



About CDSF

The Center for the Development of Social Finance (CDSF) is an education and research organization that promotes greater understanding of money and finance.

CDSF promotes advanced financial literacy through programs that

- Build knowledge of money and finance that empowers sound financial decisions.
- Create awareness of the ways that finance systems affect organizations and communities.
- Enable informed, socially responsible, and effective investment.
- Increase an understanding of social finance as a tool for positive change.
- Define and disseminate information about gaps in sustainable business financing.

CDSF Report Breaks New Microfinance Ground

In March, CDSF released the results of a study introducing microfinance investors and lenders to a useful new tool. In *Capital Markets-Style Risk Assessment: Testing Static Pool Analysis on Microfinance* CDSF demonstrates that static pool analysis, a tool used widely by global finance, can be used by smaller-scale microlending institutions.



The study was undertaken in response to calls by supporters of international and domestic microlenders, who note that the benefits of microlending will expand when institutional investors include microlending among their routine investments. Unfortunately, the institutional investors generally won't direct their money to investments that lack credible documentation of default rates such as that provided by static pool analysis.

CDSF studied more than 625,000 loans issued by two microfinance institutions (MFIs) to determine whether their portfolios could be analyzed using static pool analysis, a method that assesses default risk on a portfolio of loans. The study determined that static pool analysis is feasible and especially useful for MFIs seeking to expand their investor base beyond the social investors.

The report recommends that MFIs include static pool analysis in their reporting practices. CDSF CEO Rupert Ayton notes that such change will be challenging. "Much of the money supporting international MFIs today comes from social investors,

Sophisticated MFIs already recognize their need to attract institutional investors.

who support microlending for its philanthropic value through contributions and low-interest loans." A more rigorous level of reporting, such as that provided by static pool analysis, is expected by institutional and global capital markets investors, but "social investors typically don't hold MFIs to the same standard."

Ayton notes that more rigorous reporting comes at a price few MFIs and social investors are currently willing to pay. "The more sophisticated MFIs already recognize their need to attract institutional investors to expand their lending." The challenge will be in persuading the social investors to require a more rigorous reporting standard of the MFIs they currently support.

The study focuses on two MFIs, one in India and one in Tajikistan, but the techniques are widely applicable. Ayton suggests that the approach used by CDSF could also be applied to community development investment, sustainable agriculture, or renewable energy. "This report should be meaningful to microlending leaders and to those working in community development, social, and environmental sectors."

If you're interested in learning more about the study, contact CDSF.

CDSF is moving!

Check our web site for updates in September.

www.CDSofI.org

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Microfinance: What Follows Static Pool Analysis?

by Rupert Ayton

CDSF was delighted by the reception of mainstream capital markets investors to *Capital Markets-Style Risk Assessment: Testing Static Pool Analysis on Microfinance*. To-date, CDSF has distributed more than 300 print and electronic versions of the report to interested parties worldwide. Additionally, we received requests to speak to capital markets investors about microfinance and discuss our study experience.

Given the strong interest in the study and its findings among mainstream capital markets investors, CDSF anticipated a similar interest by the microfinance sector itself. When that didn't materialize, we wanted to know why. Our findings surprised us: While mainstream capital markets investors have relied on static pool analysis to evaluate investment risk for many years, the microfinance community is unfamiliar with its value or use. Microfinance investors and lenders didn't understand how to use the information presented in the report.

CDSF asked microfinance investors what could help them to better understand static pool analysis and they suggested a demonstration project, a transaction that would illustrate the benefits of static pool analysis in a real-world situation.

To meet this education need, CDSF proposes a demonstration project to assess

Capital markets investors have relied on static pool analysis to evaluate investment risk for many years.

the feasibility of creating a securitization conduit between international microfinance institutions (MFIs) and United States investors. A conduit is a management company that buys pools of loans from issuers and gathers those loans into securities, which are purchased by investors. Static pool analysis would be used to assess the risk and thereby determine the returns paid to investors.

CDSF is currently focusing on Peru or the Philippines, where MFIs have been operating effectively for many years. The project would identify any economic or institutional obstacles that would prevent the creation of microfinance securities. If no such obstacles are identified, an outcome of the project would be the formation and launching of a microfinance conduit.

During the first five years, the conduit would expect to finance \$100 to \$200 million of microloans per year. The money received by the MFIs would give them significant opportunities to expand their lending operations.

CDSF is seeking funding to undertake this project. If you or your institution would like to help, contact CDSF.

