important factor to secure a sustainable business, to be able to keep investing in new interesting opportunities and markets and to attract substantial equity capital.

As we already mentioned, 2008 was not the year of big profit-making within the banking sector. Have the GA banks gone down with the rest of the financial sector?

At first sight, the GA banks appear to have survived the 2008 financial crisis year strongly. **Ten GA members** ended the year with **profits** and with a positive return on equity.

The **USA members** of the Global Alliance had to report **losses** for 2008. Is this due to the financial crisis that started in the US and hit the US mortgage market very hard? New Resource Bank did not expect profits as 2008 was only their second year in business, but losses were much higher than they were in 2007. New Resource bank suffered from under-performing loans in the real estate construction and development sector. Shorebank also suffered from a higher level of non-performing loans in its residential real estate portfolio. As Shorebank has a high level of African-American mortgage loans where the unemployment rate is double that of majority markets, fallout from the financial crisis hurt their markets badly.

TABLE 11: GA BANKS' PROFITABILITY

	Net profit 2007 (US\$ M)	Net Profit 2008 (US\$ M)	Net Profit Growth 2007 – 2008	Return on Equity 2008
<b>ABS</b>	0.80	0.90	+12.5%	2.1%
<b>Banca Etica</b>	4.90	1.80	- 65.7%	4.9%
<b>Banex</b>	3.60	2.80	-35.9%	17.3%
<b>BRAC Microfinance</b>	7.60	15.00	+41.8%	11.2%
<b>BRAC Bank</b>	5.40	14.10	+161.1%	22.9%
<b>GLS Bank</b>	0.20	0.20	+0.0%	7.7%
<b>Merkur Bank</b>	1.60	1.00	-37.5%	3.3%
<b>Mibanco</b>	20.80	27.10	+30.3%	38.9%

<b>New Resource Bank</b>	(3.20)	(10.50)	-228.1%	Negative
<b>Shorebank</b>	4.20	(2.20)	-152.4%	Negative
<b>Triodos Bank</b>	13.20	14.20	+7.6%	5.0%
<b>XAC Bank</b>	-	2.70	+7.4%	22.9%

In this chapter we described the GA banks' mission, banking practices and banking activities, but also their structure and their economic performance. We found similarities and differences between the banks which will be summarized in the concluding chapter of this report.

Following this quick overview of the twelve founding member banks of the Global Alliance, we will more thoroughly describe the business models of four of the banks in the next chapter: Banca Etica, BRAC Bank, BRAC Microfinance and Triodos Bank.

# Chapter 2: Case study on the business models adopted by four Global Alliance members

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The main purpose of this chapter is to give an accurate description of the business models applied by a selection of four Global Alliance banks in order to discover their commonalities and differences and to act as an inspiration source in the development of a conceptual prototype business model for the values driven bank.

This chapter is entirely based on a study of the websites of the four banks, on their profiles in “Profiles of the Participating Banks, Global Alliance for Banking On Values, Zeist, March 2009”, on the updated 2008 information for these profiles and, where available, on their 2007 and 2008 annual reports. Further on this chapter is based on questionnaires and on an in-depth interview with Peter Blom, CEO of Triodos Bank NV. When other resources are used, they are indicated as a separate reference.

During the research we used the conceptual framework designed by Alexander Osterwalder<sup>9</sup> as a guideline. His business model ontology consists of four main areas that constitute the essential business model issues of a company: infrastructure, offer, customer and finance. These four major areas are further broken down into a set of nine interrelated building blocks that allow conception of a business model. Because of the distinctive character of this particular business model issue, we decided to leave out the entire finance issue.

## 2.1. Introducing the four banks

The three banks and BRAC’s Micro Finance Programme, which are the subject of this chapter, are quite different in certain ways. The following brief summary of their banking history and of their actual performance will make this clear. However, it is their core similarities which make them the subject of this paper. Chief among these is a strong and enduring commitment, as privately owned entities, to achieving social impact while making profit. The meaning and outcomes of this commitment will be examined in the following sections.

### *Triodos*

Triodos Bank, The Netherlands, was set up in 1980 following the earlier establishment of the Triodos Foundation in 1971. However, it originally started as a study group inspired by the “social threefold order” introduced by Rudolf Steiner in the 1920’s. In the 1970’s a small group of Dutch economists, entrepreneurs and academics reflected together about a more sustainable way of managing money. The Triodos Group currently has a balance sheet of US\$ 3.3 billion, on which it showed a net profit of US\$ 14.2 million in 2008. In addition to The Netherlands, where it was started, Triodos Bank is directly active in three other European countries (UK, Belgium and Spain) and soon it will open a branch in Frankfurt, Germany. Triodos Bank focuses on financing companies, institutions and projects

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<sup>9</sup> OSTERWALDER, A. (2004), *The business model ontology, A proposition in a design science approach*, 172p.

that contribute to a better environment and/or add cultural and social value. Triodos Bank also manages several off-balance sheet funds investing in, amongst others, microfinance institutions in the developing world, sustainable energy and culture.

### *Banca Etica*

Banca Etica is an Italian bank officially founded in March 1999. It is the first ethical finance institution in Italy. It is deeply rooted in Italian civil society and the MAG's<sup>10</sup> (Self-management mutual associations) as this is where it found its first shareholders.<sup>11</sup> Today, they still apply their co-operative roots to several elements of their organizational structure. "The idea behind Banca Etica consists in creating a place where savers, driven by the common desire of a more transparent and responsible management of financial resources, may meet socio-economic initiatives, inspired by the values of a sustainable social and human development." Today, Banca Etica has a balance sheet of US\$ 0.86 billion, on which it showed a net profit of US\$ 1.8 million. The bank operates at the national level, but through its investment areas and its investment funds under the management of Etimos and Etica SGR, it invests in projects and companies in several parts of the world including the developing world.

