



CHRISTIAN:

EKD: GUIDELINE FOR ETHICALLY-SUSTAINABLE INVESTMENT IN THE GERMAN PROTESTANT CHURCH

The Evangelical Church in Germany (EKD) – Evangelische Kirche in Deutschland – is the umbrella organisation of 20 Lutheran, Reformed and United regional Churches in Germany. German Protestant church structures are based on federal principles at all levels. The EKD has 23 million members, representing nearly 28% of Christians in the population.

People entrust their money to the Church to facilitate the work it carries out. The Protestant Church thus considers its management of church funds as a responsibility before God and the people. This applies to all financial transactions of the Church, and in particular to financial investments. Commissioned by the Council of the Evangelical Church in Germany (EKD), the Working Group of Church Investors in the German Protestant Church (AKI) have developed a 56-page Guideline for Ethically-Sustainable Investment in the German Protestant Church, designed for church and institutional investors, and also to help private users. In 2016 the AKI issued a third edition, in which positive criteria for government bonds and derivatives were added to existing sections on positive criteria for companies, countries, microfinance, real estate, commodity, agricultural investments, and notes on active shareholder engagement. In 2017 it added chapters on Climate strategies and Green bonds.

The Christian basis for choosing investments

Martin Luther reminds us in his Small Catechism of 1529 to love and trust in

God and to do good according to his commandments. In his explanation of the seventh commandment, Luther elaborates: “We should fear and love God that we may not take our neighbour’s money or property, nor get them by false ware or dealing, but help him to improve and protect his property and business [that his means are preserved and his condition is improved].”

In the Leuenberg Agreement of 1973, agreed by members of the Community of Protestant Churches in Europe it specifically says: “They [the Christians] know that God’s will, as demand and gift, embraces the whole world. They stand up for justice and peace on earth between individuals and nations. In consequence, they must join with other people in seeking appropriate rational criteria and play their part in applying these criteria.”

In line with this agreement, church activities in the field of investments should accord with God’s Commandments and the Church’s Mission, not contradict them. The Church’s Mission consists in the proclamation of the gospel, socially responsible actions (in terms of Diaconia), and in the commitment to peace, justice, and the assumption of responsibility for the integrity of creation for this world. Being a Protestant Christian also entails the freedom of conscious choice in view of one’s own responsibility before God and man.

Investment objectives may be complementary, neutral, or may compete with each other. When investment objectives are complementary, the measures to attain one objective can also benefit the pursuit of other objectives. When the measures to obtain one objective have a negative impact on the pursuit of another, these objectives are then mutually competitive. The task of the investors is to optimize their investments while pursuing multiple goals.

Avoid—Promote—Design are attributes that have been used to establish several instruments for financial markets which help to guide investors in making ethically sustainable investments. They are:

- The laying down of exclusion criteria.
- The inclusion of positive criteria.
- Ethically sustainable themed and direct investments.
- Active engagement (business dialogue and/or exercise of voting rights).
- Membership in initiatives that correspond to the intentions of this guideline.

Negative screening

Excluded are the following types of companies: those involved in the development or manufacture of armaments; producing liquors (minimum alcohol content 15%); manufacturing tobacco products; conducting controversial forms of gambling; manufacturing products that violate human dignity with denigrating and degrading portrayals of persons; producing genetically modified crops; producing coal or oil from oil sands. Also, excluded due to their controversial business practices are companies, who themselves or whose suppliers systematically violate human rights, especially companies responsible for removing previous users from their land, and companies tolerating inhumane labour conditions and child labour.

The guidelines acknowledge that companies listed on the stock exchange are usually broadly diversified. This implies that within a company there may indeed exist individual business divisions, which an investor rejects for certain reasons. As long as the share of this business division in the total company turnover does not amount to more than ten per cent maximum, exclusion should be discouraged for the sake of proportionality. In such a case, a direct business dialogue would be preferable to exclusion. However, companies involved in banned weapons should be excluded from investments regardless of the attributable share of turnover.

In addition the guidelines exclude purchasing government bonds in countries: whose level of peacefulness ranks “very low” according to the Global Peace Index produced by the Institute for Economics and Peace; practicing the death penalty; classified as “not free” (as identified by Freedom House); perceived as highly corrupt (rating below 40 in the Transparency International CPI rating; whose climate performance ranks in the “very poor” category of Germanwatch’s Climate Change Performance Index.

Positive criteria

Socially compatible criteria include a preference for companies:

- that assume shared responsibility for the labour conditions in subsidiaries and suppliers worldwide, or have issued anti-discrimination programmes.
- promoting further training for its entire staff.
- with directives on the employees’ right to assemble, on reasonable working hours, or in favour of minimum wages.

Ecological criteria include a preference for companies:

- campaigning for the reduction of pollutant emissions as well as a decreased consumption of commodities, water, and energy.
- that develop and promote regenerative energy sources.
- that have environmental policies

Intergenerational justice include a preference for companies:

- that actively promote measures for infrastructural development and the construction of schools or expansion of water and power supply systems.
- developing products with a sustainable life cycle, e.g. by using sustainably produced commodities, or organically degradable ingredients
- that guarantee health care within a community/society, or engage in research on thus far neglected diseases.
- whose activities cause minimal impact on climate change.

Green Bonds and Climate strategies (added 2017)

The *Climate Strategies* document compiled by and adopted by AKI in 2017 included the requirement for fund managers to take into account a variety of dimensional decisions on the climate impact of their investment, with guidelines for doing this. It stated that “Climate protection is a cross-sectional task that must be addressed not only by church investors but by churches in general. Thus a climate strategy for financial investments of the Church should be embedded in comprehensive catalogues of measures, and communicated as part of a climate protection concept that encompasses all life areas of the Church.” The full document can be downloaded from the ARC website.

With Green Bonds (or social bonds), two requirements for sustainable investment can be met simultaneously, which until now could only be implemented by using a variety of instruments. Most Green Bonds have a risk/reward ratio that is largely identical with conventional bonds, and proceeds of the issue are invested into projects meeting specific ecological or social criteria.

Regardless how well documented Green Bonds are, sustainable investors are still confronted with the essential question whether those bonds should be purchased from issuers who have not made it on their individual list of

sustainable responsible companies. Should one, for instance, purchase a Green Bond from a nuclear power plant whose operator credibly claims to use its proceeds exclusively for regenerative energies?

Rating the sustainability of Green Bonds is more complex than rating other bonds, given that both the issuer as well as the specifically bond-funded project must be assessed. The following possibilities are the outcome of this for investors with ethically-sustainable goals:

1. They go by the issuer's sustainability assessment only and buy bonds from issuers who meet their criteria regardless whether these are Green or conventional bonds.
2. They go by the issuer's sustainability assessment and the project funded by the bonds. That is, they only buy bonds from issuers who meet their criteria. If such an issuer provides Green or Social Bonds these are given preference.
3. They only go by the sustainability assessment of bonds-funded projects. That allows purchasing Green Bonds from issuers, who do not meet the criteria of the investors and whose conventional bonds would be usually avoided. In this case, however, further regulations should be introduced and observed.

Investors also need to ask which categories of projects are covered by the investor's sustainability criteria and what information on the projects being funded is expected.