Investing in Social Change

A Student Handbook on Community Investment
by Colleges and Universities

Produced by Equity Trust Inc.

Contents

Investing in Social Change: A Student Handbook on Community Investment by Colleges and Universities

Recent years have seen an exciting growth in the number of students concerned with the issues of poverty, economic injustice, and environmental degradation. This new level of student engagement with these global issues - perhaps most publicly illustrated with the 1999 protests against the World Trade Organization in Seattle - has led many students to get involved in campaigns to reform the policies and practices of governments, corporations, and international financial institutions. It has also led them to look critically at the economic policies of their own educational institutions - particularly those policies that determine how these institutions invest their often very large endowments.

Students at dozens of campuses across the country have launched campaigns to get their schools to adopt "socially responsible investment" (SRI) policies that establish social and environmental criteria - in addition to existing financial criteria - to guide investment decisions. These campaigns have advocated primarily for policies that apply social and environmental criteria either to *screen out* investments in corporations that have one or another kind of negative impact on society or the environment or to influence the behavior of corporations through shareholder activism. Recently, however, students on a growing number of campuses have begun to insist not only that their schools avoid making investments that have negative effects but that they also place some portion of their endowment in proactive "community investments." At Williams, Wesleyan, Portland State, and Mt. Holyoke, among other campuses, students have initiated campaigns to encourage their schools to make such investments.

What do we mean by *community investment*? In brief, we mean the type of socially responsible investment that invests capital in projects and programs that directly address fundamental social and environmental problems. Most community investment today involves loans by socially concerned individuals and institutions to various types of "community development financial institutions" (CDFIs), which in turn make loans to support efforts that address problems of poor and disadvantaged households and communities.

The purpose of this guide is to share the experiences of these student-led campaigns and to provide some basic information about the theory and practice of community investment, with the hope of encouraging other students to undertake community investment initiatives at their schools.

EQUITY TRUST INC

Equity Trust is a non-profit community development organization that provides technical and financial assistance to community-based economic development projects and organizations throughout the US and occasionally abroad. Equity Trust has a special interest in forms of land tenure – such as Community Land Trusts – that help meet the immediate needs of individuals while helping to insure the long-term security of their communities. The Equity Trust Fund, a community development loan fund, provides opportunities for socially and environmentally concerned individuals and institutions to make investments that help finance community development initiatives benefiting individuals and communities in need. Equity Trust is publishing this guide with the hope of encouraging greater community investment by educational institutions.

Socially responsible investment (SRI) first gained widespread public attention several decades ago, when many institutions, led by colleges and universities, decided to divest their stockholdings in companies doing business in apartheid South Africa. Since then, the field of socially responsible investment has expanded dramatically - particularly through the growth of socially screened mutual funds. The criteria employed by these funds vary widely, but generally they exclude companies that have poor records in such fields as human rights, labor rights, the rights of indigenous people, environmental conservation, and fair employment, or that manufacture harmful products such as tobacco, alcohol, and weapons.

As of 1999, one in eight dollars under management in the United States - a total of $2.16 trillion - was invested with some concern for social and/or environmental issues, up from $40 billion in 1984 (The Social Investment Forum). Additionally, many of the firms that manage socially screened funds or portfolios engage in shareholder advocacy - the use of shareholder resolutions to change corporate behavior - as a complementary social investment strategy.

From the beginning, colleges and universities - and students in particular - have played an important role in raising the issue of socially responsible investment. In recent years, students and faculty on a number of campuses, including Swarthmore, University of Virgina, Williams, Harvard, Yale, Tufts, University of Michigan, Wesleyan, Haverford, Mt. Holyoke, Portland State, Stanford, Brandeis, and Penn, have pressed their administrations (with varying degrees of success) to adopt some social and environmental criteria in making investment decisions or to use their stockholdings to influence corporate behavior.

That this pioneering work in the field of social investment has taken place on college campuses is significant. First of all, many colleges and universities manage substantial endowments - often hundreds of millions, and, in some cases, billions of dollars. Influencing the way these resources are invested can have a substantial social impact, and this impact can be magnified by the public attention and political significance given to the practices of these institutions of higher learning. In addition, colleges and universities are ideal grounds for social investment campaigns because of the congruity of SRI and the educational missions of these institutions. If one purpose of higher education is to give young people the ability to be responsible and thoughtful citizens, it is only proper that these institutions should themselves strive to be responsible citizens. They should be concerned not only with the effect of their educational programs on their students but with the effect of their stock investments on the wider world.

These SRI initiatives are important, but they are not all that is needed. The most pressing problems of our society - poverty, economic injustice, environmental degradation - cannot be adequately addressed by conventional stock investments, socially screened or otherwise. A growing number of people - from mutual fund managers to student activists - are coming to the conclusion that an effective program for responsible investing must go beyond simply avoiding the worst and supporting the best of conventional investment options.

The Social Investment Forum, a trade group for the social investment field, is now advocating that individuals, institutions, and money managers commit one percent of their portfolios to community investment. An increasing number of institutions, including pension funds, churches, foundations, and socially responsible money managers are responding to this challenge with the recognition that community investments are the best way to maximize the social impact of their money while providing a modest, but secure return on their investment. A growing number of students have also identified community investments as an essential component of a socially responsible investment program. Williams College students conducted a two-and-a-half year campaign to get their school to incorporate community investments in its investment portfolio and were ultimately successful.

In October of 2001, Williams College launched a "social choice" fund—ten percent of which is in community investments, with the remainder in screened stocks. The fund serves as a socially responsible alternative for alumni, who can choose to direct their donations to the fund. As of the spring of 2002, Wesleyan, Portland State, and Mt. Holyoke students were also working on community investment campaigns, with interest spreading to other schools.

STUDENT PERSPECTIVES ON COMMUNITY INVESTMENT

"The idea of asking PSU to move some of its investment dollars into community investments came from our desire for a positive investment approach that would not just oppose where the University's money was going, but highlight places where we actually wanted it to go."

April St. John, Portland State University

"Avoiding harm is only one component of social responsibility. The larger question remains of what affirmative responsibility those who possess wealth have in a world where so many people lack such basic needs as quality housing, adequate food, secure employment, and healthcare."

Mike Levien, Williams College.

"Our community investment campaign at Mount Holyoke is one way we choose to engage and transform the privilege of our education and the resources of our institution in the name of social and economic justice."

Clare Robbins, Mt. Holyoke

Community investment is the practice of making financial investments that support locally-initiated community development projects that meet the immediate needs of low-income and otherwise disadvantaged people - with a special priority placed on projects that seek to alter the economic system that has left those needs unmet. Thus, before discussing community investment in any detail, we need to discuss the nature of community development projects. And before discussing those projects, we need to discuss the nature of the problems they address.

The Problem

The problem can be seen in the many poor, deteriorating, ghettoized neighborhoods of our inner cities – and in the harsh contrasts between the meager opportunities available to residents of these neighborhoods and the rich array of opportunities available to residents of affluent neighborhoods. The problem can be seen as well in many poor rural communities – from eastern Maine to Appalachia, to the withering farm communities of the Midwest, to the colonias of the Southwest. The problem in all of these communities, both urban and rural, has to do *with who owns and controls* the basic resources that are essential to any community's wellbeing – who owns and controls the land, the housing, the businesses, and the capital that is needed to purchase land or housing or businesses.

Why are the residents of poor communities poor? Most people think of poverty as simply a lack of income - which some then attribute to personal, cultural, or racial deficiencies. Yet, while it is certainly true that many people have insufficient incomes to meet their basic needs, low income alone does not explain the persistence of poverty in poor communities. In fact, if you examine the economies of most low-income neighborhoods, you find far more money flowing through them than you would expect. The problem has less to do with the amount of money flowing into low-income households and communities than with the fact that virtually all of that money flows quickly out again. Both individually and collectively, low-income people face a kind of Catch 22. They cannot build wealth (accumulate capital) because they do not own and control the means of doing so. They cannot acquire the means of building wealth because they lack the capital needed to acquire those means.

