IMPACT INVESTING: PROFIT MEETS PURPOSE

Linking Investment Returns to Social Good
- Farmers in Haiti
- Housing in Brazil
- Water in Mexico

Bugg-Levine & Emerson: Hype or Promise?
Morduch: Lessons from Past Failures

PLUS
How to Become an Impact Investor

Nora Lustig on Reducing Inequality

Impact Investing

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MINING IN PERU: Do Chinese Companies Exploit More?

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MINING IN PERU: Do Chinese Companies Exploit More?

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REVISITING EDUCATION REFORM

34
Argentina
ESTEBAN BULLRICH AND GABRIEL SÁNCHEZ ZINNY
The new government should focus on quality as well as spending.

38
Brazil
EDUARDO J. GOMEZ
Dilma’s dilemma: spreading the benefit of windfall oil profits without undermining growth.

43
Latin America’s Shrinking Inequality
NORA LUSTIG
A result of policies, politics—or luck?

48
Chinese Mining Companies
BARBARA KOTSCHWAR, THEODORE MORAN AND JULIA MUIR
Assessing their record on labor rights and the environment.

58
The Africa Connection
NANCY BRUNE
The emerging narco nexus between West Africa and Brazil.
When Profit Meets Social Purpose

Impact investment plays an increasingly visible role in the developing world—projected to rise from $400 billion to $1 trillion over the next decade. In Latin America, some see it as the Next Big Thing for addressing endemic poverty, lack of access to capital and the environment. Our special section starts on page 64.

Features

66 Hype or Promise?
ANTONY BUGG-LEVINE AND JED EMERSON
Pairing philanthropy and profit takes work—and smart regulation.

71 Charticle: How to Be an Impact Investor
LINA SALAZAR AND NORMA ZACARIAS
It starts with finding the money. And then it gets really complicated.

78 Not So Fast
JONATHAN MORDUCH
The ups and downs of microfinance offer some cautionary lessons to champions of socially conscious investing.

84 When the Private Sector Isn’t Enough
KATIE GRACE AND DAVID WOOD
Governments play a vital role in ensuring that impact investment achieves genuine social and environmental goals.

91 A Case Study
LIAM BRODY
Root Capital introduces big investors to small rural farmers and cooperatives—with dramatic results.

95 Ask The Experts
Can impact investment be an effective tool to reduce poverty? Michael Edwards, Ron Cordes, Stuart Yasgur, and Amit Bouri respond.
Departments

3 From the Editor

11 Panorama São Paulo’s cowboy festival, pre-election polling in Venezuela, Costa Rican filmmaker Hernan Jiménez dazzles N.Y. critics with El Regreso, 10 Things to Do in San Salvador, and more.

19 AQ Interview Colombian President Juan Manuel Santos on free trade, security policy and his first year in office.

24 Hard Talk Can Mexico win the war against drugs? Alejandro Poiré and José Merino square off.


98 Dispatches from the Field: Chirretzaaj Matthew Walter tracks the impact of rising food prices on Guatemala’s rural poor.

102 Tongue in Cheek The best of the region’s political cartoons.

104 Policy Update Colin Robertson on Canada’s new Americas policy. Andrea Armeni on the mining boom in Colombia’s Indigenous lands. Layne Holley on Latin American call centers.


120 Just the Numbers Wine production in the hemisphere: uncorked.

China–U.S.–Latin America: How should the U.S. and others understand and react to the changes brought about by China’s expanding presence in the region? Liz Economy explains China’s worldview; Lowell Dittmer discusses how China’s developing-world diplomacy is increasing its global weight; and Oswaldo Rosales analyzes trade competition.
Throughout the developing world, the rural poor—approximately 75 percent of the more than 2.7 billion people who live on less than $2 a day—are often isolated from formal markets. However, impact investing that generates social or environmental benefits and financial returns presents a new opportunity to address rural poverty with market-based solutions.

A recent study by J.P. Morgan Global Research and the Rockefeller Foundation estimates that the impact investing market will grow from $400 billion to $1 trillion over the next decade. This emerging asset class has played a critical role in fueling the growth of organizations like Root Capital, a nonprofit social investment fund that aims to grow rural prosperity by investing in agricultural businesses in Latin America and Africa.

It does so by providing capital and financial training and by strengthening market connections for small and growing businesses such as coffee and cocoa farmer cooperatives, mango exporters and companies selling drought-resistant hybrid seeds to small-scale farmers.