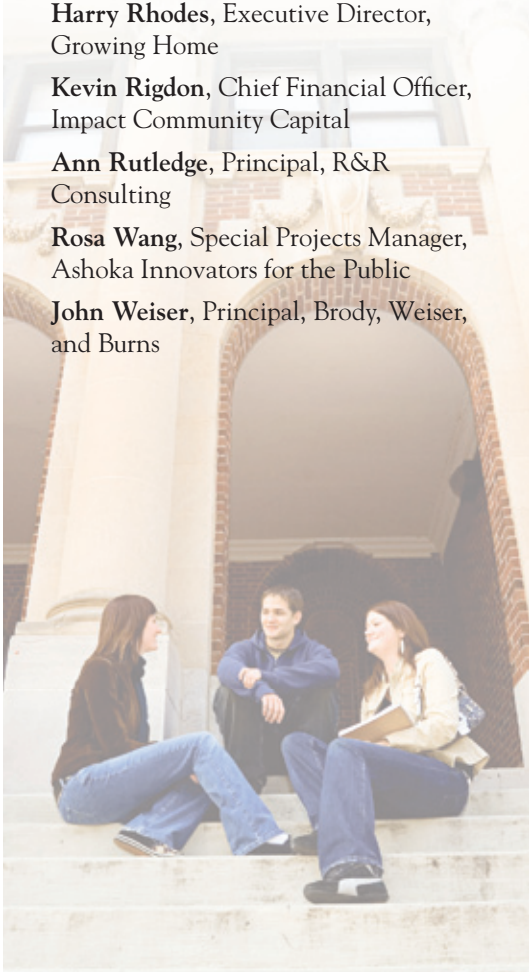
How Green Are Green Cities?

What makes for a sustainable city? Experts usually look to indicators such as housing, public transit use, water quality, land use, energy and climate change policies, and food systems to track urban sustainability. CDSF believes that city investment policies should be added to the list of sustainability indicators.

CDSF studied the investment policies of the top five sustainable U.S. cities to

determine if their sustainability practices extended to the ways they invest their dollars. We looked to SustainLane's 2006 report on the largest 50 U.S. cities, which named Portland, San Francisco, Seattle, Chicago and Oakland as providing the most sustainable urban environments. (See <http://howgreenisyourcity.com>.)

(Continued on back page)



Money Education Pilot Program Reaches Homeless

This spring CDSF launched a money education pilot program. The curriculum, designed for low-income participants, addressed money-related values and basic budgeting. The goal of the program was to test two CDSF-developed sessions and assess the feasibility of working with social service agencies to reach our target audience of very low-income adults.

To prepare for this program, CDSF consulted with seven San Mateo County agencies delivering services to low-income populations. We learned that financial education programs are available, but they're delivered by a patchwork of institutions. Most available programs are tailored to working adults seeking information about banking services, credit, or investing. Few programs are directed to very low income groups such as the homeless.

In April and May CDSF delivered six one-hour workshops to 45 participants at three area homeless shelters. CDSF's target audience was adults with children. Many of these adults are the working poor. The participants face a special challenge in San Mateo County, where a minimum-wage job provides a gross income of \$1,275 a month and one-bedroom apartments usually aren't found for less than \$1,200 a month.

CDSF Co-Founder Stephanie Sarver observed that participants did not fit homeless stereotypes. They included young single mothers and young couples who identified themselves as middle-class. "Some struggled with the fact that their spending preferences couldn't be reconciled with their available income."

The workshops oriented participants first to their own spending values. *Let's Look at Money* encouraged participants to distinguish "needs" from "wants." Needs are essentials without which we can't survive: air, water, food, and shelter. Wants represent opportunities to make spending choices — choices that can be translated into savings.

The homeless are receptive to opportunities to learn more about money and how to manage it.

How to Pay the Rent introduced participants to the basic elements of budgeting, including how to calculate income and track expenses. They also learned to identify and plan for budget pitfalls that can catch everyone off guard. These include irregular expenses, such as auto maintenance, emergencies, and cost of living increases. The session emphasized that planning is a key tool in realizing dreams.

The workshops were well-received by participants and agency staff. Sarver was surprised at some of the comments. "We asked what they valued most about the sessions and several cited the link between planning and dreaming. It's easy to lose sight of dreams when you're trying to meet basic needs." Other participants valued the budget workshop for allowing them to quantify income shortfalls and adjust spending habits.

CDSF is now evaluating next steps in local financial education. The pilot program determined that the homeless are receptive to opportunities to learn more about money and how to manage it. The greatest challenge identified by CDSF in delivering these programs relates to the logistics of scheduling and delivering workshops. CDSF found that social service agencies sometimes lack the staff resources to assist in creating the most effective learning environment. For example, many participants in the CDSF workshops had small children. Workshops were most effective when child care was available.

