DIVEST-INVEST: THE POWER AND RISKS OF FINANCE FOR SOCIAL CHANGE

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INTRODUCTION

The use of finance as a tool for social change is growing. In an era characterised by the unprecedented power of corporations, diminished government capacities and the privatisation of natural resources and basic social services, finance is increasingly an activist's target. Put simply, finance can be used to direct capital away from industries and companies implicated in human rights abuses and environmental damage and towards innovative solutions to the world's most pressing problems.

Institutional investors are increasingly pressured to withdraw from companies driving the climate crisis, benefitting from the Israeli occupation of Palestinian territories, privatising prisons or selling weapons, to name a few. When bolstered by a strong social movement base, divestment can have profound political and economic impact, stripping companies of their social licence, pressuring them to alter business practices and starving them of access to capital needed for growth. When industry power and practices are changed, it can in turn shift the space in which governments set policies, free of economic pressure. Yet, like government-imposed economic sanctions, divestment is a bold and blunt tool that can also have potentially negative impacts for workers and their communities.

Conversely, investments that deliver a social benefit

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can meet needs left by gaps in government funding, build new enterprises that benefit those with the least access to capital, or even offer sustainable sources of funding for civil society organisations (CSOs). 'Impact investing' is increasingly cited by private donors, philanthropists and other mission-driven investors as the newest tool to address basic human needs and pressing global problems. Increasingly it is seen as a major tool to aid in delivering on the Sustainable Development Goals (SDGs), supplementing governmental and international aid.

CSOs across the world are scrambling to direct impact investments to maximise community participation and benefits, fill the gap left by shortfalls in government funding, or meet exploding social needs. They must quickly work to ensure that good intentions don't lead to bad results, such as when communities are not partners in social investment programmes, the demands for return are distortive or exploitative, or long-term investments in human capital are ignored. As a powerful new trend, it is essential that CSOs understand the promise and the risks associated with impact investing and social finance activism.

This contribution to the 2017 State of Civil Society Report takes a look at the exploding movement that is calling for divestment from fossil fuels and reinvestment in climate solutions as an example of finance activism.[2] In a very short period, the movement has built an unprecedented global grassroots base targeting one of the world's most powerful industries, challenging its moral status and rogue business model in a climate-constrained world. Under activist pressure, investors with assets of over US$5 trillion have committed to divest from fossil fuels. Increasingly the movement has called on investors to speed up the energy transition, by leveraging resources to build a clean energy economy that stabilises the climate and unleashes new, ideally locally-owned, economic opportunities, while meeting the needs of the more than a billion people in the world today without access to energy. Finance is seen as a crucial tool to weaken the power of those blocking progress and simultaneously to scale up solutions.

DIVEST INVEST: FINANCE AS A GRASSROOTS LEVER FOR COMBATTING CLIMATE CHANGE

On 28 April 2016, over 140 foundations, family offices and charities representing a coalition called Divest-Invest Philanthropy were awarded the CIVICUS 2016 Nelson Mandela-Graça Machel Innovation Award for Brave Philanthropy. Representing over US$12 billion in assets, these funders from around the world pledged to divest from fossil fuels and invest in climate solutions.

This coalition of funders argued that the wall between philanthropic investments and grant-making was not acceptable

[2] Portions of this article previously appeared in 'The Climate: Active Transition or Change Inflicted?', Passerelle, July 2015, http://bit.ly/2q8LbOg.

in a time of climate change that threatens the mission of virtually every foundation. Climate is a cross-cutting issue that amplifies nearly every global challenge, fanning the flames of war, driving refugees and intensifying hunger, drought and poverty. In turn, resources for the arts, culture and education will likely be diminished as governments scramble to address the costs imposed by the climate crisis. Philanthropic bodies faced a fundamental challenge of whether their investments were contributing to the problem that grantee organisations were asked to solve. Conversely, there was a need to ask whether money was being left on the table that instead could be used to accelerate the solutions? The foundations that joined the movement took public steps to align their investments with their mission.

More significantly, these funders were being responsive to the demands of a social movement. Divest-Invest Philanthropy was launched to support the global grassroots movement that calls on churches, city governments, universities, pension funds, insurers and other institutional investors to divest assets from fossil fuels and instead invest in the future.

Born on university campuses in the USA, the movement exploded globally. Before it began, hopes for a solution to climate change were at a 20-year low, the economic and political challenges too daunting to produce international agreement. The United Nations (UN) climate conference held in Copenhagen in 2009 ended without a meaningful agreement and efforts to pass a comprehensive climate bill collapsed in the US Senate in 2010. The combination of setbacks left a demoralised climate advocacy community adrift in its wake.

