

Christian Approaches to Investing

The Purpose of Capital

Divided we fall

My family and I used to live in Nairobi, Kenya. It's a cosmopolitan, dynamic and entrepreneurial city, but sadly 40% of its population live in Africa's largest slum. Over the past decade, Kenya has experienced an average GDP growth rate of 5.7% but it's estimated that only 40,000 people (0.1% of the population) have benefited¹.

This vast inequality is strikingly visible in the emerging economies of Africa and Asia but has also begun to become ingrained in Europe and America. The backlash against inequality has given birth to popular anger against the 'system' - which manifested in the Occupy Wall Street protests in 2011, the current divisiveness of US politics, the protests on the streets of France and the political chaos caused by Brexit.

Amid the opulence of Davos, the conversations centred inequality, environmental degradation and populism. But the political and financial elite, despite their concern, appeared unable or unwilling to address the underlying causes of this malaise. As one of my colleagues at the World Economic Forum stated: *'One of the pillars of trust in a society is the feeling that life is getting better, not worse. But in too many economies, there is a sense that opportunities for the next generation are dwindling rather than expanding.'*

Capitalism as Freedom

In the 1970's Milton Friedman wrote a seminal piece entitled, 'Capitalism and Freedom', in which he describes the connection between democracy and capitalism. He focused on the potential of capital to be a vehicle for freedom. This insight is powerful and yet limited, as he viewed this purely in individualist, economic terms. His statement that *'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game'* has become a central tenet of shareholder capitalism.

The Biblical concept of freedom is far broader and deeper than this view. God reveals the deep brokenness of our world and sets out a new vision of human flourishing - *"Behold, I am making all things new"* (Revelation 21:6). The prophet Isaiah expresses God's anger at the injustice in Israel: *'Justice is far from us, and righteousness does not reach us. We look for light, but all is darkness; for brightness, but we walk in deep shadows'* (Isaiah 59:9). He uses the Hebrew word *'tsedeq'*, to combine justice (a system of equality and fairness) and righteousness (personal morality). In the Old Testament, God revealed his desire for social, economic and spiritual justice to the nation of Israel through the Mosaic Law. In every generation, the principles of Jubilee ensured that the poor and marginalised had an opportunity to be freed from their debt and have their land restored². In the New Testament, Jesus reaffirmed the importance of the call to justice and his purpose to fulfill the law (Matthew 5:17). He saved his harshest words for the Pharisees who claimed great knowledge of God but neglected, *'the more important matters of the law – justice, mercy and faithfulness'* (Matthew 23:23).

¹ Discussion with COO of leading East Africa bank

² 'The Jubilee Gospel' Dr Kim Tan, founder of Transformational Business Network

Renewing all things

Our current system of shareholder, or 'profit at all costs', capitalism is driving inequality, environmental degradation and the breakdown of societal cohesion. People desire communities with strong relational bonds, jobs which give dignity and certainty about the future. Instead, they live in polluted and fragmented neighbourhoods with zero-hour contracts and no ability to save. We have become separated from capital and are now at its service, as opposed to it serving us. It is unlikely that we will be able to solve the world's problems with the same thinking that has created them.

In Judaism, this concept of transformation is known as 'tikkun olam'. Interestingly, it is linked to the overcoming of idolatry. As Christians we need to free ourselves from our subservience to capitalism (or any other *-ism* for that matter) and rethink the purpose of capital as an instrument for freedom and justice. Our desire as individuals is for freedom but when we elevate our sovereignty above all others it becomes selfishness and greed. When we seek national or ethnic sovereignty at all costs it becomes racism or imperialism. Only when we are grounded in Christ's sovereignty do we experience true freedom as individuals, societies and for all creation. As the old hymn goes '*Make me a captive Lord and then I shall be free*'³. Our responsibility as investors and business people is not only to our shareholders, but to all stakeholders and ultimately the Creator of all things.

Sovereign Capitalism and Mutual Return

Impact investing is now *de rigeur* and many say, 'If I can 'do well and do good' then why not?'. Often as Christians, we simply add a faith component to a traditional investment approach. But we believe that impact investing is not simply about aligning one's capital with one's values but rather is a recognition that an exclusively economic understanding of capital and value falls short of both what is and what is needed. We need to think in terms of Sovereign Capitalism⁴ and Mutual Return⁵, which is the establishment of a just system which recognises the rights and responsibilities of all stakeholders and the combined social, environmental, spiritual and financial return of an investment.

We also need to be honest and recognise that there will be trade-offs between these returns to deliver overall Mutual Return. For example, in Africa we often observe impact fund managers who are under pressure to 'commercial' returns which leads them to push businesses into undesirable exponential growth and/or cut costs. This may result in them paying employees poorly or cutting corners on safety or environment policies. Over time investors and businesses completely divert from their social mission.

When understood at this level of purpose and meaning, those who continually question whether or how one may achieve "competitive" or "market rate" returns on impact capital are skating on the surface as opposed to delving into the greater possibilities of how we might optimize the total performance of capital in the fullest sense of the term. Our concept of 'time horizon' begins to embrace an eternal perspective. Rather than exclusively focus on individual investments we begin to engage in the transformation of the systems of injustice. We explore if our investments additive or extractive and if the risks and rewards are fairly shared between all stakeholders (investors, entrepreneurs, employees and communities). The answers to these questions are not straightforward but as Christians we must wrestle with them.

³ 'Make Me a Captive, Lord' George Matheson, 1890

⁴ I hope Henry Kaestner and partners will allow me the liberty of using this term.

