



# **Banking as if Society Mattered:**

## **The Case of Triodos Bank**

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# TABLE OF CONTENTS

<b><u>INTRODUCTION: BANKING AS A VEHICLE FOR INNOVATION AND SOCIAL TRANSFORMATION</u></b>	<b>3</b>
<b><u>PART I: TRIODOS BANK — MONEY AS A VEHICLE FOR SOCIAL CHANGE</u></b>	<b>4</b>
INNOVATING GREEN FUNDS	9
MICROFINANCE: BECOMING AN INTERNATIONAL PARTNER	14
THE FAIR TRADE MOVEMENT	22
SOCIALLY RESPONSIBLE INVESTMENT (SRI)	26
BECOMING A EUROPEAN BANK: BRANCHES IN BELGIUM, THE UK, SPAIN, AND GERMANY	31
CURRENT ACCOUNTS: BECOMING A FULL RETAIL BANK WITHOUT INCREASING CONSUMER DEBT	34
FINANCIAL CRISIS OF 2008–09	37
<b><u>PART II: BUSINESS PRACTICES AND CAPACITIES OF SOCIALLY RESPONSIBLE AND GREEN BANKING</u></b>	<b>40</b>
THE LENDING PROCESS: NEUTRALITY IS A LACK OF RESPONSIBILITY	40
CO-WORKERS: BANKING WITHOUT BONUSES	48
THE BUSINESS AND OWNERSHIP MODEL: BALANCING RETURN AND INTENTION	55
TRIODOS FUNDS AND THE DUTCH TAX CREDIT: AN EXAMPLE OF THE IMPACT ON LEGISLATION AND SOCIETY	60
TRANSPARENCY AND REPORTING	68
CHALLENGES AND LIMITATIONS	71
VISION FOR TRIODOS' FUTURE	75
<b><u>PART III: REINVENTING BANKING AS IF SOCIETY MATTERED</u></b>	<b>77</b>
<b><u>BIBLIOGRAPHY</u></b>	<b>89</b>
<b><u>ACKNOWLEDGEMENTS</u></b>	<b>89</b>
<b><u>MIT COMMUNITY INNOVATORS LAB (COLAB)</u></b>	<b>91</b>
<b><u>ABOUT THE AUTHOR</u></b>	<b>96</b>

## Introduction: Banking as a Vehicle for Innovation and Social Transformation

As intermediaries between borrowers and lenders, banks hold a unique position in an economic system, and in society in general. The role of financial institutions becomes apparent when governments intervene to save banks in crisis because their failure would put the economic system, and with that society, at risk.

Socially responsible and green banks operate on the assumption that this unique position provides them with a leverage for addressing social and/or environmental challenges.

While the current public discussion focuses on how to regulate financial institutions so that the negative externalities of their operation can be reduced, this case study presents an example for a socially responsible and green bank, Triodos Bank, based in the Netherlands, and explores the potential role of banks in addressing societal challenges. The case study is based on interviews with Triodos executives and co-workers throughout the organization, with customers, on participant observation, and on a review of the bank's work and publications.

Triodos Bank was first institutionalized as a foundation in 1971 and became a for-profit bank in the Netherlands in 1980. Its mission is 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.”<sup>1</sup>

This study has three parts. Part I outlines Triodos' history and follows the product innovation process through its different stages. Part II focuses on the operating principles of value-based banking that Triodos has developed. Part III discusses what can be learned from Triodos Bank about the role of banking and the potential of value-based banking in addressing societal issues.

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<sup>1</sup> See full mission statement: <http://www.triodos.com/com/about/triodo/mission>.

## Part I: Triodos Bank — Money as a Vehicle for Social Change

In 1972 in the Netherlands, four individuals formed a group to investigate the idea of using money as a vehicle for social change. They invited 20–30 people to join them in studying the meaning and qualities of money as well as the concept of Social Threefolding. Social Threefolding is based on a distinction between three areas in society: the legal, the economic, and the cultural. The relevance of this distinction lies in the argument that each area has distinct regulatory needs and social implications and that a healthy and innovative society depends on a balance among them.<sup>2</sup>

The word *Triodos* is rooted in Greek and translates as “threefold way,” or a path that splits three ways. Says Thomas Steiner, an early employee of Triodos, “there are a lot of ‘threes’ in Triodos Bank. . . . Nowadays you can say people, planet, profit. But you can also make a distinction with money: a gift, a loan, and money you use for spending, so for buying things. And we also say that we are working for the environment, for the social sector, and for the cultural sector. In fact, I like that distinction the best. Many people, when they think about sustainability, think about the environment. Some think about social issues and fairness. And we add the cultural part: when there is a good education, and when there is a good cultural life with a lot of inspiration, the other two can work together. So that’s the reason we are called Triodos.”

In the 1960s, this study group worked to develop the conceptual and intellectual foundation of Triodos. As a network of individuals and institutions, they also reflected a relevant cornerstone in the founding process of Triodos.

The 1968 riots in France spurred the Dutch group into action. Thomas Steiner remembers: “When we learned about the uprisings in Paris, we felt we had to go ahead with our idea. It gave us a real push.”

The protests in France questioned the economic system in both the West and the East. They were directed against Western capitalism and Stalinist totalitarianism. The rioters

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<sup>2</sup> R. Steiner, (1905/06).

demanded jobs and changes in the education system.<sup>3</sup> Starting with a series of student protests, the riots elevated into a strike by 11 million French workers for two weeks in 1968. The strike almost collapsed the French government.

It was during this time that Triodos' founders considered how to go forward. Their first idea was to provide consulting services to help businesses combine profitability with entrepreneurial ideas that would support positive societal change. But soon the group realized that those businesses did not have sufficient access to capital. Adri Dijkstra, Deputy Managing Director / Head of Finance & Control, describes this initial impulse: "At first, the founders did not plan to start a bank. They thought to advise entrepreneurs. But soon they realized that this might not be enough, and that what is needed is a new type of bank."

Pierre Aeby, today CFO, summarized the circumstances as follows: "We wanted to be a bank like other banks, like a mainstream bank in its legal form and its potential, and not a membership bank, a community bank, or a credit union. You have a lot of forms that serve limited groups, but if you really want to be in society, you must have a tool that can compete with mainstream banks. So, that was I think a very big discussion."

The idea to initiate social change through entrepreneurial activity was brought to life with the founding of the Triodos Foundation in 1971. Companies, organizations, and foundations that were part of the network around the founding group began to pool their funds. The Triodos Foundation deposited these pooled funds in a conventional bank in the Netherlands, which paid them a higher interest rate than they could have earned on their own. The depositors then would forgo a percentage of the interest, which Triodos used to provide the innovators with affordable loans.

Thomas Steiner, who at the time was investing his company's money in this early initiative, describes his motivation as the following: "This gave us the experience that you could handle money in a different way, and if you worked together you could benefit from being part of a group. In those days in the Netherlands, it was not possible to negotiate with a bank about interest rates. Only rich people did that. Because of this pool, all of a sudden we became an entity that could negotiate."

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<sup>3</sup> For more about the French riots, see M. Gallant (1968: p. 58).

The Triodos Foundation began supporting innovative projects and companies. It offered loans to initiatives that could not get loans through conventional banks. In order to secure a loan, a circle of individuals got together and created a “network guarantee.” Everybody in the circle guaranteed a small amount of the total loan. This idea is very similar to the group security idea used in microfinance.

Thomas Steiner: “I gave a guarantee to an entrepreneur who needed a loan for his business, and the (conventional) bank was not willing to give that loan. We formed a circle of individuals who together then provided the guarantee for the loan. A number of small guarantees by individuals secured the loan. . . . That was in the mid-70s.”

This founding phase had several important characteristics. The central idea was to use money as a vehicle for social change. It was brought to life by an event, the riots in France, that resonated with a network of people who had already laid out an idea. The group brought the external urgency together with a process and a structure.

After these early successful experiments, it became apparent that the next step would be to apply for a banking license. The central bank of the Netherlands conducted an intense screening process because Triodos was an unknown group experimenting with new ideas involving money. Because of the perceived risk, the central bank raised some of its requirements for Triodos and took a year and a half to approve its license.

The Dutch central bank wanted Triodos to have a co-operative ownership structure, but the founding group pushed for a different ownership model. Their goal was to become a full business bank, or as Thomas Steiner said, “a bank in the normal world. We were aiming to become a normal bank; we wanted to reinvent the purpose of banking.”

In 1980, Triodos Bank was founded with the equivalent of €540,000 in start-up share capital and a full banking license from the Dutch central bank. After the license was granted, part of the pooled money deposited with ING Bank was transferred to Triodos Bank.

Most of the members of the founding group were in senior leadership roles in their respective organizations and did not take positions with the newly founded bank. Thomas Steiner describes this early work: “So, the people who really started the work

were not the same people who had done the thinking. This created some tension in the first years between the founders and those who worked in the bank. They acted more as the ‘godfathers’ who helped the bank to get started.”

The bank took off, and for the first six years support flew into the initiative. Says Adri Dijkstra, who worked for Triodos then: “We had a lot of support, and a lot of help from another bank. I really liked to be in the group of people, it was exciting, every day. We worked on new things every day.” Thomas Steiner adds: “Triodos was all over in the press and discussed everywhere. What was interesting was that they had a very open approach to the press. The managing directors were very accessible . . . very, very open.”

In the bank’s first years, the bank grew at a rate of 20% a year. Raising money was easy, but it was more difficult to match that money with loan recipients. Thomas Steiner characterized the bank’s first 10 years as follows: “Usually, we almost always doubled the capital that we were raising whatever we had stated as a goal. . . . And then finding the right loans always took more time, and then they made the mistake of not starting to raise any money any more. . . . And when the loan side took off, they needed more money because the loans were growing. . . . It took years to learn how to balance these two sides.”

### **Summary of the Founding Period**

Triodos Bank’s beginnings were rooted in a community of concerned individuals that shared the idea that banking has the potential to become a tool and instrument for positive social change. The group was linked by ideas and concepts about Social Threefolding, and the purpose of money and lending. Their conclusion was that providing lending opportunities for social and green innovators has the potential to address societal challenges. Then, the riots in France became a wake-up call, and the Triodos community was ready to act. After a few prototypes, the result of the founding process was a bank with the mission to lend to leading social and environmental innovators.

The following table provides an overview over this period:

Table 1: Summary of the Founding Process

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1969–
<b>External Event</b>	Riots in France
<b>Challenge</b>	How do we address our societal issues?
<b>TRIODOS BANK MILESTONES: The Founding of Triodos Bank</b>	
<b>People</b>	Study groups and social innovators
<b>Prototype</b>	Triodos Foundation; Lending Circles
<b>Principles &amp; values</b>	Money has to serve the real economy
<b>Financial innovation</b>	Banking as a vehicle for positive change
<b>Structural Innovation</b>	Triodos Bank incorporated



## **Innovating Green Funds**

In 1986, the growth rate that had characterized the first years of Triodos Bank began to stall. Adri Dijkstra: “We were in a period of stagnation. Our deposits were not growing anymore. We realized we had to take a new step in our development. We did this with new initiatives in the area of wind energy and training for banks in the non-industrialized world.”

Several events coincided. The stagnation was accompanied by internal changes in management. The Dutch central bank had required two managing directors to lead the bank during the founding process. The two represented two cultures, one more conservative and the other more entrepreneurial. In 1986, the leadership was still held by two managing directors. When it became apparent that this structure was no longer working, one managing director left the bank.

Also in 1986, the worst nuclear power plant disaster in history happened, at Chernobyl in the Ukraine. Highly radioactive fallout escaped into the atmosphere over an extensive geographic area. The strength of the explosion was 400 times greater than that of the atomic bomb that exploded over Hiroshima.

That event sparked a discussion about alternative sources of energy. Triodos was approached by depositors who were concerned about the energy question and who were shaken by the Chernobyl disaster. They asked Triodos how the bank was going to react to the issue. Peter Blom, who started with Triodos as a volunteer and in 1989 had become managing director, remembers: “Our depositors called and asked us, what are you going to do about this issue? Are you providing options for us to invest in alternatives?”

In 1986 wind energy technology was in the early stages of its technological development. Triodos identified a promising wind farm project in Denmark and a small engineering company in the Netherlands as a partner. The engineering company developed the technology and oversaw the project management of the wind farm project. Peter Blom, reflecting on this step in Triodos’ development, emphasizes that Triodos recognized that this investment would be too great a risk for the bank but that the societal need for a financial innovation in the field of renewable energy was important. The result was a

separate legal entity, Triodos Ventures, which funded the investment in the first wind farm.

Triodos Bank offered its customers the following calculation: every Dutch family would need to invest 1 guilder per kilowatt/hour/year in green energy in order to offset their personal electricity usage. An average family in the Netherlands would need to invest 3,000 guilders per year (about € 1,330) to clean up their energy footprint. Peter Blom remembers, “People were very inspired by this calculation and took this very seriously. With the help of our calculation scheme, they made exact calculations of how much they would need to invest in the Wind Funds in order to clean up their personal energy record. That very conscious concept of being responsible for your own energy consumption enabled Triodos to start the first Wind Fund.”

Triodos successfully launched the fund under Triodos Ventures and two years after the Chernobyl disaster the first wind farm was created. At this point the Dutch government did not have any tax incentives or any other form of financial incentive system in place that would support wind energy. Yet Triodos Wind Energy Fund was profitable from its beginning.

When Triodos launched its first investments in wind energy, the technology was in its early applications. In 1971, the world’s first offshore wind farm was a five-megawatt plant off the coast of Denmark. The oil crisis in 1973 had sparked new interest and investment in the development of renewable energy, but at the time of the Chernobyl disaster the wind power industry barely existed. It began to take off in Europe in the late 1990s.

With the step into renewable energy, especially wind energy, Triodos began to move beyond its existing customer base. These new customers were mainly concerned about environmental issues. Triodos also began investing at a higher volume. CEO Peter Blom looks back: “It was an enormously interesting time, the ’90s. It was really a new way of looking at business. Our way of doing business was not anymore something that was just for a small niche, but environmental and social issues became much more visible in society, and we could really benefit from that.”

Most important, Triodos developed early expertise in green energy. This laid the foundation for a set of knowledge and capacities that differentiates Triodos from conventional banks in the Netherlands today and that attracts customers in the green energy field. Also, Triodos' Wind Fund was one of the first in Europe.

Historically, Triodos had been an interest margin bank. With the launch of the new funds, it put in place a different business model.

Triodos' first directed investment fund, the Biogronnd Beleggingsfonds (ecological land fund), is based on a recognition of the importance of agriculture and that the high price of land poses an obstacle to organic farmers because it demands higher profitability than is typical in agriculture. The purpose of the fund is to secure agricultural land and make it available to organic farmers.

The investment fund owns the land as a land trust, and the farmers are offered long-term leases that allow them to work the land without any concern about developers. Says Thomas Steiner, "In the beginning it had this very idealistic approach. So, you could become a shareholder in the Biogronnd investment funds, where you could support organic farming, and the first investors in that fund were more members of the fund than just shareholders. They felt like they were members of an NGO as shareholders in this fund. It was quite successful. In the first year it raised about NLG 10 million. In those days that was quite a lot of money."

The investment fund became a financial instrument that allowed Triodos Bank to raise the money necessary to establish this land trust. Legally the land was held by the funds as a separate entity.

With the Biogronnd Beleggingsfonds, Triodos had invented a new sustainable business that benefited all of the parties involved. It had also raised its investment volume and created a new investment option for its customers who were looking to support organic agriculture.

The second fund that Triodos launched was the Wind Fund, which is based on the same idea. It allowed Triodos to raise the capital necessary to buy wind farms. The Wind Fund was Triodos' first move toward developing a new customer base. The fund's customers

were no longer connected to the broader circle of individuals and organizations that had supported the idea of Social Threefolding and using money as a vehicle for social change. These customers found Triodos because of their interest in renewable energy.

The funds were not listed on the stock market but were traded only through Triodos. The Wind Fund was also launched in cooperation with Dutch NGOs—including Greenpeace and Friends of the Earth—and with companies like The Body Shop that wanted to invest in renewable energy.

### **Summary: Wind Energy and the Beginning of Ethical Funds**

With its green funds, Triodos both embarked on a new business model and expanded its customer base, including institutional investors.

Triodos' early engagement in renewable energy also laid the foundation for Triodos to become a leading expert in green energy. In this role, Triodos was instrumental in initiating the green tax credit in the Netherlands, which had a huge impact on investment in green technology in that country. The tax credit is outlined in detail in Part II of this case study.

Triodos' innovations also had an impact on the banking industry at large. Bas Ruter, Triodos Investment Manager, looks back: "As soon as they did that, of course, every self-respecting Dutch bank came up with a fund like that. People expected all the big banks to walk away with Triodos Bank's idea. However, what really happened was that there was a lot of positive talk about these funds, a lot of noise about these funds, and people who became interested often managed to find Triodos Bank as the original supplier of these funds, the inventor of these funds."

The result was that Triodos developed a high public profile as an innovative bank with a strong focus on environmental issues. It is important to understand that in the early 1990s when Triodos started the green funds the idea of socially responsible investment (SRI) was relatively new. There had always been initiatives and financial institutions, especially ones with religious affiliations that had aligned their financial transactions with their values. The anti-apartheid movement was a starting point for the broader SRI

movement. But what is today a booming market in the USA and Europe was not offered by conventional banks in the early 1990s.

