

The Evolution of a Company's Commitment to CSR From Philanthropy, to Investment, and Beyond.

Philanthropic Origins.

In 1991, the Juan Diego Foundation (FJD) was formed as a “community of persons whose purpose is to look for and support solutions to eradicate the structural causes of poverty in Mexico.” From its inception, the objectives and the spirit of the foundation were decidedly corporate and its founders were leaders of Mexico’s industrial and financial sectors. On the board of this new organization were members of the Servitje family, founders of Grupo Bimbo, S.A., who supported various activities of FJD with their business acumen and the donation of their personal financial resources. In 1994, FJD created FinComún, a financial services business dedicated to serving low-income people in Mexico. FJD is currently its principal shareholder.

FinComún

Between 1998 and 2005 the Inter-American Foundation will commit US\$613,500 to FinComún. Additional inputs from a variety of sources, including Grupo Bimbo, the Inter-American Development Bank, and Fundación Juan Diego total US\$2,095,645.

*The scope of the FinComún’s activities go beyond IAF funded projects.

Innovations in Low-Income Banking Services.

FinComún is widely recognized as Mexico’s premier micro-finance institution. It is a pioneer on several fronts, including the capture of capital, customer service, use of technology, and the testing of new ideas and innovative partnerships.

For a financial services company, developing capital resources is a primary concern. Fincomún has developed several creative ways as a financial service provider to meet its unique needs in the area of micro-credit. Currently it offers three main products; savings accounts, certificates of deposit (CDs) and micro-loans.

According to the vision expressed by senior management, FinComún’s savings accounts are its most important financial instrument. A primary objective is to support a culture of saving, which does not yet exist in Mexico, especially amongst the very poor. To this end, accounts can be opened with as little as one dollar. The program not only promotes savings but it also retains capital to underwrite other products credit based products offered. FinComún also generates capital by holding savings accounts for upper and middle economic status customers. Organizations such as churches and NGOs can open accounts with FinComún that have slightly lower interest rates than the market would dictate. These clients have a need for interest-bearing savings accounts but are also concerned with creating social value and knowing their funds are helping to finance micro-credit loans to poor people. The level of total savings at the bank has risen to USD 2 million. FinComún also offers some limited investment options for its clients in the form of short-term (28-day) certificates of deposit.

These savings programs support FinComún’s micro-lending program. Loans are made to

low-income individuals at the prevailing market rate for a period of 16 weeks. The credit is for small business and productive activities in accordance with FinComún's values and vision. As of 2001, 11,576 loans totaling US\$12 million have been made, with a default rate of 0.1%.

FinComún has excellent customer relationships. As the Executive Director, Vicente Fenoll, emphatically states, "credit is a commodity, where we compete is service." Towards this end, FinComún seeks to fill an institutional gap by opening branch offices in poor neighborhoods where no other *regulated* financial institutions exist. It offers personalized service and has a fiduciary relationship with its clientele, serving as financial adviser and business consultant in addition to providing banking services. It offers other convenient services – clients may authorize payment on their loan account with funds drawn from their FinComún savings account via telephone. FinComún also has several strict policies in force to maintain customers trust. Given the volatile banking history in Mexico based on the peso crises throughout the 1990s and the failure of some unregulated savings banks in 1999 and 2000, FinComún clearly markets itself as having oversight by the National Banking Commission. Furthermore, FinComún has a written policy that it has the capacity to return client money upon demand. Finally, FinComún is careful to maintain a trustworthy image including the appearance of the branch offices with visible security and other protective measures.

The third prominent feature of FinComún is its efficiency through the use of cutting edge technology. All transactions are computerized and linked to a central server. Client information can be accessed immediately from this database. A relatively new component of this technology is the Palm computer credit program. Loan advisors who visit credit applicants at their homes and businesses can input data directly from their Palm computers into the FinComún centralized system for an on-the-spot credit risk analysis, cutting the loan application process time in half. It is worth noting that this technology program was initially started with support from 3Com.

**FinComún, Servicios Comunitarios
S.A. C.V. Unión de Crédito**

Community Financial Services-Credit,
Savings, Investment Institution

Mission Statement: To contribute to the integral development of people, with an emphasis on those with scarce resources, through the offer of community financial services that will help to resolve the structural causes of poverty and offer services sustained by productivity, quality, profitability, professionalism and a firm base of institutional values – these will be offered in a manner accessible to all, with personalized treatment, modern technology, low transaction costs, and technically capable and morally formed collaboration.

Values: We believe that people make the company and not vice versa. Because of this we seek partners that live the following values – respect for human dignity, work, responsibility, compromise, humility, honesty, capacity for amazement, solidarity, subsidiarity and generosity.

Employees: 170

Annual Operating Budget: US\$ 4.5MM

Fourth, and perhaps most interesting are FinComún's innovative partnerships. Its reputation and ties to the private sector have helped it achieve recognition from the Mexican government to include management responsibility for a three million-dollar government micro-credit fund. The institution is also deeply involved in shaping national policy to regulate micro-finance activities. New legislation will help reduce the risk for those who participate in micro-credit programs, while allowing institutions to offer new and varied services to their customers. In preparation for this, FinComún is working to develop an extensive customer database to help customize the types of loan services needed, researching the benefits of computer modeling, and considering the idea of licensing FinComún as a franchise.