### *BRAC's Microfinance Programme (part of BRAC NGO)*

The roots of NGO BRAC go back to the early seventies when, after the independence of Bangladesh from Pakistan, a huge influx of refugees caused a grinding famine. In 1972, Mr. Fazle Hasan Abed founded the Bangladesh Rural Advancement Committee (BRAC) as a support and rehabilitation programme. However, BRAC wanted to be more than a relief organization and shifted its focus to long-term community development. BRAC's broader ambition is well worded in the "Seventeen Promises," which is a kind of "credo" for BRAC and its members.<sup>12</sup> Today BRAC is one of the largest development institutions in the southern districts of Asia working on poverty alleviation, together with the Grameen Bank. BRAC employs more than 100,000 people and estimates its coverage at around 110 million people. Unlike the Grameen Bank, BRAC adopts a holistic "credit-plus approach" to poverty alleviation. Its program consists of four core pillars which are economic development, education, health & social development and human rights & legal services. In this report we will zoom in on the Microfinance Programme - founded in 1994 - a part of the economic development program. By the end of 2008, BRAC's MF Programme balance sheet totaled US\$ 0.68 billion, on which it showed a net profit of US\$ 15 million.

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<sup>10</sup> The Mag's represent one of the first experiences of ethically-oriented finance in Italy. They were established in the seventies with the aim of raising savings among their members and of financing projects, and promoting culture, social solidarity and environmental sustainability.

<sup>11</sup> In the 1990s the MAGs had to review their organization, as a consequence of new legal rules. This forced them to seriously consider the possibility of incorporating the first "ethically oriented" bank in Italy. In order to create such a bank, many social co-operative societies and voluntary organizations were involved. Following an important fund raising campaign, Banca Etica obtained a banking licence in 1998.

<sup>12</sup> The seventeen promises are the following: 1. We shall not do malpractice and injustice, 2. We will work hard and bring prosperity to our family, 3. We will send our children to school, 4. We will adopt family planning and keep our family size small, 5. We will try to be clean and keep our house tidy 6. We will always drink pure water, 7. We will not keep our food uncovered and will wash our hands and face before we take our meal, 8. We will construct latrines and will not leave our stool where it doesn't belong, 9. We will cultivate vegetables and trees in and around our house, 10. We will try to help others under all circumstances, 11. We will fight against polygamy and injustices to our wives and all women, 12. We will be loyal to the organization and abide by its rules and regulations, 13. We will not sign anything without having a good understanding of what it means (we will look carefully before we act), 14. We will attend weekly meetings regularly and on time, 15. We will always abide by the decisions of the weekly Group meeting, 16. We will regularly deposit our weekly savings, 17. If we receive a loan we will repay it on time.

### *BRAC Bank*

BRAC Bank is the youngest bank in this sample. It was founded in 2001 by the NGO BRAC which still holds 33.51% of the shares. Moreover it is the fastest growing bank in Bangladesh with a current total balance sheet of US\$ 1.1 billion and a net profit in 2008 of US\$ 14.1 million. It began its operations in order to provide formal banking to all levels of people with specific focus on the underserved small end of the SME sector thereby pursuing its goal of poverty alleviation in Bangladesh.<sup>13</sup> In 2007 it served 1,250,000 customers through its SME division. Since 2002, BRAC NGO & BRAC Bank have expanded their activities abroad, specifically to Afghanistan, Sri Lanka, Tanzania, Uganda, Southern Sudan and Pakistan. Moreover, BRAC Bank is the only member of the Global Alliance for Banking on Values that is quoted on a stock exchange.

## **2.2. Defining the business models applied by the selection of banks**

### **2.2.1. Product/Offer**

According to A. Osterwalder, the first business element “offer” covers all aspects of what a firm offers its customers. It not only comprises the company’s bundles of products and services but moreover it implies the manner in which it differentiates itself from its competitors and the reason why customers choose a certain firm and not another.<sup>14</sup> Traditionally we could subdivide a bank’s clients into two main categories: the savers and depositors on the liabilities side of the bank’s balance sheet, and the borrowers on the assets side. A bank will offer products and services to both categories of clients and evidently these products and services will differ according to the group the customer belongs to.

As shown in chapter 1 we can divide our selection of banks into two groups: Triodos Bank & Banca Etica belong to the ethical bank group, BRAC NGO & BRAC Bank to the poverty-alleviation bank group. As we will discover throughout this chapter, the members of each group show a lot of similarities with regard to the products they offer, the relationship they have with their customers and the structure they have set up.

#### SERVICES FOR DEPOSITORS

##### *Triodos & Banca Etica*

Today, both Triodos Bank and Banca Etica offer a wide array of products and services to their depositors. Their offer ranges from traditional deposit and savings accounts, to everyday payment services, internet banking and “bancalight” - banking operations management by mobile phone offered by Banca Etica - to private banking, financial consultancy and advisory services.

Besides, both the Banks extended their savings facilities to the implementation of several off-balance investment funds, each with their own Annual General Meeting of Shareholders.

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<sup>13</sup> By its founding charter it has committed itself to invest at least 51% of its lending assets in the SME sector.

<sup>14</sup> OSTERWALDER, A. (2004), *The business model ontology, A proposition in a design science approach*, 172p.

Triodos Bank currently has 13 investment funds each focusing on certain social, ecological, cultural and development issues. Noteworthy at Banca Etica is the set up of the *Banca Etica system*: a network of local agencies, ambulant bankers, shareholder groups and co-operating ethical financing organizations, each of them specialized in a particular sector. Through this network, customers of Banca Etica are able to invest their money directly in the bank and its loan portfolio, in the Social Responsible Investment (SRI) funds managed by Etica Sgr or in Etimos, an organization that collects savings in Italy to support micro businesses and microfinance in developing countries and areas affected by the economic crisis. Through this peculiar set up, both banks have clearly separated the venture capital from their savings activities.

#### *BRAC's MF Programme & BRAC Bank*

The main focus of these two financial institutions is, in fact, on lending. With BRAC NGO it is about providing micro credits to the poor, whereas with BRAC Bank we talk about small business lending. BRAC's MF Programme offers a few savings options for its own MF clients as raising their members' savings is part of their mission. As only 34.3% of their loans are financed through member savings, whereas the rest mainly comes from borrowed funds, BRAC's MF Programme focus is not actually on collecting deposits although there clearly is an interest in becoming more independent from external borrowing.

