# Chapter 5
# Socially Responsible Investing

## INTRODUCTION

Socially responsible investing has come into being because a number of investors want to integrate their values, i.e. their gospel values in the case of church related investors, and their investment decisions. Proxy Monitor, a publication of Socially Responsible Investor Services, reports that mission/values-based investors draw on a long tradition of activism: the civil rights and anti-Vietnam war movements of the 1960's and the anti-apartheid movement of the 1970's and 1980's. Religious investors actually began to look for ways to invest based on values in the 1960's, and by the 1970's the National Council of Churches and some member denominations were working to insure that their investments were consistent with their social policies. By the year 2005 there were $2.3 trillion in socially responsible investments, building toward a better world.

Socially responsible investing is a "three legged stool," This description may have been coined by Amy Domini of the Domini Social Equity Fund and Loring, Wolcott & Coolidge in Boston, and author of the ground breaking book Ethical Investing published in 1984. The three “legs” include:

- screening of stock and bond portfolios
- shareholder activism - introducing and voting on proxy resolutions at corporate annual meetings
- community investing - loans and deposits channeled for community based economic development

Amy Domini herself, in her role as an investment advisor, and many other SRI managers and individual investors combine all three legs in their portfolios and investment strategies.

Well known in the investment and SRI worlds, Domini, an Episcopalian, brings her expertise to the Church. She has served on the national church's Economic Justice Implementation Committee and the Socially Responsible Investments Committee and currently is a member of the board of the Church Pension Fund. In addition she has been a member of the boards of the Interfaith Center on Corporate Responsibility and the National Association of Community Development Loan Funds (now Opportunity Finance Network).

In an interview in 1998 with Nicaraguan Developments, the newsletter of the Wisconsin Coordinating Council on Nicaragua, Amy Domini describes how investors' money "greases the wheels of finance," the wheels "which provide the world with food, clothing, shelter, education..."

Domini believes that individuals come to socially responsible investing with two motivations. One is inward, a need or desire to "achieve personal integration of money and self" (EJIC News, 1991); the other is outward, "to change the world." These 2 motivations work together as investors get involved in the three "legs" of SRI.

This chapter describes all three legs of SRI in some detail, and points to related resources, organizations, financial institutions and intermediaries. In some cases it also describes how to invest including contact information. Much of the information in this chapter and some of the structure of the chapter is owed to the Social Investment Forum (SIF), the trade association for the SRI industry. SIF seeks to provide high visibility for SRI via its media program along with research, networking, and strategy development for all areas of SRI.

In the early nineties - after the 1988 General Convention's "bold commitment to a program of economic justice" (EJIC newsletter) - a committee of the Diocese of Minnesota met for about a year to "see how our Diocese could meet the Church's call to

invest in people and communities". Minnesota's plan in the end called for placing $1 million in specific community investments (including half in federally insured community development banks) for an initial period of 5 years.

It is ENEJ's hope that this chapter will help your diocese or parish, or you personally, develop an SRI plan, as did the Diocese of Minnesota.

## SCREENED INVESTMENTS

Amy Domini defines an investment social screen as "the expression of an investor's social, ethical or religious concern in a form that permits an investment manager to apply it in the investment decision making process."

Even before the 1960s, some churches were avoiding investments in the traditional "sin stocks": tobacco, liquor, and gambling. By the 1980s, churches and many other investors - foundations, unions, universities, pension funds, and individuals - began divesting or avoiding (screening out) companies operating in South Africa as a way to make a statement against the South African government's system of apartheid. Some investors also had begun screening against military contractors, nuclear weapons manufacturers, and environmental polluters.

Screening against or boycotting a company's stock does not affect a company as would boycotting a product. Stock traded on the stock market has already been issued by the company and purchased and all the rest is buying and selling between investors. It would take a lot of such sales to affect a company. In addition companies are not necessarily aware of why and by whom their stock is being bought, not bought, or sold. Screeners often combine their action with an external educational program and contact the company about what they are doing in hopes that the company will get the message. This visibility also means that other investors get the message, become aware of the corporate situation, and are encouraged to follow suit.

Alisa Gravitz, Executive Director of Coop America and board member of SIF, has said, "What social investors do is bring social and environmental issues into business decision-making." In some cases these issues have become part of the corporations' missions. Some regularly issue reports on such things as environmental stewardship, racial equality and animal testing. More than 70 companies have joined CERES, which formed after the Exxon Valdez oil spill and has a 10 point test for environmental accountability/ principles. In addition there is now attention to companies' behavior overseas and their use of sweatshops etc. Domini says that all of this has "forced major companies to focus on more than just their bottom line."

Investors can also "positively" screen by choosing to invest in companies which respect workers, pay fair wages with benefits, reduce the gap between the highest and lowest paid workers, build community, protect the environment, make good and safe products, and do other good things.

A study (Corporate Social And Financial Performance : A Meta-Analysis by Marc Oritzky, Frank Schmidt, and Sara Rynes) shows that there is also a significant positive relationship between the financial performance of corporations and their social performance or responsibility. Heartland Wealth Management Group, a socially responsible money manager, has written that "profitability and social responsibility (are not) mutually exclusive...(but rather) by considering the needs and problems of the societies in which they exist, corporations are more likely to secure their own futures." As long ago as 1989, Paul Strassess wrote in Pittsburg Magazine that "many businesses have found that it pays to keep the environment clean... maintain good labor relations, provide top-notch employee fringe benefits and retirement plans.... Their standing in the community goes up, and so does their bottom line and stock price."

An easy and common first step toward screening investments is to choose one or more of the SRI mutual funds now available. In 1971 there was 1 socially screened stock and bond mutual fund, the Pax World Fund, which was begun by clergy anti-Vietnam War protestors to avoid investing in Dow Chemical, the maker of napalm. The Fund, as founded, screened for weapons manufacturers and also tobacco, alcohol and gambling companies. By 1994 there were 22 SRI funds and by 1997 there were 144. Today there are around 200 socially screened mutual funds handling $151 billion of assets. These can be found in all of the common financial groupings for mutual funds including large cap, small cap, growth and value, fixed income, balanced, global, money market, etc. A list of 100 of these funds which are members of the Social Investment Forum can be found at www.socialinvest.org. The list is charted by the screens each fund uses and other factors.

Choosing mutual funds can also be done with the help of a broker or financial planner/manager who specializes in SRI. It's also possible to collect the information, make choices, and buy mutual funds directly. Performance information on these funds and financial analyses are readily available through organizations such as Morningstar, Inc. and lists and contact information are available through the Social Investment Forum. KLD Research & Analytics, Inc. does social ratings and detailed descriptions on companies based on the social criteria commonly used in screening, such as community involvement, corporate governance, tobacco, diversity, employee relations, environment, human rights, and product quality.

Mutual funds do both positive and negative screens and some are very specialized such as Portfolio 21 which focuses on the environment, or the Alternatives Fund which invests in alternative and renewable energy.

Within the universe of socially responsible mutual funds there are several INDEX funds. An index, e.g. the Domini Social 400 Index, the first SRI index, founded in 1990, buys and tracks stocks in a particular market segment – such as the S.& P.500 which tracks the 500 largest corporations on the stock market. An index fund buys proportionally the stocks which make up the index, hoping to mirror the index's performance. This gives an investor who purchases shares in the index fund a diversified portfolio and, in the case of Domini Social Equity, a return comparable to the overall socially responsible investment universe, the Domini Social 400 Index.

