Commercial banks' downscaling:
A strategy between Corporate Social Responsibility and Market Development

A case study of three Spanish Banks

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Abstract

This paper exposes and analyzes how commercial banks have reached the microfinance market using several strategies while operating their downscaling. It also suggests that these different strategies of downscaling have been developed, de facto, implying different perspectives. One, the inherent will of generating social impact under the Corporate Social Responsibility (CSR) banner, so it can be understood to a certain extent to which level CSR is considered merely a business strategy or a real « social mission »; second, the perspective of using the commercialization of microfinance as a singular way of developing their market segmentation. Not to be forgotten that these two perspectives do not have to be antagonists. For a better understanding of this operative model, the light has been put on the case of the three Spanish banks, Banco Santander, Banco Bilbao Vizcaya Argentaria (BBVA) and Caixabank (Microbank). Indeed, these banks have developed different strategies in order to get involved in the microfinance sector in both the Spanish and Latin-American markets.

Key Words: Microfinance, Corporate Social Responsibility, Commercial Banks, Downscaling Methodology

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INTRODUCTION

One of the missions of microfinance is poverty alleviation combined with the concept of economic development and social impact. The fundamental belief is that the sector can do well, as microfinance institutions can be profitable institutions and equally act a meaningful role in poverty´s alleviation (Armendáriz & Morduch, 2007). This assumption is attractive but also difficult.
What if we consider, among the microfinance institutions, the presence of big players, such as the commercial banks, which have already started to operate in the microfinance business? Is it really possible that the banks could achieve the targets of profit and poverty alleviation or will these traditional banks, in the end, have to accept a trade-off between profit or poverty alleviation?
This paper conducts an academic analysis on how commercial banks can use microfinance products through Corporate Social Responsibility (CSR) as part of their social mission, and how these banks can potentially reach a good balance between social and profitable performance. Therefore, the core belief is that these financial institutions can be profitable businesses and equally act a significant role in the mission for poverty alleviation through the use of microfinance products.
This research will also analyse how CSR can make softer the corporate image of these financial institutions towards the public eye.
There would be an analysis and comparison of the results obtained from the study of the different actions carried out by the three financial Spanish institutions selected (Banco Santander, Banco Bilbao Vizcaya Argentaria (BBVA) and Caixabank / Microbank) in implementing and developing microfinance products.

The selection of these financial institutions is due to two main reasons. First, because they are three important Spanish banks (in 2013, according to the National Commission of the Stock Market, Banco Santander earned a net profit of € 4.370 million and BBVA of € 2.228 million). Second, because they have differences in the development of their business model, indeed Banco Santander and BBVA have a strong presence in Latin America while Microbank is one of the pioneers in the development of microfinance products in Spain.

Regarding the methodology to be used, we will use the study of cases, since this research tool let us dig into the object of study in greater depth than the statistical approach. This methodology is considered appropriate to the proposed analysis as it allows the analysis of the strategies undertaken by the companies and their impact on different groups of interest (Escobar y González, 2005), considers the historical, social, economic, and organizational context of the analyzed cases (Bonache, 1999) and sees the implications of various factors that are difficult to quantify, such as corporate actions (Escobar y Lobo, 2002).

The data for the analysis were obtained from public sources such as the annual reports and corporate information of the banks, the Mix Market databases, information from economic journals and information provided by the microfinance industry.

I. Corporate Social Responsibilities and Banks

1. CSR

a. An unconsolidated definition

It is not uncommon to find multiple definitions of Corporate Social Responsibility (CSR) in papers, documents, and material related. “This is not only confusing but an indication of the concept’s inherent weakness” (Argandoña & von WeltzeinHoivik, 2009, p.1). Indeed, despite numerous efforts to bring about a clear and unbiased definition of CSR (Dahlsrud, 2006); there is still a wondering on how CSR should be defined. Matten and Moon (2008) believe that CSR is an umbrella term overlapping with some, and being synonymous with other, conceptions of business-society relation.

Apart from organizations, it is, in fact, an industry as a whole which has not reach to a consensus. Neither managers, nor governments and NGOs have been able to agree on a definition (Carrión Rabasco & Llistari Bosch 2007). There also seems to have a range of associated terms such as corporate sustainability, corporate citizenship, corporate social investment, the triple bottom line, socially responsible investment, values-driven businesses, business sustainability and corporate governance (McElhanley, 2009).

This multiplicity of definitions, terms and concepts provokes, as Orlitzky (2005) suggests, that some researchers distort the definition of corporate social responsibility or performance so much that the concept becomes morally vacuous, conceptually meaningless, and utterly unrecognizable. That is why McElhanley (2009) comments that company should call it “something”, give it a name and use it consistently, and define it for themselves as a company. It also means that the concept is evolving and bringing much concern in between all different actors. As we have seen, literature is vast and inconsistent to many extents. However, the International Standard Organization has created a standard for CSR which is a seven core business list, all of which are parts of most current CSR definitions, like organizational governance, community involvement and development, human rights, labor practices, the environment, fair operating practices and consumer issues (Smith, 2011).

b. CSR history and its late emergence

Over the past several decades, CSR has grown from a narrow and often marginalized notion into a complex and multifaceted concept, which is increasingly central to much of today’s corporate decision making (Cochran, 2007). Nevertheless, Jenkins (2005) argues that, while the current wave of interest in corporate social responsibility dates from the early 1990s, it is only a new manifestation of a longstanding debate over the relationship between business and society (Jenkins, 2005).

