

Navigating the Path of Socially Responsible Investment

by Rick Cohen

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FOR MANY NONPROFIT ORGANIZATIONS WITH A fund balance, reserve fund, or endowment to invest, the decisions are frequently beyond the knowledge and experience of their executive directors.

Most nonprofit leaders run organizations because they know their subject matter fields, not because they're investment whizzes.

But they all know—or ought to know—that it's crucial for nonprofits to consider how they invest their funds and what the options are. The good guidebooks tell nonprofits to earn investment returns and get as much out of every buck as possible instead of letting funds sit idle. Increasingly, they also recommend that nonprofits think about the social purpose of their investments. Why invest in environmentally and socially destructive corporate stock when social-investment funds offer a combination of healthy market returns and contribution to nonprofits' socioeconomic missions?

Although usually thought of as the province of large, endowed nonprofits like universities or foundations, social investment is a tool that every nonprofit can take advantage of by matching its resources with investment possibilities. For quite some time, versions of social investment, such as foundations' "program-related investments" (PRIs), have been in the mix of investment vehicles for some foundations. Since the Tax Reform Act of 1969 allowed PRIs, several

foundations have actively made below-market loans and investments, notably the Ford, MacArthur, and David and Lucile Packard foundations, among others.

The concept of PRIs—in which foundations issue debt or equity investments to nonprofit or for-profit entities with a charitable purpose but without the expectation that the investment earns a market-rate return—harkens back to the fertile mind of Benjamin Franklin, who dedicated 2,000 pounds to establish a revolving fund for young artisans,¹ a concept that one might expect to see in the portfolios of major philanthropies today.

By definition and experience, most of foundations' PRIs are predicated on accepting below-market rates of return. According to the *Handbook on Responsible Investment Across Asset Classes*,² socially conscious investment need not be structured to earn less than conventional market alternatives. Mission-related investments that achieve market returns constitute another tool to address economic and environmental issues of concern to socially minded institutional and individual investors.

Funded in part by the investment-innovative F.B. Heron Foundation,³ the new book from the Boston College Center for Corporate Citizenship and the Social Investment Forum lays out a framework for nonprofits large and small to sort through mission-related social-investment options. It is a broader, more robust concept of "responsible investment" than simply making program-related investments. As the *Handbook* notes, the lens is

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Getting the Most out of Organizational Investments

If you think nonprofit finance per se is daunting, putting your nonprofit into the position of being an investor (determining where to place your fund balance, your reserve fund, your endowment if you have one, etc.) or an investment recipient (with a product to pitch to foundations and high-net worth individuals interested in mission-related investments, or MRIs) sometimes feels like walking a circus high-wire without a net.

Let's face it. Plenty of us have a tough enough time just filling out our annual tax forms by April 15, TurboTax notwithstanding. We often find ourselves frozen and bleary-eyed when we sit down with realtors and brokers to buy a home. So don't be down on yourself when the nonprofit discussion moves from debates about cash versus accrual accounting into debates about investing money in social investment funds, community development banks, and local economic development ventures.

Consider it from two perspectives. The first is your nonprofit as an investor. Every nonprofit has resources: short-term resources such as cash, slightly longer-term funds held in perhaps 60-day or 90-day certificates of deposits, maybe other funds that aren't needed so quickly that can be put into longer-term notes or instruments, and perhaps even longer-term investment potentials of reserves or an endowment. Most groups simply invest these resources for maximum returns, but the *Handbook on Responsible Investment Across Asset Classes* tells you that your organization can use its funds for social purposes without sacrificing market-comparable returns.

Use the asset class definitions in the *Handbook* or at www.xigi.net to consider your options, but before you do, ask yourself how investing your resources could contribute to the mission and values of your organization. What are the underlying values and motivations of your nonprofit that could be advanced by investing your funds appropriately? That is a crucial board discussion, the board has to be involved, leading the charge, and buying in.

