

Ethical Finance in Holland

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Ethical Finance in Holland: background

The beginnings of Ethical Finance in Holland has its roots in the ASN Bank which began in 1960 and saw the launch of ethical savings’ products in the Dutch market. Today, this bank along with the Triodos Bank, that began in 1980, are leaders in the ethical investments sector in Holland. In a country that has a tradition of savings, the ASN Bank (<http://www.abf.nl/>) began its work prior to the constitution of the first SRI fund, that didn’t begin until 1991: today there are 12 ethical funds in Holland. At the end of 2000, more than 4.5 billion Euro in savings and investments were certified with a social responsibility label. From 1987, both socially responsible savings and investments became part of the quota of savings and total investments in the Dutch market. The amount of socially responsible savings reached 2.5% of all savings and socially responsible investments amounted to more than 1.2% of total investments¹.

Ethical Finance in Holland: a legal context

An important moment within the background of socially responsible investments happened in 1995 when the Dutch government introduced “a green investments and savings plan”, making green investments particularly attractive (such as wind generating energy, solar power and organic farming). From 1996 these savings and investments grew until they “overtook” 50% of socially responsible investments and savings.

Ethical Finance in Holland: a political and communicative context

In 1995 socially responsible investors, institutions and private bodies came together as VBDO (Association of Investors for Sustainable Development <http://www.vbdo.nl/>), in order to act as a pressure group and challenge companies. After its first public appearance at Royal Dutch Shell’s annual shareholders’ meeting, VBDO took part in many campaigns in the following years, with an aim to investigate company behaviour. This has added to the increased number and quality of sustainable-friendly companies.

In 1998, VBDO launched a **National Forum** upon SRI’s. In addition to sustainable relationships, it also focused on themes such as market development, employment strategies and codes of conduct

¹ www.vbdo.nl/publicaties/SPAGB_july2001

for SRI funds. SRI funds continued to have success, social awareness and growth and the socially responsible collective began to extend its services. As a result, pension funds became more and more channelled towards SRI's and they began to offer experimental portfolios to shareholders. The European Sustainable and Responsible Investment Forum was set up in 2001, of which VBDO was one of the founding members.

In August 2003, VBDO published a study on sustainable loans within the banking sector. The outcomes demonstrated that it was not sufficient that banks proposed certain products towards sustainable development when considering their investments. The evaluation regarding this work should be carried out within an internal process and through an account that has to be controlled externally.

Ethical Finance in Holland: ethical investment funds

In 1968, an economist (Adriaan Deking Dura), a professor in tax law (Dr Dieter Brüll), a senior organisational consultant (Lex Bos) and a banker (Rudolf Mees) form a study group to see how money can be handled in a socially conscious way. In 1971 Triodos Foundation was founded to mobilise gifts and loans for promising new social initiatives and enterprises. Following this, in 1973 the Triodos Guarantee Fund was founded to issue guarantees for innovative companies and institutions to help them access bank funding. In 1980 the Triodos Bank NV was established in the Netherlands with EUR 540,000 in start-up share capital and a full banking licence from the Dutch central bank. In 1986 Triodos Insurance was also founded and launched one of the first policies to cover particular alternative medical treatments. In 1990 Triodos Bank launched The Netherlands' first green investment fund, Biogronde Beleggingsfonds. The Fund is listed on the Amsterdam Stock Exchange. Triodos Bank and insurance company Delta Lloyd launch the **Added Value Policy**, the first Dutch combined life insurance and pension insurance product to screen its investments using social and environmental criteria. In 1993 Triodos Bank's Belgian office opened its doors and the Dutch Triodos Wind Fund is launched. In 1994 Triodos Bank launched the first Triodos North-South Funds in The Netherlands in partnership with the Doen Foundation/National Postal Code Lottery and the Hivos Foundation (Humanist Institute for Development Cooperation). In Belgium, Triodos Bank set up the Alterfin cooperative, as a joint venture with the non-profit organisation Vereniging Zonder Winstoogmerk (VZW) II.II.II and other NGOs. These funds focus on microfinance funding in developing countries and fair trade finance. In 1995, Triodos Bank opened its UK office in Bristol and launched the Wind Fund - later to evolve into the Triodos Renewable Energy Fund. In The Netherlands, Triodos Bank was actively involved in the introduction of a fiscal 'green scheme' ('groenregeling') that later proves to be highly successful. In a related move, the Green Investment Fund is launched. 1996 saw Triodos Match start operating in the UK, providing private investors with the opportunity to participate directly in companies selected by Triodos Bank. Towards the 1990's The Triodos Added Value Fund is launched and listed on the Amsterdam Stock Exchange and the three Triodos 'green funds' are merged to form the Triodos Green Fund. The Solar Investment Fund is established to finance solar energy projects in developing countries. Triodos Research is founded to provide banks and pension funds with research about the social and environmental performance of listed companies. In 2000 Triodos Bank co-funds the Solar Development Group. All Triodos Bank's offices are accredited with ISO 14001 status for environmental management. In The Netherlands, the Triodos Added Value Fund allows investors to choose between Equity, Bond and Mixed Funds. In 2001 Triodos Venture Capital Fund is founded. In Belgium, the Triodos Values Fund is launched, with an International Equity Fund as its first portfolio. Triodos Climate Clearing House, a clearing house for CO2 emission credits, processes its first transactions.

Green savings and investments, such as ethical investment funds need to invest or loan out 70% of their capital in green or socio-ethical projects, acknowledged by authorities for a maximum 10 year period. By green projects, we mean those concerning nature and landscape, those within the organic sector, renewable energy, bio-architecture, projects which plan cycle paths, etc. Socio-ethical projects refer to those in developing countries, working towards food safety, social and cultural development and which include local participation. Since January 1995, legal green funds have a fiscal disposition, broadened in 2002 to include ethical funds, that establish how customers shouldn't pay taxes on the fund net revenue (1.2%), whilst their rates are reduced by 1.3% of the amount invested in the fund.

