SRI Update

A quarterly letter about Socially Responsible Investing
Winter 2005

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☆ TRENDS

Global Poverty: Finding Solutions

Colorado's snowcapped mountains provided a spectacular setting as my wife Kathleen and I joined over 500 financial advisors, SRI fund managers, community development financial institutions (CDFIs), and a host of nonprofits at the annual conference on socially responsible investing. Our collective goal: creating a more sustainable and just world through the financial markets.

For three days we networked and listened to leading economists, academics, executives, and futurists. People who are thinking outside the box and taking innovative approaches to global issues that concern us all. One of the talks I found most compelling addressed our responsibilities to developing countries.

In his keynote address, *An Unbalanced and Endangered World*, **Peter Woicke,** Executive Vice President of the International Financial Corporation (IFC), a part of the World Bank, gave a passionate talk charging the SRI community and the World Bank, along with other global partners, to work together to alleviate the world's most pressing problem—global poverty. As part of the World Bank Group, IMF's mission is poverty reduction in developing countries through private sector loans that promote profitable, sustainable businesses.

Mr. Woicke was also speaking as a Managing Director of the World Bank, or International Bank for Reconstruction and Development, the largest part of the World Bank Group, which has the same mission to combat poverty. The World Bank raises funds through bonds, but tries to achieve its mission through lending and advisory services to governments.

A little background on the relationship between the World Bank and the SRI community is necessary to appreciate Mr. Woicke's talk and the power of **$2 trillion** in SRI assets to help transform the way business is done. During the 1990s, the SRI community became increasingly concerned with allegations of corruption associated with World Bank Group projects, with environmental degradation in developing countries, and with lending policies that were leaving some of these countries under crippling debt. Consequently, a number of socially responsible investors withdrew their support of the World Bank and a boycott organization even began.

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Facts from the World Bank

Out of a global population of 6 billion:

- 1 billion receive 80% of global income;
- 1 billion (1/5) live on less than $1 per day, or in deep poverty;
- 1 billion have no access to clean water;
- 1 ½ billion have no access to electricity;
- 40 million in developing countries are HIV positive with little hope of treatment;
- 1 out of 3 workers in parts of Africa will be lost to Aids in the next 15 years;
- 2 billion more people may be added in the next 25-30 years, of which 97% will be born into poverty.

(Taken from Mr. Woicke's speech at SRI in the Rockies, Oct. 9, 2004.)

However, since 2000, the World Bank has been in dialogue with the SRI community and is taking positive steps on a number of issues, including debt reduction for poor countries, the extractive industries sector (oil, gas, mining), and water privatization.

Under Mr. Woicke's pioneering leadership, the IFC has launched a Sustainability Initiative and has increased investments in health, education, energy efficiency, and microenterprise. The IFC has been using positive and negative screens since 1998 (see October Newsletter for discussion on screening) to qualify loans, relying heavily on the processes and procedures developed by SRI funds.

"When we live in a world where half the people live on less than $2 a day, we simply can't afford to let our differences divide us, to allow perfect solutions to be the enemy of good solutions."

One of the IFC's recent successes is the propagation of social and environmental standards for banks who underwrite projects in developing countries. To date, twenty-seven financial institutions that receive money from the IFC, including some of the world's largest such as Citigroup, Bank of America, and ABN-AMRO, have adopted the **Equator Principles**. These banks have agreed not to finance any project that does not comply with the **Principles,** which cover issues such as sustainable development, occupational health and safety, socio-economic impacts, and pollution among others.

According to Mr. Woicke, **$50 billion** in projects each year is underwritten using the **Equator Principles,** which are currently being updated to be even more rigorous.

I share Mr. Woicke's opinion that both our biggest challenge and our biggest opportunity is increasing investments in developing countries. According to Mr. Woicke, the **major growth in the financial markets during the next 50 years will be in these emerging markets.** He also presented some very encouraging statistics regarding the performance of emerging market loans. Yet, as he pointed out, only 1/10 of 1% of SRI's $2 trillion in assets are invested in these countries.

As Mr. Woicke so eloquently put it, "When we live in a world where half the people live on less than $2 a day, we simply can't afford to let our differences divide us, to allow perfect solutions to be the enemy of good solutions." A number of SRI companies are creating good solutions for increased investment in emerging markets. Contact me for details on how these opportunities can be part of your overall investment strategy.

