Companies, Communities and Religious Investors
A conference on socially responsible investment

Thursday 5 March 2009, All Hallows College, Dublin

CONFERENCE REPORT[1]

Jointly organised by eight church- and faith-based bodies,[2] the conference on Companies, Communities and Religious Investors, held in Dublin on 5 March 2009, brought together more than 80 participants representing ecumenical organisations, Christian denominations, religious orders, non-governmental organisations and the responsible investment sector.

The conference aimed to explore the impact of business on human communities and the natural world, the theological and moral issues arising, and the role of religious investors in promoting greater corporate and investor responsibility. The organisers hoped that the conference would enable sharing of perspectives and experience, enlarge and deepen understanding, foster broad agreement about the kind of change needed, and provide practical knowledge and ideas to help faith-based investors engage with the issues.

The context of an unprecedented financial – and sustainability - crisis gave added salience to the subject of the conference.

Robert Cochran (Chair, Inter-Church Committee on Social Issues): The time is right

Robert Cochran opened with an eloquent call for thought, action and research. He began by suggesting that the time is right to see retail banking as something too important to be left to bankers. It is, he proposed, an essential part of the social and economic infrastructure of a modern society, akin to a public utility. Accordingly, it needs tight regulation.

He further advocated that part of the banking sector be publicly - or perhaps community- or cooperatively - owned. Such an institution could provide an exemplar of good retail banking practice. Society needs to develop a healthier attitude to money; it is not the measure of all things.

The current market model for equities and currencies is seriously flawed. The trading of shares often has only limited contact with the reality of company performance and conduct. We may have crossed the line between sensible investment mechanism and speculation indistinguishable from gambling. There is serious need for a ban on practices such as short selling and the securitisation of risky loan books.

[1] Report written by Tony Weekes, Matt Crossman and Miles Litvinoff.
[2] Christian Aid Ireland, Ecumenical Council for Corporate Responsibility (ECCR), Inter-Church Committee on Social Issues, International Interfaith Investment Group (3iG), Missionary Oblates of Mary Immaculate, Missionary Society of St Columban, Religious Society of Friends (Quakers) in Ireland, and Trócaire.

Robert Cochran spoke of the need to be more aware of the limitations of the market model as the engine of the economy. We should move towards a more social economy, where addressing social and community needs, and respecting personal integrity and value, are seen as equally important to monetary gain.

Turning to corporate responsibility, he asked whether this is not at times little more than a smokescreen – a means of avoiding regulation and continuing business-as-usual. In this context, he drew attention to the imbalance between rescue packages offered by governments to financial institutions and the response of these same governments to the world's poor and vulnerable.

Further, he said, the time is right for the churches to provide moral and ethical leadership in relation to money. To be taken seriously, the churches must ensure that a strong ethical position governs their own investment decisions and financial management. As churches and individuals, we must become the change we want to see.

Panel 1: The Impact of Companies in the Global South

Chair: Sr Denise Boyle (Executive Director, Franciscans International)

Fr Patrick Eyinla (former Director, Church and Society Department, Catholic Secretariat of the Bishops' Conference of Nigeria): Oil and gas extraction in Nigeria

Fr Patrick Eyinla presented a moving account of the social and environmental consequences of oil and gas extraction in the Niger Delta. He made a powerful plea that the rewards of this activity should serve the common good. Instead, there is now widespread environmental degradation and social conflict in a region that, until large-scale oil exploration and exploitation began in 1958, was a pristine environment where communities enjoyed considerable self-reliance, based largely on fishing and agriculture.

Oil and gas industry processes - prospecting, drilling, production, refining, distribution and marketing - have had far-reaching impacts on the host communities. These include destruction of vegetation, farmlands and human settlements; destruction of marine and freshwater aquatic life; noise pollution and vibration damage to infrastructure from seismographic blasting; health impacts of gas flaring; and declining agricultural productivity, especially fishing. Pollution has led to a shortage of clean drinking water for many people.

Associated with these human and environmental impacts, there has been a rise in social conflict, paramilitary forces and criminal elements, expressed in sabotage, oil theft ('bunkering') and kidnapping. Conflicts have pitched local communities against oil companies.

