

# **CATHOLIC SOCIAL TEACHING MEETS WALL STREET**

Do good while doing well

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**G**ulnora Huseinova was in trouble. When she got divorced a few years ago, she was left to care for her child, which is no easy matter for a single woman in Khujand, Tajikistan. She decided to start her own business at the local market, but she needed \$800 to purchase grain. The problem was that she had no collateral and no past credit history to help her secure a loan. Meanwhile, halfway across the world in Richmond, Va., Thomas J. Dorsey had a desire to help small international businesses. He connected with Gulnora Huseinova online (through [www.kiva.org](http://www.kiva.org)) and was one of 16 North Americans who together lent her \$800 in April; some contributed as little as \$25. Huseinova's business has taken off and as of September, she had already repaid 67 percent of her seven-month loan. Welcome to the transformational power of socially responsible investing.

## **Investing Today**

Most Americans will at some point invest money in personal portfolios or a retirement plan where they work. Some in privileged positions will make decisions about how the assets of institutions are invested. The main reason we invest in anything is to turn a profit, but investments can also prove effective in promoting social change consistent with Christian values. In 2003 the U.S. Catholic bishops proposed two principles that should guide all investment decisions: responsible financial stewardship and ethical stewardship. In this sense smart and responsible investments have two purposes: to make money and to promote social change consistent with the Christian vision of justice and compassion.

Is such a vision of smart and responsible investment idealistic or naïve? And how does high-minded social concern affect the actual rate of return on investments? For a few years now, concerned investors have been engaged in socially responsible investing. Results on such investments show that many investment opportunities can promote positive social change and still earn a competitive rate of return.

Socially responsible investing is defined by the Social Investment Forum, a trade association of the U.S. social investment industry, as "integrating personal values and societal concerns with investment." The concept is not entirely new. For centuries the Quakers opted not to invest in the arms industry, and in the early 20th century many investors chose not to invest in "sin" stocks (typically tobacco, alcohol and gambling). But in the 1980s the concept took hold as individuals and institutions around the United States sold their stock in companies doing business with South Africa. This divestiture turned out to be a significant force in bringing about the end of apartheid. At first, the concept pertained to identifying funds that one would rather not invest in or would prefer to divest from. But even then, before the advent of so many positive investment opportunities that further social concerns, the power of socially responsible investing proved to be an effective force for change.

Currently, the main avenues for socially responsible investing are community investing, socially responsible mutual funds and shareholder advocacy.

## Community Investing



In 1976 Bangladeshi economist [Muhammad Yunus](#) took a field trip with a group of students and met some young women who needed \$27 each for their furniture-weaving businesses. What might seem a trivial amount for the more affluent was very significant for these businesswomen of extremely limited means. Surprised that no traditional lending institutions would assist them, Dr. Yunus personally lent them the money they needed. Their businesses grew exponentially, and the women repaid the loan in a few months. The radical success of this small lending program led Professor Yunus to open the first “microcredit” institution, [Grameen Bank](#). In 2006 Dr. Yunus won the [Nobel Peace Prize](#) for the initiative, which has lifted millions out of poverty.

This kind of microlending, which provides small loans to poor people at minimal interest rates, is one form of community investing, which provides capital for underserved communities and individuals in the United States and around the world; it provides loans for small businesses, affordable housing, childcare or other community services. The borrowers—most are women and all are in desperate financial situations—do not qualify for assistance from traditional financial institutions.

Today, many credit unions, banks and housing developments are committed to microlending, both domestically and internationally. Instead of opening a deposit account at a traditional bank, investors deposit funds at a microcredit institution of their choice. Usually a \$1,000 minimum deposit is required, which can be made in the form of a certificate of deposit, savings account, checking account or money market fund. The bank then uses the funds to extend entrepreneurial microloans (as small as \$20) to borrowers, who use the money to get a small business off the ground. The borrower pays interest and soon repays the principal. In the meantime, the investor gets the deposit back at will (or at maturity for a C.D.)—plus interest.

The benefits of such an approach can be profound. Not only do the poor receive the desperately needed funds to which they would not otherwise have access, but they are able to use the funds in their own way. Rather than imposing ideas or methods, microlending encourages motivation, group accountability and ownership. The rich invest in the poor, sharing a partnership in their business ventures. And the joint effort makes significant strides against poverty. According to [Social Investment Forum](#), in 2005 \$19.6 billion was deposited in microcredit institutions, benefiting 80 million entrepreneurs, who had a 95 percent to 100 percent repayment rate.