Then bring in the experts. There are plenty who can help you find products and guide you through the reasonable options, especially if your nonprofit is not a behemoth brimming with fund balances but is simply trying to ensure that all of its funds do good. Conversations with some socially minded bankers might start with the pioneering ShoreBank Corporation (www.shorebankcorp.com/bins/site/templates/splash.asp), the socially responsible investments of Self-Help (www.self-help.org), or the "socially progressive banking" services of Wainwright Bank and Trust Company (<https://www.wainwrightbank.com/html/personal/index.html>). You can also talk to a socially responsible financial planner or adviser, 222 of whom are listed at the Social Investment Forum Web site (www.socialinvest.org/directory/results.cfm?category=FA). Even if your nonprofit isn't the billion-dollar size of a foundation or university, there are people to call on for advice.

But what if you want to get some of these socially responsible investments? This isn't a fly-by-night game, like mailing out dozens of blind letters of interest to potential funders listed in some foundation directory. Your nonprofit is a candidate for social investment only when it has a business enterprise that warrants equity or loan capital. But be careful. Like most small businesses in general, most nonprofit income-producing ventures fail in short order.

one of "investing in financial products that seek to achieve social and/or environmental goals as well as yield market rate financial returns."

According to the authors, "Foundation and university endowments, pension funds, socially responsible investors including church pension funds and socially responsible mutual funds, high-net worth individuals, nonprofits, and others [can] target investments that create long-term societal wealth while also achieving institutional financial objectives."

Rare is the nonprofit that doesn't diversify its assets. The ingenious approach of the *Handbook* is to offer organizations a schema for examining responsible investment options among various classes of assets that a foundation or other nonprofit might employ. The *Handbook* offers a framework for investments and categorizes them into the following asset classes:

- *Cash and cash equivalents.* The *Handbook* suggests that market-rate returns can be achieved through cash investments in community-oriented banks such as community development finance institutions (CDFIs),⁴ community development banks,⁵ and community development credit unions (CDCUs).⁶
- *Fixed-income instruments (fixed-return bonds, etc., issued by local governments, corporations, and larger nonprofits).* Investors can target fixed-income investments toward "community development-targeted investments" (for example, asset-backed or mortgage-backed securities for small-business activity or lower-income home purchases), government debt (for example, bonds that would support the creation of "public goods," such as infrastructure improvement or sustainable energy development), and corporate debt (using responsible investment funds such as those offered by Domini Social Investments⁷ and Morley Fund Management to invest in corporations that contribute to society and to avoid those that are economically, socially, and environmentally harmful).
- *Public equities (publicly traded stocks of large corporations).* The *Handbook* recommends employing social investment "screens" ("negative screens" to eliminate investments in noxious industries such as arms production, tobacco, alcohol, gambling, etc., and "positive screens" to emphasize and seek investments in companies that contribute to solving environ-

mental and social problems) and pursuing “active ownership” in which investors vote as shareholders and file shareholder resolutions to, for example, promote corporate transparency and accountability.⁸

- *Private equity (investments in unlisted companies such as venture capital investments, “generally only available to institutional investors, venture capitalists, and high-net-worth individuals”).* The *Handbook* suggests “product-focused investments” (that is, investment supporting “environmentally and socially beneficial products and services” such as renewable energy or “clean tech”) and economically targeted investments to historically underserved communities, such as investments in enterprises owned by women and minorities in lower-income neighborhoods.
- *Real estate.* Investors can look to their real estate portfolio to support affordable and workforce housing, brownfield development,⁹ smart-growth projects,¹⁰ and “green construction.”¹¹

The *Handbook* even takes on more esoteric and specialized asset classes such as investments in hedge funds and commodities to demonstrate how the principles of environmental and social analysis of investment options can be applied to the intersection of nonprofits’ missions and goals and satisfy their appetite for market-level financial returns.