The following table summarizes this phase in Triodos' story:

Table 2: Summary of the development of Triodos' green funds

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1986–
<b>External Event</b>	Chernobyl disaster
<b>Challenge</b>	How can we move towards renewable & safe energy?
<b>TRIODOS BANK MILESTONES: Green Funds</b>	
<b>People</b>	New coalition: entrepreneurs, NGOs & consumers
<b>Prototype</b>	First wind energy fund in Europe
<b>Principles &amp; values</b>	Finance green innovation
<b>Financial innovation</b>	Green funds
<b>Structural Innovation</b>	Dutch tax credit scheme

## **Microfinance: Becoming an International Partner**

During the 1990s, the idea of microfinance as a tool to alleviate poverty moved from the periphery to the center of global attention. The success of organizations such as Grameen Bank in Bangladesh, Banco Sol in Bolivia, and the BRI in Indonesia changed the thinking of international donors about the role of credit in fighting poverty. A landmark in this development was 1998, when the UN General Assembly announced a timetable toward the year 2005 as the International Year of Microcredit.

In 1994, when Triodos started its engagement in this sector, microfinance was still new territory. Triodos' earlier cooperation with the Women's World Bank had sown the seeds for a possible international orientation. Marilou van Golstein Brouwers, Managing Director of Triodos Investment Management, looks back: "Women's World Banking told us that they would like to learn from us. This was an important step in our self-perception when we realized we could deliver on this, and it also provided us with contacts all over the world. . . . In a way it was the start of our involvement in microfinance . . . before it was called microfinance."

In 1994, Triodos was approached by two Dutch NGOs. Both NGOs worked in the development field and had in-depth knowledge about the local challenges and opportunities. But they realized that they lacked the financial expertise necessary to manage their portfolio. They contacted Triodos because they knew that Triodos' corporate objectives aligned with their value and purpose of positive social change. This was the beginning of a long-term partnership that resulted in the creation of two microfinance funds: Hivos-Triodos Fund, which is a joint initiative between Hivos and Triodos Bank; and Triodos-Doen Foundation, a cooperation between the Doen Foundation and Triodos Bank.

Both funds are closed funds and invest exclusively in microfinance. The funds' primary goal is to produce a developmental return rather than a financial return.

This cooperation led to two developments within Triodos. First, Triodos developed early expertise in microfinance. Second, in 1996 Triodos decided to focus all of its

international activities on microfinance. This decision was sparked when Marilou van Golstein Brouwers met Muhammad Yunus, the founder of Grameen Bank.<sup>4</sup> She remembers: “It would make much more sense if we could completely focus on the financial sector [in our international investments], because that's where we would add the most value. And that's where I also saw we could have much more impact. . . . We tried to finance a few businesses out of benevolence, in developing countries, but that didn't work. . . . Then I decided to only do microfinance with these funds.”

Today, Triodos offers four microfinance funds that finance 82 microfinance institutions working in 40 countries in Latin America, Africa, Asia, and Eastern Europe.

The first open Triodos microfinance fund was launched in 2002. Recognizing that Triodos' customers were interested in microfinance investment opportunities, Triodos launched its Fair Share Fund, the first private microfinance fund. Today it is still one of the few funds in Europe that provides private individuals with the opportunity to invest in the microfinance sector in developing countries. The minimum share is as low as € 30–35.

In 2009, Triodos added a second open microfinance fund to its portfolio, this time geared toward institutional and other larger investors. Triodos Microfinance Fund, Triodos SICAV II, has a minimum share of € 50,000 .

The process of selecting microfinance institutions for its funds is based on a review that includes the targeted client group, the lending process, a risk analysis, and the conventional analytical areas. Says Marilou van Golstein Brouwers: “You really have to be selective about whom you do business with. You see soon enough who is a good partner, if you know the sector. You have to look at how transparent their procedures are. . . . Basically, you sort of know by talking to management. It all comes back to values. You have to ask what is their main motive for getting into this business.”

The microfinance institutions Triodos is working with have total assets of from €5 million to €1 billion.

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<sup>4</sup> Grameen Bank, founded in 1983, is a microfinance and community development bank in Bangladesh that makes small loans to impoverished people without requiring collateral. See <http://www.grameen-info.org/>.

Asked about successes and failures, Marilou van Golstein Brouwers says, “Some of the banks are doing really well. Some were just small NGOs that we helped transform into formal financial institutions. For example, a bank in Cambodia is very successful, ACLEDA Bank, and we were with them from the start. . . . ACLEDA is really one of our success stories. We were one of the equity investors when they transformed into a formal bank. So they're also working with deposits. They offer possibilities for people in the country to save, which in a country like Cambodia is very extraordinary. Twelve years ago they didn't even have a currency . . . there was no money, it was just barter trading. So they've come a long way and this bank is doing extremely well.”

Triodos is involved on different levels with the microfinance institutions that it works with. Its work ranges from debt funding to equity investment. This has implications for how deeply Triodos gets involved in any institution. As a shareholder, Triodos is represented on the board of directors and therefore takes a very active role. Together the four funds hold equity stakes in 19 prominent microfinance institutions. In an equity engagement Triodos not only provides financing but also works closely with the microfinance institution.

As microfinance has become mainstream over the years, new players have entered the field whose intentions were not always in alignment with the goal to eliminate poverty. Marilou van Golstein Brouwers summarizes her observations: “You have to do it in the right way. . . . You see a lot of programs called ‘microfinance’ that are really more consumer credit. The bankers see it more as an opportunity to make money quickly, and they don't really care about the clients. And in microfinance, if you do it in the right way, you try to assess what a client needs, what he or she can afford as a loan, because the objective is that the client eventually is better off. So it has to do with values, in the end.”

Triodos’ long-term goal in microfinance investments is to help the respective organizations move beyond microfinance into full-service banking, providing complete banking services to the community that they serve. Marilou van Golstein Brouwers summarizes the alignment of this goal with Triodos’ mission: “If you look at it from a development point of view, it's very clear that to build a local economy you need a financial system that works. And you need a financial system that also works in a transparent way, really taking the clients to heart. It's the same way we work here in



Triodos, actually. . . . If the banks don't work, then the whole economy fails. And that's the biggest lesson.”

Triodos also began to introduce environmental objectives into its microfinance activities. Says Marilou van Golstein Brouwers: “If you're serious about doing something to alleviate poverty, microfinance is not enough. You need to also look at the broader challenges. Look at our current crises: the climate crisis, the food crisis. . . . For me the challenge is how to integrate that as a model with the microfinance institutions themselves, but also with the clients of the microfinance institutions.”

The field of microfinance is becoming increasingly competitive. There are basically three groups of players: (1) development finance institutions, like the IFC (International Finance Cooperation), KfW (Kreditanstalt für Wiederaufbau) etc., that invest with government money; (2) private investment funds with purely commercial objectives; and (3) private investment funds with social objectives, like Triodos. There are also funds that combine the activities of 2 and 3.

Says Marilou van Golstein Brouwers, “The private investors that are only focused on profitability are a potential risk for the microfinance sector because it's a very different type of business. If they were to start financing and were not used to these relatively small deals, either they would not do their due diligence or they would try to put in more capital than is actually needed. That could also be a risk.”

CGAP, a consultative group to assist the poor that operates under the flag of the World Bank, is trying to oversee the microfinance sector by identifying misuse and failures, as well as articulating best practices and making information sharing easier.<sup>5</sup> It is difficult to calculate the number of people who receive microfinance loans today, but one estimate is between 100 and 180 million.<sup>6</sup>

The movement also has its opponents, especially in regard to the role of women who are empowered by microfinance. Says Marilou van Golstein Brouwers: “Specifically, at some moment in Pakistan there was a big problem. Some politicians basically organized strikes of debtors. And the way they did it was to say to people ‘you don't have to pay

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<sup>5</sup> <http://www.cgap.org/p/site/c/>

<sup>6</sup> <http://www.cgap.org/p/site/c/template.rc/1.11.1792/1.26.1301/>

your debt anymore. If you pay me a certain amount then I will make sure that your debt is forgiven.’ We’re talking about people with very little education, so they believed this politician. It created a big problem for the microfinance institution. But the whole idea of this politician is to destroy microfinance because they don’t want these women to be empowered.”

But the success stories are encouraging, says van Golstein Brouwers: “What you see in Bangladesh is that women, once they have gone through this, become more self-confident, they take up political roles at the local level. And so, slowly, the society changes.”

When Triodos decided to focus its international work on microfinance, it quickly became an expert in the field and subsequently benefited from the later global acceptance of microfinance. Peter Blom, CEO, summarizes his assessment of Triodos’ microfinance engagement: “I think microfinance has been another area where we moved very quickly from an advisory role into an investment role. We realized early that if we want to have an impact in that field, we should be very close to these microfinance institutions. And it’s not good enough to just advise them on how they can bank. We need to become investors. We offer very unique and successful microfinance funds.”

Today, the area of microfinance sees an influx of capital that is focused on the financial return. Marilou van Golstein Brouwers, Managing Director of Triodos Investment Management, describes this influx as a mixed blessing: “Some people see a logical progression from donors supporting microfinance in its infancy, to social investors helping it to become financially viable, before more commercial investors replace them to propel the industry further forward to bigger and better things—at a profit. We disagree. The long-term health of the industry depends on well-informed, commercially astute social investors who understand the importance of financial strength but who are concerned with more than just financial returns.” Triodos not only focuses on its direct microfinance investments but also deals with the development of the sector as a whole. Examples are Triodos’ engagement with the Client Protection Principles that outline the core principles of microfinancing,<sup>7</sup> Triodos support of Microfinance Transparency

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<sup>7</sup> The principles emerged from a group of MFIs and investors, led by Accion and the Consultative Group to Assist the Poor (CGAP). For more information go to <http://www.cgap.org/p/site/c/template.rc/1.26.4943/>

Initiative,<sup>8</sup> and its participation in the Global Impact Investing Network,<sup>9</sup> a newly formed network that supports “impact” investments (impact investments aim to solve social or environmental challenges while generating financial profit).

Van Golstein Brouwers summarizes the objectives and goals of Triodos’ engagement in microfinance: “Profit is essential, because it enables an organization to invest in the improvement of services and further growth and efficiency. It is also difficult to attract capital in a sustainable way if there is no solid prospect of a financial return for investors. The question is more: What is a balanced return? For example, how does the return on equity relate to the interest rates that clients have to pay for their loans? We strive for a balance between a healthy financial return and a positive impact on society and the environment.”<sup>10</sup>

The combination of the four funds allows Triodos to achieve different objectives. The two earliest funds are closed funds that work in cooperation with two NGOs and are not focused on a financial return. With these two funds, Triodos is able to engage in more risky investments, such as in higher-risk countries (e.g., Afghanistan), and in promising but new microfinance institutions in underdeveloped markets. These new investments are especially important because, once they are successful, they can later be moved into one of the open funds.

Triodos microfinance engagement is strongly driven by its mission and values. Triodos brings both its financial expertise to the projects as well as its experience with combining the triple bottom line (people, planet, and profit). That distinguishes Triodos from other microfinance investors.

Through its funds, Triodos is a shareholder in 19 microfinance institutions. This requires a high level of engagement. With 23 co-workers in its microfinance department, Triodos works closely with its international microfinance partners.

An example of this engagement is an annual workshop that Triodos hosts for its microfinance investee partners. Triodos provides the space and the funding for the

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<sup>8</sup> <http://www.mftransparency.org/>

<sup>9</sup> <http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/home/index.html>

<sup>10</sup> [http://www.triodos.com/com/whats\\_new/latest\\_news/general/](http://www.triodos.com/com/whats_new/latest_news/general/)

InterviewMarilouApril2010

speakers and facilitates the workshop; the microfinance partners pay for their direct expenses. In this way Triodos creates a space for reflection and sharing among its microfinance partners that advances the field.

When asked about Triodos' vision, van Golstein Brouwers responds: "Microfinance is about financial inclusion in the broadest sense. We would like microfinance banks to develop into frontrunners of the financial sector in their countries when it comes to offering a diversity of financial services to low-income people in a responsible and transparent way, such that it helps them build assets and improve the quality of their lives and at the same time have a positive impact on the planet. In our role as investors we want to contribute to that."

The following table summarizes Triodos' engagement in microfinance. Again, Triodos responded with its product development to an external event and a social challenge. Because of its values and mission, Triodos found partners with whom to co-develop a prototype, in this case closed funds that focus entirely on microfinance. This innovation allowed Triodos to develop early expertise in the field before it became a mainstream product. The successful prototype provided Triodos with the capacity and the network to launch open microfinance funds, once the idea of microfinance had moved into the mainstream and customers became interested in it.

In contrast to conventional financial institutions that offer microfinance products today, Triodos, based on its values and mission, also works on long-term structural innovation in the field of microfinance through its engagement in initiatives such as Client Protection Principles, the Microfinance Transparency Initiative, and the Global Impact Investing Network. Unlike banks that operate solely to make a profit, Triodos is further concerned about the positive development of the sector.

Table 3: Microfinancing

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1988/89-
<b>External Event</b>	Approached by Women's World Bank
<b>Challenge</b>	How to address poverty and exclusion?
<b>TRIODOS BANK MILESTONES: Introduces Microfinance</b>	
<b>People</b>	Concerned NGOs, inspired by M. Yunus
<b>Prototype</b>	Two closed micro-finance funds
<b>Principles &amp; values</b>	Access to finance empowers
<b>Financial innovation</b>	Microfinance investment funds
<b>Structural Innovation</b>	Support "Self -regulation" initiatives

## The Fair Trade Movement

In the early 1990s, after the debt crisis in South America had started a debate about the role of money and the responsibility of investors, church groups began to contact Triodos. Says Thomas Steiner, one of Triodos' early employees: "When I joined in '91, the church movement was concerned about the enormous debt in Latin America, and they were asking who was to blame. . . . They had the feeling that a completely new way of banking could be the answer to the problem in Latin America, so people should put their money with Triodos Bank."

He remembers how the volume of this new customer group had an impact on Triodos: "For almost five years, from around 1988 until 1993, we were approached almost weekly by churches and groups of people to discuss money, how money works in society. . . . They were the same people who launched the Max Havelaar concept a few years later, that is now called fair trade."<sup>11</sup>

This church movement was an important factor in the development of fair trade commerce. The realization that farmers in South America and other non-industrialized countries did not receive their fair share of the profits for the goods they produced, and as a result were impoverished, created the idea to do business directly with the farmers with fair contracts.

More churches became a new group of institutional investors for Triodos. When church groups were looking for a socially responsible way to invest their money, Triodos provided an alternative to conventional banks. The transparency and the focus of Triodos investments offered an answer to their question of how to responsibly handle money.

What helped Triodos' engagement in what later became the Fair Trade Movement, was its work in microfinance. Through its microfinance engagements, Triodos had built relationships with co-operatives and importers. Triodos realized that what producers in non-industrialized countries needed so that they could produce for the organic markets in the industrialized world was a tool that covered the so-called "missing middle." The

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<sup>11</sup> For more information go to <http://www.maxhavelaar.ch/en/>

missing middle is a loan that is too large for microfinance but doesn't fit into the lending portfolio of the conventional local bank.<sup>12</sup>

Triodos' engagement in this field began as an offshoot of its microfinance activities. Here is an example: Farmers in non-industrialized countries need to bridge the gap financially between the moment of the harvest and when the revenue from sold crops comes in. If organic and fair trade exporters lack access to financing tools that bridge that gap, they are often forced to sell at a discount to a local middlemen. This hinders the growth of organic and fair trade projects, and prevents farmers from increasing their income. Local commercial banks do not offer the loans needed because of missing collateral and because agricultural loans are high risk.

Says Koert Jansen, the fund manager of Triodos' Fair Trade fund: "That is why we have set up an independent fund to support them. Financing is often the weak link in the chain of fair trade or organic products. We enable the co-operatives to pay their farmers a good price. You can't expect farmers to deliver on credit and wait to be paid until the coffee beans have been shipped and have arrived at the importer. So if the co-operative has no cash when the farmer arrives with his harvest, the farmer has to sell his beans elsewhere, without being able to capitalize on the added value of his organic or fair trade beans."

The core challenge of financing this "missing middle" is a lack of collateral. Triodos bridges this gap motivated by its mission namely to support organic and fair trade products. Two factors allow Triodos to engage in this type of financing

1. Triodos has established a relationship with the local co-operatives and farmers.
2. Triodos has access to high-risk funding through the cooperation with an NGO that operates in this area.

Trade financing is based on export contracts for, for example, coffee, tea, bananas, cotton, herbs, and spices. Triodos first needs to approve these export contracts with importers in order to finance them. Organizations that want to apply for trade financing must also be registered with the Fairtrade Labelling Organisation International (FLO International) or engage in certified organic production.

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<sup>12</sup> [http://www.brookings.edu/papers/2007/03development\\_de\\_ferranti.aspx](http://www.brookings.edu/papers/2007/03development_de_ferranti.aspx)

In 2008, Triodos split the fair trade financing off from Triodos microfinance and developed its own dedicated trade fund. This fund offers a variety of financial products, from pre-export finance to local loans. This fair trade fund was launched as an institutional fund.

Says Koert Jansen: "The fund has been set up as a foundation with guarantors covering part of the risk—for example, the NGOs Hivos and ICCO, and the G-Star Raw Denim Foundation whose goal it is to encourage the cultivation and trade in organic cotton. Triodos Bank provides the fund with loans of up to three times the amount set aside by the guarantors. For every million euros guaranteed, we can mobilize 3 million euros for sustainable trade loans. In our first year we granted loans worth 10 million euros to finance twenty organizations in Africa, Latin America, and Eastern Europe. We expect to generate 40% growth in 2009."

After Triodos approves an export contract, it can pre-finance up to 60% of the contract. When the buyer or importer pays for the produce, Triodos withholds a specified amount until the loan is paid off. The loan period is usually between six and twelve months and coincides with the harvest period. When the last produce is sold, the loan is paid off.

Koert Jansen summarizes: "This fund is quiet innovative. If you look around, there is not much private funding in this sector; it is mostly foundations who see this funding gap. Our goal is that local banks move into this market, and that we focus on training local banks."