In 2002, green funds reached 3.1 billion Euro, increasing 18% in comparison to the year before, whilst socio-ethical funds reached 32 million Euro.

Ethical Finance in Holland: Ethical Banks

TRIODOS BANK

The Triodos Bank is one of the main ethical banks that has thousands of account holders and shareholders. It is officially registered in Holland as a shares company ('naamloze vennootschap', or 'NV'), it is not quoted on the stock market and has its offices in Belgium (Brussels), one in Holland (Zeist) and one in Great Britain (Bristol)². In 2004, Triodos wanted to open another office in Spain.³

Triodos began in 1980 in Holland. It offers a complete range of bank services in order to carry out so called social “business” and uses money gathered by financing projects that have positive impacts at a social, environmental and cultural level even those proposed by no profit organisations.

The Triodos Bank wants to contribute to a company that is predominantly directed towards people, or that respects people, the environment and culture more than anything else. It's motto is people, planet, profit. Triodos finances those companies, which have social, environmental and cultural values and who wish to promote commercial development/ deposits and investments. Ethical and social perspectives, such as financial ones, are at the heart of all of Triodos' activities. This triple approach (ethic, social, finance) lies at the origin of Triodos which means “threefold way.” As an independent international financial institution, Triodos Bank seeks to give “meaning” to ethical and social banking, obtaining the right profit. Triodos is actively involved in international organisations with regards to sustainable banks, sustainable investments and commercial practices that are socially responsible. To carry out its objectives in different ways, the Triodos Bank also acts as a sponsor, be it in a selective way.

Triodos' principles and independence are guaranteed by special trustees shareholdings that secure the bank's social and environmental objectives.

² Each Triodos Bank branches examined in terms of capital which have a national context. Here, however, we examine Triodos in general, without entering the Dutch context: for more information see www.triodos.nl

³ Capital from The Proyecto Trust was acquired in 2003, an advertising campaign on sustainable finance that has been active since 1999.

To preserve its identity and independence, Triodos quotas are administered by the foundation, under the Dutch law

'Stichting

Administratiekantoor

Shares Triodos Bank'

('SAAT'). SAAT gives out

deposit certificates for

Triodos Bank shares and

sells them to the public

and institutions. At the

end of 2002, there were

7,013 shareholders, 40%

of which 14 were

financial institutions

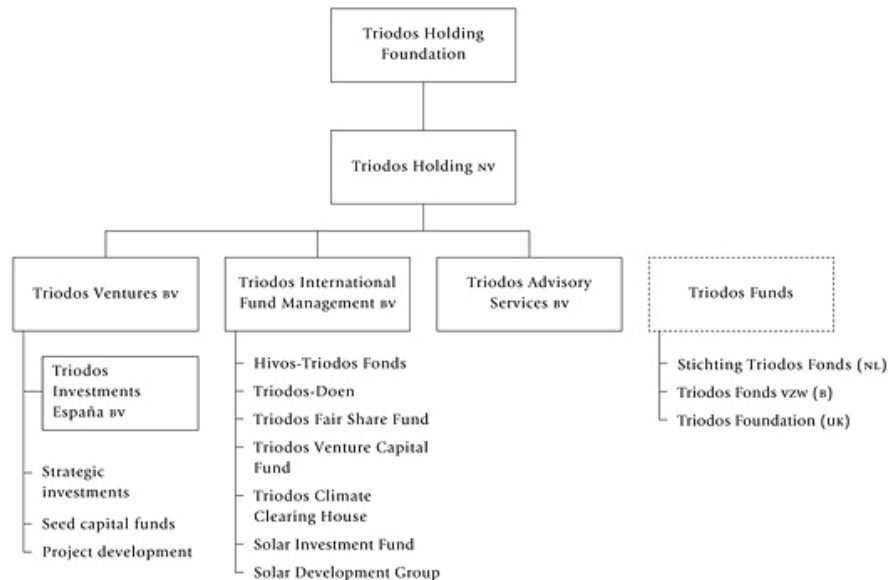
and pension funds. More

than half of the capital is

in the hands of private

investors, the majority of which are Dutch, although the numbers of shareholders in Belgium and England is growing. Along with private shareholders, there are also many banks, insurance companies and pension funds, that have deliberately opted to become Triodos Bank shareholders as the bank is able to offer a reasonable dividend and a stable growth in the value of interests pertaining to the Triodos Bank. The make up of Triodos sanctions, in any case, state that the shareholders cannot have a share quota above 7.5%: at the same time, each shareholder cannot have more than a thousand votes. In addition to Triodos, there is **Triodos Holding**, a joint stock company that works within Triodos investments: it is integrated within Triodos from a legal perspective but is separate as an organisation. In Belgium, Holland and England, there are another three Triodos foundations, that collect donations and fund raise for the organisation, as a result of the investors' choice to donate part of their the investment funds' return.

In this way, the number of shareholders is made up of many small individuals with a low interest rate and an even smaller number of institutions that have greater interests. At the end of 2003 Triodos launched a new capitalization campaign in both Holland and Belgium to finance its growth. In line with its social stance, the Triodos Bank wants and is looking for broad support amongst its customers. In addition, in the four countries where Triodos works, there is also the Triodos Fund Foundation (Holland), the Triodos Fund vzw (Belgium) and the Triodos Foundation (England) and Triodos Bank (Spain). Donations from these funds support research and development in sectors in which the Triodos Bank provides finances. At the end of 2002 these funds reached almost three million Euro. The most important project in 2002 was the contribution to an European research



programme called “*Food quality & Health* (FQH). This programme focuses upon the development of new methods of measuring the quality of food.