Research on corporations, as already described, provides the basis for the screening of investments. The Social Investment Forum provides research help for SRI managers. A SIF research working group organized in 2004 organizes meetings with companies, shares best practices on corporate social responsibility (CSR) research, provides professional support to researchers, and serves as a contact for companies into the social research community. Many SRI managers do their own research for their clients, and some researchers, such as KDL Research and Analytics, Inc. make their research available to financial managers and others online.

How significant and extensive is social screening of investments and what does it accomplish? In the 1980's the anti-apartheid campaign became significant precisely because of the many institutions which publicly refused to own stock in corporations which continued to do business in South Africa. These divestments eventually actually forced the corporations to end their operations in that country.

The social investment movement of course continued after apartheid ended in South Africa. 78% of SRI managers at the time continued to socially screen investments for clients, many of whom were already using multiple screens. The Social Investment Forum reported in 1989 that there was $450 billion invested in companies which met

their criteria. By 1998 assets under socially responsible management included $1 out of every $10 and totaled $1.2 trillion. At that time the most popular screens included tobacco (97% of portfolios), gambling, weapons, alcohol, human rights, and the environment.

In 2005 there were $1.7 trillion socially screened investments including individual and institutional portfolios and mutual funds. Including the dollar amounts of portfolios doing shareholder advocacy and community investing the total was close to $2.3 trillion.

## How do screened investments perform?

Fiduciary responsibility of investment funds is defined as maximizing a portfolio's projected return and safety (given chosen levels of risk) - always solely in the financial interests of the beneficiary. For many years investors in general and many traditional investment managers have objected to social screening of stocks and bonds because this reduces the universe of holdings from which to choose. This is understood to reduce potential overall return and is thus seen as a bad financial strategy.

BUT - SRI practitioners in the Church and elsewhere from the beginning have asked if such screening is really bad strategy and what really are beneficiaries' interests? Episcopal Bishop Robert P. Atkinson of West Virginia said that "if we would not want our funds invested in drug or prostitution rings…….. even if they bring 5 times the returns of other investments (then) we are in agreement that our investment strategies should reflect our social values". We have thus learned that the social screening movement has brought to the fore many investors who maintain and have stated that their 'interests' include social as well as financial objectives.

Evidence does not suggest that socially responsible investing is a bad financial decision. A study in 1995 by Vantage Global Advisors compared their unscreened

universe of 1300 stocks with an SRI universe of 950 stocks. The unscreened group outperformed the SRI group by only 6 cents per $1 investment over 9 years, a hardly significant difference. Put another way, investing your values costs a little more than one-half of one percent per year.

In 1998, a time when the stock market was booming, two out of three socially responsible mutual funds earned the best possible rankings from Lipper Analytical Services and/or Morningstar. In that year two socially screened index funds, Citizens Index and Domini Social Equity, with returns of 31.5% and 25.8% respectively, continued for the fifth year to outperform their peers - large-cap growth companies. For Domini Social Equity it was also a year of outperforming the S&P 500 during the first 3 quarters.

The Domini Social Index, founded in 1990 and made up of 400 socially screened companies, produced a comparable return to the S&P 500 from 1990 to 1996 as did the Social Awareness Fund during those years, as reported by VantagePoint (a publication of Vantage Global Advisors) in 1997. For the 10 years ending in July 2003, the Domini Social Index showed 11.17% returns, The S&P 500 showed 10.29%. In general this performance resulted from its socially screened stock selection and was not based on investing style (such as growth or value) or industry biases (based on what's performing this year) as is often the case. At the same time it was also true that another group of mutual funds substantially underperformed the S&P. The message here is that it is true that at any given time SRI mutual funds may not do as well as the S&P – this is the stock market. However Steve Lydenberg of KLD believes that social screening has at worst a neutral effect on mutual fund performance. The VantagePoint article concludes by saying that "what truly affects returns is a manager's ability to select attractive stocks (within his/her chosen universe)." According to the Social Responsibility Investment

Group in Atlanta, "Most investment strategies, if well thought out and practiced with discipline, will succeed in the long run. SRI is a valid approach to the securities markets which yielding investment opportunities without sacrificing legitimate ethical concerns."

There has long been an active discussion around the question of whether companies ranking high in corporate social responsibility (CSR) will in fact perform better over time. SRI practitioners in accepting the concept of choosing investments from a smaller universe have said for many years that corporations which, for example, do not pay fines or litigation costs will perform better. They see this as an example of good management which in itself should generate above normal returns for investors.

Socially responsible investors are in fact usually willing to take slightly lower returns in exchange for the satisfaction of doing the right thing and of knowing that you are not owning corporations which are causing harm. Many consider such investors to be less than serious. Such critics ask why invest in corporations at all, since all corporations cause some harm. For these people SRI is ineffective at best.

Even though it is true SRI investors may agree in part with both of these objections to social screening, they also see their investment or refusal to invest as an ethical statement which allows them to send a message to corporations both by the screening itself and by shareholder resolution activity.

## The Church and SRI

According to the SRI section of TEC's website, the Church as of March 2005 has a no buy list including 19 US companies and 13 non-US companies. This screening currently is in three areas:

- militarism - companies whose military contracts exceed 50% of revenue
- tobacco - companies which produce any tobacco related products

- Sudan - companies doing business in Sudan or benefiting the Sudanese government

The list of companies which are excluded from TEC investments can be found by a click from the website.

In Feb. 2006, the Church of England's General Synod voted to divest church funds from companies profiting from Israel's occupation of Palestinian territory. The immediate target of this vote was the US company Caterpillar which has supplied vehicles to Israel which have been used to demolish Palestinian homes. (This vote was apparently challenged even though it was supported by the Archbishop of Canterbury.)

## SHAREHOLDER ACTIVISM

Shareholder activism/advocacy includes writing letters to and initiating dialogue with company management, sponsoring stockholder resolutions at annual meetings, publicizing and soliciting support for shareholder resolutions, and voting in person or by proxy for or against such resolutions. Stockholders often work in coalitions with other concerned shareholders in these efforts, which may additionally involve petitioning the Congress or the SEC for changes in proxy laws and legal action.

Socially responsible money management firms have been major players in shareholder activism. They often allocate several full time staff to this work. Those who invested through these firms in the late 1990's provided the resources for the attention placed on the human rights abuses in Burma and the abusive labor practices of Walt Disney. Investors in SRI mutual funds in effect have hired professionals to dialogue and pressure companies to change specific practices. These mutual fund companies and money managers often publicly release information on their advocacy programs which has the effect of promoting this work and rounding up votes among other investors which can ultimately benefit their efforts.

The extent of shareholder activism as measured by the dollar amount of assets owned by those involved in socially responsible proxy resolutions totaled $703 billion in 2005. While these shares in activism sometimes overlap those which are socially screened, it's common for activists to purchase stock in a given company which would not appear in a screened portfolio for the express purpose of exerting pressure in an area of concern. In these cases significant shareholder status is used to gain access to upper management, initiate dialogues, file resolutions and hopefully accomplish change. Fund managers and individual investors also communicate with companies without using formal resolutions. Domini Social Investments publishes a widely-used annual guide to proxy voting.