Philanthropy poured tens of millions of dollars into promoting settled science, and millions more into communicating that science. Additional millions were spent to pass comprehensive policy in the USA and other key countries. And youth activists were encouraged to lobby for public policy *du jour* over campus-based action. Each step of the way, civil society and philanthropic resources were eclipsed by those poured into climate denial and lobbying by the fossil fuel sector.

Climate advocacy needed a new way forward, beyond policy debates and backroom negotiations by politicians and corporations. It was at that moment of profound reassessment that the divestment movement was born. Finance was its tool.

Taking a play from the anti-apartheid movement, students began to call for universities to divest from fossil fuels. During the apartheid era in South Africa, when governments refused to impose economic sanctions on the regime for its human rights abuses, faith leaders and students shifted the target to the companies that were directly invested in the country. Those companies had lobbied successfully against government sanctions, but activists found a new vulnerability. They began calling on institutional investors, particularly universities, to divest their assets from companies doing business with the apartheid regime. Archbishop Desmond Tutu credits this divestment campaign as one of the key tactics that helped to bring down apartheid and usher in a new day for South Africans.

Students looking for a way to break the impasse on climate change saw a parallel with today's influence of the fossil fuel industry. What if they established a new social norm that it was not permissible to profit from an industry wrecking the planet? What if they made fossil fuels toxic in the public eye and, in turn, weakened the industry's grip over government?

In 2011, the first divestment campaigns began on college campuses. Students demanded that their college endowments divest from coal as the most significant energy source driving climate change. While their call was primarily based on the moral argument that institutions of higher learning should not be supporting or profiting from industries that undercut the climate, the economic logic was also powerful. Coal had been in a state of steady decline over the past half decade. By the end of the year, there were several dozen active coal divestment campaigns across the country.

These vigorous initial campaigns were given an enormous lift when Bill McKibben published the historic article, 'Global Warming's Terrifying New Math' in Rolling Stone magazine, calling for full fossil fuel divestment on college campuses, and linking an ethical call to action with the financial risks of stranded assets laid out by the Carbon Tracker Initiative. Mapping the world's coal, oil and gas reserves against the global carbon budget the world could not surpass if the increase in global temperatures is to be kept below two degrees Celsius, Carbon Tracker's analysis exposed the risks that fossil fuel asset values are inflated. They concluded that roughly 80 per cent of the known reserves must remain in the ground if we are to preserve a hospitable – and even habitable – planet. These massive reserves of coal, oil and gas were effectively what the finance lexicon calls 'stranded assets': their full economic potential could not be realised. Either they would be stranded, or we would. It followed that institutional investors had hidden climate risks in their portfolios.

An enormously successful US tour, 'Do the Math', followed, calling on student groups around the country to organise and demand change from their college administrators. A fire was lit, moving from dozens of schools to hundreds overnight, and from the USA to Europe, Australia and beyond. And it spread to other sectors, as community-based activists called on faith groups, cities, pensions funds and retirement accounts to divest.

Divestment as a tactic provided an on-ramp for activism that engaged individuals frustrated by states' failures to enact meaningful policy. They could use their leverage over institutional power to target the industry that was blocking progress. The theory of change behind divestment was compelling and motivated action. First, the ethical call for divestment revokes the fossil fuel industry's social licence to operate and cracks open a debate on its precarious and volatile business model. Second, by calling for both divestment and investment, institutional investors shift capital flows away from the problem and accelerate the transition to a future fuelled by sun, wind and water. Third, and most significantly, by activating campuses, congregations and community leaders, a broader-based constituency for action on climate action is

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being built, to embolden politicians and governments to act with increased ambition for real policy solutions. People power challenges the influence of the most powerful industry on earth by targeting its investors and significantly weakening its hold over governments, all while showing the way to a future based on safe and clean alternatives.

But could it work? The ethical case was simple: non-profit institutions such as universities, foundations, faith groups and hospitals should not profit from businesses that demonstrably and irrevocably harm the public good. Trustees were suddenly on the defensive, called on to respond to ethical concerns.

Financial arguments bolstered the ethical. Fossil investments were volatile in the short term and potentially very risky in the long term. The argument for financial risks strengthened as coal values plummeted, followed by volatility in oil prices. Portfolio managers were presented with compelling evidence of a carbon bubble that will burst when markets internalise climate risk. Increasingly the finance sector took notice and began debating stranded asset risks, first at the Davos World Economic Forum, and then in the halls of the Bank of England. Risk concerns moved quickly into the mainstream, driving some financial agencies to warn that prudent investors should apply a climate filter to their investment portfolios immediately. As a 2015 report by business consulting firm Mercer states, "climate change ... will inevitably have an impact on investment returns."

