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The Importance of Reporting Societal Returns

Steve Lydenberg

Domini Social Investment

I am here to talk to you today about disclosure, not financial disclosure, although that certainly is important, but disclosure that some call CSR or corporate social responsibility reporting. Some call it triple bottom line reporting, some call it sustainability reporting—I call it reporting on societal returns, reporting on how you strengthen the communities in which you operate, how you contribute to the stability of the financial services industry, how you align your daily operations with the creation of a just and sustainable society and how you support government in achieving these fundamental goals.

After making sure your business survives and is profitable, reporting on your societal returns is the single most important thing that you can do today. A profound change is now under way in how business relates to society. It is not a fad. It is not a passing fancy. It is a realignment in how business creates value in this world, it is being driven in large part by government, and it is reflected today in the increasing demand by investors, regulators, and consumers alike for more CSR data, more information on businesses' relations with their stakeholders and the environment on which we all depend for survival.

The current financial and economic crises have demonstrated all too clearly to all too many just how far business has become misaligned with our basic societal needs. The financial community in particular has strayed far from its original purpose of contributing to a stable, productive economy and become blindly obsessed with risk-adjusted returns measured against abstract financial benchmarks.

For this reason, new demands are being placed on business to live up to obligations to its stakeholders and to society in general. To realign business with societal needs, we must know how businesses are contributing to a sustainable society, and not just whether they are beating a financial benchmark.

You in the community banking world are ideally situated to take a leadership role here because you, more than any other segments of the financial sector, have fully aligned your operations with the needs of society. You know it. I know it. Investors and

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depositors want to know it. But unless you document and report on your societal returns, go beyond the financials to tell your whole story, they will not be able to distinguish you from the large banks that have given their industry such a bad name these days.

Let me begin by reminding you that the call for increased social and environmental reporting is not a new one. For more than 30 years I have followed its growth, and it has come a long way. To dramatize just how far we have come, let me share with you four particular moments from my days in this field.

In the early 1970s, I began working for a non-profit research organization called the Council on Economic Priorities. It was then the only organization in this country, and probably in the world, rating publicly traded companies on their social and environmental records. Information was scarce. It sometimes took two years to gather, analyze and publish our reports. Among other things, we analyzed the environmental records of paper products companies, electric utilities, and the steel industry. In 1973 and 1975 we published studies that documented the records, the poor records, of banks and retail companies on the employment of women and minorities, using data newly available through the Equal Employment Opportunity Commission. Our studies received good publicity, but the most significant change that took place at that time was that the business community lobbied the federal government to have the EEOC-1 form declared proprietary data, available from then on only with the permission of the company, a ruling that still stands to this day.

Fast forward ten years to 1986, I was still with CEP and we published what was then the first attempt to assess the overall social and environment records of companies—not just a single issue for a single industry, but an overview of a company’s full record. It was called *Rating America’s Corporate Conscience* and spawned a series of shoppers guides called *Shopping for a Better World*. We wanted place this information in the hands of consumers as they made their daily decisions in the shopping aisles. It was probably more of a novelty item than a force for change, but it was the first time consumers or investors had in their hands a single picture of a company’s overall social and environmental.

Next we move on to 1999. I have made a transition to the financial community, because I believe social and environmental information applied to finance can play a powerful role in producing change. I have seen the South Africa divestment movement attract the attention of some of the largest pension funds in the United States and contribute in its way to the peaceful dismantling of the apartheid legal system. Now I am taking a break outside a conference hall in Brussels, the seat of the European Union, at a conference on Corporate Social Responsibility. Perhaps a thousand representatives of large European firms are gathered there. And I look up and I notice that a banner extending across the entire front of the building reads “Corporate Social Responsibility and the European Social Agenda” and I say to myself, “Oh, that’s interesting. The

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European Union, the governments of Europe, have made corporate social responsibility a priority. That's going to change the game.”

And finally, let's look at what took place just two days ago at the United Nations, where there was an unusual meeting. Representatives from 11 stock exchanges from around the world met with concerned investors to promote the concept of social responsibility among corporations listed on these exchanges. Most interesting was the fact that these were exchanges from the developing world—Brazil, South Africa, Malaysia, Indonesia, Egypt, Turkey, Korea and Shanghai, although Germany, France, Austria and the United Kingdom were also at the table. The primary topic of discussion was how to get more companies around the world to disclose their records on social and environmental issues. The CEO of Aviva, one of the largest money management firms in the United Kingdom, went so far as to call for mandatory CSR reporting as a listing requirement for companies on all stock exchanges. Many of these stock exchanges have launched socially responsible investing indexes, lists of companies that the exchanges declare sustainable. The Johannesburg Stock Exchange pioneered this concept in 2001 when it created the JSE SRI Index. Now some 14 of the 51 members of the World Federation of Exchanges have created a total of approximately 50 SRI indices and Egypt and Turkey have plans to launch their own next year.