In 2003 socially responsible shareholders filed 320 resolutions, gaining 11.4% of votes (up from 8.7% in 2001). Shareholder resolutions on issues from climate change to diversity receive higher vote tallies every year. According to Coop America when these socially responsible votes reach 20% management knows that it must change its ways or suffer a loss to its reputation - and maybe its profits!

## The Church and Shareholder Activism

While shareholder activism probably began in the 1960s, it took off in a big way in 1971 when the Episcopal Church made stockholder action history by filing the resolution asking General Motors to withdraw from South Africa. While this resolution did not pass, it was clearly the beginning of the movement which resulted in much investor and corporate divestment from South Africa, and which in turn played a role in the eventual overthrow of the apartheid system. Other early actions occurred in 1988 when the Church participated in 6 proxy resolutions concerned with South Africa again, and also nuclear weapons production and transport and compensation discrimination.

The Interfaith Center for Corporate Responsibility (ICCR) was formed within a year after TEC's historic resolution. This non-profit advocacy group has for more than 30 years been the leading coordinator of the shareholder advocacy work of religious investors. Today their membership includes 275 Protestant, Jewish and Roman Catholic institutional investors. They are in a position to channel the collective power of $100 billion in portfolio assets of these denominational bodies and religious orders. Their activities include sponsoring resolutions, direct dialogue with management, participating in public hearings, publishing annual reports, and organizing letter writing campaigns. ICCR's growth and success has demonstrated what religious groups can accomplish when they work together, magnifying the influence which any one could have alone.

The primary work of The Social Responsibility in Investments Committee of the Episcopal Church is researching the social records of the companies in the Church's portfolio to determine how to vote each annual meeting proxy and whether it is appropriate to file shareholder resolutions. These decisions are based on the principles adopted by the General Convention and the Executive Council in each triennium and the Church's proxy voting guidelines.

The SRI Committee of TEC also leads the Church to "engage corporations and initiate positive investment practices when dealing with companies in which it owns stock." The statement was in response to the Executive Council's charge to investigate what corporate actions "might be appropriate with companies that contribute to the infrastructure of Israel’s occupation of the West Bank and Gaza strip and with companies that have connections to organizations responsible for violence against Israel."

The SRI committee routinely works through ICCR using their current Proxy Voting Guidelines. The Executive Council in 2004 and Feb. 2005 approved action related to 40 resolutions in the following general areas: equal opportunity, environment, corporate governance, health, human rights, militarism, and political contributions.

ICCR reports that the Domestic and Foreign Missionary Society of TEC took action on resolutions related to the release of equal employment opportunity data, women and people of color on corporate boards, predatory lending, environmental responsibility, weapons technology proliferation, and living wages.

About 2/3 of the resolutions TEC files are withdrawn following dialog with the company because it has accomplished or takes steps toward achieving the desired end.

## COMMUNITY INVESTING

It is well known today that the gap between the rich and the poor is increasing in this country and in most parts of the "developing world" primarily due to global forces and unregulated corporate growth. Corporate capital flight has devastated the industrial base of many U.S. cities and rural areas, eliminating jobs of low and moderately paid workers. In today's society jobs and access to capital are the key to building individual and community wealth. In addition, conventional lending institutions are generally not financing low cost urban housing or business development in low income and minority neighborhoods.

Our economy is fueled by investment and by credit. As individuals, our investments - in a home, education, business - affect our ability to develop long-term security, to control our lives, and to live up to our own potential. But to make these initially important investments in our future, we often need credit. In addition non-profits and small business and housing development all rely on the flow of investment and credit. In many communities people and organizations do not have access to the

credit they need to improve their lives. Access to credit may be blocked by institutional barriers which have their basis in race or class, by the cost of borrowing, or because traditional credit standards disqualify some people or organizations. In many communities financial institutions such as local banks no longer even exist.

Lack of credit for developing and sustaining communities creates a cycle of disinvestment and perpetuates poverty. When community residents do not own their homes or local businesses, money paid for rent and for goods and services tends to leave the communities. Without opportunities for ownership, there is no flow of money into a community to build local economic assets or move individuals out of poverty.

A startling statistic reported by Fair Community Lending Services in Los Angeles is that African Americans have lost ownership of 14 million acres of land since 1920--from 15.5 million acres to 1.1 million--because of lack of access to credit and high interest charges.

The Adrian (Michigan) Dominican Sisters (Roman Catholic) probably qualify as the original example setters for investing in communities. They began alternative/community investing in 1978, having been challenged by the Second Vatican Council to move outward from their traditional roles in schools and hospitals into work in troubled areas of secular society. At the same time the sisters were facing the need to prepare for a time of caring for aging members. They decided that these two needs in the context of their vow of poverty called them to specifically put some of their accumulated assets to work toward change in poor communities. They saw this as a way to build on the assets already in those communities, the very assets which they learned would provide the collateral to protect the loans they would make and lessen their risk.

Notable community investing statements and initiatives have come from Episcopal sources also. From the Michigan McGehee Interfaith Loan Fund, originally the McGehee Fund of the Episcopal Diocese of Michigan, comes the belief that "we can be assisting those in need by enabling them to use those resources that we save or invest rather than donate."

As early as 1994 - in response to the 1988 General Convention's economic justice initiative - Bishop Theuner of New Hampshire was working with the trustees of that diocese to "try to find responsible ways to invest our money." At that time he estimated that the Episcopal Church nationwide was "sitting on pots of gold" with at least $35-45 billion in investable funds, including the funds of dioceses, hospitals, and schools, not counting income producing real estate. His contention was that this money could be "divested from bad stock and reinvested in loan funds and other things of which you approve." Bishop Theuner was familiar with the New Hampshire Community Loan Fund, one of the original community loan funds (CLFs) in the country, and he also knew the Church. He described the obstacles in the church - to screening stock and bond portfolios and to community investing - as "the old bugaboo about fiduciary responsibility".

**What is the Track Record and Impact of Community Investing?**

Investors through established CDFI's have rarely lost money. CDFIs, including the uninsured ones, CDLFs, microenterprise funds, and pooled funds, have been safe investments.

Hopefully in the future CDFIs will put themselves out of business. In the meantime CDFIs will accomplish needed community development and in addition educate about and establish the market for financial services in these communities to which traditional banks may, in the future, respond. Let us hope the 1% Campaign goals are reached and surpassed as CDFIs move toward these ends. The social return will be great for investors and communities.

To find out the impact of a particular investment you or your parish might consider, go to www.socialinvest.org, click on Impact and then Impact Calculator. They do the math for you!

It can be shown that the assumption by many both in the Church and elsewhere that you can't safely put your money in good things and earn a return is mistaken. In fact investing in community economic development has become an important and viable way to begin redressing the historic economic injustices which have denied many areas access to capital. Community economic development builds assets in distressed communities and enables community residents to achieve specific economic outcomes including home ownership, meaningful jobs, a share in the ownership of production, and the ability to save, invest, and anticipate a retirement with security against adverse financial circumstances. We need to invest in this development and we can!

The 1997 JPIC (Justice Peace and Integrity on Creation) report says the following: "Dollars are a means to a better life through meeting basic needs; therefore the following needs to be examined: creating capital, wealth distribution, dealing with attitudes about money, socially responsible alternative investments. The Church must focus on economic justice with attention to capital for low-income projects/communities. The Church should be a visible alternative prophetic community living out the Gospel and our Baptismal Covenant by investing Church funds in socially responsible vehicles."