For local banks to move into this segment requires a change in lending procedures because of the lack of traditional collateral in this field. Says Koert Jansen: "What is most important is to learn to think in term of value chains, and not focus on one company, on traditional collateral such as buildings, land, or machinery, but think in value chain and trade relationships."

Triodos' consulting branch, Triodos Facet, has developed a training program on value chain financing, and Triodos also presents its work and cases at conferences. Triodos has a strong interest in seeing that fair trade certification is not watered down but serves the purpose of identifying and distinguishing fair trade lending, and therefore works with certification organizations.



The following table summarizes Triodos’ history and engagement in this area:

Table 4: Triodos’ engagement in the Fair Trade movement.

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1990–
<b>External Event</b>	Debt crisis in South America
<b>Challenge</b>	What is our responsibility?
<b>TRIODOS BANK MILESTONES: Introduces ethical funds</b>	
<b>People</b>	Church groups; later the fair trade movement
<b>Prototype</b>	Fund the “missing middle”
<b>Principles &amp; values</b>	Transparency, organic food movement
<b>Financial innovation</b>	Triodos Sustainable Trade Fund
<b>Structural Innovation</b>	Training on value-chain funding

## **Socially Responsible Investment (SRI)**

In the 1990s, Triodos began to receive an increasing number of requests from retail customers for a socially responsible investment product. Moving into Socially Responsible Investment (SRI) posed a challenge to Triodos. How does a bank with unique principles and guidelines invest in corporations that don't live up to the same strict social and environmental principles?

SRI has early roots in religious movements such as the Quakers in the USA who wanted to align their investments with their values. The anti-apartheid movement at the end of 1989 and in the early 1990s led to a boycott of investments in South Africa and made the broader public aware of the potential of SRI. In 1991, the Domini Social Equity Fund was launched in the USA, becoming one of the first socially and environmentally screened index funds in the world. Since then, the movement has become global.<sup>13</sup>

Triodos hesitated to move into the publicly traded markets. Says Rosl Veltmeijer, Head of Sustainability Research at Triodos: "When you invest in the stock markets, you invest in big global companies. The standards that you apply are different. We can be much more strict when we give loans to small and medium-sized companies than we are with stock market listed companies. If we were that strict, we would stop investing in the stock market because none of the companies would meet our criteria."

Triodos' goal became to provide customers with a more socially responsible alternative to the existing SRI market. As a result, Triodos designed its own SRI process. It is also important to note that, back in 1997, when Triodos launched its first SRI fund, SRI hardly existed in the Netherlands. The first SRI fund, the ABF (translated as the "Other Investment Fund"), was launched in 1991; in 1995, the "Green Savings and Investment Plan" was launched by the Dutch government, which provided tax incentives for green investment categories (such as wind energy, solar energy, and organic farming).<sup>14</sup>

Early SRI in the Netherlands mainly excluded certain investments, such as companies doing business in South Africa or in the weapons industry. Later Triodos began to develop its own research and selection process that included the "best in class" principle

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<sup>13</sup> N. Kreander (2001: pp 1-64).

<sup>14</sup> For more details on the Dutch tax credit scheme see Part II of this case study.

as well as minimum requirements and engagement procedures. Today, Triodos distinguishes itself in the field of SRI in Europe especially by its minimum requirements and by its engagement policy.

The first SRI fund that Triodos launched was the Landtrust Fund in 1989. The Triodos Meerwaarde Mix fund (a combination of equities and bonds) was launched in 1997. In 2000, the Triodos Meerwaarde Aandelen (equity) fund and Triodos Meerwaarde Obligatie (bonds) fund were introduced. In 2007, Triodos introduced the first Luxembourg funds, Triodos Sustainable Pioneer, Triodos Sustainable Equity, and Triodos Sustainable Bond fund. Thanks to legal specifics, the Luxembourg funds allows all of Triodos' European branches to offer investment options and to combine funds so that they are more attractive to institutional investors.

Today, Triodos' decision to include a company in its SRI portfolio has several steps:

Step 1: Sustainable activities: Companies that derive 50% of their revenue from sustainable activities qualify for inclusion in Triodos investments.

Step 2: Companies that do not fall into the first category (sustainable activities) but that are identified as "best in class" qualify for Triodos investment. To evaluate this, companies are screened according to more than seventy sector-specific criteria.

Step 3: Minimum criteria. All companies are assessed against minimum criteria. Activities that exclude a company from Triodos investment include: gambling, nuclear power, weapons, genetic engineering, and factory farming. Process-related exclusion criteria include violation of labor or human rights and corruption.<sup>15</sup> On its website, Triodos also posts position papers on specific subjects such as animal testing, human rights, and nuclear power.

To facilitate its research on companies, Triodos purchases information from a sustainability research organization in the Netherlands. They deliver a basic sustainability profile of the companies, which Triodos uses to identify the frontrunners in a sector. Every company is compared on at least 70 indicators. A full screening of a company takes about three days, after Triodos acquires the background information.

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<sup>15</sup> For a complete list go to [http://www.triodos.com/com/static/pdf/investment\\_criteria](http://www.triodos.com/com/static/pdf/investment_criteria)

For all companies that are considered potentially eligible for investment, Triodos applies its own minimum criteria. A winner in the area of environmental technologies, for example, might be rejected because it is also involved in weapons production. Usually only about 25% of those first identified are deemed worthy of investing in.

In addition to the screening, Triodos also works on an engagement process. This involves raising issues of concern in shareholder meetings as well as providing direct feedback to the company. Most of these discussions take place during and after the research process.

In a feedback letter to a company, Triodos may state that it has selected the company for its portfolio and suggest ways it could improve its business practices. Rosl Veltmeijer provides an example: “So, if it’s a transport organization, we would focus on the carbon emissions of their fleet. If the company doesn’t have clear targets or the targets are not very strong, we would probably focus on that.”

In 2003, Triodos added this feedback process to its screening work. Again, the head of sustainable research: “In 2003, none of the companies responded to our letters. We were putting so much energy into this and we were so disappointed. We were about to stop, and then, slowly, companies started to respond.”

Five years later, Triodos sent out 510 letters and 5% of the companies engaged in an additional dialogue with Triodos based on these feedback letters. Says Veltmeijer: “So, they come back to us asking questions or providing more information or being very critical about what had missed in our analysis. Or they said, ‘Yes, you’re stating that we don’t have a policy on human rights, but we are developing one. I have a draft, can you look at it and see what you think?’ So, this conversation is beginning to work. The next step is to follow up on the feedback letters, and ask, ‘Okay, do you have questions? Is this clear? What are you going to do about the our suggestions for improvements?’”

Some of Triodos’ customers have expressed concern that SRI should not include investments in non-sustainable industries such as the car industry. Rosl Veltmeijer responds: “All our customers, even in the environmental NGOs, drive a car. So, we felt excluding the car industry would not be productive. So we decided to work with the best in class. We had a lot of reactions from the environmental associations saying, ‘Okay, Triodos is investing in cars, and Triodos is investing in bad industries and so on.’ We said

we don't want to be an icon, but we want to enter into debate because cars are a big issue for the climate. If we select the most sustainable, maybe we will help the whole sector to improve. It's very ambitious, but that is the macro idea."

The direct feedback process is accompanied by papers on Triodos' SRI research, which are accessible through Triodos' website. These papers outline the analyses and explain each company's ranking.

Asked whether her work is successful, the research officer summarizes, "We've proven that, even though we're very strict, you can still have a good investment fund. And I think that message needs to get across more. . . . I think we're too modest about that." And she outlines Triodos' vision: "The engagement is more and more successful, but yes, of course, you want to make big steps with the companies, and at the moment it's just small steps. I think we need to work together with other investors more on that."

Triodos was an early innovator in this field by launching an SRI fund, and then adding the "best in class" principle and the engagement policy to the research process. Today, Triodos is experimenting with an SRI engagement process by collaborating with other investors.

Triodos is also engaged on a structural level through memberships and participation in different forums and associations such as Eumedion,<sup>16</sup> and the UN Principles for Responsible Investment.

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<sup>16</sup> <http://www.eumedion.nl/home.html>: Eumedion operates as representative of the interests of institutional investors in the field of corporate governance.

Table 5: Socially Responsible Investment

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1990-
<b>External Event</b>	Anti-Apartheid Movement advances SRI
<b>Challenge</b>	Is an investment in stock an option?
<b>TRIODOS BANK MILESTONES: Introduces SRI</b>	
<b>People</b>	Institutional investors
<b>Prototype</b>	New saving account, new funds
<b>Principles &amp; values</b>	Identify leading innovators
<b>Financial innovation</b>	First “Best in Class” Investor in Europe
<b>Structural Innovation</b>	e.g. Eumedion, UN Principles for Responsible Investment

## **Becoming a European Bank: Branches in Belgium, the UK, Spain, and Germany**

Today Triodos Bank operates branches in four European countries. Triodos began its internationalization in 1993 with the opening of its branch in Belgium. Triodos UK followed in 1995, Spain in 2004, and Germany in 2009.

Before Triodos moved into several European countries, Europe had changed. In 1989 the Berlin Wall fell, opening Europe to the East; in 1992 the Maastricht Treaty was signed, formally establishing the European Union (EU) and a first step toward the euro, Europe's common currency, which began circulation in 2002.

In 1992 the new European banking legislation and especially the "home country control" rule gave Triodos the opportunity to operate with a Dutch banking license anywhere within the EU, controlled by the Dutch Central Bank. The branches started small. Based on the work of a Belgian study group and the co-operative Mercurius in the beginning of the 1980s, the Belgian Triodos Bank branch was launched by two Belgian bankers, Frans de Clerck and Karel Teck, in 1993, and then grew slowly.

Although small, the Belgian market was open to the idea of a green and socially responsible bank, and deposits grew. The loan side was more difficult since the environmental movement in Belgium was small at the time, and therefore projects that would fit Triodos loan criteria were limited. A small country, Belgium had almost no organic agriculture and in contrast to other European countries offered no tax incentives for environmental innovations and investments such as renewable energy or organic agriculture.

But this changed, and the Belgian government began to support green energy. With that, Triodos Belgium was able to access Triodos' expertise in this field, and to move quickly into the market. One of the first larger investment opportunities that the Belgian branch seized was a wind energy project.

In 1993, Triodos began operating in the UK after it was contacted by an ethical bank, Britain's Mercury Provident, which was struggling financially but shared Triodos' values and objectives. The two joined forces to become Triodos UK.

Before establishing the Triodos Bank branch in Spain, and based on a personal commitment to develop transparency and investments in sectors directed to promote a positive and sustainable change in society, Estaban Barroso founded in 1988 the company Proyecto Trust, S.A. Proyecto Trust was a consulting company specialized in advising companies, initiatives, and projects in the environmental, social, and cultural sectors. The activity developed by Proyecto Trust led to a strategic agreement to identify and channel Triodos' investments in Spain. This agreement evolved into the formal establishment of a Triodos branch in Spain, which opened its doors in September 2004. In 2009, Triodos opened its first branch in Germany, in Frankfurt.

Frans de Clerck, co-founder of Triodos Bank Belgium and former Triodos Managing Director, looks back: "As the Triodos values, vision, and mission can universally be applied but have to be embedded in the local cultures and traditions, it was clear that local dynamics and entrepreneurship could be combined with strong international cooperation and central leadership."

The opening of the branches had several effects on Triodos Bank in the Netherlands.

1. Initially, all of the branches were not self-sustaining and required substantial investments from the headquarters. The alternative for Triodos would have been to focus entirely on the Dutch market. But Triodos' strategic decision was to become a European bank instead.
2. Although not profitable in the beginning, the branches later contributed substantially to Triodos' growth and profitability.
3. Institutional investors such as pension funds, and Dutch banks seeking socially responsible investments, were attracted by the fact that Triodos had several European branches. Reflects Pierre Aeby, Triodos' CFO: "When we started the internationalization it was an important step for Triodos to raise capital from institutional investors. So, we had Rabobank<sup>17</sup> and pension funds like PGGM<sup>18</sup> and

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<sup>17</sup> Rabobank is an international financial service provider, with its headquarter in the Netherland and a focus on food and agriculture.



ABP<sup>19</sup> coming in. They were the first to recognize Triodos as a possible investment.”

The following table reflects this phase in Triodos’ development:

Table 6: Becoming a European Bank

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	1992–
<b>External Event</b>	Maastricht Treaty
<b>Challenge</b>	Should a small bank become international?
<b>TRIODOS BANK MILESTONES: Opens international branches</b>	
<b>People</b>	Local groups with same values
<b>Prototype</b>	Branch in Belgium
<b>Principles &amp; values</b>	Not to be an icon
<b>Financial innovation</b>	European sustainable bank
<b>Structural Innovation</b>	Network of green/socially responsible banks

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<sup>18</sup> PGGM: Dutch Investment Management

<sup>19</sup> Pension fund for the Dutch government and the educational sector.

## **Current Accounts: Becoming a Full Retail Bank without increasing consumer debt**

In May 2006, Triodos added current accounts to its services in the Netherlands.<sup>20</sup> At that point the bank had existed for over 25 years as a savings bank; current accounts were only offered to business customers. Up to this point, Triodos' focus had been to provide customers with a range of deposit options that ensured that their money was supporting leading innovators in green and socially responsible areas. It had not offered current accounts or consumer loans.

The change came when existing and potential customers, when interviewed, emphasized their need for a full-service bank including current accounts and debit cards.

The introduction of the current account coincided accidentally with a television report on Triodos.<sup>21</sup> The responsible manager, Dick Tichelaar remembers: "I watched the report about Triodos Bank on TV on a Sunday when we had just launched the current account, and I called my colleagues. We thought, 'oh, something is happening here.' Monday morning came the big surprise. It was fantastic. We had an application volume of about 6 times of what we expected."

Within three years, Triodos Netherlands had opened 30,000 current accounts serving 36,000 customers. Current accounts are not a profitable business, but bank customers prefer to have all or the majority of their financial interactions with only one bank. So, customers who open a current account with Triodos often also move their savings and investments to Triodos. Today, the average client of Triodos Bank has at least 50 percent of his/her investments with Triodos, which is significantly higher than prior to the introduction of the current account.

The immediate challenge with the current account is for Triodos to continue its non-support of unsustainable consumption. Therefore, rather than offering credit cards and consumer loans, Triodos offers a credit line for the current account that is defined by the monthly income of the customer.

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<sup>20</sup> A current account is the same as a U.S. checking account. The use of private checks is not common in Europe.

<sup>21</sup> June 11, 2007, Zembla report on "Banking secrets."

Becoming a full retail bank expanded Triodos' role in the banking sector. Again Dick Tichelaar: "With the current account and online banking, we reached a new group of customers."

What allowed Triodos to offer current accounts was also a change in Dutch legislation. A Dutch law required banks to have one ATM for every 4,000 customers. The EU commission altered this law, arguing that it discriminated against small banks. Today Triodos' customers can use any ATM in the Netherlands to withdraw up to €250 per day. Triodos holds an agreement with Rabobank that Triodos customers can use a Rabo ATM as often as eight times per day and can withdraw up to €1,500. Says Dick Tichelaar: "We are so small, we have low negotiating power that is a disadvantage. We pay a higher price for access to these ATMs. However, because of the new legislation we were not obliged to buy and operate ATMs. That has saved us a lot of money. So that is an advantage."

The introduction of the current account is aligned with Triodos' vision to become a banking alternative in Europe. Triodos is targeting the group of so-called "cultural creatives."<sup>22</sup> Dutch surveys estimate that 20–25% of the Dutch over age 18 fall into this category. This is a market of 1.8–2.5 million people that Triodos defines as its focus group.

Dick Tichelaar: "We want to grow our impact in society. It sounds a little bit high spoken, but we want to make a difference. We translate that goal into numbers. We want to provide more loans for innovative projects. That translates into more customers. But increasing these numbers is not our main goal, it is the means to get to our goals."

The step into the current account had followed an internal debate about the responsibility of a bank for personal debt in society. The challenge that Triodos Bank saw for its operation was how to provide full-banking service but not contribute to consumer debt, and to ensure socially and environmentally responsible lending that is transparent. Pierre Aeby, CFO, sums this point up: "Maybe we will have to consider consumer finance. Our principle is that we invest our money on sustainable projects. That is the basics. On the other hand, we want to serve our clients, and sometimes there is a dilemma because

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<sup>22</sup> P. Ray and S. Anderson (2000)

a client is not always fully sustainable. They don't eat organic or they don't drive an electric car. But if the customers make a choice that's not sustainable, do you penalize them for that and say, 'Okay, you have to go to another bank.' In regard to consumer loans, we think about what customers are spending their money on. And most importantly, we believe we have an ethical responsibility in regard to the debt position of our customers, which actually implies helping to avoid being a driver for consumption, and getting into too much debt. We cannot support a five- year loan for buying a vacation package and building up debt that way. So, how do you manage that?"

The result of this discussion is that Triodos Bank offers a current account without a credit card and with only limited options for personal loans. By restricting its services, Triodos is not optimizing its potential profit but is balancing its mission with product development. The following table summarizes this policy:

Table 7: Becoming a full-service bank

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	2006-
<b>External Event</b>	Public debate on banking in NL
<b>Challenge</b>	Can a green and SRI bank offer a current account?
<b>TRIODOS BANK MILESTONES: Becomes a full-service bank</b>	
<b>People</b>	"I want to do all my banking with a sustainable bank."
<b>Prototype</b>	Checking account without consumer loans
<b>Principles &amp; values</b>	100% sustainable loans
<b>Financial innovation</b>	No credit card, no consumer loans
<b>Structural Innovation</b>	100% green products

## Financial Crisis of 2008–09

Even before the financial crisis that began in early 2008, the public debate about the role of banks in society and about what happens with money deposited in banks intensified in the Netherlands. This discussion broadened as the financial crisis deepened. The failure of large banks, and the attempts of governments in Europe and abroad to rescue them by investing large amounts of money, resulted in a heated public discussion about the role of banks in society.

