

How we do what we do: Triodos Bank's approach to lending

Triodos Bank has pioneered sustainable banking since it was founded in 1980. By only and exclusively financing organisations that bring lasting positive change, Triodos Bank has made an extraordinary and lasting impact on people and the environment across Europe. But how does the Bank make the decisions about who it lends to? And how can it be both satisfied itself and assure its savers – whose money it lends – that those savings are being used to deliver the positive benefits it claims?

This paper details the ideas behind, and the practice of, making lending decisions at Triodos Bank. It documents the Bank's approach for internal use and meets external demands to know more about how Triodos Bank comes to the decisions it does, and demonstrates more evidence of a commitment to a genuinely transparent approach to banking. It is not new. But in 2004 for the first time, this paper provides explicit written detail about Triodos Bank's innovative lending process.

This is an evolving document, reflecting the changing world that Triodos Bank operates in. The principles that underpin it however are and will remain the same, enabling Triodos Bank and its savers to contribute directly to the success of some of Europe's most inspiring organisations.

How is Triodos Bank different?

Triodos Bank exists because it believes that people have the freedom to develop themselves, that they have equal rights and that they are responsible for the consequences of their economic actions on society and the planet. To contribute practically to a sustainable society that respects these principles, the Bank has pioneered a groundbreaking approach to business. It has developed a strategy to finance projects that both benefit people and the environment, and that are financially sustainable. Triodos Bank takes a self-consciously positive approach to finance and *only* lends to organisations that contribute to a more sustainable society.

The lending process

Money has the potential to create lasting, positive change. To realise it, Triodos Bank's lending process:

- identifies sustainable sectors where the Bank can help projects to innovate and businesses to emerge and develop
- selects projects which will bring real and meaningful benefits for the wider community - for which creating cultural, social and environmental added value is as important as meeting commercial and financial targets
- closely considers the motivations of the people involved in a loan application
- ensures each selected project meets absolute criteria which measure the potential negative impact of an organisation's activity on people and the environment
- finances clearly defined assets, activities or projects within each organisation.

Where does Triodos Bank work?

Triodos Bank has a dynamic approach to where it works, considering any loan application that meets its overall objectives. Its assessment of where and with who it will work develops as the social and business world around it does, as long as projects continue to clearly benefit the wider community.

Within the sectors Triodos Bank is currently active in, the Bank identifies and finances projects that combine added cultural, social or environmental value with financial credibility.

Nature and the environment

Triodos Bank finances sustainable environmental businesses and initiatives. More specifically, the Bank explores opportunities to finance organisations that help safeguard the environment and avoid 'end of pipe' technologies whenever sustainable alternatives are available. Triodos Bank refers to certification from respected bodies, such as SKAL, Biogarantie and the Soil Association to guide decisions about organic food and farming loan applications. Areas considered for lending include:

- Organic farming (for example, arable, dairy, meat, poultry, forestry, horticulture)
- Organic Food (for example, shops, butcheries, food processing, restaurants)
- Renewable energy (for example, wind, solar, hydro, biomass)
- Eco-development (for example, shared workplaces, property development, nature development)
- Environmental technologies (for example, recycling, transport).

Culture and society

Triodos Bank finances businesses and initiatives that help people to develop and act as free and responsible citizens. It does not finance organisations which put financial and commercial objectives before people. Lending applications are considered in:

- Education (for example, Schools, Training and conferences centres)
- Childcare (for example, day care centres, kindergartens)
- Healthcare (for example, medical centres, therapeutic farms, care for elderly people, hospices)
- Art & Culture (for example, visual arts, performing arts, cultural centres, film & media)
- Philosophy of life (for example, meditation centres, religious and spiritual groups)
- Community projects (for example, social services, migrant integration, community buildings)

Social business

Businesses whose key objectives are to add value to society and, or the environment, are at the heart of Triodos Bank's lending decisions. These objectives are clearly reflected in the products, services or working processes of successful loan applicants. Triodos Bank refers to respected fair trade labels recognised by the Financial Labelling Organisation (FLO), an international fair trade organisation, much as it does with its work in the organics sector.

- Retail non-food (for example, toys, books, clothing)
- Manufacturing (for example, printers, publishing)
- Professional Services (for example, consultancy, research, building contractors)
- Recreation (for example, parks, camping sites, eco-tourism)
- Housing (for example, housing associations)
- Fair Trade (for example, fair trade shops, wholesale trading)
- Development cooperation (for example, microfinance, certified FLO products, certified organic products).

Who won't Triodos Bank work with?

Although Triodos Bank leads with a positive approach to lending decisions detailed above, it also meets absolute criteria, helping to provide clarity about who the Bank will *not* lend money to. These criteria include products, services or business processes that impede the development of a sustainable civil society in the long term. This can help guide decisions about complex loan applications, informs customers considering an approach for a loan and clarifies where Triodos Bank's savers' money will and won't be used. However, the guiding principle that a loan should provide clear, positive benefits to people and society remains central to all loan decisions.

