



Creating Effective Social Capital Markets for Community Development (Part I: Plenary)

Eliza Mahony Erikson

Investment Officer

www.CalvertFoundation.org

301-280-1374 | eliza.erikson@Calvertfoundation.org

Calvert Social Investment Foundation's Mission

Our goal is to maximize the flow of capital to communities in need, in order to foster a more equitable and sustainable society.

Our Theory of Change

By creating innovative financial products and services, acting as a leading intermediary and removing barriers for investors, we will foster a more effective and efficient social capital market—in which more resources flow better and faster to community development and social enterprises... and the populations they serve.

What is Socially Responsible Investment (SRI)?

- Social screening by mutual funds of **publicly-traded** stocks and bonds based on certain values-based criteria
- Shareholder activism with companies
- **Community investing (CI)**: provides financing (largely debt) to low-income communities to develop affordable housing, small businesses, and other consumer financial products. Below-market return to individual and institutional investors. → **Calvert Foundation, other CI funds**
- **TOTAL ACTIVITY** (using at least one SRI strategy): grown from \$40 billion in 1984 to over \$2 trillion in 1999



Where does Community Investing fit into socially-responsible investment? How does it differ?

- Least well known
- Much fewer dollars when compared to socially-screened mutual funds
- Investment in (largely **lending** to) non-profit and community loan funds, CD venture funds, banks and credit unions
- However:** largest social impact on communities and their residents



COMMUNITY FACILITIES

- important infrastructure
- non profits, daycares, clinics, cooperatives and environmental programs



AFFORDABLE HOUSING

- build/rehab housing
- first mortgages
- training & empowerment

SOCIAL ENTERPRISE

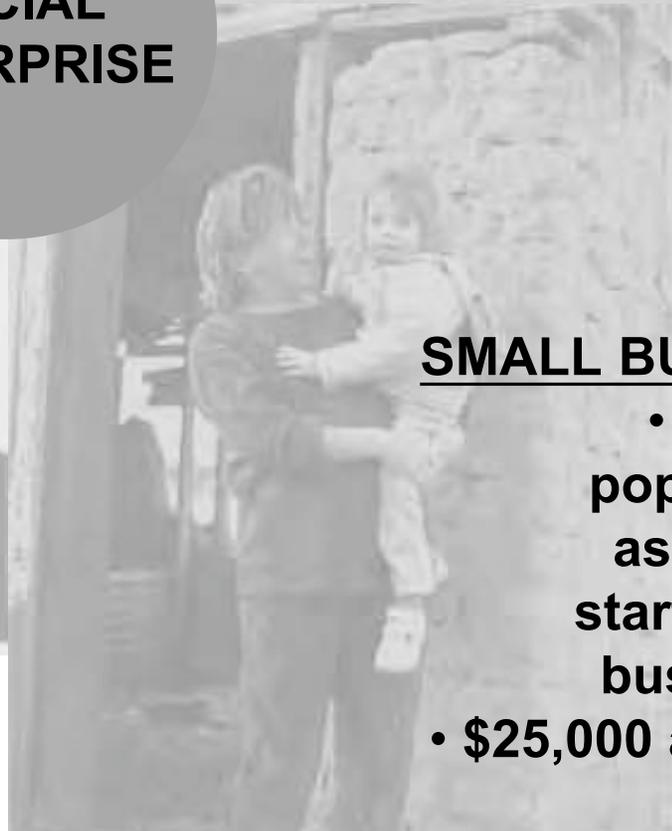
MICROENTERPRISE

- small cottage industries
- loans less than \$25k US
 - as little as \$50 abroad
- peer lending/tech. assist



SMALL BUSINESS

- targeted populations assisted to start/expand businesses
- \$25,000 and over



Community Investing is still miniscule and the need is great...

CI/PRI Investors...

- \$14 billion from social investors, growing at 23% CAGR and accelerating...should top \$35 billion by '08, still tiny fraction...
- \$500 million in PRIs from foundations

~1/10th of 1% of US assets in CI/PRI

Investees

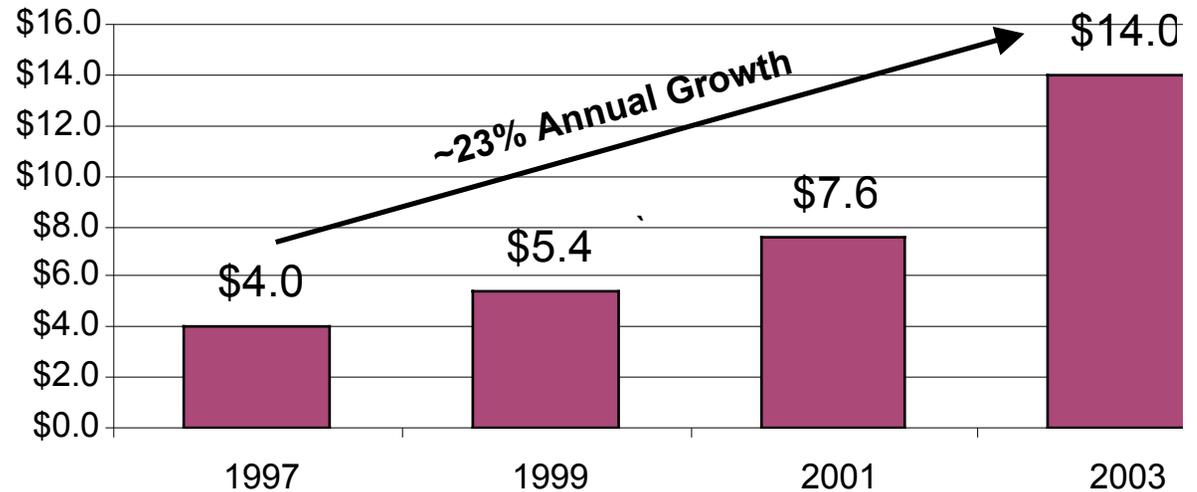
- A survey of Calvert Foundation's portfolio indicates \$4 billion in need over the next 5 yrs just from the 200 current borrowers
- 3,500 community loan funds, development corps, microcredit groups, not to mention thousands of nonprofits ready to utilize CI/PRI funds

...Opportunity.