## Community Development Financial Institutions (CDFIs)

Unlike when Bishop Theuner began to ponder, today all of us can invest our principal for a return in community economic development. There is in our country today a developing web of private sector community development financial institutions, whose primary objective is the provision of financial credit to individuals, organizations, and businesses serving people of low and moderate income. The major CDFIs (with numbers in existence in the United States as of 2005) include community development banks (100), community development credit unions (275), community development loan funds (500), and microenterprise funds. CDFIs, often working in

collaboration with commercial banks, have become leaders in providing the capital needed to reclaim America's lost neighborhoods and the people who live in them. By providing access to credit for unconventional borrowers, they enable the construction of new and rebuilt affordable housing, community facilities, and community based businesses. CDFIs are much more than lenders; they educate, provide technical assistance and real estate and other development services. Some CDFIs target their efforts toward particular communities or particular groups such as women and some specialize in specific loan products.

By the end of 2006 cumulative total financing by 135 members of Opportunity Finance Network had reached $ 12.5 billion including 533,394 housing units, 39,250 businesses and microenterprises, 174,422 jobs created or maintained, and 5,858 community service organizations. <www.opportunityfinance.net>

In all these ways CDFIs create new economic opportunity for businesses and individuals who do not have access to mainstream financing. They channel private capital into such low income communities which more and more is complemented by the increasing community investment efforts of banks. The bottom line is that CDFIs have become successful lenders using their business expertise to "profitably" lend to borrowers who have been shunned by conventional lenders.

The existence of CDFIs does not reduce the need for conventional banks to expand their community investment activities, and strong enforcement of the federal Community Reinvestment Act is always needed.

CDFIs are financed by lenders and investors whose primary commitment is to the long term development of communities. CDFIs using funds mostly from religious organizations, foundations, and individuals will probably never have the capacity to fully capitalize needed community development, but working with government and

traditional banks CDFIs can pool and leverage funds to capitalize more ad more community development projects.

All of this demonstrates how the call of justice to churches can and must go beyond charity into participation in building a just marketplace. In 1995 another bishop, William Sanders (retired of East Tennessee), speaking as a member of the Economic Justice Implementation Committee at the JPIC economic justice plenary said:

"Our prophetic role is not only to provide resources for people to help themselves, but (it is ) to stand with them in developing policies that promote justice and opportunity for those of all walks of life, particularly people with low income. Those were the needs that got us to this program. The biblical imperative has been there all the time....Our task we have felt is to lift up that imperative so that every congregation and every diocese understands that . . . economic justice is part of the central mission of the Church"

General Conventions over many years have passed resolutions urging Episcopal participation as community investors in various ways. Four of these resolutions are listed below even though for this paper we have not researched what responses there may have been by parishes or dioceses.

- in 1979-C031 encouraged investing property and resources in community economic development
- in 1985-D059 recommended the Church Pension Fund (CPF) continue deposits in minority banks and that the SRI Committee share information on socially responsible investing
- in 1991 called on the US government to apply FDIC (insurance) policies to community based banks
- in 2000-D102 urged the CPF to develop policies consistent with the Jubilee Year of Justice including investing in community economic development

The most effective and important step was taken by General Convention resolution 1988-C030 which called on TEC and its dioceses and parishes to establish a

ministry of community investment and economic justice for the economic empowerment of the disadvantaged and to utilize community controlled economic development programs to achieve this end. At the same time TEC committed $7 million of its trust funds to community investments and formed the Economic Justice Implementation Committee to manage these funds. Very early a loan of $1.5 million was made to the National Association of Community Development Loan Funds (now Opportunity Finance Network – the CDFI trade association) which in turn loaned the money to local loan funds as a challenge to Episcopal entities to make similar loans. A successful response to this challenge was in Vermont where the Vermont Community Loan Fund raised/borrowed a total of $230,000 from local Episcopal sources and from the $7 million Economic Justice Loan Fund

These $7 million of TEC trust funds available for community investments are now managed by the Economic Justice Loan Committee which has contracted with Opportunity Finance Network to provide underwriting services for loan applicants and monitoring of outstanding loans. As of early 2006 just over $5.3 million was out in loans or committed and $1.3 million was available for lending. The money is at work in many parts of the United States as well as around the world via Accion International. In this program TEC's EJLC also uses the professional services and community investing experience of the Opportunity Finance Network knowing that the funds will be placed with seasoned, strong performing, and committed non-profit community development financial institutions.

Another adopted resolution (2000-B037) has implications for community investing by churches and was supported by ENEJ. It asks the Executive Council to consider expanding the $7 million loan fund up to $ 24 million and opening the fund to loans from other Episcopal entities. There has been no official response to this from the

EJLC or Executive Council. The details call for additional national church money as a challenge to dioceses and parishes to loan funds. It is ENEJ's position that if ECUSA set up such a pooled fund it would be an incentive to other church entities to invest. The fund would provide a diversified, centrally managed vehicle with reduced risk and high social impact for investors, and it would be an easy way for Episcopal entities to invest in communities. An additional incentive might be that the fund could seek to place the money with CDFIs which in turn would loan to qualifying local Episcopal development projects.

For almost every Episcopal congregation or every Episcopalian there are now easily available opportunities through CDFIs to utilize their resources to benefit individuals and communities with real needs. Such investment is possible both for congregations and individuals with small savings accounts as well as for those with large endowments. Minimim investments begin at $500 - $1000. The Social Investment Forum <www.communityinvest.org> is an easy resource for finding investment options which will meet investors' needs. The website provides information on social impact, financial guidelines and much more.

We are all accustomed to thinking about our responsibility to give a portion of what we have to those in need. We give to the congregation which we attend, to charities, and to other programs which benefit our communities. But we are much less accustomed to considering that we can assist those in need by enabling them to use for periods of time a portion of our savings, investment funds or endowments.

The growing web of CDFIs in the U.S. today has become the vehicle for offering the financial credit so desperately required by low and moderate income families and has made community investing easier, more secure, and more effective than ever before. The growth of this network is due in part to the support of religious

congregations and institutions which helped finance the early efforts to promote community investing.

The US Treasury is also involved. As the result of legislation passed in 1994 through the hard work of the CDFI Coalition representing 310 CDFIs, there are now approximately 800 Treasury-certified CDFIs all of whom are eligible for technical assistance and grants for loan capital. To date a total $5.7 billion in federal funds has been provided to CDFIs, including some banks, for housing, business development and financial services. These funds have greatly strengthened the community investment industry, but unfortunately, as with other federal programs, the funds for this program have been greatly reduced in recent years.

Economist Gar Alperovitz has pointed out that there are only 2 traditional strategies for dealing with poverty: trickle down, the Republicans' strategy, and redistribute the fruits, the Democrats' strategy. Alperovitz says that neither of these can work any longer, as demonstrated by the US having lost its economic hegemony in the international environment. Churches' traditional economic justice ministries have sought to intervene in the public policy processes usually pursuing liberal legislative strategies, but Alperovitz says this work should be shut down also. Alperovitz is quoted as contending that the way forward (toward eliminating poverty) is to "form community and neighborhood based development institutions which have control of capital and resources... (and) which can invest in affordable housing and small business."

In addition religious institutions and individuals have traditionally responded to community needs with gifts and donations. But as institutions and individuals we control greater resources than we are able or willing to give away. As stewards, we

must consider how community investing can multiply the impact of our wealth and resources and also how our investments can serve as models to others.