There has been a lack of transparency and accountability, and only limited communication between oil companies and communities. In spite of investments in community development initiatives estimated at about US $30 million annually, oil companies are seen by local people as doing too little to alleviate their plight. The companies are seen as inadequately concerned about the unequal distribution of benefits and costs to local people.

The Nigerian state is also widely criticised for failing in its duty to protect its citizens. By contrast, international non-governmental organisations have had some positive impact by drawing attention to oil spillages and other negative impacts on communities.

Patrick Eyinla advocated well-defined, enforceable community and individual resource rights as a way to make oil companies and the state more accountable. Given that oil is by far the most valuable element in Nigeria's economy, much more work is needed to ensure that benefits of the industry are shared by the majority of the inhabitants of the Niger Delta region.

Fr Frank Nally (Missionary Society of Saint Columban): Mining in the Philippines

Fr Frank Nally described the consequences of large-scale mining in the Philippines, showing striking pictures of environmental degradation. The country is rich in nickel, copper, gold and cobalt, but mining generates huge amounts of waste, and its extractive processes are highly toxic.

Impacts in the Philippines include forests destroyed; landslides; water catchments damaged; rivers and streams silted; and irrigation channels, fish ponds, marine resources and offshore coral reefs destroyed or damaged. Food production has been affected; communities have been displaced; social conflict has increased; and human rights - including the rights of the country's indigenous peoples - have suffered. Protestors against mining activities have been murdered.

The Philippines's environmental protection laws are spectacular on paper, Frank Nally said, but very poorly implemented or enforced. Mining is increasingly impairing the ability of communities in the Philippines to feed themselves, and imperilling the survival of future generations. As rice production in the country has fallen, it has become the world's biggest rice importer. With world rice prices tripling in 2008, and two-thirds of the population already poor, Filipino families are being driven deeper into poverty.

A recent report from the Working Group on Mining in the Philippines - *Philippines: Mining or Food*? - explores the food security issue with field studies of six mining sites by former World Bank senior environmental adviser Dr Robert Goodland and Clive Wicks of IUCN. Mining companies whose plans are challenged in the report include BHP Billiton, Intex Resources, Philex Gold, TVI and Xstrata.

Frank Nally argued that we should support the call by the Catholic Bishops Conference of the Philippines for a moratorium on new mining until effective protections for communities and the environment are working. Investors should advocate far higher standards on the part of global mining companies in such areas as consultation with local communities (especially indigenous peoples); ensuring that adequate environmental and social assessments are carried out, made available to communities and independently and expertly audited; and issuing performance bonds and arranging industrial insurance to cover accidents, damage, and post-mining decommissioning and rehabilitation.

Panel 2: Why Should Faith Communities Engage?

Chair: Tony Weekes (Religious Society of Friends)

Rev. Prof. Enda McDonagh: The theological basis for socially responsible investment

Rev. Enda McDonagh said that the financial world can be framed as a series of 'civil disciplines', with traditional financial thinking presented as an inherently logical set of acceptable and proper assumptions about the world. The danger comes when these assumptions are thought of as self-evident rules or discovered axioms. In reality, they have been developed by a process of human interaction, and have often been differently interpreted. The prevailing economic system is therefore loaded with human values and meanings, which makes it open to be used to exploit weaker parts of society. The churches are not immune from such systemic failures.

Business ethics sits alongside legal requirements. Companies tend to state the law as the 'bottom line' for compliance, but regulation is another area of activity influenced by human views and subject to diverging opinions. Business ethics must focus on actual human beings – relationships with people. No matter what raw regulation may state, relationships are always governed by morality. Application of international standards such as the Universal Declaration of Human Rights is helpful but may distract from the core fact that we are a people in community.

Community is not an add-on, Enda McDonagh continued. Human history is full of examples of weak communities and poor relationships. In this sense, we always have 'sin' in our midst. As we are bent towards maximising our self-interest, we all carry with us potentially fatal flaws. One such is the flaw of addiction – a craving for more and more of certain things.

Part of the problem in financial relationships stems from the insatiable appetite for more. It is not enough, therefore, to have an ethical code and a set of regulations; there must also be a guiding broader morality for human enterprise. Since we are not self-contained but all belong to a community, we need something deeper and fuller.