For BRAC Bank we have seen that its product portfolio has gradually expanded to include a range of credit and savings products and several remittance services for Bangladeshi who live abroad. Their objective is definitely to carry on all kinds of banking businesses in the future and given the fact that we are talking about a young bank (°2001) and given the development in products over the last couple of years, BRAC Bank is diversifying its products and services at a great pace.

#### SERVICES FOR BORROWERS

##### *Triodos & Banca Etica*

Here again, Triodos Bank and Banca Etica provide an extensive range of credit facilities. Individuals, companies, not-for-profit organizations and projects can have access to financing from these two banks. But looking at their loan portfolio companies, not-for-profit organizations and projects form the main target. (Banca Etica: 73.5%; Triodos Bank: 98%) A logical explanation for this can be found in the reason why these banks were originally founded. Banca Etica was founded by several members of civil society to address their own funding problems, later widened to other social-enterprises active in the third sector. The founders of Triodos wanted to show that a different and more sustainable management of the production factor capital was possible: a form of management that moved away from the dominant philosophy of capital accumulation (money as a tool to create more money) and where capital functioned as a tool for social change. Thus, Triodos Bank started to fund innovative companies and projects that contributed to a more social and environment-friendly society. To this very day Triodos Bank finances companies that make a positive contribution to society but which, in some cases, lack access to the credit facilities of the traditional banks because of their high risk profile or because their small scale makes them less profitable to the bank. In the case of Triodos Bank, this last argument has now disappeared as the loan amount has gone up to a maximum of 35 million US\$ per project financed.

##### *BRAC's MF Programme & BRAC Bank*

Similar to the Banca Etica and Triodos Bank story, the credit facilities of BRAC's MF Programme and BRAC Bank carry a clear social commitment. But BRAC's credits are more

directed at poverty alleviation. Given the Bangladeshi context that is not a big surprise. In a country where more than 35 million people, around a quarter of the entire Bangladeshi population, face acute poverty and hunger, poverty alleviation takes top priority.

Within BRAC's MF Programme this takes the concrete form of collateral-free micro credits for the poor, accompanied by several other services. BRAC Bank in turn provides collateral-free loans to Small and Medium Enterprise Businesses, a market niche that had remained largely untapped within Bangladesh.

To illustrate the difference in focus and approach with the former group of banks, we will zoom in on the credit facilities offered in BRAC's MF Programme:

BRAC's MF Programme provides two different microfinance products, namely microloans and microenterprise loans under three different schemes called respectively Dabi, Unnoti and Progoti. These schemes divide the poor into three categories: the landless woman, the marginal farmer and the small entrepreneur. These groups face different specific needs but have in common that they all experience difficulties in accessing institutional financial services such as savings and credit. Either they lack access to financial services provided by the commercial banks, or they are outside of the category of landless group members targeted by typical microfinance programs. Some even lack both, as is the case of the small entrepreneurs who are often referred to as 'the missing middles'. The first microloan product was group-based and exclusively for women. It was particularly designed for the lower-end of the poor as it assists borrowers in undertaking their first income generating activities. The microenterprise loans in turn are individual loans for both men and women with a focus on small entrepreneurs and their desire to expand their business activities.

*"Just providing the loan is not enough; we have looked at the whole supply chain".*

Moreover, BRAC's MF Programme applies a "credit-plus" approach. Loans are accompanied by various forms of assistance for the borrowers/members such as skills-training, provision of higher quality inputs via in-house production centers and technical assistance as well as marketing for finished goods. Therefore BRAC has set up *Village Organizations*, a member organizing tool which will be further discussed under the business model item "customer interface".

#### VALUE LEVEL

In the following we will discuss the reasons why these banks believe their products can be valuable to the customer. We have limited our discussion to borrower products and services as this is where are found the specific characteristics of a values driven bank.

#### *Triodos & Banca Etica*

As loans to individual customers only make up a small portion of the total loan portfolio, we concentrate on the loans offered to projects, organizations and companies. Many people will argue that the added value of the loans of this group of banks, compared to the loans offered by their mainstream contemporaries, is not directly to be found in the nature of the loan itself. They will not deny the intrinsic value of a loan to its recipient, but given the same conditions they will probably argue that a loan of US\$ 100 from, for example, ING Bank will not be less valuable to the borrower than a loan of US\$ 100 from Triodos Bank. However, the prerequisite here was that the conditions for both loans were the same and that is exactly where the difference is to be found. Due to the lending criteria of the mainstream banks – consisting strictly of economic and financial criteria - many sectors will not get served. Too often this means sectors that add considerable social and ecological value. These are sectors that are highly needed given today's context. However they will often not get served, or be unsatisfactorily served, through the mainstream market. It



treats of innovative ecological projects that bear a high risk or social-enterprises that are undercapitalized and therefore considered of maximum risk too.

As both Banca Etica and Triodos Bank are inspired by the values of sustainable and human development they adopt very different lending criteria compared to mainstream banks. In addition to traditional economic evaluation procedures, the companies undergo an evaluation aimed at analyzing and assessing the consequences of their activity on common welfare and the natural environment. To be able to do this these two banks have developed their own models which are applied to both the loan book and the ethical investment funds they are managing. An example is the VARI model (Values Requisites Indicators) of Banca Etica which employs both negative criteria for exclusion and positive criteria for encouragement. This is similar to the evaluation system adopted by Triodos Bank. As such, they raise the access to credit for underserved sustainable sectors considerably. Therefore, we believe that one of the main added values of Triodos' and Banca Etica's lending and investment is to be found in their financial inclusion of sectors that are underserved in the market.

Moreover there are the spill-over effects for the society as a whole that follow directly from the activities of the targeted sector. By financing organizations that promote social-cultural activity, such as AGESCI (Italian Association of Italian Catholic Guides and Scout), in areas that are most affected by social decline, Banca Etica's loans add an important social value. In the same sense, Triodos Bank adds important ecological value by its financing of research, experiments, and its broad investment in solar and wind farms and in organic agriculture.