CSR literature inevitably refers to Bowen (1953), Milton Friedman (1970), as the first author criticizing CSR, and Archie Caroll (1979). It clearly shows that the concept is not new and that academics had already identified the concept before the wave in the 1990’s.

Concerning the late emergence of the concept, it was very much stimulated by the rise of a common awareness concerning environmental issues, human rights etc., triggered itself by the information and communication boom, putting facts at the sights of all. The late emergence was actually caused by the modern consumer’s awareness and new economic, social and environmental expectations (Van de Walle & Brice, 2011).

Recently, CSR has experienced a significant turning point in its evolution with the implementation of a new law from April 1st 2014. “India has become the only country in the world with legislated CSR […] Law mandates that all Companies, including foreign firms, […] spend at least 2% of their profit on CSR with provisions of penalties, in case of failure” (Keshri, 2014). It is the first regulation of this kind; indeed, many countries had already implement mandatory reports of activities such as Norway, France, Denmark, Sweden, Australia and the Netherlands (Karnani, 2013). It is an important change towards CSR regulation and this step reinforce inevitably the thoughts about its importance in tomorrow's businesses models.

c. Strategic Philanthropy?

Greening and Turban's (2000) research conclusions are that companies demonstrating higher levels of CSR were perceived as having better reputations. This concept is the starting point of many critics arising against CSR. De Linares (2010) raises the case of France, where in 2001 a law was voted forcing large companies to comment in their annual report environmental and social consequences of their activities. But in general, reports are completely missing the spirit of the law. She quotes Natacha Seguin, from the center Etudes et Prospectives, who states that "these annual reports are made to be instruments of external communication". In addition to this vision, it is important to have in mind Shiva's opinion (1991) which expresses that "rather than reshaping the markets and production processes to fit the logic of nature, sustainable development uses the logic of markets and capitalist accumulation to determine the future of nature". Banerjee (2008) deplores the kind of hijacking of sustainable development by corporations and the really limited win/win scenario.
To summarize the critics, it is important to take into account David Voguel's opinion (2005) that "virtuosity is good but CSR growth would be limited without a more extensive and effective government regulation". Virtue is good but the application is poor.

d. Application examples

As seen earlier, CSR has taken a major place in the business landscape; in fact, many corporations dedicate a section of their annual reports and corporate websites to CSR activities, illustrating the importance they attach to such activities (Servaes & Tamayo 2013). An important concept is that CSR must be linked strategically to core business functions to reap the full benefits […] the linkage of CSR to core business processes can improve a company's overall approach to risk management by improving strategic intelligence and knowledge of social issues/groups […] This allows a company not only design better risk management for current issues but also helps anticipate those coming down the pike (Kytle & Ruggie, 2005). Reference is made to the Nike case of 1996 when all the international community blame them for not doing anything about labor force exploitation in the factory where they externalized their production. The business rewards of CSR tend to be greater when the social initiative is related to a company's core competency and deals with issues that consumers care about (Kotler and Lee, 2005, Menon and Kahn, 2003, Sen & Bhattacharya, 2001).So generally, companies tend to perform their CSR in synergy with their core business where there is a geographical correlation, a previous knowledge for an easier implementation or a will to wipe off their potential bad impact. Hereunder, we can find a list of enterprises with examples of their CSR actions:

Crédit Agricole – Crédit Agricole Grameen Foundation, Investment in Microfinance; Deutsche Bank – Carbon Neutrality; Total – Responsible Energy; Johnson and Johnson – Health through Microcredit Loan officer; L'Oréal–Training program for the promotion of inclusion within the organization; Unilever - Rainforest Alliance certification; Danone – Grameen Danone Food. Intel – Environmental Programs.

2. CSR in Banks

a. Concept of CSR in banks

CSR has been assuming greater importance in corporate world, including the banking sector. There is a visible trend in the financial sector of promoting environment friendly and socially responsible lending and investment practices. The United Nations Environment Program from 1972 advocates that the financial sector has a role to play in protecting environment while remaining profitable with their business. The concept of triple bottom line espoused by John Elkington (1997) encompasses social, environmental and financial accounting (Chaudhury et al. 2011).
They also comment that the contribution of financial institutions, including banks, to sustainable development, is paramount considering the crucial role they play in financing the economic and developmental activities of the world (Chaudhury et al. 2011).