As financial concerns began to align with ethical considerations, divestment commitments started racking up. First a few universities took action, followed by faith groups. Municipalities, cities and states began to pass legislation calling for divestment. Hospital endowments began to look at climate-related health risks and their own fossil fuel investments.

The movement's progress was first chronicled in a report released in September 2014, as 400,000 people marched in New York demanding action in advance of a UN meeting on climate change. The report documented that, in just three years, more than 800 endowments and individuals, managing assets totalling over US$50 billion, had made divestment commitments. Alongside the release of the report, several iconic commitments were announced, including by the World Council of Churches, a prominent Catholic University and over 50 foundations. However, one historic announcement shot across the front pages of global news outlets: the Rockefeller Brothers Fund, heir to the Standard Oil Fortune, was divesting from fossil fuels and investing in the clean energy economy.

Since that time, pension funds from Australia to Norway, large public universities in the USA, prominent private institutions in Europe, insurance companies and banks, and faith groups ranging from Catholic orders to Muslim associations have committed to divest. As of December 2016, almost 700 institutions had committed to some form of fossil divestment and 60,000 individual investors across 76 countries had committed to divest. These entities collectively hold over US$5.2 trillion in assets under management – and the numbers continue to rise.

The market has also responded. 'Fossil-free' products are appearing rapidly, bolstered by research that shows that fossil-free portfolios are yielding positive, competitive and even superior returns. Analysis in April 2015 showed that fossil-free stock portfolios have outperformed standard portfolios every year for the past five years. Many of the foundations awarded the CIVICUS Brave Philanthropy prize are tracking the impact on their portfolios with publicly available data. The financial results, including those of the Wallace Global Fund, have been very positive.

LEVERAGING FINANCE TO ACHIEVE POLITICAL AND FINANCIAL GOALS

Few predicted that a movement begun by a group of youth activist leaders, armed with powerful ethical and financial arguments, would in the course of five years become one of the true game-changers for environmental and social change in recent history. Divestment alone will not solve the climate problem. Nor will investments in climate solutions by a few thousand investors be sufficient to scale renewables and decarbonise the economy. Its proponents do not make that claim. It is a historic and massively complex endeavour to end the fossil fuel era, transform the energy base of the global economy and provide access to safe and clean energy for the world's majority.

However, a movement using social finance as its tool is having several significant impacts that make the energy transition more viable. First, it has changed the fundamental debate about fossil fuels, shifting the burden onto industry to explain how it is managing climate risks. The movement has exposed weaknesses in the business model of the fossil fuel sector, as well as problems with how its value is measured, exposing real risks to investors. Additionally, the curtain is being pulled back on the hundreds of billions of dollars still being spent by the industry in search of new sources of fossil energy, both more extreme and more costly, which add further to reserves that can never be burned. Bank lending to the companies is also being challenged. Taken together, the scrutiny is heightening calls for the leading fossil fuel companies to tender plans to keep their business models consistent with a below two degree Celsius temperature rise, whether through managed decline or a fundamental transformation of their business models. This is something that was unimaginable a few years back.

Second, divestment heightened pressure on governments to reach a global agreement on climate. The global divest-invest movement was cited by Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), as a primary driver of success at the climate talks held in Paris in December 2015. Now, grassroots pressure is increasing on governments to deliver quickly and completely on commitments they made in the Paris Agreement. Even when faced with recalcitrant governments, divestment pressure remains steadfast today. Most notably, the recent US election has emboldened activists there to double down on their divestment pressure. Private investors can be the force for change, even if the US government fails to honour its Paris commitments.

Third, the movement is engaging sectors that have largely been on the sidelines in climate advocacy in previous decades, including faith, healthcare and finance. It is building a new, expanded and more diverse constituency for climate action than has existed to date. This is a savvy constituency, now fluent in not only the science and impacts of climate change, but also in energy and finance markets. The movement is also developing a cadre of new leaders that will carry their skills and commitment forward.

Finally, the call to invest in climate solutions is stimulating demand for new 'clean' investment products, helping to capitalise and accelerate the energy transition, create alternative economic opportunities for extractive communities and their workers, and scale up off-grid, decentralised power in rural areas lacking access to energy.

IMPACT INVESTING: SOCIAL RETURNS AND RISKS

As an outgrowth of the divestment movement, a new campaign was recently launched calling on faith groups and foundations, in partnership with CSOs, to invest in safe and clean energy access for the over one billion people living without it today. Together, mission-driven impact investors aim to deploy capital to address energy poverty, environmental justice and climate impacts together.

