by Peter Drasher
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The Community Investment Enterprise

Uniting the for-profit and nonprofit worlds

A new kind of partnering that can benefit both nonprofit entities and for-profits is beginning to take off. The concept provides a way to tap the scale of investment and the depth of investment data available in the for-profit world while applying 50 percent and more of the returns to helping underserved communities. Because the model takes a different direction from the more familiar community development financial institutions (CDFIs), community development corporations (CDCs), and community development entities (CDEs), a new term has been coined—the *community investment enterprise.*

A New Model

A community investment enterprise (CIE) is a for-profit business that is majority owned by nonprofits that focus on economically underserved communities. For certain investors—for example, large state pension funds—which require the scale and professionalism of an experienced intermediary but also want to serve a social good with some of their investment portfolio, the CIE fills a need.

In one example, the founders of Connecticut-based AltruShare Securities gave two-thirds ownership of the firm to two nonprofit foundations, a gift that was completed in 2006.[1] The nonprofits, Tides Foundation and Underdog Foundation, are known for their solid community development background.[2]

AltruShare is a financial-services firm, but a CIE partnership can involve any for-profit business that donates the majority

Illustration: iStockphoto

of ownership and profits to helping underserved communities. CIEs move social entrepreneurship to a new level by helping nonprofits build a sustainable source of support for themselves and thus reducing their reliance on what the *Financial Times* has called the "tin-cup model."

Beyond Debt Financing

Wall Street's traditional expertise is research, which is used to deploy assets in the most effective manner possible. One of the first pieces of research that AltruShare sponsored was a review of 10 years of community-investment trends.

Previous studies had shown that banks, credit unions, and loan funds provided 96 percent of funding for community investment.[3] The AltruShare report demonstrated that the majority of financing for community investment has been overwhelmingly debt financing. It also identified the roles and types of institutions then involved in community investment, including CDFIs, CDCs, and CDEs. For-profits that donate more than half their ownership to nonprofits clearly signified something new, which is why the term CIE was adopted.[4]

As an institutional brokerage firm, the CIE AltruShare counts among its clients state pension plans, traditional investment managers, and hedge funds. It features traditional Wall Street technology and talent, but in offering the additional by-product of support for underserved communities, it also fills a gap. After all, many asset owners and managers have been looking for a sound way to invest in communities.

AltruShare aims to expand community investment options. Until now, the overwhelming majority of investments have been in real estate efforts such as low-income housing. But although housing is important, it is by no means the only solution to improving the lives of residents in low-income areas. Some residents are equally in need of education or employment, and their small businesses need access to financial advice and mentoring support. (See "Rolling Up Sleeves.") The CIE aims to be part of the process of expanding the scope of community investment beyond real estate and debt.

Looking Ahead

The AltruShare brokers and their partners want to see emerging domestic markets become an asset class—just as emerging foreign markets are today—and they believe that to make that happen, they must first expand the scope of investment options in underserved communities. New vehicles are needed: pension plans cannot be asked to invest in notes at below market-rates.

The ultimate goal is economic opportunity. By combining the experience of nonprofits with the efficiencies of for-profits, the CIE model gives the private sector a chance to help solve the challenges of low-income communities. The more that nonprofits can work with for-profit businesses to supplement their fund-raising and other sources of income, the more they can benefit the people and communities they serve.

Rolling Up Sleeves

In its inaugural year, AltruShare sponsored a study that involved six separate needs-assessment analyses of underserved communities in six states. The research focused on education and job creation.

Having decided to base the firm in Bridgeport to be closer to the kind of community they aim to serve, managers launched a Saturday job-training and internship program for local youth. The sessions begin with course instruction by William Jannace, a senior counsel at the New York Stock Exchange, using curriculum supplied by the New York Institute of Finance. Seven college students who are Bridgeport natives constituted the first group to enroll.

The instruction is followed by guest lectures from industry experts, including investment managers, hedge funds, corporate pension plan sponsors, and brokerage firms. The guest lecturers discuss their real-world experiences, answering questions about the skills they have found most helpful in their work. At the end of the program, students are offered paid summer internships at Wall Street firms.

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Endnotes

[1] A member of the National Association of Securities Dealers since February 2006, the firm aims to leverage the traditional strengths of Wall Street to help underserved communities. It offers institutional brokerage services to public and corporate plan sponsors, foundations, endowments, and the institutional money-management community.

[2] The Tides Foundation is based in San Francisco. See http://www.tides.org. Since 1976, Tides has offered donors and institutions donor-advised funds, philanthropic advice, and management services for progressive social-change philanthropy. The Underdog Foundation is the nonprofit arm of Underdog Ventures LLC, Island Pond, Vermont. See http://www.underdogventures.com/foundation.html. The foundation supports nonprofit community and environmental organizations through its grant making, community investment, technical assistance, and strategic partnerships—both nonprofit and for-profit. In particular, it uses an array of investment models to provide capital to communities and organizations that have been excluded from access to capital.

[3] See Social Investment Forum 2005 Report on Community Investing Trends in the United States, http://www.socialinvest.org.

[4] Another example of a CIE is Community Sign Language Service (CSLS), a for-profit business owned by the Bridgeport, Connecticut-based nonprofit group FSW Connections (Family Services Working) which collaborates with members of the Connecticut Hospital Association to ensure that deaf and hard-of-hearing patients and their families have communication access to all hospital services. Profits from CSLS are used to support other deaf outreach services to low-income, handicapped people from multicultural backgrounds who cannot pay for the cost of needed social and behavioral health services.