The NGOs Oxfam Novib and Milieudefensie (Friends of the Earth) in the Netherlands led a coalition of NGOs that focused on this question.<sup>23</sup> It published information about the investments of pensions funds and foundations and asked, for example, why a cancer foundation would be investing in the tobacco industry.

The initiative launched the website [Eerlijkenbankwijzer.nl](http://Eerlijkenbankwijzer.nl) (Fair Bank Pointer). The website compares banks in 17 categories, including labor rights, biodiversity, arms trade, and renewable energy. The website also provides current information about banking initiatives and encourages readers to move their money into the more socially responsible banks. Triodos is ranked as the most environmentally and socially responsible bank in the Netherlands on this website.

Triodos did not invest in any toxic assets and as a result did not lose money during the financial crisis. The opposite happened. Large numbers of customers decided to move their money out of the large banks into Triodos Bank. In addition, Triodos became a role model for how banks can act responsibly. Positive public opinion of the bank also began to pose challenges: deposits were flowing in so rapidly that Triodos was challenged to make loans in a timely fashion. Its goal is to lend at least 70% of its deposits for approved projects. A sudden influx of funds made this difficult. Also, the financial crisis slowed down the economy in Europe, resulting in reduced entrepreneurial activity, which made it harder for Triodos to identify projects that fit Triodos' profile and that could be profitable.

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<sup>23</sup> <http://www.milieudefensie.nl/>, the Dutch Chapter of Friends of the Earth.

Peter Blom describes the impact of the financial crisis on Triodos: “Before the crisis, Triodos was known and discussed by the public for its impact and work in specific sectors such as renewable energy, organic food, or microfinance. Since the crisis Triodos has been also discussed as a banking model.” Thomas Steiner adds to this: “There is also a danger in the current public attention. The danger of becoming an icon. Oh, Triodos is so beautiful, but irrelevant because conventional banks cannot do the work that Triodos does!”

This public attention included several international and Dutch awards for Triodos’ work, and gave Triodos an opportunity for broad public outreach. But Thomas Steiner reflects, “We did not become part of the discussion. We tried to push the communication, tried to have an impact on the mainstream, but we do not see that we succeeded.”

An example of the public attention that resulted from the financial crisis is that Peter Blom was asked to join the Board of the Dutch Banking Association (Nederlandse vereniging van Banken). After an internal debate, Blom accepted. Today Triodos would argue that banking circles and the public should be willing to address fundamental questions about the role of banking in an economy and a society. Thomas Steiner summarizes, “if we become this ideal or icon, then we are fantastic but irrelevant. A nice small bank. We want to be a prototype for the change the sector needs, not just an icon.”

Although Triodos has grown continuously, it is a small bank in comparison with its competitors. Triodos also questions whether the pathway to a broader impact is to grow to the size of the conventional banks in Europe. One argument that is discussed internally is whether a renewal of the banking system should include a broad web of small banks (rather than a few large banks) that operate to sustain the triple bottom-line.

In 2009 Triodos Bank won the *Financial Times* Sustainable Bank of the Year Award at the International Sustainable Banking Conference in London for its leadership and innovation in integrating sustainability in all its activities. The award is sponsored by the *Financial Times* and the IFC, a member of the World Bank Group.

The financial crisis also initiated an intense discussion on banking regulations and the role of banks in a society. After the financial crisis hit, the Dutch Banking Association set up a commission of “wise men” (the Maas Commission) to look inside the industry and

try to determine what issues led to the crisis. Members of the commission were former bankers and academics. In this commission, Triodos was discussed as a model for a different banking approach. Triodos also suggested a banker’s oath that would commit bankers to responsibility toward society.

In summary, the financial crisis put Triodos in the spotlight as a banking model. Triodos Bank tried to use this public attention to initiate a conversation about the role and responsibility of banks in a society. It also aimed to position itself as a thought leader on a variety of topics. Whether Triodos Bank will succeed in its attempt to increase its impact on the financial sector remains to be seen.

The following table summarizes this phase in Triodos’ history:

Table 8: Impact of Financial Crisis

<b>EXTERNAL EVENTS AND CHALLENGES</b>	
<b>Beginning</b>	2008-
<b>External Event</b>	Financial Crisis
<b>Challenge</b>	How to deal with banks’ neg. impact on real economy?
<b>TRIODOS BANK MILESTONES: An alternative banking model</b>	
<b>People</b>	Broader public
<b>Prototype</b>	Represent a new banking model
<b>Principles &amp; values</b>	Participate in public debate
<b>Financial innovation</b>	Triple bottom-line bank
<b>Structural Innovation</b>	Global Alliance for Banking on Values (GABV)

## **Part II: Business Practices and Capacities of Socially Responsible and Green Banking**

Part I of this case study outlines the history of Triodos Bank and identifies patterns in its development. Part II focuses on the business practices that Triodos has developed and ends with a discussion of the challenges and limitations as well as a summary of the business practices and capacities of value-based banking.

### **The Lending Process: Neutrality Is a Lack of Responsibility**

Triodos was founded with the objective to fund innovators who are addressing social, cultural, and environmental challenges in society but lack access to funding. What began with “lending circles” as first prototyped in the 1970s became, 40 years later, a bank with a lending volume of more than € 1.6 billion.

Matthijs Bierman, Director of Triodos Bank, the Netherlands, summarizes the focus and purpose of Triodos’ lending activities:

“We think our core activity on the lending side is really to find the pioneers in business—those who are the frontrunners in making their sector more sustainable. So in energy, we’ve already financed renewable energy. But only the top in class. So we’re quite strict in our criteria there.

In farming, we only finance organic farms. So a non-organic farmer or conventional farmer who is investing in making his or her farm more sustainable, although we think that’s a fantastic thing for them to do, would only qualify for a loan from Triodos Bank when he intends to convert his farm to organic. And like this, in each sector, we have specific criteria which will help us decide whether or not we will finance.”



The challenge of lending with a mission is to develop qualitative criteria that translate the mission into practice. A potentially profitable loan might not align sufficiently with the mission. Bierman describes this challenge:

“The criteria need to be dynamic, first of all. Because as times change, requirements change. So what is sustainable now may not be sustainable enough anymore in five years’ time. For example, greenhouses. We have a lot of them in Holland. There was a generation of greenhouses which was far less energy-consuming and for a while was considered very green. But nowadays we would only consider them to be really sustainable if they have a net production of energy and then can store that energy in, for example, the groundwater. So that’s dynamic.”

Another example of the challenge of dynamic investment criteria is biomass. Although the EU and several European governments have developed a list of criteria for biomass, Triodos’ Sustainability Research Group needed to develop its own criteria in order to align its lending and investment decisions with the bank’s objectives. They put these in three categories:

Green (preferable feedstock): food waste, forestry, and agricultural residue.

Orange (potentially controversial feedstock): products such as manure from intensive farming, e.g., chicken or pig farming.

Red (controversial feedstock): purpose-grown energy crops and genetically modified energy crops.<sup>24</sup>

These same distinctions help the bank to identify acceptable investments in biomass. The Italian company Actelios, for example, is a biopower company that generates electricity using waste, biomass, and photovoltaic technology. For its biomass production Actelios uses mainly “green” sources, such as municipal waste and forestry residue. The company does not clear land to produce the sources of biomass. Although a small part of the feedstock it uses consists of “red” (controversial) feedstock because of its other sustainable practices Triodos does not consider it controversial. The company increases

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<sup>24</sup> For more information go to [http://www.triodos.com/com/triodos\\_research/215857/216040/bioenergy](http://www.triodos.com/com/triodos_research/215857/216040/bioenergy)

the efficiency of its operations by selling steam and hot water, or re-using the produced heat through a heat-recovery process.

Triodos' Sustainability Research group also sets the threshold for greenhouse gas emissions savings for biofuel companies at 75% (the EU threshold is 35%), and companies that produce electricity from biomass are required to re-use the waste heat. Another example is Petrotec in Germany, which produces biofuel from used cooking oil and animal fat from restaurants in Germany and other EU countries. Its emission savings are 83%. The company is included in Triodos' investment portfolio.

As these examples illustrate, lending decisions that include qualitative criteria are complex and dynamic owing to changing information and developments in the field. One current challenge that is especially relevant to the Spanish branch is solar energy: Do you finance a photovoltaic system on empty land or only on buildings?

Triodos is looking for investment opportunities where the philosophy of its clients is aligned with Triodos' mission on several levels. Eosta corporation, an importer and distributor of organic fresh fruits and vegetables, was an early customer of Triodos. Since 2008, Eosta has minimized the CO<sub>2</sub> impact of its products by using compostable packaging and by partnering with Soil & More, a company that manages compost projects. Eosta has developed an innovative "trace and tell" system where every product has a unique code and via a website consumers are able to track the product back to the grower. This allows for 100% transparency about the origin of the product, as well as the conditions under which it was produced and how it found its way onto consumers' tables.

Triodos' credit committee, supported by a research team, regularly reviews the bank's loan criteria. As Hans Schut sums up, "Yes, the criteria are constantly changing. For a technically complicated subject like biomass it took us over a year to get that whole policy together."

As the examples of biomass and greenhouses illustrate, lending for a mission-driven bank requires legwork, and detailed expertise in the lending areas. This expertise in turn attracts customers who value the know-how and research capacity that Triodos brings to the table.

Triodos' mission also includes a broader objective, namely to "help create a society that promotes people's quality of life and that has human dignity at its core." This objective refers to the well-being of society as a whole. In its lending and investment practices, Triodos has defined focus areas, as follows:

### *Nature and the Environment*

Within this sector, Triodos is looking for projects that advance the technologies and processes that help societies to minimize their negative impact on nature and the environment and optimize their positive impact.<sup>25</sup> These include:

- Organic farming and organic food (Triodos refers here to certification given by respected organizations such as SKAL, Biogarantie, and the Soil Association)
- Renewable energy
- Eco-development (e.g., buildings, landscape and environmental projects)

### *Culture and Society*

Since its founding, Triodos has financed educational and cultural projects in the belief that society needs to "renew" itself and that education and the arts are the foundation for such a renewal process. In this area Triodos funds:

- Education
- Childcare
- Health care (e.g., medical centers, therapeutic farms, care for the elderly, hospices)
- Arts & cultural organizations (Triodos also exhibits art in its own buildings)
- Philosophy of life endeavors (e.g., meditation centers, religious and spiritual groups)
- Community projects

### *Socially Responsible Business*

In addition to funding cultural and environmental projects, Triodos provides financing to businesses whose goal is to have a positive impact on society. Strengthening society was one of the founding ideas of Triodos and still is one of its core objectives as a lender.

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<sup>25</sup> [http://www.triodos.com/com/static/pdf/coen\\_lendingcriteria.pdf](http://www.triodos.com/com/static/pdf/coen_lendingcriteria.pdf)

Sectors the bank finances include:

- Non-food retail
- Manufacturing
- Professional services (e.g., consulting, research, building contractors)
- Housing
- Fair trade (Triodos refers to fair trade labels recognized by the Financial Labelling Organization [FLO])<sup>26</sup>
- Development organizations

The name Triodos, meaning three ways, reflects the bank's philosophy that a healthy society needs to foster three areas: people (culture & society), planet (nature & the environment), and profit (socially responsible business). The role of the cultural sector is to provide the space and opportunity for renewal and development. This can happen through the arts, social and community development projects, and non-profit organizations.

Examples in these sectors include:

- (1) Cherry Orchards, a therapeutic community offering rehabilitation and support to people recovering from a life crisis brought about by physical or mental illness
- (2) Asociacion Cultural Por la Danza, a non-profit organization supporting the development and promotion of traditional Spanish dance
- (3) St. Paul's Church in Oestgeest, the Netherlands, which used a loan from Triodos to renovate the unused church and transform it into a cultural center

## **Lending Criteria**

In considering whether to provide funding to an applicant, the bank excludes, in general, any product, service, or business process that it believes would hinder the development of a sustainable civil society. Specifically, Triodos does not lend to organizations, businesses, and projects whose activities products, services, or processes are more than 5% non-sustainable.

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<sup>26</sup> [http://www.triodos.com/com/static/pdf/coen\\_lendingcriteria.pdf](http://www.triodos.com/com/static/pdf/coen_lendingcriteria.pdf)

Triodos does not lend to businesses engaged in the distribution or production of nuclear energy, weapons, or environmentally hazardous substances. These include:

- Non-sustainable products and services (e.g., gambling organizations; businesses and activities that produce or sell substances that threaten humans and the environment, such as tobacco)
- Non-sustainable working processes (e.g., intensive agricultural production; any sign of corruption in the business operation; animal experimentation; genetic engineering)
- Certain types of fishery, agriculture, and tourism.

Figure 1 summarizes Triodos' lending practices:

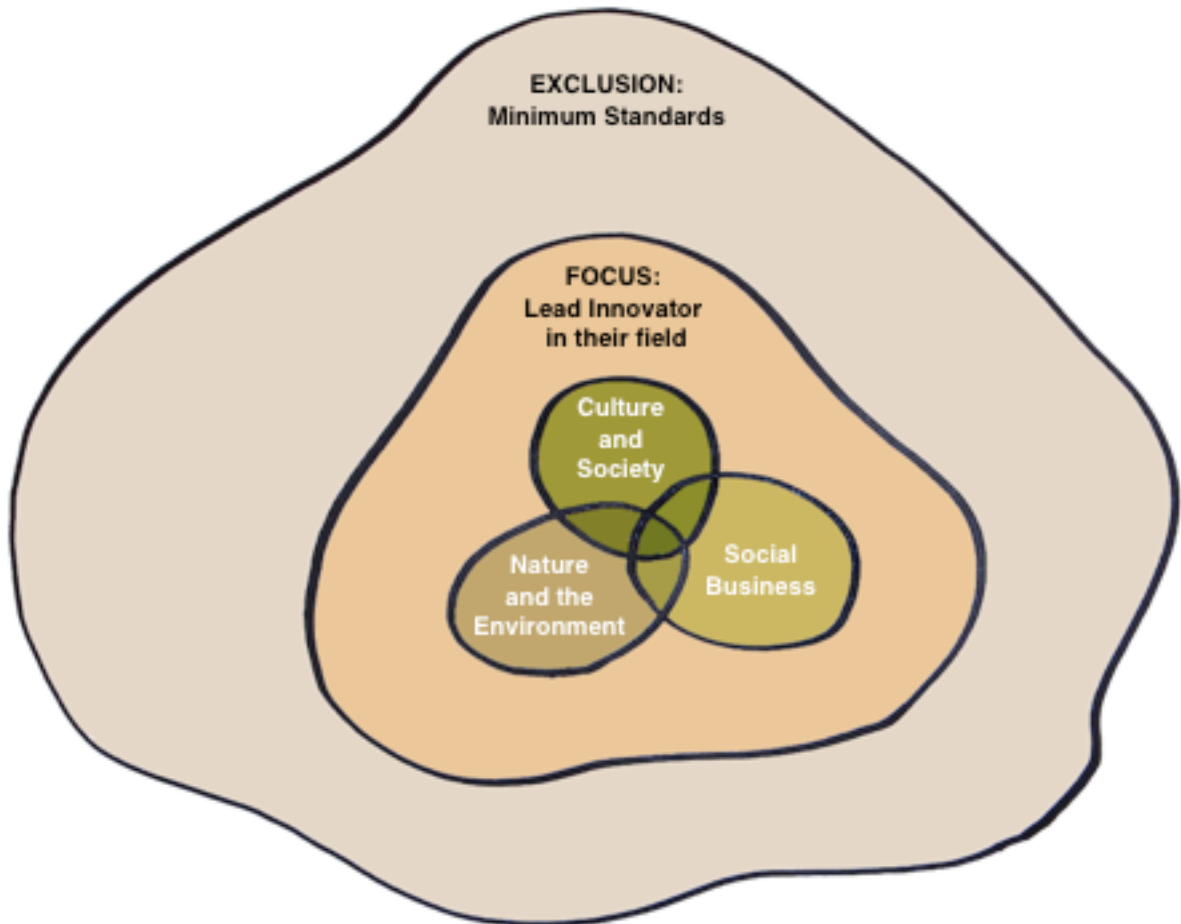


Figure 1: Triodos Bank lending criteria

Figure 1 shows the complexity of Triodos' lending decisions. What might seem like a linear process is in practice more organic. Customers who approach Triodos often do so because they see an alignment between their work and Triodos' mission or are aware of the knowledge that Triodos brings to the table in that specific sector. In effect, potential borrowers pre-screen themselves. During the financial crisis this changed somewhat, as conventional banks restricted their lending volume, and businesses and private customers began to search more widely for a bank that would lend to them.

Triodos publishes its loans on an interactive website that allows users to locate an investment on a map. The website provides a detailed description of each borrower. This level of transparency is an important factor with which Triodos distinguishes itself from conventional banks. Transparency is a cornerstone of Triodos' reputation and its relationships with its customers.

These two review processes, internal and external through customers, define Triodos' lending practice.

One core challenge on the lending side is to maintain steady growth in deposits. Triodos' usual practice is to lend out approximately 65% of its deposits. In times of rapid growth, Triodos needs to balance its strict lending criteria with a rapid increase in deposits. During a downturn, the challenge is the same, but the circumstances are quite different.

Another challenge is to balance strict lending criteria with the need to serve the bank's customers.

The financial crisis of 2008–09 inspired a large number of customers to move their accounts to Triodos at the same time that it weakened both the real economy and socially and environmentally responsible businesses.

Says Matthijs Bierman, the Director of the Dutch branch: "I think an increasing number of businesses are realizing how important it is to become more socially responsible, environmentally aware. So they're investing in the type of things we like to finance. Although at the very moment, of course, with the current uncertain economic climate, business is maybe a bit hesitant to invest. So I'm certainly not going to push our business

banking department to, within a year, bring it back to 65%, because then you get dangerous situations. So we'll allow ourselves time."