#### *BRAC's MF Programme & BRAC Bank*

With regard to the second group of banks, we find similar results although they are working in different contextual situations. Here the loans are made accessible to the poor and to small and medium entrepreneurs. They form the underserved in this context, those that are overlooked by most of the mainstream banks and even by other microfinance programs. However, BRAC NGO and BRAC Bank believe that, by giving these people access to credit, through the provision of collateral-free loans, finance can be a primary tool in reducing poverty. According to them, the loans can be invested in productive activity which will emancipate these groups economically.

The main difference with the other group of banks is that the effects on the social development of society are more direct as they address the basic needs of poor people.

Moreover, the products are tailor-made, so they can meet the specific needs of the un(der)served, since they do not form a homogeneous group. In the case of the BRAC's MF Programme this was already illustrated in the above-mentioned description of their products. But this also goes for BRAC Bank which launched a Women Entrepreneur Cell (WEC) under its SME Banking Division. This cell provides loans along with training and technical assistance to women entrepreneurs across the country. The labor market in Bangladesh is still highly segregated along gender lines: women's employment opportunities are limited and according to a recent study of the International Labor Organization, the overall gender wage gap in Bangladesh is an estimated 23.1 per cent.<sup>15</sup> Besides, women entrepreneurs are invariably faced with difficulties in obtaining credit. Through the WEC, BRAC Bank wants to address these problems in a focused way.

### **2.2.2. Customer interface**

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<sup>15</sup> ILO (2008), *The gender wage gap in Bangladesh*, Asia-Pacific Working Paper Series.

The second pillar of Osterwalder's Business Model Ontology is what he calls the customer interface. It covers all customer related aspects. This comprises the choice of a firm's **target customers**, the **channels** through which it gets in touch with them and the kind of **relationships** the company wants to establish with its customers.

"The customer interface describes how and to whom it delivers its offer, which is the firm's bundle of products and services."<sup>16</sup>

#### TARGET CUSTOMER

Again we will focus on both groups of customers: the depositors or savers, and the borrowers.

#### **Depositors**

With regard to the targeted depositor base we do not immediately find any commonalities within the selection of Banks.

Triodos Bank is creating a broad customer base – a combination of private and corporate customers - of people who have made a decision to "use money more consciously in ways that benefit people and the environment and promote sustainable development"

Given their co-operative roots, Banca Etica's case shows a quite different picture. Though they do not speak of a specific target group it is clear that the individuals and organizations they attract fit into the profile of well-informed, highly-educated people interested in human development and ecological questions and are thus part of the active civil society and can be considered as belonging to the category of the already-mentioned "cultural creatives".

BRAC Bank mentions the following in its annual report: "The deposits collected through the branches of BRAC Bank, which are mostly located in urban Bangladesh, are distributed nationwide to small & medium entrepreneurs through our dedicated SME unit offices located across the country." As the urban areas mostly form the more prosperous regions of a country, certainly in a vast country as Bangladesh, BRAC Bank's focus as to deposits is on the wealthier part of the population.

As part of BRAC NGO's aim is to raise the savings of their own members, the distinction between depositors and borrowers is not immediately applicable here. Because we consider the clients of a Microfinance Programme to be debtors first, we will further discuss them under the topic of borrowers.

#### **Borrowers**

As for the targeted base of borrowers, we found a lot of similarities between the four selected banks.

A striking commonality is that they are all directed at a very specific and clearly defined group of individuals, agents and/or companies or at specific sectors. The following examples by bank will make this clear:

- ✓ BRAC's MF Programme opted to work especially with rural women. The background motive is that women, while being the worst affected by poverty, can play a crucial role as agents of change. Several factors like, for example, proven better

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<sup>16</sup> OSTERWALDER, A. (2004), *The business model ontology, A proposition in a design science approach*, 172p.

repayment behavior strengthen this motive. In 2007 more than 98% of BRAC'S 7.37 million borrowers and savers were women.

- ✓ Triodos Bank works on four very specific investment areas or sectors. The coverage of every specific sector is described in detail. For example: Culture & Welfare, the second largest investment area, covers small loans to organizations working in education, care for people with disabilities, complementary healthcare and artists. All of the enterprises in this sector should have a clear, people- and quality of life-centered policy.
- ✓ Most of Banca Etica's national financing activities are directed at organizations operating within the Third sector. Next to the concrete fields of the Third Sector in which the organization should be active, the Bank also appreciates the legal form of the borrowing organization.
- ✓ BRAC Bank defines its customers as entrepreneurs who were previously not acquainted with banking products & services, along with the microfinance graduates who were in a dilemma with regard to access to credit for further enhancement of their business activities ('the missing middles').

Another common feature, which was already discussed under "Value Level," is that these four banks all serve individuals, entrepreneurs, projects or organizations that face difficulties in obtaining loans through the traditional banking system. Triodos Bank and Banca Etica are more focused on organizations that add important social, cultural or ecological value and that sometimes face problems in access to credit due to higher risk or a specific activity profile. BRAC Microfinance and BRAC bank are more particularly targeting poor people and small entrepreneurs who are not served by the other banks.

Furthermore, the investments of these banks are direct investments in the real economy, in real society and not in the financial markets, apart from their liquidity placements with other banks and their investments in government bonds. These four financial institutions have all avoided complex financial instruments like derivatives which partly explains their positive economic performance during 2008.

We conclude this section by stating that these four financial institutions are all niche players. The differences in the targeted borrowers group shown for each bank could be brought back to differences in mission and differences in the contextual factors that determine who the un(der)served customer or sector is.

#### DISTRIBUTION CHANNELS

The distribution channel is the link/connection between a firm's Offer and its Target Customers. A distribution channel describes how a company gets in touch with its customers.<sup>17</sup>

##### *Triodos & Banca Etica*

While Triodos Bank is by far the largest member of the Global Alliance, with a balance sheet total of US\$ 3.3 billion, the size of its distribution network is almost comparable to that of Banca Etica, which is substantially smaller in size, with a balance sheet of US\$ 0.86 billion.

