

# Poverty Alleviation through Socially Responsible Investment

*Case Studies of Community Investing and Social Venture Capital*

*Report to the World Bank Institute*

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## ***Executive Summary***

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Poverty can be reduced through the social and environmental goals of Socially Responsible Investing (SRI) fund recipients. In 2003, the Social Investment Forum (SIF) reported that one out of every nine dollars under professional management in the United States was directed toward SRI, equating to \$2.18 trillion of the total \$19.2 trillion invested. The four SRI methods are: screening, shareholder advocacy, community investing and social venture capital. For investors interested in poverty alleviation as an explicit investment objective, it is important to recognize that tracing specific investment dollars to any changes in poverty can be done more easily with certain SRI methods.

Community investment and social venture capital funds make-up only two percent of the SRI landscape, yet they are areas worth exploring because of their direct methods for impacting poverty. This paper studies three funds and one fund recipient that use these SRI methods to reduce poverty and provide financial returns to investors. In order to assess the impacts of the selected funds on poverty, five key poverty indicators were selected for analysis: income, health, education, participation and environment. In the spirit of the Millennium Development Goals, the indicators address both monetary and non-monetary aspects of poverty.

By using case examples to exhibit the direct impact that community investment and social venture capital have on poverty alleviation, it is hoped that more attention and funding will be directed to these undercapitalized methods of SRI.

### *Case Studies*

Case 1 introduces a community development venture capital (CDVC) firm making equity investments primarily in businesses operating in the Northeastern region of the United States. CEI Ventures, Inc. (CVI) manages two CDVC funds out of Portland, Maine, and is a wholly owned subsidiary of Coastal Enterprises, Inc., a non-profit community development organization headquartered in Wiscasset, Maine. It tackles poverty in distressed and rural communities by creating quality employment opportunities through the provision of much needed capital to growth-oriented, innovative enterprises in the region. CEI Ventures has made substantial contributions to the alleviation of poverty, which it closely monitors using its CVI Social Index, while also providing above-average financial returns to investors.

Case 2 focuses on a private equity fund that implements a triple-bottom-line investment strategy, otherwise known as social venture capital (SVC). The Global Environment Fund (GEF), based out of Washington, DC, is an international investment management firm designed to provide financing and management support to companies that are generating positive contributions to environmental quality, human health and the sustainable management of natural resources around the world. GEF does not explicitly cite poverty alleviation as an objective, and does not provide quantitative measures of its social impact. However, this study has found that by providing the necessary seed capital and actively managing investments under a triple-bottom line philosophy, GEF can contribute to poverty alleviation through protection of the environment and the creation of employment, education, and healthcare opportunities for its companies' local stakeholders.

Case 3 focuses on community investment. It examines the Calvert Investment Foundation's Community Investment Notes, an investment product that allows socially conscious investors to fund initiatives in distressed communities through intermediate organizations. The Notes build on the experience of existing organizations, funding up to 10% of groups that support affordable housing, microenterprise and small business development and community initiatives in the US and overseas. By providing a small contribution to existing organizations, the Notes are able to reliably address poverty while maintaining stable financial returns. As well as providing aggregate information on social returns, Calvert Foundation has developed a Social Returns On Investment (SROI) tool that estimates social impact according to the

amount, term, region and functional focus of the investment. The tool provides an important service in communicating the benefits of socially responsible investment, and the case recommends further refinement and the adoption of similar tools by other SRI funds.

Case 4 introduces a community development financial institution (CDFI) that has been a recipient of Calvert funds. The institution, Enterprise Corporation of the Delta (ECD), focuses on breaking the cycle of poverty in the Delta regions of Arkansas, Louisiana and Mississippi, among the most economically distressed in the United States. By offering financial services to people and businesses that are traditionally underserved, ECD works to provide equal access to economic opportunities to its clients. The study finds that, despite certain weak indicators and difficulties in measuring ECD's direct or immediate social impact, ECD is helping to alleviate poverty in the region by contributing to the creation, strengthening and retention of good jobs.

### *Findings*

The four cases, which cover leading firms within their respective investment classes of socially responsible investing, demonstrate the effectiveness of both community investing and social venture capital in making substantial contributions to alleviating poverty. They do so by providing a direct mechanism to reach people and local businesses in distressed communities. Equally important is the fact that the funds active in these areas provide market returns to their investors as well. Two key factors driving their success include:

- **Technical assistance.** Combining technical assistance and investment enhances a fund's ability to fight poverty. Such an integrated approach has allowed for improved targeting of individuals belonging to disadvantaged or low-income groups.
- **Strong ethical commitment.** A key characteristic of the funds in this study is the strong ethical commitment of their management teams. These teams are committed to going beyond the typical business codes of conduct to make a positive social impact in the communities where they work.

Community investment and social venture capital funds have the potential to expand their total capitalizations if they can effectively convince investors of their high social and financial returns. There seems to be a genuine opportunity for these funds to turn their social returns into a competitive advantage over funds within their respective investment classes that are not focused on poverty alleviation. The real challenge that community investing and social venture capital firms face in doing so is related to measuring the actual returns in a way that is meaningful to investors.

Measuring the impacts on poverty by community investment and social venture capital firms has proven to be a challenge because there are no broadly accepted metrics on poverty assessment for investment purposes. While the monitoring and evaluation systems used by the funds in this study to account for their social returns are diverse, each fund has been effective in demonstrating its impact on poverty. The complexity of the systems tends to be driven by investor expectations.

The costs and labor intensiveness associated with advanced monitoring and evaluation programs are significant. Therefore, standardized metrics could be a more efficient method for organizations to calculate social impacts. Standardization may have significant benefits for investors, SRI funds and recipients, including: simplified reporting requirements; improved basis for comparing organizations and gaining more comprehensive knowledge of the impact of their investments; advancement of the SRI movement and enhancement its effectiveness; improvement of the functioning of programs and deepening their social impacts.

There are a number of challenges in creating effective standard measures, including: measuring poverty impact that is realized through various direct and indirect indicators; comparing qualitatively different outcomes; evaluating impacts in developed versus developing countries; discounting the timing of

investments (e.g., long-term and/or indirect effect on alleviating poverty); and managing limited budgets of SRI funds and recipients.

While there are many challenges involved in using a set of common indicators to capture the diverse experiences and activities of individual organizations, it would be useful to create a common language and a set of metrics that provide insight and comparison into the social impacts and activities of various organizations. Given the different nature of the funds active in community investing and social venture capital, it will be important to leave much flexibility in regard to the measurement standards used. The best approach may be to create standard measures for all impacts on poverty and then allow funds to select the best fit from this collection. This would allow funds within a certain investment class, i.e. business investing or affordable housing, to agree on the set of measures that are appropriate for their particular activities.

A social assessment approach that combines standardized metrics and qualitative information will help community investing and social venture capital increase their relatively small share of SRI capitalization, and increase the reach of their valuable poverty alleviation work to distressed communities in the developed and the developing world.

## Introduction

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At the beginning of this century, nearly half of the world's population was subsisting on less than \$2 per day. How was it possible that approximately 3 billion people still lived in dire need when the developed world had experienced extraordinary economic and technological gains in the 1990's? Why had attempts to reduce poverty in many developing countries failed time after time over the past 50 years? These questions haunted the international community and led to a commitment in September 2000 by United Nations (UN) member states to aggressively address both the monetary and non-monetary conditions of poverty. The Millennium Development Goals provided the roadmap to significantly alleviate poverty by 2015: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development.<sup>1</sup>

With approximately ten years remaining to meet the Millennium Development Goals, there is still great progress to be made. In September 2003, the World Bank published "World Development Report 2004: Making Services Work For Poor People" which revealed that progress toward nearly all of the goals was too slow and that targets for universal primary education, gender equality, child and mother mortality and HIV/AIDS were at great risk of not being met by the deadlines in place. And the progress that was being made toward the goals was not consistent across regions. Poverty conditions in Sub-Saharan Africa declined between 1990 and 1999 while dynamic progress was being made in China, India and East Asia.<sup>2</sup> As the years since 2000 have passed without significant advances being made toward the goals, it has become increasingly clear that great efforts must be made by a wide range of parties in developed and developing countries including: government, international development agencies, civil society organizations, business, investors and individuals. This report focuses on the ability of investors to alleviate poverty through Socially Responsible Investing (SRI) methods.

### *Socially Responsible Investing*

The practice of reaping financial and social returns from investments has been increasingly popular since the early 20<sup>th</sup> century when SRI simply provided a way for investors to exercise personal values by divesting alcohol, gambling and tobacco stocks.<sup>3</sup> In 2003, the Social Investment Forum (SIF) reported that one out of every nine dollars under professional management in the United States was directed toward SRI, equating to \$2.18 trillion of the total \$19.2 trillion invested.<sup>4</sup> The four SRI methods are:

1. **Screening.** The practice of including or excluding publicly traded securities from investment portfolios or mutual funds based on social and/or environmental criteria (as defined by SIF).
2. **Shareholder advocacy.** Actions socially aware investors take in the role as owners of corporations, including dialoguing with companies on issues of concern, as well as filing and voting proxy resolutions (as defined by SIF).
3. **Community investing.** The flow of capital from investors to communities that are underserved by traditional financial services (as defined by SIF). It enables Community Development Financial Institutions (CDFIs) to offer credit, equity, capital, and basic banking products to low-income individuals and small businesses. Additionally, it supplies capital for vital community services that contribute to poverty alleviation and economic development, such as education, technical support, child care, affordable housing, and healthcare.
4. **Social venture capital.** A type of screening, but refers specifically to investing that integrates community and environmental concerns into professionally managed venture capital portfolios. The essence of venture capital lies between providing capital and management assistance to companies creating innovative solutions to social and environmental problems, and institutional investors investing on potential one billion dollar technologies (as defined by SIF). Also referred to as **double or triple bottom line private equity investing** (DBL or TBL).

<sup>1</sup> More information on the Millennium Development Goals can be found at <http://www.developmentgoals.org/index.html>.

<sup>2</sup> "World Development Report 2004: Making Services Work For Poor People," September 2003, pg. 10. <http://econ.worldbank.org/wdr/wdr2004>.

<sup>3</sup> Emerson, Jed, Bonini, Sheila, Brehm, Kim, "The Blended Value Map Report – 2003," October 2003, p. 41.

<sup>4</sup> "2003 Report of Socially Responsible Investing Trends in the United States," Social Investment Forum, October 2003, p. i. See [http://www.socialinvest.org/areas/research/trends/sri\\_trends\\_report\\_2003.pdf](http://www.socialinvest.org/areas/research/trends/sri_trends_report_2003.pdf) for full report.

According to SIF, 98 percent of SRI investments made in 2003 used the screening method, accounting for \$2.15 trillion of the \$2.18 trillion invested in SRI. Of the \$2.15 trillion, \$1.99 trillion was invested in portfolios managed separately for individuals and institutions and \$162 billion was invested in mutual funds. Approximately 20 percent (\$441 billion) of the \$2.15 trillion invested in portfolios was directed toward funds that engaged in shareholder advocacy tactics for social and environmental issues. In 2003, community investment totals reached \$14 billion<sup>5</sup> and DBL assets available for investment in social and environmental areas totaled \$1.9 billion.<sup>6</sup> These two methods account for only two percent of SRI assets.