Social investment by asset class is no longer unique. A social-capital index offers a somewhat comparable “asset fan”¹² and posts examples of various offerings from nonprofit and for-profit entities. Some of the organizations on the site might seem a little kitschy; for example, one entity pitches a “process tool for any moral agent—individuals and corporations—to use for ethical improvement, coaching and co-creation with self-organizing communities,” but plenty of others with social-investment offerings are respected organizations with strong track records of providing social investments, including Enterprise Corporation of the Delta; Affordable Housing Resources in Nashville; BRIDGE Housing Corporation in California; the Housing Assistance Council in Washington, D.C., which works on rural housing nationwide; the community-based Manna in Washington, D.C.; and Mercy Housing’s Mercy Loan Fund. All of the nonprofits offer real estate investment opportunities in affordable housing and design invest-

ment vehicles to capture responsible investment assets. The Rockefeller Foundation has taken this a step further with a large grant to support a “social stock market” for investments in clean technology and other socially and economically desirable products.¹³

However useful the description of asset classes, the *Handbook*’s most important tool is a series of guideposts for each asset class to help investors design an asset-class specific responsible investment strategy. The environmental, social, and governance lenses outlined in the *Handbook* help investors understand how investment options can fit and carry forward their institutional missions. The challenge for investors isn’t to select one social fund from Column A and a social enterprise from Column B but to deploy an analytical framework for determining what might constitute responsible investments that fit investors’ interests and needs and generate returns comparable to those of the market as measured by accepted market metrics. As the *Handbook* and other valuable recent social investment publications—such as the MRI guide for trustees issued by Rockefeller Philanthropy Advisors¹⁴ makes clear—applying a strong analytical lens is crucial to successful responsible investing.

There is plenty of hyperbole in the social-enterprise field; philanthropocapitalists sometimes revert to a one-size-fits-all notion that nonprofits ought to turn a profit and run like mini-capitalist investment vehicles. Research from the likes of the Ford Foundation’s Michael Edwards¹⁵ and analyses by respected organizations such as SEED CO¹⁶ in New York City should tell nonprofits and investors alike to look before they leap.

But you won’t find the outlandish hyperbole in the *Handbook*. It is a technical but accessible tool for guiding nonprofits to understand where they might stand as investors with resources to place and as recipients with investments opportunities to offer. For nonprofits, it may be time to take advantage of the *Handbook*’s advice for institutional investors and add loans and equity to their requests for grants from foundations and others sitting on tax-exempt endowments.¹⁷

For nonprofits attempting to access charitable endowments these days, it’s a different world. In January 2008, at the Davos World Economic Forum, Microsoft Chairman Bill Gates called for a “creative capitalism” that would “stretch the

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reach of market forces so that more people can make a profit, or gain recognition, for doing work to ease the world's inequities."¹⁸ Not surprisingly, not only did much of the world press take notice, the Gates statement was treated as a serious call to action for Microsoft's corporate brethren and competitors.

The evidence suggests that, proportionally, socially responsible investment growth is outpacing growth in conventional market investments, though the size of the responsible investment share of investment capital is still relatively small. As of 2007, according to the Social Investment Forum, the total volume of professionally managed assets in using some combination of three responsible investment strategies—screening, shareholder advocacy, and community investing—has increased to \$2.71 trillion, approximately \$1 out of every \$9 of professionally managed investment assets. Between 2005 and 2007, that represents an 18 percent growth of socially responsible investment assets, compared with 3 percent growth in all professionally managed investments.¹⁹

This is not easy stuff, but for nonprofits and investors the *Handbook* is a useful guide for navigating possible responsible investment opportunities and strategies.

ENDNOTES

1. Milton Cerny, "Creative Uses of Program Related Investments," International Center for Non-Profit Law, 1999.
2. The Boston College Center for Corporate Citizenship, *Handbook on Responsible Investment Across Asset Classes*, November 2007 (www.primakers.net/files/Handbook_On_Responsible_Investment.pdf).
3. The F.B. Heron Foundation, Mission-Related Investments Web page (www.fbheron.org/mission.html).
4. Information about CDFIs can be found on the Web sites of the Coalition of Community Development Financial Institutions (www.cdfi.org) and the U.S. Department of Treasury's Community Development Financial Institutions Fund (www.cdfifund.gov).
5. The *Handbook* defines community development banks as "typically small- and mid-sized banks . . . focused in low-income urban and suburban markets that larger banks find difficult to serve," citing Liberty Bank and Trust in New Orleans, Carver Federal Savings Bank in New York City, and the Native American Bancorporation as examples.
6. The National Federation of Community Development Credit Unions provides comprehensive information on CDCUs (www.natfed.org).
7. The Domini Social Investment Fund (www.domini.com) is a winner of *Fast Company's* "social capitalist" awards.
8. The Interfaith Center on Corporate Responsibility (www.iccr.org) is one of the go-to sources for information on institutional investors' shareholder resolutions. Among the best guides is the publication of Rockefeller Philanthropy Advisors and the As You Sow Foundation, *Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions*

(rockpa.org/wp-content/uploads/2007/01/Unlocking%20the%20Power%20of%20Proxy.pdf).