The story of Israel and the entire Judaeo-Christian tradition are an anchor. In this framework, a person in community is a person placed within creation. In this sense we are all, always, 'our brother's keeper', and we are always called to be stewards of what we have received.

Enda McDonagh led us to look at today's financial crisis through this lens, using three Greek words to help this understanding: first, *kitesis* - creation, which faces continual and cyclical crises, from floods to famines; secondly, *kairo*s – the time arising out of crisis, a time of opportunity; this results in *kinosis* – the outpouring of the self, a process of transformation by surrender. The story of Christian new creation is a story of the breakdown of self-indulgence.

Fr Seamus Finn (Missionary Oblates of Mary Immaculate and 3iG): Socially responsible investment in a time of global financial crisis

Fr Seamus Finn OMI described himself as a native of Ireland who has spent most of his professional and vocational life in the USA. He argued that a key question for faith communities, as they consider the assets they own, is how core beliefs and wisdom of their traditions are distilled into principles of guidance, as in questions of how we manage our resources. Are they managed and used in a manner consistent with our communities' mission or are they seen as incidental to it?

From a theological perspective, word and action must go together. Issues of social and environmental impact are human, moral and therefore religious issues. Faith communities who exercise active ownership as shareholders have historically focused on sectors and issues that directly impact the communities where they live and work. In the financial sector they have focused especially on the role of financial institutions in enabling the apartheid system in South Africa and on the crippling debt crisis. The process of globalisation, which has an internal logic but not an inherent guiding ethic, presents challenges and opportunities for active engagement.

Referring to the current financial meltdown, Seamus Finn observed that faith-based investors have filed resolutions with major US banks regarding predatory lending, derivatives, credit default swaps and faulty risk management. There have been allegations of improper sales techniques and inadequate explanation of risk. Faith-based investor groups have also raised questions about the ethics of compensation to credit agencies and the incentivisation of irrational risk taking. This links to the evolution of a shadow banking system that exposes the entire system to serious risk, and how value and risk have been kept off balance sheets. This process made assets impossible to classify and created the class of potentially toxic assets.

The most speculative and innovative instruments have been monitored only by industry codes and light-touch regulation. The role of the state has been to assure that the system is trustworthy, but how are we to have confidence that the regulator itself has not been compromised or has applied the right valuations to its risk assessments? Surely a global regulatory framework is required. Otherwise a patchwork of varying national standards will facilitate a 'race to the bottom' in an age of globally mobile capital.

Despite the global aspects of the crisis, Seamus Finn concluded, all pain and struggle are experienced locally. Problems and stresses accrue to peoples, communities and individuals. Socially responsible investment is an important response to alleviate some of the pain by using tools like the Equator Principles and the Free Prior and Informed Consent process to monitor project finance.[3] A key challenge is to include the costs of environmental and social damage in economic calculations; only once this is done can we arrive at a true picture of the sustainability of current human society.

Very Rev. Dr Sam Hutchinson (Presbyterian Church in Ireland): Presbyterian principles and the ethical use of money

Very Rev. Dr Sam Hutchinson offered a clear and concise view of the churches' stewardship of money. He asserted that church funds should invest for the interest of the underlying beneficiaries, according to principles derived from the parable of the talents that to invest and get a return is better than just putting the money on deposit. In this perspective, trustees should act to maximise returns for beneficiaries by all lawful means. The money that trustees handle is not their own.

Trustees are not legally obliged to act contrary to the basic interest, principles or objectives of the beneficiaries, even if this might be financially advantageous. There are in addition moral principles to guide their investment decisions. These may at times compete, raising questions of which will prevail in any given circumstance. Weak communication between trustees and church members might complicate the matter.

Problems of negotiating the application of ethical principles into investment management have been exemplified by the Presbyterian Church's investments in commercial property. This was initially a sensible diversification to spread risk, but then laws on Sunday trading were relaxed, at odds with the Church's stance on Sabbath observance. At first, the terms of leases were altered to limit Sunday trading, but this became commercially unviable, so the interests were sold. This provides an interesting case of faith-based values being worked out in the real world.

There are common issues for faith-based investors. The churches have observed the human suffering caused by addictions, mainly to alcohol and tobacco, and hence the Presbyterian Church avoids companies deriving more than 5 per cent of revenues from gambling, tobacco and alcohol.