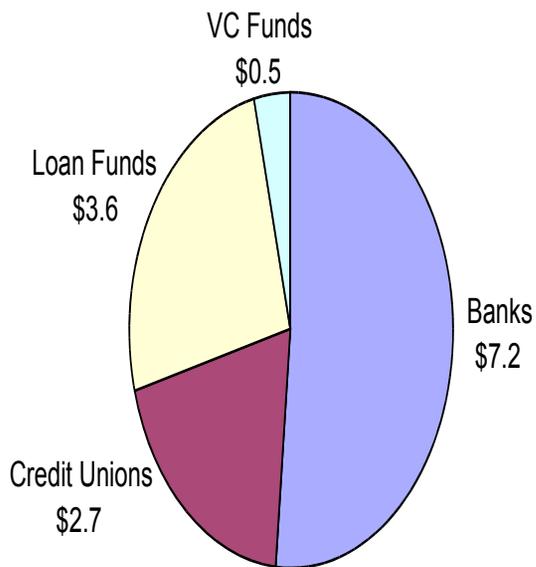


Community Investing in the broader markets is on the rise...

C.I. Total Assets (\$Billio



C.I. Assets by Type (\$B)



Calvert Community Investments, a global investment portfolio and a registered security with more than 2,000 individual and institutional Investors, has growth from zero to more than **\$80 million** in 8 years.



How does Community Investing differ from Traditional Philanthropy?

Leverage	<ul style="list-style-type: none">• <u>Attract capital</u> from conventional sources unwilling or unable to invest resources without financial return.• Capital is <u>recycled</u> through principal and interest payments to provide more funds for investment.
Strength	<ul style="list-style-type: none">• <u>Foster long-term sustainability</u> and improve grantee cash flow with low-cost real estate and working capital loans.• Help grantees gain discipline and efficiency through intensified financial analysis and <u>accountability</u>.• Allow grantee projects, enterprises and financial products to build a track record and <u>prove their creditworthiness</u>.
Certainty	<ul style="list-style-type: none">• Investment methodology: <u>measurement</u> of both financial and social returns



Core Values for Community Investment

- ✓ **Mutuality:** Lending(investing) relationship creates mutual obligations and respect
- ✓ **Enterprise:** Harnesses power of enterprise to generate surplus and resources
- ✓ **Accountability:** Generates measurable outcomes--accountable for results
- ✓ **Self-reliance:** Calls upon 'beneficiaries' to transform their own lives -- and repay
- ✓ **Self-respect:** Process fosters self-confidence and dignity
- ✓ **Sustainable:** Capital is returned and recycled.



“Within Investment Philanthropy, one measures success not as a function of asset size, but social return; one understands movement toward a social mission not relative to the number of grants secured, but according to the true social value generated as a result of one’s efforts, the application of resources in support of those efforts and actual added value generated as a consequence of these activities.”

– Jed Emerson, Senior Fellow, Hewlett and Packard Foundation, Faculty Stanford GSB

What's the 'Social Return on Investment'?

*\$100,000 over 3 years**

Domestic US

- 15 Homes Built/Rehabbed
- [or] 80 Microenterprises creating 230 jobs
- 10 Sm. Businesses creating 60 jobs
- 5 Coops or non-profit facilities

International

- 1,070 Homes Built/Rehabbed
- 370 Microenterprises creating 50 jobs
- 50 Sm. Businesses creating 670 jobs
- 140 Coops or non-profit facilities

*Source data collected by Calvert Community Investments from over 200 community development groups in its portfolios. You can find this social return calculator at www.CalvertFoundation.org.



Conventional Wisdom: The majority of investment assets are below the “social value” water line...