⁵ Likewise I hope that Bruno Roche and the team at Mars will allow me to adapt this from the Economics of Mutuality.

Cattle on a thousand hills

The World Bank estimates that at least 600 million jobs need to be created in the next 10 or so years globally⁶. The Transformational Business Network believe that raising ‘oxen’ is the best way to achieve inclusive prosperity and economic justice. Oxen are small and medium enterprises, which have historically been the engine of economic growth in high-income countries. Their value and impact are often underestimated. They account for 90% of all businesses worldwide and create 4 out of 5 jobs worldwide. In emerging countries, Oxen often offer products and services that address social issues such as financial services for the poorest, healthcare solutions or off-grid energy. They have steady financial growth, long-term perspective and are deeply rooted in their community.

‘Unicorns’ and ‘gazelles’, high growth, disruptive businesses, have captured the imagination and pockets of investors. But the ‘winner-takes-all’ approach enables them to monopolise their position which inflates costs, sucks up talent and drives inequality. In 2017 a Vilcap report showed that >90% of impact investment in East Africa went to these types of business and all of them were led by ex-pat founders. Meanwhile, indigenous Oxen businesses are starved of capital as the returns they deliver are not commensurate with their perceived risk. As a result, finance becomes unaffordable and enterprises that can secure high-cost finance often experience significant financial pressure which can prevent further growth and reduce their social impact. New investment models are needed to enable them to succeed.

Conventional investing	Responsible investing	Sustainable investing	Impact investing	Philanthropic grantmaking
Seek market-rate, risk-adjusted financial returns				
Mitigate Environmental, Social, and Governance (ESG) risks				
Pursue ESG opportunities				
Contribute to measurable, targeted impact solutions				
			Catalytic capital: Fill capital gaps for impact enterprises and facilitate additional investment	

From Tideline's *Catalytic Capital: Unlocking More Investment and Impact*. Adapted from Barby, C.; Pederson, M. (2014). *Allocating for Impact: Subject Paper of the Asset Allocation Working Group*. Bridges IMPACT+ and UBS for the Social Impact Investment Taskforce established under the UK's Presidency of the G8.

Catalytic capital will be critical to bring about this change. It is patient, risk-tolerant, and concessional in ways that differ from conventional investment. It is an essential tool to bridge capital gaps and achieve both breadth and depth of impact, while complementing conventional investing. Currently only 5% of total impact investments is concessional while the rest is seeking ‘market rate’ returns⁷. Recently a \$200m vehicle, the Catalytic Capital Consortium, was launched by MacArthur, Rockefeller and Omidyar Foundations to address this gap.

During the first Industrial Revolution in Europe and America, in response to the societal injustice Christian leaders responded with redemptive imagination to create values-based businesses, mutual societies and cooperative banks. Business leaders in Africa and Asia have the potential to create social, environmental and spiritual transformation of their societies. But without our partnership it is likely that they will fail and in turn, their nations will fail.

⁶ <https://www.worldbank.org/en/news/opinion/2018/05/11/more-and-better-jobs-for-developing-nations>

⁷ ‘Across the returns continuum’ 2018 Report Omidyar Network

The Catalyst Fund

The Transformational Business Network seek to bring about systemic change and act as a platform for investors (philanthropists, angels and funds) and entrepreneurs (via accelerators and capacity builders) to support purpose-driven Oxen in Africa and Asia. Last year I wrote about our work with local partners to strengthen the entrepreneurial ecosystem, to build the capacity of these enterprises and to embed values in business.

In our next phase we are establishing a Catalyst Fund to unlock affordable, expansion capital for Oxen enterprises in East and Southern Africa. This is a low-cost debt fund which will provide “mutual impact” capital (not “risk-adjusted” funding) at sustainable levels. The Catalyst Fund is designed to co-invest with existing funds to unlock previously unavailable private capital.

If successful, this fund will enable hundreds of Oxen to grow, create thousands of jobs and provide proof of concept that by funding these enterprises societies can flourish. It will also demonstrate that this is a stable and viable market for investors to deploy capital at scale with “appropriate” returns.

The good news

If global faith communities allocated only 10% of their total assets towards impact it would grow the current pool of impact investing from current USD \$114 billion to over US\$ 400 billion⁸. It is encouraging to begin to see the green shoots of these new approaches beginning to appear. The binary mentality of investment (maximise financial return but ignores impact) versus philanthropy (maximise impact but expects no financial return) is breaking down.

Academics like Dr Michael Schluter at the Relationships Foundation⁹ in Cambridge, UK, Dr Bruno Roche at Mars Corporation¹⁰ and Jed Emerson¹¹ have provided some of the intellectual rigor and theological underpinning in their work on relationality and mutuality. Pioneering philanthropic foundations like Access Ventures and Sagamore Institute have begun to use their assets catalytically to create restoration in marginalised communities. Last year at the Christian Economic Forum, the World Evangelical Alliance developed guidelines on investing for Christians worldwide and this year a forum on Faith-Driven Investing will take place.

None of us can achieve this alone. As Christians we need to act prophetically rather than reactively. As investors, philanthropists, governments and corporates we need to act cooperatively rather than competitively if we are to bring about real transformation. Hopefully as the Christian Economic Forum community, we can continue to work generously together for the common good and the glory of God.

Reuben Coulter,

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⁸ Faith Invest initiative at www.arcworld.org. This represents all religious faiths and I was unable to identify the figures for Christianity only.

⁹ www.relationshipsfoundation.org

¹⁰ www.economicsofmaturity.com

¹¹ ‘The Purpose of Capital’ www.blendedvalue.org