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INTRODUCTION

Impact investment and social enterprise have generated incredible excitement and energy globally over the past few years. Great amounts of capital are moving into the sector, with impact investment in the developing world likely to eclipse Official Development Aid within a decade by orders of magnitude: A 2009 report from the Monitor Group estimated the impact investing industry could grow from its present $50 billion or so in assets to $500 billion in assets within the next decade. This represents a fundamental shift in the way “development” work is executed, one that is moving closer to ensuring accountability and giving agency to low-income communities. However, whether this effort has lead to sustained improvements for communities that has the potential to lift them out of poverty is an open question, one that we as practitioners must address in our everyday work and requires significant attention from the development and impact investment community.

TODAY’S CHALLENGES

Fundamentally, the social enterprise movement started, not necessarily as a way of bringing the markets and low-income communities closer, but to use the markets to increase the power, agency, choice and dignity of the poor. The argument is that a financial transaction would hold service providers accountable in a way that governments in developing countries may not always be and that a focus on profitability would lead a service provider (business) to provide good or services in a sustained fashion that the traditional development community – funded through governments or philanthropy – can not. However, as the social enterprise and impact investment community have grown, we are concerned that a focus on return and profitability may have distracted us from the initial goal of increasing power, agency, choice, and dignity of the poor. While a financial transaction does provide increased accountability and sustainability, there is no structural imperative for social enterprises or investors to go beyond that financial transaction to address some of the root causes of poverty, namely an unequal distribution of power.

We believe more needs to be done to increase the power and voice of low-income communities, and are concerned that the social enterprise and impact investment movements are still concentrating power in the hands of educated entrepreneurs and mainly western investors, limiting the voice that communities have in the governance and management of these organizations, including how to use the potential profits.

A POTENTIAL SOLUTION: TRANSFORMATIVE FINANCE

Acknowledging that communities have a unique understanding of their opportunities and limitations, we believe they should play a central role in the governance, management and ownership of social enterprises and impact investment projects that affect them. Furthermore, we believe that the projects with the largest likelihood of having an impact on poverty alleviation are those that provide communities with a resource base that they can use to generate wealth for themselves long after the project or investment has finished. Ultimately, we envision a community-centered model that ensures optimal financial and social returns for all parties involved - communities, entrepreneurs and investors.

\[1\] Monitor Institute, Investing for Social and Environmental Impact, January 2009
This understanding led us to coalesce around a simple definition of transformative finance, which is based on the following underlying principles:

- **Impact investment should add value, rather than extract value, from affected communities.**

- **Risk and return should be balanced between investors, entrepreneurs and communities.**

This approach is intentionally broad, inviting creativity on how to best achieve community-level impact. Our experience indicates that projects cannot succeed without community integration and leadership and that even businesses set up to serve the low income communities require significant community engagement to ensure their impact —hence we view these principles as not only a pathway to greater impact, but they also serve to reduce risk and promote greater financial stability for impact investments.

Several organizations, such as the Community Impact Development Group at Ashoka, and the enterprises profiled in this report, have done highly innovative work exploring the best models for promoting community engagement and leadership in impact investment projects under the principles guiding the transformative finance framework. We would like to offer this report as a contribution to these ongoing conversations in the hope that it will promote productive dialogue and further innovation in the field. Our concern about the current direction of the impact investment movement is balanced by a healthy optimism about the models we see that are leading the way for a field that is more open to community leadership, and ultimately can achieve greater social outcomes.

The purpose of the case studies presented here is not to solicit investment, but to demonstrate how principles of transformative finance might play out – and have played out - in the real world. You’ll note that these enterprises are quite different in how they are financed and governed from the usual social-enterprise case studies; we hope they will stretch your imagination of what is possible, and what community impact can look like for the sector moving forward.

We invite you to use this resource as a starting place for conversations within your organization about how best to ensure community participation, governance and ownership in your work. This is the first of what we anticipate will be several resources for practitioners interested in community engagement and helping to build the movement on transformative finance. Please in touch with us if we can help you in this exploration, and we welcome any feedback you may have. To contact us, please e-mail info@transformfinance.org.
THE WORKING WORLD: LA BASE

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Overview
The Working World: La Base is a technical assistance and social investment organization that seeks to contribute to the eradication of poverty by providing micro-investments to working cooperatives in the developing world. Simultaneously, they seek to encourage democratic decision-making in the workplace to promote individuals' control over their economic lives. Since their inception in 2004, they have provided over 460 micro-investments to over 85 different cooperatives – a total of over $2MUSD - with an average success rate of 95%.

HISTORY
Following the economic crisis of 2001, many factory owners abandoned their factories and workers overnight, leaving tens of thousands of workers without pay or hope of a job. During this time, thousands of workers retook their factories and began to run them themselves as cooperative businesses. However, the availability of capital for small enterprises was, and is, severely restricted, and Argentina's mainstream banking sector had little to no reach in the poorer sections of economy. Furthermore, traditional microcredit schemes were limited to individuals and small-scale cottage industries, and frequently encouraged debt-funded consumption rather than real asset creation. Thus, large sectors of Argentina's working poor, including the newly formed cooperatives, were left without access to capital or business training. La Base was founded in response to these needs.

Stats
La Base has:
- Provided over 460 microcredits
- Worked with over 85 different cooperatives
- Lent a total of over $2M USD
- An average return rate of 95%
STRUCTURE
The Working World: La Base provides small amounts of capital to worker-run cooperatives in order to help them expand their ventures, thus creating jobs and stimulating economic growth. Pre-evaluated cooperatives are provided with several small short-term investments at very low rates. For each investment, La Base staff work with the cooperative to create an accompanying detailed business plan and timeline. The business plan must be approved by the entire cooperative assembly. The business plan and investment repayment are then carefully and consistently monitored by the loan officer, who visits the project weekly to provide assessment and consultation. Repayments are drawn exclusively from the productive outputs of the investments, which shifts the primary risk to La Base and gives them a strong incentive to ensure the recipients develop sound business plans and use the investments for their intended purposes. At each stage, La Base seeks to empower workers with financial literacy, business planning and management skills, and to ensure the long-term success of the operation.