Grants and
Human Capital
to social sector



Conventionally
Managed
Financial
Assets

Mission
Neutral

Mission
Negative

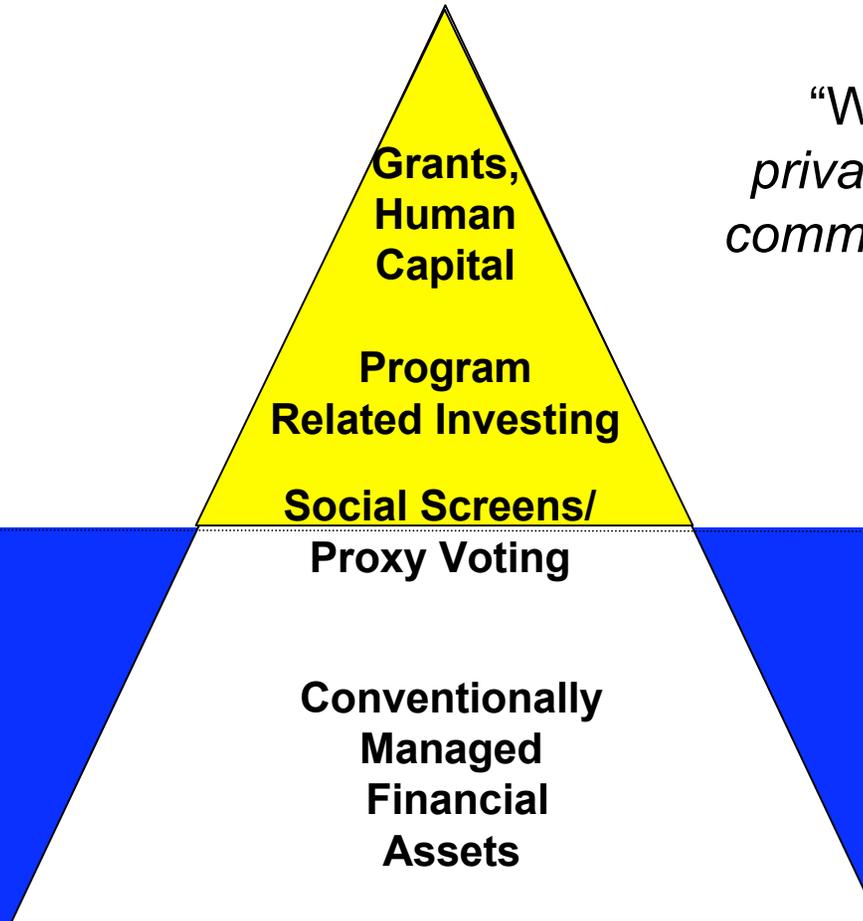


“A Unified Investment Strategy must seek to identify a funder’s full array of available assets (both financial and non-financial) and assertively deploy those assets in support of the institution’s mission, and to support the social and environmental goals that the investor seeks to advance.”

– Jed Emerson, Senior Fellow, Hewlett and Packard Foundation, Faculty Stanford GSB



Community investment raise up our resources...



“We want to move from a *private* investment trust to a *community* investment trust.”

– *Luther Ragin,*

F.B. Heron Foundation

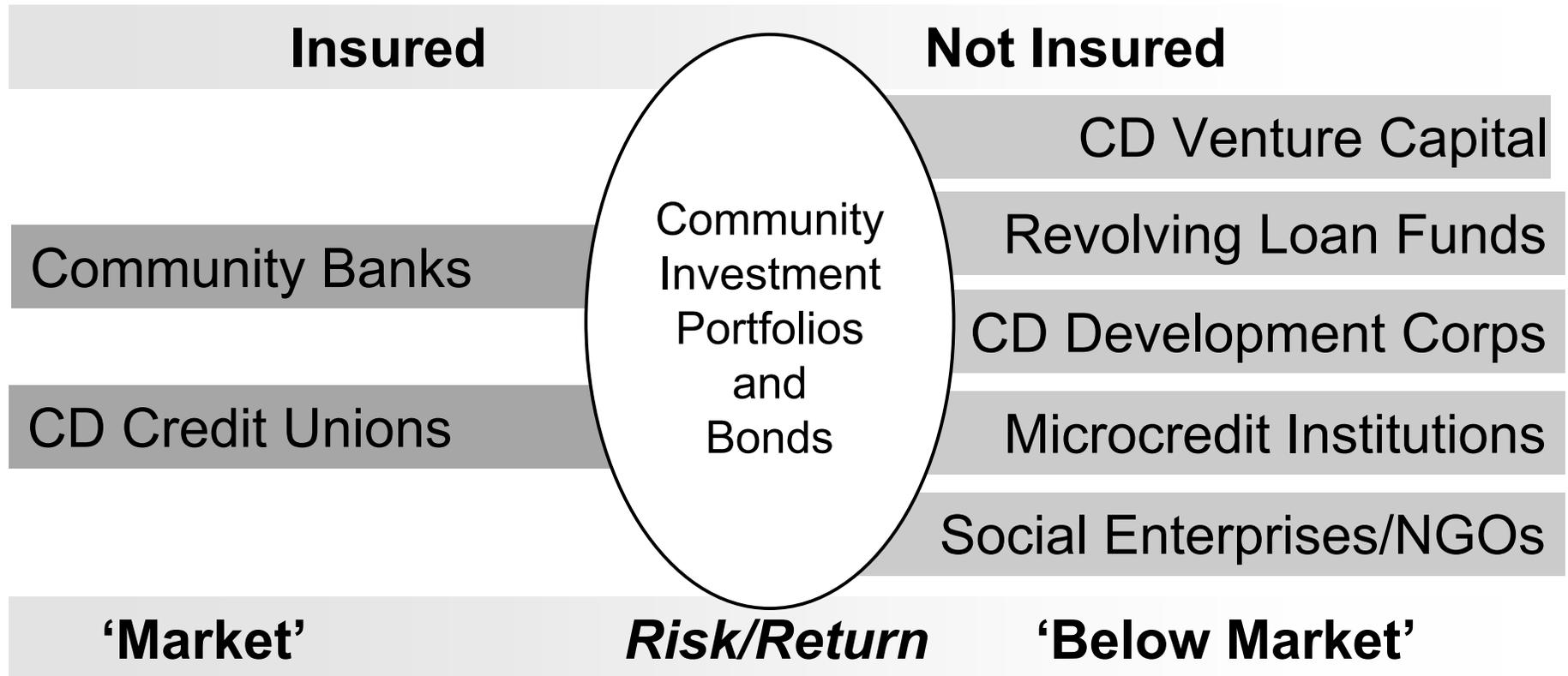
(paraphrased)

**Mission
Neutral**

**Mission
Negative**



The Landscape of Community Investment Institutions...