While many investment areas were shrinking, there was growth in three of the SRI methods between 2001 and 2003. Screened portfolios were up seven percent, shareholder advocacy grew by 15 percent and, most impressively, community investment expanded by 84 percent from \$7.5 billion in 2001 to \$14 billion in 2003.<sup>7</sup> Information on the growth or decline of social venture capital assets is less clear. It appears that after peaking in 2001, there was a decline in capital invested by these funds in 2002, which was in sync with an overall decline in venture capital at that time. While DBL investments declined in 2002, the total number of deals increased.<sup>8</sup>

The business aspect of SRI cannot be ignored. It cannot be assumed from the continual growth of assets under SRI management that investors simply have a growing desire to contribute to social or environmental causes. SRI is not only about social concerns: most investments require full financial, market-rate returns. And, screened portfolios have performed just as well as those that were not screened.<sup>9</sup> In recent years, the financial fallout from corporate scandals has heightened the risk to both corporations and investors of unethical business practices. Due to the increasing market for “responsible” business and investment, it is important to critically review SRI funds to ensure that social and environmental objectives are being met.

The social and/or environmental direction of SRI funds varies greatly among the different funds and investments. Screened portfolios offer a wide choice of criteria for investment such as funds focusing on environmental sustainability or excluding companies that conduct animal testing. The five most popular screens for SRI mutual funds in 2003 were tobacco, alcohol, labor relations, environment and gambling. Popular subjects of shareholder resolutions include labor standards, environment, equal employment and, increasingly, corporate governance. Typical criteria for community investment are affordable housing, living wages, minority ownership, environment and ethical business practices.<sup>10</sup> DBL investments focus on areas such as environment, energy, women and minority-owned business, health, education and agriculture.<sup>11</sup>

### *Measurement*

Ensuring that social investments are meeting their stated social and/or environmental objectives has proven to be a challenge to the SRI and business communities. The deliberation over how to measure the value of non-financials also extends to the development and philanthropic fields. Currently, many SRI funds do not place great emphasis on social impact analysis beyond anecdotal evidence because 1) there are no commonly accepted measurement systems and 2) there tends to be little money apportioned to developing reporting systems for non-financial impacts.<sup>12</sup> The outlook for measurement is promising, as there are dozens of organizations researching and experimenting with methods for social and environmental impact analysis such as the World Economic Forum, the Coalition for Environmentally Responsible Economies (CERES), SustainAbility and The Urban Institute.<sup>13</sup> Additionally, many funds have

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<sup>5</sup> Ibid, pps. i, ii.

<sup>6</sup> Clark, Catherine and Gaillard, J.T., “RISE Capital Market Report: The Double Bottom Line Private Equity Landscape in 2002-2003,” Social Enterprise Program, Eugene M. Lang Center for Entrepreneurship, August 2003. See <http://www.riseproject.org> for full report.

<sup>7</sup> “2003 Report of Socially Responsible Investing Trends in the United States,” pps. i, ii.

<sup>8</sup> “RISE Capital Market Report: The Double Bottom Line Private Equity Landscape in 2002-2003,” p. 17.

<sup>9</sup> Ibid, p. 12.

<sup>10</sup> Ibid, pps. 9, 18, 25.

<sup>11</sup> “RISE Capital Market Report: The Double Bottom Line Private Equity Landscape in 2002-2003,” p. 14.

<sup>12</sup> “The Blended Value Map Report – 2003,” p. 78.

<sup>13</sup> Ibid, pps. 81, 85, 89.

developed their own measurement systems and perhaps there can be a concerted effort in the future to share best practices. This report will present the measurement systems, among other functions, of three SRI funds and one fund recipient that are forging ahead in this area.

### *SRI & Poverty Alleviation*

Poverty can be reduced through the social and environmental goals of SRI fund recipients. For investors interested in poverty alleviation as an explicit investment objective, it is important to recognize that tracing specific investment dollars to any changes in poverty can be done more easily with certain SRI methods, including community investment and social venture capital.

A report prepared in August 2002 by Emerging Market Economics (EME) for the Department for International Development (DFID) found that none of the screened portfolio funds included poverty alleviation as a criteria.<sup>14</sup> This is not surprising since managers of these funds require metrics that would allow them to compare the poverty impacts of a potential investee with other companies in its sector. Unlike the more advanced field of environmental screening, such metrics have not been developed for poverty alleviation. With screened portfolios, poverty alleviation is the indirect result of an investee company's actions such as employment or community practices.<sup>15</sup> While recipients of screened funds may have an impact on poverty alleviation, it is difficult to trace individual investment dollars to the social outcomes of these investees. Investors in these portfolios can better target poverty by investing in sectors like healthcare, labor-intensive manufacturing, food and agribusiness, and retail, which can have a strong influence on poverty reduction.<sup>16</sup>

By nature, community investing and social venture capital offer more clear ways for investors to follow their financial outlay to poverty alleviation and other social or environmental impacts. Typically, recipients rely on these investments to fund significant portions of their business and, in turn, the funds select recipients based on their ability to provide both social and financial returns. As a result, investors in these funds can often learn how many houses will be built or jobs will be created with a particular investment amount. This is a highly satisfying finding for investors interested explicitly in poverty reduction.

Community investment and social venture capital funds make-up only two percent of the SRI landscape, yet they are areas worth exploring because of their direct methods for impacting poverty. This paper studies three funds and one fund recipient that use these SRI methods to reduce poverty and provide financial returns to investors. In order to assess the impacts of the selected funds on poverty, five key poverty indicators were selected for analysis: income, health, education, participation and environment. In the spirit of the Millennium Development Goals, the indicators address both monetary and non-monetary aspects of poverty.

“People can never agree on what benefits and costs are. But they can and do agree on outrageous successes and outrageous failures. Find these among your projects. Study them. Compare them. Share your results, and learn some more.”<sup>17</sup>

By using case examples to exhibit the direct impact that community investment and social venture capital have on poverty alleviation, it is hoped that more attention and funding will be directed to these undercapitalized methods of SRI.

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<sup>14</sup> EME, p. 16.

<sup>15</sup> Ibid, p. 19.

<sup>16</sup> Ibid, p. 32.

<sup>17</sup> Frederick Mosteller, as quoted by Robert Klitgaard in “Comments on ‘Assessing the Impact of Transport and Energy Infrastructure in Poverty Reduction’ RETA 5947,” October 2001.

## Case 1: Community Development Venture Capital *CEI Ventures, Inc.*

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*This case study was developed in cooperation with Ms. Dawn M.E. Stillings, an Investment Associate at CEI Ventures, Inc. The main objective is to demonstrate the effectiveness of the approach in community economic development and to encourage development professionals working both domestically and abroad to consider whether pursuing a similar approach in their own communities could be fruitful.*

### ORGANIZATIONAL OVERVIEW

CEI Ventures, Inc. (CVI) was founded in 1993. It is a community development venture capital (CDVC) firm combining the community investing and social venture capital approaches to socially responsible investing, and invests at both the regional and national levels. CEI Ventures is a wholly-owned, for-profit subsidiary of Coastal Enterprises, Inc. (CEI), a non-profit community development organization. Coastal Enterprises is headquartered in Wiscasset, Maine, while CEI Ventures is located in Portland, Maine. CEI Ventures leverages its strong relationship with Coastal Enterprises, which is based on a shared vision and mission, to jointly stimulate community economic development:

#### *Vision:*

"A sustainable society where there are significantly fewer people with low incomes, more people with adequate housing, more community reinvestment, more worker ownership of business, and more people participating in decision-making processes. There are quality income, ownership and employment opportunities for everyone."

#### *Mission:*

"To help people and communities, especially those with low incomes, reach an adequate and equitable standard of living, working and learning, in harmony with the natural environment."

CEI Ventures is using the tools of venture capital and mobilizing private capital markets to grow profitable companies and provide above-average equity returns. It also offers management assistance in strategic planning, financing and a network of service providers in the local and national business communities to its portfolio companies. In addition, it is working toward the advancement of a number of social goals:

- Create quality employment opportunities
- Promote progressive management practices
- Support socially beneficial products and services
- Enrich distressed and rural communities

Prior to 1993, when CEI Ventures was founded, Coastal Enterprises already had made 16 equity investments. To date, these investments have an internal rate of return (IRR) of 17%. Building on this track record, CEI Ventures has been able to raise two venture capital funds totaling over \$25 million and is using these funds to stimulate community economic development.

#### *Focus on Poverty Reduction*

CEI Ventures is bound to the principles of the "3Es – Economy, Environment, and Equity."<sup>18</sup> Beyond alleviating poverty by creating jobs for people with low-income backgrounds or ownership opportunities for people in the middle class, it provides support to individuals who are at risk of poverty. This group

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<sup>18</sup> Bisson, Keith, "Netting Venture Capital from a Fishing Village," *Communities & Banking*, a Federal Reserve Bank of Boston Publication (Summer 2002): 5.

includes recipients of Temporary Assistance to Needy Families (TANF), people with disabilities, youth, displaced homemakers, minorities, dislocated workers and older workers.

At the closing of an investment deal, CEI Ventures requires all of its portfolio companies to sign the Employment Training Agreement (ETAG). ETAG includes a commitment to create at least one half of all new jobs for people with low-income or disadvantaged backgrounds. Initially, Coastal Enterprise's Targeted Opportunities (TOPS) Department performs an Employment Training Assessment to help a portfolio company identify its short- and long-term employment needs. Part of this process includes identifying disadvantaged groups that may be able to fill the specified needs. Furthermore, TOPS analyzes the company's employment training needs and identifies local resources, including professional services and funding.

TOPS utilizes the most recent data on income limits from the U.S. Department of Housing and Urban Development (HUD) as its guideline to identify individuals from low-income backgrounds. By using income-limit data from HUD, which is calculated down to the county level, each assessment takes into account that socio-economic conditions may vary significantly within a state or even neighboring county.

## INVESTMENT APPROACH

### *Funds Under Management*

CEI Ventures, Inc. presently manages two socially responsible venture capital funds, namely Coastal Ventures Limited Partnership (CVLP) and Coastal Ventures II LLC (CVIILLC). Investors in both funds vary significantly as shown below:

<b>CVLP</b>	<b>Commitments</b>	<b>CVIILLC</b>	<b>Commitments</b>
Coastal Enterprise, Inc.	\$450,000	Coastal Enterprise, Inc.	\$1,350,000
Private Individuals (1)	50,000	Private Individuals (5)	800,000
Banks/Financial Institutions (9)	2,020,000	Banks/Financial Institutions (16)	12,250,000
Foundations (5)	2,350,000	Foundations (4)	4,400,000
Government & NGO (3)	670,000	Government & NGO (2)	1,200,000
<b>Total</b>	<b>\$5,540,000</b>	<b>Total</b>	<b>\$20,000,000</b>

In raising the CVLP and CVIILLC funds, CEI Ventures' management team emphasized the importance of the experience and reputation it attained in managing its original equity portfolio composed of 16 investments. This experience translated into investor confidence in the fund managers, making it possible to surpass CEI Venture's initial goal of \$5 million for the CVLP fund and to raise \$20 million for the CVIILLC fund. As shown above, local banks have invested heavily in both socially responsible funds. Local banks, in particular, have an incentive to invest in the fund, because they receive Community Reinvestment Act (CRA) credits. The CRA encourages depository institutions to assist communities in which they operate, including low- and middle-income neighborhoods, to meet their credit needs.

The CVLP fund has been fully invested and only two years remain in the fund's life. Although the investment mechanics between managers and investors of the CVIILLC fund are typical of traditional venture capital funds, a few differences exist. Investors have committed their capital investments for a term of up to ten years – the term may be extended up to two years. The fund managers will earn a management fee of 2.5 percent. Although typical, the fee does not equate to a significant operating budget considering the relatively small size of the fund. While other community development venture capital funds will receive subsidies to their operating budgets from their parent organizations, CEI Ventures has chosen not to do so. In addition, the investors and fund managers will divide profits earned using the industry standard – investors receive 80% and fund management receives 20%. Profits are not divided, though, until all capital has been returned to their investors. Given the relatively small management fee, fund managers have a carried interest in financing companies with substantial growth and profit potential.