Triodos Financial Data

Amounts in thousands of euros (EUR)

	2003*	2002*	2001*	2000	1999
<i>Liability capital</i>	99.169	80.805	75.269	67.774	39.671
<i>Number of depositary receipts of shareholders</i>	8.349	7.013	6.421	5.985	3.875
<i>Funds Entrusted</i>	838.013	729.108	667.181	534.770	407.810
<i>Number of accounts</i>	70.833	65.720	57.957	43.691	37.131
<i>Loans</i>	466.975	386.587	328.965	280.907	233.814
<i>Number</i>	2.918	2.704	2.457	2.195	1.911
<i>Balance sheet total</i>	962.203	829.228	758.990	617.274	416.647
<i>Total income</i>	24.958	22.665	19.571	16.161	11.703
<i>Operating expenses</i>	19.146	17.605	15.531	10.593	8.500
<i>Value adjustments to receivables</i>	1.206	822	612	1.257	729
<i>Operating result before taxation</i>	4.606	4.238	3.428	4.311	2.474
<i>Taxation on operating result</i>	1.579	1.593	1.064	1.505	920
<i>Net profit</i>	3.027	2.645	2.364	2.806	1.554
<i>Per share (in EUR)</i>					
• <i>Net asset value</i>	66	66	65	64	62
• <i>Net profit**</i>	2,22	2,17	2,16	3,34	2,65
• <i>Dividend</i>	1,50	1,50	1,50	1,50	1,36
<i>Average number of co-workers on a full time basis</i>	167,9	154,0	132,4	102,7	79,6
<i>Operating expenses/total income</i>	77%	78%	79%	66%	73%

The consolidated figures from 2001 include the figures for the subsidiaries Triodos Assurantien BV, Triodos Custody BV and Triodos Fonds Management BV. The figures for previous years included for comparative purposes relate to the parent company figures for Triodos Bank NV which have already been adopted and which exclude these subsidiaries.

*** Net profit per share is calculated on the average number of issued shares through the year.*

Funds invested in the Triodos Group (Triodos Bank and Triodos investment funds) have increased by 15% in 2002, reaching 1,271 million Euro, with a profit increase of 12% in 2001, reaching 2.6 million Euro. Share values have increased from 65 to 66 Euro

Savings products The savings products offered by Triodos are targeted accounts, with which a customer can choose to support certain sectors or work areas: if the customer does not choose these type of accounts, savings are addressed more generally within the areas where the bank works. To increase funds available for the Hivos-Triodos Fund, Hivos and Triodos Bank launched the North-South Plan, with the aim of giving investors in the North an opportunity to save and finance projects in the South, thus also taking a risk. Based on the money deposited in these types of accounts, Triodos Bank finances HTF, that uses money to finance loans and guarantees. Money given by Triodos Bank to HTF are guaranteed by Hivos (at a maximum of 90%) and by customers, who are asked to give a contribution, a guarantee. The guarantee

North-South funds deposited with Triodos Bank:

	2002		2001	
	Amount EUR	Number	Amount EUR	Number
North-South deposits	1,926,522	250	1,737,395	235
North-South savings accounts	7,000,691	992	5,413,141	816
Total	8,927,213	1,242	7,150,536	1,051

given to Hivos is nine times the granted loan sum⁴.

Customers who choose these type of accounts are invited to give up 1% of interest rates to cover the extra costs from the North-South plan. In 2002 Hivos received 104,294 Euro.

Loans: Triodos grants loans to companies who work within the social sector, those who work for profit and organisations working in the Third Sector that are active in the environment, international development (essential between microfinance and fair trade), social economy, culture and sectors that work towards improving the quality of life. In 2002, Triodos invested in the following:

- Nature and the environment (26%) (finances also coming from the Triodos Green Fund) sustainable energy project
- Social economy (18%) companies that work for both the economy and society (including service industries)
- Culture and welfare (38%) loans that are directed towards the education sector and integrating the disabled
- (North-South) International Development (4%) (also financed by the Triodos international fund) MFI, fair trade, NGDO's
- Lifestyle (14%) cooperatives

Investments: Triodos has carried out investments both through investment funds and institutions that are administered by companies who are under the Triodos Bank but legally separate. In this way, the Triodos group has initiated a series of funds that have different meanings according to their different types of investments. We can mention here, the Solar Development Group, an investment fund (Solar Development Capital) linked to a foundation (Solar Development Foundation) that focuses upon "solar companies" and financing customers who have Solar Home Systems in developing countries. The **Solar Development Foundation** has already financed more than 40 projects and the **Solar Development Group** is a source of capital and commercial development, which is strategic for companies within the energy service sector that have a potential growth. The companies include retailers or distributors of domestic solar systems or other selected products, renewable energy services, integrated services, banks or loan companies with credit programmes for customers, etc.

At the moment there are eight investment funds, that are accessible by individuals and institutions. In 2002 the total amount of investments in these funds amounted to 331 million Euro.

From these 8 investment funds, three (Hivos-Triodos Fund Foundation, Triodos-Doen Foundation, Triodos Fair Share Fund) are specifically dedicated to supporting Finance for Development in the

⁴ A weak point is that the number of customers who offer guarantees, approx 300 in 2002, is not expanding.

South. The Triodos group, through its Triodos International Fund Management BV administers, investing resources to finance microfinance institutions or fair trade and/or organic producers in developing countries.

All three funds share the same objective of financing projects and institutions that contribute to sustainable development and social renewal, confronting microfinance in a professional and financially sustainable way through different forms of finance: loans, participations in social capital, guarantees. Here we will mention some general points, keeping in mind that each one of these is different according to risk profiles and ways of functioning.