At the end of 2008, Triodos Bank had only 7 branches of which 4 (rather local agencies) were located in Spain, the largest but also the most recent of the countries in which Triodos Bank is active. By the end of 2008, the bank (including fund management) employed 475 workers for 191,000 customers. Of these, 263 employees worked in The Netherlands (some of them in the international head office). Banca Etica in turn had, by the end of April 2009,

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<sup>17</sup> OSTERWALDER, A. (2004), *The business model ontology, A proposition in a design science approach*, 172p.

13 branches mainly located in the North of Italy (9, to 4 in the South)<sup>18</sup>. Their workforce consisted of 174 employees and 27 financial promoters.

This information indicates that the Banks' distribution of deposits, investments and current accounts products and services run through different channels, like the internet or 'bankalight', a service of Banca Etica in which banking activities can be managed through the mobile phone. However, Triodos Bank, The Netherlands, only just introduced current accounts through internet banking at the beginning of 2008.

Another explaining factor, in the case of Triodos Bank, lies in the fact that the Bank not only sells several of its investment fund products directly through the bank, but also through third parties, mainly other banks. This forms part of its strategy of bringing its products to a broader audience.

As for the lending arena, both banks have direct personal contacts with their loan customers and tend to specialize in specific sectors. Due to this specialization, potential borrowers in a specific sector tend to seek direct contact with the banks' specific loan departments.

Furthermore organizational features play a part in this outcome. As in the case of Banca Etica where the founding members consist of many organizations and NGO's active in the Third Sector, the promotion of products and services runs partly through their established networks.

#### *BRAC's MF Programme & BRAC Bank*

BRAC MF and BRAC Bank show substantially different distribution patterns.

In 2008, BRAC's MF Programme had 26,749 employees working in 2,826 branches and offices. Given that BRAC's MF Programme has a total balance sheet of "only" US\$ 0.68 million, their distribution network can be considered immense compared to Triodos Bank or Banca Etica.

Mr. Muhammed A. (Rumee) Ali, member of the board of directors of BRAC, explains this as follows: "BRAC MF Programme differs from other microfinance programs in its outreach. We have an expansive grassroots infrastructure that ensures our reach is (of) national (coverage) and that we can implement programs quickly and efficiently. ... We believe in scaling up to have an impact at the national level."

The same strategy was adopted by BRAC Bank. With a total balance sheet of US\$ 1,1billion by the end of 2008 it had 6,061 employees working in 652 branches located across the country. Where the other group of banks rely on more virtual contacts with their customers, these financial institutions literally get near them in the most rural areas to make their services as accessible as possible for their target group.

With regard to BRAC's MF Programme, it is worth noting their set-up of village organizations through which they provide their clients and the community at large with credits and multifaceted services. However, we will discuss this issue under customer relationships.

#### CUSTOMER RELATIONSHIP

In the subsequent section we will again divide our sample into the two afore-mentioned groups of banks as the main similarities are to be found at this level. Moreover, we could distinguish several kinds of customer relationships. We will limit our discussion to the

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<sup>18</sup> This is historically determined, as the MAGs were mainly established in the Northern part of the country.

relationship between bank and depositors, on one hand, and to the relationship between the bank and its borrowers, on the other. Where needed, this simple distinction will be further extended.

### **Customer relationship with depositors**

#### *Banca Etica & Triodos*

Both Banca Etica and Triodos Bank aim to raise the commitment of depositors to the bank and to the projects they finance. These banks create a close link between the two ends of their activities which illustrates their role as a tool for social change.

In order to strengthen these bonds, these banks have defined two tools or prerequisites: transparency on all banking activities and active involvement of the depositors in the bank's investment choices. The following examples will make this clear:

- ✓ Since 2001, Triodos Bank has used the guidelines of the Global Reporting Initiative (GRI)<sup>19</sup> in its reporting. Moreover, Triodos Bank customers know how their money is being used through the newsletter they receive four times a year. It highlights the people and organizations benefiting from Triodos Bank's work.
- ✓ On both Banks' websites, all financed projects are provided with a brief description of their activities. Besides, Triodos Bank recently launched a new website ([www.mijngeldgaatgoed.nl](http://www.mijngeldgaatgoed.nl)) with a Google Maps application through which the client can see where and to which projects and enterprises his money has been lent out. So far however, the website only reports about financed projects and enterprises in The Netherlands. Through this transparency, the bank is promoting local community building between savers and borrowers
- ✓ When the customer authorizes Banca Etica to manage their savings through a certificate of deposit, the customer may select one of the four main investment areas of the bank. Furthermore, each customer may choose the interest rate that will be applied to his savings, between a maximal predefined rate and zero.
- ✓ Triodos UK offers the "Charity Savings Account": it forms one of its savings accounts where the customer may choose between 10 different charities which receive a yearly fee of 0.25% on the balances of the specific savings accounts.

The above-mentioned examples show that Triodos Bank and Banca Etica definitely want to enhance awareness with their depositors about their savings' destination. And by bringing the financed projects closer to the depositor, these Banks believe it will also shorten the distance between the Bank and its depositors.

#### *BRAC's MF Programme & BRAC Bank*

For the same reasons given in the Target Customer (borrowers) section, we will limit our discussion of BRAC's MF Programme's customer relationship to that of its borrowers.

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<sup>19</sup> GRI was established in 1997 by the United Nations and the Coalition for Environmentally Responsible Economics (CERES). GRI wants to organise reporting on sustainability in a consistent manner and, in this way, make performance objective and make comparison easier. GRI (2009), What we do, <http://www.globalreporting.org/AboutGRI/WhatWeDo/>

With regard to BRAC Bank, there was no exhaustive and reliable information available on this topic.

