



Can the Social Mission be Attained with Business Methods?

It's very common to see a business enterprise acquiring another enterprise for growth and expansion. But an NGO taking over a commercial business for accomplishing its social purpose is a rare phenomenon. In 2008, an US-based NGO acquired an Indonesian commercial bank, Sri Partha for establishing a microfinance wholesale bank, Bank Andara. The basic reason behind the creation of Bank Andara was to realise the poverty alleviation goals by supporting Indonesian microfinance industry (<http://bankandara.co.id/about.html.2>).

Indonesia is one such country where a large population lives below the poverty line and depend on self-employed income. The number of people who have access to financial services is also very low. It was estimated that nearly 40 million people in the country were microentrepreneurs and out of which only 13% had access to formal financial services. On the whole, 50 million people in Indonesia lack access to banking services. These estimates show the need for financial inclusion of the poor in Indonesia. However, the history of microfinance sector in this country, which dates back to 1800s, makes evident that the measures for improving access to financial services have began long back. Despite having long existence, Microfinance Institutions (MFIs) were unable to improve their outreach and offer quality services to the poor. This is mainly due to several problems associated with them – primarily, inadequate capital, lack of coordination among scattered MFIs, etc.

In this backdrop, Mercy Corps, to enable the Indonesian MFIs serve the poor in a better way, established Bank Andara. This bank supports Microfinance Institutions (MFIs) by providing necessary capital. It also enables MFIs to expand their services and improve the performance by providing technical assistance. However, when it comes to Bank Andara's operating model, it is a self-sustainable one, unlike Mercy Corps, which is a fund-based model. The bank operates on its own by depending on the financial markets. Although Bank Andara operates on commercial lines, it will remain as a social business. This means, Bank Andara is making the commercial capital flow towards the poor.

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For decades, we have seen governments, charity groups, social-welfare organisations and even corporates trying to solve the social problems in various ways (through policies, schemes, etc.) and under various names (philanthropy, corporate social responsibility, etc.). Yet, these solutions could not provide permanent relief. As such, Mercy Corps has come out with an innovative approach – applying business methods for achieving social objective (http://www.businessweek.com/magazine/content/08_49/b4111048005937.htm). No doubt, it's a bold move for a good cause. But, can social objective be achieved with commercial approach? Bank Andara is operating on commercial lines and striving for attaining social cause. As such, it is prone to risk like any other commercial bank and also faces competition. Besides, there is also threat of underlying objective of Bank Andara getting diluted with the business approach. On top of this, Bank Andara has to keep up the confidence of investors. Amid such challenges, Bank Andara has to prove its success and accomplish its social objective.

Although Bank Andara's self-sustainable model is challenging, depending on external funds (as in the case of fund-based organisations) is also equally risky. For instance, during 2008 financial crisis, most of the donors squeezed their philanthropic funds. In such case, self-sustainable business model can reduce the dependence on external funds and ensure longevity of social businesses. Moreover, MFIs like Grameen Bank, SKS Microfinance, etc., proved that social enterprises can succeed in their objectives only by adopting businesslike ways. Let's see whether Bank Andara can give rise to a new trend among social enterprises.

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