9. The U.S. Department of Housing and Urban Development has long promoted a brownfield economic development initiative (www.hud.gov/offices/cpd/economicdevelopment/programs/bedi/index.cfm), and the Environmental Protection Agency has extensive brownfield information resources (www.epa.gov/brownfields/basic_info.htm).

10. For resources on smart growth, see Smart Growth America (www.smartgrowthamerica.org), the Smart Growth Network (www.smartgrowth.org/Default.asp?res=1280), and the Natural Resources Defense Council (www.nrdc.org/smartgrowth/default.asp).

11. Not surprisingly, there is already a trade association of green developers, the U.S. Green Building Council (www.usgbc.org), and major nonprofit community development intermediaries such as the Local Initiatives

Support Corporation (with the LISC Green Development Center, www.smartgrowth.org/library/articles.asp?art=3311) and Enterprise Community Partners (with its Green Communities project, www.greencommunitiesonline.org) have generated models and products for philanthropic and institutional investment.

12. The Xigi Web site (www.xigi.net) shows asset classes such as deposit accounts, certificates of deposit, loan pools and community development bonds, direct domestic lending, direct international lending, community development banks and CDFIs, public equity, private equity, and a strategic grants “asset fan” that goes from conservative (which are generally lower risk and cost) to aggressive (generally higher risk and cost).

13. Jonathan Guthrie, “Rockefeller Backs ‘Social’ Stock Market,” *Financial Times*, March 22, 2008 (www.ft.com/cms/s/9a7da70c-f79f-11dc-ac40-000077b07658,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F9a7da70c-f79f-11dc-ac40-000077b07658%2Cs01%3D1.html&_i_referer=http%3A%2F%2Fphilanthropy.com%2Fnews%2F%3Fid%3D4204%26pth%26utm_source%3Dpt%26utm_medium%3Dnewsletter%26utm_content%3Dlefttop).

14. Steve Godeke with Doug Bauer, *Philanthropy’s New Passing Gear: Mission Related Investing, a Policy and Implementation Guide for Foundation Trustees* ([www.primakers.net/files/MRI_Handbook_for_Trustees_\(RPA\).pdf](http://www.primakers.net/files/MRI_Handbook_for_Trustees_(RPA).pdf)).

15. Michael Edwards, *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*, Demos and the Young Foundation, 2008 (www.nonprofitquarterly.org/images/fbfiles/files/Just_Another_Emperor.pdf).

16. Neil Kleiman and Nancy Rosenbaum, *The Limits of Social Enterprise: A Field Study & Case Analysis*, New York: SEEDCO, June 2007 (www.seedco.org/publications/publications/social_enterprise.pdf).

17. As the president of Canada’s version of the Council on Foundations noted recently, foundations often side-step mission-related investment options because nonprofits simply don’t ask for anything more than grants (www.socialinvestment.ca/French/documents/HilaryPearsonremarksstoSIOconference.pdf).

18. “A New Approach to Capitalism in the 21st Century: Remarks by Bill Gates,” World Economic Forum, 2008 (www.microsoft.com/Presspass/exec/billg/speeches/2008/01-24WEFDavos.msp).

19. Social Investment Forum, *2007 Report on Socially Responsible Investing Trends in the United States*, Washington, D.C., 2007 (www.socialinvest.org/pdf/SRI_Trends_ExecSummary_2007.pdf).

How has your organization untied the asset allocation knot? Let us know at feedback@npqmag.org. Reprints of this article may be ordered from <http://store.nonprofitquarterly.org>, using code 150205.