

# FAITH BASED INVESTING

## *A Primer for Social Entrepreneurs*

### INTRODUCTION

This primer for social entrepreneurs introduces faith based investing in the U.S., its place within the investment field, its potential value to Social Enterprises, and best methods for engagement.

### SOCIALLY MOTIVATED INVESTING

*What is socially motivated investing (SMI)?*

SMI is better known as socially responsible investing (SRI), directing one's investments towards financial instruments and entities that fulfill social and moral values, in addition to earning a return. SMI better captures this action.

*What do SMI & SRI achieve?*

Such investments 'do well by doing good.' They explicitly place values in financial decision-making and can foster behavior change.

#### *DID YOU KNOW?*

*Faith-based and Socially Motivated Investors promoted divestment from South Africa, contributing to the end of Apartheid.*

*What are SMI & SRI strategies?*

Investors focus on different strategies – institutional and otherwise – to increase social impacts, including:

- ❖ **Shareholder Activism:** Encouraging responsible corporate behavior by exercising shareholder rights from equity investments.
- ❖ **Avoidance Investing:** Not investing in companies with objectionable practices
- ❖ **Pro-active Investing:** Investing in companies in line with one's social and moral values
- ❖ **Social Venture Capital:** Investing in startup entities geared towards making positive contributions to the community and bringing about change.

#### **Best for Social Entrepreneurs**

- ❖ **Community Investing:** Investing in projects, organizations dedicated to economic development and local efforts.

### FAITH BASED INVESTORS

*Who are Faith Based Investors?*

Faith Based Investors are a sub-set within SMI. They include institutions and people conforming investment decisions to religious beliefs.

This practice is as old as formal religion, with modern efforts developed in the 1970s. An outgrowth of social justice efforts of the Vietnam War and protests against Apartheid in South Africa encouraged 'putting your money where your mouth is', aligning values and belief with investment decisions.

Churches, religious orders, and spiritual individuals sought ways to not have their money be used in ways contrary to their belief (avoidance investing), to let companies know they disapproved (shareholder activism), and also to foster positive local economic progress (community investing).

*Are Faith Based Investors only Christian affiliated?*

NO. All major religions have avenues for faith based investment. As the U.S. is the largest financial market, and Christianity is the largest religion in the U.S., the largest volume of public activity is in Christian affiliated entities.

#### *FAITH BASED INVESTING FACT*

The Interfaith Center on Corporate Social Responsibility has nearly 300 institutional investor members who manage \$100 billion in assets.

[www.iccr.org](http://www.iccr.org)

There are Jewish motivated funds. I.e., Shefa Fund brings Jews together to make secular community investment in the U.S.

The Muslim banking system itself offers socially motivated opportunities in investment. And, there are mutual funds conforming to Islamic principles with avoidance investment screens.

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## COMMUNITY INVESTING

### *What is Community Investing (CI)?*

The U.S. CI market has topped \$5 billion. The market is diverse, but debt is most common. Typically, terms are more generous than conventional investing, but preservation of capital is important. Proven track records help. Ask about investor's preferences, risk tolerance and collateral requirements.

### *What are common CI features?*

- ❖ These are still investments, not grants.
  - ❖ Repayment periods range from 3–7 years.
  - ❖ Lower rates of return are possible compared with traditional instruments.
  - ❖ Often have local geographical focus.
- A good resource is [www.communityinvest.org](http://www.communityinvest.org).

## FAITH BASED COMMUNITY INVESTORS

### *How to approach Faith Based investors?*

There are 100s of such organizations. The market is fragmented with many small players.

Know what organizations want before approaching. Pension and mutual funds are restricted to regulated investments. Some institutions will also consider grants. Be clear.

### *What are the types of community investors?*

These investors fall broadly in two categories:

1) Local participation. Religious orders (i.e. convents, monasteries, certain churches) manage their assets in line with their values. They put part of retirement savings at risk, often at below market rates, for community investing.

They value trust, local impact, tend towards less formal systems and modest capital (\$10-20 K). There is no rule. Applying is best done locally, through relationship building.

2) National Reach. These tend to be more formal in their application process. They often have greater capacity (like to \$250,000). There is no one guide. Example: Partners for the Common Good, [www.pcgloanfund.org](http://www.pcgloanfund.org)

## CASE EXAMPLES

### **FONKOZE** [www.fonkoze.org](http://www.fonkoze.org)

Fonkoze's mission is to build the economic foundations for democracy in Haiti. Its social mission and economic value date to 1994.

Fonkoze has a registered offering for investors. Faith based entities, including more than a dozen sisterhoods, have invested more than \$1 million. They earn below market returns; their money is lent for Haitians to improve their lives.

### **GREYSTON FOUNDATION** [www.greyston.org](http://www.greyston.org)

Greyston Foundation is today a \$13 million family of non- and for-profits serving Yonkers, NY. Its cornerstone social enterprise is Greyston Bakery, so successful it supplies Ben & Jerry's with brownies.

Greyston has borrowed from faith based and other community investors to grow its business. It is provided attractive terms and long repayment terms for working capital.

## DOCUMENTS NEEDED

### *What documents are required?*

The required documents will vary. It is best to ask. Compile the documents you would share with a foundation or bank. A brochure is a good first step. A business/strategic plan of three years or more is helpful.

Make clear the social value proposition, quantify it whenever possible. Address the character of your organization, management, and board.

Be explicit in the capital you need, its use, and when it can be repaid. Faith based investors tend to be patient, but they want to know their principal is preserved, safe, and will be returned.

Demonstrate your organization's track record. If you are a new effort, emphasize management experience.

Transparency is valued: financial statements, audits. and openness to discuss your effort.

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