It has been a long time in coming, but these worldwide calls for increased CSR disclosure are now gaining traction. The government of France has required the largest publicly traded French companies to report data on some 40 key social and environmental issues along with their financial statements since 2003. Starting in 2009, the government of Sweden is requiring all companies with state ownership—some 50 plus large corporations—to report on the full range of CSR indicators. In 2008, the government of China announced that its state-owned companies, of which there are hundreds, must start incorporating CSR initiatives into their business practices and begin reporting on them. The government of Malaysia intends to make responsible business a competitive advantage for companies in that country and has already made CSR disclosure a requirement for listing on its stock exchange.

While the United States has yet to follow suit, I don't believe there is any turning back. The Securities and Exchange Commission has long prided itself on the transparency and richness of data in the U.S. financial markets. Surely it must see that we are falling behind. When we fall behind China, when we fall behind Indonesia in the availability of data so crucial to understanding and managing the relationship between corporations and society, I cannot help but think that change is on the horizon. In the summer of 2009, under the Obama Administration, the SEC created a shareholder advisory panel, on which a representative from Domini Social Investments has been invited to sit. Increased social and environmental disclosure is on its agenda and Domini, along with other like-minded investors, will be pushing for such disclosure to be made mandatory.

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Many companies here and abroad are already ahead of our government on the disclosure issue. According to The CorporateRegister, there are now some 3000 companies around the world publishing corporate social responsibility reports, up from less than 50 in 1992. According to the Global Reporting Initiative—which has developed one of the most widely recognized and complete CSR reporting formats in the world—over 1000 companies cited its guidelines in their reporting in 2008, up from 685 in 2007. In the United States, as of 2008, 86 of the Standard & Poor's 100 Index companies have sustainability sections on their websites, up from 58 in 2005.

These companies are reporting because they recognize that society's expectations of them have changed, and they are changing to meet these expectations. You as community banks, as financial institutions that have long aligned your businesses with society's goals, should take full advantage of the substantial opportunity you are now offered. This is the moment to distinguish yourselves from your competitors in the financial community and provide leadership in your industry.

Unfortunately over the past two years, our large banks and financial services firms have damaged not only their own reputations, but shown that many of the innovations and underpinnings of modern finance are causing more harm than good. They have abused the trust that society has put in them. They have cost our governments hundreds of billions of dollars—no, trillions of dollars—in bailouts of their operations.

Nor do they seem to have learned their lesson. Their idea of innovation over the past two decades has been to develop and market such products as auction-rated securities, structured investment vehicles, and collateralized debt obligations—toxic innovations that have blown up in our faces. Now our financial community has moved on to obscure and socially meaningless trading innovations such as dark pools and flash trading.

These innovations are at best a tremendous waste of talent, and at worst a perversion of what our financial system was meant to be. Where are the socially beneficial innovations in finance coming from? Not from Wall Street. No, it took bankers in Bangladesh and the poorest countries and neighborhoods around the world to come up with one of the single most socially beneficial innovations in finance of the past two decades—microfinance. And who did it take to recognize this innovation? Not the Swedish national bank, who has given out the Nobel Prize in Economics each year since 1969, but rather it took the Nobel Foundation, who since 1901 has given out the Nobel Peace Prize to recognize Muhammad Yunus for this accomplishment. That alone shows how disconnected the financial powers-that-be have become from understanding true innovation and the true benefits of finance for society.

You in the community banking world are the ones who most truly understand the customers you serve. You are the ones who are working to stabilize and build the towns, cities and neighborhoods in which you operate. Whether you are working in inner city neighborhoods or struggling rural settings, whether you are serving the previously

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unbanked, lending to social service agencies, or empowering local entrepreneurs, you are the ones whose entire business strategy is devoted to the kinds of services for which banks were created—promoting stability and local economic development. For you, this mission is not an afterthought, it is your whole thought.

And when it comes to disclosure, you are, I believe, on the right track. You have an organization like the National Community Investment Fund that has put social metrics high on its agenda. The NCIF Social Performance Metrics database is a major step in the direction of providing potential customers and clients, as well as investors, with a tool to measure banks' records systematically. You have a Social Metrics Working Group, from which we will hear more today. Social metrics, measuring societal returns, is the next frontier. How to measure them, how to report them, is not easy and is not entirely clear. But it is a problem on which we are all working, and it is a problem that we must all solve together if finance is to function properly in society.

Let me just remind you of a few recent developments in this field of social metrics.

