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Banco Compartamos

Founded: 1990
Current Leader: Carlos Danel & Carlos Labarthe
Location: Mexico City, Mexico
Sector: Microfinance
Website: www.Compartamos.com

Sofia Garcia

For Sofia Garcia of Puebla, Mexico, financial tools were never available to her until she came into contact with Compartamos. Sofia was born into poverty, never went to school, and at the young age of 7 years old was forced to clean houses to provide for her family. Her life did not improve when she married an alcoholic at the age of 17; soon after she had eight children she could not provide for. She found herself desperate with no financial help or income. In 2001 Sofia came into contact with Banco Compartamos where she took out her first loan of 1,000 pesos (a little under $100) to start a stone cutting business. After six years of taking out loans her loan size had increased to 20,000 pesos and was just starting to save for the first time in her life. Due to the loans taken out at Compartamos Sofia Garcia has been able to grow her business, provide for her eight children, and improve her home, something she never dreamed of doing.

Compartamos: "Let's Share"

Compartamos (meaning "Let's share" in Spanish) is a microfinance institution in Mexico that serves over 1.7 million borrowers. In 1990 Compartamos was co-founded by Carlos Danel and Carlos Labarthe as an NGO lending micro loans to the rural Mexican poor. In the past 21, years Compartamos has managed to transition from an NGO running solely on grants and donations into a Publicly Traded Company worth $468 million at the date of offering. While Compartamos lends to men and women, 98% of their clients are women. They offer a variety of products including four different types of loans, life insurance, and savings for their clients.

The Two Carlos'

Carlos Danel and Carlos Labarthe, also known as "the two Carlos'" were born into privileged families in the suburbs outside of Mexico City. Their first wake up call to poverty came while they were in high school and an earthquake devastated thousands of families in Mexico City. The experience of helping those in the earthquake was such a positive one that they would both follow this social path later in life. Danel received his Bachelor's Degree in Architecture from Universidad Iberoamericana Ciudad de Mexico and then completed his MBA at Instituto Panamerican de Alta Direccion de Empresa. Labarthe received his degree in Industrial Engineering from Universidad Anahuac and later went on to Study at Harvard Business School. Later in their careers Danel and Labarthe received training on microfinance in The Economic Institute of Boulder, Colorado. It was

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during their undergraduate careers that Compartamos was founded with the help of a man named Jose Ignacio Avalos. Despite Labarthe's father's disapproval for his son working in the social sector, Labarthe remained devoted to his cause to give back to his community with the help of Danel.

Rapid Expansion

While Compartamos is now strictly a microfinance institution (MFI), it began with other projects including programs that revolved around food assistance and health concerns. Danel explained, "What brought us together were our social values and our unwillingness to accept Mexico's income inequalities." The pilot project of micro loans began shortly after the NGO was started. Danel and Labarthe believe that it was their entrepreneurial backgrounds that led them down the microlending path. Their goal became to bring banking services to impoverished citizens of Mexico. In 1993, a few years after the NGO was founded, a Compartamos staff member by the name Machillas traveled to Bangladesh to study Grameen Bank and how their microlending programs operated. At the time, Muhammad Yunus' programs were already well established serving almost two million people. Seeing how many people Grameen Bank were able to reach sparked the need for expansion and Mancillas determined that, "scale was what mattered most." This would become a key component of the future of Compartamos.

The desire to extend their reach to more borrowers led to a never-ending need for more capital. The international aid that Compartamos was receiving from USAID, ACCION, and others was not sufficient and was a large source of frustration to the Carlos'. The limited capital they were receiving was preventing their vision of growth so they turned to other solutions. With the help and funding of ACCION International, Compartamos made their first big change to their organization. In October of 2000, Compartamos made the shift from being an NGO to holding a SOFOL license allowing them to reach capital markets not available before as a non-profit. A SOFOL license is a Mexican business license that allows a company to partake in certain financing activities and be for-profit. Danel shared that, "In the next five years, Compartamos grew from 60,000 clients to 600,000 with over $200 million debt." The plan had worked and they were known as the fastest growing MFI in Latin America. Despite this rapid expansion, the SOFOL license did not allow Compartamos to provide its clients services such as savings and insurance, so in June of 2006 Compartamos became a commercial bank.