### Customer relationship with borrowers

#### *Banca Etica and Triodos*

The relationship Banca Etica and Triodos Bank maintain with their lenders should, in addition to loan contracts, be seen as a mutual exchange of expertise and know-how. Triodos Bank for example can easily look back upon twenty years of experience when it comes to renewable energy projects such as wind power. This bank knows its targeted sectors thoroughly. In the case of Banca Etica, part of the expertise comes from its founding members, as nearly all of them are associations and social-enterprises active within the Third sector.

#### *BRAC's MF Programme & BRAC Bank*

As their extensive distribution networks already suggest, the relationship between these two institutions and their borrowers is one of close cooperation. They literally reach the doorsteps of their clients. This feature makes their programs more effective, but also costly and labor intensive.

Noteworthy with regard to BRAC's MF Programme is the setting up of "Village organizations". These solidarity groups consist of 30-40 women. They meet weekly to distribute loans and collect repayments and savings contributions and, moreover, act as a gateway for other interventions in health, education and social development provided by BRAC NGO. Several mechanisms of social control are active as the loans are group-based and clients meet weekly. Moreover, the members are visited monthly by BRAC's community workers. All these factors contribute significantly to the bond between BRAC and its members. It also contributes to the effectiveness of the program: in 2007, BRAC's MF Programme saw a loan repayment rate of 99.5%.

## 2.2.3. Infrastructure management

The third main area of Osterwalder's model consists of the company's Infrastructure Management. It is about *how* a company creates value. We will however limit this topic to a brief discussion of the partner network and the shareholding structure of our selection of Banks.

### PARTNER NETWORK

The first element under infrastructure management is the Partner Network. Osterwalder follows, amongst others, the definition of Gulati and Singh (1998) who define alliances as "any voluntary initiated cooperative agreement between firms that involves exchange, sharing or co-development, and it can include contributions by partners of capital, technology, or firm-specific assets".<sup>20</sup>

A first striking fact is the high degree of cooperation among the different GA members. Triodos Bank, for example, is a shareholder in New Resource Bank (USA) and Merkur Bank (Denmark). Moreover, the Bank cooperates with Merkur Bank on lending activities for

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<sup>20</sup> OSTERWALDER, A. (2004), *The business model ontology, A proposition in a design science approach*, 172p.

larger Danish projects: in 2007 Triodos Bank, together with GLS Bank (Germany), provided aggregate lending of US\$ 4.7 million to Merkur Bank to finance specific clients. On the other hand, Triodos Bank's international investment funds are sold in Denmark through Merkur Bank.

ShoreBank Corporation (USA) is an active shareholder in BRAC Bank through its company Shore Cap International which holds 7% of BRAC Bank's shares. Next to their equity investments, Shore Cap International provides capacity-building and knowledge-sharing services to BRAC Bank.

Additionally, Triodos Bank and Banca Etica have operational cooperation with financial institutions and organizations participating in their capital. In the case of Triodos Bank, banks such as ABN Amro and ING distribute Triodos Bank's investment funds to their clients and Triodos Bank has set up a private banking joint venture with Fortis MeesPierson. At Banca Etica, several Third Sector organizations which have a share in the Bank's capital distribute Banca Etica's products to their broad customer base.

Noteworthy for BRAC's MF Programme is its partnering with the Bangladeshi Government. The North-West Crop Diversification Project (NCDP) is a collaboration between BRAC, the Department of Agriculture Extension of the Government of Bangladesh and one of BRAC's donors, namely AusAID. The project provides loans to small farmers for cultivating high-value crops.

Furthermore Triodos Bank and Banca Etica partner with several organizations, (public) institutions, NGO's and companies which contribute to the Bank's mission. A portion of these partnerships run through partnership accounts or partnership funds. Examples are the Triodos Amnesty Saver<sup>21</sup> savings account and the Hivos-Triodos Fund Foundation<sup>22</sup>. Banca Etica in turn developed NGO-Affinity Credit Cards<sup>23</sup>.

#### SHAREHOLDING STRUCTURE

With respect to the shareholding structure, our sample consists of four special cases. A common feature is that they all have a relatively high number of shareholders, ranging from 11,797 for Triodos Bank (equity: US\$ 284 million) to 30,018 for Banca Etica (equity: US\$ 33.6 million). An exception here is BRAC's MF Programme which has only one shareholder, namely BRAC NGO. We will therefore leave this financial institution out of the subsequent discussion as it would only distort attempts to find similarities between the banks.

When looking at the nature of the shareholding, all three Banks have very diverse shareholders: founding members, individual shareholders, clients and institutional

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<sup>21</sup> The Amnesty Saver is part of the Triodos Charity Saver range of accounts and is run in partnership with Amnesty International. Each year, Triodos Bank donates the equivalent of 0.25% of the average balance of funds held in the account.

<sup>22</sup> The Hivos-Triodos Fund foundation is an investment fund that finances banks and financial institutions in developing countries which focus on providing microfinance. It is a partnership between Triodos Bank and the Humanist Institute for Development Cooperation.

<sup>23</sup> Banca Etica's affinity cards work as a traditional credit card, but they allow customers to sustain the organization which they are dedicated to. It is the bank itself that releases part of its profit to distribute it to the beneficiary organization. Among the beneficiaries are mainly NGO's such as Amnesty International, Mani Tese and INTERSOS.

shareholders (other banks, insurance companies, pension funds and public authorities). Nearly all of the founding members of Banca Etica are still to be found among its shareholders. Also noteworthy for this bank is the presence of the public administration as a shareholder. It forms part of their strategy to strengthen the ties between the Third Sector and the Public Sector through the Bank, as it believes that these two sectors have a mutual interest in cooperating to fulfill social needs. Today, the public administration is represented among the shareholders by 9 regions, 40 provinces and 300 municipalities.