CEI Ventures invests in companies that have a capital need between \$1-5 million and growth objective of \$10-50 million in five to seven years. The fund makes equity investments between \$100,000 and \$2 million with an average investment goal of \$1 million. When necessary, the remainder of the equity gap is funded by syndicating with other investors, including institutional investors, other venture capital firms and private investors. It is common for CEI Ventures to partner with other socially minded investors. By doing so, CEI Ventures' voice is strengthened on the board of directors of its portfolio companies. As a rule, CEI Ventures always has a member or observer on each portfolio company's board of directors to provide guidance and ensure that the companies in which it invests are able to reach their financial and social goals.

### *Fund Investment Criteria*

CEI Ventures evaluates potential investments based on the following criteria:



While most venture capital firms use criteria, such as the quality and experience of the management team, growth and profit opportunity, competitive advantage, and potential for an attractive return, it is more common for community venture capital firms to include an additional community development component, which is named social benefit in this case. As mentioned earlier, CEI Ventures is dedicated to creating quality employment opportunities for disadvantaged individuals and individuals from low-income backgrounds. CEI Ventures ensures that companies seeking financing are aware of these criteria in the initial stages. As part of the financing process, CEI Ventures requires firms desiring financing to provide a description of social benefits in their initial business plan submission.

### *Regional/Industry Focus*

Given its community economic development focus, CEI Ventures has invested primarily in companies based in Maine, which has suffered economic hardship:

#### **Active Portfolio Companies (CVLP and CVIILLC only)**

Maine (13)  
New Hampshire (4)  
Massachusetts (3)  
New York (2)  
New Jersey (1)  
Pennsylvania (1)  
Vermont (1)

As America has evolved, the number of manufacturing jobs has declined due to greater automation in factories and sending such jobs abroad. Regardless, CEI Ventures focuses on finding young startup companies in this area that have the capacity to grow low income jobs. The healthcare industry is considered a strategic growth area because of the industry's livable wages, benefits and career opportunities. In addition, investing in this industry has social returns to the community as a whole by improving local healthcare services. Overall, though, CEI Ventures manages a diverse portfolio:

### CEI Ventures' Investments by Sector

Apparel	Healthcare	Metal Fabrication
Biotechnology/Health	Home Furnishings	Publishing
Construction Finance	Internet-related	Software
Consumer Products	Leasing	Technology/Media
Environmental	Mail Order/Manufacture	Telecom Equipment
Food Processing	Manufacturing	Telecommunications

#### *Exit Strategy*

In venture capital, it is common for portfolio companies to be acquired by larger companies. Since CEI Ventures is dedicated to creating new jobs, it ensures that local jobs are not eliminated during the acquisition process. In the case of one of its portfolio companies named CV Finer Foods, the acquiring company actually transferred jobs from out of state up to the portfolio company in Maine. In another case in which one of CEI Ventures' portfolio companies was being considered for acquisition, the acquiring company planned to close down the portfolio company's factory. CEI Ventures advocated for additional compensation above the prescribed level of the acquiring company, and in the end, the deal did not go through.

### MONITORING AND EVALUATION

CEI Ventures places the most emphasis on its investment decisions during the initial stages. As mentioned earlier, CEI Ventures makes sure that the companies' management teams are in agreement with its mission and social goals. Once an investment has been made, CEI Ventures uses its social index to ensure that each of its portfolio companies stays on course to reach its financial and social goals.

#### *CVI Social Index*

CEI Ventures created the CVI Social Index, which tracks 45 indicators ranging from financial to social measures. CEI Ventures works with each portfolio company's management to set annual projections, against which its performance is then evaluated. Below is a sample of the indicators:

<b>Investment</b>	<b>Employment</b>	<b>Compensation</b>	<b>Other Benefits</b>	<b>Financial</b>
Industry sector	Pre-investment employment	Average starting wage	% Jobs with ownership opportunity	Local, state and federal taxes paid
State of Maine	Jobs created	Average wage for CEI-targeted jobs	% Jobs with profit sharing	Annual Maine payroll
Other State	Low-income jobs created	% Jobs with health insurance	% Jobs with gain sharing	Total company sales
County	Ex-public assistance jobs created	% Jobs with dental insurance	% Jobs with employee decision-making	% Company selling outside Maine
Venture capital imported	Female employees	% Jobs with retirement benefits		% Company selling outside the U.S.
Total bank loans to portfolio companies	Minority employees	% Jobs with disability insurance		Revenue growth rate
Total # of exits	% Unskilled jobs	% Childcare assistance		Total net income
Total # of Employee Stock Ownership Plan (ESOP) exits	% Semi-skilled jobs	% Education assistance		
	% Skilled jobs			
	% Managerial jobs			

The portfolio companies are required to provide the above information to CEI Ventures. Evaluations using these measures are performed on a quarterly basis and the results are sent to each fund's investors.

### *Challenges*

CEI Ventures' major difficulty in monitoring and evaluation is related to actually getting the information. It is important to keep in mind that portfolio companies have strict operating budgets, and, therefore, it is necessary to keep the monitoring and evaluation process simple.

While standardization is necessary to the extent that it allows a fund's performance to be compared with others, standardized indicators may however bring attention to less important issues, or may even be meaningless. For instance, a community development venture capital fund receiving capital from a large national foundation may be required to count jobs created using a certain method and categories. While this particular method may be appropriate for the CDVC fund given the socio-economic conditions of the particular region, the categories may prove insignificant to another CDVC fund working in another region.

## **IMPACT ASSESSMENT**

This case study now assesses CEI Ventures' impacts across five dimensions of poverty, which have been derived from the Millennium Development Goals (MDGs). The categories include income, health, education, participation and environment.

### *Income*

CEI Ventures has been a catalyst for high-paying job creation. Not only has it exceeded its goal in terms of the total number of jobs created, but, on average, portfolio company employees are receiving better-than-expected wages. According to Ms. Dawn M.E. Stillings, Venture Associate at CEI Ventures, increasing low-income impact remains a significant challenge. All in all, it takes a long time for portfolio companies to create such jobs. This challenge is inherent to venture capital; portfolio companies are expected to operate with the utmost efficiency and thus tend to employ individuals who can perform multiple tasks across many functions of the enterprise, meaning there are not a large number of jobs for low-income and disadvantaged workers in the early stages. As portfolio companies mature, though, one can expect an increasing number of jobs to be created for these individuals.

### *Health*

In terms of addressing the health needs of portfolio company employees, CEI Ventures, for the most part, is exceeding its overall projections. Approximately 97% and 73% of the employees working at the portfolio companies financed by the CVLP and CVIILLC funds, respectively, are receiving health insurance from their employers. According to Ms. Stillings, ensuring that the portfolio company employees have health insurance is a top priority. Thus, as portfolio companies mature, they are expected to increasingly provide better health insurance to a larger proportion of their employees. Given the youth of the CVIILLC fund, and thus its portfolio companies, it is probable that as these companies grow, they will increasingly contribute to their employees' well-being in the form of health and other insurance. In addition, the funds' investments in healthcare companies are also improving the capabilities of local healthcare establishments. As a result, the populations of the communities where these companies operate may benefit from improved healthcare services and access.

### *Education*

Neither the CVLP nor CVIILLC fund has achieved its goal to provide 46% education assistance to portfolio company employees. As the firm looks to increasingly target the creation of jobs for low-income or disadvantaged individuals, one can expect portfolio companies to contribute additional company dollars toward education assistance.

### *Participation*

CEI Ventures has been highly effective in creating jobs for both women and minorities. At the same time, it has created new opportunities for middle-income individuals to become partial owners of the portfolio companies where they work. As shown in the matrix below, the number of portfolio company employees who are women (1,194) far exceeds the initial target of 348. The same is true for the number of portfolio company employees who are minorities (127), which is over seven times the initial target of 17.

### *Environment*

Presently, CVI's social index does not include environmental measures. Ms. Stillings stated, though, that the management team has made it a priority to integrate such measures in the near future.

Overall, CEI Ventures' impact on poverty in the state of Maine, and its neighboring states has been positive. CEI Ventures has provided an attractive financial return to its investors and, at the same time, been effective in its mission to create over 500 new jobs in the region, including 144 jobs for individuals who are threatened by poverty or come from disadvantaged backgrounds.

## **CVI CONCLUSION**

Given the demonstrated success of CEI Ventures in reducing poverty in and around its community, it is necessary to consider the possibility of replicating some or all of its activities in other distressed communities both domestically and abroad. Understandably, community development venture capital is not suitable for every distressed community. For example, the financing gap that CEI Ventures addressed in Maine does not exist in every community. For those communities that do undertake such an initiative, though, it is important to remember how CEI Ventures began. Prior to raising its five million and then twenty million dollar funds, it was necessary to build a successful track record in equity investing. Coastal Enterprises made 16 equity investments, which were highly profitable and had demonstrated social impacts to the community, before CEI Ventures was founded.

Furthermore, it has been advantageous to integrate the activities performed by Coastal Enterprises and CEI Ventures. Such an integrated approach has allowed for improved targeting of individuals belonging to disadvantaged or low-income groups. For example, Coastal Enterprises has been effective in identifying and training the people that both firms aim to reach. At the same time, CEI Ventures has stimulated community economic development by investing in local companies with significant growth potential. In turn, these investments have resulted in the creation of over 500 jobs; a large proportion of these jobs have been filled by individuals who were trained through Coastal Enterprises' programs for these particular jobs. On the whole, integrating the activities performed by these two organizations has helped to reduce poverty in their community.

Lastly, all communities are quite different. Therefore, prior to making any serious advancement towards such an approach, it is an absolute necessity to fully understand the community in which the community development venture capital fund intends to invest and work. Each community possesses different qualities, and thus has different needs. For that reason, each community development venture capital fund will focus on different industries, target diverse portions of the population, and maybe even evaluate its success on a separate set of metrics. In the end, other community development venture capital funds most likely will appear quite differently from CEI Ventures. By focusing on meeting each community's particular needs, the fund will be on the right track to success.