As a result of working with La Base, recipient cooperatives grow as a business, accumulate capital, increase production efficiency, and increase profitability. Workers generally receive increased wages, more consistent hours, some degree of financial and management skills, and greater economic independence. In the cooperative model, profits are divided evenly and salaries are determined democratically. Therefore, the micro-investments received allow the business to flourish, and the democratic structure ensures that all workers share equally in the success.

The fund initially started with donations from founder Brendan Martin, and subsequently grew through support from key donors, public microcredit funds, interest, and additional investors, including the coops themselves which have committed investment funds. The creation of a PRI fund is currently being explored—projections show the opportunity to provide a 6-8% to outside investors if donations cover overhead, or 2-3% return if operational costs are covered by the fund’s proceeds.

FINANCIAL INNOVATION
Ultimately, TWW believes that since the poor, by definition, have few resources and are faced with a greater measure of financial need than their wealthier counterparts, financial deals made with the poor by wealthier institutions according to market forces will always be extractive, as the community is always in a weaker bargaining position and must accept terms from the financier. For this reason, TWW consciously structures their deals so that they “take on a greater share of the risk without commanding all of the reward.”

Deals are structured according to two aims: to grow wealth for the target community—the cooperative receiving the investment; and to lower risk in order to protect the fund for future projects within the larger community. These aims are often in tension, and a deal is created by a balancing of the two. While these aims are the same for most financial projects, in this solidarity finance model the betterment of the community is of top priority. This means seeking to reduce the risk to the cooperative as well as ensuring a profit that can sustain the cooperative and its members.

In order to achieve the first aim—growing wealth for the target community—deals are structured according to three characteristics, included in the contract. First, investment recovery can only come from the proceeds of the project or the liquidation of assets bought by the project. This ensures that no project can create unforeseen hardship for the group it is intended to help, provided that the cooperative is following the agreed-upon business plan.
Second, the majority of the capital of the fund must remain in the fund. Save the returns to outside investors, the principle provided to cooperatives plus any return goes back into the fund, maximizing the number of groups TWW can serve.

Third, any investment received by the fund must yield a higher return as investment capital for the target community than it does for the investor. In other words, the return to the investor can only be some portion of the wealth created through their investment. TWW operates from the assumption that the cooperative will receive at least half of the return, if not more. While some may say this presents a moral hazard, TWW argues that this model provides an economic incentive to the cooperative. If the cooperative knows that all their gains will be taken upon completion of the project, then they have no stake in the project. TWW argues that the cooperative must be a partner in the gain, and that this return structure ensures just that. It is important to note that this does not prohibit the investor from making a return, and potentially a “market rate” one—this can still be possible when the majority of the growth is given to the cooperative.

The second goal of any deal structure—lowering risk to protect the fund for future projects—is addressed in two ways. First, the cooperative in the project must make a good faith effort to execute the plan specified by the project or they can become responsible for repayment with assets outside of the project. This condition is stated explicitly in the contract. Second, efforts are made to structure a project so that investments are used to buy concrete, easily liquidated assets so that in the case of liquidation, maximum investment can be recouped.

Philosophy on Fixed Rates

TWW advocates for variable rates of return according to the wealth generated by the project. After looking at a project and deciding that they feel the business will be profitable, they determine a fixed rate ceiling. As the project moves forward and results come in, they may vary the rates accordingly. If, after following through on the business plan the community does not make the money back, TWW will forgive the interest—this is where TWW differentiates their investments from loans. This occurs very rarely; so far, in only 5% of cases. Still, it ensures that the risk is shifted off of the poor and forces TWW to be an active investor. It is important to note again that because of the return structure, the cooperatives have an incentive to make a profit, and do not gain when the project fails.

FUNDING CASE STUDY

Desde el Pie

In June of 2005, TWW provided shoe-manufacturing cooperative, Desde el Pie with a loan of $20,000 pesos (approximately $6,928 USD) to purchase land and provide the down payment for materials to build a new factory. Before this, the cooperative had been operating out of the back of a member’s house. While ambitious, this project allowed the cooperative to produce more efficiently at much greater scale. The loan was provided at a rate of 6% monthly. The cooperative paid in installments every month over the span of a year. To cover the remaining cost of the project, the cooperative contributed $40,000 ($13,855 USD), mainly by bartering shoes for raw materials.

By January of 2006, the cooperative had made steady progress on the factory and had reached the last stages of work. To help them complete the project, TWW provided an additional loan of $6500 pesos ($2120 USD) at 9.5%. The loan was based on a study of the remaining needs necessary to finish the factory. With this financing, the factory was usable within several months.
The two primary obstacles TWW faces are lack of visibility and investment. Given the demands on their limited staff, it is extremely difficult for them to do the necessary work to keep the fund thriving while still raising funding and investment capital. Over the past few years TWW focused exclusively on developing its model, and is now ready to promote its experience and raise capital. The organization is exploring structures for PRI and MRI funds moving forward.

**OBSTACLES**

In Latin America, La Base has expanded their operations to fund worker-run cooperatives in Nicaragua. Their operations in Argentina have expanded as well, as they recently began receiving savings from two cooperative federations to invest in other similar businesses in the greater community. La Base is also currently preparing to open their first branch in the United States, in New York City. There they will engage mostly first generation immigrants who are particularly isolated or excluded. Often the immigrants they work with speak little English, may have been victims of trafficking or debt bondage, and experience some of the poorest employment conditions in the country.

La Base worked with the cooperative to constantly monitor their progress and income. Before each installment was paid, TWW did an audit to ensure the cooperative was making at least the installment amount in profit, and that repaying the debt would not inhibit their long-term growth. Several audits indicated that repayment could be a barrier to growth, and so TWW postponed several payments, without cancelling them. The AR$6500 loan was repaid in four installments over a period of a year and a half. Throughout, TWW worked directly with the cooperatives to ensure that the loans were fully contributing to the cooperative’s growth, and with careful monitoring, were able to adjust accordingly.

