



FINANCIAL
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Technical Advisor

sustainable finance

FT SUSTAINABLE BANKING AWARDS 2009 Award for Banking at the Bottom of the Pyramid

The Award for Banking at the Bottom of the Pyramid recognises ground-breaking financial transactions and initiatives that address the Bottom or Base of the Pyramid (BOP), the more than 4 billion people who live on less than US\$2 a day. This award highlights the development and delivery of innovative, viable and replicable financial products and services that engage and empower the poor.

Who is eligible?

This award is open to all financial sector participants.

What types of activities does the award cover?

This award recognises all forms of Bottom of the Pyramid finance, from micro-insurance and micro-credit to micro-oriented supply chain lending and securitisation of microfinance portfolios.

What are the criteria?

The three main criteria for the award are the innovation, triple bottom line impact and replicability of the BOP programmes undertaken. Applications can relate both to a specific programme or transaction, and innovative overall portfolio approaches.

What is the entry submission process?

Please complete this form and email it as an attachment to sustainablebanking@ft.com. The initial submission process is focused solely on this entry form. No further materials should be emailed or mailed at this time. **The deadline for applications is March 6, 2009.** Applicants may be asked to provide additional information at a later date to aid the decision-making process.

What is the judging process?

The judging panel will short-list five entrants in this category in April 2009. A winner and a runner-up will be announced at the FT Sustainable Banking Awards ceremony in London in June 2009.

To fill in a table or box in this application form, please click on the grey area, which will expand as you write. Please be concise in your responses to the questions and adhere strictly to the word limits.

CONTACT INFORMATION

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Title	Director of Marketing and Communications
Organisation	Root Capital
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Telephone	
Email	

1. SUMMARY OF PROGRAMME/TRANSACTION

Please summarise the key aspects of the BOP programme or transaction you wish to nominate. (50 words max in each box)

BOP programme	Description	
Country/Countries	US headquarters with regional offices in Costa Rica, Kenya, Nicaragua, and Peru. Since our founding in 1999, we have provided loans in 30 countries in Latin America, Africa and Asia.	
Number of clients served	235 grassroots enterprises representing 360,000 small-scale farmers and artisans.	
Market segments covered	<input checked="" type="checkbox"/> Disadvantaged communities <input checked="" type="checkbox"/> Rural communities <input type="checkbox"/> Urban communities <input type="checkbox"/> Women <input type="checkbox"/> Other	<i>Please describe below:</i> We serve rural communities in poor, environmentally vulnerable places in Latin America and Africa.
Main types of clients (e.g. women-owned businesses)	Small and growing grassroots businesses with farmer and artisan members and suppliers.	
Average loan size in US\$	\$250,000	
Summary of overall approach	Root Capital is a nonprofit social investment fund that is pioneering finance for grassroots businesses in rural areas of developing countries. It provides capital, financial education, and market connections to small and growing businesses who are trapped in the "missing middle" between microfinance and corporate banking and yet have the potential to help build sustainable livelihoods and transform rural communities in poor, environmentally vulnerable places.	

2. SOCIAL BENEFITS

Please describe in detail the key social benefits of the programme or transaction, comparing costs of capital for the poor with and without your financing, and identifying the extent to which the initiative has made affordable financing available to the under-financed. (400 words max)

Select if applicable

Root Capital supports small and growing businesses (SGBs)—private enterprises and worker-owned cooperatives and associations—that are based in rural areas and have socially responsible and environmentally sustainable practices. SGBs represent the smaller end of small- and medium-sized enterprises (SMEs), and are characterized by their high growth potential.

Access to capital is critical for rural SGBs where there is a lag between planting a crop, harvesting and processing it, and receiving payment from buyers. When a rural SGB, such as a coffee or cocoa cooperative, cannot pay its farmers when they deliver product during the harvest, the farmers are forced to sell to local middlemen for cash upfront at a price that is a fraction—often 50%—of their product's value. To avoid this scenario, rural SGBs seek short-term working capital loans to cover the period of time between when they purchase product from their farmers and when they get paid months later by their buyers. They also seek financing for longer-term investments in order to grow their production, infrastructure and general operations.