The table below highlights CEI Ventures' returns across the five dimensions of poverty:

Measurement Categories:	Quantitative Impacts on Poverty Matrix
Income	CVI Social Index Performance: <ul style="list-style-type: none"> <li>• 2,190 persons employed (852 expected)</li> <li>• 513 jobs created (431 expected)</li> <li>• 144 low-income jobs created (159 expected)</li> <li>• Average starting wage               <ul style="list-style-type: none"> <li>- CVLP: \$15 per hour (expected \$10.47)</li> <li>- CVIILLC: \$21 per hour (expected \$10.46)</li> </ul> </li> <li>• Average wage, CEI targeted jobs               <ul style="list-style-type: none"> <li>- CVLP: \$10 per hour (expected \$7.31)</li> <li>- CVIILLC: \$9 per hour (expected \$7.42)</li> </ul> </li> <li>• % Jobs with retirement benefits               <ul style="list-style-type: none"> <li>- CVLP: 64% (expected 26%)</li> <li>- CVIILLC: 45% (expected 26%)</li> </ul> </li> <li>• \$6.4 million in local, state and federal taxes paid (expected \$4.9 million)</li> </ul>
Health	CVI Social Index Performance: <ul style="list-style-type: none"> <li>• % Jobs with health insurance               <ul style="list-style-type: none"> <li>- CVLP: 97% (expected 80%)</li> <li>- CVIILLC: 73% (expected 80%)</li> </ul> </li> <li>• % Jobs with dental insurance               <ul style="list-style-type: none"> <li>- CVLP: 66% (expected 28%)</li> <li>- CVIILLC: 60% (expected 28%)</li> </ul> </li> <li>• % Disability coverage               <ul style="list-style-type: none"> <li>- CVLP: 61% (expected 41%)</li> <li>- CVIILLC: 65% (expected 41%)</li> </ul> </li> </ul>
Education	CVI Social Index Performance: <ul style="list-style-type: none"> <li>• 23% Education assistance for both CVLP and CVIILLC (expected 46%)</li> </ul>
Participation	CVI Social Index Performance: <ul style="list-style-type: none"> <li>• 1,194 women employed (348 expected)</li> <li>• 127 minorities employed (17 expected)</li> <li>• Over \$26.4 million in total bank loans to portfolio companies</li> <li>• Employment breakdown               <ul style="list-style-type: none"> <li>- % Unskilled jobs                   <ul style="list-style-type: none"> <li>- CVLP: 6% (expected 12%)</li> <li>- CVIILLC: 9% (expected 12%)</li> </ul> </li> <li>- % Semi-skilled jobs                   <ul style="list-style-type: none"> <li>- CVLP: 24% (expected 20%)</li> <li>- CVIILLC: 15% (expected 20%)</li> </ul> </li> <li>- % Skilled jobs                   <ul style="list-style-type: none"> <li>- CVLP: 51% (expected 50%)</li> <li>- CVIILLC: 62% (expected 50%)</li> </ul> </li> <li>- % Managerial jobs                   <ul style="list-style-type: none"> <li>- CVLP: 22% (expected 18%)</li> <li>- CVIILLC: 25% (expected 18%)</li> </ul> </li> </ul> </li> <li>• Ownership/Decision-making               <ul style="list-style-type: none"> <li>- % Jobs with ownership opportunity                   <ul style="list-style-type: none"> <li>- CVLP: 50% (expected 10%)</li> <li>- CVIILLC: 78% (expected 10%)</li> </ul> </li> <li>- % Jobs with employee decision-making                   <ul style="list-style-type: none"> <li>- CVLP: 47% (expected 35%)</li> <li>- CVIILLC: 63% (expected 35%)</li> </ul> </li> </ul> </li> </ul>
Environment	Presently under development

## **Case 2: Social Venture Capital & Triple-Bottom Line Investing**

### ***The Global Environment Fund***

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*This case study was developed in cooperation with Mr. H. Jeffrey Leonard, President, Chief Executive Officer and Founding Partner of the Global Environment Fund (GEF). The following study seeks to illustrate the merits and impacts of GEF's triple-bottom line investment strategy as it relates to ameliorating the living conditions in the developing countries in which the investments are made.*

#### **ORGANIZATIONAL OVERVIEW**

The Global Environment Fund (GEF) was launched in Washington, DC, in 1989 with the goal of achieving investment returns through private equity investments in companies having a positive impact on environmental quality, human health, community development and the sustainable management of natural resources. GEF is an SEC-registered international investment management fund that falls into the category of venture capital funds that have made a commitment to screen companies in order to ensure that they operate in a socially responsible manner.

##### *Mission:*

To develop, finance, and manage successful businesses that promote sustainable natural resource management, a cleaner environment, and improved public health.

Over the past several years, GEF has completed over 30 private equity or early-stage technology investments in companies operating in a wide-range of industries in all the major geographic regions of the world. These industries include forestry, energy, transportation, healthcare, waste management, and technology development. Additionally, through the Global Environment Capital Company, GEF's capital investment vehicle, it develops, finances and takes controlling interests in principal investments for its own account.

The Global Environment Fund is managed by a team of internationally experienced investment professionals with complementary backgrounds and specialized skills in areas such as private equity, project finance, legal structuring, corporate governance, environmental technologies and business enterprise development.

##### *Focus on Poverty Reduction*

Poverty alleviation is not an explicit goal of the Global Environment Fund. However, the Fund has made a positive impact on poverty by screening its investments and targeting those companies that are striving to ensure environmental sustainability. In addition, once GEF invests in a company, its management style reflects the belief that it makes good business sense to address human health, education, literacy and other social issues surrounding its employees and community stakeholders.

#### **INVESTMENT APPROACH**

The Global Environment Fund's investment philosophy rests on the belief that private sector investments in improved management, infrastructure and technology can tackle the world's environmental destruction and climate change dilemmas. The Fund's underlying investing philosophy is based on a triple-bottom line method that underscores the following:

- Sustainable cash flow
- Environmental conservation
- Community development

GEF utilizes a proactive investment strategy and begins with a detailed analysis of international economic and industry trends in search of attractive investment opportunities. Once a particular industry is identified, GEF selects an undervalued company with seasoned management and significant opportunities for growth and value creation. In accordance with GEF's mission statement, and as another initial screen, all the companies in which it invests own and operate vital infrastructure systems that deliver basic needs or life-enhancing technologies to local industries and consumers.

While region is not a key criterion in determining the companies in which GEF invests, the majority of the fund's investments have been in emerging markets, with private equity transactions occurring in over twenty countries throughout Europe, Asia, Africa and the Western Hemisphere. GEF tends to structure its investment strategy with an exit typically planned after five years.

### *Industry Focus*

Select industries in which GEF has invested:

#### Sustainable Forestry

GEF's investment strategy in the forestry sector focuses on increasing the supply of timber produced by responsibly-managed, ecologically sustainable forests, such as those certified by the Forest Stewardship Council. GEF that such forestry companies can meet the wood product needs of the world in an environmentally sensitive manner, and reduce pressures on environmentally sensitive tropical and old-growth forests. Additionally, GEF believes that by investing in these well-managed forests, they will also have a positive influence on the social and economic development of local populations in many developing countries.

#### Clean Technology

GEF's investment strategy is predominantly focused on investing in well-established companies with innovative, proven technologies that can be applied to new commercial uses in emergent economic sectors. The fund believes that these technologies encourage greater output per unit of energy consumed, improved efficiency in the manufacturing process, reduced industrial pollution and more efficient transportation and communication systems. In sum, GEF seeks to invest in innovative technology companies that provide substantial economic and social returns by reducing energy usage, waste generation and risks to human health.

#### Clean Water

GEF's investment strategy regarding water and waste-water treatments has led the Fund to also focus on increasing the availability of water treatment and improve the efficiency of distribution systems through the privatization of major state water companies. GEF believes that repairing the systems and minimizing water loss conserve this valuable resource, as well as reduce the cost of water supplied, which results in a positive impact on the company's bottom-line. GEF acknowledges the growing demand for private capital investments in water supply infrastructure due to rapid urbanization and industrial expansion. Therefore, it seeks out investment opportunities that lead to improvements in efficiency in the water sector and believes that the introduction of new management systems and technology can offer the opportunity for significant financial returns for patient investors.

#### Healthcare

GEF's investment strategy the healthcare industry has centered on the need to satisfy the growing demand for improved medical attention and access to modern medical technology in the world's emerging economies. A driver behind the demand for better quality healthcare is greater industry competition arising from the trend of privatization and decentralization of healthcare services coupled with the increasing participation in private healthcare insurance plans. GEF is particularly involved in the growing healthcare markets of Latin America and Central and Eastern Europe.

**CURRENT GEF INVESTMENTS**

<b>Company</b>	<b>Industry</b>	<b>Location</b>
Athena Technologies, Inc.	Safety Technology	USA
Essex Corporation	Clean Technology	USA
Euromedic	Healthcare Infrastructure	Eastern Europe
Global Forest Products	Forest Products	South Africa
Modern Asia Environmental	Integrated Waste Management	Southeast Asia
Niko Resources Ltd.	Clean Energy	India
SANEPAR	Water & Wastewater Utility	Brazil

**MONITORING & EVALUATION**

The Global Environment Fund publishes an annual report with a detailed account of its financial performance and anecdotal evidence of its impact on the environment and human development through the companies in which it invests.

In financial terms, the Global Environment Fund has realized a five-year internal rate of return of 26.5% on the over \$165 million investments between 1998 and 2002 and has over \$300 million available for investment. GEF has committed \$55 million of equity capital to sustainable forestry investments since 1999. Since 1998, GEF's technology investment team has invested approximately \$20 million in six early stage companies that are developing pioneering clean technologies applications. Also, GEF's direct equity investments of \$60 million in natural gas from 1994 to 2002 helped galvanize total capital investments of more than \$1 billion in critical industrializing nations. These investments have produced returns to GEF investment funds that are more than twice their original value.

The Global Environment Fund does not quantitatively measure the social and environmental impacts of the companies in its investment portfolio. It initially screens companies based on environmental performance, and, once invested in a company, GEF applies continuing monitoring and management through board representation and by assisting in the development of business strategies. GEF remains actively involved in the management of its companies by acquiring significant minority stakes in its investments in order to ensure strong shareholder rights. In place of strict social monitoring, GEF believes that implementing the right set of policies, such as ongoing education and healthcare programs, is a sustainable way of ensuring that a company is operating in a socially responsible manner.

**IMPACT ASSESSMENT**

GEF is dedicated to making investments in companies and projects that promote sustainable development and have a positive impact on human health and the natural environment. GEF believes that its intensive approach to investment management financially benefits its portfolio companies as well as its investors, but also ensures that GEF's investments have a significant impact on the natural and human environment. In addition to the benefits of employment creation and government tax revenue generation that are typical outcomes of foreign direct investment, GEF positively impacts developing country infrastructure by providing equity investments in companies working towards clean technology, water and water-waste management, affordable healthcare and efficient transportation.

By definition, as a triple-bottom line investment fund, the Global Environment Fund addresses the social and environmental aspects of its investments, in addition to traditional financial returns. Because GEF takes a hands-on management approach in the operations of its investments, it is continuously monitoring and evaluating the environmental sustainability and social impacts of its companies. However, the fund does not use an explicit measurement tool to precisely quantify these impacts.

Investors in GEF are satisfied by having confidence in the fund's commitment to a triple-bottom line investment strategy. In the absence of quantitative results, an alternative and instructive way to assess the impacts of GEF's investments is through anecdotal examples derived from specific recipients of GEF funds. The five areas of impact assessment, drawn from the Millennium Development Goals, include income, health, education, environment, and participation.

#### *Income*

GEF investments have been a significant source of employment generation for the communities in which its investments operate. This is particularly true due to the fact that the majority of GEF's investments have been located in traditionally underserved, rural areas of developing countries. To complement this, GEF investments tend to put into operation ongoing programs that educating its employees on basic 'life skills' such as domestic financial management.

#### *Health*

GEF has been active in the healthcare sector in Latin America through the Latin Healthcare Fund, LP and in Eastern Europe through its investment in Euromedic, a company with medical centers in Hungary, Poland, and several other countries. GEF has provided Euromedic with sufficient investment capital to finance new diagnostic imaging and dialysis centers in Poland with more economic efficiency than had been previously provided by the government. With respect to HIV/AIDS, many GEF investments have implemented ongoing education and awareness programs for company employees and local communities. These companies have been able to help HIV positive employees seek testing and treatment for themselves and their families and generally break down the communications barriers that oftentimes surround this disease. Additionally, GEF investments have set up numerous health clinics on company property in order to conveniently service the employees and their families.

#### *Education*

GEF has been able to address education-related challenges through a variety of formal mechanisms. Many GEF investments have set up educational facilities such as primary schools, libraries and computer centers on their premises. This is often coordinated in conjunction with the local governments so as to better understand the needs of community stakeholders. Also, many GEF investments have established ongoing literacy programs, which educate employees on reading, writing and other basic language skills.