Loans are in dollars, Euros and local currency, they usually amount between 200,000 and 1,500,000 dollars, and have a span of between 1 and 5 years. Paying back loans depends on the arrangement established by both parties. Interest rates vary and depend on the country specific economic and market situation. It is not Triodos' politics to provide concessional interest rates or to refund granted loans. Sometimes, Triodos uses organisations' participation in social capital to finance those MFI that need additional capital to expand their work. The amount is similar to that of loans and capital is maintained for a period between 5 and 7 years, after which the shares are sold to others, with hope of regaining the same quota.

In mitigating cases, Triodos bank grants finances in the form of guarantees, especially when it is not possible to directly finance a MFI, as a result of state laws or unstable currency. In such cases, Triodos guarantees a local bank, which then grants loans in local currency to microfinance institutions: in such cases, funds reach a rate of between 3% and 6%.

Important aspects to consider when selecting a microfinance institution are: financial

The Board has approved the 2002 Annual Report and Accounts of the Hivos-Triodos Fund Foundation. The financial year 2002 has resulted in a loss amounting to eur 1,250,801 (2001: eur 423,787 loss). The loss in 2002 is made up of an operating profit amounting to eur 175,613 and a loss on the loan and guarantees portfolio amounting to eur 1,426,414.

Triodos Bank will call on the guarantors to provide a total amount of eur 1,426,414, which is equivalent to that part of the loss that relates to the general portfolio of loans and guarantees.

We expect that the guarantors for the Hivos-Triodos Fund Foundation shall provide a discharge for this amount.

sustainability, ownership, quality of loan portfolio, the institution's target: institutions have to contribute positively to social well being and the environment.

The **Hivos-Triodos Fund** began in 1994 from a comunal initiative between Hivos (Humanist Institute for Development Cooperation) and the Triodos Bank, which together formed the

Hivos-Triodos Fund Foundation⁵. This fund allows customers in the North to be involved in economic development in the South, through loans, guarantees and by participating in the company's capital. The fund's aim is to provide loans, guarantees and participatory capital to those organisations that are specialised in micro credit loans; to groups and individuals who would otherwise have serious difficulties accessing finance and who are active in trade and production

⁵ htf's Board of Management consists of Peter Blom and Frans de Clerck, both of whom are also on the board of Directors at Triodos Bank nv. (Frans de Clerck, conosciuto a Mumbai)

that respects certain social and environmental criteria. The fund is controlled by a committee appointed by the Hivos foundation.

Loan requests are evaluated in two stages: firstly through an evaluation carried out by Hivos, which, depending on the result, is then followed by an application exam by the Hivos Triodos foundation. Secondly, staff at the Triodos Bank evaluate the application from a financial perspective, considering country specific conditions. If the financial evaluation is positive, the file goes to the Hivos-Triodos Foundation credit commission, which has both Triodos and Hivos representatives. Hivos has the right to veto within the committee if the application does not meet all the financial requirements, whilst Triodos bank has the power to advise against the investment as a result of financial considerations. The final responsibility is of the Hivos-Triodos Foundation's Board of Management, which is the financial administration once a financing is granted. Every financial plan is subject to annual controls carried out by the credit committee. In addition, plans are followed by Hivos through regional offices in Harare (Zimbabwe), Bangalore (India) and San José (Costa Rica).

AN EXAMPLE OF HTF FINANCING: Bosnia and Herzegovina - Mi-Bospo

In 2003 HTF provided the first loan to a microfinance institution in Bosnia & Herzegovina. Mi-Bospo is one of the ten microfinance institutions that have been set-up and financed by the Worldbank. With a portfolio of USD 6 million and approximately 6,700 clients Mi-Bospo belongs to the medium-sized microfinance institutions in Bosnia and Herzegovina. Mi-Bospo is part of the Women's World Banking network. The target group are female entrepreneurs in the lower income class. The organization is expanding steadily from its home base in Tuzla, in the northeast of the Federation of Bosnia and Herzegovina. This region is characterized by a relatively high number of (female) war refugees. Mi-Bospo has positioned itself in the market as a financial institution for and by women. Mi-Bospo offers clients both group and individual loans and also provides custom-made agricultural loans. The portfolio quality is good, even within the context of the country where the overall portfolio quality is good.

India - Share Microfin Ltd.

Share has provided loans to more than 109,000 women, making Share the largest microfinance institution in India. The company is still wholly owned by a large number of its customers. In the last few years Share has significantly increased the amount of small loans provided to women who organize themselves in groups of five members. Share obtained the finance required from both Indian and international financiers. The savings of members are kept in a separate co-operative since Share has yet to receive permission from the Central Bank to attract savings directly.

In its 2002 Report, HTF claims that its own level of general financial risk remained relatively high: this is because HTF funds a large number of young microfinance institutions which are still in a start up phase and are not subsequently self sufficient but can become so with adequate credit portfolio growth strategies. These institutions do not often find investors because it is difficult for them to find the funds to finance their micro

credit portfolio: also International Financial Institutions consider these institutions too small and the invested capital at too great a risk. This leads to a vicious circle: without means of growth they are unable to become financially stable and without financial stability they cannot find the funds necessary to grow. HTF also offers an efficient consultancy service, thanks to the experience gained by Triodos' staff.

HTF seeks to maintain risks of these transactions at an acceptable level through constant involvement, follow up, visits etc. This is made possible through Hivos' cooperation. In addition, HTF is one of the few organisations that finances in local currency, an important requirement by many MFI's as they are not capable of supporting financial risks of loans in dollars and euro: HTF seeks to protect itself from exchange risks, keeping its calculated interest rate margins high.⁶ To cover these losses, HTF asks its guarantors to give 14.5% of their guarantee to balance the loss. "A fund such as HTF is able to do this thanks to the guarantors who are prepared to carry these risks. It is much more difficult for the institutions financed by HTF to take on these currency risks." In 2002 HTF granted loans together with Cordaid and Novib in Kenya and Peru: these two institutions worked with HTF, supporting some costs with their own risk under Triodos' management.

