

Socially responsible funds:

# Human rights and investment

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■ A powerful force for change is quietly reshaping and uplifting the practices of multinational corporations in the 1990s. A growing number of shareholders in the US are demanding that businesses both at home and abroad place as high a priority on people as they do on profits. This approach is often referred to as 'socially responsible investing' (SRI) in the US or as ethical investing in Europe.

Socially responsible investors embrace the concept of the *double bottom line*. Like other investors, these shareholders look at the past performance of a company, its current balance sheet and prospects for the future. But their analysis takes in a second, more qualitative and equally important set of considerations. Socially responsible investors hold that a primary objective of every corporation should be to enhance the wealth of all stakeholders – not just the company's shareholders, but also its employees, customers, vendors, the community and the natural environment. In practice, SRI means that individuals 'vote with their pocketbooks' in support of those companies generating sound financial returns while making positive contributions to society by the way they operate the business.

The typical socially responsible investor has neither the time nor the expertise to determine which companies are engaging in business practices reflecting a concern for human rights and other key social issues. Most of these individuals turn for help to what are known in the US as 'investment companies', which rely upon the professional expertise of expert managers to identify and take advantage of investment opportunities in dozens or even hundreds of companies at the same time. Rather than buying stock directly in individual corporations, these investors often buy shares in 'mutual funds' organized by the investment companies.

Socially responsible mutual funds focus on a wide array of issues, with some funds imposing more stringent or more extensive criteria than others. In general, these 'screens' result in the seeking out of publicly traded companies with progressive management/labour relations, records of promoting women and minorities to senior level positions, environmental responsibility and leadership in community involvement. At the same time, many socially

screened mutual funds avoid companies involved in the manufacture or promotion of weapons systems, nuclear power, tobacco, alcohol and gambling.

Perhaps the best way to develop an understanding of the phenomenon of socially responsible investing in the US and its implications for human rights on a global basis is to examine how SRI works in specific instances. The Calvert Social Investment Fund (CSIF) has over \$800 million in assets and offers rigorous social screens. CSIF strives to make the world a better place while delivering a competitive rate of return for investors.

Since 1990, a small portion of CSIF assets has been devoted to 'high social impact' investments. The Fund's trustees have defined high social impact investments as those that may involve somewhat lower rates of return, but have the potential to make a tremendous difference in people's lives at the local level. For example, Calvert works with *Acción Internacional* to combat poverty in South and Central America by providing small loans to tiny family-run businesses in various stages of market operations.

A typical case is that of *Ismael Jiménez Herdiá*, the operator of a small cheese-making plant in the Dominican Republic. Faced with rising milk prices, Jiménez lost his house and was forced to relocate his business to a smaller location. With *Acción's* support, he was able to rebuild his faltering business, buy back his house, buy a small farm and send his children to university. Today his cheese factory is thriving and supports four paid employees. The American Chamber of Commerce in the Dominican Republic recently recognized *Ismael Jiménez Herdiá* for his hard work and success.

Closer to Calvert's base of operations in the US is *Manna, Inc.*, a non-profit housing developer in the Washington DC area that promotes home ownership and skills development. *Manna* organizes construction crews that include local people, many of whom are homeless. *Manna* also provides vocational training for low-income workers to aid them in becoming productive members of society.

The CSIF Money Market Portfolio buys US-insured \$100,000 certificates of deposit (CDs) from banks that are owned or involved in communities in which the Fund's investments can make a major difference. In early 1993, CSIF invested in a CD at *First Community Bank*, a 'bank within a bank' at the *Bank of Boston* in the state of Massachusetts. With 15 inner city neighbourhood branches and a community lending programme serving three New England states, *First Community* directs the substantial financial resources of its parent company to address the needs of inner city

The fear and suffering of people in the cities, battlefields, forests and plains have reverberated through the conference rooms of the world's nations. Fortunately there was a response 45 years ago in the form of the Universal Declaration of Human Rights. Since then, more than 40 international treaties have been adopted to protect and promote human rights. We have seen joint endeavours by many institutions and organizations which have turned these treaties into reality. One of the most important tasks of our generation is to enhance and extend respect for human rights and fundamental freedoms.

**H.E. Rinaldo Ronald Venetiaan**  
President  
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**Socially responsible investment considers not just profits but employees, customers, vendors, the community and the natural environment**

neighbourhoods. Elsewhere around the US, the CSIF Portfolio has purchased CDs in Los Angeles from three African-American-owned banks – all operating in portions of that city hit hardest by the destructive rioting of 1992.

The Calvert World Values Fund (CWVF) elevates the SRI approach to a new, global level. While its criteria emphasize several important issues, the fostering of human rights is a key objective of CWVF. In fact, the Fund operates on the explicit assumption that respect for cultural diversity, citizen participation and individual human rights are primary concerns for socially responsible investors seeking healthy returns while encouraging positive social change outside the US. Under this approach, corporations are encouraged to be responsible to the public and to encourage a participatory society. To further these aims, the expert managers responsible for CWVF screen corporate track records on human rights, labour relations and health care issues among others.

Beyond Calvert's own experience, there are many emerging opportunities today for socially responsible investors around the globe and in the US.

