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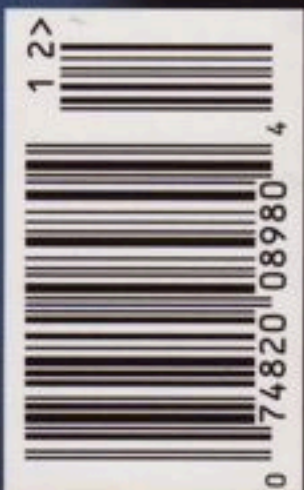
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BEYOND THE BOTTOM LINE

The meltdown of the global financial system could be the catalyst for a radically different, more sustainable alternative.

By Janet Paskin

With reporting by Marco Visscher/San Francisco

LIKE MANY ENTREPRENEURS, DAVID Griswold started his business with a big vision and a small line of credit. He wanted to help coffee growers learn sustainable farming and connect to buyers who'd pay them fairly, and he had a \$300,000 business loan to make it happen. It took almost a decade, but Sustainable Harvest Coffee Importers' sales of organic, fair-trade java hit \$15 million, and orders were fast multiplying. Just as important to Griswold, the company had plowed its profits into training farmers, and his business model, based on transparency, seemed to be working.

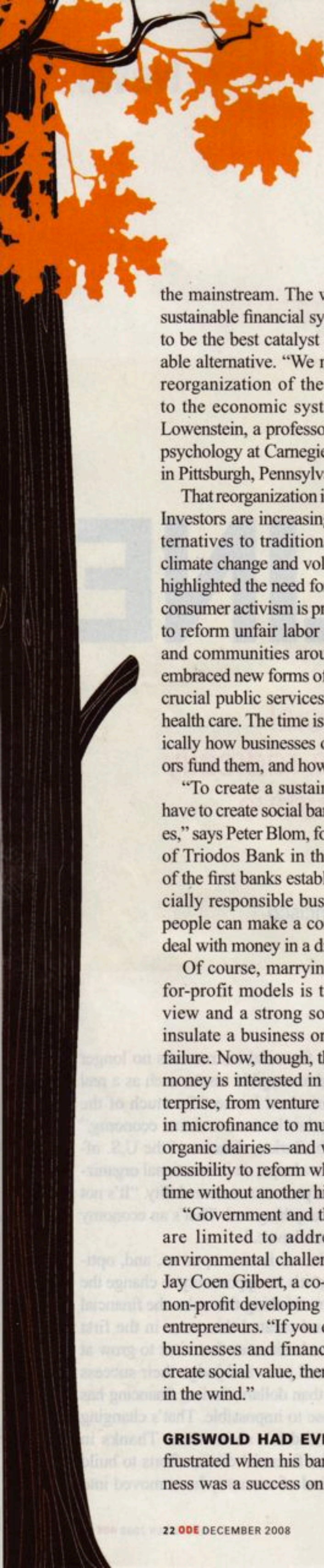
But in 2006, the bank pulled the plug. The complaints were rational, from a banking perspective. With margins already tight, spending money training farmers left the company with a relatively flimsy balance sheet. *Sorry*, they told Griswold,

you'll have to show higher profits—or find financing somewhere else. “My back was really up against a wall,” Griswold said. “I had no idea it would be this hard. I thought, *I have this great business model, it's working, someone should be willing to finance it.* But that's not how banks work.”

As the financial meltdown has rocked the global economy, “how banks work”—or fail to work, as the case may be—has become more relevant than ever. At its root, the current crisis is born of an inherently unsustainable business model: making loans to people who can't pay them back. But when judgment is passed swiftly—using daily stock prices, monthly investment returns and quarterly earnings reports as yardsticks—showing a short-term profit takes on an outsized importance. To keep the fast money flowing, banks created

complex financial instruments no longer anchored to tangible assets, such as a real person in a real house. “So much of the economy has become a virtual economy,” says Debi Barker, director of the U.S. office of Navdanya, an international organization that promotes sustainability. “It's not tied into anything real. That's an economy that creates havoc.”