Other moral issues for church investors include whether to invest in monopolistic companies, activities that seriously damage the environment or the community, processes dangerous to employees or others, and companies where wages and conditions fail to give employees a reasonable standard of living, especially in light of the profits made. Investment in such areas can in some cases encourage development or influence companies towards beneficial policies - though experience in southern Africa shows that it may also increase inequalities or intensify the sense of injustice and frustration if not matched by social and political development.

However, shareholder and church pressure has achieved beneficial results. Companies and governments generally now show greater sensitivity to such pressures. On the other hand, disinvestment should be used sparingly to avoid the church becoming divorced from economic realities.

Questions, discussion and Chair's summing up

Questions and comments to the panel included:

- To what extent faith communities have engaged on climate change.
- Whether investment advisers lead a protected existence, unable to recognise that the 'pain is in the local'.
- Whether faith-based investment should look different from the mainstream; the UK Charity Commissioners have of late shifted their stance regarding mission-related investment.

Concluding, Tony Weekes made two observations. First, it is increasingly important to reflect on the question: what is the economy for? It is not simply about providing 'consumption'. Secondly,

[3] www.equator-principles.com

the present economic paradigm is seriously flawed; in consequence, advice from mainstream economists may be of doubtful value. We need a new paradigm.

Panel 3: Faith Community Responses: Investment and Engagement Options

Chair: Lee Coates (Chair, ECCR)

Ian Halstead (L&P Financial Trustees): The SRI sector in the Republic of Ireland

Ian Halstead reviewed the concept of socially responsible investment (SRI). Briefly, it redirects financial capital to 'ethical uses', reflecting to the wider world the investor's beliefs. It seeks to influence company behaviour. Crucially, it need not have a negative effect on an investment fund's performance. As advisers, L&P's task is to engage with the investing client, identify ethical issues of concern, devise and implement an investment portfolio, and monitor the outcome.

Social, environmental and ethical ('SEE') investment criteria can be identified with respect to a company's social impact (human rights, employees' working conditions, and so on), environmental impacts (adverse or positive) and ethical impacts (involvement in activities such as gambling, pornography and the arms trade). Using positive and negative screening, SRI funds include and exclude companies on the basis of their performance against such criteria.

A number of the larger banks and fund management companies in Ireland offer successful ethically managed funds in terms of both financial returns and positive SEE outcomes, such as achieved through sustainable forestry. There is a need for diversification and for alternative investments providing different sources of return. One emerging possibility is a microfinance fund that lends to micro-banks in developing counties to foster economic development at local community level. Other emerging areas include a clean technology fund and a start-up companies fund supporting job creation and new ideas in the domestic economy.

Ian Halstead argued in conclusion that faith-based investors can use their investment portfolio to spread their own ethos; doing good and achieving a good return are not mutually exclusive; and good ethical investment options are available in Ireland for those willing to look.

Victoria Woodbridge (EIRIS): How to implement an ethical investment policy

Victoria Woodbridge outlined the history of EIRIS (Experts in Responsible Investment Solutions) from its foundation by churches and charities in 1983 to its present concern with such issues as climate change, human rights abuse and financial risk mitigation through good corporate governance.

Highlighting the UN Principles for Responsible Investment (PRI)[4] as an important global framework for incorporating environmental, social and governance (ESG) issues into investment analysis and decision-making, she said that PRI members now represent $15 trillion of investments under management and include the National Reserve Pension Fund in Ireland.

Key PRI principles for investors are: to incorporate ESG issues into investment analysis and decision-making processes; to be active owners and incorporate ESG issues into ownership policies and practices; to seek appropriate disclosure on ESG matters from the companies in which investment is made.

An ethical investment policy can be developed by deciding on the issues that best reflect mission, remembering fiduciary duty and the law. Potential issues to consider are wide-ranging: from nuclear power and sustainable timber to company approaches to counter bribery and corruption; from supply chain policy and practice to 'sin stocks' such as alcohol and gambling; and embracing an array of international human rights standards.

[4] www.unpri.org

Closing, Victoria Woodbridge asserted that SRI is more relevant now than ever. For faith groups, replicating their beliefs in their activities, including their investments, is today a ‘must have’ rather than a ‘nice to have’.