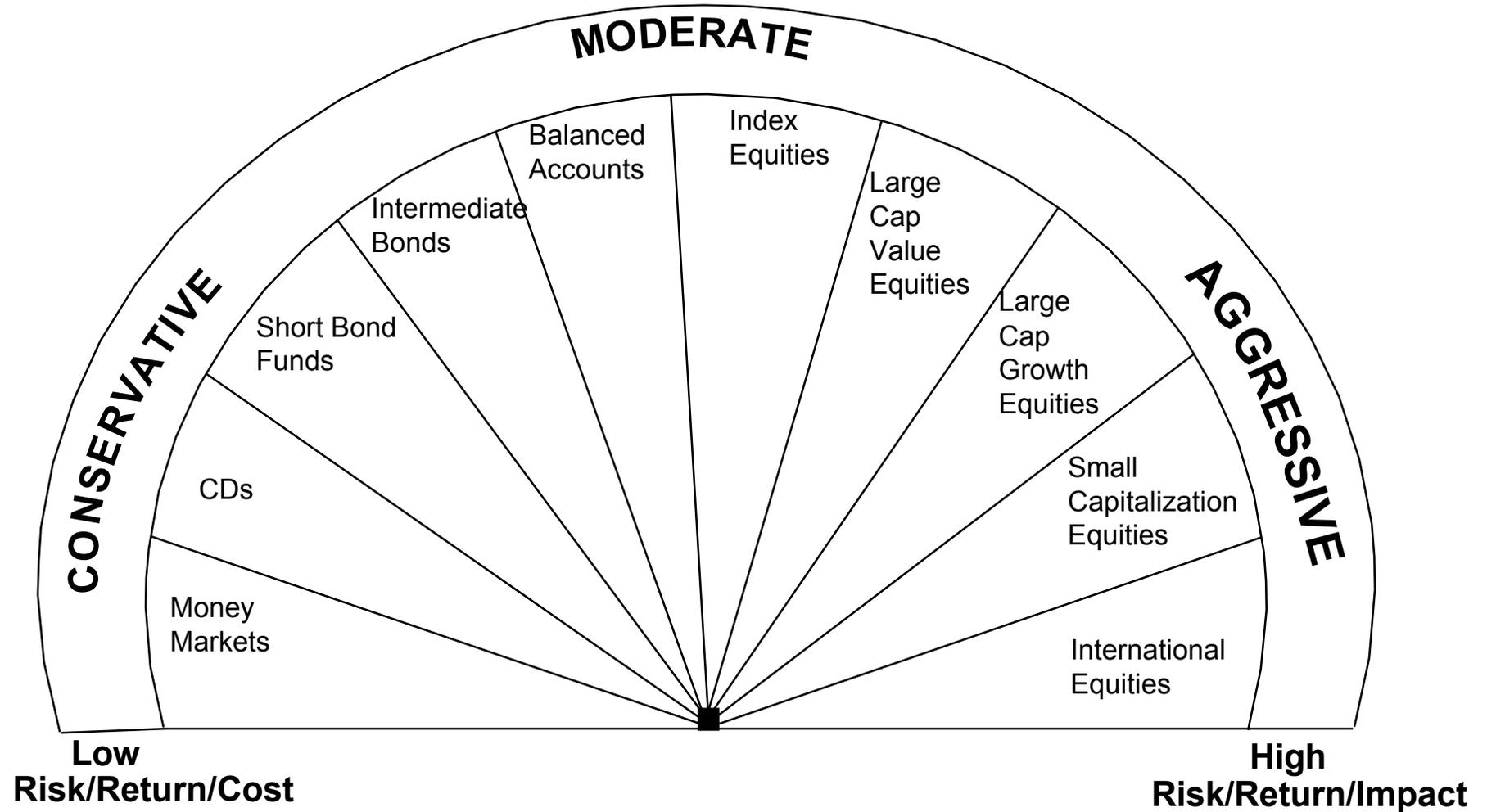


- **Primarily 4-6% Rates of Return**
- **3-7 year Terms**
- **Average Placement of \$500,000**
- **Global both geographically and sector-wise**