The Big Leap: IPO

The transition to a commercial bank went smoothly. Compartamos was thriving and so profitable that the return on equity (ROE) was over 55% in 2006. Return on equity measures the profitability of a company; the higher the percent the better the profitability. Between the new access to capital and high interest rates, Compartamos continued to scale at a rapid pace. Their

values mirrored this desire for efficiency and it became a core part of the corporate culture. Even though Compartamos had seen an exponential increase of capital availability since becoming a for-profit organization, they continued to seek out additional ways to fund their expansion. After much consideration, the Carlos' decided to be the first microfinance institution to go public in hopes of attracting more investors. In April of 2007, Compartamos held a secondary initial public offering (IPO). The investors that sold 30% of their holdings made over $450 million. While some of the investors were NGOs that would be flowing their returns back into helping alleviate poverty, others were just private investors that walked away with millions.

Counter Arguments

Following the IPO, Compartamos hit their one millionth borrower. The IPO brought more investors to the market and Compartamos has seen an increase in their capital availability. While the IPO allowed for more impoverished Mexicans to be reached by Compartamos, there are some concerns about the effects of an IPO on a social business. Critics of the microfinance industry are asking, "will investors looking for large returns cause Compartamos to increase their already sky high interest rates?" The combined cost of the taxes, fee for borrowing, and interest rate meant that each borrower pays back 200% or sometimes more of what they initially borrowed from Compartamos. When challenged by the microfinance critics about their interest rates, the two Carlos' explain that a number of different factors cause these interest rates. They say that the small size of the loan makes it difficult to loan with the high operating costs in Mexico, thus in order to remain sustainable, their rates must be higher. They also say that for improved efficiency, Compartamos needs to keep the rates higher, and if the clients did not want to borrow from them due to their interest rates, the bank would not have such a high client retention rate. While Compartamos does not charge the highest or the lowest rates in Mexico, others like Muhammad Yunus believe strictly in sustainable pricing. Yunus' response is, ""just because they are willing to pay does not justify it, that is if you call it micro credit, cause micro credit has a philosophy, a purpose, to help people get out of poverty". Others are worried about the idea of profit becoming more important than social returns. Compartamos has hundreds of individual success stories from their borrowers but has still not worked on finding an effective method to measure the social impact they are having on their clients.

Despite the controversy, Compartamos has done something revolutionary. "More than a new phenomenon, the IPO represents the culmination of an ongoing strategy within microfinance to enlist the private sector in microfinance: the commercial model of microfinance. The success of the IPO has brought an unprecedented level of excitement about microfinance into the investment-banking world. It has sent the message hat service to the poor and profits can go hand in and, a message that will undoubtedly attract more private sector players to microfinance and possible to other market-led approaches to poverty." (Accion International) These critics were happy to see SKS, an Indian MFI, adopt the method when they held an IPO in the summer of 2010. Compartamos continues to lend to Mexico's poor and provide financial services where there was previously no market. Today Compartamos has 1.75 million active borrowers with a loan portfolio of Ps. 8,784. There are 352 service offices with a total of 9,127 employees and continue to show signs of growth, but is scale what matters most? Did the Carlos' lose sight of their social motives by becoming public? Or is this the next big step for the industry? How much should capital markets and alleviating poverty overlap? Most importantly, when is it ever appropriate to make a profit on the "backs" of the poor? ■

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About the Social Enterprise Institute

The Social Enterprise Institute (SEI) is grounded in the belief that business can be a powerful tool in helping to alleviate poverty in the developing world. Through this vision, the Institute offers resources and programs for students to act as agents and proponents for social change by using business solutions as a sustainable way to assist the poor. The Institute equips students with knowledge on social entrepreneurship and social enterprise development through our growing academic course offerings in Social Entrepreneurship and areas such as micro-finance, social investment and impact measurement. Additionally, the Institute provides students with field exposure with partner organizations in countries all over the world with hands on learning experience, preparing undergraduates at both the academic and 'practitioner' level. For more information about the SEI please visit: http://www.neu.edu/sei

About the Case Series

The purpose of the Social Enterprise Case Series is to help spread awareness of social enterprises operating today and to shed light on the issues affecting this rapidly expanding sector. We hope to make information about social entrepreneurship easily accessible to all students interested, no matter their academic discipline. We believe in the power of social enterprise and, more importantly, believe that learning about the extremely diverse approaches within this sector is crucial to driving innovation for new, impactful social enterprise models. In order to accelerate our mission of spreading awareness of social enterprise, we are committed to sharing our publications on an open and free platform.

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