However, gaining access to the needed capital can be a challenge. Rural businesses that require \$25,000 to \$1 million to purchase product from their members or invest in processing machinery are typically caught in the “missing middle” of finance, too large for microfinance institutions and too small, risky, and remote for conventional banks. Root Capital supports rural SGBs that build sustainable landscapes and livelihoods in the following ways:

- **Economic benefits.** Rural SGBs link remote farmers and artisans to markets that increase their incomes by consistently paying prices for their products that are well above those of local middlemen.
- **Natural resource management.** Rural SGBs provide training in sustainable production that avoid deforestation, increase re-forestation, reduce chemical use, and improve water and soil management.
- **Community development.** Rural SGBs channel price premiums into local communities to build schools and health clinics and support cultural activities.
- **Social empowerment.** Farmer and artisan associations offer members opportunities for participatory decision-making and are a source of community ownership and pride.

Root Capital's annual interest rates typically range from 10% to 12% in U.S. dollars. Our long-term objective is to “crowd in” competition by accelerating the entry of local banks into the rural SGB market. We are careful not to displace local banks that may already be serving prospective clients, and have a policy of not competing with local financial institutions when they are willing to finance potential clients on reasonable terms. We ask borrowers whether they have applied for local bank finance and, if not, encourage them to research their options before applying to Root Capital.

3. ENVIRONMENTAL BENEFITS

Please describe any environmental benefits associated with the programme or transaction. (400 words max)

Select if applicable

Throughout the developing world, rural villagers and subsistence farmers struggle to make a living in and around the edges of sensitive landscapes and ecosystems. Eight hundred million people worldwide suffer from chronic malnutrition and 80% of them live in rural areas; an estimated 1.6 billion people depend on forests for their livelihoods. In a state of chronic economic desperation, they often pursue short-term moneymaking strategies that can irreparably damage both the natural environment where they live and their future economic prospects. Practices such as slash-and-burn agriculture, illegal logging, and fuel wood collection can offer short-term economic gains, but also deplete the soil, increase erosion, and damage the health of watersheds that nourish entire communities and ecosystems.

By leveraging market demand for sustainable products from developing countries, Root Capital addresses the interrelated problems of rural poverty and environmental degradation. Using value chain finance, Root Capital provides credit to rural SGBs that is secured against assignment of payment for their future sales to buyers in North America and Europe such as Green Mountain Coffee Roasters, Sainsbury's, and Starbucks Coffee Company. With demand for agricultural products projected to increase by at least 50% over the next two decades and similar growth in markets for natural products, Root Capital sees tremendous economic opportunity in strengthening the link between rural producers and global markets.

The small-scale producers in Root Capital's portfolio currently oversee over 760,000 acres of sustainable cultivation and will oversee four million by 2013. These sustainable crops, such as nuts, essential oils, shade-grown coffee, cocoa, and sesame, have the potential to improve household incomes while protecting the surrounding landscapes, ecosystems and species. Many of Root Capital's long-term loans are used for capital improvements, including installing water-efficient coffee washing facilities and renewable energy infrastructure. .

4. FINANCIAL BENEFITS

Please describe the main business benefits to the financial institution, e.g. portfolio growth rates, levels of default, client retention, migration of clients to higher income groups. (400 words max)

As a social enterprise with explicit social and environmental goals, Root Capital is focused on becoming a sustainable enterprise whose model is replicated by other social lenders and mainstream banks so that financing to rural businesses is available in perpetuity. With a compound annual growth rate of 92% (1999 - 2008), a historic 99% repayment rate from our borrowers, and a 100% repayment rate to our investors, we expect to reach breakeven in our lending business in 2013. Demonstrating the financial viability of our model is a key to attracting commercial banks and other financial institutions to the rural SGB market.