Until recently, many SRI funds shunned companies headquartered or otherwise operating in South Africa. On 24 September 1993, Nelson Mandela, representing the African National Congress, addressed the UN and called for the lifting of international sanctions penalizing Cape Town for its apartheid policies. In response, leaders in the US social investment field joined forces to simultaneously announce the removal of their restrictions on South African investments.

However, the current unsettled situation in South Africa means that socially responsible

investors and corporations will have to proceed with caution. SRI funds are urging companies to follow the Code of Conduct developed by the South African Council of Churches in collaboration with a wide range of labour and political organizations, business leaders and academics. The Code calls for: equal employment opportunity and affirmative action; training and education of workers; workers' rights; safe and clean working and living conditions; job creation and security; consumer protection; environmental protection; and the empowerment of black-owned business. These and other principles are likely eventually to find their way into law in South Africa. In the meantime, SRI funds will be closely monitoring companies' behaviour as they return to South Africa.

While efforts to shun investment in South Africa (and companies from other nations doing business there) spanned many decades, it went well beyond SRI funds. Avoidance of investments in South Africa was practised by hundreds of US pension funds, universities, government units, religious organizations and many other interests. In fact, the formal and informal emphasis on socially responsible investing in relation to South Africa is recognized as having played an important role in accelerating the demise of apartheid.

But change in South Africa will not happen overnight and it will not take place entirely at the national level. Consequently, the CSIF has joined in partnership with Opportunity International to extend opportunities to black-owned businesses in South Africa in need of seed capital and job training skills. Opportunity's South African arm is called the Izibuko Foundation and is locally staffed. (*Izibuko* is a Zulu term that may be rendered in English as 'bridge-building'.) In addition to grassroots loans ranging from \$50 to \$10,000, the Foundation will provide existing and new black business operators with training in accounting, marketing and management.

US multinational companies are viewed by SRI fund managers using the same criteria abroad as they are in the US. While companies are subject under US securities laws to certain disclosure requirements, these reporting rules are often considerably less stringent for publicly traded companies in other nations. Additionally, American companies with operations in other parts of the world are not required to report their activities in detail. Many US companies today are operating in China, Asia and the *Maquiladoras* in Mexico with lower-wage labour and lax environmental standards.

SRI funds with stringent criteria in the area of human rights actively seek out companies

In the last few years, dictatorial regimes all over the world have collapsed and the international community of democratic nations has acquired new and ambitious member states. This is a very important leap forward in the struggle to achieve global respect for human rights. Freedom and democracy have once again proved to be ideals of global attraction. However, there have also been tragic setbacks, not least because of the rebirth of violent nationalism. Therefore, it is of crucial importance that the outcome of the Vienna Conference proves to be the reaffirmation of respect for human rights as an issue at the top of the international agenda.

**The Rt. Hon. Carl Bildt**  
Prime Minister  
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that are making serious efforts to promote human rights at home and abroad. This may take the form of developing policies and programmes that follow higher standards than those required in host countries or adopting explicit human rights principles to guide their international operations.

Companies that would not be acceptable to most SRI funds are those that engage in some or all of the following: aiding the repressive activities of governments; use of forced labour; practices with harmful environmental consequences (such as deforestation); engaging in graft or bribery (whether culturally accepted or not); and failure to comply with local regulations governing employment, pollution and other important matters.

One company well-known for its positive reform efforts in the area of human rights around the globe is Levi-Strauss. The company has implemented guidelines requiring suppliers and company operations in developing countries to adhere to minimum labour standards. These corrective steps came, in part, in response to labour union charges that Levi-Strauss relied upon overseas suppliers that violated labour laws. During the 1980s, Levi's moved a large segment of its operations overseas, resulting in US factory closures and increased use of contractors located in developing countries.

In 1992, Levi-Strauss voluntarily imposed guidelines establishing minimum workplace and human rights standards for all of its overseas operations and contractors. The company conducted inspections at each of its 600 suppliers worldwide. Consequently, Levi's dropped 30 contractors and demanded improvements on the part of another 120 of

its suppliers.

Reebok is another example of a company making a meaningful difference in human rights around the world. Committed to raising awareness of human rights, it has been active in public education. In 1988, Reebok gave \$10 million to sponsor the Amnesty International Human Rights Now! concerts. Artists such as Peter Gabriel and Sting toured countries in Western Europe, North America and South America. Reebok also established the annual Reebok Human Rights Award to recognize activists who have advanced human rights around the world.

As a company, Reebok practises what it preaches. The company has developed Human Rights Production Standards which are applied to its overseas contractors. This code specifies what the business expects from its contractors, including: no use of prison or child labour; fair working hours; and safe working conditions. Reebok explicitly reserves the right to monitor and review the facilities to ensure that each contractor is complying and meeting standards.

In the US shareholders of public companies have an opportunity each year at annual stockholder meetings to express their views on important issues. Reflecting its desire to promote diversity, CSIF has withheld support for slates of directors that do not include both women and minorities.

As the world moves ever closer to becoming a truly integrated global economy, human rights and the other key aspects of the behaviour of companies are likely to take on increased importance for more and more investors who will demand just as much emphasis on people as on profits.

**Socially responsible  
companies specify that  
contractors should not  
use child labour**