CDSF plans to develop a free-standing module for the *Let's Look at Money* session that will include a slide presentation and a manual for instructors. This module will be available electronically to interested agencies beginning in September.

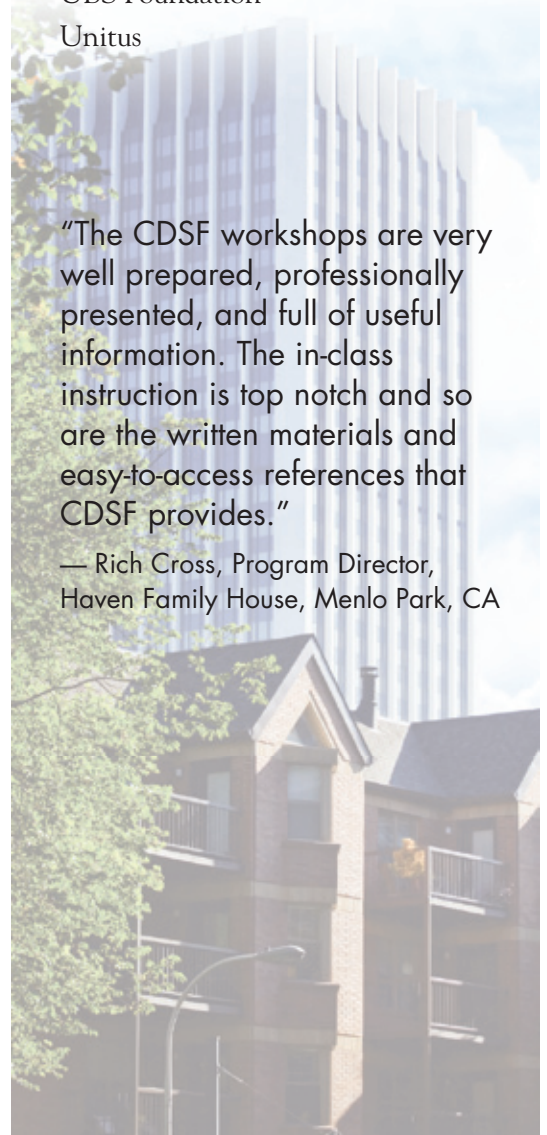
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"The CDSF workshops are very well prepared, professionally presented, and full of useful information. The in-class instruction is top notch and so are the written materials and easy-to-access references that CDSF provides."

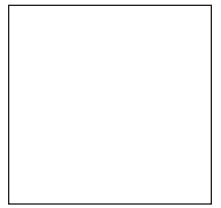
— Rich Cross, Program Director,
Haven Family House, Menlo Park, CA





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How Green Are Green Cities? *(Continued from page 2)*

CDSF found that San Francisco incorporated comprehensive sustainable, socially responsible investment (SRI) language in its policies. Oakland, followed by Chicago, incorporated some language. Seattle and Portland lacked any SRI language.

SRI and its potential role in city investment portfolios is not widely understood. Treasurers who may wish to integrate SRI in their portfolios often encounter a barrier inherent in their investment policies, which define fiduciary responsibility and how they can invest city money. These policies ensure that money is not invested in risky vehicles.

The challenge facing sustainable cities is finding SRI investments that meet investment policy standards of safety and liquidity. The two most common investments for cities are banks and public debt markets.

Banks are making progress toward sustainable activity through their investments in community development projects such as housing. A few major banks have signed the Equator Principles.

Public debt investments can be loans, bonds, or groups of loans bundled as securities, which pay a defined rate of interest. The debt markets offer no real SRI opportunities for city treasurers. This is because socially responsible investments, such as those found in micro-lending, have not yet obtained the risk ratings or the needed infrastructure to participate widely in the debt market.

CDSF's review of city investment policies doesn't include the social investment programs cities may operate in redevelopment or environmental areas. These programs may be very effective, but are not usually considered within the scope of treasury investment.

CDSF is highlighting the SRI treasury void to encourage city treasurers to promote an agenda that serves their communities and the world. Sustainable cities should demand that debt markets create investments with a focus on SRI.

Did you know...

A fiduciary holds a special relationship of trust, confidence, or responsibility in their obligations to beneficiaries. Fiduciaries protect the interest of the entities on whose behalf they serve. In managing investments, a fiduciary must ensure that money is preserved and is not placed in risky investments.