#### *Environment*

One of GEF's first screens is environmental impact. It is imperative that potential recipients of GEF investments give the environment special focus at the senior management level. GEF has made significant investments in companies striving to ameliorate environmental challenges. These include Athena Technologies (United States), which helps automotive companies achieve higher levels of fuel efficiency and safety; Niko Resources (India), which provides clean-burning domestic natural gas and reduces harmful industrial pollutants; America Latina Logistica (Latin America), which promotes global ecological conservation by providing railroads through ancient tropical rain forests; Modern Asia Environmental Holdings Company (Southeast Asia), which provides environmentally controlled integrated-waste-management services; and Companhia de Saneamento do Paraná (Brazil), which has increased access to treated waste-water services.

For example, in 2001 GEF invested in Global Forest Products, an environmentally-sustainable forest products company operating in rural South Africa that is committed to the sustainable management of natural resources and environmental preservation. All of the company's forests and processing facilities are certified by the Forestry Stewardship Council and one third of the company is under permanent conservation. The company works with governments and NGOs on biodiversity and special projects involving clean water and sanitation services. In addition, the company has an ongoing program to protect and preserve the several national heritage sites that can be found on its property and has sponsored several environmental education initiatives.

*Participation*

GEF does not explicitly address the issue of increasing the participation of women and minorities, however, these groups are directly affected by the other policies that are aimed at increasing education, human health and the protection of the environment. GEF investments have made significant financial contributions to their local non-profit organizations and charitable groups.

**GEF CONCLUSION**

This case study on the Global Environment Fund highlights several key findings and lessons to be taken away. Despite the lack need for quantitative results measuring the extent of GEF's investments' social impact, we can clearly see progress being made in terms of poverty alleviation through anecdotal description.

The Global Environment Fund has been able to attract investors in two ways. By operating as a traditional private equity firm, it can attract large, substantial sums of money for its funds. On top of this, GEF uses its environmental screen so as to gain a competitive advantage and draw investors that are interested in contributing to environmental innovations. As a private equity firm, GEF's primary objective is to maximize the financial returns for its investors. However, due to the fact that the majority of its investments are in emerging markets, there are many other social considerations that need to be taken into account simply in order to make good business sense. These social considerations arise from the nature of developing countries that are in transition.

The real key conclusion that can be taken away from this case study is that management is key. That the GEF management team is driven by financial goals is a given. However, the team's personal goals aimed at making a positive social impact, combined with the ability to influence the direction of business through a hands-on business strategy, have led to genuine effects on poverty alleviation. This case has demonstrated how the Global Environment Fund has been able to impact key areas such as healthcare and education, beyond its stated charge of environmental sustainability and financial success because of an executive understanding that a strong local community with healthy employees is essential to a sustainable business.

## Case 3: Community Investment Notes

### *The Calvert Social Investment Foundation*

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*This case study was developed in cooperation with Shari Berenbach, Executive Director, Timothy Freundlich, Director, Strategic Development, and Lori Chatman, Director of Lending, of the Calvert Investment Foundation. The case examines the Calvert Foundation Community Investment Notes as an example of a community investment mechanism, whereby socially conscious investors can achieve relatively safe, pre-determined financial returns while contributing to the social and economic development of disadvantaged communities.*

#### **ORGANIZATIONAL OVERVIEW**

The Calvert Social Investment Foundation was established in 1995 as an independent 501(c) 3 – a separate entity from Calvert Group, Ltd. The Foundation supports local communities through targeted investment, research and donation products.

#### *Mission:*

To help end poverty through investment,  
To create 'community investment' as a new asset class in the financial services industry

Using socially responsible investment (SRI), the Foundation channels private and institutional funds to disadvantaged communities through partnerships with local non-profit organizations in the United States and overseas. The Foundation offers a number of targeted investment products, focusing on specific recipient communities and investors such as the lesbian/gay/bi-sexual/transgender community and faith-based investors<sup>19</sup>. This case study focuses on Calvert Foundation's Community Investment Notes, which is the most general of the Foundation's investment products.

#### *Focus on Poverty*

Calvert Investment Foundation focuses on "low-income communities and individuals without access to traditional sources of capital."<sup>20</sup> It attempts to reduce poverty by partnering with local organizations that have a demonstrated capacity to "growing the local economy, expand opportunity, or promote work-related opportunities, home ownership, and diverse economic choices". Specific poverty reduction strategies include<sup>21</sup>:

- Affordable Housing  
Affordable housing lending builds or rehabilitates housing for low-income families. Many programs also provide important and pivotal support in helping individuals secure and repay mortgages, and even offer training and empowerment programs that help support new homeowners in other areas.
- Microenterprise Development  
Microenterprise development focuses on assisting low-income people in starting their own businesses by providing very small loans, less than \$25,000. Internationally, loans can be as small as \$50. Some programs lend directly to individuals, while others use a peer-lending model that binds individuals together in a supportive group of borrowers whose access to loan capital is dependant upon the success of all its members. Many programs also offer technical assistance.

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<sup>19</sup> More information on these products can be found on the Calvert Foundation website at <http://www.calvertfoundation.org/individual/investment>.

<sup>20</sup> Community Investment Notes Prospectus

<sup>21</sup> Community Investment Notes Prospectus

In some very poor areas of the world, an investment of \$1,000 could provide loans to help a dozen families, and their children, transform their lives.

- Small Business Development  
Small business development lending is more traditionally structured and supported than micro-loans. This category of lending assists low-income people in disadvantaged communities to start or increase the scope of their own businesses by providing loans generally over \$25,000.
- Community Development  
Community development lending supports non-profits that are working directly with disadvantaged populations and communities to develop enterprises that provide core social resources, such as health services and daycare centers. Other activities include banking services in targeted communities and critical funding to cooperative and environmental programs.

### **COMMUNITY INVESTMENT NOTES: INVESTMENT APPROACH**

Community Investment Notes were launched by the Foundation in October 1995. The program allows individual and institutional investors to purchase securities for terms of one to ten years, earning a below-market fixed rate of return of 0-3%. The funds are invested in local communities through community development financial institutions (CDFIs). Target CDFIs are chosen on the basis of their ability to contribute to the four poverty-reduction strategies outlined above: affordable housing, micro-enterprise, small business, and community development through non-profit facilities. The fund currently has 1850 investors, with an actual capitalization of \$65,375,606 as of December 31, 2002.

Community Investment Notes are funded by individual and institutional investors, as well as by several program-related investments, grants and loans from various organizations. The larger contributing institutions include the Ameritas Life Insurance Corp, with \$2million, MacArthur Foundation, with \$1.5million, and the Ford Foundation with \$0.75million. Interest rates are fixed for the term of the investment, and are chosen by investors from a range that currently stands at 0-3%. Without a secondary market for the Notes, the investment is typically illiquid.

Despite the somewhat lower than market rates of return, the Community Investment Notes provide a fairly safe investment. The Foundation seeks to reduce risk through diversification, careful risk analysis of investment targets and limited exposure 10% of any given organization's balance sheet. Initial engagement is generally limited to smaller investment over shorter terms. In addition, investment is generally limited to organizations with a minimum of three years experience with similar program activities, and over \$1 million on the balance sheet.

#### *Investment Strategy*

The Notes do not give grants, but rather invest in community organizations that re-lend or invest the money. Following funding requests, organizations are screened for financial stability and a track record of contribution to the local community. Independent analysis on target organizations is provided by outside experts, and includes an evaluation of financial and social track records, as well as an assessment of the background, commitment, diversity and qualification of staff. The Foundation's Investment Committee, comprised of members of the Boards of Directors, reviews the evaluations and makes final investment decisions quarterly. The screening criteria are outlined in the Box below. In general, most communication occurs via email and telephone, with little or no site visits or face-to-face communication.

**Community Investment Notes Screening Criteria**

1. *Focus on low-income communities and individuals without access to traditional sources of capital;*
2. *Contribution to growing the local economy, expand opportunity, or promote work-related opportunities, home ownership, and diverse economic choices;*
3. *Support of diverse communities in either the urban and/or rural setting, domestically or internationally;*
4. *Demonstration of a consistent three year track record with similar program activities and the ability to repay the investment based upon sound financial projections; and*
5. *The total investment from Calvert Foundation may not exceed 10% of the organization's total capitalization. The Foundation prefers to be one of several lenders. Further, no more than 5% of the investment assets may be placed in any one recipient.*

(Source: Community Investment Notes Prospectus)

The Notes' main distribution channel is through financial brokers and intermediaries, but some direct marketing to high net-worth individuals and institutional investors also takes place. The most common institutions are foundations, faith based organizations, faith based pension funds, and corporations such as Starbucks.

### **MEASURING, MONITORING & EVALUATION**

Calvert Foundation analysts monitor recipients against both social and financial investment criteria throughout the term of the investment through quarterly statements and annual reviews. In terms of measuring aggregate Social Returns on Investment (SROI), the Foundation attempts to collate the impact of its investment through annual Data-Point Survey of recipient organizations.

#### *Challenges*

Given the lower than market rates of return, it is important to convey to investors the impact of their investment on local communities. This task is complicated for a few reasons. As discussed in the introduction to this paper, there is a general lack of precise measurement tools and matrices on the social side of SRI. Unlike financial or environmental indicators, social indicators can be very difficult to measure precisely, and there can be a significant time lag between cause and effect, as well as complex causation mechanisms. The impact of access to housing, for example, can extend to greater stability for low income families, leading to improved job prospects, higher income and therefore better health and education opportunities.

For the Calvert Foundation community Investment Notes, the task of determining Social Returns on investment (SROI) is made more complicated by the geographic spread of investment and by the fact that the Notes do not invest directly, but rather make small contributions to the work of diverse intermediary organizations. The geographic spread makes SROI calculations difficult, since the impact of one dollar in the US is very different from its impact in Africa or Latin America. The diversity of activities makes horizontal comparison complicated even within a given geographic area, since it is difficult to compare the social impact of housing and micro-credit, for example. Finally, the fact that the Notes invest in organizations rather than in specific projects makes it more difficult to ascertain exact social impact. The Foundation relies on the intermediary organizations to accurately collect and report social 'returns', making quality control difficult, especially given the lack of universally accepted methodology for calculating and reporting social impact. Additionally, where the investment from the Notes is pooled with

other investment notes, it can be difficult to attribute impact to the portion of investment made by the foundation, as opposed to other funding sources used by the intermediary organization.

Despite these difficulties, the Foundation has developed an SROI measurement tool that allows investors to *estimate* the social impact of their investment in terms of houses built, jobs generated or community developments initiatives. The tool works by pooling information received from quarterly statements and annual reports, and averaging impacts within investment criteria and geographic regions. A potential investor can access the interactive tool online, provide the amount of money invested, the term of investment, the geographic region and the sector in which the money is invested (housing/microlending, small business/community development), and calculate the likely impact of the investment.

Figure 1: Social Returns on Investment (SROI) tool on the Calvert Foundation website

The SROI tool serves a useful purpose by informing potential investors of the likely social impact of their investment, however it is based on averages of highly variable sets of past data, and is therefore highly imprecise. Like many financial measures, the SROI tool is based on past performance, and is therefore limited in its capacity to determine the impact of future activities. Additionally, given the limited number of initiatives in any given region, not all combinations of region/investment category produce results<sup>22</sup>. By way of example however, the following SROIs can be calculated on the Foundation's website.

