

# **Community Development Finance Project**

## **Socially Responsible Investing**

### **A Project of Two Loan Funds**

#### **Smith Hill Community Loan Fund**

a loan fund program of

The Smith Hill Community Development  
Corporation

Providence, Rhode Island

#### **The Nearing Good Life Fund**

a collaborative loan fund of

The Equity Trust, Inc.  
Voluntown, Connecticut

and

The Good Life Center  
Harborside, Maine

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## **Abstract**

What follows is essentially the road map that I traveled over the course of sixteen months involved in project work. This report details the final stages of my project, working as a liaison between two organizations, The Equity Trust and The Good Life Center. Described in less depth is the work I did, initially with the Smith Hill Community Development Corporation in Providence, Rhode Island—the early attempts at defining a project, the difficulties, and the decision to change my project environment. Most importantly, I highlight the lessons learned throughout the process and indicate how the early lessons informed my subsequent work. Incorporated into this report are the successes and challenges that I encountered throughout the project process and recommendations I can offer to students embarking on community economic development project work.

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## Introduction

Through my project work, I have been involved in the development of two loan funds. As my interest in community development finance has emerged, my desire to provide access to capital for people who typically do not have it has served as the impetus for my work. I have witnessed the many ways in which our current financial system does not serve entire segments of our population. Furthermore, I have seen how access to capital is manipulated in ways that perpetuate the injustices that pervade our society. My project work, placed in this context, represents my attempt to create alternative mechanisms through which capital can be accessed in fair ways. My work is motivated by a compelling desire to redress inequality and injustice, and can be viewed as one modest attempt.

The context for my project changed over the duration of the program. I started working in the Smith Hill neighborhood in Providence, Rhode Island as a member of a voluntary Community Economic Development Task Force operating under the umbrella of the Smith Hill Community Development Corporation. The Task Force was attempting to create a small-scale revolving loan fund. Many months into the CED program, it became obvious to me that my work was not productive or satisfying. I began working, instead, to further the collaboration between two organizations: The Equity Trust, in Voluntown, Connecticut and The Good Life Center, in Harborside, Maine. The people with whom I worked, and the organizations that would ultimately benefit from my efforts changed. While although there are clear commonalities between the two initiatives, I view my project experience in two distinct parts: the Smith Hill project and the Nearing Good Life Fund.

I begin this report by providing background of the Smith Hill loan fund project. I identify the initial challenges I faced working in Smith Hill and highlight the ways in which they informed my work later on. The bulk of this report focuses on my work during the latter months of the program developing and advancing the collaboration between The Equity Trust and The Good Life Center, through the establishment of the Nearing Good Life Fund. I define the problem statement, the purpose, the goals, and the results in relation to this particular effort.

## **Background—The Smith Hill Loan Fund**

Several months before I entered the CED master's program I became involved with a group of people concerned about the lack of financial services available to residents of the Smith Hill neighborhood in Providence, Rhode Island. The group, comprised of several neighborhood residents, representatives from Providence College, and other interested professionals met regularly, under the auspices of the Smith Hill Community Development Corporation. The group, which later came to be called the Smith Hill Community Economic Development Task Force, set out to examine the financial needs of residents in the neighborhood and to find ways to meet those needs.

Smith Hill is a small, low-income neighborhood in Providence with a population of approximately 6,000 residents. According to the 1990 Census, the median family income is \$20,707, twenty-seven percent lower than the citywide median family income. The neighborhood is home to many immigrants. During the 1990s, Smith Hill's non-white population more than doubled, increasing from 14.4 percent in 1980 to 39.7 percent in 1990 and the percentage of foreign-born residents has risen from 16.5 percent to 35.5 percent in the 1990s. Fewer than half of all adult residents in Smith Hill hold high school degrees (The Providence Plan, 2000).

Residents in Smith Hill have difficulty accessing financial services. More than twelve years ago, the one bank branch located within the neighborhood closed. Aside from the problem of transportation, the fundamental barrier that most Smith Hill residents face is that conventional banks in the city do not offer products and services that they need. Instead, pawn shops and check cashing stores line the main corridor in the neighborhood and provide residents with basic financial services and access to capital—but at excessive fees, which serve to further drain the limited financial resources that residents have.

For many months, members of the Task Force came together to talk about the economic conditions of the neighborhood and how lack of access to capital (at fair and reasonable prices) restricted residents' ability to build a stronger local economy. Together, the members of the Task Force educated ourselves about the models of community development financial institutions. We conducted a needs-

assessment survey, and ultimately decided that a small-scale revolving loan fund would best serve the interests of the community.