That havoc is now upon us, and, optimists say, it's an opportunity to change the short-term thinking that rules the financial world, and created this mess in the first place. For businesses that want to grow at a measured pace and judge their success in more than dollars, finding financing has been close to impossible. That's changing rapidly, and it's about time. Thanks in part to the financial crisis, efforts to build a new kind of economy have moved into



the mainstream. The wreckage of an unsustainable financial system could turn out to be the best catalyst for a more sustainable alternative. "We need a fundamental reorganization of the general approach to the economic system," says George Lowenstein, a professor of economics and psychology at Carnegie Mellon University in Pittsburgh, Pennsylvania.

That reorganization is already underway: Investors are increasingly interested in alternatives to traditional capital markets; climate change and volatile oil prices have highlighted the need for renewable energy; consumer activism is pressuring companies to reform unfair labor practices; countries and communities around the world have embraced new forms of currency to pay for crucial public services like education and health care. The time is right to change radically how businesses operate, how investors fund them, and how economies grow.

"To create a sustainable economy, we have to create social banks, social businesses," says Peter Blom, founder and president of Triodos Bank in the Netherlands, one of the first banks established to finance socially responsible businesses. "And then people can make a conscious decision to deal with money in a different way."

Of course, marrying social goals with for-profit models is tricky. A long-term view and a strong social mission don't insulate a business or its investors from failure. Now, though, the difference is: Big money is interested in for-profit social enterprise, from venture capitalists investing in microfinance to multinationals buying organic dairies—and with that comes the possibility to reform whole economies, this time without another high-stakes bubble.

"Government and the non-profit sector are limited to addressing social and environmental challenges at scale," says Jay Coen Gilbert, a co-founder of B Lab, a non-profit developing standards for social entrepreneurs. "If you don't figure out how businesses and financial institutions can create social value, then you're just spitting in the wind."

GRISWOLD HAD EVERY RIGHT TO BE frustrated when his bank balked. His business was a success on many fronts—they

were training more farmers every year; his employees got raises and liked their jobs; the company was preparing to open offices in Tanzania and Peru. And by traditional measures, too, the business was thriving: Demand was so strong that he needed more financing, not less. And the company was profitable, just not profitable enough for traditional banks.

Owners of socially responsible businesses are emphatic on this point: Making money is important. Companies need to be able to stay in business, pay their employees competitive wages, and grow—which can't happen without a profitable business model. "Just because I have greater interests than the bottom line, that doesn't mean I'm willing to sacrifice the bottom line," says Tim O'Shea, who runs CleanFish, a fish wholesaler in San Francisco. "We want to sell as much fish as possible."

As a business makes money and grows, the non-financial benefits compound. That means more organic coffee farming, more sustainable fishing, better labor practices, higher wages.

But those non-financial benefits often raise the financial costs. Training farmers costs money; so does paying a living wage. For a company trying to turn a profit, that's a challenge. As one option, they can absorb the higher costs and book smaller profits. Griswold's annual coffee summit, where he convenes coffee growers, roasters and retailers for a three-day discussion of industry trends, can eat almost 80 percent of net profits. Or companies can pass higher costs to the consumer. Many people say that's only fair—a \$10 T-shirt can't reflect a living wage on the factory floor. Products tout their sustainable bona fides—organic, local, fair trade—in part so customers understand why they're paying more. But higher prices make such goods luxuries, nearly out of reach for all but the affluent.

Griswold does a bit of both—absorbing costs and passing them on—but it's hard on the balance sheet. He needed financing from institutions that understood that. Shut out of the traditional channels, he borrowed from a so-called "green bank," ShoreBank Pacific, and from a sustainable investment fund, RootCapital. Both are dedicated to the same principles as Sustainable Harvest:

doing good and making money. In other words, that didn't mean Griswold got a sweetheart deal; his interest rates are high. It just means he got a deal, period.

That's the point of these mission-based banks and investment funds: to look at more than just the bottom line. "An entrepreneur needs a bank that understands his mission," says Triodos' Blom. "The values of the bank, the mission of the bank, has to support the mission of the company." (For a profile of another "green" financial institution, New Resource Bank, see "Making money a renewable resource" on page 28.) In return, depositors know their money's being put to work in line with their priorities, and for that, they're often willing to make small financial sacrifices of their own, like forgoing top returns for rates that are simply competitive.