**FUTURE**

In March of 2009, TWW provided a loan of $17500 (approximately $4,704 USD) to the chocolate cooperative “Workers of Arrufat,” which had taken over their abandoned factory in January of that year. Easter would have been their most productive season, but as it approached, the factory was still without electricity, and the amount of Easter eggs workers were able to produce by hand was insufficient to maintain the factory. The loan allowed the cooperative to purchase electricity and enough raw materials to make over 17,000 eggs in three days. The cooperative made over 900%, and was able to repay the principal and the debt in one installment.

**Check Processing**

**TWW also changes checks for cooperatives.** In Argentina, companies are paid with checks dated in the future. As cooperatives are often cash strapped, they are forced to cash their checks immediately. However, most check cashing businesses charge over 100% annually. TWW is able to cash checks with a charge of 20% annually. Since they began in 1997, they have changed about $820,000 USD in checks. Out of this, only 1% was lost. In this instance, TWW was able to adapt to provide more equitable financial products for their clients, thus contributing to their sustainable financial growth.

http://www.theworkingworld.org/index.php?action=labase&ContextID=313&subsection=Gallery+of+Photos&ContextTable=Cooperatives&sortBy=Cooperative
Overall, they are also looking to increase funding for the network so that they can scale the fund vertically. With a larger fund, they hope to extend their reach to a greater number of people and invest in larger businesses, reaching into industries at the heart of the economy as opposed to more artisanal production.

Most importantly, TWW seeks to achieve sustainability as an organization. With the opening of their New York branch, they have an opportunity to grow their fund to the point that their returns on investment will become a very significant source of income, and eventually pay for all their costs in addition providing healthy returns to investors, and of course, communities.
OVERVIEW

Founded in October 2010, Solar Mosaic is a peer-to-peer investment platform working towards the democratization of clean energy through the crowdfunding of solar projects. They seek to give people the power to create prosperity for their community and the world through clean energy.

HISTORY

The idea for the project came out of work founders Daniel Rosen and Billy Parish were doing on Black Mesa, a rugged region of the Navajo reservation in Arizona where the old paradigm of energy development stands in harshest contrast with the values of the Navajo people. In the late 1960s, Peabody Coal, with the help of the Department of the Interior and a lawyer representing the Hopi tribe as well as secretly representing Peabody Coal, signed an agreement that allowed Peabody to exploit the coal and water resources on the reservation. The Navajo and Hopi tribes have no ownership of the power plants or coal mines that were built, have had their water resources severely depleted and polluted, and are receiving extremely exploitative royalty rates. The Navajo have sued several times to try and recuperate their losses, but to no avail.

In response to the Peabody’s exploitation of the Navajo and Hopi and their non-renewable resources, Rosen and Parish sought a model that would be completely the opposite—a community-owned and governed renewable energy project that the people would have total control of, and that would ultimately be financially, environmentally, and socially sustainable. Having a community-owned, renewable, and profitable resource meant that they would be independent of energy companies, and thus less vulnerable to exploitation by them. Unfortunately, this situation is not unique to these tribes. Communities almost always lack a voice in the control and use...
of the resources they purchase, and frequently are subject to unfair pricing.
This pair began the Mosaic project with the tribes in an effort to help them regain control over their own energy through solar power. However, in doing so they realized that many of the challenges tribes face are common to disadvantaged communities across the US. Thus, they decided to take on the broader challenge and opportunity of developing a larger effort, which would include their work with indigenous communities. Ultimately, their goal is to flip the current model of energy development so that energy is sustainable and communities have control of the energy resource, site location, pricing, and profit.

While many people want to go solar, the cost and complexity of doing so remains a significant obstacle. Solar developers throw out 95% of the leads they generate. This is partly due to the high cost of capital—solar developers currently use expensive bank financing for solar leases with typical rates ranging between 10-20%. Therefore, renters, those with limited income, and people whose roofs are unsuited to solar are unable to participate in the transition to clean energy. Meanwhile, many community-oriented buildings like schools, churches and non-profits have roofs well-suited to solar but don’t have the upfront capital to pay for solar installations. Even if they did, current laws are so complex that they create an additional obstacle.

**STRUCTURE AND FINANCIAL INNOVATION**

Solar Mosaic seeks to remedy these issues through an online crowdfunding platform that connects community-oriented buildings with the ideal roofs and space to go solar with locals interested in participating in the transition to clean energy. Interested organizations with buildings well-positioned for solar energy “host” an installation. Individuals then buy a “Tile,” a $100 share of a community solar project that pays for a portion of the solar array. That buyer’s Tile is placed alongside Tiles purchased by others and installed on the given rooftop by contracted installers certified by the North American Board of Certified Energy Practitioners (NABCEP). The host and the buyers thus enter into a solar lease agreement, where buyers collectively own the installation and the organization pays to use the power the system produces on a monthly basis. The system lease lasts for 20 years, and hosts have the option to purchase the system after 10 years. The lease amount escalates by 3.5% each year, so with electricity rates predicted to rise 5-8% a year, the site host can save significantly by going solar.

At night and during peak hours of use, the building will be drawing electricity from the grid, and at other times the surplus electricity from the system will go back into the grid in which case others on the grid will receive a portion of that clean energy. Through the lease system, Tile buyers are paid back in full over a period of 5 to 15 years based on the revenue of their project. Additional revenue will go into a community solar revolving fund used to finance future strategic projects in communities with the greatest need.

Currently, buyers cannot make a profit due to government securities regulations, so Solar Mosaic has structured this first phase as a “non-financing model” through the use of zero interest-rate loans. However, in Phase 2 (set to launch in 2012) Solar Mosaic plans to take on the administrative and legal responsibility to back peer-to-peer investment and offer returns to investors.
Currently, Solar Mosaic takes a developer fee from installers and a small percentage of lease revenue to cover administrative and management costs for the duration of the project. By negotiating lower costs with installers and ensuring capital efficiency they are able to provide services without adding to the overall cost of the projects. They also charge a developers fee of 10-15% of project financing for projects crowdfunded through their platform, as well as a long-term residual income from projects they develop and manage. For projects they host for other solar developers or entrepreneurs—which can include local community members—they take a smaller developers fee (7% of project financing) and an annual fee for accounting and investor payout. They have also established agreements with all their installers to get a referral fee for Tile purchasers that contract with them to install a system on their home. After registration with the SEC, Solar Mosaic’s revenue will come primarily from charging solar project owners a 5% closing fee and investors a 1.5% servicing fee. From this model, Solar Mosaic projects an operating profit of approximately $1.5M in 2014.