Just as I enrolled in the CED program, the creation of the loan fund had just gotten underway. I decided to house my project within the larger context of this effort and attempted, several times, to define a clear and discrete project for myself. At first, I proposed to examine the institutional resources in the neighborhood and to devise a plan to access them. Later, I planned to do an analysis of the community reinvestment activities of local banks with an goal of explicating how our loan fund could prepare its' borrowers to eventually access capital through conventional financial institutions. None of my attempts to create a niche for myself—to define aspects of the creation of the loan fund that I could be responsible for—were successful.

Continually, I questioned whether sufficient research had been done to inform our decision-making and whether membership of our Task Force was representative of the community-at-large. I was skeptical that creating a new institution in Smith Hill was the best approach to the problem of lack of access to financial services and capital, and doubted whether the Task Force could create and sustain such an institution. Most disturbingly, I suspected that the decision to pursue the establishment of the loan fund was driven more out of self-interests of the Task Force members, than out of the interests of the community, as a whole.

After several failed attempts at creating some semblance of a “project,” largely attributable to my lack of confidence and trust in the process, and the resulting mounting frustration, it became clear to me that the environment I was working in was not suited for the learning outcomes I had hoped to achieve.

## **Background—The Nearing Good Life Fund**

My role furthering the development of the Nearing Good Life Fund was that of a liaison between The Equity Trust and The Good Life Center. My task was to establish the collaborative loan fund, essentially a program of the existing Equity Trust Fund, and bring it from a preliminary conceptualization stage to an operational one.

Located in Voluntown, Connecticut, The Equity Trust, Inc. works to “link land conservation, sustainable economics, and social justice, primarily by creating opportunities for investment and borrowing that ensure that real property (land) will be removed from the speculative market, that its natural integrity will be preserved, and that it can remain productive” (Equity Trust, Inc. organizational literature) Among its programs, Equity Trust runs a loan fund, the Equity Trust Fund, to support community development and land conservation in the United States and abroad. The Equity Trust Fund “receives loans and gifts from socially and environmentally concerned investors and donors, and uses these resources to finance community development” (ETI organizational literature).

The Good Life Center, in Harborside, Maine, perpetuates the “philosophies and lifeways exemplified by Helen and Scott Nearing, two of America’s most inspirational practitioners of simple, frugal, and purposeful living” (Good Life Center mission statement).

The Good Life Center encourages and supports individual and collective efforts to live sustainably into the future. Guided by principles of kindness, respect, and compassion in relationship with natural and human communities, The Good Life Center promotes active participation in the advancement of social justice, creative integration of the life of the mind, body, and spirit, and deliberate choice in living responsibly and harmoniously in an increasingly complicated world.

Currently, the programs of The Good Life Center include conservation of the Nearings’ last hand-built home, Forest Farm, fellowships, stewardships, educational programs on homesteading and sustainable living, and the publication of the Nearings’ books. There are currently no economic development initiatives run by The Good Life Center, and much of the work of the organization is limited, geographically, to Maine.

The Equity Trust / Good Life Center collaboration developed out of mutual interests and personal relationships. Conversations between the organizations were initiated in the Spring of 1999 by two Good Life Center board members, who were acquainted with Chuck Matthei, the Director of The Equity Trust, and the success of his non-profit. After more than one year of discerning organizational interests, representatives from both organizations have determined that initiating a collaborative loan fund would serve their organizations' interests. Through these early conversations, a fundamental trust has been built between representatives of both organizations and a sincere belief has emerged that collaborating will improve the quality, scope, and effectiveness of the work of each organization.

### **Definition of the Problem**

In my project contract, the problem statement read as follows:

**There are many community groups engaged in projects and efforts to promote environmental sustainability, economic justice, and simple living that can not access capital for the continued growth and development of those projects. If access to capital is not provided, many of these efforts will go unrealized. The Nearing Good Life Fund will be designed to provide a new opportunity for responsible social investment; a mechanism to educate individuals about the importance and significance of socially responsible investing; and a program through which community development and environmental preservation projects can be financed so that they can continue to promote strong values and a commitment to the philosophies expressed by the Nearings.**

As I reconsider the “problem” and the potential for the Nearing Good Life Fund to impact the “problem,” I view the beneficiaries of the fund on two distinct levels. First, the organizational capacities of both the Equity Trust and the Good Life Center are increased through the establishment of the fund. Second, many community groups and organizations across the country that can not access capital through conventional means will benefit, as the Fund has as its express purpose to serve them.