BORROWING MONEY ISN'T THE ONLY option for growing sustainable businesses. There's always the capital markets—selling shares of the company to outside investors. But that means giving up a measure of control, and that's never easy for a company's founder. And because investors inevitably want to see returns on their investments, social entrepreneurs worry they'll have to sacrifice their commitment to people and planet in favor of profits. "Once you enter the traditional capital markets, you're rewarded for growth, period," says B Lab's Coen Gilbert. "The more growth, the better, and all the incentives are to do that as rapidly as possible."

Enter the mission-driven venture capitalists. These early-stage investors say they understand that a social entrepreneur's growth might not look like that of a traditional small business. That means they might not want to go public, or to get bought by a bigger company—the traditional ways a venture fund cashes out. Mark Finser, founder of TBL Capital, a \$50 million socially responsible venture fund, says he'll never push for that. Other return streams—like a dividend, or growth by acquisition—might suit his fund as well.

That's because, like the social enterprises in which they invest, mission-driven venture capital funds exist to make money. And they have to invest in companies that

THE TIME IS RIGHT TO CHANGE RADICALLY HOW BUSINESSES OPERATE, HOW INVESTORS FUND THEM, AND HOW ECONOMIES GROW

DAVID GRISWOLD, FOUNDER OF SUSTAINABLE HARVEST COFFEE IMPORTERS, EXPLAINS HIS SOCIAL BUSINESS METHOD, WHICH TEACHES SUSTAINABLE FARM TECHNIQUES.



will, at some stage, turn a profit. At TBL, Finser told his investors to expect a positive rate of return, and while he wasn't willing to "get nailed down on 20 percent, I do think it's going to be quite good," he says. To get there, he floats an idea that could sound like a mixed blessing to a small, socially responsible business owner: encouraging a partnership between a small manufacturer of solar panels and multinational telecoms like Verizon or Nokia.

The point for investors is still growth. "We want to invest in things that really scale up," says Wes Selke, an investment manager at Good Capital, a firm with a stake in Adina for Life, a juice company with a fair-trade bent. One day, Selke hopes, Adina juices will be in every Wal-Mart.

If that ruffles some socially responsible feathers, so be it, says Álvaro Rodríguez Arregui. He runs Ignia, a venture fund in Mexico City that makes microloans. He and other mission-driven investors believe the bigger a business grows, the more impact it can have on social problems. But growth requires capital, and to get it from the marketplace necessitates a competitive rate of return—measured in dollars, not the fuzzier metrics of social capital. A perfect world would contain a more comprehensive measurement, but "we can't wait for that," says Rodríguez Arregui. "Our mission is fighting poverty. Should we say, 'I can't give you a loan today because the capital

markets don't measure us correctly. Let us change the world, and then we'll give you a loan?' We think that's immoral."

AS OF NOW, CORPORATE LAW IS LITTLE help. Owners and partners in an organization are legally required to act in the best interests of shareholders, which usually means making them wealthier. And while some courts have ruled that corporate directors can consider the interests of employees, customers and communities to make day-to-day business decisions, when it comes to a change of control—selling the company—there's a single directive: Sell to the highest bidder.

So Griswold is embracing a new, as yet untested, legal theory: He's joined the ranks of the "B Corps," one of a growing number of "beneficial corporations" that write their social and environmental commitments into their charters. The idea, developed by Portland-based money manager Leslie Christian and promoted by Coen Gilbert and B Lab, is that by including a social mission in the company's bylaws, directors have a legal responsibility to consider more than money if they want to sell the company. And investors understand that the commitment to social and environmental factors isn't negotiable.