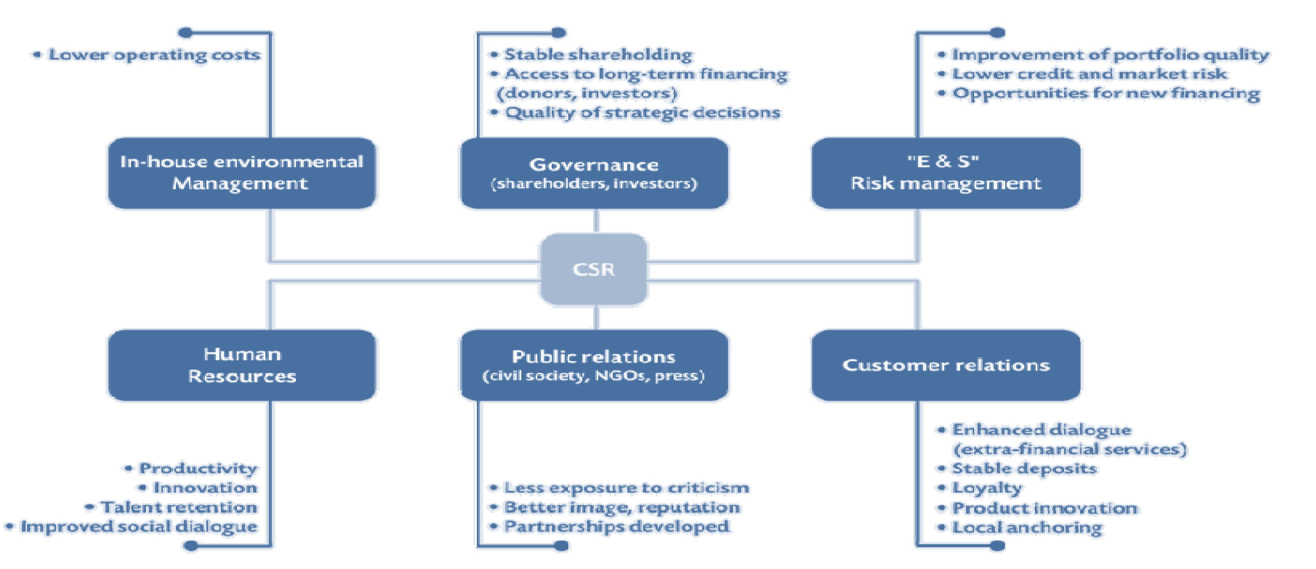
Millions of dollars are set aside for corporate social responsibility programs by retail banks to strengthen both their reputations and their relationships with stakeholders, in particular, the customers (McDonald and Rundle-Thiele, 2008). The integration of CSR in the banking sector comes from two perspectives, firstly from the promotion of sustainability through socially responsible management of the organization (good practice in environmental, government, vendor management, relationship with workers, or social action) and secondly the integration of CSR in the business of banking intermediation and investment in financial markets. Such is done by the design of products and the definition of investment and financing policies which includes sustainability as a basis for business strategy and risk management (project finance managing social risks and environmental sustainability investment criteria, commercial design savings products with environmental, social, and corporate governance) (Muñoz et al., 2013).

Many studies have been conducted into the reasons why customers choose a particular bank (Erol et al., 1990; Gerrard and Cunningham, 1997; Sudin et al., 1994). In 1997 Reinfer commented the needs of the consumer in the banking sector were security, access, liquidity, interest and social responsibility (Jose et al., 2012).

The integration of CSR in the banking sector is produced from two perspectives. First is the promotion of sustainability through socially responsible management of the organization (good practices in environmental aspects, management of suppliers, relationship with workers or social action). The second way of integrating CSR into business of banking intermediation and investment in financial markets is the design of products and the definition of investment policies and funding that incorporate sustainability as a core business strategy and risk management (funding projects that manage social and environmental risks, investment with sustainability criteria and design of commercial products of saving with environmental, social and corporate governance criteria).

In this sense, the behaviour in management of a financial institution that wants to be considered socially responsible from the perspective of its subsidiaries in developing countries, implies sharing with them the same policies and processes used in the headquarters' country, assuming even greater responsibility.

THE BENEFITS OF A CSR POLICY IN A BANK



Source: AFD Group and CSR in the Banking Sector. AFD (2009)

b. The emergence of Microfinance Practices

During the last decade, the use of microfinance practices in corporate social actions have flourished. As shown by the creation of platforms that promote the use of microfinance as CSR, like PI SLICE, a company which provides a link between CSR policies and microfinance projects to corporations by actively supporting micro-entrepreneurs in Middle-East. What Pi Slice proposes is to involve employees in supporting those microfinance projects, not only the CSR department.

The Microfinance practices new trend does not exclude the banking industry. Indeed, the increased popularity of microfinance among different commercial banks is due to the underlying belief that involvement in microfinance programs would help them to retain credibility as development agencies (Remenyi & Quinones, 2000). This is particularly important for banks to enter into the microfinance arena under the CSR banner. Maria Luque (2009) suggests CSR and micro-finance as an effective partnership for socio-economic development.
Hereunder a list of commercial banks which have invested in Microfinance:
Axa Group, Barclays, BNP Paribas, Citigroup, Commerzbank AG, Crédit Agricole SA, Deutsche Bank, ING Group, Morgan Stanley, Rabobank, Bank Rayat Indonesia, Société Génerale, Standard Chartered, BBVA, Crédit Suisse, Grupo Santander, Caixabank, AIG, Allianz. (Boúúaert, 2008)

Commercial banks recognize the needs of microfinance clients and recognize that commercial banks are in a prime position to help those clients, as they are more qualified and have the needed capital to downscale and involve them in the microfinance sector. In addition, the downscaling process can achieve profitability for commercial banks, if performed well, as can be seen in the experiences of different countries.