The organizational capacity of Equity Trust will grow with the addition of another program. Essentially what the Nearing Good Life Center provides is an opportunity for the Equity Trust to access a large group of potential investors, the supporters of the Good Life Center. Technically, the Nearing Good

Life Center is structured as a special account within the Equity Trust Fund. Therefore, all investments to the Nearing Good Life Fund will build the overall assets of the Equity Trust Fund. Attracting new investors, which diversifies their sources and increases their lending capacity, is certainly an interest of the Equity Trust and can be viewed as a primary motivating factor for pursuing the collaboration.

The Good Life Center has much to gain through the collaboration, as well. Currently, the main focus of their work is to educate people about the lives of Scott and Helen Nearing, two of most inspirational practitioners of simple, and purposeful living. The Good Life Center has preserved Forest Farm in Harborside, Maine, the last hand-built home of the Nearings and use it as a center to educate people about environmental sustainability and simple living. Through the Nearing Good Life Fund, the Good Life Center will broaden the geographic area it can impact by providing financing to community organizations across the country, and perhaps beyond. It will utilize the fund as an opportunity to highlight a dimension of the lives of the Nearings that often gets overlooked: their steadfast commitment to economic justice and the economic experiments they undertook as homesteaders living a simple life. The Good Life Center seeks to educate its supporters about socially responsible investing, as one attempt to move towards economic justice, and to provide a mechanism, the Nearing Good Life Fund, through which people can do so.

Most directly, many community organizations will benefit from the Nearing Good Life Fund. Groups working to benefit low-income people, to promote the availability and accessibility of land for community-based agriculture, and to promote environmentally-conscious, economically sustainable land use—groups that typically find it difficult to access capital through conventional means—will be able to do so through the Fund. Financing and technical assistance are critical pieces that will enable community organizations to improve the quality and expand the scope of their work.

With investments already made, the Nearing Good Life Fund has participated in financing several project loans including:



- **Cold Pond Community Land Trust** in Acworth, New Hampshire, to purchase land to expand their horse-powered, biodynamic farm, now in its second year of CSA production
- **Sapelo Island Cultural and Revitalization Society** in Georgia to finance the construction of a community center as part of their effort to preserve and protect one of the last remaining Gullah communities in the country
- **Sixth Street Community Center**, in Manhattan, New York to finance pre-development costs for an organic café and juice bar, as part of their CSA economic development project

As the Nearing Good Life Fund grows, it will provide more opportunities for community groups across the country to access capital for similarly worthwhile purposes.

Several assumptions were made for the establishment of the Nearing Good Life Fund. That The Equity Trust can effectively manage and utilize additional investments, and that supporters of The Good Life Center care about investing responsibly and will likely invest in the Nearing Good Life Fund were among the most fundamental assumptions. Careful research and consideration underlay each assumption. First, The Equity Trust's track record for managing investments and making loans accessible to groups in need is exemplary. They have offered forty-eight loans since their establishment in 1992, and currently have a 100% repayment rate. Loan requests currently exceed their loan pool. Second, members of the Board of Directors of the Good Life Center have expressed an earnest desire to use the launching of the Fund as an opportunity to educate their constituents about socially responsible investing. Unanimous support has been expressed among the members of the board of directors for the establishment of the fund, for supporters of The Good Life Center to be solicited through an appeal, and for The Good Life Center to make an initial organizational investment of \$10,000. Time has been allocated at board retreats and other meetings to educate The Good Life Center's constituents about socially responsible investing. There are reasonable assurances, then, that The Equity Trust will manage and utilize effectively the additional investments that the Nearing Good Life Center will attract, and, that there is full support from The Good Life Center for the collaboration and significant support of its constituents is likely.

## **Project Purpose - Method**

A number of factors contributed to my decision to assume responsibility for the development of the Nearing Good Life Fund. The primary factors included: my increasing level of doubt regarding the quality of research and decision making of members of the Smith Hill Task Force, my desire to work with Chuck Matthei, and the prospect of working on community development finance project that is both interesting and feasible and is likely to have significant outcomes.

By April of 2000, it became clear to me that my continued efforts with the Smith Hill Task Force were futile. In my opinion, many conclusions had been drawn that dictated the scope and direction of the work of the Task Force that were based upon inadequate research. I was neither confident that the interests of the Smith Hill community were appropriately represented nor convinced that establishing a loan fund would serve Smith Hill residents' needs. My discomfort and frustration grew as time passed and my input did little to improve the process.