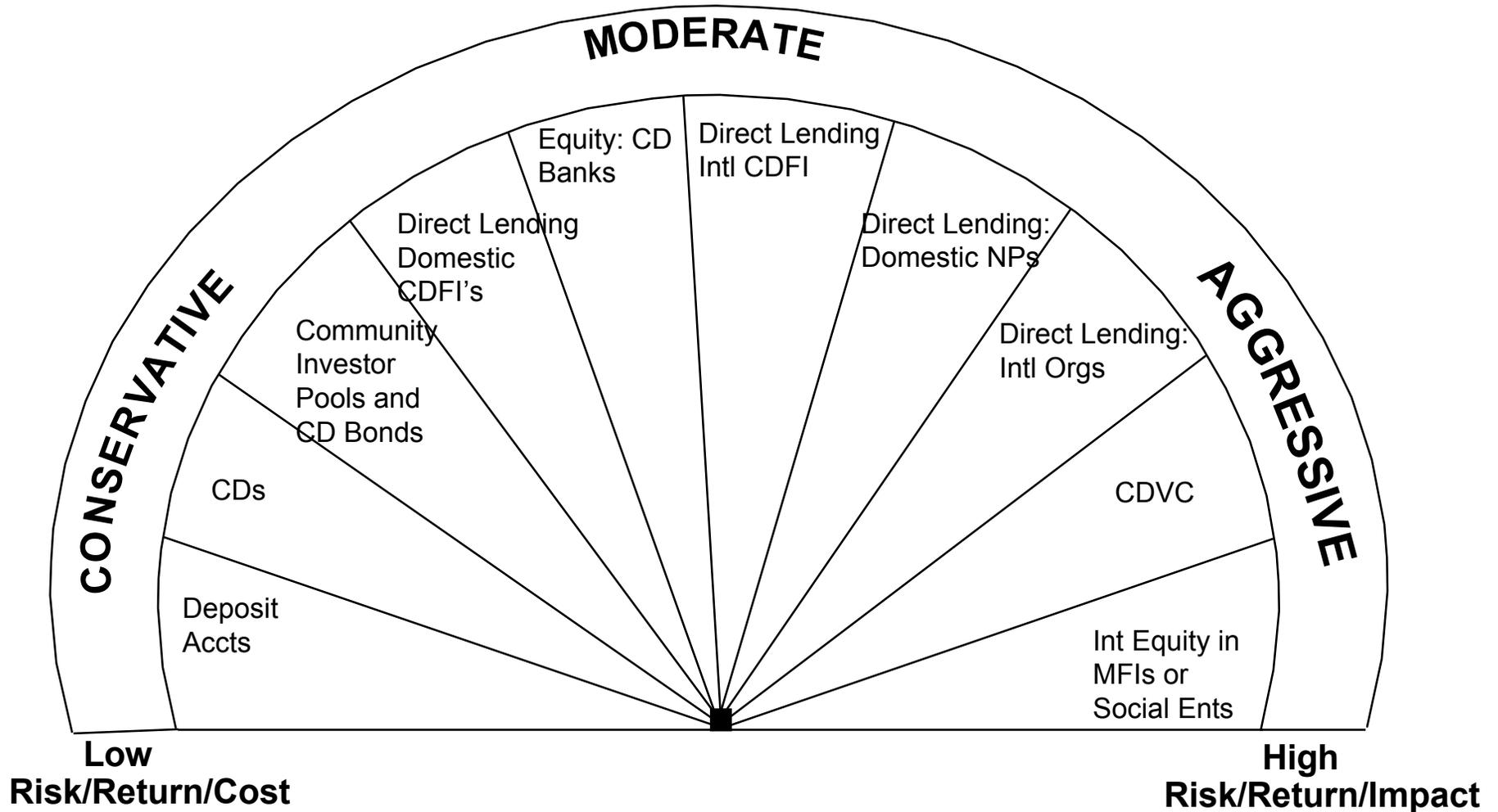
Risk/Return Paradigm

Diversified Investment Programs



Risk/Return Paradigm

Applied to Community Investing

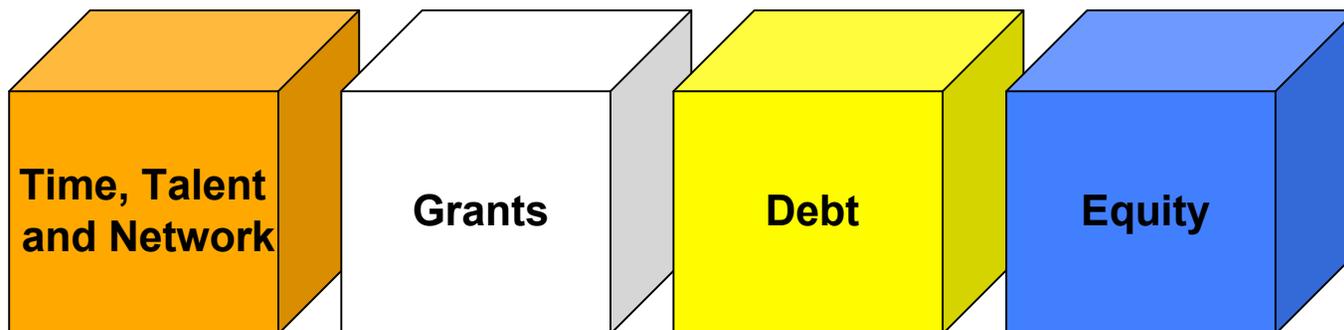


	For Profit	Non Profit
Risk Adjusted Return	<p>Proxy Voting and Screened Stock + Bond</p> <p>Agency Debt/Bond Investments</p>	
Return of Principal and Some Interest/ Appreciation	<p>Social Venture Capital</p> <p>Com. Devel. Venture Capital</p>	<p>Community Loan Funds/MFIs</p> <p>Direct Lending To Nonprofits</p>
Tax Deductible Donation		<p>Strategic Grants</p>



Traditional Found						

Adapted from Jed Emerson's Social Capital Market paper, 2000 (which was developed with Calvert Foundation).



Key Questions for Potential Investors

What is the desired social impact?

What are expectations around risk?

What is the desired return and term? Reinvestment intentions?

What is the investment timeline/scale, etc?

What are the legal entities making the investments?