II. Microfinance and Commercial Banking

1. Origins of Microcredit / Microfinance

The microfinance movement was built by a coalition of microfinance institutions, civil society groups, government agencies, development agencies and funders among other actors. According to Robinson (2001) and Otero (1999), microcredit and microfinance firstly appeared, as we know it, in the 1970s. Robinson (2001) states that the 1980s represented a turning point in the history of microfinance in which MFIs, such as Grameen Bank and Bank Rakyat Indonesia, began to show that they could provide small loans and savings services profitably on a large scale. The 1990s "saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale" (Robinson, 2001, p.54). Dichter (1999, p.12) refers to the 1990s as "the microfinance decade". Microfinance had now turned into an industry according to Robinson (2001).

The importance of microfinance in the field of development was reinforced with the launch of the Microcredit Summit in 1997.

2. Microfinance & Microcredit Concepts

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998) affirms that microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc). Therefore, microcredit is a component of microfinance as it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

It was in the first Microcredit Summit, held in Washington D.C. in February 1997, when the following definition of microcredit was adopted:
"Microcredit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families."

According to Lacalle (2002), the term microcredit includes as main features that they are small loans, granted on a short-term basis, usually for one year or less, which repayment periods are very short, and thus, the amounts paid back in each instalment are extremely small, and regarding the microloans fund projects are designed by the borrowers themselves.

Microfinance, as suggested by Otero (1999), is the provision of financial services to low-income poor and very poor self-employed people. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

3. Commercial Banking / Commercial Microfinance

a. Definition and procedures

As already said, in general terms, microfinance refers to the provision of banking services to lower-income people, especially the poor (Delfiner, Pailhé and Perón, 2006). More broadly, commercial microfinance is defined as microfinance services provided by commercial organizations that are part of the formal financial systems such as banks, and non-bank financial institutions (Clark, 2004).

One of the processes by which the commercialization of microfinance can happen is through the process of downscaling, in which a bank or other formal financial institution expands its services to work with clients traditionally served by microfinance institutions. Such expansion can mean serving microfinance clients in one or many financial areas (Chowdri, 2004).

Downscaling as a way of doing microfinance allows the programme to take advantage of the funding and infrastructure advantages of a commercial bank while providing the microfinance programme with the necessary space to operate successfully (Bharti, Bhargava & Bellur 2006).

As Delfiner and Perón (2007) affirm, commercial microfinance is a complement to, not a substitute for, government and donor alleviation and employment generation programs for the extremely poor. Notwithstanding, Clark (2004) believes that customers, and not donors, are the future in the microfinance scheme, as she considers that donor funding tends to be unreliable, slow, and never enough to finance rapidly expanding portfolios.

b. Target Customers & Unserved Clients

Only a small fraction of people at the bottom of the pyramid enjoy access to financial services provided by formal institutions. So there is no longer any doubt that low-income consumers represent a large and growing market, and that very many of these customers who are currently un-served by banks have both the ability and willingness to pay for the banking services they need (Harper and Singh Arora, 2005).

Despite the impressive expansion of the microfinance industry since 1999, there are still vast pools of un-served clients in most Latin American countries (Westley, 2006).

c. Reasons for Banks to get into Microfinance

Three developments over the 90s decade have motivated banks to search for new markets: first the deregulation of financial institutions, second the liberalization of financial markets and third the globalization of financial services. “In order to remain profitable, and even more importantly, to continue to grow, mainstream commercial banks have increasingly tried to provide core financial services to those they previously considered un-bankable. In short, banks have begun to `scale down´ to microfinance in the search for new markets” (Rosengard, 2004). Commercial banks that wish to take advantage of the opportunities in microfinance should carefully evaluate the considerations, specifically their own goals, the potential market size and competition, the regulatory environment, and their current infrastructure and systems (Isern and Porteous, 2005).

Microfinance involves diversified risks, high loan repayments and customers who are concerned more with service quality than interest rates. Many commercial banks are discovering that the returns from this market are high in spite of the higher transaction costs (Harper and Singh Arora, 2005).

According to Rosengard (2004), banks bring several competitive advantages to microfinance, as they are experienced in managing a number of financial risks, including interest rate, liquidity, maturity, foreign exchange, and credit risks. Banks are used to raising their own funds via a combination of savings mobilization, capital market borrowing, and equity contributions. They also have extensive retail distribution networks of branch offices, sub-offices and electronic banking outlets. They are able to offer a wide range of savings, credit, and payment services. Finally, they adhere to prudential norms for sound ownership, governance and management practices that foster a balance between maintenance of financial soundness and the pursuit of profits. Similarly, Isern and Porteous (2005) consider that, compared with many existing providers of microfinance, commercial banks have potential competitive advantages in a number of areas, such as recognizable consumer brand names, existing infrastructure and systems, and access to capital.

USAID (2005), in its report "Banking at the Base of the Pyramid", states that banks also have major competitive advantages to draw upon in comparison to specialized microfinance providers as they have the physical and human infrastructure requested, market presence and brand recognition, the mentioned access to plentiful and low-cost funds and a low cost structure.