In 2001 The Social Investment Forum and Co-op America began to collaborate in order to promote that socially responsible portfolios invest 1% or more in community investments. The hope of this initiative is that community investing might reach a total of $30 billion by 2010 having surpassed its goal of $25 million in 2007. (It is interesting that in 1999 community investing was documented at #5.4 billion by Trends Report.)

Socially responsible mutual funds have led the way towards 1%. Three of the Calvert Group of mutual funds began committing a small percentage to social investments some years ago. And there are others -???

Among investors there is a great need for education about community investing. Too many investors continue to see community investing as grants or donations from their “give-away” money and rather than from their investment funds.

Given the above it should be helpful to share the following figures with potential investors. If you invest 5% of your portfolio, which might be expected otherwise (hopefully) to return 8%, into CDFI investments at 2.5% annual return, the total return of the portfolio would be reduced to 7.725%. This reduction is not much more than could easily happen to this portfolio with a small drop in the stock market.

Another way to look at is to consider that an annual gift of $20 to a charity might provide meals for a day or several nights of shelter. Instead one can loan $1000 for the development of affordable housing, small business, or community facilities. This investor's total return form the $1000 loan may be $20 less per year than if invested traditionally or deposited in a CD. So, the investor has in effect donated $20 annually,

but in addition the whole $1000 is at work in communities annually for the duration of the loan!

The appeal of this approach can be demonstrated by the fact that Amy Domini, of Domini Social Investments, by 1999 had channeled $4.5 million of her clients' funds into community development simply through a money market account at South Shore Bank in Chicago.

Community investing can be as easy as opening checking or savings account at a bank. For some investments it is also true that, as Amy Domini said in an interview in Nicaraguan Developments in 1998, the mechanisms for community investments when compared with buying stock are not so well developed. It is easy to invest $500 in XYZ money market fund or buy a share of stock through a broker, but it's somewhat less easy to loan $500 to an uninsured community development loan fund or microfinance fund.

Members of the Community Investing Roundtable of the Social Investment Forum, mostly CDFI professionals, have begun looking at ways to simplify or streamline the community investment process but this is complicated. Loan funds trade in paper while brokers trade shares of stock seamlessly on line via CUSIP numbers. The paperwork involves time and money for both parties. Community investments have not been sold on secondary markets and this means that there are not ready buyers at all times. In addition this translates into less security and more risk for the investment.

One step toward easier trading is being taken by the Calvert Foundation which will be selling its Calvert Community Investment notes through InCapital, a global investment banking firm which will in turn make the notes available through more than 400 brokerage houses around the country. And very recently it became possible to purchase very small investments (as low as $20) – Calvert Community Investment

Notes and notes of several other microfinance organizations - on line through MicroPlace. A revolution may be in the making.

What follows is a description of the various community investment (CDFI) options along with their risks and their impact on the economic and social injustices in our society both locally and around in the world.

## Community Development Banks (CDBs)

Community Development Banks are federally or state chartered and FDIC insured commercial banks which are organized to provide capital for rebuilding targeted communities. Like all banks they are for-profit corporations owned by their shareholders. But the sole purpose of CDBs is to serve low and moderate income communities which have been denied services and financing by traditional banks in the past. Their lending serves non-profit community organizations, individual entrepreneurs, small businesses, and housing developers. Deposits and accounts in CDBs are effective community investments.

As with all banks, large capital reserves are required when a CDB is organized in order to comply with federal and banking requirements. Typically CDBs meet this requirement through capital subscriptions from various sources including the local government(s) of the community to be served, quasi-federal agencies such as the Federal National Mortgage Association, other local banks fulfilling their Community Reinvestment Act requirements, religious institutions, local corporations, and individuals. Alternatively, a CDB may be formed by a holding company that owns an insured depository institution and has subsidiaries and/or affiliates which can supplement the CDB's lending with technical assistance or direct community development activities.

The first CDB was the South Shore Bank of Chicago organized in 1972 when a group of bankers took over an existing failed bank and reorganized it with a community development mission. Since then a number of other CDBs have been chartered. The Episcopal Church has been instrumental in the formation of both the Community Capital Bank in Long Island and the Community Bank of the Bay in Oakland CA. The Community Bank of the Bay, as is typical, has a broad cross-section of stockholders including 14 religious institutions, 14 commercial banks, and over 100 individuals.

Community Development Banks can be a major force in rebuilding America's cities. South Shore Bank invested more than $272 million during the period 1993-97 to reclaim abandoned neighborhoods on Chicago's south side. The success of the South Shore Bank in stabilizing and improving the community in which it operates, particularly through the rehabilitation of rental housing, was a major factor encouraging the creation of other CDBs.

Individuals and congregations can purchase certificates of deposit in CDBs which are federally insured by the FDIC up to $250,000 and receive a competitive/market rate return. CDBs also offer the standard range of banking services to depositors.

Community Development Banks are the only banks whose primary mission is to assist in the development of low-income communities. However, some traditional banks have started community development funds or community development corporations and have made other special efforts aimed at specific local investment needs. Deposits designated to such funds are characteristically used for small businesses, housing, conservation, and community development. These programs vary greatly in size and effectiveness, ranging from substantial efforts to those whose value

is primarily public relations. However, a commercial bank's involvement in community development can be a factor in choosing your primary depository if there is no CDB in your area.

## Community Development Loan Funds (CDLFs)

Community Development Loan Funds pool loans and some equity grants from individuals, churches, companies, foundations, and other sources. In turn they lend to low income targeted communities or populations for the purpose of providing housing, jobs, and community services. CDLF borrowers include non-profits and small enterprises who have not been well-served by traditional lending institutions for projects which increase local ownership, provide long term affordability to low income residents, and build the capacity of community organizations.

CDLFs are usually incorporated within the state(s) in which they operate as non-profit tax exempt financial institutions. Except as required for IRS nonprofit status, CDLFs are not federally regulated and investor loans are not insured. CDLFs are governed by boards of directors usually drawn from interested investors, borrowers, community volunteers, representatives of religious groups, technical assistance providers, and other financial institutions. CDLFs are revolving loan funds in that their invested capital may be loaned several, or many, times before it is repaid to the lender.

The first independent CDLF, the Institute for Community Economics (ICE), was originally organized in 1967 as a part of the civil rights movement in order to sow the seeds of a new community centered economy. ICE reorganized in 1979 under the leadership of Chuck Matthai who pursued the community land trust model for permanent affordable housing. Under Chuck's leadership the revolving loan fund - providing loans to CLTs around the country - began. This resulted in ICE's significant growth, and under Matthai's continuing leadership ICE had a major role in the forming

of other revolving loan funds around the country and in the drawing together of the CDLFs to form the National Association of Community Loan Funds, now the Opportunity Finance Network (www.opportunityfinance.net). By 1989 the community investment movement was ready to manage more and more of the social linvestment capital which was becoming available as a result of the successful efforts of investors to accomplish disinvestment from South Africa.

The bulk of currently existing CDLFs were organized in the 1980s with many new funds added in the 1990s. The stated purpose of CDLFs is to build wealth and assets among people and institutions in distressed communities by:

Providing financing and development services for the construction and

revitalization of low and moderate income affordable housing;

Financing the construction or rehabilitation of facilities for nonprofit

organizations benefiting low income communities;

Creating entrepreneurial opportunities through the startup and expansion of businesses located in or serving low income communities.