Creating Effective Social Capital Markets for Community Development (Part II: Structured Dialogue)

Eliza Mahony Erikson

Investment Officer

www.CalvertFoundation.org

301-280-1374 | eliza.erikson@Calvertfoundation.org

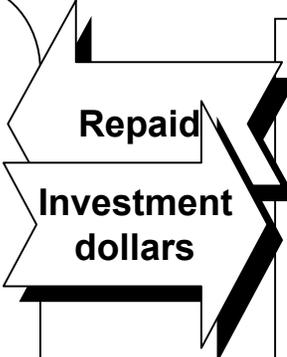
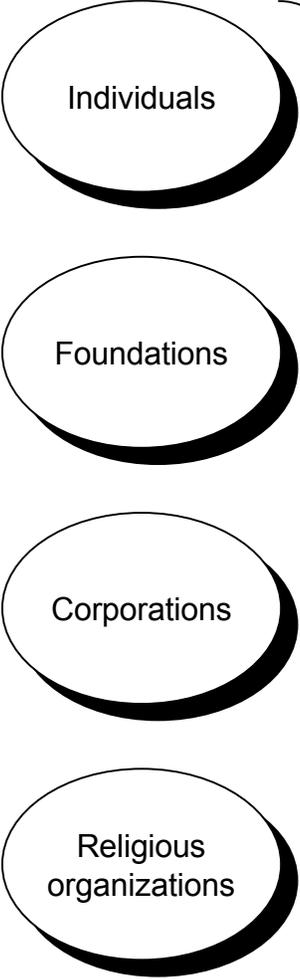
Calvert Foundation has a portfolio of three social enterprises

Social enterprises	Statistics	Description
Community Investment Note ("CCI")	▲1995 launch ▲2,000 investors ▲Assets: \$80 mm	Low-risk, low-return security , available nationally to individuals and institutions, used to provide financing for community development intermediaries on flexible terms
Community Investment Partners ("CIP")	▲1998 launch ▲700 investors ▲Assets: \$20mm+	Core capabilities on fee for service basis: <ul style="list-style-type: none"> - Due diligence and asset administration services - Investor note administration on behalf of other issuers - CIN-like securities registrations - Structuring and underwriting of investments for direct investments from foundations and social investors
Calvert Giving Fund ("CGF")	▲2001 Fall launch ▲130 donors ▲Assets: \$10mm	Donor advised fund offering mix of socially-responsible and community investment options (e.g. CIN), and providing web-based flexibility for giving and investing options

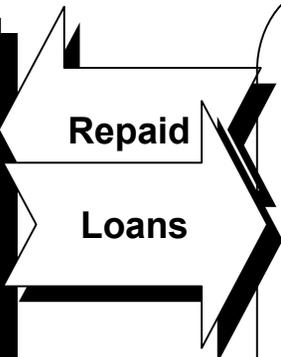


Calvert Community Investments adds value by reducing risk, providing transparency and professional management

INVESTORS



**Calvert
Community
Investments**
\$80M
2,000 investors
200 investees



BORROWERS

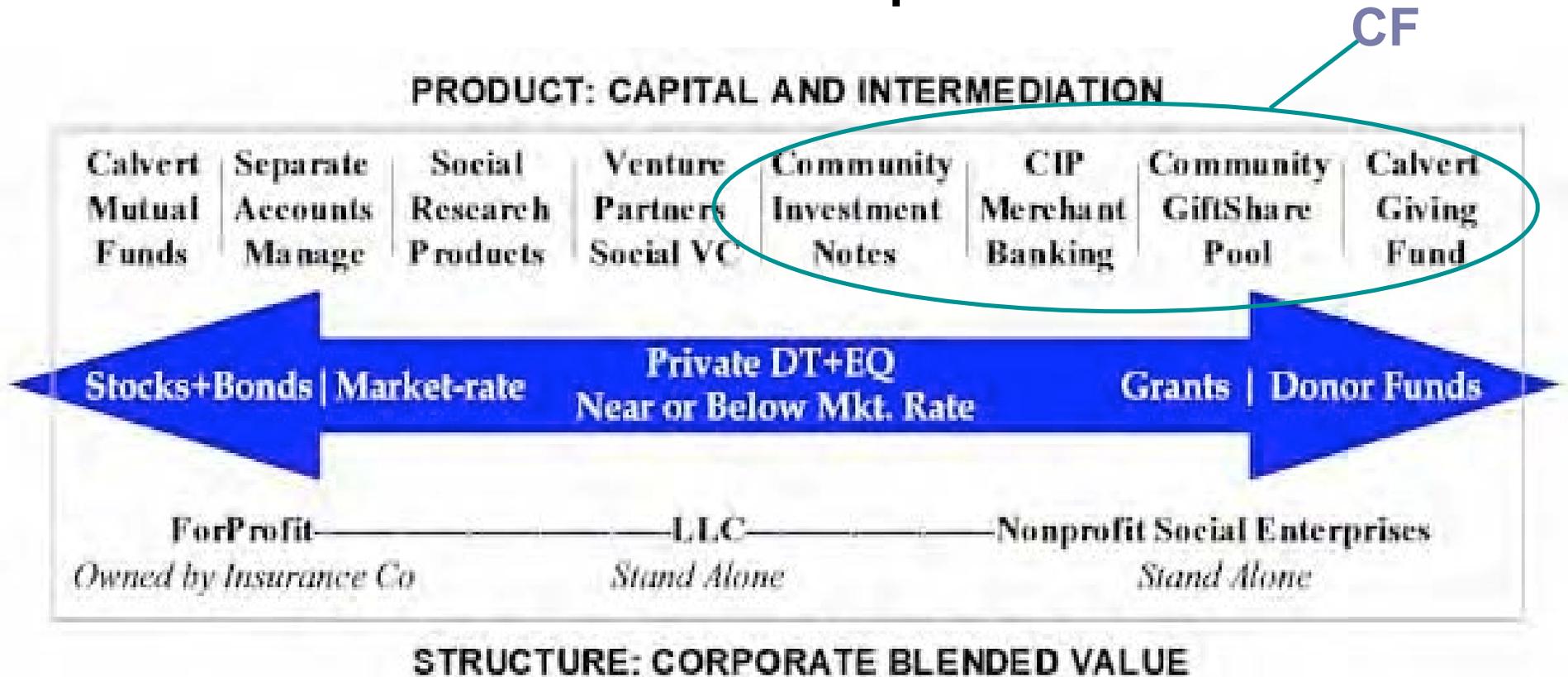


Calvert Foundation's value-added:

