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Consider It an Investment

More philanthropists want their money to do double duty: doing good while earning a return

BY SHELLY BANJO

With fewer resources to go around, philanthropists are using a host of methods to stretch their charitable dollars.

Instead of simply giving money away to a cause, groups and individuals are plowing their funds into financial vehicles—known as program-related investments—that let their money grow while it does good. So, rather than make a one-time gift of \$1,000, they might invest

in a project that generates revenue, such as a loan to an entrepreneur in the developing world or real estate that rents to nonprofits. The returns can then go to other causes.

“Especially in light of this downturn, instead of investing in stocks and bonds [and using the

returns to support nonprofit organizations], we’re making direct investments in the nonprofits we support,” says Tom Parker, former president of commercial real-estate developer Hutton Cos. and the president of the Hutton Foundation. The foundation has purchased 14

buildings in Southern California to house nonprofit organizations. “The nonprofits pay a reduced rent, and every penny goes back to the foundation, back into grants, and stays within the nonprofit sector,” Mr. Parker says.

To be sure, these charitable options aren’t new, but for a long time only big institutions like the Ford Foundation pursued them. Given the lingering economic slump, though, program-related investments are getting attention from a wider array of potential donors—including smaller family foundations, investors with donor-advised funds and everyday individual givers. And lots of options are springing up to help donors along, from specialized donor-advised funds to opportunities to invest in microfinance and community development.

Here’s a look at some of the ways people are using program-related investments.

Microfinance

In the past few years, a number of Web sites have sprung up to give individuals access to the growing industry of microlending—making small loans to entrepreneurs, mostly in developing countries.

At Kiva.org, for instance, donors choose an individual to help, such as a Ghanaian entrepreneur starting a clothing business or livestock farm. Individuals decide how much they’re willing to donate—\$25 and up—and within six to 12 months, they get the money back. (Loans made through Kiva don’t earn interest, however.)

From there, donors can funnel the money into another loan, donate it to Kiva for operational expenses or return it to their bank account. The site says it has handled more than \$100 million in loans since its founding

in 2005, and almost 98% of loans have been paid back.

Another microfinance site, eBay Inc. subsidiary MicroPlace.com, takes a different approach. Lenders pick a microfinance institution to invest in—such as the Habitat for Humanity investment program or international microfinance organization Accion—and can choose when they get repaid, from three months to five years.

MicroPlace is a registered brokerage firm—unlike Kiva, which is a nonprofit organization—so investors can earn returns on the money that can be reinvested, ranging from 1% to 6%. What’s more, MicroPlace offers individuals low-dollar access to microfinance groups that typically require larger contributions. For instance, Oikocredit USA, an arm of the large Netherlands-based microfinance group, usually requires a minimum \$1,000 contribution. But if you go through MicroPlace, you can start with just \$20.

Assets in MicroPlace have grown significantly in the past two years to several million dollars. “People are just starting to understand the model,” says Ashwini Narayanan, general manager of MicroPlace.

The site says investors’ returns have surpassed those from money-market funds and certificates of deposit this year. Investors can open a MicroPlace account with as little as \$20.

There are other ways to get into microfinance, such as specialized funds. Accion’s Global Bridge Fund offers what the group calls a private-placement investment, similar to a CD, pooling investor assets to support microfinance institutions. The minimum investment is \$2,000 for at least 18 months; interest rates vary from 0% to 3% for new investments.

Finally, if you’d like to support lending closer to home, there are U.S. community-development banks—institutions that make loans to low-income individuals and business owners, nonprofits, environmental and faith-based groups. The simplest way to get funds to these banks is to open an account there; your money will be insured by the

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PROFILES IN GIVING

Inspiring Kids With Science

Young adults, struggling with student loans and small salaries, often can’t afford to write checks to their favorite causes. And many who can aren’t satisfied just making a financial contribution. Here and on the following pages, we offer a closer look at some young adults who are giving back to their communities by donating time, often their most valuable asset. You can also read additional profiles online, at WSJ.com/Reports.

Jason Dare spends his days with children. And cockroaches, fish and snakes.

The 34-year-old San Franciscan is the founder and owner of Pace Learning Center, a for-profit after-school tutoring program in the metro area. When not running that business, Mr. Dare volunteers at the California Academy of Sciences, a museum and research center boasting an aquarium and indoor rain forest.