Our five-year strategic plan projects that in 2013, we will disburse 392 loans, an increase from 158 in 2008. During this period of growth, our average loan size will increase slightly from \$261,000 in 2008 to \$308,000 in 2013. Driven primarily by the increase in the number of loans booked each year, we therefore estimate disbursing more than \$120 million in 2013, nearly tripling the \$41 million we disbursed in 2008. Our average loans outstanding will increase to approximately \$59 million, an increase of almost \$40 million from 2008 levels of approximately \$19 million.

Root Capital's loans bring direct financial benefits to the rural SGBs we lend to as well. In 2008, revenues earned by our borrowers totalled \$324 million. By 2013, total revenues are projected to equal \$1.6 billion (a cumulative total of \$5.1 billion from 2009 through 2013). Likewise, the direct financial benefits to the community are significant. In 2008, our borrower SGBs purchased \$260 million in crops from local farmers and artisans. In 2013, we project purchases of \$1.3 billion (a cumulative total of more than \$4 billion in five years).

5. INNOVATION

Please describe any specific innovative or groundbreaking features of the programme or transaction that enable micro-financing to be scaled up cost-effectively. (400 words max)

Whereas traditional banking and microfinance have historically been unwilling or unable to efficiently serve the rural poor, Root Capital is able to reach remote rural markets by making loans based on producers' future sales rather than their existing assets. This approach redefines risk assessment in rural finance in a way that places value on ethical, sustainable, and certified products and supply chain relationships.

The majority of our loans employ a form of value chain finance whereby the main security is future sales contracts from buyers, primarily in North America and Europe. Root Capital uses factoring agreements, or lending against signed purchase orders between grassroots businesses and their buyers, for short-term and long-term loans. The purchase agreement, in effect, replaces or decreases the need for traditional collateral as it represents a discrete, future revenue stream pledged to repay our loan. When the product is shipped, the buyer pays Root Capital directly for interest and principal payments due on the loan. To date, we have applied this factoring model with over 75 buyers, ranging from specialty importers such as Equal Exchange and Sustainable Harvest to large global buyers such as Green Mountain Coffee Roasters, McIlhenny Company, Starbucks Coffee Company, Sainsbury's, and Whole Foods Market. More traditional, asset-backed loans comprise approximately 20% of our portfolio, although even in these situations we leverage long-term value chain relationships between borrowers and buyers to mitigate risk.

Root Capital is also in the process of testing and developing new products and services in areas such as cash flow-based lending for local supply chains tied to domestic and regional sales; insurance and hedging products for grassroots businesses; payments to communities for ecosystem services such as carbon offsets and watershed management; and loan syndication with local and global banking partners. We will also expand our lending in specialized areas, such as clean technology and loans for internal credit facilities.

6. REPLICABILITY: WHAT IS THE POTENTIAL FOR REPLICATING THIS APPROACH?

Please describe the potential for local or international replication of this approach to BOP financing, identifying key potential markets and citing any major barriers that would need to be overcome. (400 words max)

Beyond our direct impact on hundreds of businesses and hundreds of thousands of rural producers and their families, our long-term objective is to demonstrate viable models and attract commercial financial institutions so that they extend financial services to rural populations on a much larger scale.

At the smaller end of the market, microfinance institutions have historically managed the high costs of servicing small loan amounts by focusing on entrepreneurs in urban or densely-populated rural areas. Likewise, commercial banks in developing countries have traditionally overlooked rural markets for reasons including:

- Perceptions among urban bankers that there are few viable businesses to finance and that the agricultural sector is inherently high-risk and low-return;
- Cultural biases held by middle-class urbanites against rural producers;
- Physical challenges to reaching remote areas;
- Lack of experience in export and trade finance within certain local banks and state-owned banks, and within certain industries (particularly markets for specialty products);
- Regulatory issues relating to the mandatory risk classification of agricultural lending (e.g., reserve requirements);
- Political uncertainty related to recovering agricultural loans in periods of crisis;
- External risks, including price and weather risk; and
- Familiarity with attractive alternative sectors, primarily consumer loans and business loans to urban enterprises.