A \$10,000 investment over 3 years can:

- Housing  
Build or improve:
  - 1.00 homes in Africa
  - 0.19 homes in Wyoming
- Microlending  
Finance:
  - 100 microenterprises, creating 150 jobs in Africa
  - 16.91 microenterprises, crating 24.55 jobs in Europe

<sup>22</sup> For many searches, the website currently returns the following message: "While we do have investments that meet your criteria, unfortunately we do not have all the data to properly calculate the social return. Please try another search."

- 2.67 microenterprises, creating 2.41 jobs in Missouri

- Small business  
Finance:
  - 0.59 small businesses, generating 1.81 jobs in South Dakota
  - 0.35 small businesses, generating 0.88 jobs in Arkansas
- Community Development  
finance:
  - 0.12 community facilities/cooperatives in Washington
  - 0.28 community facilities/cooperatives in Maine

## IMPACT ASSESSMENT

The financial performance of the Notes has been stable. Returns have been slightly lower than other bond funds with similar risk profiles, but consistent with expectations and objectives, which seek to balance social and financial outcomes. To date the fund has experienced no defaults on loans, despite increasing pressure on small businesses during the recent financial downturn.

Information on social returns is limited and rudimentary. In general, the Notes serve the function of increasing the available pool of financial resources to existing organizations, helping them to reach deeper into the communities where they operate. The Notes' impact is therefore the sum of the portion of work undertaken by recipient organizations that can be attributed to the Calvert Foundation's investment. Early work by the Foundation on aggregate social impact has produced the table outlined below.



<b>SROI Analysis - CCI Portfolio 2003</b>			
<b>Sector</b>	<b>% Activity</b>	<b>Portfolio</b>	<b>Unit Impact</b>
<b>Domestic US</b>	<b>75%</b>		
Houses Built/Rehabed	45%	\$23,059,064	1,589
Microenterprise	5%	\$2,562,118	872
- Jobs from Microenterprises			1,887
Small Businesses	25%	\$12,810,591	658
- Jobs from Sm. Businesses			2,672
Nonprofit/Coop	25%	\$12,810,591	179
<b>Subtotal</b>		<b>\$51,242,364</b>	
<b>International</b>	<b>25%</b>		
Microenterprise	85%	\$14,518,670	17,719
- Jobs from Microenterprises			24,290
Nonprofit/Coop	15%	\$2,562,118	1,495
<b>Subtotal</b>		<b>\$17,080,788</b>	
<b>Total Global Portfolios</b>			
Houses Built/Rehabed	34%	\$23,059,064	1,589
Microenterprise	25%	\$17,080,788	18,591
- Jobs from Microenterprises			26,176
Small Businesses	19%	\$12,810,591	658
- Jobs from Sm. Businesses			2,672
Nonprofit/Coop	23%	\$15,372,709	1,674
<b>Total</b>		<b>\$68,323,152</b>	

In the US, funds are mostly directed towards Community Development Financial Institutions, which in turn invest in housing, micro-enterprise and community development projects. Overseas, funds are only invested in micro-credit through micro-credit institutions. At this stage, a more sophisticated breakdown of the Notes' social impact, using indicators such as income, education, employment and health is not available. The task is made more difficult by the fact that investments represent small portions of the revenue streams in a large and diverse number of intermediary organizations, many of which have

internally diverse portfolios. The list of recipients, which can be found on the Calvert Foundation website, gives some indication of this diversity.

While quantitative SROI information is important, the emotive nature of poverty alleviation makes qualitative, story-based information on social impacts an important aspect of communication with current and potential investors. In addition to the quantitative SROI tool, the Calvert Foundation website contains information on the work undertaken by each funded organization, accompanied by a real-life story of an individual recipient. Two such examples are shown below, briefly describing the funded organization and the outline of the 'story', a fuller version of which can be found on Calvert Foundation's website.

### *Impact Assessment through Examples*

<b>Pro Mujer<sup>23</sup></b>	
<i>Pro Mujer is a nonprofit international development organization that provides loans and microenterprise training to women in Latin America in an effort to empower them to raise themselves and their families out of poverty, and become more effective in their multiple roles as mothers, wives, income earners and community members.</i>	
	Edith Valdez de Blacutt, the mother of two daughters, lives in San Antonio de Padua, Bolivia. Struggling daily to support her family, when Edith found out that Pro Mujer offered loans for women interested in starting their own business, she took action. She used her loan to start a bakery, which she has since expanded into a convenience store. With her business a success, Edith continues to use Pro Mujer's health and training services.
<b>Low Income Investment Fund<sup>24</sup></b>	
<i>As a national community development financial institution, the <b>Low Income Investment Fund (LIIF)</b> is a steward for capital invested in housing, child care, workforce development, education, and other community-building initiatives. LIIF fosters healthy communities by providing a bridge between private capital markets and low - income neighborhoods. LIIF encourages comprehensive strategies that address the diverse needs of people and communities.</i>	
	What was a dream two-and-a-half years ago has become a reality. Parents and students in low-performing Los Angeles public schools were tired of children receiving substandard education simply because their schools could not afford to provide basic academic necessities. Today, however, there is Camino Nuevo Charter Academy, constructed with the help of a LIIF construction and mini-permanent loan. Now, K-5th graders can receive a quality education in a safe learning environment.

In order to provide a more detailed qualitative insight into the social impact of the Notes, the paper turns to a detailed study of one of the Notes' recipient organizations, **Enterprise Corporation of the Delta**.

<sup>23</sup> From the Calvert Foundation website at <http://www.calvertfoundation.org/individual/investment>.

<sup>24</sup> Ibid.

## **Case 4: Community Development Financial Institution (CDFI) *Enterprise Corporation of the Delta***

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*This case study was developed in cooperation with Mr. William Bynum, Chief Executive Officer at Enterprise Corporation of the Delta (ECD). With ECD having been a recipient of Calvert Foundation funds<sup>25</sup>, the case investigates the impact that a recipient of SRI funds can have on community development and poverty alleviation.*

### **ORGANIZATIONAL OVERVIEW**

Enterprise Corporation of the Delta (ECD) is a private nonprofit community development financial institution (CDFI) that was founded in 1994 to break the cycle of poverty in the Delta regions of Arkansas, Louisiana and Mississippi, among the most economically distressed in the United States.

Today, ECD provides commercial financing, mortgage loans and technical assistance to support businesses, entrepreneurs, homebuyers and community development projects. The major goal is the creation, strengthening and retention of high-quality jobs in the region.

Through its development financing activities and in collaboration and partnerships with other economic and community development entities, ECD has, since its inception, generated more than \$100 million in financing and assisted more than 3,000 entrepreneurs, homebuyers and nonprofits.

ECD funds its operations through the support of foundations, banks, other corporations, faith-based organizations, government agencies and individuals. Additionally, part of the funding comes from socially conscious investors who invest in ECD either by lending funds to the organization against a nominal return on the principal or by making equity investments in it through two vehicles created for this purpose.

#### *Focus on Poverty Reduction*

ECD has an explicit focus on poverty reduction, as evinced by its mission statement: "To strengthen communities, build assets and improve lives in economically distressed areas of the Mid South by providing access to high quality financial products and related services."<sup>26</sup>

By providing competitive lending options and technical assistance to people who are traditionally underserved, ECD works to provide equal access to economic opportunities to its clients. Additionally, it acts as a bridge builder by creating partnerships to support the development needs faced by distressed people and communities.

The Mid South is one of the most economically distressed regions in the United States. Low education levels, out-migration, low wages, scarcity of resources and racial and social disparities are major barriers to business development and limit the social and economic development in the region. The region is in desperate need of increased access to capital and technical expertise in order to alleviate this distress through job creation and to build the foundations for a sound business environment.

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<sup>25</sup> ECD received a \$500,000 loan from the Calvert Foundation in 1998

<sup>26</sup> [www.ecd.org](http://www.ecd.org)

## PRODUCTS, SERVICES & COMMUNITY DEVELOPMENT

With the purpose of contributing to economic development in the Mid South, ECD offers a range of products and services, administers programs for residents and businesses and engages in community development throughout the region.

### Commercial Finance

ECD makes loans to small and medium-sized businesses and entrepreneurs that, due to insufficient collateral or failure to meet other standard lending and investment criteria, are unable to obtain financing from conventional financial institutions. ECD is increasingly establishing a market niche by making commercial loan products available to entrepreneurs through government guaranty programs.

### Consumer Options

ECD sponsors Hope Community Credit Union (HOPE), which offers a wide variety of high-quality, low-cost financial services to individuals in underserved communities.

### Mortgage Finance

ECD, through the HOPE Mortgage Program, makes mortgage loans to low- and moderate-income individuals and buys non-conforming mortgages and portfolios statewide in Arkansas, Louisiana, and Mississippi. With home ownership out of reach for 40% of the Mid South's residents due to low wages and high mortgage rates, and with approximately 20% of residential real estate in rural areas considered substandard, the region's inhabitants need an affordable mortgage product. Affordable quality housing is also necessary to attract new businesses and grow existing companies.

### Technical Assistance

ECD provides businesses with non-financial assistance such as accounting, marketing, engineering and workforce training. With the region lacking in quality technical assistance providers who are perceived as critical to the viability of businesses, ECD also works to improve the quality and quantity of providers. ECD provides the following support services that help business and entrepreneurs become successful:

- *Brokered Technical Assistance:* ECD uses pre-loan and post-loan technical assistance to ensure that its borrowers can perform under any debt or equity obligations owed to them. For such technical assistance, ECD uses primarily third-party assistance providers, such as accounting, marketing and management consulting and engineering firms.
- *FastTrac Entrepreneurial Training:* ECD contracts with local universities and nonprofits to provide training for regional entrepreneurs. Instructors use their own experience to teach entrepreneurs how to develop and manage their own business: build a management team, use low cost marketing strategies, develop financial strategies, hire personnel, decide on appropriate legal structures and manage cash flow.
- *BusinessLINC:* BusinessLINC (Learning, Information, Networking, and Collaboration) is a partnership between the US business community, the federal government and others to encourage large corporations to provide technical advice, training, peer group consulting, strategic alliances, and supplier and marketing development to small businesses. ECD works with Mentor Companies to assess the needs of small businesses in the region, defines the opportunities that exist for Mentors and facilitates the relationship between the two sides.

### Community Infrastructure

ECD's community infrastructure investments provide families and businesses with the resources needed to enter and maintain a presence in the workforce and the community. ECD administers a healthcare

loan fund available to healthcare providers in rural areas of Mississippi, soon to be extended to Arkansas and Louisiana. ECD also runs community infrastructure programs related to childcare, adult day care and telecommunications.

### Community Development and Policy

ECD is also engaged in influencing and improving the policy environment for community and economic development by using the experience gained and lessons learned from working with low-wealth families and individuals. ECD works with local, state and federal government, as well as with the private sector and nonprofit organizations, towards bringing policy changes that will create fundamentals for prosperity and growth.

## **MONITORING & EVALUATION**

With the help of analysts and data from Wal-Mart, Entergy, MDC, Swarthmore University and Shorebank Advisory Services, ECD has from its inception been examining economic trends, public policies, and relevant best practices to shape its strategy.

This external data is complemented with an internal monitoring and evaluation program, which attempts to measure both quantitatively and qualitatively the extent to which ECD is reaching low- and moderate-income people and communities, as well as those who have previously been unable to access financial and technical assistance resources. Additionally, it examines how well companies within the ECD portfolio contribute to business and employment growth in the region.

According to CEO, William Bynum, ECD measures social impact of its operations more than other CDFIs. The monitoring and evaluation program helps design, modify and deliver core products, as well as facilitates the identification of new policy opportunities for increasing ECD's impact in the region<sup>27</sup>.