The goal is audacious: civil society partners will work collaboratively to deploy social finance to achieve universal energy access by 2030, consistent with SDG 7. Mission-driven investors are asked to devote a percentage of their assets, as a blend of programme resources and investments, to meet the needs of the 'last mile first', scaling off-grid, decentralised renewable energy for the hardest to reach populations. Recognising that the lion's share of government funds and international finance will flow to large-scale renewables first, this coalition seeks to direct capital from private, mission-driven investors to address the financing gap.

This campaign is one of many new efforts to use social finance to address social problems. The field is exploding, as documented by the leading global CSO supporting the field, the Global Impact Investing Network. Its members reported that a total of US$77.4 billion was managed in 'impact' investments in 2015. In the USA alone, the Forum for Sustainable and Responsible Investment (USSIF) estimated that the market size of sustainable, responsible and impact investing in 2016 was US$8.72 trillion, or one-fifth of all investment under professional management. The World Economic Forum cites that there is a growing trend that the majority of wealthy millennials seek social objectives alongside financial returns.

Driven by philanthropists, faith groups and other mission-driven investors, a lot of money is flowing into something called impact investing and a lot more is poised to flow. Such funding raises very fundamental questions: are all impact investments the same? How is social benefit measured and by whom? Is it measured by the investors or the beneficiaries?

There are many other key questions: can social finance deliver the solutions to development challenges that the market helped create? Is impact investing by mission-driven investors a feasible way to help achieve the SDGs, to supplement or guide the investments by governments and international lenders? How do CSOs, including international CSOs and social movements, ensure that capital reaches communities, and enable communities to participate in the design of programmes and own the benefits? Can mission-driven investors counter the power and influence of the profit-seeking private sector, build new models of ownership and build solutions to scale, while generating an adequate return?

Many development organisations are now grappling with these questions and more. As traditional development assistance dries up, does impact investing offer a promised land of new resources? How can international CSOs assist communities in directing impact investment capital appropriately? Most CSOs have neither the experience in innovative finance nor the basic capacity to develop it. Yet the money is flowing, whether to address energy access needs, seed sustainable and productive enterprises, build new models of healthcare for low income communities or lift women out of poverty through new models of microfinance.

CONCLUSION

In this increasingly financialised world, asset activism is likely to be an enduring trend. CSOs and social movements will look at private finance as both a target of and tool for social change, calling for divestment in some cases and investment in others. The power over how private money is invested will be challenged, both to limit the abuses and destructive impacts of corporations, and to scale solutions to global problems. The success of the global fossil fuel divestment movement in galvanising new activism and bypassing government inertia to target industries for social change is a positive example and will inspire parallel efforts.

However, the challenges for successful action by civil society are many. Financial flows are not transparent, obfuscated by complex investment vehicles, and with little required reporting on ownership. Even if the owners of assets can be identified, there is a real need for financial literacy training for advocates, to identify opportunities, points of weakness and advocacy vulnerabilities.

The power of social investing as a tool to solve problems is equally complex. Impact investments are typically driven by the investors and donors, rather than the communities themselves. Well-meaning impact investors can diffuse capital across many issues and geographies, while failing to build capacity on the ground or design for scalability to reach transformative impact.

The power of private finance as a tool for social change requires greater study by CSOs. Key questions include those of how private finance can be used in environmental and human rights struggles most effectively, and under what conditions, and which industries are most vulnerable to pressure. What degree of alignment between ethical and financial arguments are necessary to build support for investor action and how much activism can the system bear before investors say, enough: too many activist campaigns make it impossible to invest at all?

IN THIS INCREASINGLY FINANCIALISED WORLD, ASSET ACTIVISM IS LIKELY TO BE AN ENDURING TREND

The impact investing trend also requires advocacy by civil society. Principles need to be set about community involvement, the measurement of impact and acceptable rates of return for investors that are not exploitative of communities. Mission-driven investors must be challenged to build capacity in communities to direct capital and sustain enterprises for the benefit of the community. Investments should not come at the expense of grants or aid programmes. As a matter of urgency, CIVICUS and other CSOs need to use their collective advocacy voice to shape the impact investing voice, lifting up the voice of recipients and beneficiaries while the field is still nascent.

Are the potential social returns worth the risks for civil society? The answer is not obvious. Despite all of the complexities and challenges for civil society, private finance in all of its forms is a necessary target for social change and, in some case, even an opportunity. But one thing is certain: if we don’t shape it, it will shape us.