

Transparency and Sustainability in Finance

Project Report Summary

October 2005

Sustainability reporting in microfinance

Triodos Bank and the Global Reporting Initiative (GRI - an institution dedicated to the introduction of globally applicable sustainability reporting guidelines) have initiated a project called Transparency in Sustainability and Finance (TSF)¹. The purpose of this project is to assist microfinance institutions in the implementation of GRI Guidelines. GRI's guide to sustainability reporting, the recent *High 5!* handbook, served as a hands-on tool during the project.

Central to the TSF project was a workshop for investee microfinance institutions of Triodos-Doen, Hivos-Triodos Fund and Triodos Fair Share Fund organised by Triodos International Fund Management and GRI in October 2004 at Triodos Bank headquarters in Zeist, the Netherlands. Representatives of nine leading microfinance banks and institutions participated. From this initial group of nine, six announced that they would be interested to take part in a pilot aiming at implementing sustainability reporting in their institutions from 2005 onwards. These six are:

- Acleda Bank in Cambodia
- K-Rep Bank in Kenya
- Centenary Rural Development Bank in Uganda
- FFP FIE in Bolivia
- Banco Solidario in Ecuador and
- Findesa in Nicaragua.

In their respective countries, these banks are leaders in the field of microfinance, and they specialise in providing financial services to low-income groups that have limited or no access to financial services.

Looking for a standard

A sustainability report is a statement explaining how a company is embedded in its social, ecological and economic environment; a principle known as the Triple Bottom Line. A sustainability report recognises the impact of the company in these three fields and states its short- and long-term strategies in regards to them. Reporting on the Triple Bottom Line is quickly becoming a requirement for businesses around the world. A company's ability to attract capital, build brands and establish a solid reputation will in the near future depend on how well it communicates not only its financial, but also its social and ecological goals. However, there are no standards for reporting on sustainability specifically designed for microfinance. Among other things the TSF project wanted to establish whether it is necessary to develop new GRI sector supplements² to meet the needs of the microfinance industry.

On the other hand, there are social indicators and assessment tools available to microfinance projects and banks³. These indicators are the nuts and bolts of any sustainability report, because they measure the performance of companies in specific fields. As part of the project, TSF coaches and Triodos Bank Investment Officers selected a list of existing indicators and discussed them with the different participants. These indicators measure for instance outreach, client satisfaction and retention, the size of transactions compared to GDP and the impact of financial services on the quality of life and the environment. The participating banks were asked to select indicators from the proposed list relevant to them.

The TSF coaches helped participating banks to implement these indicators and to begin collection and analysis of data. During visits the project coaches gave presentations and technical support to the bank's staff on how to apply some of the indicators that are less common in the microfinance field, for example environmental indicators.

¹ Financial support for the TSF project came from Hivos Foundation and Triodos Foundation.

² GRI sector supplements provide indicators specific for certain industry sectors that can be applied in addition to the GRI Guidelines. See www.globalreporting.org/sector-supplements

³ Examples of initiatives: CGAP poverty assessment tool (PAT), Poverty assessment research project by Accion International, Assessing the Impact of Microfinance Services (SEEP network), Imp-Act initiative (founded by Ford Foundation in 2002), Social Performance Indicators Initiative (SPI) administered by CERISE and various other impact- and outreach related initiatives

The project takes flight

The main objective during the first two months of the project was to assist the participating banks to address non-financial aspects in their 2004 annual reports. But the project also looked further afield and discussed the inclusion of social, environmental and economic aspects in the participant's 2005 reports. To this end, the participants developed a preliminary list of GRI indicators that they could use. Furthermore, research materials, questionnaires, and worksheets complementing the *High5!* handbook were developed.

There were frequent individual consultations between Triodos Bank, GRI and the microfinance banks. But the banks also regularly shared information among themselves and with the project team on project findings and progress. Triodos Bank and GRI also reviewed and commented on draft 2004 reports and other materials developed by the banks. These contacts brought to light that the six participants are all very different in their approach and cultural context, but that they share similar challenges and solutions when it comes to sustainability reporting.

No new guidelines

The main conclusion from the meetings and discussions is that GRI reporting is a very useful tool for improving goal-setting, evaluation, strategic management and decision-making in microfinance institutions and banks. Remarkably, the participants decided that it is not necessary to generate new sustainability reporting guidelines for the microfinance industry. As it turned out, the existing GRI Guidelines combined with the *High 5!* handbook, are sufficient to allow a microfinance bank to communicate performance results and social, environmental, economic and financial aspects of their day-to-day business. However the project furthermore demonstrated that it is crucial to develop a set of specific indicators for microfinance institutions, especially in the field of social issues.

All participating banks expressed commitment to include non-financial information in their 2005 annual reports and to develop non-financial reports in 2005 based on the GRI Guidelines.

Additionally, the banks decided to implement consultations with internal stakeholders as part of the reporting procedures and to ensure active engagement of employees and management in the process. But they are aware that a sustainability report should also address issues and expectations of external stakeholders such as clients, investors and lenders, (non-)governmental organizations, the media and the general public. A start was made by all banks by inviting employees from different levels and departments to become part of the internal sustainability team or taskforce, resulting in an immediate engagement of internal stakeholders.

Second phase

There was strong support for a second phase of the TSF project. Participants would like it to provide overall guidance and technical support during the development of their 2005 annual reports. Specifically on implementation of stakeholder engagement and environmental projects and initiatives. Furthermore, participants would like to continue exchanging information and assist each other in developing a set of specific indicators and methodologies to compliment the existing GRI guidelines. It is clear that developing specific microfinance related impact indicators is going to take a focussed effort by TSF participants in collaboration with other stakeholders in the microfinance field. Each of the participating banks and financial institution has its own wants and needs when it comes to indicators. Also, developing sustainability indicators and using them as a management tool, is a new concept for the participating organisations and it will take time to implement them. All participating microfinance institutions expressed commitment to alter their management systems to address sustainability issues and develop further indicators for the microfinance sector.

Participants said that most emphasis should lie on:

Organisational aspects such as:

- Corporate Social Responsibility (CSR) policy and principles
- Sustainability Performance and Monitoring Systems (Management Systems)
- Stakeholder dialogue

Economic indicators such as:

- Outreach measurement (reaching low-income groups)
- Measuring client's satisfaction and client retention
- Measuring impact of services on the quality of life of clients on household level
- Measuring impact of services at community level
- Measuring impact of services at enterprise level

Environmental indicators, especially:

- Energy use
- Water use
- Emissions (CO₂) from transportation
- Environmental impact by client's activities

Social indicators, including

- Employee representation in the decision making process
- Employee ownership
- Policies and programmes on HIV/AIDS
- Human Rights policies
- Policies addressing bribery and corruption

Conclusions

A proper understanding of sustainability and commitment among participating banks are important factors. All participating microfinance institutions have indicated that they are dedicated and recognize the issues involved. This created momentum to take sustainability reporting in microfinance to the next level. Additional support and coaching during the 2005 report development period is especially important and should get high priority in planning future activities.

This TSF project is the first phase towards sustainability management and Triple Bottom Line reporting. The next phase will focus on further implementation of these concepts at the participating organisations. Obviously, GRI and Triodos Bank also wish to expand the group of participating microfinance institutions. Future activities also include installing a group of experts and facilitating (web-based) knowledge exchange on GRI reporting and sustainability management. Ultimately, in a possible third phase, GRI and Triodos Bank coaches could train local consultants and advisors in a 'train the trainer' scheme.

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