

When money is a force for good

Ethical finance can help poor people reclaim their dignity, says ECLOF International's Executive Director **Irene Banda Mutalima**. Here she introduces the views of two leading experts on the new trend for faith-based finance.

The **International Interfaith Investment group** (3iG) is building a network of 'active capitalists' from faith institutions willing to invest in a socially responsible way. 3iG's General Secretariat is based in Barcelona, Spain. For more information on 3iG see www.3ignet.org.

Financing human dignity: a faith perspective



ECLOF International's strategy for the next five years has been launched under a new slogan: Financing Human Dignity. For many this might at first seem a striking contradiction in terms; "finance" and "dignity" – can these really go together? Have

we not just gone through a year during which the excesses of financial businesses – loans, investments – have led to a world-wide economic crisis?

In the gospel of Matthew we read: "No man can

serve two masters: for either he will hate the one, and love the other; or else he will hold to the one, and despise the other. Ye cannot serve God and mammon" (King James version, 6:24). Mammon – from the Hebrew word for money – is commonly understood as an idol of material wealth.

The finance industry, it seems, is as alien to the Christian ethos as can be. So how do we at ECLOF International reconcile finance with dignity?

A recent article in *The Economist*¹ has pointed out that the currently popular view of businesses as vehicles of greed is severely skewed – they actually

➤ thrive on things that are positive from a moral point of view: co-operation, creativity and an aversion to monopolies of power. What is still lacking here though is the use of these positives to a good end.

Our end at ECLOF is to enable our clients to do well economically, which is one condition for living a life of dignity. Poverty robs people of their dignity by disempowering them, taking away their autonomy and their ability to plan ahead. They are exposed to the vagaries of life without defences. Financial services are our means to make sure that our clients can keep their dignity by creating enough wealth to pay their children through school and be able to afford health care and decent housing.

As a microfinance organisation dedicated to combating poverty we need to work to the same professional standards as any finance provider while never forgetting to what end we do what we do. This is a continuing challenge for ECLOF staff and Board members around the world.

In the end it comes down to this: It is indeed right to serve God and refuse to idolise mammon. But there is nothing wrong with letting money work for the good of impoverished people.

¹ The silence of Mammon, *The Economist*, 17 December 2009



Finance and morals: a potent mix

Religious groups are putting their money where their faith is, says **Katinka van Cranenburgh**, General Secretary of **3iG**.

Here we ask her how faith-consistent investment works.

Katinka, what is faith consistent investment?

Faith consistent investment ensures that faith institutions invest in line with the values and principles put forward by their scriptures. Different faiths share a lot of the same values and principles – for example that we are responsible for our actions or that we should take care of our environment.

Many faith institutions see investment as something technical and morally neutral. They are not aware that decisions on investments are not neutral; goods and activities that are financed by investments can contribute to social change but they can also do harm – and the investor might not even be aware of that!

So what can a faith institution do in practice?

We can distinguish three basic approaches:

Negative screening means faith institutions don't invest in goods or activities they object to, like gambling, tobacco or arms production.

Positive screening measures companies on their environmental, social and governance practices, benchmarks these companies on industry level and chooses the best out of each industry. On top

of this, active shareholders can achieve positive corporate change by engaging as responsible co-owners of a company.

Impact investing takes a more proactive approach by using funds to contribute to social or environmental change while generating returns. This could mean financing community development organisations, providing equity to companies that are active in affordable housing, clean water or health care or loan capital for microfinance institutions.

How far has faith consistent investment come?

Many faith institutions, especially the smaller ones, are doing negative screening but they tend not to be proactive.

While the Methodist Church in the US and the Anglican Church, actively invest to support progression of their values and principles, thereby generating a positive impact.

Given the enormous number of faith institutions around the world though, faith consistent investment still has a lot of room to grow – and its potential impact is huge.



Microfinance: opportunities for faith institutions

A **3iG** study reveals how religious groups are investing in microfinance. Here researcher **Rupert Melsom** previews some trends he's uncovered

Microfinance offers a lot of opportunities to faith investors, says Rupert. However, with the entrance of commercial investors the market is also becoming more competitive. And for good reason, as global demand for microfinance far outstrips supply – even by conservative estimates.

Rupert sees different ways for faith investors to become involved in microfinance. Most commonly,

investors are loaning their money – either directly to microfinance institutions (MFIs) or indirectly through microfinance funds, so-called Microfinance Investment Vehicles.

The economic downturn has resulted in many MFIs finding it more difficult to access funding. Faith institutions with long term capital resources should take advantage of the situation for the benefit

of local communities and their own investment returns.

As the market matures, faith institutions should also consider providing equity to MFIs which will give them ownership of the operations. This might help protect MFI clients' interests – not necessarily a priority of commercial investors who are acquiring well-performing MFIs to increase their retail distribution in emerging markets.

Another benefit of controlling MFIs, Rupert points out, is that they are among the few actors in emerging markets that have information about credit histories and purchasing patterns. Investors can cross-sell this information to other financial service providers. Again, faith institutions can ensure that clients' interests are protected.