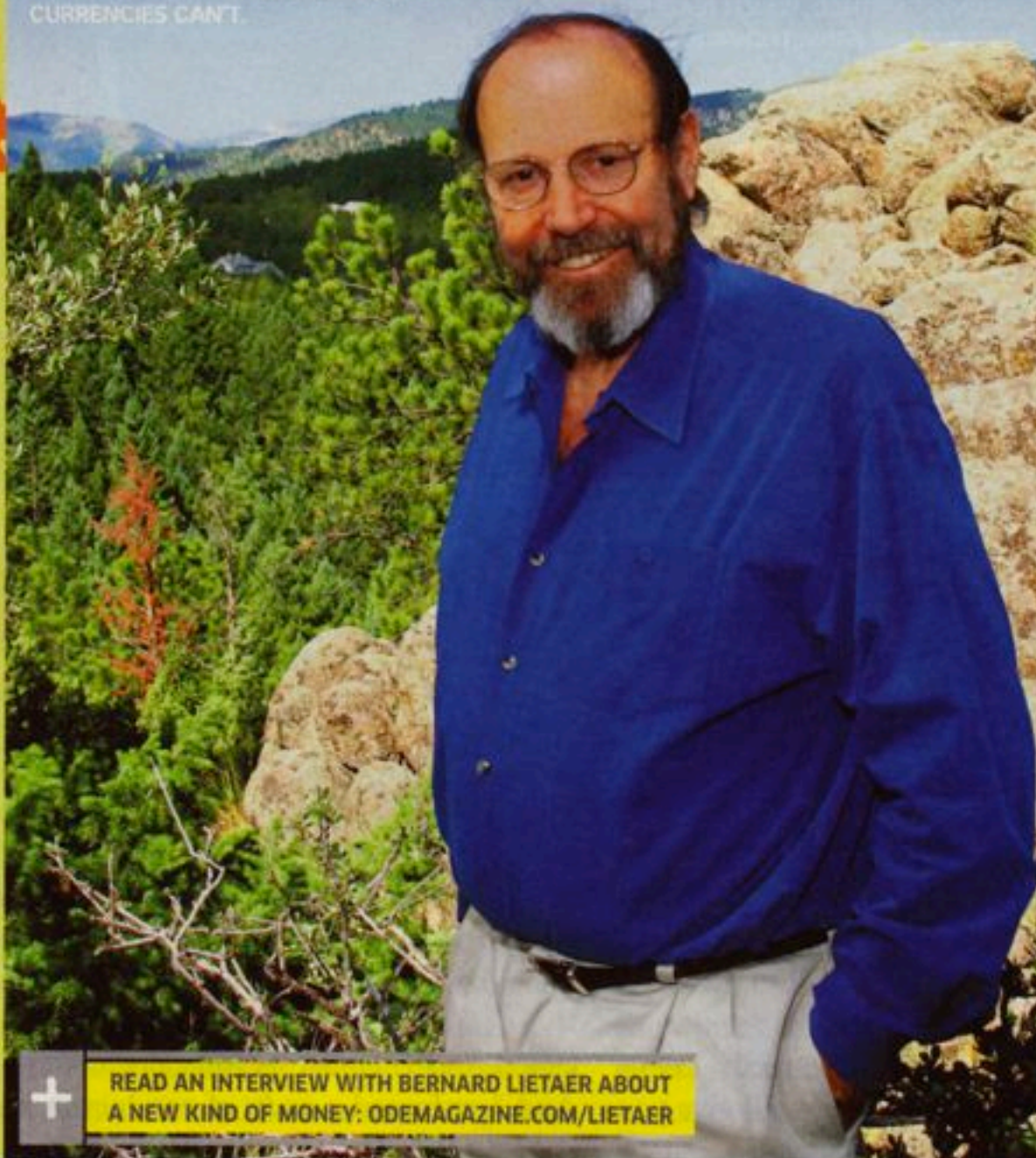
Coen Gilbert and his partners developed the B Lab model after their experience selling their own athletic shoe company,

called And 1. Under its founders' control, And 1 enforced a code of conduct in its shoe factories and gave millions to support youth and educational organizations in Philadelphia. But the day after they sold the company, "those things were gutted," Coen Gilbert says. It prompted them to wonder what they might have done differently. Their research led them to create B Corporations, a network of companies that volunteer to meet social and environmental performance standards, and legally expand their responsibilities.

The result is a first stab at a unified set of standards for socially responsible companies—and a serious branding effort. As "sustainability" grows more popular, it becomes hard to distinguish a mission from a marketing push. Becoming a B Corp. is, essentially, a certification process. What the LEED certification is for eco-friendly architecture and the Fair Trade mark is for chocolate, coffee and textiles, B Corp. hopes to be for a range of enterprises. In just two years, 134 companies have become B Corps, and while food and clothing companies would seem the most obvious fit, law firms, investment managers, advertising agencies and restaurants have embraced the label, too.