A Model for Social Investment.

Presently FinComún has embarked on an innovative partnership with Grupo Bimbo, S.A. This new project in corporate social investment integrates FinComún's and Grupo Bimbo's core business activities. As a result, that elusive quality known as synergy is evident between FinComún and Bimbo in this partnership. Although one is a multi-national corporation, and the other a community bank both are experts in their respective fields. In part due to the organizational history and close private sector ties, they also have similar values.

Specifically, the partnership allows Bimbo to take advantage of FinComún's expertise in providing micro-loans, while FinComún is tapping into Bimbo's distribution network and product delivery methodology. Under this partnership, FinComún loan advisors will accompany Bimbo delivery drivers on their daily routes. At each stop, the driver will give a short introduction of the loan officer who will then have four minutes to make a presentation to the retailers while the driver unloads the products. Follow-up visits will then be made within a week. The process of arriving at a viable partnership required a complex series of negotiations that lasted one year. Of primary concern was that both sides would receive tangible benefits.

Grupo Bimbo, for its part was concerned about the bottom line. Bimbo derives 80% of its income from small 'Mom & Pop' stores; 20% of these clients regularly ask for credit. Previously, Bimbo had an informal program to provide credit services to these stores. As a result of the partnership with FinComún, Bimbo expects to reduce bad debt, reduce the amount of time in which loans are repaid, and achieve its goal of providing credit to 22-30% to its clients.

Grupo Bimbo S.A.

8th largest baked goods corporation in the world, operations in 60 countries.

Mission Statement: To produce and market food products and to develop the value of our brands, committing ourselves to be a company: highly productive and people oriented; innovative, competitive and strongly oriented towards satisfying our customers; international leader in the bakery industry, with long-term vision

Values: To foster respect for the sustainable use of the environment. To cooperate with community programs aimed at social welfare. To encourage respect and support of family unity and national traditions

Employees: 70,000

Net Sales 2001: US\$ 3,686 MM

FinComún for its part must be able to get credit to these customers, which may mean an increase in risk, while maintaining its low default rate and low transaction costs. FinComún is always searching for ways to increase its customer base. Because loan amounts are small (from US\$50) with an average of US\$750 per client, financial sustainability depends upon volume. With this in mind, FinComún's new business model conceives going physically into the low-income neighborhoods to identify new clients rather than depending exclusively on branch offices to attract business. The partnership with Bimbo allows FinComún to tap into Bimbo's established distribution network and potential new clients keeping step with its strategy. Additionally, the Bimbo brand is strongly associated with quality, giving FinComún instant credibility with potential clients. Both sides made compromises in arriving at an agreement. However, the results of a small-scale pilot program between the two showed that 20% of Bimbo clients received credit, and expressed overall satisfaction with the customer service provided by FinComún.

IAF Value-Added.

Since 1998, the IAF has committed over half a million (USD) in counterpart funds to FinComún in accordance with its mandate to support creative solutions to community development. FinComún's strategy involves a balance between growth and consolidation in established zones of operation. IAF support is utilized to help finance expansion for very specific purposes such as the opening of new branch offices and the hiring and training of new personnel. As a result of this program, FinComún dedicates more of its own resources to improving existing services and generating new ideas.

The IAF has also been a valuable catalyst in FinComún's institutional learning. The IAF's emphasis on documenting the learning process and identifying lessons learned from the collective experiences of the institutions required FinComún to constantly self-evaluate. As its first international donor, the IAF worked with FinComún to hone its ability to project business growth and needs more precisely by assessing results along the way. The IAF's role is to ask *why* the endeavor works and to ask those involved to forecast what the results of additional funding will be.

Beyond Social Investment.

The next part of the plan involves the donation of a Bimbo van that will be customized as a mobile FinComún branch office. It will serve to 'open up the credit market' and prepare neighborhoods for savings/credit activity and services. If the neighborhood is favorable to micro-credit operations, it will also be a precursor to opening a permanent branch office. With this new method, FinComún expects new branch offices to break-even in six months, rather than the current one-year timeframe because the customer base is already established.

There are more collaborative plans in the pipeline. Bimbo personnel will distribute FinComún's marketing materials prior to loan advisor visits; there is the possibility of a program of pre-authorized credit once Grupo Bimbo's customer database can be merged with FinComún's credit analysis and client/industry profiles. FinComún is looking at

managing some of Bimbo's liquid assets. The possibilities seem limitless. This is the future of Corporate Social Investment.

Lessons Learned:

- If each party comes to the negotiating table with a clear idea of the benefits it needs to make the partnership valuable, the bargaining process is longer, but the resulting partnership is more viable;
- CSR can be related to a corporation's core business;
- Civil Society can be the lead partner in proposing creative opportunities for business partners.

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