Then, the question to be asked is why they have not moved faster into microenterprise lending. The reality is that, in general, commercial banks lack an understanding of the microfinance market and its clientele, and often dismiss this segment as both too risky and too expensive. They often attempt to serve the market with inappropriate credit methodologies, for example, adaptations of traditional commercial or consumer lending approaches. Another reason is that the banking sector is fast adopting technologies that reduce the number of costly face-to-face transactions. Bankers may see the labour-intensive and personal nature of microenterprise credit as the antithesis of their drive towards more automation and less infrastructure. Finally, microenterprise credit requires staff that are comfortable working in the neighbourhoods where clients live and work, and who must be highly productive (USAID, 2005).

However, sustainable microfinance requires that banks adapt their operations to an entirely new market. Microenterprises are quite different from larger firms, and micro loans are not just smaller versions of conventional business loans. Likewise, the mobilization of small-scale household savings also requires modification of traditional fund raising modes. Neither conventional credit appraisal techniques nor standard loan products and delivery systems are appropriate for lending to microenterprises, as they are family owned and managed, with very informal organizational structures and operations (Rosengard, 2004).

In a number of countries, banks have been compelled by their governments to provide financial services, especially credit, to sectors such as small or agricultural enterprises that are considered social priorities. Using moral or legal compulsion generally has not led to sustainable models of service provision. However, increasingly, commercial banks are investigating for themselves, and some are entering the microfinance market because they see sustainable profit and growth opportunities. [...] Commercial banks face increasing competition in their traditional retail markets. This is causing margin squeeze. It is also leading forward-thinking banks to explore new potential markets that can generate growth in client numbers at acceptable profit margins (Isern and Porteous, 2005).

As Westley (2006) agrees, some of the reasons that make commercial banks approach the microfinance business are the need for diversification by making loans to thousands of small borrowers, the micro lending portfolio itself achieves substantial diversification. But he also considers that banks, by serving the poor, may burnish their public image. Credit coefficients is another reason that banks may take into account, as governments of countries such as Brazil, Colombia, and Venezuela, encourage or force all banks to dedicate a certain percentage of their demand deposits, loan disbursements, or loan portfolio to microloans. And finally, Westley (2006) considers that the underutilized capacity of banks, its excess in liquidity or underutilized branches or information systems can reduce costs and encourage these banks to get into microlending.

In order to be successful when entering the microfinance scheme, banks should constantly balance three pillars of successful microfinance: high volume operations, quality client service, and risk management systems.

Success is not guaranteed, however, as some banks have attempted to serve this market and failed because they did not understand the market or tried to move too quickly (CGAP, 2008). Despite the potential gains from downscaling, most commercial banks that attempt microfinance are unsuccessful in this endeavour. The most prevalent reasons for failure are undertaking microfinance as a social mission or compliance activity rather than a business venture to make money, thus ending the initiative when funding is exhausted or regulations change; under pricing micro loans, so that interest rates do not cover the high lender transaction costs of micro credit; utilization of inappropriate lending methodology that is slow and complex rather than fast and simple; inappropriate organizational structure and personnel, resulting in traditional bank culture triumphing over the needs of decentralized decision making by loan officers familiar with local markets; and poorly designed loan and savings products whose terms and conditions are incompatible with the needs of micro entrepreneurs and low-income households (Rosengard, 2004).

d. How to enter the market

According to Isern and Porteous (2005), and following a CGAP survey of banks in microfinance, it reveals that there is no single approach to entering the market for microfinance. For one thing, different banks will have different business goals, and the competitive and regulatory environment will vary. But, in general, approaches can be divided into two main categories—direct and indirect—based on how the bank makes contact with the client.
Isern and Porteous, (2005) have identified six different approaches that banks use to enter the microfinance market:

Provide services directly through:	**Work through existing providers by:**
*an internal microfinance unit, or	*outsourcing retail operations, or
*a specialized financial institution, or	*providing commercial loans to MFIs, or
*a microfinance service company	*providing infrastructure and systems.

Westley (2006) believes that possible structures through which a bank can do microlending could be the internal unit, service company, lightly regulated subsidiary, and heavily regulated subsidiary, being the last two options both variants of a single model, the subsidiary.

III. Case Study: Microfinance Programs of three Spanish Banks

1. History of microcredit in Spain

Microcredits in Spain have its most immediate origins in the credit experiences of the so called “Montes de Piedad”, predecessors of the savings banks. Currently, they are departments of those savings banks (Rico, 2009).

Microcredits appeared in Spain in the early 90s implemented by a number of different associations and non-governmental organizations. But it was from 2001 when the microcredit activity was organized on a bigger scale thanks to the support of public sector authorities and savings banks. Since then, the number of microcredits granted has been constantly growing until the end of the past decade when, due to the international financial crisis, a dramatic stop occurred. Since then, the microfinance sector in Spain has been virtually inactive. Microcredits in Spain are mainly a tool for social insertion that essentially aims at promoting entrepreneurship among women, youth and migrants (EMN, 2013).

In Spain, savings banks, have traditionally granted microcredits through two types of programs, which are programs implemented with their own financial resources and programs attached to public administration initiatives (Lacalle & Rico, 2007).