(for more information on the IFC or the World Bank, visit www.ifc.org; or www.worldbank.org.)

Advocacy

As individuals, it's easy to feel powerless in the face of global poverty and environmental degradation. How can we make a difference? Owning shares in funds that invest in communities and do shareholder advocacy is one way. Leveraging our purchasing power as consumers is another. Together, these activities create powerful incentives for change. The following snapshots of the chocolate and coffee industries show how coalitions of shareholders and concerned consumers are working with corporations to help mitigate negative environmental impacts and promote a better life for millions of small farmers in developing countries.

Chocolate Lovers, NGO's, and the Cocoa Industry Address Labor Abuses

Reports of abusive labor practices being used for cocoa production in West Africa prompted a public outcry in Europe and the US. As consumers looked for answers and SRI funds like **Calvert** screened their investments in chocolate-manufacturing companies, the global cocoa industry took action. "Chocolate manufacturers are hearing from students who want to know more about conditions on West African cocoa farms, and what our industry is doing to help farmers," said Lynn Bragg, president of the Chocolate Manufacturers Association.

Vowing to ensure that cocoa is grown responsibly without abusive or forced labor, the chocolate industry supported an unprecedented independent survey of cocoa farms in West Africa, where there are more than a million family cocoa farms. The survey found:

- Poor infrastructure
- HIV/AIDS
- Farm safety issues
- poverty
- Lack of educational opportunities for children

Guided by the survey, the chocolate industry launched a series of pilot programs that focus on improving the economic, social, and environmental conditions that may lead to child labor abuses. These programs are taking place in the Ivory Coast, Cameroon, Ghana, and Nigeria. In partnership with local governments, local agencies, international NGOs, and aid agencies, the chocolate industry is committed to finding community based solutions that include the health, education, and rights of children.

(For more information on these programs, contact the World Cocoa Foundation: www.worldcocoafoundation.org. Reproduced with permission.)

A Double Latte with Your Chocolate?

As the leading coffee retailer in the world and a daily stop for millions of socially conscious consumers, Starbucks is mindful of its reputation. In the last year alone, the coffee chain has launched a series of initiatives that promote conservation and fair trade:

- A $1 million loan to **Calvert Foundation** to support Fair Trade co-ops in Latin America. More than **10,000** small farmers will have access to low interest credit.
- A **Coffee and Farmer Equity Practices** (C.A.F.E. Practices) program that gives farmers **premium prices** for complying with sustainable growing standards;
- The first-ever partially **recycled hot beverage cup** in the industry, which should be in all the US stores by the end of 2005. After two years of collaboration with its supply chain—Solo Cup company and Mead-Westvaco—Starbucks received FDA approval in November 2004. Using cups with 10% recycled content will save more than **five million pounds** of tree fiber per year.

(For more information on Starbucks go to www.starbucks.com. For Calvert, www.calvertfoundation.org. Reproduced with permission.)

ENVIRONMENT

Kyoto Protocol Poses Possible Business Risks

The Kyota Protocol, which mandates deadlines for reducing greenhouse gas emissions (GHG), goes into effect February 16, 2005. Although the US has not signed, US corporations doing business in any of the signatory countries will be affected. Understanding the business risk to its investors, **Calvert** filed shareholder resolutions with four overseas manufacturing companies, requesting that they assess whether they can adopt GHG reduction targets. Two resolutions have been withdrawn after the companies provided the pertinent information.

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PROFILE

From Soap to Nuts: Reinventing Entrepreneurship

Microenterprise: the development of very small businesses that employ less than five people (including unpaid family workers) and are often home based. Seen as one of the most innovative and effective ways to help millions of people move from poverty to self-sufficiency.

On Dec. 2nd, I joined Kathleen and our friend Vanessa Vowe, Program Director for Literacy Volunteers of Greater Waterbury, to hear Jonah Gensler of **Trickle Up Program** describe how a **$700 business grant** can transform lives and revitalize communities.

Based in New York City, Trickle Up's mission is to reduce poverty by helping people at the lowest economic levels start or expand small businesses. By giving basic business training and grants ($100 overseas and $700 in the US) rather than loans, Trickle Up allows entrepreneurs to get started without incurring debt.