In almost all poor communities, a very high percentage of the real estate is owned by people who do not live in those communities – often up to 80 or 90 percent. In typical low-income urban areas, the majority of households are tenants, most of whom have little or no hope of ever owning their own homes. Over a lifetime, these tenants may actually pay in rent several times what it would cost to buy their homes outright, and for this considerable outlay they gain none of the advantages of homeownership. They do not enjoy the security that homeownership provides; nor do they build equity or achieve a legacy to leave to their children – who will then face the same Catch 22 as their parents.

Businesses in these communities, too, are likely to be owned by people who do not live in the communities (or by corporate interests that live in *no* community). Profits earned through trade with local shoppers and through the labor of local workers accrue not to local people but to the outside owners. These profits are rarely reinvested in the community. And the outside owners, having no stake in the community, will be quick to relocate their business at any time that it appears their capital will return more profit elsewhere.

In fact, poor communities are generally seen as bad places to invest. Banks would prefer not to make loans to homebuyers in low-income neighborhoods. Insurance companies would prefer not to write policies in these neighborhoods. People who have the wherewithal to buy homes generally choose to buy them elsewhere. It is true that slumlords *do* purchase properties in these neighborhoods, but only to "milk" these properties by charging high rents while refusing to reinvest in maintenance or even, in many cases, to pay property taxes. When the buildings have deteriorated to the point that they are no longer rentable, the owners will simply walk away and let the city or county take possession. These milked-out abandoned buildings, which so dramatically symbolize "urban blight," do in fact embody the cause of that blight – the self-reinforcing process of *disinvestment*.

Absentee ownership is also a problem in many rural areas, where land is owned by large corporations that extract value from it in the form of agricultural products, forest products, and minerals. These economic activities once provided livelihoods for local farmers, loggers, and miners, but with increasing corporate ownership and automated technology there are fewer and fewer economic benefits for local people. The corporate owners provide few local jobs, and their land-holdings often leave few ownership opportunities for local residents. Growing numbers of people are forced to leave these rural areas. Those who remain are often trapped in poverty and face the same Catch 22 as the urban poor (and those who leave often find themselves *among* the urban poor).

Furthermore, these corporate owners not only have no real stake in the well-being of the communities in which they operate; they have little or no stake in the health of the natural environments in which they operate. Clear-cutting and strip-mining practices have had obviously disastrous environmental consequences in Appalachia and the western states. The effects of large-scale corporate farming practices may be less obvious, but they are even more extensive and pervasive – involving not only local effects on the quality of soil, air and water but global effects on the diversity and health of living things that we have barely begun to fathom.

Although the U.S. community investment movement has focused primarily on efforts to address the problems faced by communities here in this country, the *types* of problems with which it is concerned affect people and communities all over the world. At a time when investment generally is being globalized, the need for *community investment* is global as well.

GHANDI AND THE CONSTRUCTIVE PROGRAM

For Gandhi, social change required three interdependent elements: personal transformation, the constructive program, and the political campaign. Gandhi is probably best known for his work in the third category. However, he understood that it is useless to criticize an entire economic or political system without presenting credible alternatives. Political struggle could be productive only when accompanied by personal transformation ("being the change you want to see in the world") and by a "constructive program" that addressed people's basic needs, while also representing alternative ways of organizing their economic and social relationships with one another.

The constructive program for Gandhi and his followers involved going into India's villages and doing everything from digging sanitary latrines to starting schools to organizing spinning cooperatives for making home-spun clothing as an alternative to British textiles. The goals were to respond to immediate needs and at the same time build community-based economic, social, and political structures that would eliminate those needs in the long-term while affirming the dignity of each member of the community. Today's community development movement can be seen as a modern equivalent of Gandhi's constructive program.

Addressing the Problem: Community Development Practices

In its broadest sense, what has come to be known as the field of community development embraces a wide range of activities, most of them carried out by community-based or faith-based nonprofit organizations with various kinds of support from the public and private sectors. These activities include:

- programs that provide urgently needed products and services to low income people – from food pantries and homeless shelters to clinics, child-care facilities, job-training centers, and more;
- neighborhood improvement programs in low-income neighborhoods;
- programs that develop and operate affordable rental housing;
- homebuyer programs that make homeownership affordable for lower income people;
- homeowner assistance programs that help low-income and elderly homeowners make needed repairs and improvements in their homes;
- programs designed to create jobs in low-income neighborhoods;
- programs that help low-income and disadvantaged people to launch their own business enterprises;
- programs designed to support small-scale, locally owned agricultural enterprises, promote the availability of locally produced food, and give consumers greater control over the food supply.

Many of these programs developed out of the 1960's, when the community development movement was given an important kind of momentum by the Civil Rights Movement and an important base of financial support by the anti-poverty programs of the federal government under President Johnson. Many of the pioneers of the community development movement were supporters of the Civil Rights Movement who understood that gaining equality before the law was not in itself the end of the struggle. It is one thing, as Martin Luther King Jr. said, to be allowed to go into a restaurant and buy a hamburger; it is another to be able to afford it. It was understood that the next step in the struggle must be to open up opportunities for people to acquire the means of paying not only for hamburgers but for homeownership, business ventures, and college tuition.

The kinds of community development programs that involve direct services provide what can be seen as prerequisites to ownership opportunities. (People need food and shelter before they can concern themselves with developing job skills; they need job skills before they can benefit from job creation programs; they need steady incomes from regular jobs before they can buy homes and build equity in those homes). But there are other kinds of community development programs that directly address the issue of ownership itself.

There are programs that help low-income people achieve and retain the advantages of homeownership; programs that give low-income people access to the capital they need to start their own businesses or to acquire land for appropriate small-scale agriculture; programs that help workers to organize worker co-ops or consumers to organize consumer co-ops. There are also programs such as those of community development corporations and community land trusts that focus not only on the needs of low-income households but on the needs of low-income *communities* to gain greater control over local land and housing and other community assets.

COMMUNITY LAND TRUSTS

Community land trusts (CLTs) are nonprofit organizations that acquire real estate in order to provide benefits to the local community and to make land and housing available to residents who cannot otherwise afford them. In dealing with real estate, CLTs make an important distinction between land and improvements on the land. Land is always held permanently by the CLT, but buildings on the land can be owned by the people who use them.

People who purchase CLT homes receive a long-term lease to the land which gives them and their descendants the right to use the land beneath their homes for as long as they wish to live there but prevents them from retaining the homes as absentee owners if they move away. When they do move away, the land lease requires that the home be sold either back to the CLT or to another lower income household, and for an affordable price.

CLTs are typically organized with two kinds of members – those who live in CLT homes (or use CLT land in other ways) and others in the community who have an interest in how community land is used and who gets to use it. Both types of members are typically represented on the CLT's board of directors. So, in its governance as in its approach to ownership, the CLT tries to balance the interests of individual households with the interests of the broader community.

The need for community development capital

The success of all of these community development programs depends on their access to appropriate and adequate capital. Programs that provide costly services to very low income people may rely heavily on grants, donations, and government contracts, but they often also need loans to acquire and develop facilities or to bridge the delays that often occur between the commitment of government funding and the actual disbursement of funds. Affordable housing programs need loans to acquire and develop real estate. Housing programs that promote homeownership for low-income households need, in addition, to help these households get mortgage loans. Programs that help low-income people start businesses must see that these businesses are adequately capitalized – through loans or, in some cases, through an investment of venture capital. Government funding for community by campaigning development dwindled after the days of Lyndon Johnson's Great Society programs, and was then drastically reduced in the 1980s under the Reagan Administration. Some government programs continued to provide crucial resources, but community development efforts were forced to turn to the private sector for a much larger portion of the capital they needed.