HTF also has equity participations in micro finance institutions as an active investor. It is usually represented through one of Triodos' officers, who works in the institutions' or fund's management committee that has equity interests, providing experience as well as capital. HTM remains a shareholder for a period between 5 and 7 years, to assist the institution in its development and to gain sales, preferably with a local agent. Equity participations are financed within HTF thanks to an interest free loan that is subordinated under Hivos. Hivos has both a derived equity participation risk and derived profits⁷. At the end of 2002, HTF took part in developing three banks, a financial institution and two venture capital funds in addition to other equity interests that were also approved. In 2002, the Hivos-Triodos fund also guaranteed loans for fair trade producers, mainly coffee producers registered under Max Haavelar (now FLO).

Loans are short term and repaid in full. In the majority of cases this implies prefinancing sales contracts with the importer (Van Weely bv in Amsterdam), who works on behalf of FLO in Holland.

Between 1996 and 2001 HTF separately financed Fair Trade projects, 80% of which was covered by Hivos' loans and 20% by FLO's guarantees. This line of financing is not used a lot anymore and so HTF has decided, along with Hivos and Max Haavelar to close it.

The **Triodos Doen Foundation** began in 1994 as the only type of cooperation between the Triodos Bank and the Doen Foundation, founded in 1991 and financed by the profits from the national lottery and working towards

AN EXAMPLE OF THE DOEN FOUNDATION: The Netherlands - Simon Lévelt BV and/or Luzon Beheer BV

Simon Lévelt is a long-standing family company, specialising in the wholesale and retail of organic and Fairtrade coffee and tea. The company roasts its own high quality coffee. In 2003 Triodos-Doen provided a loan for the seventh time, to co-finance the Max Havelaar producer organisations in Mexico, Bolivia and Peru, which provide Simon Lévelt with organic coffee.

⁶ come risultato dei margini di cambio, HTF ha perso nel 2002 1,180,435 euro, e questo ha spinto l'istituzione finanziaria a stipulare, per i prestiti concessi nel 2002, currency forward

	31.12.2002		31.12.2001	
	amount EUR	number	amount EUR	number
Equity investments	4,461,312	10	4,478,955	11
Loans	18,436,088	52	18,126,852	52
Guarantees	926,195	6	1,053,830	7
Total	23,823,595	68	23,659,637	70

Centenary Rural Development Bank
ment of capital of the venture capital
d that has now entered its
nated

financial initiatives within sustainable development, poverty reduction, promoting the environment, supporting refugees, using an approach that stimulates businesses, finances loans, equity participations, state grants. Its objective was to create a fund that would provide financing for projects and institutions working for sustainable development as well as within society, international development and the environment. Over the years, the fund has financed institutions contributing to social innovations within the international development sector, microfinance institutions, Fair Trade and organic producers in both developing countries and in Central and East Europe. Finance provided by the Triodos-Doen Foundation has a considerable risk profile and is provided in situations where ordinary bank loans are not available, because security cannot be provided for example. The foundation's financial objective is to maintain its own capital. In 2002, Triodos Doen had a portfolio of 23,823,595: despite this number, the portfolio is smaller than it seems due to the foreign exchange against the Euro. More than 50% of the portfolio is lent out in different currencies to the Euro. If we were not to consider currency impact, portfolio growth would be 8%. In 2002, Triodos-Doen also financed 21 institutions and acquired another equity participation for 9.8 million Euro. Loan and finance mechanisms are similar to that of Triodos Hivos: it finances in local currency, compensating risk with adequate interest rates. Also here, after the launch of the Triodos Share fund, loans granted to the Fair Trade sector are taken up by the new fund, hence liberating resources. The politics of differentiating investments is so that the start of financial transactions should cover administration costs belonging to both the fund and inflation. The Triodos-Doen fund is also appreciated for the way in which it can offer financial know-how and experience.

	31.12.2002		31.12.2001	
	amount EUR	number	amount EUR	number
Microfinance	16,076,483	27	14,890,673	24
Trade finance	5,312,727	10	5,804,038	11
Other	2,434,385	9	2,964,926	15
Total	23,823,595	46	23,659,637	50

One of Triodos-Doen's principles is to use the capital it receives from the Doen Foundation for sustainable finance through loan repayments, quota and guarantee sales. In 2002 7,317,153 Euro was recycled and used for new services. During its work, Triodos-Doen takes certain risks: such as currency risk. Historically the Fund's policy has been that currency risks will not be covered by, for example, currency swaps, because costs involved are usually disproportionate to the reduction of risk. In the case of the us dollar/Euro risk, this policy has changed during 2002 and the currency risk on us dollar loans is now hedged through forward transactions. As long as the us dollar interest rates are lower than Euro rates, there are no costs involved.

There is also country risk: Triodos Doen finances institutions in countries prone to catastrophes (natural disasters, economical crises, unexpected political changes, legal risks and corruption). There is also an organisational risk, connected to the difficulty of finding adequate staff and an economical risk due to recessions.

The **Triodos Fair Share Fund** was set up at the end of 2002 to finance microfinance institutions and Fair Trade and organic products. The Triodos Fair Share has a risk profile lower than that of HTF and finances institutions that are already set up. HTF has a higher risk profile and can act as an “incubator” that prepares institutions to function within the market where other institutions work together in the Triodos Share fund. Hivos is involved in the Triodos Share fund and guarantees 50% of the granted finances to institutions that do not satisfy the risk profile that is fixed by the Triodos Fair Share. Begun on the 9th December 2002, it has issued 50,000 shares, totalling 1.5 million dollars.