When asked about competition, Bierman said, "Triodos' competitors have a banking model that is very different. They mostly avoid the wrong kind of investments, so they have a lot of exclusionary criteria. Whereas we deal with much more positive criteria, we deliberately seek out those activities which drive positive change, rather than just avoid the bad things. But it's a bit hard to get the message across sometimes in all this nuance to the general public."

In summary, the lending process that Triodos uses is characterized by a dynamic and multi-level internal decision-making process that is transparent and critically reviewed by its customers. Lending decisions are based the goal of funding projects in the three areas (1) culture/civil society, (2) nature and (3) the environment, and socially responsible business. Triodos aims at identifying lead innovators in these areas. Excluding criteria or minimum standards secure the alignment with Triodos' mission. These three steps ensure a process that aims to ensure that lending is serving Triodos' mission.

Frans De Clerk, former Managing Director and founder of the Belgian branch of Triodos, points to the difference between Triodos' approach to lending and conventional lending: "So in terms of a concept, it's still the case that a banker has nothing to do with those fundamental things he has to judge on. To him, he is neutral. Because it's only based on objective criteria—namely, can the loan be repaid? Is the risk limited? It is only in the context of human society that we see that economics should serve human society. From this point of view, there is a basic understanding of the role of economics in society. And that it has to be limited, in a certain sense. Functioning in a context which does not harm society." Or as CFO Pierre Aeby describes this idea of lending: "Neutrality is a lack of responsibility."

## **Co-workers: Banking without Bonuses**

How does working for Triodos differ from working in a conventional bank? Triodos earns profits of about 5% and does not pay bonuses to its employees. Triodos' transparent lending and investment criteria, and the fact that the bank remained profitable during the financial crisis, received broad public attention. (In contrast, some conventional banks seek double-digit profits and pay generous bonuses.)

Says Roel Welsing, of Triodos marketing: "The lower you work in the organization, the better your compensation in comparison to conventional banks. The more senior you are, it's the other way around. We don't have a bonus culture here, so we have no targets up front that influence your salary. We try to motivate people more from the values of the organization."

Salaries are accompanied by a wide range of benefits such as a retirement package, vacation time, and the option to "buy" two additional vacation weeks per year. The ratio between the highest and lowest salary was 8.5 at year-end 2009. Says the international HR manager, Els Verhagen: "Generally it is recognized that bonuses are not the right tool, but since organizations don't see any alternatives and everybody is using them, they can't stop it. Whereas I say, knowing that bonuses are not the right tool, I don't use them, even if I don't have anything else. I just don't use anything that's not good."

Socially responsible banks compete in a sector where high bonuses are based on a business model that Triodos does not use. Triodos' business model excludes, for example, the trade of derivatives or investments in highly profitable but socially or environmentally unsustainable businesses. The Director of the Dutch branch, Matthijs Bierman, reflects:

"This is very much a greed-driven business . . . I have a surprisingly high number of applicants who started their careers with other banks. When I joined the bank [in 1996], we had lots of people from outside the banking industry. It could be somebody who ran an organic food store for a few years and then decided to come to work for Triodos Bank. But then, as we grew, we needed more professionals from other banks. Surprisingly often people find us after working in



conventional banks for a number of years . . . they're around 35–40 years old, they may have had their first or second child and they start thinking, what sort of future am I really working toward? Sometimes they describe it to me as follows: 'In my work and in my private life, I'm two different people. I want those two people to be much more the same. I want to work for the same values in my work that I also find important in my private life.'"

People who choose to become Triodos' "co-workers" (the term Triodos uses for all of its employees) connect to the multi-dimensional objectives of the organization. People either have already worked in social businesses or non-profits, or they realized that they want to work in an environment that is seeking positive social change.

Rosl Veltmeijer, Head of Sustainable Research, describes her experience: "I worked in the conventional field before, and one day I had to write an analysis of a U.S. company that produced nuclear weapons. The company was very profitable, the forecast was really healthy. But [I included in] my report that we need to have a discussion on what this company is making money with. . . . Within 15 minutes of the delivery of my report the director, my boss, was in my room, and very angrily told me that this is not my job. That was when I decided to leave."

Eric Holterhues, Manager of Business Lending, summarizes: "We need bankers that have a feeling for our mission. When they only have a feeling for the mission but are not a banker, they can't work here. And when they are a banker but don't have a feeling for our mission, we will be gone in two years, because then we are just a bank like other banks."

Els Verhagen, who came to Triodos after years in a conventional organization, remembers: "What I really enjoyed when I started working here was that sustainability is everywhere in the building: in the canteen, in the coffee, in everything you do. It's in the furniture. Everything is sound, and it feels good." An example is that Triodos offsets 100% of its emissions. Triodos does not have a separate department for sustainability but attempts to integrate its triple bottom line throughout the organization.

When asked about the challenges of working in a mission-focused organization she said: "[Some] people are so driven by the mission that they forget about relations. And . . . it's sometimes hard to give constructive feedback because it quickly feels like a personal

attack. It's easy for someone who comes in and just does a job if you say 'you're not doing it right.' . . . But if you really feel you contribute to something very important and then someone gives you [negative] feedback, it's much more sensitive on both sides. . . . We have a lot to do to make it [the work environment] more open.”

This phenomenon is well known in organizations whose goal is to have a positive social impact.<sup>27</sup> Working in mission-focused organization requires a deeper involvement of co-workers. As a result the social complexity can increase.

When asked about the three top challenges, International HR Director Els Verhagen names growth, balancing generalists and specialists, and co-worker turnover.

#### 1. Growth

Triodos has grown at a consistent annual rate of 20–30%. One challenge of rapid growth in a small or medium-sized company is maintaining the organizational culture. Triodos co-workers who started in a small organization are concerned that growth will bring with it a more bureaucratic and impersonal work atmosphere. Growth also requires hiring new co-workers who are both professionally qualified and share the qualitative goals of the organization. And growth requires constant changes and adjustments in the organizational structure. Says Pierre Aeby, CFO: “If you work with Triodos Bank and you don't accept that every two, three years you have a change of structure, it's very difficult. So, we must have people who are quite autonomous and like to grow, like to build.”

The director of the Dutch branch, Matthijs Bierman, describes the impact of these challenges: “Every time when we've made an improvement to the process, I thought, 'Ah, now we'll be able to manage the flow,' and then growth speeds up again. So we're always sort of one step behind, and that's rather frustrating. But on the other hand, it's fantastic, it's because Triodos Bank is becoming more popular.”

One example of a challenge created by growth was amount of time it took Triodos to introduce and sign customers up for current accounts (checking accounts), in response to their demands.

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<sup>27</sup> Peter Frumkin and Alice Andre-Clark (2000: pp. 141–163)

In 2003, Triodos began to change its internal organizational structure by centralizing more of its operation to accommodate the growth. CFO Pierre Aeby summarizes the challenge here: “We are a Dutch bank, but we want to go a step further and try to work with more universal values that people everywhere in the world could recognize. But the branches are locally embedded. So, you have to be close to the people, and you have to adapt it to the local market.”

## 2. Balancing generalists and specialists

Also typical for medium-sized companies is the need to hire a balanced team of generalists and specialists, and to hire sufficient senior staff while leaving enough career opportunities for young co-workers.

## 3. Co-worker turnover

Another challenge that Triodos was confronted with was high turnover. An analysis revealed that this high rate applied to all branches and to all areas of the bank. A close examination of the issue revealed that especially newly hired people left the organization quickly. Says International HR Manager Els Verhagen: “In the early years, we emphasized the mission when we hired people. And then we wanted to professionalize, and we put much emphasis on professionalism. Now we say we have three pillars: (1) professionalism in the job, (2) a connection to the mission, and (3) a fit with the working culture.”

When asked what defines Triodos’ culture Verhagen said:

“[Even] if you had the professional skills and connected to our mission you might still not fit in. It was not a guarantee that Triodos would work well for you. Through interviews we found out that the working culture here is pragmatic, professional, and not bureaucratic, meaning not so much politics, but hands-on. This is quite different from many other banks. But if you are used to people telling you exactly what you have to do, and if you have clear targets, then you know when somebody's going to give you rough feedback. It's not nice, but at least you know what's happening. If suddenly nothing is there, you feel uncomfortable. You are left to your own judgment.”

In other words, the issues will be addressed to a certain extent, but the co-worker will have to rely to a large extent on self-evaluation. Triodos addresses this issue by creating awareness among managers and by integrating this cultural characteristic into the recruitment process.

Peter Blom, CEO, adds to this list of challenges: “We do not reflect in our staff the diversity of our society. We are good at balancing female/male. But we are still I would say in the middle-/upper-class population. And there are good reasons for that, actually. We have not been able to build a relation to the new minorities in the Netherlands.”

As the company grew, Triodos also intensified its training and development program. Today, the education component, the so-called Triodos Academy, includes seminars for junior co-workers, a management development program, and a leadership program.

Triodos has developed some bank-wide traditions, such as a Monday morning meeting in both the head office and the branches, in which everybody is expected to participate. Each Monday morning one co-worker or group presents its work on a current project, a new development, or an initiative. New co-workers introduce themselves. The objective of these meetings is to provide a space where co-workers can see what is happening outside their own departments, connect to different co-workers, and talk about emerging themes and challenges.

Originally, Triodos held an annual meeting for all co-workers, where current developments and focus areas were presented and discussed. These meetings also provided the opportunity for everyone to learn about areas outside their regular work responsibilities. After 20 years of operation, Triodos had become too large to invite all co-workers to these annual meetings. Today Triodos operates with the following structure. The Executive Board (CEO, CFO, and COO) holds the decision-making power in the organization. An International Management Council (IMC) meets every two months, and is a meeting of all local Managing Directors, and Managing Directors of the business units, such as Investments and Private Banking. The IMC holds no decision power but discusses ongoing and current questions and developments. Once a year, an extended IMC meets. Co-workers are invited who have specific knowledge or are affected by the

topics that will be discussed within the IMC. An example of a topic discussed in the IMC is the strategic development of Triodos.

Once a year, Triodos holds an annual co-worker meeting for about 100 employees. The IMC extends the invitations to this co-worker meeting. Each year there is a different focus that is coordinated with the ongoing work of the IMC. This focus also determines who is invited to these annual meetings.

In addition, every Monday morning co-workers meet in all branches. The objective of these meetings is to provide a space for sharing and communication. Teams and management will present their current work.

Roel Welsing, Manager for Marketing, offers another example of a learning structure at Triodos: "So, for example this year we organized for everyone here in the bank a visit to a business banking client so they will learn what the vision of that entrepreneur is for society, why he's doing what he's doing, and then why we finance it, of course, and what the impact is. And then we try to have discussions about this experience."

Triodos' culture is also characterized by high-quality benefits and the goal to respect vacation time. Says International HR Manager Els Verhagen: "I think that's a respectful way of working, that when you have a contract of 36 or 32 hours you respect this boundary, and don't expect people to email at 6 a.m. or be in a conference call at 10 p.m. Of course, Triodos also expects people to work hard and to sometimes be prepared to work longer hours. But we are results-oriented, so we want to achieve results."

Verhagen describes Triodos' philosophy about learning and training as follows:

"People need to take responsibility for their own development, and you can only help them. There's always the balance between what we can initiate and what people want to learn. So, you can offer quite a lot of things, but people have to step in and . . . accept the offer and really start learning. So, I think it's very important not to create artificial or instrumental programs. It's a harder way because it takes more time, but it's more sound, and it's less dependent on the modes or the fashion or whatever is discussed in the HR world.

For example, we now offer self-management for people to help in planning and setting priorities, but it's not time management. Time management says you can do things quicker and better. Whereas self-management says, okay, what motivates me? What are my goals? ”

Ideas for learning programs that co-workers feel would help them are generated in the year-end or mid-year review: “Sometimes an idea pops up. Okay. We have to get presentation skills . . . or how do we form judgments? . . . We have a need there. We need in our credit committees people who can make decisions and base those decisions on a proper process. How do you learn to develop your judgment skills?”

One example of a type of training that might not be found in conventional banks helps co-workers make decisions. At Triodos it’s called “Forming Judgment,” which is an artistic process through which participants practice a process that leads them through three steps (1) what is my perception of the relevant facts, (2) create an image of thoughts, feelings that emerge when looking at the facts, and (3) identifying my goals. Instead of an iterative process this artistic exercise allows to go back and forth between the three cornerstones and have a “judgment” emerge from this process.

## **Summary**

In a sector that is dominated by generous bonuses and double-digit profits, Triodos Bank has developed a business model and organizational culture that aims for a balance between financial results and values. The organization has developed specific processes and policies that to allow to balance the mission with business results. Examples are the internal communication structure (e.g. Monday meetings) or the training programs (artistic processes). It is also important to note that co-workers are more engaged in the balance between the diverse objectives requires co-workers to Triodos Bank’s challenge is its growth rate, and its implications for the organization.

## **The Business and Ownership Model: Balancing Return and Intention**

Triodos' business model differs from that of conventional banks in that Triodos' mission combines profitability with the objective to finance leading innovators in the three focus areas of social business, culture/society, and nature/environment. Triodos does not engage in any financial activities outside its mission. This excludes some highly profitable investments, trading businesses, and financial products that do not meet Triodos' investment and lending criteria.

After the deregulation of the financial sector in the 1990s, profits in financial institutions began to soar,<sup>28</sup> and some conventional banks reached two-digit profit rates (return on equity). Triodos Bank aims for a 5–7% return, which is based on a business model where every transaction is looked at for its impact in the real economy, and is analyzed according to Triodos' criteria for investment and lending. Peter Blom, CEO of Triodos, summarizes the business model: “Our methodology requires that we are not asking where we can make the most money. We ask, Is this something that is a good thing for society? And then the second question is always, How can we translate that into a product, a service that also makes sense financially?”

Triodos is balancing profitability with its mission to help sustain a healthy society. Peter Blom emphasizes how these goals interact: “We're not looking to our customers or to our means of production as a bank as a vehicle to maximize profit, but to maximize wealth in a broader sense. So not just financial wealth. It is in the end about adding value to society by organizing capital and money in a transparent way, where people can relate to what is really important for them and to what they would like to see grow and get stronger in their society.”

A striking difference between the conventional sector and Triodos Bank became visible during the financial crisis, when Triodos did not hold any toxic assets but continued to achieve a consistent return of 5%, and did not require any financial support through the government. Peter Blom points at the core idea of Triodos' business model, and how it had helped Triodos not to get involved in toxic assets:

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<sup>28</sup> <http://www.federalreserve.gov/pubs/bulletin/2008/articles/bankprofit/default.htm>; T. Philippon and A. Reshef (2009).

“If you look at it a little bit broader, it’s always about capital, people/labor, and nature—the sort of triangle that you learn in economics. And that is the context in which a financial transaction takes place. So any financial transaction is always between people. There is never a transaction between capital and nature without people involved. That doesn’t exclude capital, but it puts it always in relation to, What does it do to labor and nature and how can we have a more balanced approach to those three? And what has happened in the financial crisis is that the factor of capital became disconnected from the other two.”

During the period when conventional financial institutions were able to reach profit rates of 25% and more, Triodos’ business model was questioned and not considered particularly attractive. But when the financial crisis hit, Triodos was discussed as a role model not only by the public but also by the Maas Commission, which the Dutch banking association had put into place to investigate the financial crisis and make recommendations to the Dutch banks. Peter Blom, CEO, describes Triodos’ impact in this commission: “We were able to bring in a number of ideas—for example, about ownership, about the role of banks in a society, about our focus on customers. These were ideas that have been living with Triodos for almost 30 years. And I sensed that it was totally accepted and taken in to the recommendations of that committee. And I felt that couldn’t have happened even five years ago.”

Triodos also operates in a risk-averse manner by setting its own reserve requirement at 12%. Basel II requires a minimum of 8%,<sup>29</sup> and Triodos does not use money market capital to expand its lending portfolio. Lending is based on its deposits. Says Bart van den Berge, Controller: “We are, you could say, a strange bank, because normally banks have more loans than savings accounts. But in our situation, we have more savings accounts because we limit our lending side.”

The founders of Triodos developed an ownership model that institutionalizes the mission and the business model. Triodos’ shares are held by the SAAT, the Foundation for the Administration of Triodos Bank Shares. SAAT then issues depositary receipts for

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<sup>29</sup> Basel II is the second set of recommendations of the Basel Committee on Bank Supervision, which focuses mainly on credit risk. Basel II set international standards and regulations for how much capital financial institutions must hold to manage the risk of their investing and lending business.



Triodos Bank shares to the public. These depositary receipts embody the economic aspects of the shares of Triodos Bank NV. SAAT exercises the voting rights for shares in accordance with the bank's mission, its business interests, and the interests of the depositary receipt holders. The board of SAAT oversees the balance between these objectives.

Says Albert Hollander, Group Legal & Compliance Officer of Triodos: "Our shares are certified, so that the voting rights are with a foundation, SAAT. The Board of SAAT consists of independent individuals that guard the mission of Triodos. We're not listed on the stock exchange. We do trade our depositary receipts publicly on an internal market, but only against net asset value. This way the price of our depositary receipts does not depend on the changing sentiments of the financial markets."

At their annual general meeting the holders of the depositary receipt vote on the appointment of the members of the board of SAAT. Each holder is limited to a maximum of 1,000 votes. They appoint the board members of SAAT, based on the recommendation of the Board of SAAT itself. These recommendations must be approved by Triodos Bank's Board of Management and its Supervisory Board. No depositary receipt holder may hold 10% or more of all depositary receipts issued.

Says Triodos CFO Pierre Aeby: "I think we have a quite special model in the field of alternative banks. We have more than half of our capital placed with our customers. Fifty-five percent of our capital is owned by a very broad public, so with people who don't sell easily our shares. During our 30 years of operation we have shown that it can work, and you have to have good relations with your shareholders."