Private sector financial institutions, however, were not eager to supply this capital. Until the passage of the Community Reinvestment Act (CRA) and Home Mortgage Disclosure Act (HMDA) in the 1970s, many banks "redlined" low-income neighborhoods (and particularly communities of color), simply refusing to make loans within these areas. And, even where redlining as such was not a factor, low-income people, minorities, and women found it difficult to negotiate loans from banks and other financial institutions – as did the community development organizations that tried to address the problems of low-income and minority communities.

Faced with the often blatant lack of responsiveness on the part of conventional financial institutions, community development activists pursued two strategies. On one hand they brought pressure on the banks by campaigning for passage of CRA and HMDA and then using these laws to force one bank after another to commit capital to low-income and minority communities and projects addressing the needs of these communities. These "CRA settlements" were important milestones, but often the actual results were disappointing.

Even when active resistance was eliminated, banks were still not doing a good job of meeting the credit needs of low-income communities – in part because of the cultural gap that separated these communities from the "banking community," in part because bankers generally had little experience with the kinds of organizations and projects that were the vehicles for community development efforts, and in part because the kinds of loans that were needed tended to be small, unconventional and expensive for conventional institutions to make.

There was a need for something more. So the second strategy pursued by community development activists was to seek capital not just from the banks but from their own allies and sympathizers. At first this often meant that community development organizations would seek loans directly from local individuals or religious institutions. But these potential community investors generally lacked the experience needed to evaluate the proposals brought to them, and, even when they could, there was substantial risk in making these project-by-project loans. Some projects were poorly designed. Some failed. Some investors lost money.

There was a need for "financial intermediaries" that specialized in community development finance – that could bring the necessary expertise to the evaluation of loan requests, that could assist community groups in planning financially sound projects, and that could be capitalized and managed in ways that would reduce and perhaps eliminate the risk for those who wanted to invest their own capital in community investment.

Given the need, such intermediaries began to appear. At first these institutions were small and were capitalized almost exclusively by socially conscious individuals, religious institutions, and some foundations. In most cases, their "net worth" (the difference between what they owed to their investors and what was owed to them by their borrowers) was very limited. To many they appeared fragile and likely to fail. But, to the surprise of these skeptics, they were remarkably successful. They attracted talented people and developed expert operations. They attracted more and more social investment capital. Their credibility grew, not only among social investors but among conventional financial institutions, which were increasingly willing to support and collaborate with their efforts in meeting the credit needs of community development efforts.

The strength and effectiveness of these institutions received a further boost when, with support from the Clinton Administration, a coalition of "community development financial institutions" (CDFIs) successfully lobbied Congress to create the CDFI Fund, which makes substantial capital grants to qualifying CDFIs, allowing them to increase their net worth significantly, thereby further reducing the risk for their private investors and thus attracting more private capital. With the help of the CDFI legislation, the number of organizations involved in community investment has continued to grow; new types of investment vehicles have been created; and the amount of money under management has increased dramatically. The Social Investment Forum reports that, as of 1999, a total of $5.4 billion was invested through the various types of Community Development Financial Institutions described in the next section.

Types of Community Investment Intermediaries

Below are brief sketches of the various types of CDFIs, as well as the "second-tier vehicles" that exist for investing in them. To learn more about any of these vehicles, you can consult the resources section at the end of this guide, which contains references to various on-line informational resources, including directories to help you find specific organizations. A particularly good document is the Social Investment Forum's *Guide to Community Investment*, which is available on the Forum's website. (This is also a good document to give to college administrators as it lays out the field of community investment in a way that speaks to professional money manager). Remember, however, that you do not need to be an expert in finance. What you do need is to have is a basic understanding of the types of investments you're proposing and what they mean socially and financially for your college. With this understanding, you will be able to provide your administration and trustees with persuasive reasons for incorporating community investments into your school's portfolio.

Community Development Banks

Community development banks are chartered and regulated on the same basis as conventional banks and offer the same kinds of financial products and services, but with the purpose of providing these products and services in communities that are underserved by conventional banks – and with a special emphasis on helping to capitalize community development efforts in these communities. Like other banks, these are shareholder-owned institutions. Those who buy community-development bank shares are not necessarily customers of the bank or residents of its target neighborhood(s); rather they are individuals or institutions with capital that they want to invest in community development. Those who deposit funds in community development bank accounts may also live outside (as well as inside) the target community and may make these deposits with the specific purpose of supporting community development efforts. Community development banks offer the same security to these depositors (FDIC insurance up to $100,000 per depositor) as do other banks. (Those who invest in community development bank shares, of course, do not have this security: they may either make money or lose money, depending on the profitability of the bank).

The oldest and best known community development bank is South Shore Bank, founded to serve Chicago's disinvested South Shore neighborhood but now supporting community development efforts in other areas as well. There are still relatively few such banks in the U.S. A substantial amount of work, time and sophistication is needed to meet the requirements of government bank regulators – including initial capitalization requirements involving the sale of stock.

Community Development Credit Unions

Though they, too, are government-regulated, community development credit unions (CDCUs) are somewhat easier to organize, can operate effectively on a somewhat smaller scale, and are therefore more numerous than community development banks. CDCUs are nonprofit financial cooperatives, controlled by and for the benefit of members. Membership is limited to the residents of a particular community. CDCUs can make loans only to their members (thus only within their designated communities), but many of them accept deposits from non-members outside of the community, thereby offering an effective and safe community investment opportunity for individuals and institutions elsewhere. Like bank deposits, CDCU deposits are federally insured up to $100,000 per depositor.

As local cooperatives (controlled on a one-member-one-vote basis), CDCUs give the community residents greater control over the use of their capital than do shareholder-controlled community development banks. CDCUs also play an important role in educating their members on financial matters, thereby increasing the ability of community residents to manage their resources effectively. Most of the loans made by CDCUs go to individuals – as auto loans and other types of consumer loans and in some cases as home mortgages – but local nonprofit organizations can also qualify for membership and as such may also receive loans.

Community Development Loan Funds

Community development loan funds (CDLFs) are nonprofit charitable organizations that receive loans from socially motivated investors, as well as grants and donations from public and private sources, and use this capital to make a variety of loans to a variety community development initiatives. They are also typically very active in providing technical assistance to the organizations and individuals they serve. Some CDLFs serve relatively small geographical areas; some serve larger regions or major metropolitan areas; some operate nationally, and a few internationally. Some CDLFs are highly specialized in the type of lending that they do; some offer a variety of loans to a variety of borrowers for a variety of community development purposes. Because they are not government-regulated, community development loan funds can often be more flexible than banks and credit unions in making capital available to community developments efforts that have no other access to financing. Many CDLFs also differ from banks and credit unions in that they specialize in assisting and financing the endeavors of nonprofit and cooperative organizations.

Initially much of the investment in CDLFs consisted of one-to-five-year loans, which meant these loan funds tended to be limited to making short-term to medium-term loans. As they have grown and diversified their capital bases, however, they are increasingly able to make long-term loans as well. Types of financing that may be offered by CDLFs include the following:

- acquisition and development loans to nonprofit developers of affordable housing;
- long term mortgage financing for affordable rental housing and limited equity housing co-ops;
- long term mortgage financing for facilities of nonprofit service providers (from shelters, to day-care centers, to office space);
- long term mortgage financing for low-income homebuyers;
- home repair loans for low-income homeowners;
- cash flow loans and lines of credit for nonprofit organizations;
- loans to nonprofit and co-op-owned businesses, and to for-profit businesses that create jobs and/or provide other benefits to low-income communities;
- loans (typically of less than $10,000 to capitalize "micro-enterprises" – small business endeavors by low-income individuals, minorities, and women. (Micro-enterprise lending was initiated in this country by some specialized loan funds that did only this type of lending, but a number of CDLFs now offer these loans among other types);
- loans to capitalize environmentally appropriate small-scale farming and "community supported agriculture" programs;
- loans for community development projects in developing countries.