The second major factor in my decision to work on the Nearing Good Life Fund was the opportunity to work with Chuck Matthei. Chuck is a friend and community development practitioner, who has for the past twenty-five years served as a leader in the Community Land Trust movement. He founded and currently serves as the Director of The Equity Trust. He highlighted for me several opportunities at The Equity Trust where he felt I could make a contribution. The chance to work more closely with him, and do work that would be of value to The Equity Trust, was compelling to me.

The third factor in my decision was the promise of an exciting community development initiative, for which some of the preliminary groundwork had been laid. As discussed, representatives from both The Equity Trust and The Good Life Center had engaged in conversations and were eager to move forward with the collaboration. The proposed loan fund, in my estimation, was well-conceived and realistic, and was sure to produce worthwhile outcomes. Importantly, the collaboration was at a stage where my time and energy could advance it and bring it from a largely informal and unstructured stage, to a more formal, sustainable, and productive one.

In July, 2000, I decided to focus the work of my project on the formalization of the relationship between The Equity Trust and The Good Life Center through the establishment of the Nearing Good Life Fund. The purpose of the fund is manifold: to educate friends and supporters of The Good Life Center about socially responsible investing; to provide a mechanism through which supporters of The Good Life Center can invest their money in a socially and environmentally responsible manner; to further a shared vision of sustainable community economics; and, to build the capacity of The Equity Trust Fund to finance and support community development and conservation projects by increasing the assets of The Equity Trust Fund.

## **Project Goals**

As discussed above, the Nearing Good Life Fund was established for four primary purposes. Goals, however, were not clearly defined in relation to these purposes. This is probably the biggest failing of the project. There was never a target goal for capitalization of the fund. There were never goals articulated about the number of new loans that would be initiated each year from the Nearing Good Life Fund.

Rather, it was assumed that each new investment to the Nearing Good Life Fund would increase the overall capacity of The Equity Trust Fund to finance community development projects. The overarching goal of providing access to under-served groups would, thus, be advanced. New investments to the fund indicate that the purposes have been achieved.

## **Results**

After I made the decision to undertake the Nearing Good Life Fund Project, many successes were achieved. First and foremost, I made a personal investment into the project of which I could be proud. I was confident that the time and effort I expended were put to productive use both for my learning as well for the benefit of a larger community economic development goal. There were many tangible outcomes of my work on the Nearing Good Life Fund. This is far different from the work I did, initially, on the Smith Hill project, which I felt was useless and futile and, therefore, was perpetually frustrating to me.

I outlined several outputs, when I first developed a work plan for the Nearing Good Life Fund project that I thought were essential to it's success. The outputs included:

- The development of a collaboration agreement between the Equity Trust and the Good Life Center
- The development of loan documents to be used in processing loans
- The processing of the Good Life Center loan
- The development of a marketing plan and marketing budget
- The development of outreach material and the mailing of an appeal to Good Life Center supporters

Of the five outputs listed, three were fully completed: the development of the collaboration agreement, the development of loan documents, and, the processing of the Good Life Center loan. Writing the collaboration agreement was probably the most laborious of all the outcomes. It required regular communication between representatives of both the Equity Trust and the Good Life Center and myself. Many drafts were generated before it could be agreed upon by both organizations. The agreement lays out a map for how the two organizations will work together—to clarify the role and responsibilities of each organization with respect to the creation, operation, and governance, and dissolution of the Nearing Good Life Fund.

I drafted loan documents, modeled after the documents used by the Equity Trust Fund, for consistency purposes. I created documents outlining terms for investors, terms for borrowers, a sample note, and a sample loan agreement for use in transacting funds. Using these documents, I assisted in processing the initial investment made by the Good Life Center.

Two of the original outputs were partially achieved: developing a marketing plan and budget, and developing outreach material and sending the mailing appeal. The marketing plan was relatively simple and the costs were straightforward. The marketing will consist of an appeal sent to the people on the mailing list of the Good Life Center. Included in the appeal will be a letter from Chuck Matthei on behalf of The Equity Trust, a letter from John Saltmarsh, a member of The Good Life Center's Board of Directors, and a brochure for the Nearing Good Life Fund. I created a brochure for the Nearing Good Life Fund but have yet to receive final approval from representatives of both organizations. The mailing has not yet been assembled and sent out. The mailing was purposefully delayed so that its timing does not overlap with the annual appeals sent by each organization to its' supporters. The brochure will be finalized and printed and the appeal will be sent to people on The Good Life Center's mailing list in February, 2001.