- With the backing of the Rockefeller Foundation, the Acumen Fund and B Lab, the Global Impact Investing Network is currently in the process of developing an Impact Reporting and Investments Standards system which will be available for testing in early 2010. Leading up to this launch, the Social Venture Technology Group has published a comprehensive Catalogue of Approaches to Impact Measurement, which surveys the field of indicators of social and environmental returns currently being used by investors in stocks, bonds, real estate and cash.
- The Global Reporting Initiative, one of the oldest, most thorough, rigorous, and widely recognized CSR reporting advocates, has issued a special financial services sector supplement to its global reporting guidelines, that highlights the social and environmental indicators most relevant to your industry.
- In addition, the social investment world is paying increasing attention to the concept of Key Performance Indicators, pioneered by the Swiss asset manager Pictet, whose publication “Less Can Be More: A New Approach to SRI Research” I highly recommend. This is an approach that Domini adopts. For example, when evaluating banks we focus especially on such indicators as access to capital, support for affordable housing and financial literacy, and diversity in the workplace. I am also involved in a report advocating increased use of Key Performance Indicators to be jointly published next month by the Institute for Responsible Investment at Boston College and the sustainability unit of the engineering and construction firm Arup.
- Last, but not least, the number of certifications, awards, labels and sets of standards and principles being developed for industries continues to grow at an exponential rate. For example, the cocoa, tea, palm oil, forest products, and diamond mining industries—to name just a few—all now have voluntary codes

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of social and environmental conduct that members are asked to endorse. Consumers increasingly look for labels and certifications in making their decisions. You might want to take a look at the GoodGuide website, being tested out now. GoodGuide provides social and environmental ratings on some 75,000 consumer items, has raised \$3.7 million in venture capital backing, and has a staff of 14 researchers. In case you're wondering, it hasn't yet rated banks, but I'm sure it will. Labeling and certification systems have proved particularly strong and publicizing your CDFI certification, or your own system for certifying community development banks, is another step in the right direction.

These developments show promise, but that promise has yet to be fully realized. What we need is a virtuous circle, where the measurement community banks' societal returns feeds databases such as the NCIF's Social Metrics, and these databases then inform concerned investors and depositors about the capacity of community banks to make a real difference. Their support then enables banks such as yours to further implement your community programs and report on your results.

But who are these investors, these depositors, these clients that want to do business with you? Some are institutions. Foundations for example. I was recently on a conference call hosted by the More for Mission Campaign, which supports foundations in the use of their assets in support of their philanthropic missions. The subject was cash management and the foundation presenting told of how useful the NCIF Database had been in selecting a community bank with which to place an operating account. Others are mutual funds and institutional investors, such as TIAA-CREF and MMA Praxis. You will be hearing later from a number of these. They are part of a larger commitment among socially responsible investors here: the U.S. Social Investment Forum's 1% for Community Campaign.

Let me say also a word here about another development in the institutional world, that is, the Principles for Responsible Investment. This is a particularly promising development. In 2006, a worldwide coalition of pension funds and asset managers created a set of responsible investment principles that commit them to take social and environmental factors increasingly into account. Operating under the aegis of the United Nations Global Compact, the PRI now has 170 pension funds and asset managers with assets under management of \$18 trillion dollars as signatories. Among them are an increasing number who are pioneering the concept of responsible investment across all asset classes. The national pension funds of France and Norway have pledged themselves to apply responsible investment to all their holdings. And major pension fund asset managers such as Hermes in the United Kingdom and AGP in the Netherlands have developed their own expertise in responsible investment for all asset classes. This is significant because it is setting an example for the application of responsible investment to cash as an asset class, which means these large institutional investors will increasingly

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be looking for ways to place their cash where it can do the most good at a community level.

And let's not forget the individual depositor. There are many of us who want to support local, community banks with our checking and savings accounts. And to identify our banks, where will we go? To your websites. Don't neglect your websites as you gather and disseminate information on your social and environmental initiatives. I know, it's a nuisance to keep websites up to date while dealing with the distractions of every-day business. But web-based reporting is the future of CSR reporting and you need to be there.

Websites provide excellent opportunities to tell your story. Here is the place to state clearly your mission, to provide anecdotes about your specific clients, to give your depositors a sense of the touch and feel of the neighborhoods you serve. Here is the place to talk about your innovations—your partnerships with government and the not-for-profit world, your reaching out to those who had never had a checking account before, your saving of a building or a city block that had been given up on by the mainstream. The websites, for example, of Southern Bancorp, ShoreBank, ShoreBank Pacific, and First City Bank of DC provide a glimpse of what I mean.

I cannot overstate the importance of this task. We face an uphill battle. The mainstream dominates today. The nightly business report is all numbers and no faces. Our financial community is all about beating your neighbor, not creating wealth for all. Wall Street innovates through complexity and technology taking aim to beat out the undercapitalized and under-informed, not with an eye to filling genuine need and building a stronger community.

We need to create a cultural change—a change driven by the strength of our vision of a just and sustainable society, by strong, well-run institutions with the savvy to tell their stories in ways that cannot be denied, and the capacity to handle the growth that will be their reward. It may be a difficult road ahead, but the road down which the large financial institutions that dominate the headlines today are taking us will surely be more volatile and painful for all. Our road is one well worth travelling, it is a road that begins with measurement of societal returns and proceeds to the rewards these returns bring. It is a road that will undoubtedly be filled with twists and turns, setbacks and surprises, but it is a road on which I welcome taking the journey together with you.

Thank you.