

A SOLUTION FOR THE LACK OF COLLECTIVE CHRISTIAN CAPITAL (CCC)

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Note: Some of the introductory comments in this paper were taken from the CEF paper I wrote in 2016.

Capital always has an agenda. Whether by design or default, explicit or subtle, positive or negative, the application of capital facilitates and drives a bigger agenda.

Furthermore, an agenda driven by an individual is limited in scope, effectiveness, and sustainability when compared to a collective one. The more resourceful and influential the individual, the bigger the agenda that he or she can drive, but it remains less impactful than a collective effort.

At the Tree of Life Foundation, we are advancing a God-inspired (and “God-owned”) solution to the lack of Collective Christian Capital in South Africa. Before I dive into that, allow me to first recap on how financial markets leverage collective capital.

The Collective Nature of Financial Markets

Financial markets allow for the effective combination of individual capital pools to achieve what the individuals cannot achieve on their own. Examples include:

Life insurance: By collecting monthly insurance premiums from thousands of clients (policy holders), it is possible to make large lump sum payments to the family of deceased clients. From that perspective it can be argued that insurance is one of the godliest business models around – a large group of people contribute what they can and want as long as they are alive, and the benefit of these contributions are paid to those who need it most after their death (the family and dependents of deceased clients). It is an “automated Acts model” (compare Acts 4:35 where the apostles distributed contributed money to those in need).

Banking: By creating a facility where those with excess cash resources at any given time can store it at a central location, the bank could also create the ability to advance some of these as loans to people who have a lack of cash resources at any given time. Since those depositing the money receive interest, and those borrowing the money pay interest, both the person making the deposit and the one receiving the loan make a contribution and receive a benefit.

Asset managers: By creating products that allow individual entities to pool their capital into a central pool for defined investments purposes, asset managers have the ability to make sizable investments that would otherwise not be possible. Examples includes infrastructure funds that provide capital for roads, airports, and other infrastructure developments.

The Solution We Are Advancing

Imagine a financial institution offering cutting edge investment, banking and insurance services whilst being explicit about its Christian worldview (the Chick-fil-A or the Hobby Lobby of financial services!). Imagine the shareholding of this institution being held by a Christian charity, so that any profits are available to fund the Kingdom. Imagine the size of this institution ultimately being such that it will have a comparable influence on the economy to the leading investment banks on Wall Street – enjoying a business relationship with the biggest public and private companies, being consulted by government on policy issues, influencing funding mechanisms and the way business is conducted. This is the vision we see in the distance, and this is the calling we have embraced.

If one wanted to do an experiment to see if the above can work, you could hardly find a better country to do so than South Africa.

- 84.2% of the population is estimated to be Christian.¹
- Efficiency of financial markets, quality of banking system, and integrity of the financial services regulatory environment are reflective of a first world economy.
- Entrepreneurial activity and regulatory arbitrage are reflective of a third world type of economy.
- Small enough to do a meaningful experiment – only 55m people, but the second largest economy in Africa with significant influence and a key leadership role in the region.
- Big enough problems to make a meaningful difference – unemployment rate 29.1%², rising debt as percentage of GDP (projected to be 65.6% by Feb 2021)³, several credit rating downgrades since 2012.
- Turnaround potential in economy subsequent to the ousting of a corrupt president in 2018 (Jacob Zuma who took office in 2009). He was replaced by a pragmatic and level-headed President (Cyril Ramaphosa - an accomplished businessman).

Building a financial institution is no small task – especially if 100% of the shareholding thereof is to be set aside for God (in our case held by the Tree of Life Foundation – a Christian charity that provides funding to various charities in South Africa). To begin with, this ownership structure precludes us from raising private capital in exchange for shareholding in the financial institution.

When God provides a larger-than-life vision, however, it is not for us to question it or to demand to see it all unfold in our lifetime. Similar to Abraham, to whom God promised that he would be the father of many nations (Genesis 17), our response should be to embrace it and live accordingly.

Foundational Steps

In 2007 we formed the Tree of Life Foundation (TOL) as a Christian charity – in South Africa this is known as a Public Benefit Organization (PBO). All we had to begin with was equity in two private companies that two businessmen made available.

For the first nine years of TOL's existence, the team focused on investing the returns generated from these businesses wisely and was blessed to experience miraculous growth. During this period, no donations were solicited or received and TOL did not incur any debt.

As TOL's balance sheet continued to grow through various investments, the trustees adopted a 'progressive distribution policy' in 2014, which in essence calls for a percentage of TOL's Net Asset Value to be distributed to charities every year.

Going Collective

Towards 2015 we felt the time was approaching for TOL to offer its expertise to others also wishing to participate in the sphere of donor capital, and we launched a project to see how we could move towards collective capital by using a Donor-Advised Fund (DAF) platform. This culminated in the launch of the Tree of Life Donor-Advised Fund (TOL DAF) in mid-2016.

This was a big step forward in becoming a financial institution. For TOL to become a major player in the deployment of capital, it needed to have clients entrusting us with capital. Although the vision is to offer these clients all types of financial services products, the pragmatic thing was to offer them various investment portfolios for the DAF money as a first step. In this sense it would be different compared to the conventional DAF platform in the US for instance – i.e. it also provides DAF clients with products through which they can collectively advance Christian investing. It was with excitement that we created and seeded the first three investment portfolios in 2016

(cash, listed equities, private equity), and added a fourth (Impact portfolio) in 2019. More detail on these portfolios is available at www.tol.org.za.