Most of the rural poor depend on agriculture as their primary source of income. According to the World Bank’s 2008 World Development Report, economic growth in the agricultural sector is twice as effective in reducing poverty as growth in other economic sectors. Access to
stable export markets can put farmers and their communities on a path to long-term economic prosperity and environmental sustainability. In turn, access to working capital is critical for small and growing agricultural businesses to fill the gap between planting, harvesting and processing a crop, and receiving payment from buyers.

Unfortunately, small rural businesses often lack access to financing. Commercial banks typically do not lend in rural areas, or they demand payment schedules and hard collateral that cash-poor rural businesses are unable to provide. While microfinance addresses the financing needs of individuals and very small businesses, it has less reach in remote farming regions and tends not to serve agricultural businesses that need loans in excess of $25,000.

Our organization, Root Capital, was established in 1999 to fill that gap. Headquartered in Cambridge MA, and with offices throughout Latin America and sub-Saharan Africa, Root Capital focuses on lending to businesses that are too large for microfinance but are unable to secure credit from conventional commercial banks. Since Root Capital’s launch, we have provided more than $320 million in credit to 350 such businesses in 30 countries. These businesses represent more than 500,000 small-scale farm households—families that benefit from higher and more stable incomes and improved livelihoods. This has been achieved while maintaining a 99 percent repayment rate from borrowers and a 100 percent repayment rate to investors.

At the close of 2010, Root Capital’s lending program was 80 percent of the way toward operational self-sufficiency. In less than five years, Root Capital will cover the full costs of its core lending program through revenue from loan interest and fees. In the meantime, philanthropic contributions fill the revenue gap. Philanthropy also plays a role in underwriting Root Capital’s financial management training program for rural business leaders. The firm funds its loan portfolio with investments from foundations, corporations, accredited individual investors, socially responsible investment firms, and religious institutions, and 100 percent of these funds are loaned directly to small rural businesses.

Investors and donors say they are attracted to Root Capital because of its 10 years of experience working with rural businesses and its record of generating financial, social and environmental returns. One such investor is Paul Leander-Engström, founder and chairman of The World We Want Foundation (3W) in Sweden. Although relatively new to impact investing, he is a major philanthropic donor to Root Capital’s lending and financial management training in Latin America, as well as an investor. Leander-Engström says charitable investments are “no different” than any other kind of investment, requiring “thorough due diligence, commitment, engagement, and nurturing for maximum results and impact.” 3W’s due diligence helps it “identify outstanding social enterprises providing high-impact solutions to poverty and environmental degradation.”

Recently, Leander-Engström and Kirsten Poitras, managing director of 3W, traveled to Haiti to visit Root Capital clients. With four clients in Haiti, Root Capital is playing a modest but demonstrable role in helping farmers access premium markets. That access helps them escape a subsistence living that not only places their families at risk but also stresses the natural environment.

The two investors visited a client, CariFresh, a family-owned organic mango exporting business run by a Haitian entrepreneur named Cassandra Remiers. Although CariFresh’s packing plant was badly damaged in the 2010 earthquake, the family quickly repaired the packing plant and offered it to Haiti’s government as a logistical staging ground during the emergency relief effort. Today, the business is prospering, and its mangos are exported to the U.S. and Canada, thanks in part to

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financing from Root Capital. Remiers is part of a new generation of agricultural entrepreneurs in Haiti who, with the right tools, can play a key role in transforming livelihoods for small-scale producers in the country.

Three hours north of Port-au-Prince in the town of Mirebalais, Leander-Engström and Poitras met with small-scale growers who supply CariFresh. Access to the organic export markets allows these farmers to sell mangoes for nearly three times the local market price.

Finally, the 3W team journeyed to Thiotte, a remote mountains town near the Dominican border, located in one of the few remaining tracts of Haitian rainforest. There they met with Root Capital’s first Haitian client, Cooperatie des Planteurs de Café de l’Arrondissement de Belle-Anse (COOPCAB).

The cooperative represents over 4,000 coffee-farming families from the area surrounding Thiotte. In a country where only 1.5 percent of forest cover remains, the specialty-grade Arabica coffee that COOPCAB’s members produce and export grows better under the shade of forest canopy—linking economic opportunity to environmental conservation.

Later this year, with trade finance provided by Root Capital, COOPCAB expects to export six times as much coffee as last year. Beyond forest conservation, these sales enable the cooperative to fund school fees for the children of its members. COOPCAB is also planning to build a medical clinic with its retained earnings.

Thanks to the rise of impact investing and capital from investors like Leander-Engström and 3W, Root Capital loan disbursements have been growing at a rate of more than 40 percent. This year, Root Capital will disburse $125 million in loans to more than 230 small rural businesses across Latin America and Africa.