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The new market in scruples

Interest in ethical finance is growing. **Huw Spanner** considers some of the options for investing with conscience

ASK most Christians — indeed, anyone with a social conscience — whether they want to promote peace, justice, and environmental responsibility, and the answer will, of course, be favourable. In recognition of growing ethical concerns, this social conscience is affecting financial markets.

According to the Ethical Investment Research Services (EIRIS), more people than ever are investing in socially responsible funds. The latest figure available for the amount of money invested in avowedly ethical or socially responsible investment funds in Britain is more than £6 billion. This represents a fourfold increase in the past ten years.

Research in November last year by Brewin Dolphin Securities, which gives financial advice to charities and pension funds, found that more than three million people were considering putting their money into an ethical stock or fund. In February, *The Scotsman* reported that “nearly half of respondents to a recent public survey expressed an interest in investing ethically.” The same trend is being seen throughout the West, and also in Asia.

In large part, this development has been driven by a change in public consciousness which has fostered concern about human rights, trade justice, and sustain-able living — together with a growing sense of the power of the consumer.

When the first ethical funds were launched in Britain in the 1980s, they defied the ethos of the time, that “greed is good.” Today, they are in harmony with the spirit of Make Poverty History. Initially, they were linked with an abhorrence of apartheid. Now, the growth of the ethical-finance sector is largely being fuelled by deepening anxiety about climate change. Brewin Dolphin’s research shows an increase of interest in ethical funds since the release of the Stern report in October.

“Clearly the publication of the report has resonated with private investors, who are increasingly looking for ethical investment opportunities,” says Charlotte Black, the director of corporate affairs at Brewin Dolphin Securities. “Ethical considerations now rank much higher in the minds of many clients — and the good news is that there are plenty of opportunities to make sound investment decisions while also supporting the environment or indeed discriminating against polluters.”

“Another important factor has been growing confidence on the part of both investors and advisers that investing with a conscience doesn’t necessarily mean making sacrifices,” says Mark Robertson of Eiris. Ethical funds tend to be volatile, but overall they can perform as well as their less scrupulous rivals, if not better. Last year the CIS Sustainable Leaders Trust outdid every other “UK all-companies” unit trust, with a return of more than 29 per cent in 12 months.

The number and range of ethical retail funds on offer (that is, funds available to the general public) are also growing rapidly. There are now more than 90; ten have been added in the past year (including King & Shaxson’s Cautious Green Solutions Fund, SWIP’s Islamic Global Equity Fund, and ABN Amro’s Brazilian Emerging Market SRI Fund).

Meanwhile, the assessment of businesses' corporate social responsibility is becoming ever more exacting: the FTSE4Good index, for example, assesses companies' impact on climate change.

A MORE recent development has been a growing interest in ethical banking. People who, since the 1980s, have put their long-term investment in ethical funds are now wondering whether they can do better than deposit their cash with a bank that doesn't seem to care whom it lends to, so long as it makes an astronomical profit. Here, though, the choice is much smaller. In fact, says Jenny Rhodes of *Ethical Consumer*, "if you're looking for a bank account with all the usual facilities, it's basically the Co-op. Its ethical policy is way ahead of all the rest."

The Co-operative Bank restricts itself to a "*via negativa*". "Sometimes it's our business to say no," declares its website, which boasts that in 2005 it turned away business worth £10 million. It does not say to whom it does lend money.

More than 50 per cent (£5.3 million) of the business the Co-op declined was in activities that conflicted with the Bank's ecological policies. Almost half of that (£2.4 million) related directly to its concerns about global climate change. Business rejected for reasons connected with animal welfare amounted to £1.9 million; poor human rights and bad labour practices ruled out another £1.9 million; and involvement in producing problematic chemicals saw off the remaining £900,000.

"When we announced our ethical stance back in 1992, its initial appeal was very much to people who wanted to know what happened to their money while it was in the Bank. Now, 15 years on, a third of our personal customers say that our ethical policy is the single most important reason for them to bank with us," says Barry Clavin, the Bank's ethical-policies manager.

Smaller and more specialised banks include Reliance, Kingdom, Triodos, and the Ecology Building Society. Only the first of these offers a current account and a debit card; and it is ethical in as much as it is owned by the Salvation Army and invests its profits in the denomination's social and evangelistic work.

Kingdom Bank, whose origins are Pentecostal, is run by Christians. It lends to, and provides insurance services for, individuals, churches, charities, businesses, associations, and trusts. It also provides mortgage products for churches and Christian ministers. The bank ploughs 20 per cent of profits into supporting Christian initiatives. "Other banks lend only to make a profit," says its deputy chief executive, Chris Sheldon. "We're lending because we want to see the Church grow."