Unlike community development banks and credit unions, community development loan funds are not regulated and insured. The degree of risk involved in CDLF lending activity ranges from high risk in the case of micro-enterprise loans to low risk in the case of loans fully secured by real estate mortgages. However, a well-capitalized, well-managed CDLF can plan for and accept significant loan losses without endangering the capital of its investors. The National Community Capital Association (originally an association of CDLFs but now including other types of CDFI as well) states that no investor in any of its member loan funds has ever lost money.
The interest rates charged by CDLFs to their borrowers are usually less than market rate, and in some cases much less. The interest rates paid by CDLFs to their investors are also, of necessity, less than market rate, though not necessarily less than these investors would earn if they kept their money in a savings account. CDLFs typically accept investments at rates ranging from 0% to a maximum established by the rate earned by money held in bank accounts (typically around 4% at the time of writing), and for terms running from one year to ten or more years. For the investor there is an obvious trade-off between financial benefits on the one hand (higher return and greater liquidity) and potential social impact on the other hand. The lower the interest rate and the longer the term, the greater the usefulness of the investment for community development purposes.

Community Development Venture Capital Funds

Unlike the types of community investment vehicles described above, which operate primarily by accepting loans or deposits from investors and making loans for community development activities, community development venture capital funds make equity or "equity-like" investments in businesses that have the promise of creating jobs, fostering entrepreneurial ability, and creating wealth and/or other benefits for low-income people in distressed communities.

There are real limits on the extent to which new businesses can be successfully financed with loans – particularly with shorter-term loans that must be repaid before the business is likely to generate a significant profit. Ambitious business start-ups typically require not only loans but "patient money"– investments that do not have to be paid back on any pre-established schedule. Such investments may take the form of purchases of common or preferred stock or the provision of various forms of subordinated or deferred debt. In order to provide patient money, community development venture capital funds need to receive patient money from investors and grantors. Investors may hope to see a profit in the long term, but have no guarantee of any return at all on any given schedule. For this reason, much of the capital invested in CDVCFs comes from larger investors such as foundations, banks, insurance companies, and government sources, which have enough capital to allow them to be patient.

CDVCFs are operated by a variety of nonprofit and for-profit institutions. Some institutions, such as Boston Community Capital, that began as simple community development loan funds but have since grown and diversified, now operate community development venture capital funds. At the end of 1999, there were approximately 45 community development venture funds, with roughly $200 million under management.

Second-Tier Intermediaries/Pooled Investment Approaches

A recent development in the field of community investment is the small but growing number of institutions now offering pooled community investment products. Comparable to more familiar types of mutual funds, they offer diversified portfolios of investments in a variety of community development financial institutions.

The advantages for the social investor are that the individual CDFI investments are selected by professionals with some breadth of knowledge in the field and that any risk involved in such investments is spread broadly and carefully managed. The downside, however, is that these intermediaries represent another organizational layer and thus add cost to loans, either lowering the return to the investor or increasing the interest rate for the borrower. Calvert Community Investments, which has a portfolio of over eighty Community Development Financial Institutions of all varieties, is one example of this approach to community investment. Investors can choose among products offering rates of return ranging from 0% to a modest maximum that varies as economic conditions vary (4% at the time of writing).

NEW HAMPSHIRE COMMUNITY LOAN FUND: FINANCING MANUFACTURED HOUSING COOPERATIVES

In 1983, when the New Hampshire Community Loan Fund was in formation as perhaps the first CDLF of its type in the country, the Fund's organizers received a plea from a group of mobile home owners whose small park in a resort area near Lake Winnipesaukee was for sale. Like so many other residents of mobile home parks (also known as manufactured housing parks), these were lower income people who owned their homes but rented lot sites from the park owner on a month-to-month or year-to-year basis. If the park was sold to someone who wanted the land for a different use, such as condominium development, the residents would be evicted with their homes, and with virtually no hope of finding another park that would rent space for older mobile homes. They would lose their homes, their equity in their homes, and their neighborhood.

This group had heard of the possibility of organizing a residents' co-op that could buy and hold the park, preventing displacement now or in the future, but at that time, in New Hampshire as in most states, there was no precedent for mobile home park co-ops. Banks were unfamiliar with the model. Even if they had wanted to finance a real estate deal for a group of lower income people with limited financial resources, the banks would not have known how to do such a deal. So the residents sought out the new loan fund.

Loan Fund board members, together with new Executive Director Julie Eades, were able to provide the technical assistance needed to incorporate a co-op and negotiate a purchase contract with the park-owner, an older widow living in a house on site, who needed the money but didn't want to leave her home or see her neighbors forced out of theirs. (The deal that was struck gave the co-op a favorable price and allowed the seller to stay in her home).

On June 1, 1984, the Co-op became the Loan Fund's first borrower as the purchase of the park was completed. Following the purchase, the Loan Fund assisted the residents as they learned to manage their own park and its ongoing finances. With the future of the park certain, the co-op members spruced up the park and improved their water and septic systems. As homeowners with secure tenure they began investing, as they could, in improvements to their homes.

In the meantime, the Loan Fund was hearing from residents of other parks facing similar problems. Today, thanks to the Loan Fund's pioneering work and ongoing lending and technical assistance programs, there are 44 mobile home park co-ops in New Hampshire. Overall, the Fund (where Julie Eades now oversees a staff of 50) has provided more than $23 million in financing to co-ops, community land trusts, micro-enterprises, and other types of community-based affordable housing and economic developments throughout New Hamsphire.

Why Should Your College or University make Community Investments? 4

You may be convinced at this point that community investment is an effective way to fight poverty and promote economic justice. But why, you might ask - and your trustees *will* ask - should an educational institution take on these goals? The primary mission of a college or university, after all, is to educate students, so, according to the conventional reasoning, such institutions should invest their endowments in a way that maximizes financial returns to support that mission. Sacrificing investment returns for the sake of social impact, it is argued, would reduce the college's ability to provide a quality education. Moreover, you may be told, basing investment decisions on social and environmental considerations will have the inappropriate effect of "politicizing the endowment."

These are lines of reasoning that you will face - or maybe already have faced - from students, professors, administrators, and trustees when you try to raise the issue of socially responsible investment in general or community investment in particular. Nonetheless, some of these arguments are based on questionable assumptions, and, in the end, there are important reasons for colleges and universities to make community investments. Four fundamental reasons are outlined below:

Reason 1: Educational Institutions are Responsible to their Societies

Most colleges and universities will acknowledge that nurturing the values of civic engagement and social responsibility in students is part of their educational mission. It is therefore reasonable to expect that they themselves will be guided by these values in their behavior as owners and investors of the substantial resources entrusted to their stewardship. The fact that colleges have a responsibility to invest their endowments in such a way as to generate support for the education of their students does not mean that they have no other responsibilities in making these investments. They are, in an important sense, responsible for the many other effects of their investment decisions throughout their society and the world.

This responsibility is highlighted when you consider the public subsidies that go to colleges and universities in the form of local, state and federal tax-exemptions and, in the case of state schools, direct public financing. Acceptance of these public resources ought to bring an awareness of broader public needs, including the needs of those less privileged members of the public who are trapped in poverty by the same economic forces that have generated the wealth embodied in college endowments. This is not to say that colleges ought to "re-donate" portions of their endowments to help poor people, but it is to say that they should look for ways to place some portion of their endowments in investments that, while yielding a modest return, will help to change the systemic causes of poverty.