<b>Data Collection Method:</b>	<b>Type of Information Obtained</b>
Market Research	<ul style="list-style-type: none"> <li>• Industry and employment trends</li> <li>• Analysis of technical assistance needs</li> <li>• Analysis of capital gaps</li> </ul>
Loan Documents and Loan Data System Review	<ul style="list-style-type: none"> <li>• Borrower characteristics (income, race, gender, etc.)</li> <li>• Business characteristics (geographic location, business size, industry sector, primary markets, etc.)</li> <li>• Analysis of company's financial position and challenges</li> <li>• Loan performance and repayment history</li> </ul>
Baseline and Annual Surveys	<ul style="list-style-type: none"> <li>• History and outcomes for borrower in seeking non-ECD financing</li> <li>• Employment information (demographics of employees, number of full- and part-time employees, seasonality of employment, anticipated change in employment, employee hours, wage levels, and benefit levels)</li> <li>• Use of and interest in receiving information about incentives and programs of potential benefit to employer and employees</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>• Information about outcomes and relationships between stakeholders (customers, employees, partners, ECD)</li> <li>• Review of loan performance, technical assistance, employment trends</li> </ul>

### *Challenges*

According to William Bynum, there are numerous challenges to monitoring and evaluating social impact. "People have limited ability to report data to us. Pulling information together is labor intensive and the

<sup>27</sup> www.ecd.org

costs associated are significant.” He recognizes, however, the value associated with high quality monitoring and evaluation. It is important to be able to show both investors and policy makers that the investments are having a social impact.

Furthermore, the great diversity of the CDFI industry, with some CDFIs only working in the housing sector, others being credit unions or affiliated to banks, makes monitoring of the industry as a whole very challenging. A standardization of benchmarks bears the risk of providing an incomplete and superficial picture of CDFI outcomes. For example, standard benchmarks would fail to capture the successful policy work of an individual CDFI. Bynum believes that using a standard set of impact metrics out of context and in isolation of a CDFI's business model and mission yields an incomplete picture of its social outcomes. Metrics should rather be tied to the business model, mission and vision of the specific organizations. Therefore ECD focuses its monitoring more on measuring initial targets versus appropriate progress and outcomes of their specific programs.

## **SOCIAL IMPACT**

This case study now assesses the firm's impacts across five dimensions of poverty, which have been derived from the Millennium Development Goals (MDGs). The categories include income, health, education, participation and environment.

### *Income*

ECD has had a positive effect on the business environment through its commercial lending activity. Commercial lending, especially to start-up enterprises, has increased over the years. This has mostly been due to increased accessibility to the Small Business Administration (SBA) 7(a) loan guaranty program, which guarantees a portion of ECD loans to small businesses. The economic slowdown has also led to an increase in ECD deals, as traditional lenders have reduced their commercial lending activity.

However, ECD saw a drop in full-time, part-time and temporary workers (measured in Full-Time Equivalents [FTEs]) assisted between 2001 and 2002, largely due to the closure of portfolio businesses in the manufacturing sector. The difficulties in the sector mirrored trends in the national economy, with many companies moving operations overseas.

The mortgage lending program is also contributing to poverty reduction. ECD, together with HOPE, is meeting its mission of helping low-wealth families build assets and move them into homes. Mortgage lending has grown significantly over the years due to emerging lending partnerships and, in 2003, to the hiring of an in-house mortgage originator, which helped to more than double output from the previous year.

ECD/HOPE has also been successful in reaching out to families with extremely low incomes. Depending on the size of the family, the median income for borrowers is near the poverty level and well below self-sufficiency standards for the region. ECD/HOPE also reaches out to creditworthy borrowers who have been unable to access credit from other sources, in addition to working with viable borrowers with credit scores well below bankable levels.

In addition, ECD/HOPE provides funds to housing intermediaries to assist local agencies in providing quality homebuyer counseling. In 2003, ECD/HOPE also funded a portion of the intermediaries' debt management activities, allowing 225 individuals to receive debt management assistance that year. Homebuyer counseling and debt management services combined are considered to be critical to prepare low-income residents with credit difficulties to become homebuyers. However, they require considerable time and investment and only yield results in the long-term.

### *Health*

ECD's commercial lending activity and community infrastructure investments have had a positive effect on the accessibility of low-wealth individuals to healthcare in the region. Commercial lending contributes to the creation and sustainability of business and hence employment and health insurance, while healthcare investments allow families to enter and maintain a presence in the workforce.

Although 2002 saw a drop in health insurance coverage by small firms due to the increased number of small start-up enterprises in ECD's portfolio, the actual number of employees working in ECD-assisted businesses with health insurance increased. This was due to the fact that the larger employers in the portfolio were more apt to provide health benefits to their employees.

However, health coverage rates at ECD-assisted businesses were lower than statewide coverage rates. This is a result of the nature of the businesses included in ECD's portfolio, with a large proportion of the employers lacking the financial capacity to simultaneously service their debt and meet the high costs of providing health insurance to their employees.

### *Education*

ECD's FastTrac program has a long-term positive impact on alleviating poverty in the region, as it educates individuals on making sound business decisions. Although data indicates that graduates from the program do not necessarily have easier access to financing, one cannot ignore the fact that it positively influences the decision-making process of potential entrepreneurs that complete the program, thereby reducing their risk of business failure. In 2003, 42% of surveyed graduates stated that their objectives had changed as a result of the FastTrac course, either because they were proceeding on a smaller scale, delaying business plans or choosing not to pursue business ownership. Even though these reasons may seem discouraging for business growth, each of the explanations demonstrates wise business decisions with regards to debt financing.

There is, however, room for improvement in the FastTrac program. The lack of loan applications by FastTrac graduates highlight the importance for future entrepreneurs of going beyond the basic training course and acquiring more advanced knowledge through further education. "While graduates may learn classroom strategies to start and operate a small business, they may also require practical training specific to the entrepreneurial experience to adequately prepare them to capitalize and manage a start-up venture."<sup>28</sup>

Due to organizational changes, the Brokered Technical Assistance program was in 2003 only monitored to capture baseline data. Going forward, this data will however be used to support future analysis and to evaluate the program's impact on loan performance. Similarly, the lessons learned from the first year of operation of BusinessLINC will, going forward, be used to measure its long-term impact on protégé businesses. Some lessons learned include the importance of committed mentors, geographical proximity of mentors and protégés, protégés with at least two years of experience, and well-defined expectations between both parties.

### *Participation*

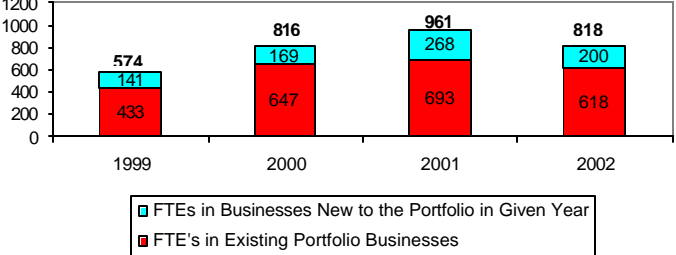
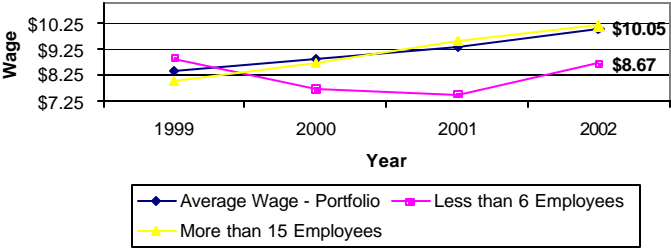
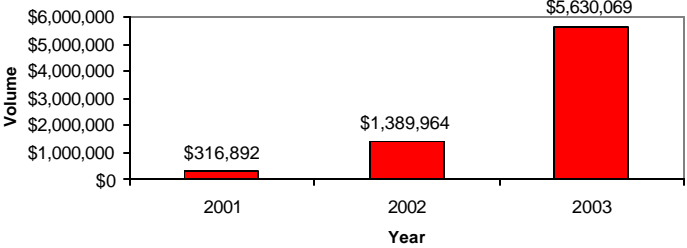
All of ECD's programs have a positive effect on increased participation of minorities and women. Commercial lending, mortgage lending and technical assistance all show participation in excess of 50% of these groups.

### *Environment*

Not measured.

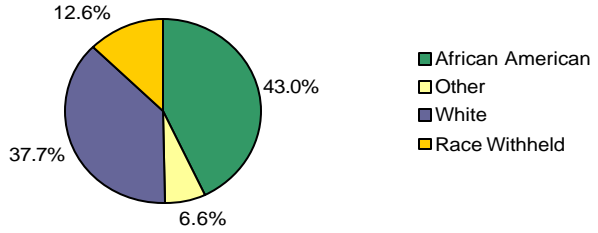
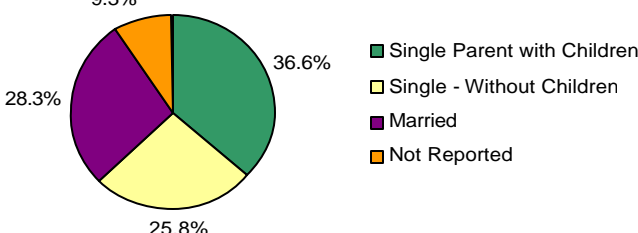
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<sup>28</sup> 2003 Technical Assistance Monitoring Report

Measurement categories:	Quantitative impacts on poverty <sup>29</sup>
Income	<ul style="list-style-type: none"> <li>• Commercial Loans:                             <ul style="list-style-type: none"> <li>- 87% of all first-time borrowers that sought financing prior to working with ECD were denied financing by traditional lenders</li> <li>- 23 businesses entered ECD's portfolio in 2002 (35% more than in 2001)</li> <li>- 73% of new businesses had been in operation for less than 2 years in 2002</li> <li>- 13 businesses left the portfolio due to bankruptcy, foreclosure or refinance in 2002. This led to a 15% decrease in the aggregate number of FTEs assisted</li> </ul> </li> </ul> <p style="text-align: center;"><b>FTE's in ECD Assisted Businesses 1999-2002</b></p>  <ul style="list-style-type: none"> <li>- The average wage paid at ECD-assisted businesses was \$10.05 in 2002 compared to \$9.34 in 2001 (9% increase)</li> </ul> <p style="text-align: center;"><b>Average Wage by Year and Company Size</b></p>  <ul style="list-style-type: none"> <li>• Mortgage Loans:                             <ul style="list-style-type: none"> <li>- In 2001, 8 mortgage loans closed for a total of \$316,892 compared with 96 loans for \$5.6 million closed in 2003 (1677% increase)</li> </ul> </li> </ul> <p style="text-align: center;"><b>Mortgage Volume by Year</b></p>  <ul style="list-style-type: none"> <li>- In 2003, 4 out of 5 borrowers were first-time homebuyers when they applied for a HOPE Mortgage, bringing the total number of first-time homebuyers assisted since program inception in 2001 to 120</li> <li>- In 2003, 68 borrowers received some type of assistance from ECD partners – down payment, second mortgage or closing cost – totaling \$1,064,550</li> <li>- The median annual income for HOPE Mortgage family borrowers was \$21,912, compared to the Mid South median family income of \$38,802</li> <li>- 87% of all HOPE Mortgage borrowers had incomes below the Mid South median family income</li> <li>- The median credit score for all borrowers was near the industry standard of 650 at 646</li> </ul>

<sup>29</sup> Data compiled from the 2002 Program Monitoring Report, 2003 Mortgage Lending Report and 2003 Technical Assistance Monitoring Report