CASE STUDY
Solar Mosaic’s first projects are currently under development in Oakland, California. Solar Mosaic is selling 5,000 tiles at $100 each to piece together solar installments at seven schools, youth centers and houses of worship. An anonymous donor has provided a generous grant that will match each tile sale for the project. A team of Oakland workers will be trained and hired to install the panels, creating an estimated 2,240 green job hours. Once the solar arrays are installed and running, participating buildings will purchase the electricity, and proceeds will pay back community sponsors over an estimated 8-year period. At the time this report was written, the project had not yet launched, but Solar Mosaic had raised $265,000 from 65 investors.

Each Tile purchased will install over 50 watts of solar power capacity, and rooftops participating in the program will support an average of 20 kilowatts each for a total of 140 kilowatts. Each Tile purchased will keep a ton of coal in the ground, and solar energy from the entire Oakland project will keep 4.6 million pounds of coal from being burned. One Tile will also save the organization approximately $125 on their utility bills. Ultimately, each Tile will generate energy savings of at least $50,000 per mosaic tile over two decades. Proceeds from each Tile will purchase approximately another $150 of solar through the Community Revolving Fund.
OBSTACLES
Currently, the most significant obstacles are SEC regulations, which restrict non-accredited investors from being able to invest in securities. As mentioned before, they have addressed this by structuring the lease as a zero interest loan, which limits access to only those who can give up a financial return. However, it is worth noting that the Kiva model, which has distributed over $200 million in loans, similarly does not provide its lenders with any interest. Ultimately, though, Solar Mosaic seeks to make it so that they can offer returns to investors, and is working with organizations like Prosper that have already successfully navigated the legal landscape of peer to peer lending.

FUTURE
The platform is highly scalable, with the capacity to support hundreds of thousands of funders and sites across a range of project sizes and locations. Solar Mosaic envisions that their platform would be used globally, leading the way for what they call Energy 2.0 - a clean energy economy that is community controlled and owned.
IBEKA builds and supports community-owned and operated micro hydroplants in rural Indonesian villages. Since its inception in 1992, IBEKA has built mini and micro hydroplants in over 50 sites in Indonesia. These hydroplants provide a sustainable source of electricity and profit for the villages in which they are placed. The community-based system ensures broad participation, increases capacity, and maintains project and environmental sustainability through community ownership.

HISTORY

There are currently over 32,000 villages and more than a million people in Indonesia without access to electricity. Furthermore, Indonesia is experiencing an electricity crisis, as demand for electricity is far outpacing the supply. To increase access to electricity in rural areas, the government has subsidized fossil fuels, an environmentally unsustainable model.

Indonesia has the potential for 75,000 megawatts in hydropower, but only 10% of this potential is currently met through mini and micro hydro plants. While micro hydropower plants existed in rural communities, they were collapsing as soon as the state-owned and subsidized electricity company, PLN, entered the market. Under such competition, it was impossible for local plants to attract private investment.

Tri Mumpuni, an Indonesian activist and the founder of IBEKA, sought to address this. She lobbied tirelessly with three successive energy ministers to allow small electricity producers to sell back into the grid. She achieved success in 1999, and through IBEKA developed small hydro projects in a community cooperative model. Mumpuni’s lobbying efforts have also resulted in a government regulation mandating the state-owned utility to buy all small-scale power as well as all medium-voltage co-generated (combined heat and electricity) power.
Mumpuni believes that the key to successfully bringing about rural electrification is keeping the system community-based. **The sustainability of the project depends heavily upon community ownership of the system.** It allows the community to have equity in funding the system, make decisions for its design and operation, and develop rural programs from the generated revenue.

IBEKA creates electricity through two different types of plants:

a. Micro hydro, or off-the-grid systems are used to provide electricity directly to the community for lighting and agricultural processing.

b. Mini hydro plants are managed as a business enterprise, selling electricity to the national grid in addition to providing power for local consumption. Plants “borrow” water to generate electricity and then return it to the river, preventing any substantial disruption of the ecosystem. As trees help generate water, the hydro plants encourage communities to keep the catchment area heavily forested, thus promoting forest conservation in areas where these plants are built.

Throughout, IBEKA helps villages plan the funding of the system, organize construction and maintenance, establish good governance practices, and set prioritized beneficiaries for the generated revenue.

In 2010, IBEKA was able to increase the village electrification ratio up to 94% in the regions where they operate, and increase the capacity of installed plants to 8.077 MW.

**FINANCIAL INNOVATION**

The profit earned from mini hydro plants goes into a community endowment fund. The use of these funds is determined by community consensus—the model of which depends on traditional practices in each particular area. Funds are used primarily to send poor students to school; provide free healthcare services for the community; provide seed capital for other income-generating activities in the community; and improve local infrastructure.

Rural enterprises are funded either through loans or grants, which IBEKA has successfully leveraged from a number of governmental, corporate and foundation resources. IBEKA also facilitates community-private partnerships, which fund projects through grants, loans, or equity. Some projects are co-owned with private investors (though still majority community-owned), while others have become fully owned by the community.
FUNDING CASE STUDIES
In Cinta Mekar, IBEKA piloted the public-private partnership model by bringing together the community of Cinta Mekar and a local business partner. After the system was built, the community began to receive a gross monthly income of approximately US$3,300 (a significant number in a country where the monthly minimum wage is approximately $105 a month). This revenue was divided equally with the business partner after deducting for the cost of system operation and maintenance. The remaining funds were then used for scholarships, an emergency health fund, a health facility, and seed money for farmers.

OBSTACLES
Various legal and financial barriers still exist in the government. Mumpuni is currently lobbying various ministries to eliminate these barriers and establish a public rural electricity financial institution to assist in spreading the model.