In its management of other investment funds that are not dedicated to any specific cause, but directed at socially responsible investments, such as the **Triodos Added Value Fund**, the bank carries out checks through its Triodos Advisory Services. This work group investigates social sustainability in Holland and Belgium and provides banks with advise upon pension funds and trading with regards to the sustainability of investments. There are two phases of analysis carried out by the Triodos Advisory Service: firstly, analysts establish whether a company is involved in work that is incompatible with Triodos Bank’s ethical criteria, such as GM foods, animal testing, arms production and child labour. If these result, the company is automatically excluded.⁸ In the second phase, selected companies are divided according to sectors and one is compared with another in order to judge their level of sustainability, based on one hundred social and environmental criteria. At the end of this analysis, only those companies above a medium are considered viable for the Triodos Added Value Fund. Staff at Triodos believe that all of this has a purpose, in the sense that through such initiatives, the whole system is encouraged to improve its own sustainability index.

Let us now look at social responsibility and company politics at Triodos. Triodos is committed to reducing the impact of its work on the environment and also finances organisations that protect forests with sum that is equal to the total amount. With regards to occupational politics, staff numbers at Triodos have grown from 190 to 209 this year, 43% of its managers are women. In addition, wages are evaluated based on a gap between the lowest and highest salary.

⁸ From the research carried out on six companies selected from the food industry, only Associated British Foods and Unilever passed the first level in the selection process.

Prospectives of developing work in the future have the following direction: to provide micro finance with collateral services, such as management funds, sustainable capital management, insurance services.

Ethical finance for development: actors

ICCO – is an Interchurch international development organisation founded in 1964 that, seeks to alleviate poverty, amongst its other objectives, co-financing associations and projects throughout the world. ICCO is indeed one of six co-financing organisations in Holland, whose resources are distributed by the Government to support projects and programmes in developing countries. Above all, ICCO finances development projects in Africa, the Middle East, Latin America, the Caribbean, in some areas of Asia and the Pacific, in East and Central Europe and Central Asia, both carrying out their own projects and co-financing other development projects.

Other than co-financing other projects, ICCO has four strategies aimed at supporting poverty reduction: *emergency help, capacity building and direct cooperation through their experts.*

The reason why we believe ICCO is interesting is its special loan and guarantee programme, in cooperation with local Dutch banks and specialised financial institutions such as Oikocredit. The idea is to multiply capital leverage. ICCO's guarantee and loan programme is connected to that of Fair Economic Development, Fair Trade support, even if from the loans perspective, ICCO funds that grant guarantees etc. remain separate. The way to issue loans and guarantees is to follow norms which internationally regulate this type of activity: therefore, even if the target is socially responsible, the approach isn't that directed at financing non bankable or financially unhealthy organizations. An example of this type of work, are the guarantees offered by ICCO that make up AgroFair's development, a Fair Trade company that produces fresh products throughout Europe.

OIKOCREDIT –an organisation that finances micro finance institutions and Fair Trade producers through loans. The idea of constructing this association began at a meeting held in Uppsala by the World Meeting of Churches in 1968. Seven years later, OIKOCREDIT was set up despite the initial scepticism regarding the concept of “*loans for development*” amongst its founders and has

Support Associations raise the awareness of people in their region about the importance of development and ethical investments. Through the Support Associations the investments of individuals, local congregations, religious orders and parishes are channelled to Oikocredit. Support Associations are mainly composed of volunteers and located in Europe, Northern America and some developing countries such as the Philippines, Uruguay, Costa Rica and Mexico. The 35 Support Associations have a joint membership of around 23,000. Together, they bring in about 79% of Oikocredit's total share capital.

subsequently become one of the major financiers for development, thanks to its support associations, that mobilised and increased capital thanks also to its project partners, who have loyally repaid their loans. Today, Oikocredit supports approx. 300 groups who live on the margins of society in Latin America, Africa, Asia, and Central and East



Europe, even though attention is paid to individualised countries. Oikocredit loans are directed at groups: a cooperative of small coffee farmers, or microcredit institutions that divide Oikocredit loans into thousands of loans, which are then issued to the poor.

In the last five years, the total of Oikocredit's capital in circulation has nearly doubled, with a hundred million of Deutsch Marks in 2003. This substantial growth can be partly attributed to the growing importance of

Loan Criteria

- **People:** The enterprise must benefit groups of disadvantaged people and contribute to the social and economic advancement of the community in which it is located.
- **Groups:** The cooperative structure is favoured where applicable because beneficiaries participate directly in the operation and management of the business.
- **Women:** Preference is given to enterprises in which women are direct beneficiaries and in which they participate in decision-making, structures and procedures.
- **Environment and animal welfare:** Special attention is paid to the ecological impact and the protection of animals and species.
- **Viability:** The enterprise must be economically viable, with appropriate management and technical leadership. and become self-sustaining

Microfinance Institutions of Oikocredit's portfolio. At the end of 2003, nearly 50% of loans issued,

Facts and Figures

Objective:
Credit for development

Capital sources
Investment capital from individuals, churches, church organizations, parishes and congregations

Range loan size:
50,000 – 2 million euros

Organization:

11 regional offices and 9 country offices in Africa, Asia, Latin America and Europe, plus an International Office in the Netherlands

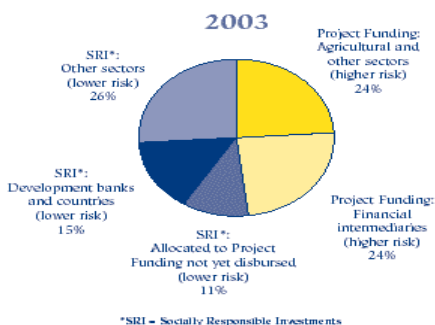
Loan criteria:
Viability, benefits for poor people, women empowerment, environment protection, impact on community

Targeted currency:
Euros and US dollars and in specific cases local currencies. Flexible country and project risks,

were channeled at those institutions, that provide financial services to small and medium businesses. The ability of Micro credit Institutions to reach the widest number of poor people have been excellent, whilst, at the same time the repayments of their loans has always convinced Oikocredit to support more than 150 of these institutions across four continents.