There, Mr. Dare does everything from the glamorous—running presentations about the local ecosystem while scuba diving in the Philippine coral reef

tank—to the mundane—cleaning algae from said tank. Mr. Dare also speaks to school groups and teaches other docents how to handle reptiles and amphibians.

It seemed a perfect fit from the start, says Mr. Dare, who grew up two blocks from the museum. An avid marine hobbyist who has been scuba-certified for five years, he jumped at the chance to volunteer when the museum advertised that it was looking for help last year. To become a scuba volunteer, he had to study for certification as a rescue diver, and he now devotes at least eight hours



each week to the academy.

Mr. Dare, who makes around \$60,000 a year running Pace, doesn’t support the sciences academy financially, saying he is more able to give time than money. He does donate \$50 a year to the Oceanic Society, a conservation, research and education organization.

“I really wanted to volunteer. And I wanted to teach. I wanted to inspire kids to want to learn,” says

Mr. Dare, who didn’t much enjoy school as a child. “If you can inspire someone while they’re young, that organically grows, and they teach someone else...and I think that’s the only way this world can really change.”

Seeing kids excited about learning makes the time commitment worth it, Mr. Dare says. “I like seeing their eyes widen when they’re outside the tank.”

—Melissa Korn

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FDIC, just as in regular banks. You can also invest in funds run by the banks.

Donor-Advised Funds

Typically, these funds allow individuals to make contributions of cash and other assets—as little as \$5,000—to a third-party charitable fund that invests in stocks and bonds. Donors receive an immediate tax deduction and later can recommend charities that will get the grants from the growing funds.

Now a growing number of donor-advised funds are offering philanthropists other options. This year, for instance, Schwab Charitable partnered with the Grameen Foundation, a microfinance nonprofit, to let donors use up to 10% of the money in their charitable accounts to guarantee microloans. If one of the microfinance organizations being guaranteed fails, it gets a portion of the donor's funds so it can meet its obligations.

Allocated funds are typically locked up for five years. The money is invested in stocks and bonds so it can keep growing. So far, Schwab Charitable, which was established by **Charles Schwab Corp.** in 1999, has 151 donors in the microfinance-guarantee program and \$10 million in loan guarantees.

The Calvert Foundation's donor-advised fund lets donors allocate part of their funds to microcredit, affordable housing and community-development facilities through the foundation's Community Investment Notes. Donors' money is pooled and placed in a portfolio of below-market-rate loans to more than 250 nonprofits. As loans are repaid, the capital is lent out again; when the notes reach maturity, the capital is returned to the lenders with interest.

The foundation also offers the Community Investment Note directly to investors. The minimum investment is \$1,000 for one to 10 years and 0% to 3% interest. (Some investors opt not to receive interest.). The Calvert

Foundation now has more than \$55 million in microfinance organizations, social enterprises and fair trade cooperatives.

Family Foundations

Family foundations are also exploring new ways to maximize assets available for charitable causes, including equity investments in organizations and lines of credit, as well as loans, loan guarantees and mortgage financing to help organizations acquire property, create jobs or expand products and services.

There are a number of reasons for the new interest. These days, there's more information available to foundations on how to structure these types of agreements, more advisers who are willing to help with the work—and more government encouragement for the deals. What's more, foundations whose assets fell precipitously with the stock market are afraid to deplete their principal; by making a loan instead of simply giving money away, they aren't locking in a loss. Finally, the value of program-related investments may be counted against the minimum 5% of assets foundations are required to pay out every year—which can be particularly helpful in a down year.

But foundations need to make sure that they're doing due diligence on the groups they help. And they must be sure they're not just picking nonprofits with a good potential for return—they need to choose groups that do the most good. "Foundations are tax-exempt, and I feel we have a fine line to walk to make sure any investments we make outside stocks and bonds have a specific community benefit," says Mr. Parker of the Hutton Foundation.

Mr. Parker also advises family foundations to make it clear to nonprofit groups that loans will not be forgiven. "We specifically explain that the money the nonprofits pay back goes back into the foundation, which enables it to make grants to other nonprofit groups," he says. "If we forgive it, it won't be able to help another nonprofit."

—*Jilian Mincer contributed to this article.*