This ownership structure is intended to ensure that in the long run Triodos Bank does not shift the balance between its different objectives and, for example, begin to focus entirely on profitability. The founders believed that this ownership model allows for a dialogue on the direction and development taken by Triodos.

Matthijs Bierman, Director of the Dutch Branch: "We've made it clear from the start that we're commercial, and that we want to make a fair profit as proof of a healthy business. But profit is a means to develop the business and to prove that we are doing something which our customers find worthwhile and not the ultimate goal. So we made it very clear

to all our shareholders that maximizing shareholder value is not our game. A fair return, yes, absolutely.”

The bank’s co-owners are 12,000 private individuals, 9,000 from the Netherlands and about 3,000 from other countries. In addition, there are about ten institutional investors, including Rabobank, the two large Dutch pension funds, Delta Lloyd (a big insurance company), and some wealthy family foundations.

The co-owners currently receive annual dividends of around 3% per year. The remaining profit is added to the reserves and finally to the depository receipts value. This return is close to the traditional return on a government bond. The depository receipts can be sold in an internal market.

The importance of the ownership model for maintaining this objective in the organization is emphasized by Matthijs Bierman: “As long as our highest goal is to maximize the value of our shareholders, then inevitably you are going to choose those activities which make the most profit. But you limit your judgment to the financial side of things and you don’t take into account the interests of stakeholders, which are not easily expressed in monetary terms.”

The primary disadvantage of the ownership model is its complexity. Depository receipt holders have some voting rights, but they are limited. There are two boards, the Supervisory Board and the Foundation Board. The Supervisory Board is responsible for corporate affairs and the Foundation Board represents the owners. But in practice, each board needs to find its responsibility and interaction. The advantage is that this model protects the bank from a hostile takeover.

Triodos issues new shares every two years. The issue shortly after a bank bankruptcy in Europe in 2009 had raised concerns within Triodos over whether the shares would sell. But this turned out not to be a problem. The goal of raising a minimum of 90 million euros was exceeded two weeks before the scheduled end of the issuing period. Comments John Lentfert, Head of Administration and Consolidation: “You would expect that people see small banks as a more risky business, but we had no challenges when we issued our shares. I think the reason is we as Triodos are able to communicate our

mission and what we stand for so people can see what kind of bank we are and what we do and what kind of risk we take.”

Part of Triodos’ organizational structure includes the Triodos Foundation, which provides grants to charitable causes. Triodos believes that “gifts” in the form of grants are an important part of developing a healthy society. The Foundation receives donations to support research and development in the sectors in which Triodos Bank is active—in particular, organic farming, economic development, the environment, sustainable energy, art and culture, education, and health care.

In regard to Triodos’ impact, Roel Welsing emphasizes: “We are not missionaries. Among the questions I get from people is, ‘So why don’t you focus on other people outside of your traditional customer group?’ But it’s very expensive and difficult to change a non-believer to a believer and then make him or her change his bank. It’s easier and much more cost-efficient if we focus on people that have already made that change in their values and the way they think about society.”

Peter Blom summarizes why he believes that the ownership structure and the business model are so important: “Banks have an important role to play in the markets. That is why governments could not let banks go bankrupt, because they were an important cornerstone of the total system. A bank is different from another company because it is providing the context in which the other economic players operate. And if you provide the context, you cannot also be part of that context. That is why our ownership model aims at making sure that we stay out of the context and stay connected to serving the society as a whole. The second reason is that the main focus of a bank should be on its customers, not on its shareholders, so the focus should be on all these people who deposited money, and all the borrowers who received a loan.”

### **Summary**

Triodos’ business model and ownership are unique and differ from those in conventional banking. Both were established when Triodos was founded, and are explicit in all of its communication with the public. Triodos sees both the ownership and business model as the foundation that enables a different form of banking.

## **Triodos Funds and the Dutch Tax Credit: An Example of the Impact on Legislation and Society**

In 1990, Triodos began to expand its business by launching the Biogroend Beleggingsfonds (ecological land fund), and later added the wind fund. By 2010, Triodos offered 15 socially responsible and green investment funds with a total volume of 1.6 billion euros.

To understand how Triodos developed its funds it is necessary to take a closer look at the “green tax scheme” that the Dutch government introduced in 1995. It is not only a direct result of Triodos’ work but also an interesting model for growing the green sector of an economy.

The beginning of the Dutch tax credit for green funds can be traced back to a seminar organized by one of the former managing directors of Triodos, Paul Mackay, in conjunction with other commercial banks in the Netherlands. The group invited members of the Dutch parliament to a presentation about how a tax credit for private citizens could have an impact on green industry. The green sector, they argued, often earns lower returns than the conventional sector, and a tax credit would help to close this gap. After the workshop, two sympathetic members of the Dutch parliament drafted a law to establish the tax credit. Though it was introduced by the opposition party, the proposed legislation received wide support and was drafted into law.

Bas Ruter, who today represents Triodos on the commission that is updating the tax credit scheme, summarizes the goal of this tax tool: “This scheme broadens the access to funding for projects that earn below market returns and, as a result, cannot get access to regular financing but do have a significant impact on society.”

When the government discussed the tax scheme in mid-1995, Triodos’ two existing investment funds were held up as examples. The discussion of the tax scheme received broad public attention and press coverage and resulted in a new public awareness of Triodos Bank. At that time, the two funds held less than 10 million euros, a small amount for an investment fund.

The Dutch tax credit scheme supports only investment funds that invest at least 70% of their money in specific categories, which are clearly defined.<sup>30</sup> The tax credit is available only to private investors; institutional investors are excluded. In 2010, Dutch citizens invested € 7 billion in green business, all of which was, theoretically, tax free— theoretically because not all people who invest in these products claim the tax credit. The estimate is that the tax credit reduces tax income for the Dutch government by €100 to €130 million annually, and that this results in an investment in green projects of as much as 7 billion euro annually.<sup>31</sup>

In 1995, when the tax credit was established, the two Triodos funds had a volume of €10 million. In 2010 the Triodos funds under the tax scheme had grown exponentially, to a total of €575 million (the total volume of all Triodos funds is €1.6 billion). In 1995, Triodos held virtually 100% of the market share in green funds. By 2010 it held a market share of less than 10%. Because of the tax scheme, the market for green funds went from €10 million to €7 billion .

Says Bas Ruter, “This development is 100% the result of the tax credit. Without the tax credit it would have never happened.”

Ruter explains the logic underlying the concept of the tax scheme: “If you look at organic farming, for instance, the pollution that conventional farming creates is not part of the pricing. Organic products are more expensive, but the service that is provided to society because it doesn’t pollute in comparison to a regular farm that does pollute is not part of that price. Well, we compensate for the fact that this societal benefit is not quantified by providing a cheaper loan. And as a result, an organic farm can be successful as a business, even though it is more expensive per square meter, because it provides a different positive effect.”

Today in the Dutch banking market the top five banks hold 90% of the market share in green funds. All the mainstream banks in the Netherlands offer a green tax-free product, and most of these products invest in large projects such as wind farms, sustainable

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<sup>30</sup> For more details see <http://www.senternovem.nl/greenfundsscheme/index.asp>

<sup>31</sup> Private investors pay a 1.2 percent tax on their assets in the Netherlands. When they invest in funds under the green fund tax credit scheme, the earnings on their investments are tax-free. In addition, private investors can deduct 1.3 percent of the investment from their taxes. The maximum tax credit per taxpayer is 55,000 euros.

heating projects, and in general projects that require a large investment, but are low-risk and low-maintenance. An important indicator of the relevance of the tax credit for the Dutch government is the reduction in CO<sub>2</sub> emissions. The Dutch government's interest in the tax scheme is related to the pressure it is confronted with to reduce CO<sub>2</sub> emissions and comply with international treaties: "The ministry has used the green tax scheme to help fulfill the Kyoto criteria, now the Copenhagen ambition. They see this scheme as one of the most important tools to reach those targets. The main focus was on home insulation in the country, and to help speed the increase in energy efficiency of the average house in the Netherlands." The annual report of the tax credit scheme calculates this reduction for 2009 to be 308,000 tons.<sup>32</sup>

Bas Ruter describes in more detail how the tax scheme works: "A good example is the green label for greenhouses. The scheme is set up so that only the top 5 to 10% of the most innovative projects in a certain sector can be financed under the scheme. So the criteria to get a green loan for your greenhouse will be more strict every year. So you need to be innovative within your sector to get a cheaper loan."

Every 2 to 3 years, these criteria will be reviewed to ensure that the tax scheme focuses on the most innovative projects within the sector. The review is conducted by a commission of government officials and bankers. Bas Ruter represents Triodos on this commission:

"It's not easy. For example, we had the discussion this year about eco-friendly offices. First you have to set the criteria for how you define an above-average eco-friendly office. That is now set at a certain energy efficiency. But then you have to discuss how much more expensive it is to build an eco-friendly office that fulfills these criteria, and how big the green certificate should be. For instance, this is calculated in number of Euros per square meter in an office, and we currently see you get a green certificate for €600 per square meter if you meet the criteria. We have calculated the average additional cost per square meter as between one and a half and two times €600. So, as a result, it is not yet financially interesting to switch from a regular office to a green office because the additional costs are only compensated at 50 to 75%. That's why we are trying to convince the ministry to

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<sup>32</sup> The calculated per capita CO<sub>2</sub> emission for the Netherlands is 11.03 tons.

increase that sum per square meter in order to boost the number of offices built under the scheme.”

An obvious challenge is to find a balance between the strictness of the criteria and the intent to have money flow into the areas, says Ruter: “We had a discussion with one of the senior people within the department a few weeks ago because following the tightening of this green label greenhouse category, there are fewer green certificates that can be given to clients or to projects. We have discussed ways to make sure the scheme remains the same size.” The commission tries to find ways to formulate realistic criteria for the different categories. For example: “We finance a company that has developed software that helps monitor the energy efficiency of an office according to whether there are people in a certain room or not and the historical temperature data within the building in relation to the temperature outside. You minimize your energy consumption while at the same time the system maintains the temperature in the room. Such an investment is currently not part of the scheme, and we feel it's absolutely one of the very easy ways to lower energy efficiency. So in this group we will discuss whether to include this type of product.”

Another example of the questions discussed in this forum is whether and how to include producers of organic consumer products. Organic farmers are currently part of the tax scheme. Another is whether to include car rental companies that lease hybrid or electric vehicles.

The tax credit scheme aims to bridge the gap between the high-risk, high-return phase in a start-up's development and regular banking with a regular risk-return profile.

Critics of this tax credit scheme say that it provides an indirect subsidy that might be financially more efficient if offered directly, without the green tax scheme. Supporters counter that the tax scheme mobilizes individuals to invest in green areas and connects them to the innovative projects they finance. Triodos emphasizes this connection between investor and project and sees it as its role as a bank to nurture communication between the two sides. Says Bas Ruter, “What you see is that people actually become interested in the projects that they have their money invested in.”

The green tax scheme has been copied by two other sectors in the Netherlands: (1) arts and culture and (2) microfinance. Today, Triodos is the only Dutch bank that offers a culture fund that profits from this tax scheme. Says Ruter, “We see that now that this product [the culture fund] has been in place for three years, the big banks are copying it. So the biggest bank in the Netherlands will start its own competing product this year (2009), and we expect other banks to come as well. And the same goes for microfinance, where we currently have around four funds in the Netherlands, but we also know that two or three of the five High Street banks are currently preparing their own products as well.”

The culture fund is unique in the banking sector. Asked why Triodos is so involved in the field of art and culture, CEO Peter Blom observes: “Well, culture is something that we consider an integral part of a healthy society. And culture has an economic angle that is often overlooked. We grant a lot of loans in this field, so we asked, why don’t we create an investment fund to make culture a stronger force in society? It was quite new that a bank said that. Our culture fund has been very successful and is growing. This fund is part of our holistic approach towards a sustainable society.”

Asked about the importance of the green tax scheme for Triodos’ business development, Bas Ruter responds: “I must say that Triodos Bank wouldn’t have been able to grow and to get our name across in the marketplace in the Netherlands and to widen our product range and brand recognition without the green tax scheme. So, it’s been vital to our development.”

On the impact of the green tax scheme for the Dutch financial sector, he says: “All the big banks, the High Street banks, have ignored the green sectors... [After the tax scheme] they decided that it was interesting to look at these sectors. It was a way for them to prove their corporate social responsibility by launching a product for the green tax scheme on which you can make money and which attracts clients. You could definitely see that the tax scheme has influenced the big banks significantly. I don’t know to what extent this works in other countries, but if you tell someone in the Netherlands that you can get a tax credit, that’s approximately the best way to sell products.”

In 2010 around 45% of Triodos funds will benefit from the green tax scheme. The following table provides an overview of some of the funds that Triodos offers. Frans de



Clerck, former Managing Director, comments: “Unfortunately, despite long-term lobbying with the European Commission and the Council of Europe, the Dutch green tax scheme has until now not been introduced in other European countries.”

Table 9: Triodos Funds

Name	Focus	Million € (12.31.2009)
<b>Retail Investment Funds</b>		
<b>Triodos Cultuurfonds NV</b>	Invests in projects to improve and preserve arts and culture	139
<b>Triodos Fair Share Fund</b>	Invests in microfinance institutions in developing countries & Eastern Europe, through loans and participation in the share capital; a closed mutual fund aimed at small private investors	83
<b>Triodos Groenfonds NV</b>	Triodos' largest fund; Dutch private investors; 50% of portfolio in wind; organic farming and other green investments	572
<b>Triodos Meerwaardefonds NV</b>	Global multinational companies	323
<b>Triodos Renewable Energy Fund</b>	Invests in high-risk, small & medium-sized energy projects (wind, solar, hydro, etc.); for private & institutional investors; registered in Luxembourg to allow customers from European branches to invest in it	53
<b>Triodos Sicav I</b>	Registered in Luxembourg; global multinational companies	69
<b>Triodos Sicav II</b>	Microfinance; institutional and private investors internationally	70
<b>Triodos Vastgoedfonds NV</b>	Sustainably built or maintained buildings	84
<b>Total Retail Investment Funds</b>		1,393
<b>Institutional Investment Funds</b>		
<b>Ampere Equity Fund</b>	Institutional investors; renewable energy, mostly wind	50
<b>Stichting Triodos-Doen</b>	Partnership with Doen Foundation; high-risk microfinance	69
<b>Stichting Hivos-Triodos Fonds</b>	Partnership with Hivos Foundation; high-risk microfinance institutions	45
<b>Renewable Energy for Development Fund</b>	Funds regional funds and intermediaries in developing countries; renewable energy	5
<b>Stichting Triodos Sustainable Trade Fund</b>	Funds co-operative and private farms in developing countries, producing certified organic and/or fair trade goods	9
<b>Triodos Venture Capital Fund BV</b>	Invests in sustainable enterprises	2
<b>Triodos Ventures BV</b>	Sustainable enterprises	11
<b>Other activities</b>		7
<b>Total Institutional investment funds</b>		198
<b>Total All Funds</b>		1,591

The portfolio of funds under Triodos' management has grown and become more diversified since the first funds were launched in 1990, when Triodos was the first bank in the Netherlands to launch green funds. Triodos' role in developing the Dutch tax credit scheme was critical, and with that its impact on the development of green funds in the Netherlands. Triodos' fund portfolio:

- Has a strong microfinance focus
- Has a broad and diverse green investment focus
- Included the first cultural fund
- Maintains partnerships with non-profits
- Includes funds that serve the broader public, not just institutional or private investors with high investment volume

## **Transparency and Reporting**

Banking is based on trust. There is a high level of dependency between a bank and its customers, as there is on the macro-level between an economy and its financial institutions.

What applies to conventional banks is even more important for less-conventional, value-based banks like Triodos—those that combine profitability with a socially responsible mission. In these cases, customers have to trust not only that banks will safeguard their money and earn a return on their investments, but also that the bank's activities are based on their stated principles and objectives, which are often difficult to quantify. Operational transparency and reporting are thus essential to the operation of value-based banks, and are another way in which they differ from conventional banks.

Triodos was founded by a core group who were members of the same community, and many of the first stakeholders were also part of this community. They shared a high level of trust and alignment as well as similar goals and values. Triodos communicated with its stakeholders in the traditional ways, through an annual meeting and in its annual report, as well as through direct communication.

In the late 1980s, the core group of stakeholders began to expand. Triodos was contacted, for example, by church groups concerned about the debt crisis in South America and the early fair trade movement. Triodos' representatives were invited frequently to present at workshops and conferences—for example, to talk about Triodos' understanding of the role of money in a society and the responsibilities of banks. In these ways the bank's message was disseminated to new groups and communities.

When Triodos became involved in the development of the Dutch tax credit scheme, it began to receive broad media attention. Triodos' funds were held up as an example of green investment. By 2007, Triodos' customers and stakeholders had evolved into a diverse international group.

The bank's higher profile required it to develop new means of responding to media and public attention.

In 2001, Triodos expanded its reporting system to incorporate the standards set by the Global Reporting Initiative (GRI).<sup>33</sup> That step aligned Triodos' communications with those of the global community of organizations seeking investments that would benefit the triple bottom line.<sup>34</sup>

With the public debate on the role of banks, and then with Triodos' shift towards the current account, the customer group that Triodos was serving began to expand even more. Today, Triodos describes its customers as a diverse group that moved to Triodos for a wide variety of reasons. Consequently, Triodos had to adjust its communications again. In 2007, Triodos added to its website an interactive map showing the location of the bank's investments. This new transparency allowed customers and stakeholders to see each loan as well as link to specific information about the business of Triodos' customers.

The financial crisis that began in 2008 added another dimension: Triodos was perceived as a role model for financial institutions and began to disseminate its core principles and ideas about its model of banking to a wider audience. This required new communication tools, such as books, conferences, and papers.