Creating living wage jobs for low and moderate income people.

These objectives are met through loans to nonprofit community organizations, community development corporations, land trusts, cooperatives, private entrepreneurs and (on occasion) for-profit developers. CDLFs frequently work in cooperation with banks and other conventional lending institutions in making their loans.

CDLFs usually pay interest rates below that of standard market investments so that they can re-loan the money at attractive interest rates. The spread between these

rates provides some of the cushion protecting the loans and pays some of the cost of operating the funds. Investors choose rates of interest and loan terms within ranges offered - typically 0%-4% interest, for 1-5 years, with minimum loans ranging from $500 to $3000. Investors'/lenders' money is not insured or guaranteed by the government or other outside agencies, and liquidity is limited which means that early withdrawal generally is not possible. CDLFs on their part protect investors by holding collateral on their loans, building loan loss reserves, and an adequate cushion of equity/net worth. Since CDLFs are generally not completely self-supporting, they require a continuing infusion of contributions and grants. This revenue along with net interest income provides loan loss reserve, permanent capital/ equity, and additional operating income.

As is true of other uninsured investments such as stocks, corporate bonds, mutual funds, etc., past performance cannot necessarily be taken as an indicator of future performance. Therefore, a potential lender should invest with full knowledge of the financial health of the fund under consideration. This information can be obtained from the loan fund prospectus which will explain the manner in which loans will be utilized, the financial risks involved, and the past financial history of the fund. If the prospectus does not contain the most current audited financial reports, these can be requested as well as the most recent federal informational Form 990.

Historically the growth and performance of CDLFs has been excellent. At this writing the Opportunity Finance Network numbers 135 CDFIs with almost $7 billion assets. Their net write-off or cumulative loan losses incurred over the years is 0.5% (0.7% for CDLFs = 86% of the CDFIs) Given the strength shown by these figures, CDLFs have performed as low risk investments and they have an excellent record of repayment to investors.

Religious organizations, especially Roman Catholic orders, led by the Adrian Dominican sisters and many more as well as non-Roman Catholic organizations and congregations, have been early major investors in and contributors to the work of community loan funds. To invest in communities beginning in the 1990s it was not necessary to "invent the wheel”. Opportunities were accessible and it was relatively easy to put $1000 or more in a CLF and take advantage of the lending expertise and effective social impact these funds had already achieved.

Some early Episcopal investors included the Episcopal Diocese of New Hampshire, as already mentioned, where parishes, individuals, and trustees teamed up to invest in the New Hampshire Community Loan Fund. The Diocese of New Hampshire, TEC, and approximately 24 (half) of N. Hampshire parishes made investments in the New Hampshire Community Loan Fund. Very early on at the urging of Bishop Theuner, this effort raised over one million dollars for loans which provided more than 150 families the opportunity for ownership of decent, affordable housing. The Episcopal Diocese of Pennsylvania's Episcopal Community Investment Fund provided an opportunity for Episcopalians to invest in local community development projects, and in the 1990's this diocese raised $3.5 million for the Reinvestment Fund (formerly the Delaware Valley Community Reinvestment Fund).

The Diocese of Michigan is involved with CDLFs in 2 ways. The Diocese developed the Bishop H. Coleman McGehee, Jr. Economic Justice Fund, now the Michigan Interfaith Loan Fund. This fund is also an investment opportunity for entities in the Diocese and now has nearly $3 million at work developing for low income housing, nonprofit facilities, and small businesses.

The Diocese of Massachusetts' first effort in 1983 was to create a task force on community reinvestment which developed a compensating balance loan fund program

in cooperation with the Diocese's bank. The Diocese invested $150,000 which was more than matched by the bank. This also provided commections with CDLFs developing in the area and increased the availability of lending/investing opportunities for individuals and churches.

Joe Pelham, a leader in the Massachusetts efforts, pointed out in 1989 that the General Convention Economic Justice program's focus was on housing cooperatives, community land trusts, worker owned businesses and community development credit unions, all community controlled economic development programs of the disadvantaged. These were the aims behind the Diocese's creation of the Episcopal City Mission, which, among other things, now operates the Pelham Fund, a community investment pooled fund for members of the Diocese and others.

In Maine the Diocese and 2 congregations have loans with Coastal Enterprises. The Diocese of Western Mass. invests 2% of its endowment ($1million) in local CDLFs.

These examples are a small part of the story which includes that approximately 15 percent of the capital of CDLFs nationwide comes from religious sources. For all of these investors there is a double bottom line- the financial return and the social impact of helping low income communities to build assets and wealth.

We need to ask what might be the bottom line if all religious investors made the 1% commitment being promoted by the Social Investment Forum and Coop America? Could not some individuals or parishes consider 5%-10% of our investments?

## Community Development Credit Unions (CDCUs)

A credit union is a member-owned, member controlled cooperative organized to provide financial and banking services to a group of people united by a common bond, e.g, occupation, association, community residence, or church. Credit unions exist solely

to serve their membership, not to enrich shareholders, and therefore often charge less in fees and interest than conventional banks.

Depending upon size, a credit union can offer a range of services including checking and savings accounts, loans, traveler's checks, and credit cards. All members (depositors) in a credit union own shares and have a vote in the election of its directors. As a result credit unions are more likely to respect the needs of all who seek loans which makes qualifying for loans easier, and they offer fair returns for money on deposit.

CDCUs, usually members of the National Federation of Community Development Credit Unions, are chartered to serve members of low income communities. Like all federally chartered credit unions, CDCUs are regulated by the National Credit Union Association (NCUA) and deposits are insured. Some CDCUs are very small and are affiliated with neighborhood organizations, community coalitions, or local churches. CDCUs are open to the membership of these organizations and/or residents who live, work, or worship in a clearly defined geographical area. CDCUs serve distressed neighborhoods by providing financial services for individuals, housing projects, small businesses, and nonprofit cooperatives. Small loans are available to members at below market rates, typically for such purposes as fixing homes, starting or expanding a small business, attending school, or purchasing a car.

Approximately 80% of CDCUs have federal low income designation. To be designated a Low Income Credit Union (LICU), more than half of the membership must have an income 80% or less than that of the national average as determined by the most recent census. The LICU designation enables the credit union to accept deposits from non-members, public and private entities, and individuals from outside the membership area, i.e. anywhere in the country. These CDCUs thus attract deposits at

below market rates from banks wishing to fulfill their Community Reinvestment Act (CRA) requirements as well as from foundations, religious organizations, and individuals. Because credit needs in low-income communities are generally greater than the resources available from the credit union's individual members, outsider deposits can be critical to increasing the credit union's capacity and community impact.

The National Federation of Community Development Credit Unions (NFCDCU) (www.natfed.org) as of March 2007 reports membership of more than 230 CDCUs, including rural, urban, faith based, reservation based and community wide credit unions, with more than 1,000,000 members nationwide. Total assets are $4.1 billion. In addition the Federation counts 49 credit unions with assets of over $96.4 billion and which want to do more to serve the underserved as Community Development Partners.. These and CDCUs provide needed banking services, mortgage and other real estate loans, vehicle loans, and unsecured loans including credit cards.

One of the specific ways the Federation helps its members address the sources of economic injustice is through NFCDCU's Community Development investment Program. $ 38 million from banks, foundations, and religious organizations is currently (2008) under management by NFCDCU and is 90% deployed in loans to 121 different CDCUs

Another role of the Federation has been to provide grants and training to help CDCUs develop alternatives to the various predatory lending practices including payday lenders.