The ultimate challenge to the B Corp. model is yet to come: When an owner decides to sell, will the investors be willing to consider more than the price? And

BERNARD LIETAER BELIEVES
PARALLEL CURRENCIES CAN HELP
FUND SOCIAL SERVICES, LIKE
HEALTHCARE, WHEN CONVENTIONAL
CURRENCIES CAN'T.



READ AN INTERVIEW WITH BERNARD LIETAER ABOUT
A NEW KIND OF MONEY: ODEMAGAZINE.COM/LIETAER

if they don't, and there's a lawsuit, how will the courts rule? Meanwhile, B Corps are finding other ways to grow, and Coen Gilbert has his own novel idea about attracting investors: create a B Index, a fund to funnel money to certified companies.

THIS FALL, THE WEEK AFTER THE GLOBAL markets plunged into freefall, Griswold traveled to a convention of like-minded entrepreneurs and investors. For two uncharacteristically sunny San Francisco days, the first Social Capital Markets conference welcomed socially responsible companies, social venture funds, green banks and philanthro-capitalists to tackle the issues that arise at the intersection of business and social goals. The week before, registration had spiked, from 300 participants to 600; by the time Kevin Jones, a founding principal at Good Capital, welcomed the crowd, the hall was filled to capacity.

The crowd included a handful of traditional financial institutions, too, including representatives from Fidelity and Merrill Lynch. "There are a lot of people sniffing around this space right now, and that's mainly because their clients are asking for

it," says Good Capital's Selke. And the implosion of the traditional markets doesn't hurt either: Mission-driven businesses offer the potential for a long-term investment that might sidestep the vicious cycles of boom and bust.

Or maybe they're just looking for an early toehold in what one conference speaker called "the largest pre-profit segment in the world." Venture capital funds like Kleiner Perkins Caufield & Byers and Sequoia Capital have recently made massive investments in alternative energies and microfinance, betting that future profits lie in cleaner technology and growth in the developing world. International investment banks like Société Générale and Citigroup have assigned analysts to research "sustainable investment themes." They have the kind of money that can move mountains, but, cautions Steven Lydenberg, chief investment officer at Domini Social Investments, traditional models can't account for social and environmental returns. And when price is the only consideration, he says, investors fall victim to speculation and bubbles—precisely the problem sustainable businesses are trying to avoid.

THAT'S WHY THOSE LIKE BERNARD

Lietaer, an expert on international money systems and currency with the Center for Sustainable Resources at the University of California, Berkeley, say that to fix social problems, we have to offer an alternative to the monetary system as a whole. Today, he says, money has no intrinsic standard of value. Its value fluctuates in the worldwide currency markets, destabilizing global trade and promoting the same kind of speculative bubbles that the stock market creates. Not only that, but the dependence on a singular monetary system makes the whole world vulnerable to currency shocks. "Monocultures are not sustainable," he says. The lack of diversity in the financial system leads to inherent instability.

His solution? Parallel currencies that encourage the exchange of goods and services when the conventional money system fails. For example, Lietaer says, more than 62,000 Swiss companies use the WIR Bank, a complementary currency system that allows companies to do business if bank lending gets tight. "When banks don't lend money, companies die," Lietaer says. "The WIR is like a spare tire, and the rest of the world is functioning without one."

We'll still need bills and coins, but complementary currencies can encourage behaviors that traditional money can't. The most obvious and familiar may be frequent flier miles, which reward loyalty. But alternative currencies may be most powerful when they address social problems.

Dozens of Local Exchange Traded Systems (LETS) have been established around the world, connecting communities in credit networks designed to support local economies. In Japan, where more than 50 alternative currencies are in circulation, the fureai kippu scheme awards credits when you spend time caring for the elderly; the credits can be redeemed for care when you're old, or you can give them to an aging parent. Similarly, Lietaer has proposed a currency that could award kids credits toward university tuition in exchange for tutoring. All address social problems—developing the local community, the need to care for an aging population, the rising cost of higher education—that the traditional money system has been unable to fix.

THE MEANING OF MONEY

A more sustainable financial system must involve consumers, too. Here are five things you can do right now to make a difference.