Trickle Up started on the island of Dominica in 1979, and has to date given seed money for 129,000 small businesses in 120 countries. The group currently works in 13 countries of Asia, Africa, and Latin America, as well as in the poorest communities here at home. Since launching its US program in 1994, the organization has helped start or expand more than **2,500** businesses in 14 states.

As Program Director for the US, Mr. Gensler shared his experiences of working with entrepreneurs around the country. Stories of dedicated business owners who were able to move out of poverty through hard work, creativity, and some assistance from Trickle Up and their partner agencies, inspired all of us. A few of the businesses he talked about include day care, baked goods, jewelry, pottery, appliance repair, auto detailing, quilts, soaps, and home furnishings.

Trickle Up targets immigrants and refugees, welfare/public assistance recipients, entrepreneurs with disabilities, minorities, and women. According to Mr. Gensler, budding entrepreneurs are usually referred to the program from Trickle Up's Coordinating Partner Agencies—local nonprofits that work in the target communities and provide business training and technical assistance to the entrepreneurs. These agencies help entrepreneurs develop a sound business plan, one of the most important steps in the application process.

Once awarded, the grant is given in two installments. An entrepreneur receives an initial $500 and must agree to work at least 250 hours a month on the business and reinvest at least 20% of profits during the first three months. After submitting a three month report showing success, the entrepreneur receives the final $200.

"God blessed me with these hands and this brain."

Tutankhamun Interior Design

Mr. Dennis Skinner of Tutankhamun Interior Designs and Home Décor developed his business sense as a boy of eight in Harlem, where he sold New York Age newspapers on 125th Street and shined shoes for 35 cents a pair. In 1993, Mr. Skinner started a home-based business in the Bronx, making Afro-centric bedsheets and comforters. He received his Trickle Up grant and business training in 1997, using the seed capital to buy a supply of cotton fabrics imported from West Africa. As a result of his grant, Mr. Skinner has been able to expand his business to include bedsheets, comforters, dust ruffles, throw pillows, window treatments, and bookmarks, all hand made with 100% cotton imported fabrics. He wants to move his business into a storefront in Harlem and sell his goods to the world. Mr. Skinner exemplifies the Trickle Up entrepreneur: self-motivated, enthusiastic, dedicated. As he put it: "God blessed me with these hands and this brain."

For many entrepreneurs, a Trickle Up grant is just the beginning. After establishing a successful track record, an entrepreneur is often eligible for a microloan from a bank or CDFI (community development financial institution). After that, traditional bank or SBA loans can provide additional capital to help the entrepreneur expand even further.

Trickle Up and other CDFIs work throughout the world to help the poorest of the poor. And according to the US State Department, microenterprise loans typically show repayment rates exceeding 95% (usinfo.state.gov). You can support microenterprise by investing in SRI mutual funds that invest a percentage of assets in community development, or by investing directly in CDFIs and other nonprofits like Trickle Up and the Calvert Foundation.

(Mr. Skinner can be contacted at kingtut291@aol.com. For more information about Trickle Up visit www.trickleup.org. For information on Calvert Foundation visit www.calvertfoundation.org. For more information on microenterprise and a list of organizations near you, visit www.microenterpriseworks.org. Reproduced with permission.)

Research

Strong Financial Performance Linked with Corporate Social Performance

"Can business meet new social, environmental, and financial expectations and still win?" This is the question Marc Orlizky, of UNSW and University Sydney, Australia; and Frank L. Schmidt and Sarah L. Rynes, of the University of Iowa set out to answer in their ground-breaking study. Their meta-analysis of **52 studies** spanning 30 years of quantitative studies in the field of socially responsible investing won the **2004 Moscowitz Prize** for outstanding SRI research. I'm happy to announce that their findings show a positive relationship between corporate social responsibility and financial performance:

- The link is significant and varies from **highly positive to moderately positive**.
- The positive findings hold true across industries.

This study provides a major validation of the SRI community's core investment philosophy--that being a good citizen is good for business.

The performance information shown represents past performance and is not a guarantee of future results.

(The report can be found at www.sif.org. Reproduced with permission.)