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Disinvestment and philanthropy,

performance versus ethics?

"of moralists and mercenaries"

Jenny Harrow, CGAP@ Cass

the case for – and against – divestment of certain assets held in philanthropic foundations' endowments confronts a central paradox within philanthropy -

- *that opportunities to 'do good' (especially large scale) may be enabled through (large scale) financial rewards from socially, politically or ecologically unacceptable, even 'bad', business investments*

"first do no harm" - requires understanding, reflecting, justifying......

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paradox as the underlying conceptual frame

"contradictory yet inter-related elements that exist simultaneously and persist over time"

distinct from 'dilemmas', as '"competing choices, each with advantages and disadvantages"

that only broaden into paradox when the choices are temporary and tensions resurface

(Smith and Lewis, 201)

The question for this paper is how, in the light of the tensions of disinvestment trends, can philanthropy's integrity be best protected?

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- **state of the disinvestment pressures facing philanthropy – 'the pledge' question, media commentary**
- **complexities for philanthropy of the divestment-investment case as it affects particular regions and societies**
- **considerations for philanthropy's reach and performance, as a function of its investment-derived resources**

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The dance of disinvestment (Hebb et al 2015)

three alternatives when facing unethical investments:

- avoiding investment in certain industries because of their innate characteristics
- avoiding investment in firms which violate norms which the investor wants to uphold
- engage with companies, directly or indirectly, to make them change their product line or their conduct (Nystuen at al, 2011)
- A fourth – disregarding or rejecting objectionable characteristics of a firm when making investment decisions

  - the "firewall foundation" (Roth Tran 2015)

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the importance attached to being *seen* to take part in the dance , and to publicise one's dance moves, continues to grow

In 2004, Wander and Malone examined US medical schools' "silent divestment (which) squanders opportunities for ethical leadership and public dialogue"

By April 2015 The School of African and Oriental Studies ' press release announcing its fossil –fuel divestment in the next three years ("the first in London to fully divest") , with comment that

"Universities that continue to say no to divestment are eroding their legitimacy to teach about sustainability"

The fossil-free focus in disinvestment

Globally, disinvestment considerations focus overwhelmingly on divestment from fossil fuels to accelerate the just transition to a clean-energy economy

'Divest-Invest' - a range of strategies to shame, pressure, facilitate, and encourage investors in general, and large institutional investors in particular, to relinquish their holdings of fossil fuel stocks in favour of climate-friendly alternatives : "a novel form of private investor-targeted climate change governance,operating primarily through symbolic political action and as a norm entrepreneur." (Ayling & Gunningham,2015)

The Divest –Invest Philanthropy Pledge

We are foundations divesting from fossil fuels and switching to clean energy investments, joining college, health, pension funds and religious endowments doing the same. Ethically, our investments shouldn't contribute to dangerous climate change. Financially, fossil fuel stocks are over-valued as most of their reserves cannot be burned. We can get good, safe returns while helping to build a new energy system. In the next five years, we will:

1)Stop any new investments in the top 200 fossil fuel companies.
2) Drop coal, oil and gas from our investment portfolio by divesting from the top 200 fossil fuel companies.
3) Invest at least 5 percent of our portfolio into climate solutions defined as renewable energy, energy efficiency, clean technology and clean energy access.

November 2015

D-I Philanthropy : 108 signatory foundations
Europeans for Divest-Invest :24 signatories,

total assets divested by sub- sector ($50billion) at Jan 2014
(source Arabella Advisors,2014)

, 2014	48%
Educational Institutions	38%
Philanthropic foundations	8%
Faith-based organisations	2%
Individuals	2%
NGOs	1%
Health-care institutions	1%

It has not exactly swept through philanthropy….

Rick Cohen (2014), remarks of the signatory, the Rockefeller Brothers Fund

"getting a foundation established by the founder of Standard Oil to plan an investment future free of fossil fuels reflects an important achievement within philanthropy" ; but news coverage typically confuses

the Rockefeller Brothers Fund, - $871million in assets with

the Rockefeller Foundation - $3.696 billion in assets……..

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Peer pressure or public pressure?

Peer pressure – JRCT in Trust and Foundation news (Turpin 2014)

" *Those of us who have already signed up to the Divest Invest Philanthropy pledge would be delighted for you to join us on our journey"*

Media pressure –The *Guardian*'s 'Keep It in the Ground' campaign, urging "the world's two biggest charitable funds (Gates and Wellcome) to move their money out of fossil fuels"

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"….***branding coal a pariah while honoring the local culture and traditions of coal-mining communities is a tight rope to walk "***

The Croatan Institute research on a Just Transition for Appalachia (Humphreys et al 2014) highlights the reinvestment challenges and obstacles

" Many of the foundations are constrained from making place-based investment in Appalachia because they focus community investment in their targeted grantmaking geographies"

and anyway, does community investment 'count'?

“…community foundations were repeatedly cited as “natural” allies in this endeavour ….However, community foundations, particularly those in the region, seem to have little interest in divestment from fossil fuels.

This is due not only to dynamics and dilemmas associated with the decline of coal……

but also to the simple fact that community foundations invest on behalf of a diverse community of donors who rarely have convergent views on such a sensitive, politicized issue as fossil-fuel divestment.”

The moral divesters within formal philanthropy are so far (as far as we know) - rather than being a truly' dark side' of philanthropy which can be subject to 'enlightenment', ***the divestment equivalent of 'Fifty Shades of Grey'*** ***begins to appear.***

Judgments over the nature of the fossil fuel disinvestment pledge are further complicated by questions of timescale, and its integral pro 'clean energy' remit, which may not only produce lesser yields but make a barrier for other investment directions, most notably in the disinvested' communities.

Is philanthropy is right to look, ultimately, to income maximisation, and is this any less 'the dark side'? Can we have 'moral mercenaries'?

The evidence of formal philanthropy's increasing levels of grantmaking, above recent growth of their assets, suggests at the very least, moral and mercenary behaviour in fine balance.

Pharoah et al report that among the leading 300 foundations in the UK:

"Two years of consistent growth in foundations' asset value have seen a healthy hike in grant-making of 6.4% for this year's Top 300, still outstripping overall income growth of 3.6%". (Pharoah et al, 2015, 5).

The question for this paper is how, in the light of the tensions of disinvestment trends, can philanthropy's integrity be best protected? - By recognising the nature of the paradoxes they pose?

Smith and Lewis (2011) four paradox forms:

learning (concerning knowledge),

belonging (concerning identity and interpersonal relations)

organising (concerning processes) and

performing (concerning goals)

Over the longer term, the core area of paradox centres on that of *performance –and* who judges foundations' performance?

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