In the case of BRAC Bank, 33.51% of the total shares are still in the hands of its founding member, BRAC NGO. This bank relies heavily on institutional shareholders as they represent 50% of the Bank's equity. Next to BRAC NGO, the two other main institutional shareholders are the International Finance Corporation (9.5%), a member of the World Bank Group, and Shore Cap International (7%), a company of another founding member of the Global Alliance (ShoreBank Corporation). The other half of its shares have been distributed to the general public and mutual funds through its IPO on the Dhaka and Chittagong stock exchanges. Institutional shareholders hold a large share of Triodos' equity too. Here, seven institutions, mainly banks, insurance companies and pension funds, have a total participation interest of no less than 45.1%.

A striking commonality between Triodos Bank and Banca Etica is that they both have organized their shareholding structure in such a way that it should protect their Bank's mission and identity. As such, their shares are not listed on a stock exchange and their shareholders have limited voting rights. They both find a stock exchange listing undesirable because it would put too much emphasis on the short-term interests of the shareholders. Triodos Bank does have a system of depository receipt holders, however, it has appointed an independent board for the management of the Bank's shares. The Foundation for the Administration of Triodos Bank Shares (SAAT) executes the voting rights of the shares and issues depository receipts for shares to private individuals and institutions who want to participate in the Bank's equity. The bank also maintains an internal market for the depository receipts.

BRAC Bank is the only founding member of the Global Alliance which has listed its stock on a stock exchange, due to Bangladeshi law obligations. As BRAC NGO and supporting institutional shareholders have 50% of the capital, protection from takeover has been adequately organized.

Furthermore Banca Etica and Triodos Bank have tried to limit the dominance of a small group of shareholders holding nearly all the shares. For Triodos Bank, no depository receipt holder may hold more than 10% of all depository receipts. Moreover, each holder is limited to a maximum of 1,000 votes when they have to choose a new SAAT's Board. Banca Etica applies its co-operative roots when it comes to voting, they apply the "one person, one vote" principle. In many ways, the bank's co-operative roots reflect its shareholding structure. Its aim is to reach high cooperative participation in the bank's share capital. It has, therefore, set up 64 local shareholder groups. They are located all across the country and form the meeting point where shareholders participate in the bank's social and cultural activity.

Banca Etica explains this as follows: "The local groups support and develop The Ethical Bank's social activities, promote an ethical banking culture, carry out a constant and continuous analysis of the area with the aim of discovering new needs to which the Ethical Bank can respond, verify which of the Ethical Bank's activities are supported by its customers and other institutional bodies in the area and promote an increased member participation during the Ethical Banks' assemblies and meetings." <sup>24</sup>

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<sup>24</sup>Oikos, SETEM (2006), Ethical Finance in Italy,  
<http://finanzaseticas.org/pdf/EthicalFinanceinItaly.pdf>



Univocal conclusions are hard to make with regard to this topic. We have seen that Banca Etica & Triodos Bank show the most similarities. The shareholding structure of both banks, is organized in such a way that it assures the protection of the Bank's mission and values. Therefore, they both have opted to keep their shares away from the stock market and to adopt a specific legal structure.

## 2.3. Conclusion

*"Ethical Finance objectives correspond with specific and unsatisfied needs within society."*  
Gabriele Giuglietti, Banca Etica

Generally speaking closer research on certain parts of the business models of Banca Etica, BRAC's Microfinance Programme, Banca Etica and Triodos Bank confirm and concretize what was described in the first chapter of this report.

These four banks share some of their approaches.

First of all they all try to offer traditional banking products to their clients. Secondly all of them have chosen clients that are in one way or another un(der) served by the mainstream banking sector. Of course, these clients are different for Triodos Bank and Banca Etica which operate in Europe, while the other two banks operate in the poorer country of Bangladesh.

All of them are also niche banks. They have not only chosen to serve the unserved, they have also been selecting very specific sectors or population groups to serve. This gives these four banks the possibility to specialize and to offer tailor-made products to their clients. It can be no surprise that these four banks have very close and personal contact with their borrowers. And last but not least, all of these banks have chosen to recycle gathered deposits in investments in the real economy.

The biggest difference between the banks is the degree of centralization of their organizational structure. Banca Etica and Triodos Bank have very centralized structures which rely heavily on internet banking and other modern media applications to reach clients. These two European banks make extended use of the existing networks of partner organizations and of other banks. On the other hand, BRAC Bank and BRAC MF are very decentralized, relying on their own extended network, and bringing products and banking services literally to the doorsteps of their clients.

Although all of these banks have different shareholding structures, one can easily see that a lot of energy and inventiveness has been used to adapt their structure to be able to defend the banks' characteristic approach against other economic players and their short-term profit focus.

# Executive Summary

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In this preliminary research on the business models of the founding member banks of the Global Alliance for Banking on Values, we have discovered some common elements within the quite exceptional business models of the 12 GA banks. On the other hand, we've been able to show interesting differences between two different types of GA banks, the ethical banks and the poverty-alleviation banks. Although the research has been very short, we've also been able to enlighten some possible threats, challenges and opportunities for these banks.

## Common elements of the banking on values business model

All of the GA banks have quite similar characteristics. They are companies that have not been established to maximize shareholder value through banking that puts highest profitability first. GA banks all have ethical, ecological, social, value-driven ambitions, goals and missions that are not accompanied or restricted by a profit maximization target.

GA banks have, without exception, been founded to serve the un(der)served. They've offered banking services to sectors, activities and individuals that had no or insufficient banking services from the existing banking sector in their country. These clients might be in sectors like renewable energy or cultural and social projects that were once labeled as too risky, too unknown, or too immature. In these cases GA banks have been visionary and have supported and fostered activities, sectors and people that chose a sustainable approach long before sustainability was high-brow. Other GA banks served clients that were on the lower side of society, clients that were neglected by mainstream banks because of their poverty, lack of income or collateral. GA banks turned around this traditional way banks look at poverty as a risk. From a social reflex and mission they have created bank services for these poorer clients and have shown that banking services and credit can be a tool to fight poverty, build communities and support economic development. They have shown that banks shouldn't be there for people that need it the least, but should be there for those who are in need of adapted banking and credit to build up a life.