As compelling as this argument may be to some of us, however, those who oppose a college's involvement in community investment - or other types of socially responsible investment - often argue that such investments will "politicize the endowment." The endowment, they say, is intended *solely* to increase the financial returns to support the education of students. They insist that to take other social considerations into account would amount to using the endowment for "political" ends. This argument, however, is based on the faulty assumption that investment decisions can *ever* be free of political significance. All investments – all capitalization of specific economic activities – have consequences that affect various members of society (and the environment) for better or for worse. Because they have such consequences, they have political significance. To refuse to consider these consequences – or to hold that only "social investments" have political consequences – is in itself a political act. At Williams College, a trustee who told students that making community investments in the surrounding area would be a *political* use of the endowment, apparently believed that investing $6 million in General Electric, a company responsible for the pollution with PCBs of several nearby waterways, was somehow *apolitical*. Ultimately, investment decisions, like many of our decisions in life, involve inherently moral and political considerations. The question is whether institutions that teach us to be informed, questioning, and responsible citizens, should not engage these issues themselves.

Reason 2: Community Investment Can Further the School's Educational Mission

Colleges are supposed to equip their students with the ability to critically examine their role in the world and to respond to it in a thoughtful and morally upstanding fashion. Understanding our relationship to those with whom we share this increasingly complex and interconnected world is a central theme of academic discourse in any number of disciplines, including economics, political science, sociology, environmental studies, and philosophy. Community investment raises social, political, economic, environmental, and philosophical issues that relate to this theme in important ways. Institutional involvement in community investment can spark important campus discussions, not only of the way the college invests its money but of the way we are all affected by investment decisions – in low-income neighborhoods as well as on college campuses.

Even if there is considerable disagreement within a college about the merits of community investment, the commitment of a portion of the endowment to community investment can still contribute to the school's educational impact. By drawing attention to the fact that there are differing opinions on this issue, the placement of one portion of a college's endowment in community investments can stimulate an educational dialogue on the social and environmental consequences of economic decisions.

Reason 3: Community Investment is Fiscally Responsible

Community investments are not charity. They are investments that can yield a modest but reliable financial return as well a significant social return. As investments they can be assessed in the same terms as any other investments. Once this fact is understood, much of the potential bias against community investments will evaporate. If college administrators and trustees are still concerned about questions of financial risk and financial return, these questions can be objectively addressed.

Most college endowments are managed through portfolios containing both equity investments (primarily shares of corporate stock) and fixed-rate investments (deposits, loans and bonds). Over the long-term, equity investments are likely to yield higher returns than fixed rate investments (though, as of this writing – September, 2002 – equity investors are suffering major capital losses), but fixed rate investments generally involve less risk. Most investors plan to hold some of each type of investment, balancing an interest in higher returns with an interest in avoiding risk. Most community investment options (all except for purchase of stock in community development banks and investment in community development venture funds) are fixed-rate investments and should be compared with other fixed rate investments that your college already holds.

The safest community investment options are insured deposits (including certificates of deposit) in community development banks and credit unions, which are as secure as such deposits in comparable conventional depositories and which offer comparable rates of return. To the extent that an institution's policy is to keep a certain portion of its endowment in this type of account, it is hard to see what would be sacrificed by utilizing the community development depositories for doing so. Community development loan funds, though not insured, are also reasonably safe, and offer the possibility of greater social impact than do deposits in CD Banks and CDCUs.

As noted earlier, the National Community Capital Association reports that no investor in any of its member loan funds has ever lost a penny of its principal investment. The Calvert Group, a socially responsible investment firm, also reports that in the ten years that its mutual funds have been investing in CDFIs, these investments have never resulted in a loss of principal. Rates of return on these investments usually vary from 0% up to something approaching the rates that loan funds can earn through their holding accounts (typically 4% at the time of this writing). The periods of time for which the loans are committed also vary. (The lower the rate and the longer the term, the more useful the investment is for community development purposes.) Where CDLF investments are concerned, the real question is often not whether to make a loan to one of these funds but how much to lend and what terms to lend it on (how much return and/or liquidity to sacrifice for the sake of greater social impact).

Reason 4: Community Investment Can Augment Fundraising Efforts

Although community investment may involve some sacrifice of financial return for the sake of social return, there may be a different kind of financial benefit that will offset this sacrifice. This benefit results when a college's community investment policy attracts donations from alumni who have not been inspired to donate to the college because of concerns about its investment practices or because they feel that donations to other causes are a higher priority. By acknowledging the values of these alumni and presenting them with the opportunity to contribute to positive social change as they contribute to the school, a college or university can tap into a pool of donors who otherwise wouldn't give to the school – or would not give as much. The response of one Williams College alumnus to a fundraising letter for the school's new Social Choice Fund illustrates this possibility. The alumnus wrote to a classmate, "I got a letter today from Williams about the new Social Choice Fund…. It sounds like a great plan and I'm glad that it is getting off the ground.... I've never contributed to Williams before as an alumnus, but with this new fund I think I will."

IS YOUR COLLEGE ALREADY INVOLVED IN COMMUNITY DEVELOPMENT PROJECTS IN THE LOCAL AREA?

When approaching your administration about the possibility of making community investments, you may be told that the college already invests in the local community. It is true that some schools do have extensive involvement in their surrounding communities – variously motivated by a genuine desire to serve the community and/or by a degree of self-interest. If your college says that it's already involved in local community development, you may want to look at the nature of that involvement, perhaps talk with non-college people who are connected with the effort, and try to decide how much the college is in fact already contributing to the local community.

Who will benefit from the college's community development efforts? To what extent is the college responding to real needs in the community, and to what extent is it merely trying to change the appearance of the community in a way that makes it more attractive to students? Will the effort benefit people in the community at large or will benefits be directed primarily towards college faculty and staff living near campus? Many schools subsidize housing for faculty and staff living near campus, but such programs can drive up housing costs for lower income community members who are not affiliated with the school. The benefits of a variety of neighborhood improvement efforts may similarly flow to college-affiliated residents while driving up housing costs for other residents – effectively gentrifying the community in a way that will result in the displacement of lower income people.

Who controls the effort and its results? Were the community development projects in which the college is involved initiated and supported by individuals or organizations in the community (or responding to needs they've identified), or is the college acting unilaterally? Is the college working with existing grassroots organizations, community development corporations, and neighborhood associations? Will the housing or other facilities produced through these efforts be owned and controlled by community-based interests?

These are a few of the questions to be explored if your administration tells you that your school is already investing in community development. You may find that the school is in fact engaged in well-designed community development projects that have the full participation of the community itself. But you may also propose that the school make a different kind of response to local needs by investing through a Community Development Financial Institution that will fund projects initiated and controlled by local community groups. Also, remember that there is a larger world of needs outside of the school's local community, so consider encouraging the school to make community investments that respond to those needs as well.

Building a Campaign 5

There is no single “right” way to organize a community investment campaign. What has worked for some students on some campuses may not work for – or be needed by – others. Nonetheless, there are some basic things that most if not all campaigns will need to accomplish early in the organizing process. You will need to:

- Gather information about your school's current circumstances, policies and practices.
- Gather and share information about community investment.
- Build an effective working group.
- Develop a proposal.
- Build alliances and mobilize support.
- Respond to objections.

This list does not represent a set of separate chronological steps. Generally these activities will go on concurrently and interdependently.

Gathering Information about Your School's Current Circumstances, Policies and Practices

It is obviously important that your campaign be based on a thorough understanding of what it is you want to change. Early in your efforts you will want to begin gathering information about your school's current policies and practices – both with regard to investment practices and with regard to policies and circumstances that affect the investment practices.