Banks that are willing to lend in rural areas typically require hard collateral in the form of deeds to land and buildings and coverage ratios of two to three times loan value. These practices exclude all but the most formal, best capitalized (i.e., largest), and often most politically connected companies.

Root Capital assists local financial institutions in entering rural markets by demonstrating the success of our existing lending operations. We will also train their investment staff to apply our model of value chain finance to rural SGRs, transfer market knowledge, and share risk mitigation

techniques for sourcing and monitoring these loans. We will co-invest with local banks that are interested in this market opportunity, but not yet prepared to take on the full risk of such deals. Finally, through our financial education and training workshops, we offer workshops to our borrowers on topics including financial reporting and debt management to equip rural SGBs to apply for financing from commercial banks.

7. FINANCIAL INSTITUTION'S ROLE

Please describe the financial institution's role, highlighting the specific environmental, social or financial value it added in implementing this BOP approach. (400 words max)

Root Capital increases prosperity for the rural poor by pioneering finance for unbanked small and growing businesses in remote communities of Latin America and Africa. By leveraging market demand for sustainable products from developing countries, Root Capital addresses the inter-related problems of rural poverty and environmental degradation.

Our long-term objective is to attract local financial institutions into underserved markets so that they respond to the capital needs of rural SGBs on a large scale. With access to capital and the expertise on how to manage it, grassroots businesses can strengthen their operations, increase revenues, and generate significant economic, social, and environmental benefits that improve the livelihoods of rural producers and the sustainability of their communities.

Root Capital is uniquely positioned to meet the needs of rural SGBs and achieve our desired impact for the following reasons:

- Root Capital screens potential borrowers based on a series of social and environmental criteria. We review enterprises' social practices such as the prices paid to suppliers, employee wages and benefits, social programs offered and community investments made, and the quality of their work environments. We consider environmental criteria such as soil and water conservation, the impact of the organizations' agricultural practices, and their processing standards.
- When an applicant meets our criteria and a loan is approved, ongoing monitoring and evaluation of social and environmental impact is designed to enhance our services and help our borrowers continually improve their social and environmental impact.
- Our streamlined loan evaluation system enables us to approve and disburse a loan within weeks of receiving an application.
- We have deep industry relationships throughout the value chain enabling us to understand and leverage the dynamics of the entire market.
- We have developed an effective lending model and a systematized risk management system based upon ten years of operations.
- Our regional office structure enables us to efficiently service our existing clients and respond to the needs of potential borrowers.
- Our local lending and financial education staff innately understand the business context and culture.
- We hire field staff with direct experience working in management positions of rural SGBs. This equips our team with first-hand familiarity with the challenges to running a financially viable grassroots business and an understanding the role credit can play in helping SGBs improve their operations.

We achieved the following results in 2008:

Amount disbursed: \$41.2 million

Number of borrower enterprises: 144

Number of rural producers benefited: 220,000

Enterprise revenues: \$324 million

Purchases from rural producers: \$261 million

Number of businesses trained: 55

Total acreage under sustainable cultivation: 760,000

8. NOMINEES

Please provide names and positions of up to seven core team members, including partners, clients and/or civil society organisations involved, as applicable. (400 words max)

NAME	TITLE AND INSTITUTION
Antony Bugg-Levine	Managing Director, Rockefeller Foundation
Michael Dupee	Director of Social Responsibility, Green Mountain Coffee Roasters
Dennis Macray	Director, Ethical Sourcing, Global Responsibility, Starbucks Corporation
Shari Berenbach	President & CEO Calvart Foundation
Scott Leonard	CEO, Indigenous Designs Corp.
Dan Crisafulli	Director, Ecosystem Investments and Partnerships, Skoll Foundation
Paul Rice	President & CEO, Transfair USA