IT'S NOT JUST INVESTMENT BANKERS WHO'VE BEEN HIT

hard by the financial crisis. Millions of regular people have seen huge holes blown into their personal savings, education funds and retirement plans. Though the economic challenge is a global one, there are things you can control: namely, your attitude toward money and how you manage your personal finances:

Put your money where your values are. Money should be a means to an end, not the end in itself, says George Kinder, founder of the "life planning" movement within the financial planning profession. Life planning involves deciding what you want money for, then ensuring that your earning and spending serves that purpose. So when clients seek Kinder's financial advice, he asks three questions: If you had all the money you needed, what would you do with your life? If you found out you had 10 years to live, what would you do? And if you found out you had 24 hours left, what would you regret? Most often, he says, people's answers revolve around family, spiritual goals and creativity—not bigger houses. "You learn what you want to accomplish," he says. "That's what money really needs to be about." During tough economic times, it can be revealing to ask: What do I want to accomplish? And how much money, if any, do I really need to do it?

Cut up your credit cards. Paying with plastic has consequences, and debt is only one of them. Credit cards tend to undermine our best financial intentions. By separating the pain of paying from the pleasure of buying, they encourage us to spend more than we would with cash—20 percent more, according to a study in the *Journal of Experimental Psychology* earlier this year. They also make it easier to spend more than we have. "They should be illegal," says George Lowenstein, professor of economics and psychology at Carnegie Mellon University in Pittsburgh, Pennsylvania.

Reconsider cash. Even when money is tight, everyone has something to trade. Bartering can personalize an otherwise

anonymous transaction, and is more common than people think. You may be surprised by how much you can get with "no money down." Green Apple Barter has arranged more than \$500 million in trade among 5,000 companies since 1991; parents have even bartered for their children's college tuition through the service. If your community has its own local exchange trading system (LETS), you can earn credits for providing goods or performing a service; then you can spend the credits on more goods or services. Also, craigslist.org offers all kinds of opportunities to barter.

Invest for the long-term. Where you bank and how you invest matters. Banks take deposits and use them to make loans. While customers can't tell the bank what kind of loans to make, they can decide where to bank. Community development banks put deposits to work locally; so-called "green banks" lend to sustainable business ventures. Similarly, companies sell stock to raise money for their business. So you can support companies that, in turn, support your values. Already, \$2.7 trillion has been invested in socially responsible mutual funds, which screen their holdings based on social and environmental criteria. They're all different, so with research, you should be able to find one that matches your priorities.

Change the system. It's easy to suggest we all abstain from voracious consumerism. The reality is much more complicated, says economist Robert Frank, author of *Luxury Fever and Falling Behind: How Rising Inequality Harms the Middle Class*. Strong public policy incentives encourage us to make more money, buy bigger houses and invest for maximum gains. When public education is financed by property taxes, a link exists between the value of your home and the quality of your kids' school, he points out. And if quality education is scarce, everyone will compete for that real estate. Same goes for investing. It can be hard to give up maximum returns if it means not having financial security in retirement. Public policy tweaks could slow the financial arms race. "Don't assume it can't happen. Big change is in the air."—JANET PASKIN

And the government needn't get involved. Alternative currencies, in fact, function best among a network of businesses. Swiss banks now support the WIR, but it was an agreement of 16 businesses in 1934 that established the model. "Businesses, save yourselves" is Lietaer's message. "If you're waiting for governments to save you, you're naive. But you can't do it individually: you have to get together."

It's not so far-fetched, and at the Social

Capital Markets conference, that's exactly what a lot of companies were trying to do. Even with the credit markets in turmoil, a recession on the horizon and traditional financial institutions lurking in the halls, the mood was optimistic.

Maybe the meltdown could refocus consumers and investors on sustainability and shift awareness to more than one bottom line. And maybe a commitment to suppliers and employees, in addition to

shareholders, can help everyone survive the economic downturn. That's the kind of collective action that could bring change to a broken system; the only question, Lietaer says, "is simply, how long do we have to wait?" Not long, if Griswold and the other participants at the Social Capital Markets conference have anything to say about it.

JANET PASKIN wrote about alternative banks in the December 2007 issue.