FUTURE
IBEKA plans to substantially increase the number of plants they are developing. Within the next five years they plan to provide at least 200,000 people with electricity.
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OVERVIEW

Nuestras Huellas is a non-profit organization working in the barrios of Buenos Aires to form community banks and provide entrepreneur training and development under a solidarity finance rubric. Since its foundation in 2002, Nuestras Huellas has provided over 1,000 entrepreneurs with credit—at a 98% repayment rate—and developed over 120 community banks. As of March 2011, the collective savings in all its community banks totaled $125,000 USD.

HISTORY

Nuestras Huellas was started in June of 2002 with the intention of improving the quality of life in the poorest sectors of the Greater Buenos Aires region. In response to the financial crisis of 2001, Nuestras Huellas began working with children, urban agriculture, and microcredit. After learning about community banks, they spoke to their entrepreneurs about switching to the community bank model. They found this model responded more comprehensively than traditional microfinance to the needs of entrepreneurs, and incorporated self-governance in management and finance. The switch to community banking made was made in 2007. In 2008, the General Assembly of Nuestras Huellas made the decision to focus solely on micro-credit through community banking, with the logic and values of the solidarity economy.
**STRUCTURE AND FINANCIAL INNOVATION**

The primary activity of Nuestras Huellas is to facilitate the formation of community banks. A community bank is a self-managed neighborhood organization composed of at least seven people, usually women, who have received a loan from Nuestras Huellas. Nuestras Huellas provides a line of credit to these women for entrepreneurial or housing needs, at a rate of 5% monthly. 3% of this goes to pay overhead costs, and 2% goes to training and technical assistance. Loan cycles begin at 750 pesos (roughly $188 USD) and increase in amount and length of time as the entrepreneur progresses through each cycle. If a bank member defaults on her loan, all members are responsible for repaying it. This provides an extra level of accountability and support for each member, ensuring that the entire community is invested in their success.

Nuestras Huellas also provides substantial training in governance and management. The bank members democratically elect their board of directors, president, treasurer and secretary. These positions are rotating. Members also draw up their own rules regarding credit policies, the rights and obligations of members, meeting structure and bank values.

Once the bank is established, women place the profits from their businesses into a collective savings account. These savings are then lent out to other entrepreneurs, family members, or neighbors in the barrio. Loans are provided for a variety of needs, including, but not limited to, entrepreneurship and housing. With the support of Nuestras Huellas staff, bank members collectively determine who to lend to, the loan amount, length of the loan and interest rate. Loans typically range from $70 and $240 USD over 2-8 weeks at a rate of 5-7% monthly. Because the length of loans is usually so short, capital can be recuperated quickly if a bank member needs to withdraw her savings. Additionally, the return rate is much higher than the national rate of inflation, and is the highest return on savings provided by any bank in Argentina. These funds are also not subject to transaction costs.

All of these factors ensure substantial savings for bank members as well as a strong pool of capital for lending. Because the entire community benefits from the bank, there is tremendous social pressure not to misuse funds or default on loan repayments, thus mitigating any moral hazard. Ultimately, this model allows community members to directly respond to the needs of their own community, with capital from the community itself.

For the more advanced banks and entrepreneurs, Nuestras Huellas established solidarity groups and the complementary account program. Solidarity groups are made up of three to five entrepreneurs and community bank members whose businesses are already strong, and who need a loan above $1,000 pesos (roughly $250 USD). These members receive additional credit at 0.5% monthly. Credit is awarded on a sliding scale from $1,000 ($250 USD) to $10,000 (roughly $2,500 USD). This credit can only be used for construction and refurbishment, buying fixed assets, publicity, and establishing the legal status of the business.

For community banks in their fourth cycle of operation, the complementary account program provides additional capital for the banks’ savings account. This enables the bank to provide more capital to neighbors and community members that are not members of the community bank. Banks with a complementary account receive up to 50% of the savings generated in their last loan cycle with 2.5% interest monthly. The interest must be settled each month, and the principal returned at the end of the cycle. Each community bank also has a line of credit within their savings account that they provide to community members at 0% interest for emergency situations, such as medical emergencies or death.
Throughout, Nuestras Huellas provides loan recipients with training workshops on market strategies, business accounting, the role of women in the family, active participation in the community, and more. Workshops bring community members together in a way that solidifies the business community and allows owners to articulate strategies regarding production, commercialization and consumption.

Entrepreneurs and community banks are also supported through several solidarity and social economy networks including La Red Tekufen, La Red Comunitaria de Los Troncos, El Espacio Nacional de Economía Social y Solidaria (ENESS), and Saberes Colectivos. These networks provide shared resources, best practices and funds to ensure the effectiveness of solidarity finance microenterprise as a key component of inclusive social and economic development.

The ultimate goal is that each community bank becomes autonomous and is able to support the financial needs and growth of their community. Therefore, Nuestras Huellas decreases their involvement over time as each bank moves towards independence.

**FUNDING CASE STUDY**

The community bank “La Neyer” in Barrio La Cava outside of Buenos Aires was formed when Nuestras Huellas loaned 7 women a total of $2,616 pesos (roughly $654 USD). The women used the loan to develop their microenterprises, which included selling diapers and clothing through a catalog, providing sewing and pastry services, running a store, and selling handmade leather goods. This loan represented the first loan cycle, to be paid back over a period of three months. The women made payments in 6 installments, every two weeks. During this three-month period, the entrepreneurs placed a total savings of $349.50 pesos (roughly $87 USD) in their internal savings account.

Three years later, the bank is in its 9th loan cycle. There are now 12 members receiving loans from Nuestras Huellas, and thus 12 total bank members. Most recently Nuestras Huellas provided the bank with a loan of $22,500 pesos ($5,625 USD) to divide among their 12 members, to be repaid over four months. They also provided La Neyer with a complementary account of $4,700 pesos to increase their savings fund. The bank now has over $10,000 pesos (roughly $1,175 USD) in savings that they have lent to themselves, their families, and other neighbors in the barrio.

**OBSTACLES**

Currently, the community banks and the savings they hold are not recognized within the formal banking system due to legal restrictions. Because of this, there is no guarantee on the credits Nuestras Huellas provides. Nuestras Huellas is looking into ways to address these issues so that they can broaden opportunities for outside investors to engage in their work.