With its reporting standards and loan transparency, Triodos operates differently from conventional banks. What is on the one hand a competitive advantage in the marketplace also holds some risk. An investment that fails to meet the high social and environmental criteria set by the bank can easily destroy the reputation that Triodos has worked so hard to build with its stakeholders.

The following table summarizes the different phases in Triodos' communication with its stakeholders.

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<sup>33</sup> <http://www.globalreporting.org/Home>: The initiative developed principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.

<sup>34</sup> The triple bottom line: people, planet, profit.

**Table 10: Communications with Stakeholders**

Year	Methods of Communication	Comment
1980–	Annual report Annual meeting Word of mouth	Triodos’ stakeholders are small in number and primarily connected to the founding community.
1986–	Annual report Annual meeting Word of mouth Presentations in workshops and at conferences	New communities join Triodos’ customers and stakeholder group—e.g., the fair trade movement and the beginnings of the microfinance movement. Triodos frequently presents in workshops and conferences.
1995–	Annual report Annual meeting Word of mouth Workshops, conferences Media	With its involvement in the Dutch tax credit scheme, Triodos expands its interaction with the media.
2002–	Annual report Annual meeting Word of mouth Workshops, conferences Media Global Reporting Initiative	Triodos incorporates GRI standards into its reporting.
2007–	Annual report Annual meeting Word of mouth Workshops, conferences Media Interactive website	Triodos’ stakeholder group broadens. Triodos’ website provides 100% transparency by showing the locations and businesses that Triodos invests in.

How much the reporting and transparency can measure or even show Triodos’ impact is difficult to answer. Peter Blom, CEO, comments on the internal debate on this subject: “We are still working on the question, to what extent can we quantify our impact? I think we can do it by the number and volume of our loans given that they are sustainable projects. So if we grow the loan portfolio, we grow our impact. That’s a simple way of quantifying our impact. But to measure social impacts in the sense of how many people are helped through Triodos Bank, that is quite a difficult one and I think the debate at the moment is whether you can really quantify all these things. And should it be all quantified? Having said that, our focus for the coming years is to make many more things that are now implicit more explicit.”

## **Challenges and Limitations**

The case study has outlined Triodos' operation and history, including the limitations and challenges of an intention-driven corporation. The following summarizes the core challenges and limitations along different levels:

### **1. People and Mission: Finding the Right Banker**

Several interviewees described the challenge of hiring co-workers who combine the necessary professional expertise and with a shared understanding of the intention of the organization. Throughout its history, Triodos has gone through different phases in this area. During the first years after its founding, Triodos received applications from people whose background was more closely connected to the mission than to banking. This changed later when the organization grew and more banking professionals applied who, after working for some time in conventional banking, had become interested in Triodos' mission.

The challenge is how to find co-workers who balance professionalism with an understanding and a commitment to the mission.

Balancing mission and professionalism also has implications for how people identify with the organization: employees in a mission-driven organization often strongly identify with the purpose of the organization. The chapter "Banking without Bonus" describes how this identification can increase the social complexity in the organization, and what impact it can have on the organizational culture.

Peter Blom, CEO of Triodos, emphasizes this challenge: "The true challenge for us is the next generation of bankers. On the one hand, I'm quite confident that in the new generation there is sufficient new thinking and new energy. On the other hand, I'm in general quite worried about education and whether young people get lost in too many small things and do not focus on one thing."

### **2. Combining Profit and an Intention in Decision-making Processes**

All decisions taken within Triodos need to balance profitability with Triodos' mission. The chapter on lending describes several examples of processes and procedures that Triodos developed in order to operate with a focus on the triple bottom line. This led to the exclusion of some profitable business opportunities, and also to the inclusion of projects that promise a high return in regard to the mission but a low financial return. The mission-related objectives sometimes require complex review and in-depth knowledge of the context. The challenge is to develop operational procedures and decision-making processes that are efficient and allow for all three objectives—people, planet, and profit—to be balanced.

### 3. “Doing the Leg-work”: Limits of Standardization

Banking that focuses on a mission is limited in its standardization options. An evaluation of the investment requires Triodos to do leg-work at a level of detail that is unnecessary for conventional financial institutions. As outlined in the chapter on lending, investing in biomass required a one-year research process in order to understand the details of biomass technology and to develop guidelines for investing. Researching the profitability prospective of a project is not sufficient. The challenge here is to balance costs by developing procedures and processes that standardize the work but still do the detailed research.

### 4. Competing with Two-Digit Returns in Conventional Banks

As outlined in the discussion of the business model, Triodos aims for a 5–7% return, but competes with conventional banks that achieve double-digit returns using business models that, for example, include engagement with derivatives or financial innovations that are developed only to earn a financial return.

Triodos' business model excludes financial transactions that do not have an immediate positive effect on what Triodos calls the real economy. This approach eliminates highly profitable financial business opportunities that allow conventional banks to operate with high profit margins.

Triodos' challenge is to compete with banks that operate from a business model that is more risky but more profitable. This competition has some disadvantages for Triodos.



Two examples are lower salaries for senior staff, and regulations that are costlier for small banks such as Triodos.

#### 5. Triodos' Strategic Positioning

One result of the financial crisis of 2008–09 is that the public image of conventional banks suffered. As a result, conventional banks began to move to “green” or socially responsible products, and began to change their marketing message. Consequently, Triodos has been confronted with the strategic challenge to differentiate its own business model in this changing environment, and to develop a clear message that allows customers to distinguish between Triodos' operation and conventional banking. Part III of this case study describes different levels of green and socially responsible banking.

#### 6. Rapidly Changing Markets: Connect to the Leading Innovators

Triodos provides financing for leading innovators in the socially responsible and green sector. Doing so requires staying connected and up to date with constantly changing markets and technologies. For example, Triodos successfully identified the early innovators in the field of wind energy but was less successful in connecting with the early innovators in solar energy. Says CEO Peter Blom, “We’re catching up [on solar energy] now. But we missed some opportunities there. We should have been more involved.”

#### 7. Moving from the Founding Group to the Next Generation of Bankers

Like every medium-sized corporation, Triodos is negotiating a generational shift 30 years after its founding. Along with a high growth rate, the bank is managing an influx of new employees. Organizationally, Triodos' mission incorporates several levels. On the legal level, its ownership model reflects the mission and founding intention of the bank. The challenge is to evolve the organizational structure, and culture, as well as to build up the next generation and stay connected to the founding idea.

#### 8. Scalability and Growth

Triodos has grown consistently, and its growth has implications for the operation and the organizational culture. The open question is whether this form of banking is scalable, and to what degree—or whether, as Thomas Steiner asks, scalability is really the goal or if a different growth model, such as networks, would be more appropriate.

#### 9. Operate as a Medium-sized Bank

Triodos is as a medium-sized bank, which defines some limits for its operation. For example, Triodos needed to wait for a change in the Dutch law that required banks to provide a specific number of ATMs to its customers before it could offer current (checking) accounts to its customers. This law was designed for large banks, and only a lawsuit on the European level allowed for a change.

Triodos is also closely connected to the local economy in which it operates. In contrast to conventional banks that operate in different regions and markets, Triodos is consequently more dependent on the specific regional economy.

During the financial crisis of 2008–09, Triodos needed to step in and transfer money into the Dutch banking guarantee funds, a move that had a disproportional effect on its overall return in comparison to larger conventional banks.

#### 10. Growth and Development of the Green and Socially Responsible Sectors

As the example of the green funds has shown, the sector in which Triodos operates has enormous growth potential. In 1995, Triodos' two green funds accounted for 100% of the green investment funds in the Netherlands; in 2009, after 14 years under the Dutch green tax scheme, Triodos held only 10% of the overall market.

Once a green or socially responsible market becomes mainstream, the volume and potential grow, and might be larger than what a medium-sized bank such as Triodos can respond to. The technological developments in this sector, as well as the growing public interest in the green and socially responsible sectors, also expands rapidly. As discussed earlier, conventional banks are attracted to the sector, and Triodos is challenged to respond to fast-changing conditions and markets.

## 11. Globalization of the Financial Sector

As a medium-sized European bank, Triodos operates in a highly globalized market, which challenges it to respond to global developments. Triodos has an extensive microfinance department that works globally and is part of a newly formed network, the Global Alliance for Banking on Values (GABV).<sup>35</sup>

### **Vision for Triodos' Future**

When asked about potential future markets, Triodos' CEO, Peter Blom, responds:

“We have been not so successful in private equity and venture capital. We feel that is part of what we should do. It's being very close to the entrepreneurial side of the creation of values and so far we have not been able to translate this into a sustainable product or service. And we feel it's very important but we haven't yet found the right instrument.

Especially in Europe, many family businesses that move towards the next generation, not necessarily to their own children, are looking for value-driven private equity providers who can help them. And they are against the traditional private equity with a short-term horizon, and with the only focus to make as much money as possible within four or five years. That is an area where finance is also connected to ownership, to new forms of ownership.”

With its constant growth rate, Triodos sees in the so-called “cultural creatives” its potential customer base. Says Peter Blom: “You can identify the 15, 20 percent of the population who are the frontrunners in renewal. This group is key for us.”

Asked about Triodos' vision for the next 5–10 years, Peter Blom responds:

“We will continue to grow. We will have a full operational branch in Germany. Maybe even in one or two other countries. I hope we will be much stronger in being a thought leader for critical themes such as climate change or social issues,

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<sup>35</sup> <http://www.gabv.org/>

and being this thought leader not in a general ideological sense, but very much related to the concrete steps that people can take.

And we are also part of a much stronger movement, like the Global Alliance for Banking on Values that we have created. There are more banks who operate like we do. And creating this movement is much broader than individual banks being an example of how you can bank in a different way.

Our growth is not the goal, but it is critical in whether we are able to move from a niche approach to a more systemic approach. And that means not that Triodos in itself is the model of how to do things, but whether we can team up with other banks and make this new form of banking much more visible so that this potentially is no longer the exception, but more the rule.”

### Part III: Reinventing Banking as if Society Mattered

The following conclusions are based on the review of Triodos' history in Part I and a review of its operation in Part II.

1. *Triodos' almost 30 years of history points to the connections between the major steps in Triodos' development and societal changes or societal shifts in the context in which Triodos operates.*

The review of Triodos' history described in Part I reveals a pattern in Triodos' phases of development: each major step in Triodos' development was sparked by societal changes and challenges. Table 11 depicts these connections.

**Table 11: Summary of Triodos' developmental phases**

**EXTERNAL EVENTS AND CHALLENGES**

<b>Beginning</b>	<b>1968-</b>	<b>1986-</b>	<b>1988/89-</b>	<b>1990-</b>	<b>1990-</b>	<b>1992-</b>	<b>2006-</b>	<b>2008-</b>
<b>External events</b>	Riots in France	Chernobyl disaster	Approached by Women's World Bank	Debt crisis in South America	Anti-Apartheid Mov. - SRI	Maastricht Treaty	Debate on banking in NL	Financial crisis
<b>Challenge</b>	How do we address our societal issues?	How can we move towards renewable & safe energy?	What financial tool addresses poverty and exclusion?	What is our responsibility?	Is an invest. in stock an option?	Should a small bank become international?	Can a green/SRI bank offer a current account?	How to deal with banks' neg. impact on real economy?

**TRIODOS BANK MILESTONES**

	<b>The founding of Triodos Bank</b>	<b>Green Funds</b>	<b>Introduces Microfinance</b>	<b>Introduces ethical funds</b>	<b>Introduces SRI</b>	<b>Opens international branches</b>	<b>Becomes a full-service bank</b>	<b>An alternative banking model</b>
<b>People</b>	Study group and social innovators	New coalition: entrepreneurs, NGOs & consumers	Concerned NGOs, inspired by M. Yunus	Church groups; later the fair trade movement	Institutional investors	Local groups with same values	"...do all my banking with one bank."	Broader public
<b>Prototype</b>	Lending Circles, Triodos Foundation	First wind energy fund in Europe	2 closed micro-finance funds	Fund the "missing middle"	New saving account, new funds	Branch in Belgium	No consumer loans	Represent a new banking model
<b>Principles &amp; values</b>	Money has to serve the real economy	Finance green innovation	Access to finance empowers	Transparency, organic food movement	Identify leading innovators	Not to be an icon	100% sustainable loans	Participate in public debate
<b>Financial innovation</b>	Banking as a vehicle for social change	Green funds	Microfinance investment funds	Triodos Sustainable Trade Fund	"Best in Class"	European sustainable bank	No loans for consumption	Triple bottom-line bank
<b>Structural innovations</b>	Triodos Bank	Dutch tax credit scheme	Support "Self-regulation" initiatives	Training on value-chain funding	Eumedion, UN Principles	Network of green/socially responsible banks	100% green products	GABV

One example of the connection between societal events and Triodos' development is Triodos' move into wind funds, which resulted not only in a new customer base but also in a new business model. Triodos became the first bank in Europe to launch a wind fund. The 1986 disaster at a nuclear power plant in Chernobyl in Ukraine sparked the push for this product development within Triodos Bank. While conventional banks stayed away from renewable energy, which at that point was an untested technology with an unknown financial return, Triodos Bank endeavored to find ways to invest in this emerging sector because it was closely connected to its mission and goals. The resulting product, wind funds, became profitable and supported Triodos' growth during the 1990s, and allowed Triodos to establish its reputation in the green sector. Other examples of external events that led to Triodos products are the debt crisis in South America and the beginning of the fair trade movement, which sparked Triodos' ethical funds; as well as the political developments in Europe (the Maastricht Treaty), which led to Triodos' internationalization, and the opening of branches in other European countries.

1. *Product innovation goes through a series of steps that ensure the connection to mission and intention: (I) a societal crisis or event; (II) seeing the societal challenge; (III) connecting to a community; (IV) inventing a financial product; (V) testing it against the mission; (VI) prototyping the product; (VII) establishing internal operational structures for the product; (VIII) looking for a systemic (societal) impact.*

Each of Triodos' development phases resulted in a product innovation. The process that leads to the innovation of a financial product takes place in several steps. The first one can be described as the "kick-off" for the product development, and is usually a societal challenge or a crisis such as the Chernobyl disaster. But it takes an internal capacity to see this societal crisis and connect it to a possible opportunity to act on it. Figure 2 describes this as "seeing." Triodos connected a dialogue within a concerned group with each of its product innovations—e.g., environmentally concerned individuals and NGOs with the wind funds, church groups and concerned individuals with the fair trade movement, and a concerned broader public during the recent financial crisis who were looking for a new banking model.

Each financial innovation is designed to serve the particular needs of such groups. The next step is to develop a prototype of the financial product. The prototype allows the bank to further develop the financial product and to establish a cooperative relationship with the related customer base. It also allows Triodos to test whether the financial product in its final form will

be in accord with its mission and goals. Next, the bank develops operations that integrate the new financial product into its business practices and structure.

Finally, Triodos identifies ways to establish a societal impact that goes beyond the bank's operation. An example is the Dutch tax credit scheme. Triodos was convinced that green funds could play an effective role in addressing the environmental issues of the country. Triodos' executives believed that investors in green funds should receive a tax credit because of the positive societal externality they generate. To promote this idea, Triodos sponsored several workshops with policymakers to explore this idea. The result was the Dutch tax scheme that led to a boom in green funds in the Netherlands.

The steps that characterize Triodos product development process are summarized in Figure 2.

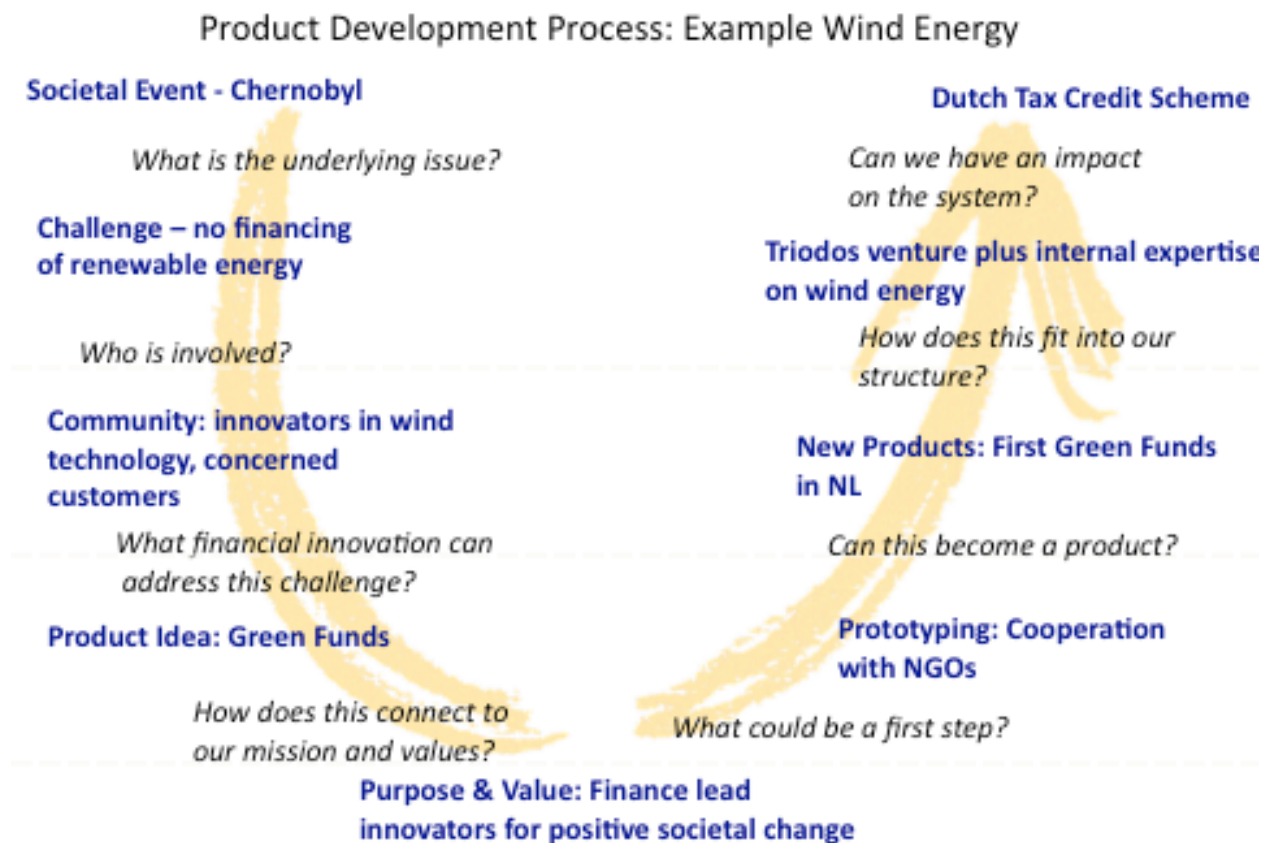


Figure 2: Core phases of product innovation and the example of the wind fund investment



- 2. Operating with the triple bottom line as a priority (people, planet, profit) requires new business practices on all levels of the organization.*

In its three decades of operating, Triodos Bank has developed a banking model that illustrates how socially and environmentally responsible businesses practices translate into banking practices. Triodos Bank did not transform an existing bank but started the bank from scratch, and each added financial product evolved from a need that the bank identified.