One important output was not included in the original plan. I did not imagine playing a role in the important educational work around socially responsible investing with constituents of The Good Life

Center. However, when the opportunity arose, to speak and present my progress on the development of the Nearing Good Life Fund, at a Good Life Center meeting in early November, I gladly accepted. I attended a weekend-long meeting at Forest Farm where board members and stewards of The Good Life Center gathered. I presented a rationale behind socially responsible investing, the history about the nascent Equity Trust / Good Life Center collaborative, and the purposes of the Nearing Good Life Fund. I was pleased to receive unanimous support of board members and stewards of the work I had done, and was gratified to have the opportunity to play an educational role as part of my project.

### **Conclusions/ Recommendations**

Certainly, during the sixteen months that I have worked on my “project,” it has made twists and turns, and changed in ways that I would have never predicted at the beginning. Throughout the course, I have experienced many challenges and successes.

While the two parts of my project, the Smith Hill loan fund and the Nearing Good Life Fund, are dramatically different in terms of how much I learned from them, what I produced, and how I felt about my contributions to them, there are common threads that bind them together. The commonalities include that both projects involved the creation of a loan fund for the purpose of providing capital to those most in need of it; both were premised on the belief that capital should be accessible to members of disenfranchised communities, and that capital is a necessary component of economic development; both involved creating a mechanism through which organizations and individuals could invest financial resources in a socially responsible manner; and, finally, both projects aimed to contribute to the overall capacity of one or more organizations. Clearly, there are fundamental similarities in the purposes of both the Smith Hill and Nearing Good Life Fund projects. These purposes remained the same throughout the sixteen months of my project work.

What changed once I made my decision to work on the Nearing Good Life Fund, as opposed to the Smith Hill project, was that I could clearly define steps in a project that would ultimately serve the

goals of the larger effort. Whereas I found it impossible in Smith Hill to carve a niche for myself, doing so with The Equity Trust and Good Life Center was easy. I identified tasks for which I could take responsibility for that would advance the progress of the Nearing Good Life Fund, as a whole. I developed a timeline and benchmarks upon which I could evaluate my progress.

Certainly, although I view my work on the Nearing Good Life Fund as successful, there are factors that, had they been different, would have increased my ability to complete the project. First, all of my work as part of the collaboration needed the approval of representatives of both organizations. On The Equity Trust side, Chuck Matthei was responsible for signing off on the various documents that I drafted. During the several months during which much of the written work was generated, Chuck was frequently inaccessible, as his work requires distant travel, which delayed my progress. Second, had I made the decision to work on the Nearing Good Life Fund earlier, I would have had more time to see the project through. More time would have enabled me to progress further with the development of the Fund.

I learned many things throughout the course of my project work. I learned about the tools of community development finance—the various models of institutions that can serve different purposes and populations and the mechanics of how they run. I practiced and improved particular skills, including writing, researching, mediating, negotiating, facilitating, and presenting. I learned about project management—how to articulate problems, identify goals, measure objectives, specify timelines, and evaluate progress. Most importantly, my project work led me to work in complicated environments with people who often shared my vision and goals, but not necessarily my ideas about how to achieve the desired results. I learned a great deal about working with people, and in the process, about myself—about how I manage conflict and deal with stress, how I handle disappointment and frustration, and how I make decisions. Through each stage of my project work, I carried with me the lessons that I had learned previously, making an effort every step of the way to be more effective.

There are three important pieces of advice that I have to offer to incoming community economic development students, with regards to their projects. First, they should avoid making premature

commitments. For months, I struggled because my initial commitment to the Smith Hill group had been made hastily and without thorough and informed consideration. Eager at the beginning, I had promised to devote a considerable amount of time each week to some aspect of the Smith Hill loan fund, and raised expectations among the people with whom I worked that there would be significant advancements from my efforts. Once I began to question whether working with the Task Force was an appropriate fit for me, given my learning objectives, I felt conflicted, as I reconsidered the commitments I had initially made.

This leads to the second point of advice for incoming students. They should not get stuck in the “paralysis of analysis”. For months I questioned myself about what I should do. What did I owe to the Smith Hill Task Force? What would be the consequences if I were to abandon my work with them? How would I communicate my concerns? How could I be sure that a different project context would result in more learning for myself, and more productive outcomes for the project? What should I do? These questions plagued me for the entire spring term. I deliberated over advantages and disadvantages of staying with the Smith Hill project and then of initiating the Nearing Good Life Fund project. In the end, I could not be sure. Belabored consideration was not getting me very far; I was indeed stuck in the “paralysis of analysis”. I needed to make a decision one way or another and stick with it. Ultimately, that is what I did.

Lastly, I recommend to future CED students to put the highest priority on their own learning in the project process. It is imperative that they utilize the opportunity to acquire the skills they will need to be an effective community development practitioner in the future.