Also, as the program becomes more successful, more women are participating in the program and the amount placed in savings is increasingly tremendously. While this is a good problem to have, it makes things more complex – decision-making can be much more arduous in a bank collectively run by 25 people. Increased demand for community banks also means there is an increased need for loan capital and additional staff time, both of which are hard to come by given limited funds.
FUTURE

The ultimate goal of the organization is that each bank reaches the point where they can sustainably generate capital and provide loans without the aid of Nuestras Huellas. To this end, Nuestras Huellas focusing on expanding and strengthening community bank branches, training programs and client businesses.

To further strengthen current banks branches, Nuestras Huellas is working to:

• Develop a series of internal controls to track the use and management of credit funds
• Develop a monitor and evaluation system of bank coordinators and regional managers
• Expand the complementary account fund system

To build the capacity of bank members and expand the community banking model, Nuestras Huellas is additionally working to:

• Develop and strengthen long and short-term training modules and manuals for community bank members, coordinators, and regional bank managers
• Provide training and technical assistance to other civil society organizations interested in adopting the community banking model.

Lastly, to strengthen demand for their network of entrepreneurs, Nuestras Huellas is working to:

• Strengthen the existing local buyer network (Red do Consumo Barrial)
• Create two new local buyer networks and three neighborhood markets in collaboration with bank branches and other local businesses
• Select about 100 participating entrepreneurs each year to participate in two regional economic solidarity trade fairs
• Organize working groups comprised of entrepreneurs participating in the markets, trade fairs and neighborhood networks to design marketing strategies and disseminate information through local media.
WHAT: WASTE CAPITAL PARTNERS, LLC

WHERE: INDIA

CONTACT: PARAG GUPTA, PARAG@WASTECAPITALPARTNERS.COM

OVERVIEW

Founded in May 2010, Waste Capital Partners finances waste management cooperatives, enabling them to get municipal contracts and purchase equipment. Waste Capital Partners works with its nonprofit partner, Waste Venture Charities, which creates and incubates environmental service cooperatives owned and operated by waste pickers and provides them with an environmental blueprint to process the waste. Cooperatives then sell compost, recyclables, and carbon emissions, earning them a profit over four times the status quo. Each rag picker group that adopts their open-source methodology will offset the equivalent of 7,000 tons of CO2 per year. Return expectations are set such that investors, entrepreneurs, and the co-ops themselves will earn over 20% through the projects developed.

HISTORY

In many developing cities globally, the increase in population and consumption is causing landfill greenhouse gas emissions to increase by over 65% from 2010 to 2050. In India, over 40% of the 120,000 tons per day of urban waste is left uncollected. Waste that is collected is simply dumped instead of being fully processed, with the potential to generate over $2B in revenue. In India, the only processing is done by the nation’s 1.8 million waste pickers, who make less than $2 a day and suffer a life expectancy of 20 years less than the national average from collecting and selling recyclable scraps. 15% to 40% of these waste pickers are children. Furthermore, irregular income creates a reliance on scrap dealers for cash flow and credit at usurious interest rates. Despite all of this, it is estimated that the global market of integrated solid waste management (SWM) is approximately $135B.
Founder Parag Gupta ran the Schwab Foundation in India, where he saw the tremendous need for providing economic opportunity for waste pickers. He began Waste Venture Charities to help move waste pickers to a position of corporate ownership and economic sustainability.

Despite the success of Waste Venture Charities and related NGOs, waste pickers and their supporting NGOs have cited a strong need for investment capital to purchase infrastructure and compete against other contractors. Without access to capital, cooperatives cannot manage their operations or grow their businesses. There is also a lack of capacity-building sufficient to help workers make the transition from just picking trash to running large scale, complex operations. Waste Capital Partners was founded in an effort to meet these needs.

**STRUCTURE**

Waste Venture Charities creates and develops waste picker cooperatives. Waste pickers collect waste for a fee from each household, and then sort the waste into recyclables to be sold and organic waste to be made into compost. Waste Ventures Charities provides the technical assistance to build the waste picker corporation, provides project financing, and helps distribute compost in larger markets at scale.

Profits are quadrupled as cooperatives sell compost and recyclables rather than relying solely on government tipping or service fees. This market-based revenue also mitigates the risks associated with government payment while saving municipalities considerable resources. Waste picker groups are eventually transformed into cooperatives, with corporate entities able to access capital and bid on municipal contracts for integrated solid waste management services. In order to ensure this transition, Waste Capital Partners provides for cooperatives’ capital costs and infrastructure needs through quasi-equity investment or the leasing of equipment.

Waste Capital Partners also provides access to carbon markets through bundling projects with the UNFCC. Given the volatility of the carbon markets, WCP ensures that the cooperatives’ income is not dependent on these credits for income. These credits are provided only as an additional source of income if the cooperative chooses. If a cooperative chooses to sell credits, Waste Capital Partners manages the registration, sources the buyers of credits and ensures validation and verification is complete, and provides waste picker corporations with the possibility to monetize carbon credits for their work.

Waste Venture Charities and Waste Capital Partners estimate that this model will triple and stabilize waste picker wages, increase their life expectancy by 25% through the use of protective gear, avert 70% of garbage from dumpsites through composting and recycling, and reduce 63 tons of CO2 a year for each waste picker employed.
FINANCIAL INNOVATION

Waste Capital Partners raises convertible and non-convertible project debt at 5% APR paid quarterly to investors, with a year's grace period. Debt is then bundled with oversight and management to create local assets that can be operated by the waste pickers at an equivalent 9% APR. This interest is collected monthly to cover the cost of due diligence and disbursement, and also has a one-year grace period.

Waste Capital Partners operates on two models with the waste picker corporations: quasi-equity financing in exchange for a share of revenues; and by establishing service contracts and a service fee for consulting with waste picker cooperatives. These service contracts provide cooperatives with management services and leased equipment at the cost of capital plus 75 bps per month. In addition, Waste Capital Partners charges a 4.5% revenue share on operations. To recuperate the costs of intermediating carbon credits, Waste Capital Partners receives a percentage share of carbon monetization revenues. By leveraging profits earned from investment, Waste Capital Partner will provide a commercial rate of return to investors and lenders.