Triodos is a savings bank, larger, and without any religious affiliations (although it does offer Buddhist and Quaker "affinity" accounts). Unlike the Co-op, it publishes the names of everyone it lends money to, and lends only to organisations, it says, that create "real social, environmental, and cultural value". The Ecology, one of the smallest building societies in Britain, lends to ethical and environmental housing projects. Its range of saving accounts helps support its development lending.

One very new development is zopa.com, which is using the internet — in a similar way to eBay — to promote people-to-people "social lending". As well as offering very good rates, it aims at building relationships, as lenders can see whom their money is going to, and borrowers know whom their loan has come from. Already, zopa says it has 140,000 members in Britain alone.

DESPITE predictions that the ethical-finance portfolio is a big growth area in Britain, ethical investments currently make up no more than one or two per cent of the assets managed in investment funds. The overwhelming majority of conscientious people still deposit their money in banks that may pass it on to unsavoury customers.

Two years ago, the Interfaith Investment Group, or 3iG, was launched with the aim of mobilising all the great world religions to leave the “*via negativa*” for the “*via positiva*” of what it is calls not merely “ethical” but “faith-consistent” investment — for example, in education, health, transport, and sustainable business.

An important part of what it is trying to achieve is collaboration between the faiths, which together control huge economic assets, including not only money, but 70 per cent of the world’s tourist sites, and seven per cent of habitable land.

Nevertheless, the Church needs to get involved even more, says Ann Pettifor, the executive director of Advocacy International. “The ethical-finance movement is a jolly good thing, but it’s such a tiny part of the picture it’s almost invisible.”

For Ms Pettifor, the pressing issue is not so much whom money is lent to, as how much interest is charged. “I’d like to see the Church once again condemning the practice of usury. The high-street banks are parasitic: they lend at exorbitant rates of interest, not to foster humanity or maintain the environment, but merely as a way to transfer wealth from the poor and vulnerable to those who are already rich — and the Church simply turns a blind eye.”

Ethical shareholding?

IN THE 1980s, disinvestment was the favoured response to dubious business practices. Today, many people prefer constructive engagement.

It’s easy to demand, for example, that the Church Commissioners should pull their funds out of companies such as Rio Tinto and Exxon Mobil, but Miles Litvinoff of the Ecumenical Council for Corporate Responsibility (ECCR) says: “If everyone with a conscience disinvested from companies like these, the only shareholders they would have to answer to would be the people who don’t give a damn.”

The Church of England has a history of interest in ethical investment. Since the day it entered the stock market in 1948, it has refused to fund or profit from alcohol, tobacco, gambling, pornography, or the arms trade.

Recently, doorstep lending and human cloning have been added to the list (although amusement arcades are no longer proscribed).

Currently, these exclusions place about ten per cent of the Stock Market out of bounds. The Church’s fund-managers, however, are legally obliged to invest its money primarily to maximise returns — a duty established in 1991 when Richard Harries, then Bishop of Oxford and a Church Commissioner, took its assets committee to court over its refusal to disinvest from South Africa — and lost.

The Church’s fund-managers make a significant virtue out of necessity by engaging with the companies they invest in. Although the sums of money involved are, in multinational terms, negligible, they have found that they get a hearing.

Amanda Young, an analyst at CCLA Investment Management, says: “We’ve had chief executives of FTSE100 companies flying across the world to listen to the Church’s concerns. It’s the moral weight we bring to the table, not the money, that gets their attention. We can which to them about their impact on society and — increasingly — the environment.”

Is there any evidence that these conversations have any effect? Ms Young cites a controversial example: “We’ve had a dialogue with Nestlé for over ten years, and they’ve improved their act

considerably. We meet them every six months or so, and we've built up such a good relationship with them that we're talking to them now not just about powdered milk, but about water supply, fair trade, obesity — all sorts of things.”

Not everyone is convinced. Mike Brady, campaigns co-ordinator at Baby Milk Action, says: “Anyone who claims that engagement with Nestlé has led it to comply with the World Health Assembly requirements is deluding themselves. Every reputable ethical investment listing excludes Nestlé.”

A different kind of engagement is that of shareholders who buy a handful of shares in a company whose conduct they disapprove of, so that they can speak at its AGM. ECCR has gone further and pioneered the technique of tabling shareholder resolutions — a laborious business in this country. The one it brought at Shell's 1997 AGM, regarding the company's operations in the Niger delta, was the first such resolution on an environmental issue that any multinational has had to deal with in Britain. Others have followed. “We may be polite,” says Mr Litvinoff, “but we are persistent.”