Patrick Hynes (Oikocredit): Oikocredit and mission-consistent social investment

Patrick Hynes reminded the conference that more than a billion people in the world live on less than 50p per day. He spoke of some of the causes and consequences of this, including unequal international trade rules, unfair exploitation of mineral wealth, lack of access to financial services, and aid dependency.

Oikocredit seeks to address these issues by investing directly in people. It channels investments into the support of microcredit, small and medium enterprises and Fair Trade. With credit operations valued at €360 million in 68 countries, Oikocredit’s services reach 15 million people .

Mission-consistent social investment offers an approach for faith- and values-based investors to address such issues as:

- What to invest in?
- What not to invest in?
- How to invest for the common good
- Does owning capital carry a responsibility in itself?
- How far should wealth and access to finance be shared?

Oikocredit was founded by the World Council of Churches and has 36 support associations worldwide. Most years it pays a 2 per cent dividend and the satisfaction of seeing clear social benefits. No investor has ever lost money, and operational costs and loan write-offs are low.

Patrick Hynes illustrated his presentation with an example of how microcredit has enabled a small craftswoman to borrow inexpensively the money she needs for her raw materials. This was enough to free her from a cycle of poverty. In this way, Oikocredit helps change what may otherwise be thought of as unchangeable.

Miles Litvinoff (ECCR): The Ecumenical Council for Corporate Responsibility and its work

Miles Litvinoff prefaced his presentation by quoting the environmentalist and business writer Paul Hawken: ‘Striving to attain the highest rate of financial return is a direct cause of social injustice and environmental degradation [because] it consistently leads to externalisation of costs on the environment, the future, workers and others.’

He outlined ECCR’s development since its foundation by industrial chaplains in 1989 when it began to promote corporate and investor responsibility among companies and churches. A membership coalition and a body in association with Churches Together in Britain and Ireland, ECCR strives to represent the concerns of the churches and their members in Ireland as well as Britain.

ECCR’s members and partners include Christian denominations, faith-based investors, religious communities and orders, non-governmental organisations, ethical investment fund managers and advisers, and committed individuals. Members control and advise on more than £10 billion of invested assets.

The work of ECCR is based on research, advocacy and dialogue with companies and institutional investors. In recent years ECCR has published research reports on the social and environmental impacts of mining and oil companies such as BHP Billiton, Rio Tinto, Shell and BP, and has contributed to reports from the Working Group on Mining in the Philippines.

ECCR's 2008 report on water sustainability takes a human rights and corporate responsibility perspective to assess the global water footprint of 15 leading British and Irish food and drink companies. It will shortly publish a new report on migrant workers in the domestic economy of Britain and Ireland.

Awareness raising among the churches is a key activity for ECCR. For this it uses its reports and other publications, action briefings, articles in church newspapers and newsletters, and presentations to church conferences, meetings and groups, schools and colleges.

Miles Litvinoff suggested that returns on investment in social development, such as funds managed by Oikocredit, may seem modest. But in the current crisis they appear to perform as well as if not better than holdings in `blue chip' companies. Similarly, investment in low-carbon technologies such as renewable energy may appear risky, but the crisis has shown even apparently safe investments as bearing enormous risk.

Mark Cumming (Trócaire): Ways forward

Mark Cumming provided a synopsis of key issues arising from the day and committed the organising group to engage with the outcomes and see how to take forward issues of faith-based socially responsible investment in Ireland.

Points of particular importance emerging from the presentations and discussion included, in his view:

- Where is the spirit in corporate entities?
- What is enough?
- The crisis we face is an opportunity for a real transformation.
- Our total interdependence as participants in a system of resources, producers and consumers, and the challenge of taking responsibility for our part in the system.
- Pain suffered through the actions of global companies is experienced by real people and communities at the local level.
- An ongoing and inclusive conversation about these issues is needed, but we should also take steps forward now.
- The wider Church as a community of churches, working on an ecumenical basis, can strengthen our impact.

Mark Cumming informed participants that the organisers would welcome their further views on ways forward. There was no master-plan on future actions and next steps, but the possibilities were many, and efforts would be made to maintain the involvement of people and organisations gathered at the conference.

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