<p>Health</p>	<ul style="list-style-type: none"> <li>Commercial Loans:             <ul style="list-style-type: none"> <li>In 2002, in medium-sized businesses (25-99 employees), the percentage of businesses that offered health benefits to their employees remained consistent with 2001 coverage levels (68%)</li> <li>The percentage of micro businesses (fewer than 10 employees) that offered health benefits dropped from 17.9% in 2001 to 9.3% in 2002</li> <li>In 2002, 58% of all full time employees worked in businesses that offered health benefits compared to 40% in 2001</li> <li>Health coverage rates in the portfolio were below health coverage rates for similar-sized firms in all three states (on average 27% for micro and 72% for medium-sized)</li> </ul> </li> </ul> <p style="text-align: center;"><b>Percent of Businesses that Offer Health Benefits by Year and Firm Size</b></p> <table border="1"> <caption>Percent of Businesses that Offer Health Benefits by Year and Firm Size</caption> <thead> <tr> <th>Year</th> <th>Businesses with Fewer than 10 Employees</th> <th>Businesses with 25-99 Employees</th> </tr> </thead> <tbody> <tr> <td>2000</td> <td>23.3%</td> <td>40.0%</td> </tr> <tr> <td>2001</td> <td>17.9%</td> <td>66.7%</td> </tr> <tr> <td>2002</td> <td>9.3%</td> <td>66.7%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Community Infrastructure:             <ul style="list-style-type: none"> <li>ECD provided 2 healthcare loans to a rural hospital for \$1,937,000 in 2002</li> <li>In 2002, ECD community infrastructure investments provided 10,594 patient visits, 186 child care and 25 adult day care slots</li> </ul> </li> </ul>	Year	Businesses with Fewer than 10 Employees	Businesses with 25-99 Employees	2000	23.3%	40.0%	2001	17.9%	66.7%	2002	9.3%	66.7%		
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<p>Education</p>	<ul style="list-style-type: none"> <li>FastTrac:             <ul style="list-style-type: none"> <li>In 2002, 23% more people said they planned to seek financing after completing the FastTrac courses, compared to only 4% more in 2003</li> <li>Out of 11 FastTrac students that responded to ECD's monitoring survey only 2 graduates were in business. Of the 2 graduates, only 1 attained loan financing</li> </ul> </li> <li>Brokered Technical Assistance:             <ul style="list-style-type: none"> <li>ECD brokered 14 technical assistance engagements in 2003:</li> </ul> </li> </ul> <p style="text-align: center;"><b>Technical Assistance Engagements by Type 2003</b></p> <table border="1"> <caption>Technical Assistance Engagements by Type 2003</caption> <thead> <tr> <th>Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Accounting</td> <td>50%</td> </tr> <tr> <td>Marketing</td> <td>17%</td> </tr> <tr> <td>Non-Loan Customer</td> <td>25%</td> </tr> <tr> <td>Strategic Planning</td> <td>8%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>BusinessLINC:             <ul style="list-style-type: none"> <li>At the end of the 2003 third quarter, the number of mentor/protégé relationships totaled 36 (12 in Ferriday, LA; 13 in Greenville, MD; 11 in Monroe, LA)</li> </ul> </li> </ul>	Type	Percentage	Accounting	50%	Marketing	17%	Non-Loan Customer	25%	Strategic Planning	8%				
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<p>Participation</p>	<ul style="list-style-type: none"> <li>Commercial Loans:             <ul style="list-style-type: none"> <li>59% of all businesses new to the portfolio in 2002 were owned by minorities or women</li> </ul> </li> </ul> <p style="text-align: center;"><b>Business Owner Demographics - 2002</b></p> <table border="1"> <caption>Business Owner Demographics - 2002</caption> <thead> <tr> <th>Demographic</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>African-American Male</td> <td>25%</td> </tr> <tr> <td>African-American Female</td> <td>38%</td> </tr> <tr> <td>White Male</td> <td>5%</td> </tr> <tr> <td>White Female</td> <td>26%</td> </tr> <tr> <td>Native American Male</td> <td>3%</td> </tr> <tr> <td>Non-Profit Organization</td> <td>3%</td> </tr> </tbody> </table>	Demographic	Percentage	African-American Male	25%	African-American Female	38%	White Male	5%	White Female	26%	Native American Male	3%	Non-Profit Organization	3%
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White Female	26%														
Native American Male	3%														
Non-Profit Organization	3%														

	<ul style="list-style-type: none"> <li>• Technical Assistance:             <ul style="list-style-type: none"> <li>- 50% of the brokered technical assistance engagements in 2003 were made to minority- and women-owned businesses</li> </ul> </li> <li>• Mortgage Loans:             <ul style="list-style-type: none"> <li>- Almost 50% of all home loans closed in 2003 were made to minority borrowers</li> </ul> </li> </ul> <p style="text-align: center;"><b>Borrower Demographics - Since Inception</b></p>  <p style="text-align: center;">- 55% of all loans were made to women</p> <p style="text-align: center;"><b>Mortgages by Family Type - Since Inception</b></p> 
Environment	Not measured

**ECD CONCLUSION**

This case study highlights the positive effect that a CDFI, such as ECD, can have on alleviating poverty. By providing financing and technical assistance to businesses and individuals that have difficulties receiving loans from traditional sources, ECD is contributing to poverty alleviation in the Mid-South. It increases income through stimulation of the business environment, enhances participation of women and minorities in the local economy, and provides increased access to health and education to low-income families.

The study also underlines that quantitative and qualitative monitoring and evaluation, such as performed by ECD, is key to improve performance of CDFIs and thereby achieve higher social impact. The case highlights that certain impact indicators may be weak due to the volatile nature of the businesses and individuals included in a CDFI's portfolio. For example, many start-ups, which constitute a large portion of ECD's portfolios, are more likely to go out of business or are less capable of providing employees with healthcare benefits than established businesses. Moreover, many activities performed by CDFIs may have a long-term and/or indirect effect on alleviating poverty, making it difficult to immediately identify any positive social impact. The technical assistance program of ECD, for example, changes the behavior of would be entrepreneurs, but does not immediately provide them with the sufficient tools to obtain funding.

To strengthen the analysis of social outcomes and improve the efficiency of CDFI programs it is important to complement a quantitative monitoring and evaluation program, including setting of targets and analysis of metrics, with a qualitative one that identifies long-term and indirect impacts. A qualitative analysis also needs to include lessons learned and an action plan to implement changes resulting from them.

## Conclusion

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### *Impact on Poverty*

The four cases, which cover leading firms within their respective investment classes of socially responsible investing, demonstrate the effectiveness of both community investing and social venture capital in making substantial contributions to alleviating poverty. They do so by providing a direct mechanism to reach people and local businesses in distressed communities. Two key factors driving their success include:

- **Technical assistance.** Combining technical assistance and investment enhances a fund's ability to fight poverty. Such an integrated approach has allowed for improved targeting of individuals belonging to disadvantaged or low-income groups.
- **Strong ethical commitment.** A key characteristic of the funds in this study is the strong ethical commitment of their management teams. These teams are committed to going beyond the typical business codes of conduct to make a positive social impact in the communities where they work.

Equally important is the fact that the funds active in these areas provide market returns to their investors as well. Nevertheless, assessing the social returns remains a barrier to the industry.

### *Measurement*

Community investment and social venture capital funds have the potential to expand their total capitalizations if they can effectively convince investors of their high social and financial returns. While it is unlikely that investors would transfer their money from one type of investment class to another, it is feasible that they will reallocate their funds within a certain investment class. Consequently, there seems to be a genuine opportunity for these funds to turn their social returns into a competitive advantage over funds within their respective investment classes that are not focused on poverty alleviation. For example, given equal financial returns and risk levels of two investments, the fund with measured or even anecdotal evidence of poverty alleviation can use these returns to convince investors to redirect their investments. Therefore, the real challenge that community investing and social venture capital firms face in doing so is related to measuring the actual returns in a way that is meaningful to investors.

Measuring the impacts on poverty by community investment and social venture capital firms has proven to be a challenge because there are no broadly accepted metrics on poverty assessment for investment purposes. While the monitoring and evaluation systems used by the funds in this study to account for their social returns are diverse, each fund has been effective in demonstrating its impact on poverty. The complexity of the systems tends to be driven by investor expectations. For example:

- The Global Environment Fund's investors are most interested to know the industries in which it invests and to see high financial returns, so the fund has minimal incentive to create and manage a formal system that quantitatively accounts for its impacts on poverty.
- Calvert Foundation, the Enterprise Corporation of the Delta and CEI Ventures, Inc.'s investors require information about the social returns, such as jobs created and houses built. Thus, these organizations have created much more sophisticated monitoring and evaluation systems.

The costs and labor intensiveness associated with advanced monitoring and evaluation programs are significant. Therefore, standardized metrics could be a more efficient method for organizations to calculate social impacts. Standardization may have significant benefits for investors, SRI funds and recipients. Not only would it simplify reporting requirements, but it would also provide investors and donors with a better basis by which to compare organizations and gain more comprehensive knowledge

of the impact of their investments. Furthermore, standardization of metrics has the potential to advance the SRI movement and enhance its effectiveness. By providing a better platform for understanding how programs are reaching recipients, it has the potential of improving the functioning of programs and deepening their social impacts. In spite of the benefits of standardization, there are challenges to this measurement approach that must be addressed:

- **Indicators.** There are obstacles in measuring direct poverty impact, as SRI funds rely on a number of indirect poverty alleviation indicators.
- **Qualitative comparisons.** It is difficult to compare qualitatively different outcomes, such as housing and jobs, not least because they can be interrelated. While some funds may focus on a number of activities that impact poverty, others may not. This will make it quite difficult to compare the impacts.
- **Developed vs. developing.** Comparing impacts of investment in countries at different levels of development is difficult. Obviously, money goes much further in poorer countries. As such, a fund active in developing countries may be able to build 500 houses with US \$100,000, while a fund active in a developed country may have only been able to build 2 houses with the same investment. While the impacts on the lives of people are significant in both environments, the fund active in developing countries will be favored in terms of total homes built.
- **Investment size.** There is also a need to standardize how much a firm must invest to be able to claim certain impacts. For example, one fund may only invest a fraction of the total cost to get a business off the ground or to build a home, but would still want to claim these impacts in their quantitative evaluation.
- **Time frame.** Many investments have a long-term and/or indirect effect on alleviating poverty, and it may be difficult to immediately identify any positive social impact. For example, certain investments go towards training individuals to start their own businesses. Such training does not necessarily have an immediate impact on business growth, as enterprise development is a long process, but results may be seen in the long-term.

There are many challenges involved in using a set of common indicators to capture the diverse experiences and activities of individual organizations. Nonetheless, it would be useful to create a common language and a set of metrics that provide insight and comparison into the social impacts and activities of various organizations. Given the different nature of the funds active in community investing and social venture capital, it will be important to leave much flexibility in regard to the measurement standards used.

The best approach may be to create standard measures for all impacts on poverty and then allow funds to select the best fit from this collection. This would allow funds within a certain investment class, i.e. business investing or affordable housing, to agree on the set of measures that are appropriate for their particular activities. Additionally, while quantitative measures are important, they may be less meaningful to individual investors. It is important, therefore, that funds balance quantitative and qualitative descriptions of social returns. Any move to standardization of reporting should similarly recognize the need for qualitative information.

A social assessment approach that combines standardized metrics and qualitative information will help community investing and social venture capital increase their relatively small share of SRI capitalization, and increase the reach of their valuable poverty alleviation work to distressed communities in the developed and the developing world.