Nowadays, the microfinance sector in Spain is still characterized by a lack of regulatory framework and a lack of coordination at the national level. In addition, little formalized information exists on microcredit programmes and on their achievements. The members present in the First National Microfinance Meeting in September 2010 created a working group with the goal of promoting Spanish Microfinance Legislation. Since September 2012, this working group, composed by more than 30 different organizations, meets periodically with the purpose of working side by side in the development of this new legislation. In April 2012, the Second National Microfinance Meeting allowed the participants to adopt Microfinance Bill for Spain unanimously. However the bill needs to be approved by the political institutions to be legally enforced (EMN, 2013).

2. BBVA, Santander and CaixaBank

a. Initial Perspective

The evolution and development of banking in Spain have put Spanish banks in a place of privilege in the microfinance international context, positioning them as reference for the sector by having a set of factors (business model, technology, financial solvency, human resources) that also enables them to tackle the challenges of the future.
Strong internal competition (banks - saving banks) and the maturity of the Spanish market forced institutions with greater capabilities to a strategy of international expansion. The risks arising from this first expansion in the Latin American market were faced by exporting the Spanish model (profitability and technology) to these countries, obtaining as results an important franchise that impacts favorably on the Profit & Loss Statement of these institutions and has also led to a substantial improvement of the banking systems in those countries with its effect on local economies.

b. Analysis of their profiles

The three most important Spanish banks analyzed in this paper, BBVA, Santander and CaixaBank, have focused their microfinance strategy around one axe: the non-organic growth through successive mergers in the local market. Looking at the international expansion process, we can see that BBVA and Santander have gone through an intense process of international expansion in Latin America based on established entities acquisition strategies (Hernández, 2005).

BBVA is a multinational group of financial services in more than 30 countries, with 109.305 workers and 50 million customers worldwide (Corporate Information Report, 2013). Santander boasts 182.958 employees in 40 countries and 106.6 million customers (Corporate Information Report, 2013). Even if CaixaBank has its core business in Spain with 31.948 workers and 13.6 million customers (Corporate Information Report, 2013), international diversification is one of CaixaBank's core strategic targets. This strategy is being articulated around a direct presence in the form of banking branches and representative offices and strategic alliances with leading investee banks and long-term relationships with multilateral agencies and central banks. In 2013, it opened representative offices in Chile (Santiago de Chile) and Colombia (Bogotá). Where it does not have a direct presence or indirect presence through partner banks, CaixaBank has a network of over 2.900 correspondent banks (Corporate Information Report, 2013).

Table 1 gathers the most important general indicators of the BBVA group, Santander and CaixaBank which are evidence of the relevance of the three entities.

Table 1: General Indicators: BBVA, Santander and Caixabank (December 2013)

Indicators	BBVA	Santander	CaixaBank
Registered Name	Banco Bilbao Vizcaya Argentaria, S. A.	Banco Santander, S. A.	CaixaBank, S. A.
Number of employees	109.305	182.958	31.948
Customers (million)	50	107	14
Number of Branches	7.512	13.927	5.730
Loans and advances to customers (million euros)	350.110	668.856	192.255
Deposits from customers (million euros)	310.176	607.836	161.600
Total Assets (million euros)	599.482	1.115.637	340.190
Net attributable profit (million euros)	2.228	4.370	503
ROE (%)	5,00	5,42	2,10
ROA (%)	0,48	0,44	0,10

Source: own elaboration using data from Sustainability Reports (BBVA, CaixaBank and Santander) from 2013.

About the microfinance operations of these three institutions, BBVA Microfinance Foundation is present in Colombia (Bancamía), Peru (Caja Nuestra Gente y Financiera Confianza – in a current merger process), Chile (Fondo Esperanza y Emprende Microfinanzas), Argentina (Contigo Microfinanzas), Puerto Rico (Corporación para las Microfinanzas), Panamá (Microserfin) and Dominican Republic (Banco Adopem). Banco Santander (and its microfinance area) has subsidiaries in Argentina, Brazil and Chile (corporate information, 2012). And finally CaixaBank is represented only in Spain by its “social bank” called MicroBank.

c. Two different strategies: direct and indirect

As seen before, in the last thirty years, microfinance has had a great development, with a great presence among the instruments of public and private policies aimed to promote the development of countries and reducing the incidence of poverty and vulnerability of the most vulnerable people. For such a task, there are mainly two different strategies, known as "direct" and "indirect" (Ferrero, Muñoz y Fernández, 2010), for the introduction of banking institutions in the micro financial system. Banks can introduce a product of microcredit within an existing unit or create independent microfinance units. This would be the “direct model”. On the other hand, banks can also use local networks (local banks and microfinance institutions) to get into microfinance in an indirect way (Muñoz et al., 2013).

We can clearly affirm that both strategies have been used in the case of the Spanish banking sector. BBVA has chosen the direct strategy, through foundations created for this purpose setting up entities with a business structure. In this way, through the BBVA Microfinance Foundation, BBVA has presence in Latin America. CaixaBank has also chosen the direct strategy by setting up in 2007 a new institution called MicroBank as the social bank within CaixaBank to channel the microcredit activity carried on up to then by CaixaBank through its foundation. To the contrary, Santander has chosen, since its origins, the indirect strategy, through non-profit entities established in the countries where the bank acts (see Table 2).