- **Reduces risk**
 - Security enhancement (loan loss reserves, sub-debt, net assets)
 - Portfolio diversification
- **Provides transparency**
 - Due diligence and monitoring
 - Social impact reporting
- **Provides professional management**
 - Financial administration
 - Legal structuring



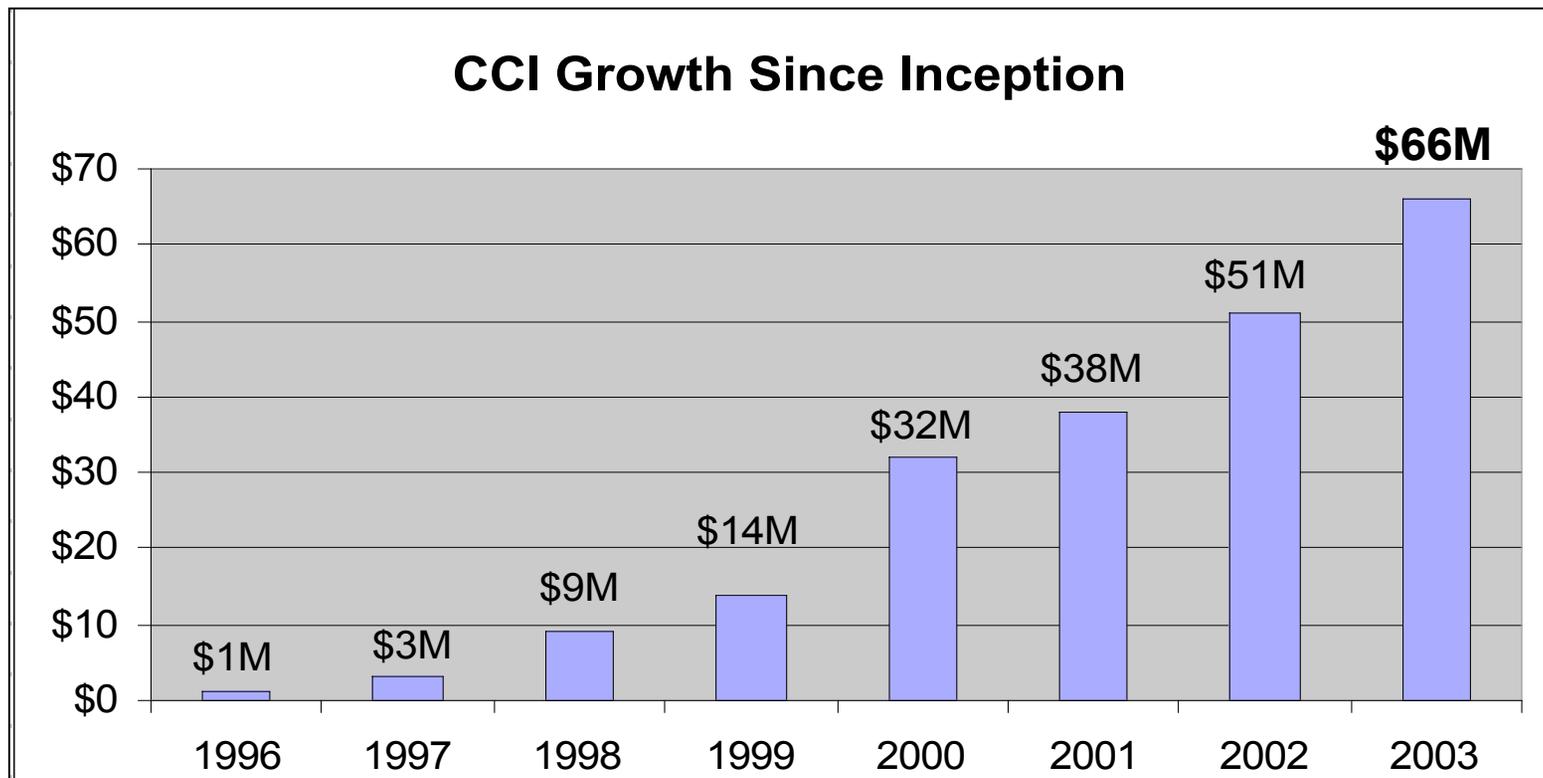
How does Calvert Foundation fit into the larger “Calvert Continuum” of enterprises and brand?



Calvert Foundation, a set of non-profit social enterprises, leverages overall brand and expertise.



Based on strong track-record of growth, Calvert Community Investments is uniquely positioned to connect investors and their asset managers with the social capital markets.



Calvert Community Investment Notes

- 1 to 3 yr Term: 0-2%; 5, 7 or 10 yr Term 0-3%; \$1,000 min
 - Security: \$12 million subordinate, equity and loan loss, portfolio diversity, professional management, monitoring
 - Liquidity: Early withdrawal available
 - Targeting: 9 Geographic Regions for Targeting
 - Custom Notes available...
 - Half of note sales, through broker-dealers and directly
 - Sales as of 12/2004, \$80 million, 2000 investors \$20 milln (avg \$10,000), 200 \$60 milln
 - » \$20 Million Calvert Funds
 - » \$40 Million: HNW, Family Foundations, Faith-Based
- *Offered by Calvert Foundation, these notes are not a mutual fund, not FDIC insured, and are not a Calvert Group product.



