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COVER: ILLUSTRATION BY RAY BARTKUS

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LESLIE JOSEPHS/AP

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.

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CLOCKWISE: WHITNEY EULICH; PHOTO CREDIT TK; LUIS ACOSTA/AFP/GETTY

in our next issue: **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.

ROOT CAPITAL

A CASE STUDY IN IMPACT INVESTING

Taking big investors to small rural farmers and cooperatives.

By Liam Brody

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.[1] 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

Bridging the divide: Root Capital investor Paul Leander-Engström (above) learns how Haitian mango farmers are accessing new export markets.

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

Liam Brody *is senior vice president of business development and corporate relations at Root Capital.*

FOR SOURCE CITATIONS SEE: WWW.AMERICASQUARTERLY.ORG/BRODY 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, *Coopérative 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 an annual 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. AQ

HELP HAITI

BY RICHARD ANDRÉ

Over the past two decades, microfinance has been a lifeline for millions of Haitian small-business owners. But after the devastating earthquake in January 2010, many of the country's 130,000 microcredit borrowers could no longer make their monthly payments. By the end of that year, $62 million was outstanding in microloans, creating a major liquidity crisis within the country's microfinance industry.

Enter Calvert Foundation, a U.S.-based, nonprofit impact investing firm. In June 2010, Calvert teamed up with fund manager Omtrix and several partners, including the Inter-American Development Bank's Multilateral Investment Fund, the Clinton-Bush Haiti Fund and the Deutsche Bank Foundation, to restart the flow of money between creditors and microfinance institutions. The result was the Haitian Emergency Liquidity Program (HELP).

HELP purchases delinquent loans from microfinance institutions (MFIs), allowing them to maintain their lending operations and preserve their capital base. The restored liquidity enables MFIs to restructure loans with lower interest rates and/or extended repayment terms, lessening the burden on the creditor. The MFIs will repay HELP in monthly installments over three years, after which they will repurchase all or a portion of the original loans back from HELP.

Caroline Bressan, investment officer for Latin America and the Caribbean at Calvert Foundation, says keeping Haitian MFIs afloat at this time is crucial. "Once you damage the culture of payment in a country," she says, "it hurts overall access to credit and the wellbeing of the microfinance system."

Today, HELP collaborates with three Haitian MFIs: FINCA Haiti, *Association pour la Coopération avec la Micro Entreprise* (Association for Cooperation in Microenterprise), and *Fond Haitien D'Aide À La Femme* (Haitian Fund for Aid to Women). Together they service 6,500 creditors—mostly urban women with small businesses selling produce or cheap household goods.

The Calvert Foundation's contribution to HELP comes from interest-bearing investments by its network of 8,000 retail investors—individuals investing, on average, $10,000 from their personal accounts—rather than from a corporation. The investment offers a creditor a new loan to rebuild his or her business, and the profits from the business are ultimately used to repay the investor with interest.

Arthur Marie Thomas, whose produce business in Jacmel was destroyed by the earthquake, is hoping she comes out a winner, too. The 52-year-old single mother of four received a $1,250 loan from FINCA Haiti in January 2011 and has already managed to rebuild her store. As she works to make it as profitable as before the earthquake struck, that microloan is once again providing a lifeline.