It is its business practices and operational capacities that allow Triodos to integrate profitability with social and green objectives. Part II of this case studies illustrates how, throughout its years of operation, Triodos developed capacities and practices that differ from those in conventional banking. These practices encompass: (1) people and places; (2) process and procedures; (3) principles and strategy; and (4) purpose. Some are more visible (people, places); others are less visible (strategy, purpose).

- 3. The deeper the intention is anchored in the organization, the lower the risk that the mission and intention will get lost.*

Throughout the history of value-based banks, there are numerous examples of banks that lost sight of their mission or intention and ended up focusing on financial return. At each organizational level Triodos has developed connection points to its mission and intention (see Figure 3).

## Capacities: From Visible to less Visible



Figure 3: How the Bank's Mission Is Reflected on Each Organizational Level

A bank can be mission-driven even if the mission is only reflected on the most visible level. But the more deeply it is anchored in the organization the greater the chance that the bank will succeed in combining mission and profitability over the long run. If the mission is important to only a few and those few leave the organization, its focus may be lost.

Can a deeply anchored mission guarantee that the financial institution succeeds in operating along the triple bottom line? No, but the chances increase.

4. *A bank may have different levels of commitment to socially responsible and green banking.*

Depending on how deeply the triple-bottom line is anchored within the organization, it will devote different amounts of effort to socially responsible and green banking:

Level 1: Unfocused corporate activities.

At this level, banks sponsor green events and undertake public relations activities that are not related to the core business of the company (“greenwashing”). Most mainstream banks engage in some of these activities today, and refer to them in their public relations communications.

Level 2: Isolated business projects or business practices.

Banks develop isolated products and activities that they add to their conventional banking portfolio. These account for only a small percentage of total business activities, and are enacted in isolated areas of the bank, not as part of the core business. Examples here are “green products” and “ethical funds.”

Level 3: Systemic business practices.

At this level, social and green principles and practices underlie most of the bank’s products and processes. The focus on positive social and green impact is a core dimension of every business activity. The organization is designed to support this impact in the four areas noted above: people/place, processes, principles, and purpose.

Level 4: Strategic eco-system innovation.

Social, environmental, and financial sustainability do not end at the boundaries of the individual transaction. The success of socially responsible and green transformation requires participation from the larger system in which a bank and its clients operate. Strategic eco-system innovation broadens the focus of the bank’s activities from its own direct client interaction to include the larger system or eco-system. Examples of this engagement are networks, alliances, and public conversations that broaden the movement of conscious investors and regulatory changes that redefine the banking industry.

Level 5: Intentional (purpose-driven) eco-system innovation.

The difference between *strategic* (level 4) and *intentional* (level 5) eco-system innovation is that level 4 is driven by a strategic response to external challenges, while level 5 is driven by the

primacy of purpose (social and green impact). At level 5, a socially responsible and green bank is a “hybrid” company whose purpose is not “avoiding a negative scenario” but addressing the core challenges of our time by innovating at the level of the whole eco-system.

To move successfully toward eco-system awareness, socially responsible and green banks have developed business practices and capacities that allow them to innovate in response to societal challenges and shifts.

### **Discussion: From Banking 1.0 to 3.0 – The Role of Banking in the Future**

Underlying this research is the observation that the banking system evolved in parallel with the evolution of the economic system. The economic system in Western societies can be said to have evolved in stages.<sup>36</sup>

In Europe, for example, the introduction of market capitalism in the late 18<sup>th</sup> and early 19<sup>th</sup> centuries allowed individuals to free themselves from feudalistic structures. What was liberating for some became a system of exploitation for others. With its focus on maximizing financial profitability, social and environmental factors were ignored. Economic theory describes these unintended negative side effects as *negative externalities*.

Interest groups formed and helped to develop a regulatory framework that reduced negative externalities in the market system. Examples are the institutionalizing of the (U.S.) federal reserve system (which regulates currencies and the money supply) and legislation around labor standards and environmental standards.

Table 12 summarizes the phases of the Western economic system:

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<sup>36</sup> C. Otto Scharmer, Seven Acupuncture Points for Shifting Capitalism to Create a Regenerative Ecosystem Economy,” 2009, available at <http://www.ottoscharmer.com/publications/articles.php>.

Table12: Western Economic Evolution, Its Institutions, and Its Sources of Power  
 (Source: Scharmer 2009)

<b>Stages of Economic Evolution</b>	<b>Challenge</b>	<b>Response: Primary coordination mechanism</b>	<b>Dominant Sector/Player</b>	<b>New Primary Source of Power</b>
<b>17th–18<sup>th</sup> Centuries: Pre-capitalist. Mercantilist/state-driven</b>	Stability	Regulation/ hierarchy	<u>State/government</u>	Sticks
<b>18th–19<sup>th</sup> Centuries: Capitalism 1.0. Capital/Shareholder-driven</b>	Growth	Market/ competition	State/government; <u>Capital/business</u>	Carrots
<b>19th–20<sup>th</sup> Centuries: Capitalism 2.0. Stakeholder interest-driven</b>	Externalities	Negotiation/ dialogue	State/government; Capital/business; Civil society/NGOs	Norms
<b>21<sup>st</sup> Century: Capitalism 3.0. Shared ecosystem-awareness-driven</b>	Global externalities	Collective action arising from shared awareness and common will	State/government; Capital/business; Civil society/NGOs; Cross-sector communities of creation	Actions that arise the emerging whole

In Europe, for example, as the global launching pad for capitalism 1.0 in the late 18<sup>th</sup> and early 19<sup>th</sup> centuries, countries moved relatively quickly from capitalism 1.0 to 2.0 by introducing social security, labor laws, environmental regulation, federal reserve systems, and banking regulation. In the early 21<sup>st</sup> century Eastern Europe caught up, moving from 1.0 to 2.0, while in Western Europe the UK and some other countries took some steps backward, from 2.0 to 1.0, by, for example adopting some principles of the Thatcher-Reagan revolution. In other regions, such as Northern Europe, countries are trying to move from 2.0 to “2.0-plus” by reinventing

their health, education, science, and technology systems as well as their participatory government systems in a way that puts them on a path toward a 3.0 society.

The limitations of “capitalism 2.0” are (1) that this economic structure does not work when applied to the global challenges of the 21<sup>st</sup> century, and (2) that future generations are structurally underrepresented (or not represented at all) in a political process that is driven primarily by special interest groups.

Banking 3.0 implies that financial institutions operate profitably and with an awareness of the socio-economic whole.

### **Conclusion: Banking as a vehicle for change**

This case study of Triodos Bank has identified phases in Triodos’ development, its product innovation process, and how it integrates the triple bottom line at every level of operation. Throughout its history, Triodos Bank has played an intermediary role in the economy by addressing societal challenges and responding to them with financial innovations that reflect its mission.

In its 30 years of operation Triodos Bank has illustrated that banks have the potential in an economic system to address societal issues, and that their position as intermediaries provides them with the leverage to do so. If banking 1.0 is characterized by a focus on high profitability, and banking 2.0 is characterized by regulations that respond to the negative externalities of banking 1.0, then banking 3.0 is characterized by the potential of banks to leverage their position in an economic system to address societal challenges.

To deal with the challenges of this century more effectively, economic institutions will need to move from a 2.0 to a 3.0 approach—that is, from a system that is driven by special interest groups to a system that has the capacity to innovate on the scale of the whole.<sup>37</sup> Scharmer calls this new economic coordination mechanism “seeing and acting from the whole eco-system.” It requires the players to evolve from an initial ego-system awareness to an eco-system awareness that includes the health and well-being of the whole. This case study provides an example of

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<sup>37</sup> The term capitalism 3.0 was introduced by Peter Barnes in *Capitalism 3.0: A Guide to Reclaiming the Commons* (San Francisco: BK Currents, 2006).

how banks can be utilized for this purpose, and shows that banks have the potential to address societal challenges by putting profitability in service of these challenges.

This case study of Triodos Bank shows how this form of banking can be translated into business practices and organizational capacities. In its most effective form, socially responsible and green banking means moving beyond self-interest to benefit society as a whole. Banking at that level requires the ability to perceive problems and challenges from the perspective of the whole socio-ecological system.

Most important, this case study highlights the positive impact banks can have on an economic system. Banks have the potential to benefit society by focusing on projects and entrepreneurial activities that addresses social challenges.





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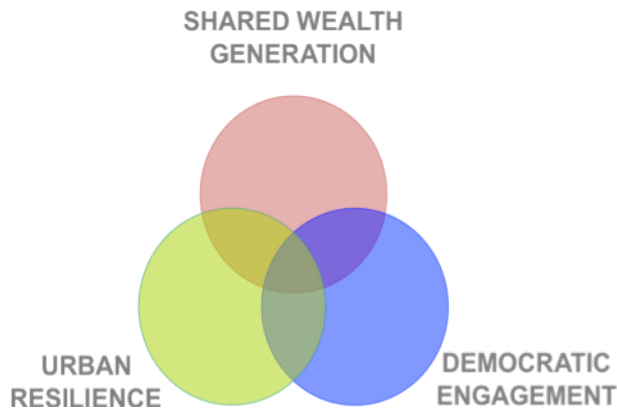
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## MIT COMMUNITY INNOVATORS LAB (COLAB)

The MIT Community Innovators Lab (CoLab) is a center for planning and development within the MIT Department of Urban Studies and Planning (DUSP). CoLab works with community partners and labor at the intersection of democratic engagement, shared wealth generation and the adaptive processes that make cities more resilient. We see this is the emerging “sweet spot” in planning.



Using the sweet spot, CoLab’s core mission is to shift existing models of civic engagement to approaches that sustain themselves financially while incorporating into development, democratic principles that help discipline the market to produce value for, and deter exploitation of, low-income communities. We use the planning discipline to connect MIT faculty, students and staff with base-building organizations, and increasingly with labor union locals, in low-income and historically marginalized communities to co-create projects that use such sweet spot approaches to leverage local assets. Such assets could include:

- Dense buying power (buy insurance or start HMOs or other goods/services)
- Racial/ethnic/nationality minorities with shared identity
- Unionized concentrations of low-wage workers have organizational mechanisms, common identity, and pension funds theoretically available for investment
- NGOs that have the capacity to facilitate cooperation among residents and also between organized residents and developers/entrepreneurs
- Banks and other financial institutions that by law (CRA) are required to invest in poor communities

- Other funds mandated by public policies, including ARRA, EPA superfund money (brownfields), CRA, New Markets Tax Credit.

CoLab's participatory approach takes urban planning as a highly tangible and accessible democratic exercise by which community members come to understand the structural dynamics driving social exclusion and learn to shape the physical and social structures and amenities within their neighborhoods and cities to address it. Combining the significant, sophisticated, and essential knowledge and capacity of community leaders and organizations with academic expertise helps inform base-building efforts, sharpen residents' participation and make local planning processes more responsive.

Our hope is that this process delivers value to all of our stakeholders: our community partners tell us that their collaborations with us actually build their capacity and leave assets behind. They continue the work on their own with the frameworks we have co-created. Our students report that work with us provides the necessary skills and frameworks that enable them to build their careers working at planning's sweet spot.

### **CoLab Operating Model & Competencies**

A key component of our capacity to deliver value to labor and community partners is the vast array of technical resources and student engagement opportunities available on MIT's campus. We engage as many as 50 students per year in creative problem-solving efforts and leverage MIT expertise and resources in the following areas:

- ***Technical support*** in physical and community planning, architecture, logistics, material sciences, engineering and information technology; and ***technology innovation*** to address challenges faced by low-income communities;
- ***Development of business models*** for wealth creation in poor communities and long-term sustainability of community initiatives, and ***development of creative financing mechanisms*** that support enterprise development in neighborhoods, particularly enterprises that leverage infrastructure spending in cities connected with emerging sustainability efforts;
- ***Strategic convenings*** of activists and social movement leaders to explore how larger social and economic trends impact the work of urban development and movement-building;

- ***Developing leaders and building networks*** for community and social movement activists through fellowships and convenings;
- ***Facilitating cross-sector collaborations, projects and dialogue*** in support of innovative urban planning and policy;
- ***Policy advice*** on request to local and federal policymakers on equitable development strategies that support community participation and shared wealth generation
- ***Knowledge management*** using reflective practice and other methodologies to support communities' generation and sharing of intellectual resources as they problem solve in the field.

CoLab has worked in this way with labor and community groups since its founding in 2006. That year, CoLab (then called Center for Reflective Community Practice) deployed students to New Orleans to work with community organizations and the AFL-CIO on a variety of participatory planning projects, from conducting capacity and needs assessments for small community organizations directly after the Storm, to creating neighborhood rebuilding and business district redevelopment plans with several communities, to creating a housing investment plan for the AFL-CIO's Housing Investment Trust and Building Investment Trust (which as a result, together pledged close to \$1b in redevelopment money to the city). In 2007, CoLab, sent ten students to the Office of Recovery Management to help write that agency's recovery plan for submission to the City.

In 2008, at the request of members of the Obama Administration, with support from The Atlantic Philanthropies, CoLab compiled a transition team report (available here: <http://web.mit.edu/colab/work/innovation-equity-report.pdf>) that helped inform the new Administration about important challenges of deep equity in cities. That report helped set the ground for important provisions within the ARRA legislation that enabled community organizations to receive funds from cities to support community participation in stimulus planning. It also helped lay the groundwork for the multi-city Emerald Cities Collaborative, which CoLab helped to incubate in 2009, an effort to land high road jobs through the stimulus package. In 2009, we also launched the Leveraging the Stimulus project, described in more detail below.

## **Community Media Capacity**

CoLab's distribution model seeks to use its community media capacity to build learning communities and disseminate lessons virally. CoLab's effort is to enable community partners, labor leaders, students, faculty and others to capture lessons in real time as they work on social change projects by reflecting upon our experiences and documenting and disseminating the knowledge we are all co-creating by using simple digital media forms. We post this work on our [web site](#), [blog](#), (CoLab Radio), a dedicated e-television channel on [MIT TechTV](#), and our [Twitter](#) feed—multiple outlets strategically developed to ensure that we are able to reach many audiences. Although we monitor the number of “hits” our pieces garner on the web (and, for example, our TechTV video collection has over 500,000 views) such metrics do not help us gauge the success of our community-building efforts. The goal is to create a platform for exchange of knowledge, ideas, and real-time lessons about how to do the work with other leaders, practitioners and scholars facing similar challenges.

Our approach merges web-based postings and events, with in-person events each aimed to reinforce learning communities and strengthen the ability to share lessons. For example, last year two of our students each developed an on-line series on economic development of abandoned downtown commercial districts—one in New Orleans and the other in Camden, New Jersey. They posted short film clips, audio clips, and written narrative, and held in-person events to connect local business people and residents and initiated a dialogue among local residents in both places about the prospects for business development. Although both of these series generated web traffic, more importantly, they spurred local residents and business people to initiate a dialogue and use the series as a platform to explore community plans and aspirations.

In mid-February, 2010, we held the first of a planned series of two-day media workshops for interested CoLab community partners to train staff in using digital knowledge-capture tools. All workshop participants learned how to make simple videos, maps, and other media products. Participants also used the workshop to build new social networking tools into their already-established distribution channels, so that they are able to reach multiple audiences. Finally, participants from Mississippi, North Carolina, Boston and Brooklyn capitalized on the opportunity of being among peers to help one another identify ways to modify their communication plans.

As a result of this workshop, three organizations invited CoLab media staff to provide further training to larger groups in their home states. As a result of these on-going collaborations, Beloved Community Center documented their 6-week, stimulus-funded green jobs training program for residents in local low-income neighborhoods. The documentation is available in a format that is accessible to communities nation-wide.

Neighbor-to-Neighbor Massachusetts has introduced media as an integrated aspect of its leadership development process, using media as a tool for reflective practice (rather than just information distribution). Mississippi NAACP is planning a documentary photography project that will help neighborhoods reflect on and reinterpret their histories related to civil rights and education. They plan to feature the project on CoLab's blog, CoLab Radio, and with displays in local barber shops. We are working with the MIT Media Lab to arrange for an interactive digital exhibition in the barber shops.

Thus far, we have used the approach to build our community partners' communication capacity. We now seek to extend it to labor/community partnerships.

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[http://web.mit.edu/colab/docs/09\\_10\\_CoLab\\_Annual\\_Report.pdf](http://web.mit.edu/colab/docs/09_10_CoLab_Annual_Report.pdf)

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