Today we have many stories of businesses that we could serve due to the availability of Christian capital, thereby supporting the growth of Christian marketshare. Take Inovo Telecom, for instance: a very successful company providing call centre technology and optimization (www.inovo.co.za), founded in 2006. When one of the two founders wanted to retire, he had a dilemma – he wanted to sell his equity (>40% of the business) at a market related price to reap the just reward for his contribution, but he did not want to sell to a shareholder that would not appreciate and help foster the strong Christian culture he and his co-founder subscribe to. Due to the size of the business, the typical buyer would be institutional (rather than private), and as such, agnostic. Via the TOL DAF platform's private equity portfolio, we acquired his shares and now find great joy in not only helping to shape the commercial strategy and execution, but also as a shareholder supporting biblical initiatives they undertake. (They recently became the first client of the newly launched Workplace Chaplains Africa, they developed a cutting edge mobile app for use by a charity at no charge, etc.). (see <https://youtu.be/Mg3w60Sp0Hk>)

Similarly, as an example of our Impact Investment portfolio, we recently backed two young entrepreneurs (both are Chartered Accountants) that created a marketplace for entry level jobs. In a country with an unemployment rate of 29% and many entry level job seekers having to overcome significant logistic issues to access the jobs that are available, Jobjack connects employers and job seekers via a platform that can be accessed by a mobile phone. The founders are devout Christians that believe they have a calling in this space. Based on financial metrics, this investment would not meet the stringent criteria of our private equity portfolio, but given the potential impact and a business model that will lead to financial sustainability, we were happy to invest from the Impact portfolio. If they had to approach an institutional impact investment fund, they would typically have to exclude the Christian aspect of their planned impact. (see <https://youtu.be/SLIZQ5ywCik>)

Swiss Army Knife

The design philosophy of the TOL DAF is to address as many donor and societal needs as possible within one solution / structure. We want to be the Swiss Army knife of charitable giving, allowing the donor to use the features that are most important to him/her at the time, bearing in mind that these can change over time and will differ from donor to donor.

Features include normal DAF functionality with associated vetting of recipient charities, investment options that allow sustainable giving, tax-efficiency, low-cost cross-border granting, contributing to CCC while the money is on the platform, and maximizing impact via impact investment opportunities.

We realize that contributing to CCC may not be the main aim of most donors and therefore aim to meet most donor needs. We allow donors to allocate as they see fit, but do try to encourage them to allocate a portion of their giving to CCC.

Limitations and Challenges

I have listed the factors that make South Africa an ideal place to launch a Collective Christian Capital venture such as the TOL DAF platform above. There are obviously challenges as well, notably limited tax incentives for charitable giving and scarcity of Christian donor capital compared to a country like the US.

Due to South African tax legislation, almost all of the money from South African donors that flows into DAFs does not qualify the donor for a tax benefit. It goes without saying that the market of donors who are prepared to donate without a corresponding tax deduction is small. On the other hand, those South African donors who open DAFs with us are “hard core” and great clients to have!

The scarcity of donor capital needs a bit further context. The overwhelming need in South Africa has given rise to an increase in effective and strategic charities, and many donors support these. What we are talking about in this paper – collective capital – requires significant donor capital in excess of donations to fund the immediate charitable needs – i.e. capital that can be invested in a way that promotes the Kingdom whilst creating sustainable long-term funding.

International Giving and Trustbridge

We have been fortunate to participate in discussions on the topic of international giving conducted by a core group of thought leaders since 2012. It became obvious that the complexity of the tax systems in different countries and the restrictions on the flow of charitable money across borders in certain areas of the world were major impediments to international giving.

These discussions ultimately culminated in the establishment of Trustbridge Global Foundation (<https://www.trustbridgeglobal.com/our-network>), which today is a well-entrenched and successful movement that aspires to “make global giving easy”.

The benefit for the TOL DAF platform is that international (non-South African) donors using Trustbridge can open a DAF on the TOL platform in South Africa and

still get their tax benefits locally. For example, a US tax resident can open a DAF with TOL and get a US tax deduction by working through the Trustbridge affiliate in the US (namely the National Christian Foundation).

Different countries have different strengths / competitive advantages. The beauty of the example above is that US donors with capital available for Christian investments (of whom there are arguably more in the US and who enjoy a purchasing power advantage due to the strong position of the US dollar internationally) can access Christian investment opportunities in a country with an abundance of Christian entrepreneurs but a lack of Christian capital, whilst benefiting from the generous tax dispensation in the US.

The Future

More and more Christians are not only aware of the importance of capital, but also want their capital to help drive the bigger agenda – even more than just a desire; there is an increased sense of urgency to do so. As such the limiting factor has shifted from apathy / ignorance / limited intentionality on the topic to lack of product.

Those stewards of capital who are active investors themselves are less dependent on product. They can leverage the multiple networks and platforms that are available to get involved in Christian-based investing, and typically experience great joy from doing so. But those who are allocators of capital, rather than active managers, are more dependent on product.

In both cases however, the scale benefit of collective capital is often not achieved. This is not to say that the individual Christian-based investments that family offices or informal investment networks do are wasted effort – definitely not – but simply that it cannot represent the total Christian capital strategy. We absolutely also need Collective Christian Capital initiatives with the economic engine and influence comparable to Wall Street investment banks in the US.

Ultimately there are only two competitors when it comes to the battle for market share: Light and Darkness. All market players that desire to represent the Kingdom in business are actively working to grow the market share of the Light, and therefore have the same Shareholder. They should actively be looking at ways to cooperate by pooling their resources and effort for maximum impact, and collective capital vehicles represent an integral part of such a strategy.

If you want to join the Collective Christian Capital party in South Africa, please let us know!

¹ Statistics South Africa: South African religious demography: The 2013 General Household Survey

² Statistics South Africa, Q3 2019

³ Budget speech, Minister of Finance: Tito Mboweni, February 2020