

Better borrowing

Charities must learn to borrow as well as beg. Penny Shepherd examines socially responsible investment.

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Managers in the voluntary sector have a very complex job, often juggling a variety of income streams. However they may not be making the best use of money because of the commonly held beliefs of "do's" and "don'ts" about charity finance. Traditionally, financial services for charities are a means of raising the greatest amount of money which is then spent on activities to achieve their aims. The raising of money and the meeting of objectives are kept in different boxes and are often in conflict. So fundraisers have their plans frustrated by the concerns of operational people about the new emotive campaign. Or the finance manager has his/her job complicated by the need to ensure that investments won't cause public relations problems. No one looks for the "win-win" opportunities to use socially responsible financial services to better achieve the charity's aims.

By keeping to the rigid division between income generation and achieving the organisation's objectives, charities are missing a trick. They could be making money work harder for them by embracing some of the new ideas in socially responsible investment (SRI).

SRI concepts such as "ethical screening" have long been adopted - voluntary organisations will do a hygiene check on their investments to insure that they are not putting their money into companies whose actions run contrary to their objectives. The medical charity will aim to maximise its investment income but screen out tobacco manufacturers to ensure that they are not benefiting from the promotion of smoking. But, beyond that, a charity may feel that the social impact of how its money is invested is not its concern. Traditionally, trustees will interpret their duty as getting the maximum financial return to be spent on research or care. But, by taking this approach, they pass up chances to improve health and wellbeing in a much wider variety of ways.

Developments in ethical investment funds available to private individuals show some of the opportunities. Increasingly, such funds are offering not only avoidance of investment in certain companies but also active selection of companies with better social and environmental performance than their peers. Some ethical funds also engage in dialogue with companies on behalf of their investors in order to improve corporate social performance.

For example, the Friends Provident Stewardship fund convinced an Italian clothing manufacturer to adopt a progressive policy on child labour. Investors achieved this using their savings and they could direct their personal donations to other causes.

UK occupational pension funds invest a total of more than £800bn. They are starting to consider how they take account of social, environmental and ethical issues in their investment strategies. Charities have the opportunity to consider similar issues for their reserves. From July 2000, government legislation will require pension funds to declare the degree to which, if at all, they address these issues so that their beneficiaries know what is being done with the money invested on

their behalf. Announcing the move, then pensions minister Stephen Timms said "This regulation will stimulate debate on socially responsible investment and increase transparency in investment and planning".

Initially, pension managers were concerned about possible conflicts with fiduciary responsibilities, but interest is emerging in approaches which consider the links between social and financial performance. Some pension funds are using their shareholder power to push for changes in corporate behaviour.

Last year, chief executive of the Charities Aid Foundation (CAF) Michael Brophy highlighted the key role for charities of setting an example of investing for sustainability and the long-term.

Some charities see the opportunity to do even more. Affinity marketing of financial services is usually seen as just another cause-related marketing income stream. This year, WWF-UK launched its own ethical investment fund in partnership with financial services provider NPI. The NPI/WWF Investment Fund achieves far more than the commission income WWF receive from sales to its supporters. Les Jones, WWF UK deputy chief executive, said: "By investing in companies of the future, we can encourage them to improve their environmental performance and in the process make a difference to world conservation."

The Churches National Housing Coalition mobilises the savings of its supporters in ways which go beyond direct income generation. It launched its "Just Housing" savings account in partnership with Triodos Bank in October 1997. Supporters have placed £2.25 million in the account. Triodos lend the money to social housing projects across the country. Unlike the WWF fund which seeks to offer excellent investment returns by drawing on the partners' combined investment and environmental expertise, the Triodos partnership account gives savers the option of foregoing some interest or taking no interest at all in order to deliver more social benefit.

In the same way that businesses look at the most effective way of financing projects, social entrepreneurs are starting to assess the best way to raise finance on a project-by-project basis rather than immediately seeking a grant or launching another capital appeal. They are responding to calls of charity leaders for socially responsible financial services to be used in yet more ways to stretch charity incomes.

Delivering the UK Social Investment Forum Annual Lecture next month, Michael Brophy will say that charities have "a duty to borrow as well as beg" to increase the resources available. Charities' traditional aversion to risk means that many are still reluctant to use debt finance even when this makes the most financial sense. The low-risk culture is reinforced by the common perception that charitable money must not be put at risk. A charity may pay a high rent on a property for years rather than take out a loan to purchase the property which would both be cheaper and potentially generate a greater return.

Brophy will call for a new consensus on how charities use their money. The socially responsible investment movement demonstrates the range of opportunities available.

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