FUNDING CASE STUDY

In the Bokaro Steel City, Waste Capital Partners worked with the organization Nidan to create a compost plant, one of the first public-private integrated waste projects in the city. The municipality provided the land, water, and electricity, and Nidan provided the capital for paying local employees and building a shed. Waste Venture Charities provided business and technical expertise.

Waste Venture Charities worked with Nidan Swachdhara Private Limited (NSPL), a collective enterprise of rag-pickers and sweepers, to advise them in creating the compost plant and negotiating contracts. This included a) designing the schematics of a compost plant, b) reviewing and interviewing to hire a compost site manager, c) conducting market research for the sale of compost, d) project managing the build-out of the compost site, and e) training the workers to conduct aerobic composting.

The project has been extremely successful. The plant has been in operation since the beginning of 2011, composting 15 tons of material per month. By the end of 2011 they will be composting 150 tons a month. The municipality recently expanded Nidan's contract from 40% to 100% of the city. 250 waste pickers were employed, doubling their income formally received from just selling recyclables. From only composting 5% of Bokaro’s total organic waste, the plant prevents the equivalent of about 120 tons of CO2 from being released each year. With an operating margin of 33%, the project is set to break even at the end of 2011.

OBSTACLES

The project faces several obstacles. Garbage in India is currently a government concession and endemic with corruption. Waste Capital Partners seeks to mitigate these obstacles by networking to work with progressive public officials, and by making the system even more market-based with little government payment.

Reaching critical mass also requires an ambitious scale. To reach this point, they are partnering with many existing groups to increase efficiency and effectiveness.

Lastly, the Kyoto Protocol ends in 2012, thus potentially eliminating the carbon credit program. Fortunately, while carbon credits increase profitability, they are not necessary to the success of the model.
FUTURE

Waste Capital Partners expects to work with 7 waste cooperatives this year. The 30 waste picker companies they aim to build in the next three years will be reducing 210,000 tons of carbon each year. At scale, a solid waste management sector adopting their model would reduce greenhouse gases from landfills by over 25%, or 200 million tons of CO2 equivalent. Ultimately, their mission is to channel $60 million in the next 5 years to help waste picker groups access the resources they require to achieve growth and profitability in conducting integrated solid waste management in developing world cities, producing market rate returns. In so doing, they hope to set an example that draws in other investors and catalyzes $1.5 billion in capital over the next 15 years.
OVERVIEW

Yansa Group is a hybrid organization that partner with communities that want to make use of wind energy as a means to building sustainable, equitable and participatory local economies.

BACKGROUND AND MISSION

The transition to renewable energy is already well underway. National policies promote it, and banks and investment funds are increasing their share of assets in this sector.

Territories rich in renewable energy sources are the “clean energy fields” of the future. They are often inhabited by historically disadvantaged communities, such as indigenous peoples displaced by violence to areas with strong wind & solar radiation. Given the cost-competitiveness of wind energy, regions endowed with a high-quality wind resource are particularly sought after.

As a result, the rights of indigenous and peasant communities are starting to be compromised by the development and operation of commercial wind energy projects. The race to establish control over areas rich in renewable resources is leading in some regions to exploitation, displacement and territorial conflicts.

Conflicts stem from the unequal allocation of three critical components of wind energy production: capital, technology, and territorial rights. The best territories for wind farm development often belong to indigenous, peasant and fisherfolk communities, but only large energy companies have the financial and technological means to develop large-scale projects. Communities also lack of access to sufficient information: most often, they have no sense of the value of wind and of the strong
impact of utility-scale wind farms in the territory. These deficits, combined with the absence of adequate national legislation, create a very unbalanced relationship between communities and companies.

Consequently, large energy companies most often obtain rights over community land in return for minimal compensation. Driven by need, communities are prone to sign contracts that contain exploitative terms and have long-term implications that they do not fully understand, such as the loss of territorial control. This model produces social tension and local resistance against wind farms.

The Isthmus of Tehuantepec, in Oaxaca, Mexico, is a good example of this situation. This indigenous region, inhabited by five different cultures, has the best wind resource in Mexico. The Mexican utility CFE is purchasing wind power in the Isthmus for an average price that is less than half the average cost of thermo-electric power generation in Mexico, and lower-cost than nuclear power. According to a study undertaken in 2003, “Using a conservative assumption of 5 MW per km2, this windy land could support approximately 33,000 MW of potential installed capacity.” Combining all generation technologies, Mexico has less than 55,000 MW of installed capacity. Wind in the Isthmus is therefore a key resource for Mexico’s transition to a green economy.

However, local opposition is a key obstacle to the use of this low-cost clean energy source. Wind farms face growing resistance from local indigenous communities, since typical wind farm projects imply a significant erosion of their territorial rights in exchange for extremely low compensation. Most projects that comprise the 2,500 MW of wind power planned to enter into operation in 2012 have been stopped or are seriously delayed due to widespread community unrest and protests. Growing risk and increased project and financing costs result in high uncertainty for traditional wind farm projects.

The situation is similar in other regions with good wind, all of which are inhabited by historically disadvantaged communities.

However, if the right measures are taken, the transition to renewable energy can constitute a historical opportunity for communities to build robust and sustainable economies, maintaining community control over their territories. For this to happen, communities require access to capital, technology and training in order to place their renewable resources at the service of their collective development and empowerment.

Yansa aims to demonstrate the effectiveness of a different wind energy model in Mexico, one in which the communities build a green and healthy economy through their direct involvement in the construction of a low-carbon energy system. This will transform community opposition into active support and promotion of wind farms, reduce the costs of the energy transition and accelerate the process, thus benefiting the environment and the economy of the country as a whole.

Many organizations work with communities in developing countries to implement local renewable energy projects, normally on a small scale. Most community renewable projects produce energy for self-supply in areas with no access to the grid. Other organizations have focused on improving the relationship between communities and big developers, but have only slightly changed the terms of engagement and have failed to allow local communities to be in control of their renewable energy resources.