Table 2: Microfinance in Latin America and Spain

BBVA Argentina	BBVA Microfinance Foundation is present in Argentina through its entity Contigo Microfinanzas, which supports 2.158 customers on which 58,7% are women.
BBVA Chile	BBVA microfinance Foundation is present through two entities: Fondo Esperanza and Emprende Microfinanzas. The former supports 66.474 borrowers on which 86% are women and the latter supports 13.067 borrowers on which 59,6% are women.
BBVA Colombia	BBVA microfinance Foundation is present through its entity Bancamía that supports 406.111 borrowers on which 58,59% are women.
BBVA Dominican Republic	BBVA microfinance Foundation is present through its entity Adopen that supports 159.718 borrowers on which 73% are women.
BBVA Panama	BBVA microfinance Foundation is present through its entity Microserfin that supports 11.023 borrowers on which 47,2% are women.
BBVA Puerto Rico	BBVA microfinance Foundation is present through its entity Corporación para las Microfinanzas-Puerto Rico that supports 597 borrowers.
BBVA Peru	BBVA microfinance Foundation is present through its entity Financiera Confianza that supports 96.852 borrowers.
Santander Argentina	There is a microcredit program whose purpose is providing financial assistance to microfinance institutions organized as NGOs and improve the knowledge of Santander Rio’s managers handling this business. In addition, through the program Ideas, since 2004, it has created work for 420 people, financing small businesses.
Santander Brasil	Santander Micro Credits encourages growth in small businesses, thereby enabling the least favour sectors of society to merge from poverty. Loans are mainly made to informal micro companies that are unable to obtain loans. More than 70% of micro credits go to businesswomen who, in groups of five to six, receive loans of an average amount of between USD 980. Its activity started in 2002 with a micro-credit program to small businesses and entrepreneurs, in collaboration with Acción International. Later reinforced this business area with the incorporation of the Banco Real (ABN Amro) and its division of microfinance, managed through its division Banco Real Microcrédito.
Santander Chile	The micro entrepreneur programmes was launched in Chile in 1992 by Santander Banefe and, as a result of this strategy, the bank has sponsored since 2001 the national prize for the female micro entrepreneur.
CaixaBank	Since its establishment in 2007, MicroBank has developed a model of social banking, a forerunner in microfinance in Spain. MicroBank granted in 2012 40,784 new loans for a total of €235.4 million for entrepreneurs and micro-businesses.

Source: own elaboration using data from MixMarket, 2012 and Sustainability Reports (BBVA, CaixaBank and Santander) for different years.

Both BBVA and Santander are developing a strong process of expansion in Latin America while Microbank has focused its business model growth in Spain, which seems positive for the socio-economic development of Latin American countries and Spain, always when this process is carried out in a socially responsible manner.

Banco Santander and BBVA have already overcome the initial phase of installation in Latin American countries and have achieved a wide presence and leadership. Notwithstanding, they are dealing with several challenges. They are trying to facilitate the penetration of broad segments of the population who still do not have access to financial services, adapt their social policies to the local situation of Latin America and to avoid the existence of different management standards in its Spanish subsidiaries and on Latin America (Muñoz et al., 2013).
In addition, as regards the management of their assets, both BBVA and Santander have local management teams in the main Latin American markets and also Microbank in Spain with its own structure separated of Caixabank.

Bank	Microfinance Institution	Country	Loans (USD)	Number of Borrowers	Deposits (USD)	Depositors	Average loan balance per borrower
BBVA	Contigo Microfinanzas	Argentina	2.310.950	2.158	-	-	1.071
	Emprende Microfinanzas	Chile	14.413.763	13.067	-	-	1.103
	Fondo Esperanza	Chile	32.240.135	66.474	-	-	485
	Bancamía	Colombia	524.490.177	406.111	162.055.815	456.529	1.291
	Banco ADOPEM	Dominican Republic	73.213.365	159.718	36.840.109	232.202	458
	Microserfin	Panama	14.081.231	11.023	-	-	1.277
	Corporación para las Microfinanzas	Puerto Rico	1.463.247	597	0	0	2.451
	Financiera Confianza[1]	Peru	473.894.281	222.314	289.500.773	355.115	2.132
CaixaBank	Microbank[2]	Spain	324.428.130	40.784	-	-	7.955
Santander	Santander Microcrédito	Brazil	112.095.137	114.312	0	0	981
	Santander Río[3]	Argentina	752.607.788	-	6.246.526.544	-	-
	Banefe[4]	Chile	1.521.448.913	-	-	-	-

Source: Mix Market, 2012; Sustainability Reports 2013 (BBVA, Caixabank, Santander).

[1] No data available for 2012, only 2013.

[2] Data converted from EUR to USD (historic FX Rate from 31st December 2013: www.xe.com).

[3] Santander Río does not have its microfinance data classified independently in its financial statements.The data considered here are for the institution as a whole. Data converted from Argentine Peso (ARS) to USD (historic FX Rate from 31st December 2013: www.xe.com).

[4] Data converted from CLP (Chilean Peso) to USD (historic FX Rate from 31st December 2013: www.xe.com).