In addition in early 2006 the NFCDCU with funds from the CDFI Fund (US Treasury) launched the first secondary market for community development credit unions. NFCDCU purchased mortgage loans of immigrant first-time home buyers loans from the Self Help Credit Union in Durham NC, one of it's members. The effect of this is

that Self Help has additional capital for additional mortgage loans which otherwise would not be available to them.

Potential investors/ depositors should use the NFCDCU website to look for a CDCU in your area with low income designation. Insured deposits can often be made by an outside individual or parish. Credit unions generally offer comparable interest rates for money on deposit by members (those included in the credit union's field of membership) or by non-members making deposits in designated low-income credit unions. Deposits in federally chartered or federally insured credit unions up to $250,000 are insured by the U.S. government.

The best known LICU affiliated with the Episcopal Church is the Episcopal Community Federal Credit Union (ECFCU) of the Diocese of Los Angeles. Another significant Episcopal-affiliated credit union (and recipient of the Gloria Brown Award from ENEJ) is the Chattahoochee Valley Credit Union, which was developed by the Diocese of Atlanta.

### Microenterprise Funds

Microenterprise funds provide loans in the range of less than $500 up to $10,000 to small entrepreneurs, usually those needing less than $25,000 in total capital and employing 5 or fewer people and who would not otherwise have access to credit. Loans are used to start or expand small businesses for distressed groups and communities, which means job creation and expansion of the local economic base. In addition individuals increase their income and accumulate savings.

Microcredit funds fall into three service delivery models: training led, credit led, and peer group. In the U.S., microenterprise development programs usually place major emphasis on training and technical assistance for their clients/borrowers in order to reduce risk and sustain enterprises. The bulk of their funding is from government

sources. Microenterprise development in the U.S. emerged in the 1980's because traditional business and financial institutions failed to respond to these specific markets.

Microenterprise funds are often projects of such organizations as women's economic development corporations, community development corporations, community action agencies and the US Department of Labor. Some are independent, non-profits and are unregulated corporations similar to community development loan funds. Some of them welcome investments. Microlending is also done by some community development loan funds, banks, credit unions, and government agencies. Worldwide in1997 the repayment rate was 97%.

The prototype for these funds is the Grameen Bank which pioneered the peer group model in Bangladesh in 1983 and whose loans average $70. Mohammed Yumus began in the 1970s with a personal successful loan of approximately $27 to a woman to make bamboo. However, after several years of such successful lending in many villages, traditional banks still had not come to see the value in Yumus's idea, so he created the Grameen Bank. By 1992 The GrameenBank was lending in 23,000 villages. In 2005 it served over 5 million borrowers in 46,000 villages in Bangladesh, and is a full-service financial institution.

Other pioneers in international microcredit include Accion International, Finca, and OikoCredit, all large multi-national and multi-billion dollar organizations. Two smaller single nation organizations are Shared Interest serving South Africa and the Wisconsin Coordinating Council on Nicaragua (WCCN). All together eight million people are being served with microloans.

Accion International uses its donated and borrowed capital to back guarantees by a US bank, in turn allowing Latin American banks to transfer funds to be loaned by

Accion's associate organizations. This mechanism removes for the investor potential currency devaluation and political change risks especially in third world countries.

Shared Interest uses a similar mechanism by receiving loans to back guarantees for its partner Thembami International Guarantee Fund in South Africa. These funds leverage bank loans to South African CDFIs for housing and micro and small business development. In 2000 Shared Interest had a portfolio of $5.5 million.

Oikocredit was established in 1975 by the World Council of Churches. Oikocredit has a portfolio of $83 million in 65 countries in Asia, Africa, and Latin America, funding farmers, microenterprises, and other community economic development activities. (www.oikocredit.org)

The NICA Fund (www.wccnica.org) was established in 1998 by WCCN as the continuation of an 7 year microcredit relationship with CEPAD, the Nicaraguan Council of Churches. Currently the NICA Fund channels almost $6 million, borrowed mostly from socially concerned investors -individuals and churches, to its 16 partner agencies, non-profit CDFIs or cooperatives in Nicaragua, El Salvador and Guatamala. These agencies in turn address the root causes of poverty and social injustice through loans primarily for agriculture, small enterprise and commerce, low income housing. In each of these areas they emphasize loans to women. The NICA Fund's experience is 100% payment of interest and repayment of loan principal from its partners and 100% repayment of loans and interest to investors.

In 1990 there were less than ten microenterprise funds in the U.S. In 1997 approximately 300 were reaching 45,000 families. Most are small and devote major resources to training and technical assistance for small businesses.

Most borrowers both in the US and in developing countries are women. The Microcredit Summit in Washington, DC in February 1997, which brought together 3000 microlenders and borrowers, ended in a pledge to raise $21.5 billion for micro loans in order to bring 100 million families, one half of the world's poor, out of poverty by 2005.

Microenterprise funds do not usually reach the very poorest of the poor. The funds are loaned to individuals in peer groups, which require that 4 to 10 entrepreneurs commit to meet regularly. These borrowers as peer group members must have permanent homes and neighbors who know them. This effectively leaves out nomadic homeless people and squatters. Peer groups review and approve each other's loan applications, exchange ideas and contacts, complete business education training, provide support, and make loan payments. Group members assume responsibility for each other's loan obligations and are responsible for bringing new borrowers into the group. First time borrowers receive small loans with the opportunity to increase the loan size based on their performance. The lending agency usually assists potential borrowers, guides them in the formation and operation of lending groups, and trains them in business methods.

Micro-enterprise development also does not encompass the total of what is usually considered economic development. Mohammed Yumus pointed out in 1992 that the developed world seems to have the understanding that generating employment for men is the way eliminate poverty. Yumus' own belief is that often employment often lacks respect for individuals/workers and that microenterprise loans for self employment develop self-esteem usually of women. Self esteem, he believes, is a major component of economic development. This has been important enough to borrowers that they are willing to accept and pay high interest rates, upwards of 16%, while

earning almost no net profit. Yumus claims that lower rates or a "fair deal" from microenterprise lenders would significantly develop the self-employment economy.

### Microenterprise Investment Opportunities

Microenterprise funds both in the US and around the world often obtain at least a portion of their capital in grants from foundations, banks, and government agencies, and do not always rely upon private investments. However some have been transitioning toward seeking funding from unsecured loans. There is then a need for the funds to protect investors by building loan loss reserves and equity and by requiring collateral from their borrowers.

For microenterprise funds which do welcome individual or congregational investments, the terms are generally similar to investments in CDLFs. Microenterprise funds seek to pay interest rates below that of standard market investments. They then re-loan the money at attractive interest rates. The spread between these rates provides some of the cushion protecting the loans and pays some of the cost of operating the fund. The typical interest rate range offered by a microenterprise fund is zero to four percent for a term of at least one year in an amount of at least $1000 although minimums can be higher. The rate of return and the term of the loan are generally left to the discretion of the lender.

The experience of these funds everywhere has shown that the benefits for borrowers include increased income, increased savings, family security, and, in developing countries, improved school attendance for their children and a lower incidence of infant mortality. In addition, peer groups provide a forum for learning and discussion of community issues, develop leadership skills, and encourage more active participation in local civic life.