Ultimately, Yansa seeks to have a major impact on the transition to renewable energy, in such a way that it leads to a more just and democratic energy sector, not just for a few wind farms, but as an alternative energy system for developing and emerging countries.
Yansa’s approach favors the direct transfer of knowledge and skills between communities, complemented by external experts. This training aims at empowering the community as a whole (not only its most trained and most often male members) to make collective decisions about their project. Over time, Yansa intends to build training centers in partnership with the communities that have already realized projects and are ready to share their knowledge with others.

FINANCIAL STRUCTURE AND INNOVATION

The community wind farms will be financed through debt, combining a subordinated loan provided on concessionary terms by an ad-hoc Special Purpose Vehicle set up by impact investors, and a senior bank loan. Yansa has chosen to use a debt mechanism to ensure community ownership over the project. The loans will be used to build the wind farm, which will have a guaranteed contract with the Mexican government to feed all the power produced into the national grid at fixed price. The price paid for the electricity will be a competitive price at the time it is fixed. It will not be subsidized, in order to make community wind farms resilient and attractive to utilities, and to reduce political risk that would be associated with a business model dependent on subsidies.

Because they work with vulnerable communities, the Yansa Group sees risk-minimization as an ethical imperative. Therefore, they will only start projects on the basis of sold contractual arrangements with fixed prices. While speculative market-based contracts may possibly yield higher power prices and profit levels, they also carry higher risk, and thus Yansa will avoid them.

The social value created by the community wind farm is based on the difference between the project’s returns and the cost of financing. Projects will only take place if the rate of return produced by the wind farm is higher than the cost of financing. Project financing costs will be kept low due to two factors: low project risk (because of community ownership and of a long-term fixed-price power purchase contract) and concessional debt terms offered by impact investors.

The profit that remains each year after debt servicing will be divided on a 50% basis between the Yansa Group and the community. Once the loans are repaid, the investors will be out of the project.

The 50% of profits going to the community will be administered by a community trust devoted to strengthening the quality of life, economic opportunities and environmental sustainability of the community. In order to avoid creating a dependence on wind power rents, profits generated will be used to diversify the economy, undertake high-quality training programs and increase the self-reliance and resilience of the community. The investment will be focused on priority areas democratically defined by each community. Social value will be measured and verified.

The 50% of profits going to Yansa will be used to finance further projects under the same scheme in other communities. Renewable energy projects will, therefore, finance a broad framework of integral and sustainable community development that is partly based on solidarity and sharing between different communities. Yansa’s financial participation in future projects will be the part of the investment most exposed to risk. This will lower the risk profile of future investments and give us access to a wider scope of institutional investors interested in safe returns and high social and environmental quality.
STRUCTURE
The Yansa Group is composed of the Yansa Community Interest Company (Yansa CIC) and the Yansa Foundation. Each organization fulfills a different role.

As the technical arm of the Group, Yansa CIC plans the project and obtains all contracts required to secure project finance. It builds the wind farm and ensures a smooth and efficient management throughout its operational life.

The Yansa Foundation is a non-profit registered in the U.S. It supports the community throughout the process on aspects such as needs assessments, community visioning, democratic decision-making, project definition and planning, education, training, and guaranteeing a transparent and accountable use of funds.

FUNDING CASE STUDY
Yansa’s pilot project will take place in the indigenous Zapotec community of Ixtepec (Oaxaca), a large community with over 30,000 inhabitants, endowed with a very rich wind resource. The community maintains common ownership and management over their land and resources. The communal property status means that the community cannot use its land as collateral. It is therefore very difficult for them to obtain the magnitude of financing required to develop a wind farm.

The community of Ixtepec decided in 2008 that they wanted to build a community wind farm. They were looking for an appropriate project partner, and contacted Yansa, which has since then undertaken work on wind resource assessment, infrastructure / logistics, environmental permitting, and contract negotiation. Measurements at 20 and 40 meters show a very high-quality wind resource, now further measurements are required at 80 meters (hub height). If measurements at hub height confirm a good correlation of data at 20, 40 and 80 meters, the project could obtain a 20-year Power Purchase Agreement with the Mexican utility CFE, and start construction already in 2012 and production in 2013.

Key for the project is finalizing all the technical studies in time to participate in the next round of calls for tender that CFE will publish by the end of this year. For this, Yansa requires additional financing, which is difficult to obtain before the contract with CFE is secured.

FUTURE
Grupo Yansa ultimately seeks to prove the success of their model—large-scale sustainable community owned energy funded through low risk instruments that are palatable to investors. The Foundation proceeds from the first project will be used to develop new projects and will also serve as a guarantee on future projects. This will allow Grupo Yansa to work with conventional investors such as pension funds to raise additional funds.
Its been an honor to present the great work of these innovative social enterprises, which we hope clearly illustrate the incredible variety of community-centered approaches that allow communities to continue to grow and develop on their own terms with their own asset base, while providing investors with a sustainable financial and social return. Effective community leadership can ensure that projects are effectively meeting needs and achieving maximum impact. Community ownership can ensure that the community is invested in the long-term success and sustainability of the project. Both community leadership and ownership can help to develop skills that will allow groups further access to capital and necessary resources.

Overall, we believe that a collaborative community-centered approach to both impact investing and social enterprise can be key to moving disadvantaged communities out of poverty and into an active role as autonomous agents in the global economy. We welcome you to join us in developing this approach.
APPENDIX

Key Questions for Consideration:
Evaluating a Social Enterprise for Community Engagement

• How are communities involved in product/project development?

• How does the product/project develop a local long-term asset base for communities? How can the model be adjusted to ensure even more substantial long-term value for communities?
  o Are communities provided with any stake or equity in the business?

• How is the product/project cost determined?
  o How are the salaries of the social entrepreneur and team determined?
  o How is the wealth received by the social entrepreneur and investor tied to the wealth they have generated or will generate for the recipient communities?
  □ Consider: performance-based benefits, where the wealth received by the entrepreneur is based on her/his ability to generate value for the communities receiving her/his product.
  □ Consider: Tying margins to how much the community saves/generates/benefits.

• What is the cost-benefit to the recipient communities? Relative to the entrepreneur? Relative to the investor?

• What accountability mechanisms are in place to ensure that the business is in line with community needs? Are there representative community members on the Board of Directors, or Board of Trustees?

• What transparency mechanisms are in place? Is there a policy of open book management?