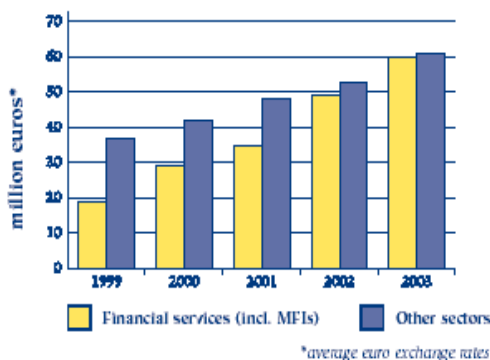
Oikocredit also has an ulterior growth in its equity interests in

Oikocredit Investment Mix
As per 31 December



This pie shows how the capital invested in Oikocredit has been used. In order to balance risks, Oikocredit maintains a certain "investment mix". This means that Oikocredit cannot invest all of its funds in high-risk projects, but needs to maintain a certain portion of capital in lower risk investments. As much as possible, these investments are in development related institutions or countries; the remainder is invested in bonds and shares screened and approved by Ethibel.

Growth of portfolio 1999-2003
Financial services versus other sectors



micro credit institutions over the coming years with the appearance of a new Oikocredit Microfinance Manager, a



complex microfinance portfolio that is probably destined to increase significantly.

Microcredit and Fair Trade:

Oikocredit has developed relationships with Micro Finance Institutions and with the Fair Trade Organisation in those countries that do not make up those 30 where Oikocredit works. In 2003 approx. 2.4 million loans were issued. These include a *credit line* of two million dollars of one of the most important partners for Oikocredit in this field: Opportunity International.

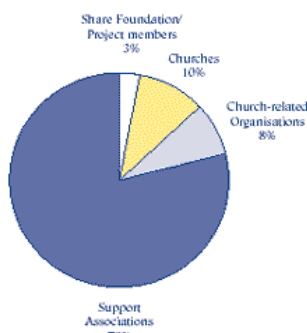
Regarding socially responsible investments, Oikocredit is different as it mainly focused in countries in the South. Over the course of the last 28 years, Oikocredit has gained experience in the field of loans for development and has grown within a sustainable and global network, that is made up of 20 regional and national offices involved loan shares.

These offices use investments of 520 direct members (churches and other various organisations) and 34 support Associations who together represent approx. 23,000 investors, such as thousands of other organisations, banks and foundations that invest through Oikocredit International Share Foundation. Together, all of the above have invested more than 182 million Euro over the years, that have been utilised to activate numerous initiatives.

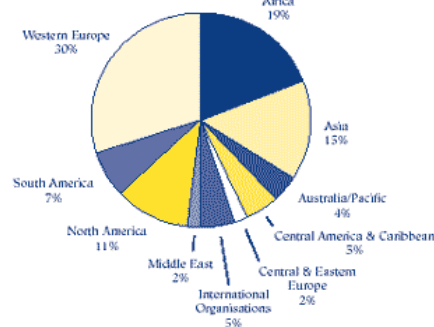
In recent years, Oikocredit has concentrated on developing socially responsible investments, not only as a project but also with effective investments.

An important step forward this year has been the synchronising of environmental guidelines that were used by Oikocredit staff in the selection of loan applications. A code of conduct for all staff and committee at Oikocredit was developed and approved, to which the Committee was the first to sign, demonstrating its commitment.

Sources of Total Share Capital



Membership by Region



As per 31 December 2003

Oikocredit uses investments to finance generation gains and those initiatives that support the start up of work in areas where there are underprivileged groups, especially in developing countries.

Project partners are selected on a basis of strict ethical criteria : positive community impact, involvement of women in administration and implementation, no harmful environmental implications, animal well being, financial and administrative sustainability.

Current Oikocredit investment politics are acknowledged socially responsible by Ethibel.

Communication with investors is open and transparent with everyone.

Investors are paid back twice over: a high social return and a modest financial one (2%).

As an international Cooperative, Oikocredit has members throughout the world, with very

different backgrounds. Participation of such a large number of members coming from different places with different origins balances politics of development at Oikocredit. Historically, the network of the Support Association represents Oikocredit's greatest share capital provider. As we have seen, this represents 79% of shares' capital.

CORDAID – founded towards the end of 1999 following a union between three Catholic development organisations: Memisa, Mensen in Nood (the Dutch equivalent of Caritas) and Bilance Cordaid, which are amongst the Catholic social doctrine and strongly believe that each human being has the right to a dignified life. Each year, Cordaid spends about 150 million Euro on projects in developing countries. This money comes from the Dutch government, the European Union and from approx. 450,000 private donors that support the work carried out by this organisation. Cordaid provides its assistance by seeking to develop and improve its organisational, financial and human resource capabilities, such as looking for investors in the country where they want to invest or by assisting in training and carrying out a true and secure system, that is usually very precarious in those places where it exists. Over the years, Cordaid has learnt that funding for structural economic development has specific needs to follow: funds for loans, guarantees and contributions for local catastrophes. The *Funding Department* is developing new methods and is always fundraising for specific projects. For these reasons, it had a budget of 22 million Euro in 2001.

When new support methods are developed, it is always crucial to insure that local available resources (opportunity to save, government resources) are used in the most effective manner and that the Cordaid workgroup is able to have good access to banks and financial institutions. Cordaid looks for the best loans, guarantees and contributions, mainly through a channel of financial institutions, the government, private businesses and through associations of producers. Cordaid's objective is to support a local population to have access to their own loans through local banks or other credit institutions based on favourable conditions.