Among the questions to be explored are:

- What is the current size of the endowment, and are there significant subcategories within the overall endowment – i.e. special funds subject to special use or management restrictions?
- What are the policies regarding the percentage of the endowment allocated to different types of investments, e.g., corporate stock, real estate, corporate bonds, government bonds, cash deposits?
- Are any “social screens” now applied to the school's investments? If so, what is the nature of the screens?
- What has been the overall rate of return from investments historically, and what is the rate currently?
- In what specific corporations does the school currently hold stock? In what institutions does it maintain depository accounts?
- Who establishes investment policies? Who makes specific investment decisions?
- How much of the income and capital gain from investments is used each year to support the operation of the school? How much is reinvested?
- What are current practices regarding solicitation of contributions to the endowment and contributions to operating support (from alumni and others).
- How does the school relate economically to the surrounding community? How much real estate does the school own? On how much property, if any, does the school pay taxes or make payments in lieu of taxes? Does the school contribute to local community development efforts? What is the approximate dollar value of its contributions?

Probably you will be able to gather some of the information needed to begin answering these questions simply by walking into your Treasurer's office and asking for it. It will be relatively easy to get information that has already been processed for distribution to alumni, current and prospective students, parents, local governments and others. But gaining fully sufficient answers to this range of questions will not be so easy. It will take time and patience. You or other members of your group (or perhaps allies of your group) will need to seek out and talk with various college officials with responsibilities in the various areas that these questions touch upon.

Talking with these officials early on will not only introduce you to your school's investment policies and practices; it will help you to understand your administrators' concerns and will give you a sense of their openness or resistance to what you are proposing. It may also serve to increase their openness and diminish their resistance. If they can tell that you're trying to understand where they're coming from and what concerns they have, you may be able to develop a productive relationship with them.

Gathering and Sharing Information about Community Investment

As you gather information about your school's practices, you will also need to educate yourself, your group, and others about what community investment is, why it is important, and why it is reasonable to ask your college to engage in it. This guide is intended to give you a start in this process, but the process as a whole will be on-going and open ended. The goal is of course not only to educate yourself but to share your information with your group, to involve others in the group in gathering and sharing information, and to use the process as a way of involving and energizing more people.

Here are some activities that may help move the process along:

- Explore the subject through the publications and on-line resources listed in the back of this guide.
- Arrange to interview representatives of local community development programs or organizations, and representatives of one or more community development financial institutions.
- Invite one or more of these outside resource people to come and give a talk on campus.
- Contact Equity Trust for more information about community investing and creating a community investment campaign. Phone consultations, campus visits, and workshops are all possible.
- Contact the SRI coordinator of STARC (Students Transforming and Resisting Corporations) to connect with other students working on this issue and to learn more about what other students have done.
- Organize group discussions where people can ask each other questions and discuss why the school should or shouldn't make community investments.

In addition to educating the present and prospective members of your working group, you will want to begin reaching out to, and making information available to, the larger college community – both to help generate interest and support for your campaign and simply because the subject is an important one deserving of more attention. These outreach efforts can proceed through any number of avenues, including speaking events, forums, workshops, discussions, movie showings, informational signs, fliers, sidewalk chalkings, campus radio broadcasts, or tabling in public places. These efforts will not only provide relevant information to students (most of whom will have savings to invest some day, and some of whom may find careers in the investment field); they will also lay the ground-work for an effort to mobilize broad support for the proposal that you will eventually present to the college.

Building an Effective Working Group

To carry out a successful student campaign you will need a core group of students who are well informed, strongly committed, effectively organized, and representative of as many different components of the student body as possible. Such a group should be small enough so that its members can work together effectively in planning and leading a campaign, but large enough to embrace some breadth of experience, skills, and campus contacts. If you already have a group that has come together around shared interests and values, then you have begun the process of building a working group, but you probably have not completed the process.

You obviously want to avoid having your campaign be perceived as being limited to a small "progressive clique." For this reason, your efforts should involve a degree of outreach and recruitment from the start. If you arrange for a speaker to come to campus or organize a forum on community investment, make sure that people outside of your existing group – at least those you have some reason to think might be interested – know about the event and are encouraged to attend. Then make sure that you get the names of all who do attend and that you invite them to join the working group if they are seriously interested helping to plan a student community investment campaign.

As your group develops you should pay attention not only to who is a part of it but to who *isn't* a part of it that *should* be a part of it - either because of the experience they would bring or because of the influence they might have with others on campus. Is there anyone in your group who has been a part of a low-income community, or who lived in the community surrounding the college before becoming a student at the college, or who has some experience with community development efforts? Are there representatives of campus groups whose support for a community investment campaign will be especially important. To the extent that you can identify people who would bring useful experience or contacts, you can make a proactive effort to recruit them. This is not to say that you should try to conscript people who have serious doubts about – or only luke-warm interest in – what you are doing. You want people who support the basic idea of a community investment campaign and are willing to work on such a campaign. But you also want this group of people to be as diverse as possible.

Developing a Proposal

One of the things your organizing group will eventually have to decide – perhaps with input from the larger student body, administration, faculty, and alumni – is what exactly you want to ask the college to do. What kinds of community investments do you want the school to make, to achieve what social goals? And how much capital do you want the school to commit, within what kind of structure?

Desired Social Impact and Type of Investment

You may want to start with the question of what social goals your group would ideally like to see achieved by your school's community investment. But, in considering this question, you will also need to consider what types of community investment vehicles are available as means to achieving particular goals. In the end you may find that the goals that you actually propose are limited by these practical considerations, but it is still important to identify your ultimate goals at the start.

The overall question of social goals can be approached in terms of the following sub-questions:

Where do you want the impact to be?

Would you like to see the school invest exclusively or entirely in the local community or region, or exclusively or entirely in distressed communities anywhere in the U.S., or anywhere in the world? Or is location not an issue? The practicality of specifying local or regional investments will of course depend on the existence of appropriate CDFIs through which to make such investments.

Who do you want to receive the benefits?

It is possible that, because of the particular location or history or academic character of your school, you would have reason to specify a priority for investments that benefit particular disadvantaged groups. But in most cases you will probably want to answer this question quite generally – e. g., "low-income and disadvantaged people," or "residents of distressed communities."

What types of activities do you want the investments to support?

You might specify a preference for affordable housing activities (or a particular type of affordable housing activity, such as limited equity co-op development), or economic development activities (or a particular type of economic development activity, such as support for micro-enterprises). Again, the more specific your preferences, the more difficult it may be to find appropriate community investment vehicles.

How intensive should the per-dollar impact be?

This question – which must be considered in conjunction with the question of how many dollars you will ask your school to allocate to community investment – is likely to involve a significant trade-off between financial considerations on the one hand and social impact on the other hand. As we have suggested, a dollar (or a million or more dollars) that is simply deposited in an insured account is not likely to have the same social impact as a long term, low-interest loan to a community development loan fund. To what extent do you want to ask your school to make the higher-impact type of investment?

Dollar Amount and Fund Structure

In addition to the question of social goals and the investment vehicles for meeting those goals, there is the question of what amount you would like to see the college commit towards community investments and how you would like to see that commitment structured. Would you like the school to simply invest a certain percentage of the endowment in community investments? If so, what percentage? The Social Investment Forum is currently encouraging institutions, money managers, and individual investors to commit one percent of their portfolios to community investment. While that number is somewhat arbitrary, it is a goal that has been set by a prominent player in the social investment field and that is being met by a growing number of investors. (See the Forum's website, referenced in the appendix.)

Another option is to ask the college to create an alternative fund that alumni can give to and that will be dedicated to community investments (or that will dedicate some percentage of its assets to community investment, with the remainder in other types of social investments). This is what students at Williams College advocated for and eventually won, largely because they were unable to get the college to allocate a percentage of the endowment. Even within this option, however, different structures are possible. For instance, the school can create a community investment or "social choice" fund that will be capitalized entirely by new donations from alumni. Or the school can commit some portion of its existing endowment to the fund as well as allowing alumni to contribute to it.

If you propose either type of alternative fund, you will want to ask the college to commit to specific procedures for letting alumni know that they have an option to direct their gifts to a special community investment fund.