While Triodos Bank does not want to lend its money to organisations that are involved in any way with the products, services and working processes that follow, its absolute criteria reflect the reality of the complex economic and financial world around it.. As a result, and to ensure that the Bank maximises its positive impact, Triodos Bank has defined the absolute criteria detailed below. The Bank does not lend to organisations, businesses and projects that are directly involved for more than 5% of its activities in non-sustainable products and services or non-sustainable working processes. Triodos Bank will however, to the best of its knowledge, exclude all organisations, businesses and activities that produce or distribute nuclear energy, weapons and environmentally hazardous substances, as described within the headings below.

Non-sustainable products and services

- *Fur industry*: all organisations, businesses and activities that hunt or keep animals for their skin or fur, supply services to this industry or sell fur products.
- *Gambling*: all organisations, businesses and activities that design, produce or sell games of chance, supply financial services related to games of chance that qualify as offering short odds.
- *Environmentally hazardous substances*: all organisations, businesses and activities that produce or sell substances that threaten humans and the environment
- *Pornography*: all organisations, businesses and activities that sell pornographic products and, or that operate related shops and meeting places.
- *Tobacco*: all organisations, businesses and activities that produce or sell smoking materials.
- *Weapons industry*: all organisations, businesses and activities that produce and sell weapons and weapons-related services. This includes both conventional weapons, such as pistols and rockets, and non-conventional weapons, such as nuclear, chemical and biological weapons and integral weapon systems.

Non-sustainable working processes

- *Intensive agricultural production*:: all organisations, businesses and activities that handle and, or process animals for consumption in an intensive, environmentally damaging way and which do not take due account of animal welfare. Businesses that sell animal products from intensive agricultural production are excluded when they do not offer the consumer a certified organic alternative.
- *Corruption*: all organisations and businesses that have been condemned by a court for frequent and serious corruption, bribery and money laundering and enterprises that have violated structural codes of conduct or treaties in the last three years.
- *Dictatorial regimes*: all organisations and businesses and activities that directly and significantly contribute to, or profit from, human rights violations by a government or other actors.
- *Animal experiment*: all organisations, businesses and activities that use animal experiments for non-medical purposes or sell non-medical products that have been tested on animals.
- *Genetic engineering*: all organisations, businesses and activities that generate products that have been created by means of genetic engineering. All organisations, businesses and activities that sell genetically engineered products are excluded when these products do not have a clear label.
- *Breach of legislation, codes of conduct or conventions*: all organisations, businesses and activities that have frequently and seriously violated legislation, codes of conduct or conventions, unless there is proof that they have changed their behaviour. The following criteria are considered:
 - *Breach of environmental legislation*: violation of, among other things, national environmental standards, regulations and legislation.

- Breach of labour and other legislation: violation of, among other things, product liability, marketing legislation, and antitrust laws.
- Breach of international codes and conventions: violation of, among others things, international and regional environmental conventions, relevant codes of conduct. In a number of sectors, enterprises are expected to endorse and observe sector-specific codes. These concern, for example, the guidelines of the World Commission on Dams, certificates for the origin of wood (for example, FSC), fish (MSC) and diamonds (according to the Kimberley process), the WHO (code for marketing of baby-milk substitutes) and, more in general, the guidelines of the World Bank.
- Breach of fundamental labor rights: violation of fundamental child labour rights, discrimination, forced labour, freedom of trade unions, collective bargaining, health and safety, salary and working hours. This is based on the fundamental conventions of the International Labour Organization and the OECD guidelines.

Other non-sustainable products and processes

It is possible that products, services or business processes are not covered by the above criteria but do in any case contradict the philosophy of Triodos Bank - non-sustainable fishery and types of agriculture and tourism that impact adversely on people and the environment are examples. These products and processes are examined regularly to enable Triodos Bank to stay abreast of new developments. These sectors are not exhaustive and Triodos Bank will reject loan applications that do not meet the spirit of the criteria. Triodos Bank analyses loan applications on an individual basis and has the right to exclude all other projects that in the opinion of the Bank are non-sustainable.

Monitoring the use of funds

Triodos Bank focuses on lending to small and medium sized institutions, businesses and charities. By doing so, it can maintain a close connection with the people who run the organisation concerned and track how a loan is actually used. Loans are also deliberately made for specific purposes that the Bank can monitor, such as finance for a specific asset. Triodos Bank also lends to larger businesses and initiatives whose primary focus may not be on positive social and environmental added value, but which crucially operate specific projects or assets that are clearly and directly connected to sustainable sectors or activities. These loans must meet the objectives set out in Triodos Bank's core mission.