Calvert Foundation's financing facility...

Use of Funds: Loan capital, guarantees, pre/development working capital, facilities finance

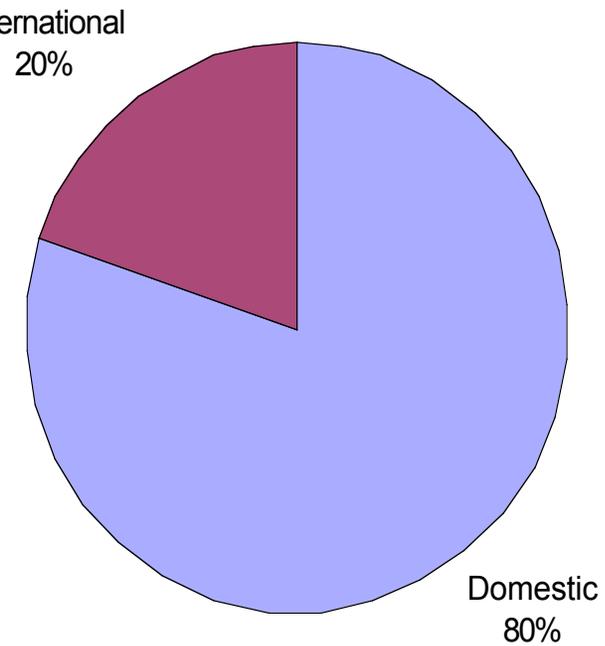
Principal: \$50,000 to \$1,500,000 (\$300,000 median, \$500,000 average) *Not to exceed 10% of the borrowers assets.*

Term: Range from 1 to 7 years.

Interest rate: 4.0% - 5.0%

Payments: Interest-only, semi-annual payments with a balloon payment at maturity.

Collateral: Generally none required. Investments are structured as general recourse obligations.



Deployment to 200 orgs \$60m (+ >\$20m managed)	Portfolio Allocation
Housing, Facilities and Multisectoral	30%
Small/Micro Enterprise	15%
CDC Developers	10%
Social Enterprises	10%
International Intermediary	12%
International Direct	8%
Certificates of Deposit	15%



Calvert Foundation's Borrower Eligibility Requirements

- Must be private, non-profit or for-profit with specific community development focus (e.g. CD Banks).
- Multi-year track record (not start-ups)
- Benefit low-income, disadvantaged communities
- Minimum scale: \$500,000 in total assets
- Outside community & institutional support
- Can use funds appropriately: loan capital, pre-development resources. There must be a portfolio effect.
- Seek geographic and program type distribution

We don't take project risk of a single project, we are not a secured lender.



A great resource for exploring community investment...

Community Investment Research

What is community investing?

- Profiles Database
- Community Investment Videos
- NewsWire
- Professional Analysis
- Industry Research
- Resource Links

Search the Community Investment Profiles™ Database

Search by lending sector and/or by area:

Coastal Enterprises - ...

Sort Organizations by name

Profile Program Story Financial Related News

Greyston Foundation

<p>Contact Info:</p> <p>21 Park Avenue Yonkers, NY 10703</p> <p>Phone: (914) 376 - 3900 Fax: (914) 376 - 1333 URL: www.greyston.com Email: juliusw@greystonbakery.com</p>	<p>Housing Lending: 25.00% Small Business: 30.00% Community Development: 45.00%</p> <p>Housing Dev: 0.00% Microlending: 0.00%</p>
--	--

Greyston Foundation (GREY) provides long-term planning, financial management, resource development, and real estate development services to the nonprofit and for-profit operating entities of the Greyston Mandala (Sanskrit for "circle," symbolic of the unity and interdependence of life). Programs in this "circle" include housing for homeless and very low-income persons, childcare, employment, job training, and residential and adult day health care for people living with HIV/AIDS. The Greyston Mandala currently serves at least 1,500 people and employs 170.

And/Or a Sector:

4. Calculate the Social Return!

Housing

Your investment of **\$100,000.00** for a **3** year term could build or improve **20.66** homes in Domestic U.S..

Microlending

Your investment of **\$100,000.00** for a **3** year term could finance **102.13** microenterprises and create **220.91** jobs in Domestic U.S..

Small Business

Your investment of **\$100,000.00** for a **3** year term could finance **15.41** small businesses and create **62.58** jobs in Domestic U.S..

Community Development

Your investment of **\$100,000.00** for a **3** year term could finance **4.21** community facilities/cooperatives in Domestic U.S..



www.CalvertFoundation.org

Obstacles

- Achieving true economies of scale: standardizing products and minimizing administrative costs with investor base that enjoys customized care and attention
 - Calvert Foundation currently 80-85% self-sufficient
- Developing financial instruments that meet the variable needs of community development organizations AND the needs of investors
 - Cracking the equity nut



Opportunities

- Consider a variety of investment vehicles to achieve philanthropic goals
- Invest in Calvert Foundation: put your assets to work to achieve both financial and social return on a global scale or here in the Midwest
- Establish your own community investment intermediaries, tapping local expertise in finance, community development, and public sector
 - Calvert Foundation can help with ideas and infrastructure: investor admin, due diligence, loan structuring, and monitoring



Key Questions for Potential Investors

What is the desired social impact?

What are expectations around risk?

What is the desired return and term? Reinvestment intentions?

What is the investment timeline/scale, etc?

What are the legal entities making the investments?