One possibility is to ask for a check-off option on fundraising appeals that allows alumni to direct their gift (or a portion of their gift) to a special fund. Your college may want to keep fundraising for the special fund separate from its regular appeals, but, at the very least, you can ask for a commitment from the Alumni Relations/Development Office to publicize the fund in the alumni newsletter, on the college's website, and perhaps through targeted direct-mail appeals. You might propose that the Development Office, with the assistance of alumni, create a mailing list of alumni whose profession or associations suggest that they would be interested in the alternative fund. This mailing list could grow as more people hear about and give to the fund over time. In addition to serving a direct fundraising purpose, the list would also make it possible to keep interested alumni aware of the fund's status and activities.

If you are unable to get your school either to commit a portion of its portfolio to community investment or to establish an alternative fund, you can consider taking steps to create an independent fund like the one created by Williams College students with help from the Equity Trust. As the Williams case study (below) indicates, the creation of this type of independent fund is not, in itself, the same as getting your college to alter its own investment practices, but it may give you a kind of leverage that will finally move your school to do what you are asking it to do.

Building Alliances and Mobilizing Support

Once a specific proposal – or at least a broad outline of a proposal – has been developed, you will have something definite around which you can begin to mobilize support. In this effort your concerns will be both qualitative and quantitative. You will be concerned with enlisting specific support from potentially influential allies among faculty, administrators, trustees, alumni and perhaps key student groups. You will also be concerned with achieving some expression of support - perhaps just the signing of a petition - from the greatest possible number of people who have a connection with the college. If your proposal has been developed with some degree of input from faculty, administrators, trustees, alumni and/or student groups, you will probably already have identified some allies who will be willing to endorse the proposal and perhaps help you carry forward a wider outreach effort. As this outreach effort proceeds, you should be able to identify and enlist support from other significant allies.

The outreach effort itself may entail a wide variety of activities. Here are some possibilities:

- Seek the widest possible coverage from campus newspapers and radio stations – and from media beyond the campus as well.
- Prepare and distribute a leaflet, utilizing members of your working group and allies to see that it reaches all parts of the college community.
- Organize a petition drive among students, again utilizing members of your working group and allies to see that the petition reaches all parts of the college community.
- Make a list of alumni who are known to be, or might have reason to be, sympathetic to your proposal. Contact them and ask if they would be willing to write a letter of support – either directly to the administration or trustees or to your working group for presentation to administration and trustees. Letters from alumni indicating that they would give or give more to the college if it chose to make community investments are very useful. If any donors are willing to pledge a significant gift to the college should it decide to implement your proposal, that's all the more powerful.
- Actively seek the endorsement of other campus organizations. If you can get groups outside of the traditional "progressive" or activist community to endorse your proposal, it will increase your chances of success significantly. You may want to see if your student council will endorse the proposal (but be mindful of the possible risk of having the council publicly reject it).
- In seeking support generally, you can make use of email listserves or chain-mails, direct telephone contacts, mailings, and tabling in public spaces, as well as face-to-face contacts wherever possible. You can even set up a website, as Williams students did, through which people can get information, see a form letter, and send an email directly to administrators.

If done in the right spirit, organizing support in these ways does not have to appear confrontational and create mistrust or ill-will on the part of college officials. You should make it clear that the intention of your organizing effort is to demonstrate campus support for your initiative and not to publicly condemn or embarrass the college. Be clear, honest, and sincere. There will probably be those who still don't like what you're doing, but they should be able to respect and understand it. And, ultimately, the more support you demonstrate, the more likely the college is to adopt your proposal.

Responding to Objections

Once you have presented a proposal and are working to build support for it, you will hear questions, concerns, or objections raised by some of those whose support you are seeking. It will be important that you be able to respond knowledgeably and persuasively. Potential responses to some of the more common objections are suggested here:

The trustees are obligated by law to maximize financial returns for the college.

Trustees may claim that they are legally bound by ERISA or other statutes to maximize the financial returns of their investments. However, it is not true that these statutes preclude community investment. The simplest way to counter this objection is to point out that a number of colleges and universities, including Williams, Duke, and the University of Southern New Hampshire, have made investments in CDFIs without any problems, as have many other institutional investors, including foundations, religious organizations, and pension funds.

The college's mission is to provide a quality education; the endowment must be invested in a way that maximizes the funding available to support this mission.

You need not argue with the idea that endowment is a means towards the end of providing a good education. As we have suggested, you can make the case that the endowment can serve this end not only indirectly by generating financial support but directly by raising important issues relating to economic, social and environmental relationships. If the endowment can make this kind of direct educational contribution, it should be acceptable that there is a certain amount of financial cost. The cost can be seen as simply another educational expenditure – comparable to the cost of visiting lecturers or service learning programs.

Making community investments will politicize the endowment.

As we have said, the claim that making community investments will politicize the endowment presupposes that investing to maximize profit with no concern for social or environmental consequences has no political significance at all. You will need to make the case that all investment – in so far as it supports certain activities that have social, economic, and environmental consequences – has political significance. Community investment merely broadens and balances an already politicized endowment.

Making community investments will cost the college lots of money - which means it will have to cut things like financial aid.

As pointed out earlier, the financial returns of community investments can be comparable to those of various fixed-rate investments or deposits that your school surely has in its portfolio, so community investments do not necessarily entail a significant financial sacrifice. You can make the case that whatever small financial sacrifice these investments do entail is outweighed by the significant social impact and educational value of the investment. Nevertheless, treasurers and trustees may still focus on the financial sacrifice and claim that it will force them to cut programs like financial aid (almost all students working on community investment campaigns have heard this response). Even if the financial sacrifice were large enough to necessitate cutting anything, there is, of course, no reason why the college would single out financial aid. You have reason to object strongly if it is suggested that in fact the administration *would* choose to cut a program allowing lower-income students to attend the school.

Making community investments will create an unacceptable administrative burden.

It is possible that investments in CDFIs would entail some additional administrative work – at least if the college creates a special fund to be managed separately from the rest of the endowment. However, it should be made clear that the process of making investments in a CDFI requires, in itself, no more time or energy than the process of making any other kind of investment. The only additional effort comes from the fact that you are adding one more investment to the portfolio. Once the investment has been placed, the investor only has to make sure that it remains satisfied with the CDFI's financial health (as with any investment) and social performance. The process of monitoring the financial health of the CDFI can be carried out by those who oversee the college's other investments. To evaluate the social performance of the investment, you may want to propose a committee comprised of students, faculty, alumni, and administrators. While such a committee would require some additional effort, it would contribute to the school's educational mission and would not pose an unreasonable administrative burden. Finally, it can be pointed out that, in fact, community investment has not posed an insurmountable problem for schools that are doing it, such as Williams College.

Case Study: The Williams Social Choice Fund 6

It took an intense two-year campaign, initiated by students and eventually joined by faculty, staff, parents, and alumni, but, in October of 2001, Williams College finally announced the creation of a socially responsible investment fund, ten percent of which is committed to community investments.

The initiative to bring socially responsible investing to Williams began in the fall of 1999 when a handful of students began researching the companies in the college's stock portfolio and became concerned at what they saw. One of those students recalls:

"When we got the College to release its portfolio of stock holdings, we saw that Williams had substantial investments in Phillip Morris, GE, and other companies with notoriously bad social and environmental behavior. We felt that by holding such stock, the college was supporting the activities of those corporations, which in some cases meant advertising cigarettes to kids, producing military weapons, and polluting the nearby Hudson and Housatonic Rivers with PCBs. Discovering the contents of the portfolio made it clear to us that Williams' investments were perhaps the most substantial and direct way in which the college was involved in many of the social and environmental problems that we were concerned about."

But, in addition to questioning the college's complicity in unsavory components of the global economy, the students began raising questions about what responsibility Williams, as a very wealthy institution, had to the depressed local community of Northern Berkshire County and other communities like it. Thus, the students made community investment a central component of their campaign in spite of significant resistance to it on the part of the college.