Cordaid works with local organisations that support poor people's initiatives in the field of sales, production and investments and there are two ways in which Cordaid seeks to confront poverty: through direct action, by directly financing projects that help small entrepreneurs to improve their production methods, using better training at an administrative level for example and secondly through "Society Building", where Cordaid also reinforces farming and trading cooperatives, making them independent in the future.

Based on the above, Cordaid offers a wide range of sustainable forms that differ from financing, such as loans based on favourable conditions and guarantees, which is carried out in cooperation with local financial institutions or corporate sector. Cordaid has a special department called the Finance Department, which has experience in all these sectors.

Within this perspective, one of the most important keys towards development is access to financial resources. Cordaid work is to try an open as many doors as possible in order to access the financial

market, above all to those who are needy. By cooperating with local financial co operations, Cordaid provides loans with favourable conditions and savings' programmes.

It is evident then, how important economic sustainability is amongst Cordaid's approaches for development. Developing countries are characterised many informal sectors, which are also often vulnerable. Cordaid sees to create relationships between the financial credit institutions in order to understand the way they work. In this way, it tries to improve access to banks and credit institutions (such as in Ethiopia, where urban life support programmes improved and reinforced women in the informal sector, providing them with access to credit and local financial institutions). Cordaid seeks to improve information, skills and services that are currently insufficient in the South. By supporting local organisations in the field of markets, loans, financing trade, Cordaid tries to develop cooperation between business communities in the North and South. Entrepreneurs in the South have to earn a better position within the market that effects their life, threatening to exclude them. This means that they have to be professionally trained and have the right tools with which to produce quality goods and to follow ecologically sustainable production.

Nearly half of Cordaid's budget is indeed spent on micro loans for entrepreneurs or groups. These loans are often combined with donations and technical assistance.

In Kenya, for example, Cordaid supports an organisation that is focused exclusively on women. About 60,000 women in Kenya have been involved in the Kenya Women Finance Trust, the majority of which work in rural areas. In Ghana success has been achieved through pineapple exports. Small scale farmers grow pineapples and then bring them to the Tongu Gold Farms Limited, a company that has a large number of Dutch shares, where they are then treated. What insures these farmers is not only a guaranteed market, but the fact that they are also assisted in their technical know-how of growing pineapples.

In Senegal Cordaid has helped to set up a peanut buy-back system, through which approx. 16,000 farmers are able to obtain better prices. In South Africa, Cordaid finances the construction of social housing.

In Colombia, Cordaid supports microcredit institutions, through which 3,000 families have recieved loans to start up work. In India, however, the organisation supports savings and loan programmes for female cooperatives, numbering at 20,000 members.

In Brazil, it has tried to improve the quality production of sisal. In Peru, there have been excellent results in coffee and fruit production through a trade cooperative.

There have also been micro credit programmes launched in Armenia for women who work in the informal sector.

Cordaid spends approx 150 million Euro each year to finance its projects. These funds come from many different sources, from private donors to government contributions. Its investment politics always follow socially responsible investment criteria.

NOVIB – a Dutch organisation working in development and international development founded in 1956. Novib’s aim was to become an organisation that involves the entire Dutch population. At the time, all civil organisations and political parties were interested in becoming members of this association, which initially worked in campaigns to fight hunger.

In 1994, Novib merged with Oxfam International, an alliance of 12 independent and more than 3,000 local organizations.

One of the sectors in which Novib invests the most is microfinance, in both *poverty finance*, and *micro banking*.

Micro banking	Poverty finance
Urban	Rural
Enterprising poor	Vulnerable poor
Profit motive	Social motive
Individual lending	Group lending
Trade and commerce	Income generation
Small-medium scale	Large scale
High margins	Small margins
High interest	Low-medium interest
Latin America, Africa, Eastern Europe	Asia, Africa

Novib’s approach in this sector is mainly connected to promoting the right of a sustainable life. Namely, to establish and increase gains which are essential for sustainability. Novib’s motto is *for the poor only the best is good enough*: therefore, the organisation aims at providing quality

customer service, in terms of efficiency and care. Novib directly supports microfinance institutions in their management of services offered to assist and increase their work. Within the choice criteria that Novib respects when selecting microfinance institutions, there is also client profile evaluation, efficiency, general knowledge and financial performance. With regards to the sector, it carries out financial technical assistance, capacity building and lobbying.

Donations are granted by Novib only in certain circumstances: start up, product development, capacity building, system improvement. As a rule, Novib doesn’t cover MFI administration costs, nor does it capitalise its own loan portfolio.

Loans are the main product that finance portfolios, although there isn’t one single loan product and there are flexible conditions (length, reimbursements, currency, interests: the only requirement is that MFIs are able to pay trade interests, calculated according to the client, in a legal and local market contest within the investment sector. Novib also issues guarantees to help MFIs to access local loans, issuing a repayment guarantee that can cover part of the amount requested: the MFI also has to pay a rate to access the guarantee.

Region	Mln. Euro	Nr. of investments
Eastern Europe	2.2	9
Africa	2.6	10
Asia	1,2	4
Latin America	5.0	17
Other	1.2	3
Total	12.2	43

Region	Mln. Euro	Nr. of investments
Eastern Europe	1.1	3
Africa	0	0
Asia	0	0
Latin America	3.3	11
Other	0	0
Total	4.4	14

Equity is a growing issue within microfinance, but generally Novib is cautious about this type of investment, considering it only if there is a clear exit strategy and if it is possible to participate in the MFI’s

management committee. Usually Novob prefers to participate indirectly.

Together with ASN Bank, Novib founded the ASN-Novib Fund, specialised in microfinance. The public Dutch fund participates by buying shares.