In November 2005 Deutsche Bank coordinated the creation of the Global Commercial Microfinance Consortium, which links traditional financial institutions in the US and the UK with SRI practitioners such as Calvert Social Investment Foundation. This development means that microfinance will be more significant on the radar of commercial financial institutions. Hopefully it will not mean more pressure on microfinance institutions "not to serve financially marginal borrowers." (Social Funds.com)

Does microcredit work? Shari Berenbach, Director of the Calvert Foundation says yes, internationally, but alone it does not complete needed economic development. Microcredit alone does not eliminate poverty or sufficiently alter the role of women, but it can and does raise household income, keep children, including girls, in school longer, and build families' productive assets.

CDBs, CDLFs, CDCUs, microenterprise funds and intermediaries which pool funds for investment in these CDFIs, even all together, do not exhaust the possibilities for community investing. Others which are rarer and in some cases riskier include but may not be limited to International Community Development Loan Funds, Community Development Bond Funds, and Community Development Venture Capital Funds. Check with a socially responsible financial planner if you are curious or interested in knowing more. See also the Social Investment Forum website, www.socialinvest.org

## Financial Intermediaries

Financial intermediaries can take many forms in order to serve various and different needs. Generally speaking they are unregulated nonprofit institutions that gather and pool private capital from social investors for community development lending or investing. As such, intermediaries act as the connector between local community development financial institutions and investors/lenders. Financial

intermediaries typically are formed by a group of interested potential investors who may, but may not, have an additional common bond.

The Diocese of Connecticut has a pooled fund with $2 million from 10 investors placed with 7 CDFIs. The Episcopal Social Responsibility Fund in Connecticut was created in 1990 to respond to Gospel imperatives. The fund currently invests in several community loan funds which in turn pool the Episcopal funds with those of other social investors and lend directly to a variety of community projects in the area. In this way the fund achieves diversification and lower risks for its investors. The fund has not experienced a loss or even a delinquency to date while returning an average of 4.2% to its investors.

For some years until 2004 the Wisconsin Episcopal Community Investment Fund pooled Episcopal funds from Wisconsin and invested in CDFIs in the upper Midwest. This fund paid interest in the range of 3% for 10 years before closing. In 2004 investors principal was returned and they were encouraged to reinvest in the newly organized Wisconsin Council of Churches' Community Investment Program. This fund accepts and pools loans from its member judicatories, congregations and individuals for investment through CDFIs in Wisconsin.

The Ohio Community Development Finance Fund is a linked deposit program sponsored by a diverse group of individual investors who are recruited by a local community development loan fund that requires additional financing to secure a specific project. The Finance Fund determines the amount of capital required to complete the funding, gathers the funding pledges, and then approaches the bank for the required additional funds to make the community development loan. A deal is structured by which the Finance Fund deposits their share of the required moneys in the bank and accepts a below market interest rate with the provision that the bank will

make the loan available for the community development project. By this means the lenders are protected up to $250,000 each through the FDIC. A minimum investment is suggested for each such lender; the return varies depending upon the agreement with the bank. Linked deposit programs are unofficial groups and unlikely to be registered with any central association. Parishes could consider the possibility of this form of investing and this may involve developing the fund model in addition if the parish is not located in Ohio.

**Financial Due Diligence**

With current financial information in hand, the most important information to look for about any CDFI includes:

- What portion of total capitalization or total equity is permanent including donated or earned capital compared to borrowed/debt capital? (The standard for loan funds is about 15%.)
- How much money is kept liquid for loan repayment and interest payments to borrowers? (The standard is about 20%.)
- Are any interest or loan repayments to lenders in arrears? (None should be.)
- What percentage of loans made by the CDFI, in number and in dollars, have not been repaid by the borrowers? (The standard is about 5% maximum.)
- Are the CDFI's current loans diversified, by type of borrower, size of loan, and geography of loan placements etc.? (Diversification is desirable to avoid losses from one specific cause.)
- Does the fund finance operating costs and obtain equity capital from diverse sources providing desirable diversity on the income side of the operation?

Vermont National Bank was the first conventional, commercial bank to offer a Socially Responsible Banking (SRB) Fund option for users of the bank's services. Any moneys on deposit in the bank whether for checking, savings, or certificate of deposit can be designated for the SRB Fund where they will be used to support flexible loans for affordable housing, environmental and conservation projects, sustainable agriculture, education, and small businesses in Vermont and New Hampshire. The fund was established in 1989 and makes loans backed by the deposits of more than 11,000 individuals from 42 states and 16 foreign countries. On average this represents about 12% of the money on deposit in the bank. Since any of the bank services to which deposits are made can be directed to the SRB Fund, there is no penalty to the subscriber who receives the identical return as others from the bank service of choice. In addition, of course, any funds directed to the SRB

Fund are insured by the FDIC in the same manner as all other deposited funds. Other banks throughout the nation are beginning to offer this service as well. Ask your bank or banks in your community.

In 1995 Calvert Community Investments was launched by the Calvert Social Investment Foundation, a 501(c)(3), as a vehicle to receive loans from individuals and institutions. This pooled fund has become the largest and most respected community investing intermediary in the United States. Calvert Social Investment Fund, a related for-profit mutual fund with close to 10 years of successful experience with 1%-3% of its funds in high social impact community investments, gave the Foundation the assurance that in fact a 'mutual fund' entirely invested in communities was a viable possibility. Calvert Community Investments invests 100% of its borrowed funds in community development banks, loan funds, credit unions and micro-enterprise funds. Calvert Community Investments operates worldwide. Approximately 69% of the funds are in domestic CDFIs and 31% are invested internationally.

Calvert Foundation's initial funding, which provides loan loss reserves and protection for other investments, came as program-related investments from a group of foundations. In addition as 2008 ended they had $150 million in borrowed funds from 4000 investors all for reinvestment in low income housing funds, CDBs and CDCUs, international intermediaries, and micro-enterprise funds. The minimum loan is $1000.

Calvert Foundation's loans are made to experienced CDFI's according to strict criteria. One of these criteria requires that Calvert never make the first loan to a loan fund. Such a loan fund by definition could have no track record. According to Director, Shari Berenbach, Calvert Foundation believes that high income individuals with tolerance for risk and due diligence capability can best lead the way in community investing. With such "venture capital" CDFIs can develop organizational credibility

which then allows pooled funds to bring in the many small investors. Calvert Foundation also never provides more than 10% of their capitalization to any one organization

Another way to invest in communities is through funds/pools set up by investment firms or financial planners/advisors. (Again, see www.socialinvest.org) These, like Calvert, often allow clients to choose from a pre-selected menu of investments.

And the newest and most accessible community investment option is to go to MicroPlace.com and in several minutes begin community investing with as little as $100. ( This amount is predicted to go down to as little as $20 in 2009)

## CONCLUSION

In 1991 Amy Domini described the reality that investors come to one or all of the three legs of the SRI stool for either personal or institutional goals - maybe both. She has pointed out that these goals are being achieved through many small victories. The list of corporate responses or community development successes is too long to be attempted here, but there have been many known and unknown.

Amy Domini knew in 1991 that "the small victories" at that time were "not enough to convince all investors" and it's possible that she would say that this is still true today. However she also said at that time that small victories "do ultimately alter the course of history." Now 18 years later we must also say that unfortunately history's course has not yet been noticeably altered, but we do believe that, fortunately for history, her words still hold true.