After a process of self-education and some outreach, the students initiated conversations with the administration and trustees. These meetings, however, made it clear that the college was not amenable to a wholesale change in its investment policy. So the small group of students that had formed around this issue came up with the more modest proposal of creating a separate fund that would be invested in a socially responsible manner (partly in screened mutual funds and partly in community investments) and that would provide socially and environmentally concerned alumni with the opportunity to have their gifts invested in a way that was consistent with their principles. Students presented this proposal to the college in the Spring of 2000, but administrators made it clear that they were not willing to have a separately - managed fund within the endowment.

Confronted with this quite definitive *no*, the students eventually decided that, instead of repeatedly asking the college to do something it didn't want to do, they would try a different tack. With only a few weeks left in the school year, students, with the help of Equity Trust, decided to create their own independent fund outside of the college and collect donations for it from students, faculty, parents, and alumni who supported the idea of a social investment fund. The "2000 Fund" would accept contributions and invest them in Equity Trust's community development loan fund. Equity Trust agreed to hold and invest the 2000 Fund donations and send the returns from these investments to Williams, while keeping the fund's principal until the college agreed to create its own socially responsible fund.

To advertise the 2000 Fund, students wrote mass-emails to students and alumni, tabled in public spaces, wrote columns in the college paper, got an article written about the fund in the local newspaper, and generally asked people to make donations and write a letter or email of support to the college. Many of the donations were small - often just the pocket change of students - but a few parents and alumni made significant gifts to the fund. In the end, however, it was not the size of the fund (a mere $1,600), but the breadth of the support (over 130 donors and many more supportive letters and emails) and the sense that the fund was "interfering" with the college's source of revenue that made the strategy effective. While certain elements of the college administration were angry with this move, they eventually agreed to negotiate with the students. The independent fund had given the students a kind of leverage that they had not had before. It was no longer the students saying, "we want you to do this," it was the students now saying, "we're doing this, how are you going to respond." Faced with a new alternative fund that threatened to draw away support from the college's usual fundraising - and a group of students committed to keeping it there for however long it might take - the college decided to come back to the negotiating table.

This led to a series of meetings over the next year between students, the finance committee of the trustees, the president, and the treasurer. The finance committee in particular remained very resistant to the proposal - and especially to the community investment part. At one point, they indicated that they might be willing to create an alternative fund that would be invested solely in socially screened stocks. While this was a tempting offer after a year and a half of work, the students refused to compromise, deciding that community investment was crucial to the principles and concerns motivating the project.

In the Spring of 2001, the students launched another organizing effort. First, they put together a panel on socially responsible investing that included a community investment practitioner as well as managers at socially screened mutual funds and an economics professor. Following this, they started a campaign to get petition signatures and pledges of financial support to the 2000 Fund or an equivalent fund if it were institutionalized at Williams. Over three hundred people signed pledges, which were then presented to the trustees along with the fund proposal at a meeting with students just a few days before graduation. By the time the meeting came, the students had found an important ally in the college treasurer and had got the college's new president to support their effort, at least in principle. At the meeting itself, the finance committee of the trustees seemed to consider the proposal more seriously than they had in the past, but, in the end, the organizers left - and some graduated - without an answer.

Over the course of that summer, students continued working with the college treasurer who helped them amend the proposal in a way that addressed some of the lingering concerns of the trustees without undermining the students' goals. The treasurer was then able to get the proposal on the agenda of the board's Fall meeting in October of 2001. Finally, at that Fall meeting, after two years of outreach and fundraising, hundreds of petition signatures, donations and pledges, dozens of letters from supportive alumni and students, and multiple rounds of negotiation, the Finance Committee of the Trustees approved the idea and agreed to create the Social Choice Fund at Williams.

The bulk of the Social Choice Fund is invested in a socially screened mutual fund that excludes corporations responsible for environmental degradation, human rights abuses, weapons manufacturing, discriminatory employment practices, unsafe working conditions, exploitative treatment of indigenous peoples, animal cruelty, or the production of harmful products such as tobacco. When the fund grows to a certain size, ten percent will be invested with Community Development Financial Institutions to provide loans to projects responding to the needs of low-income communities. For these community investments, priority will be given to projects in the Berkshire region where Williams is located.

Reflecting on the College's decision, Becky Sanborn, one of the student leaders, says, "Williams College and countless other academic institutions across the country already contribute greatly to society by educating future leaders and responsible citizens. The creation of the Social Choice Fund is an important step for Williams as it works to become a responsible citizen itself."

Appendix: Resources 7

Association for Enterprise Opportunity **(www.microenterpriseworks.org)**

AEO is the national association of organizations involved in micro-enterprise. Its website has good information about micro-lending as well as a directory of micro-enterprise organizations.

Calvert Group, Ltd **(www.calvert.com)**

Calvert is a socially responsible investment firm that manages socially and environmentally screened mutual funds. Some of its mutual funds have 1% invested in community investments. Additionally, the Calvert Community Investment Foundation has created Calvert Community Investment Notes, which provide investors with the opportunity to invest in a diverse portfolio of CDFIs. Its website has some useful information on SRI and community investment. A service that many students have found useful is its "Know What You Own" tool, which allows you to find out what stocks are held by mutual funds that your school may be invested in.

Coalition of Community Development Financial Institutions **(www.cdfi.org)**

The CCDFI is a coalition of over 465 CDFIs in the United States and serves as an education and advocacy arm for the community investment field. Its website has some useful information on CDFIs.

Community Development Venture Capital Alliance **(www.cdvca.org)**

CDVCA promotes the use of venture capital to create jobs, wealth, and entrepreneurial capacity in communities. Its website has useful information on the field of Community Development Venture Capital Funds.

Equity Trust, Inc. **(www.equitytrust.org)**

Equity Trust is a national non-profit organization which, among its programs, operates community a development loan fund. The Equity Trust Fund provides an opportunity for socially and environmentally concerned individuals and institutions to make investments that help finance community development and conservation projects in the United States and occasionally abroad.

Interfaith Center on Corporate Responsibility (ICCR) **(www.iccr.org)**

ICCR is a membership organization of faith-based institutional investors (including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds, and publishing companies), which presses companies to be socially and environmentally responsible. If your campaign includes shareholder activism, ICCR is a good information source and keeps a current list of all socially responsible shareholder resolutions.

National Community Capital Association (www.communitycapital.org)

NCCA is a national membership organization of CDFIs. Formerly devoted only to loan funds, its membership now includes community development credit unions and community development venture capital funds. Its website has some useful resources including a CDFI locator that allows you to search for CDFIs by category or geography (be aware, however, that its database does not contain all CDFIs).

National Federation of Community Development Credit Unions (www.natfed.org)

The Federation is a membership organization of over 200 CDCUs in the U.S. and Puerto Rico. Its website contains a description of CDCUs and information for investing in CDCUs.

Social Investment Forum (www.socialinvest.org)

The Forum's website offers comprehensive information, contacts, and resources on socially responsible investing. Among the very useful resources offered is the Forum's Community Investment Guide, which gives a good description of the various types of Community Development Financial Institutions, including the kind of financial information that an investor will want. It is a useful document to give to a Treasurer or Trustee who wants to know more about community investments. The website also has community investment profiles on different CDFIs, a description of its 1% campaign, and a Real Time video on community investment that you can download.

SRI World Group (www.socialfunds.com)

SRI World Group maintains a fairly extensive on-line site dedicated to socially responsible investing, including community investments. It is a good source of information for investors.

Students Transforming and Resisting Corporations (STARC) (www.corpreform.org)

STARC is a national student organization that, among other programs, is working to support student campaigns for socially responsible and community investing at colleges and universities. Its website has resources, stories, and strategies on student SRI campaigns. STARC's SRI coordinator (sri@starcalliance.org) can put you in touch with other students working on this issue and provide you with additional resources, advice, and connection.