It is also relevant to notice that the three institutions are developing products with a high social impact. By tables 2 and 3, we can see the efforts BBVA and Santander are making in order to promote microcredits in areas with a high percentage of people in a situation of financial exclusion. Microbank has clearly a different strategy focusing specially in Small & Medium Enterprises – SMEs. Microbank's average loan per borrower is USD$7.955, higher than the loans verified in Latin American.

As mentioned before, BBVA is using a direct strategy, setting up several foundations and entities with a management structure intended to offer this kind of products. Santander is developing an indirect strategy, with the use of non-profit entities already established in the countries. However, Santander, even with the bigger presence in the most unbanked country of the region, Brazil, does not have an integral and coordinated strategy for the microfinance activities of their Latin America subsidiaries. It is important to notice that Santander's downscaling processes are different in Argentina, Chile and Brazil and, consequently, the bank could use this expertise to support new microfinance ventures in other bigger markets, where it has presence. And finally, CaixaBank has been also developing a direct strategy by setting up MicroBank.

In addition, it is important that financial institutions provide the access to credit for SMEs by their role in the economic development of the country. And all of the three institutions are developing various financial products and support programs for easy credit to such enterprises.

CONCLUSIONS

According to the literature reviewed, it is shown that the relationship between Corporate Social Responsibility (CSR) and financial performance has been under study for many years (Carroll, 1999). It was interesting to observe that the meaning of the term has evolved quite significantly since the beginning of the sixties. Milton Friedman wrote in 1970 in his article "The Social Responsibility of Business" that the company has no more responsibility than to maximize its profits, while respecting the law and the rules of the competitive market (Friedman, 1970).
Some researchers (Ruf et al., 2001; Mahoney and Roberts, 2007) conclude that CSR is directly related to the economic strategy of the company and has a positive influence on the financial profitability by creating value for the company.

The discussion about sustainability among financial institutions brings back the debate between different points of view regarding what Jonathan Morduch has called the "schism" of microfinance (Morduch, 2000), on one hand the statement of the social function of microfinance and on the other hand the argument of economic and financial profitability.

CSR critics argue that operational costs can be extremely onerous for the financial institutions to commit to social actions, such as reducing the interest rates, designing financial products socially engaged to the targeted people, spreading an appropriate culture to motivate staff (Roodman and Qureshi, 2006), providing social and health services for the local community and providing business development services for new entrepreneurs. Therefore, there appears to be a trade-off between Corporate Social Responsibility and the financial performance in the microfinance area (Jensen, 2002).These CSR practices, and the expenses that they entail, can be crucial in the competition between financial institutions that are socially responsible and those who are not.

However, according to the stakeholder theory (Freeman, 1984), CSR is not just a cost for a financial institution. Quite on the contrary, if these practices are well developed, the institution will have a better financial performance. Thus, CSR would not be considered a cost, but an investment in the relationship between the institution and the different stakeholders.

Considering the economic dimension, it is logical that these institutions show the efficiency of their management by obtaining a profit. But it is also an instrument of social policy, and for some professionals in the area, this is the only function if they are dealing with vulnerable groups of people. As such, although they use economic and financial tools, they must subject their strategies and policies to the social function: to provide a good financial service at an affordable price to more people, especially those who live under the poverty threshold.
This can be the main problem among the financial institutions that go through a downscaling process. It is important to highlight that when big players such as BBVA, CaixaBank and Santander expand their services to work with clients traditionally served by MFIs they can easily cover these financial and operational costs and still obtain a great profit. In these cases, according to Mcwilliams y Siegel (2001), CSR can be used as a differentiation strategy, used to create new demands and get a premium price for a product or service that already exists, while promoting corporate image (branding).

We can clearly conclude that BBVA, Santander and CaixaBank are successful at doing microfinance, in terms of growth and profitability, as they have built their programs on a business basis (direct and indirect strategy) and operate in environments that are favorable to commercial microfinance.

In this sense, from the analysis of the microfinance approaches of the Spanish banks in Latin America (in the cases of BBVA and Santander), it seems that neither of them have a similar strategy in terms of program performance or geographical development, but all of them making the most of the opportunities that microfinance offer in these markets.
In the case of BBVA, the bank launched a long term program acquiring local MFIs as a strategic approach and, due to the size of the money allocated, it appeared as a notable challenge. However, each acquisition should be carefully implemented and monitored depending on each country's macroeconomic data in order to avoid future failures and risks.

On the other hand, Santander with a wider presence in the biggest economies of the region does not have a coordinated strategy for the microfinance activities of their Latin America subsidiaries. And it is also important to take into account that Santander has different microfinance methodologies in its target countries (Argentina, Brazil, and Chile) and consequently, the bank could use this expertise to support new microfinance ventures in other markets, where it has presence. Finally, CaixaBank and its microfinance institution (Microbank) has a clearly strategy focused on entrepreneurs and SMEs, but is geographically limited operating only in Spain and dealing with people who do not actually live under the poverty line. Nonetheless, their actions are quite adequate for the Spanish market.

Microfinance services will undoubtedly continue to expand. As we have seen, they are a mechanism that helps to alleviate poverty, contributing to economic growth, the creation of self-employment and, through this, helping to increase the income of the poor. Like any financial tool, microfinance faces risks and challenges. But as long as it is applied prudently, honestly and efficiently by commercial banks, it can really impulse positively the whole microfinance industry.

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