And although one might think that, due to the profiles of their clients these banks risk bearing a lot of losses through bad loans, this is not the case. Bad loan provisions are relatively low and have been dropping over the years. Probably due to the economic crisis in 2008 losses have increased a bit, but they remain at an acceptable level.

GA banks are all basically traditional savings and loans banks. Although there has been diversification of activities over the years, the overwhelming core business of GA banks is the recycling of deposits into the real economy, into real activities. A striking common element is something we haven't talked about in this report as it was absent: GA banks have not been speculating on repackaged, complex and unclear derivative products. They have kept their focus on the intermediation function of banks.

All GA banks are relatively small banks, but they are growing at a very fast pace. It seems these banks have become more and more popular during the financial crisis. In an atmosphere of distrust towards banks generally, GA banks seem to attract a lot of customers looking for serene, open, useful, ethical and trustable banking services. Deposits have grown at a very fast pace and have allowed GA banks to grant a rising number of loans to their borrowing clients. With the exception of the two USA members, GA banks

don't seem to have suffered severe losses due to the financial crisis. The 10 non-USA member banks closed their books with profits in 2008.

Another common characteristic of GA banks: they are all niche banks. They have chosen to serve certain sectors, communities or population groups. This comes with growing specialization and knowledge of their clients. GA banks are 'banking with a face'. They know who they are financing. This close relationship with their client groups gives them the opportunity to create visionary and pioneering tailor-made banking services that fit exactly the clients to be served and the goals to be achieved.

And finally, except for the Bangladesh BRAC bank which has an obligation under Bangladesh law, none of the banks' shares are quoted on stock exchanges.

## Differences

GA banks have been divided in two focus groups in this research. These groups are based on the main focus of the mission statements of the banks. Ethical banks are more focused on financing ecological, social, sustainable, and ethically sound initiatives. Poverty-alleviation bank's main focus is to fight poverty. Although there is a strong difference in focus, in the actual bank practices one can observe that both kinds of banks influence each other. Ethical banks are more and more interested in financing micro-finance initiatives, while poverty-alleviation banks include a triple bottom line approach or more ecological accents in their banking activities.

Nonetheless, there are significant differences between the bank groups.

## Ethical Banks

Ethical banks have a more centralized organizational structure and mainly apply the direct banking model for their private clients' relationship. They operate from a limited number of branches and offices with a rather limited number of workers. They are highly dependent on internet banking services to penetrate their saver and depositor markets.

In ethical banks, there is a close link between depositor clients and borrowers. These banks actively promote themselves as places where clients can deposit their money to support sustainable initiatives. Ethical banks aim basically at attracting well-informed, higher-income clients. Following this logic their actions are very transparent: they give clients an insight into the projects and businesses financed.

Ethical banks are financed by equity and deposits and are almost completely independent from the interbank market.

However, some ethical banks are suffering from their success and growth and may have an unsatisfactory capability to convert the growing amount of deposits into loans.

Ethical banks have gone through a more thorough diversification process which has resulted in a broadening of their activities towards offering ethical investment funds for investors and venture capital and foundation services for clients in need of capital or consultancy.

## Poverty-Alleviation Banks

Poverty-alleviation banks - among them many are microfinance banks - have a higher capacity to convert deposits into loans. They are actually suffering from another bias. Their deposits are unsatisfactory to meet the growing demands from their borrowers for loans. Almost all poverty-alleviation banks within the Global Alliance are highly dependent on the interbank market for their financing although they generally have a long term support from committed institutional investors like the ethical banks and investment funds.

Poverty-alleviation banks have a more decentralized organization. They need to be present close to their clients and they rely on a broad network of offices and branches with a high number of employees.

## Opportunities/challenges/threats

A big opportunity for these twelve banks is of course the establishment of the Global Alliance for Banking on Values. This report has shown the interesting common values and characteristics of these GA banks, but it has also shown that these banks sometimes have totally different markets, approaches and experiences. The Global Alliance is certainly due to become an important structure to combine and share strengths, capabilities and resources to improve each of these bank's competitive positions. The knowledge and experiences of the member banks are inspiring and exceptional, and using this the Global Alliance could become an important advocacy instrument for social innovation in the financial sector.

Of course GA banks also face important challenges or threats.

Microfinance banks suffer from high vulnerability through their dependency on the interbank market, while some ethical banks fail to convert their fast growing deposits into loans. There have already been ethical banks investing capital in microfinance banks. Nowadays one of the issues on the Global Alliance agenda is the creation of an own interbank market within the Alliance.

All of these banks are rather small but are undergoing fast and continuous growth. Growth comes with organizational challenges and moreover this growth asks for a higher capitalization within GA banks. As these banks are not listed, and some of them have shareholding structures that are not very attractive for traditional institutional investors, intelligent solutions will have to be sought to attract enough capital.

Both the organization of growth and capitalization need will challenge GA banks to find a balance between their specific character and their economic development. GA banks must be patient not to fall into the trap of combining growth with losing their attractiveness, idealism, and mission focus. Growth could bring the business model under pressure.

## Inspire the banking sector

Up until now GA banks have been successfully filling the gap mainstream banks left open. They have successfully been serving clients that were un(der)served.

With the current financial system crisis and the failure of the business model of mainstream banks, the momentum is there for GA banks to break out and openly inspire mainstream banks. The business models executed by GA banks are out of the experimental phase and have proven to be successful in markets that were considered to be risky and difficult. The

establishment of the Alliance itself could be an important factor in this communication process.

Some aspects of the banks' business models are concrete answers to fundamental critics that have been raised to mainstream bank behavior. GA banks have shown that banking can be done differently. Inspiring the banking sector might create a strong leverage effect that could never be reached by these banks' human and financial capital.

Nonetheless, to gain more massive public attention and support, the Alliance could take a big step forward by measuring their member banks' impact. The Alliance gathered economic figures from all of its members in its first year. What's lacking is a collection and measurement of the impact the banks have had on society. How many people have been helped to get out of poverty? How much CO2 has been avoided? How many jobs have been created? .... Measuring these impacts will not only show that banking can be done differently, but also that banking can make a difference.

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