As with any type of investing, microlending involves risk, especially in the international market. Foreign exchange rates affect the return on investments and reduce profit margins, and the stability of local economies and governments affects entrepreneurial ventures. On the other hand, deposits at U.S. microcredit banks are F.D.I.C. insured up to \$100,000, so investors have some guarantee on principal.

## Socially Responsible Mutual Funds

Another approach is to use socially responsible mutual funds. Such funds screen out companies that do not meet explicit social and moral criteria. For example, an S.R. fund might invest only in companies that have a good environmental record or are responsible in their disposal of hazardous waste. Other considerations might include the company’s product (tobacco or firearms producers might be excluded from the portfolio), payment of a living wage in international operations or the practice of gender equity

in the workplace. Currently there are about 200 S.R. mutual funds as well as several benchmark indices that allow investors to track the performance of their fund measured against other S.R. funds.

Since the field of socially responsible mutual funds is of relatively recent origin, some issues still need to be resolved. For example, whether a fund screen is based on tobacco, environmental concerns, human rights issues, or all of the above is not always clearly stated by fund managers, so investors may find it difficult to identify funds that match their own values. Furthermore, since research on S.R. performance is only available for the last 10 years, it is too early to predict with confidence long-term financial returns. At the same time, it can be said that so far S.R. funds have been found to achieve rates of return comparable to those from unscreened funds, which is good news for socially concerned investors.

### Shareholder Advocacy

Perhaps the easiest way to manifest a concern for socially responsible investing is to begin with one's current portfolio. Shareholders can use their ownership in companies to advocate changes in corporate policies that run counter to Christian values. Owning even one share of stock gives an investor a say in how that company runs its business. Every investor has a right to attend annual shareholder meetings and speak up about issues of concern, or to vote on shareholder proposals in annual proxy statements. Instead of discarding such statements when they come in the mail, one could read them with attention and find proposals that are consistent (or inconsistent) with one's social and moral concerns. Many religious communities, for example, research companies and sponsor shareholder resolutions consistent with Catholic social teaching.

Another avenue for shareholder advocacy lies with S.R. funds, which can use their lobbying power to influence the companies within their portfolios. While individual shareholders can propose changes in company policy, mutual funds have the advantage that they hold many shares and therefore can speak with a more powerful voice.

Shareholder advocacy can be very effective. Social Investment Forum reports that 28 percent of socially responsible shareholder resolutions were successfully addressed in the first half of 2005. And so far in 2007, a record number of proxy shareholder social and environmental resolutions have been proposed.

### Walking the Walk

Socially responsible investing, then, is a way to invest money, make a profit ethically and effect both systematic and individual change. The scope of its environmental and corporate influence is vast, as is the difference it can make in one person's life and in the lives of millions of poor families. It is a powerful way to be a disciple of Christ's mission to "bring glad tidings to the poor." How does one begin?

*Talk to your financial advisor.* You can obtain a listing of financial advisors who are committed to socially responsible investing by requesting the [National Green Pages](#), published by Coop America.

*Invest in socially responsible mutual funds.* Check out your retirement plan at work to see if this is an option. For investment possibilities for yourself or your church, school or hospital, go to the mutual fund performance chart at [www.coopamerica.org/socialinvesting](http://www.coopamerica.org/socialinvesting).

*Deposit funds in a microlending institution.* The Community Investing Program suggests that 1 percent or more of your investments be devoted to community investing. For a list of microlending opportunities and more information, go to [www.communityinvest.org](http://www.communityinvest.org) and [www.kiva.org](http://www.kiva.org).

*Be an active shareholder.* Vote your proxies. Support and sponsor shareholder proposals. Write letters. Ask questions. Anybody who owns even one share of stock in a company is a part owner and can have a say in how it is run.

**When I worked** in the financial services industry, I never heard mention of microlending, community investing or socially responsible mutual funds. But since then, my discovery of socially responsible investing has been a transforming experience. A community investment impact calculator on [www.communityinvest.org](http://www.communityinvest.org) estimates that if someone were to invest \$1,000 for one year, that money could finance three microenterprises and create four jobs in Africa. At the end of the year the investor would likely get the \$1,000 back, plus interest. Spread the word. This is truly “good news for all the nations.”

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