Impact Investing in Haiti: Transform Finance Report and Next Steps

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Introduction

Haiti has been battered by too many natural and human-made disasters, many of which have provoked a strong international response of support. However, most of these interventions, whether by philanthropy or foreign aid, have not achieved meaningful results.

Much like elsewhere, impact investing and social finance seem poised to make a positive contribution to the country’s reeling economy. Yet Haitians are justly wary of one more external intervention, even when it might hold some promise. Culture and historical accident make Haiti a particularly tricky context in which to operate.

It was with all this in mind that we welcomed an invitation by a group of Haitian activists and entrepreneurs to bring the work of Transform Finance to them. We overcame our general reluctance to engage in contexts that we don’t know well based on the strong support and tireless preparatory work of our Haitian collaborators, Isabelle Clérié, who ran a social business incubator in the country, and Patrick Dessources, who for years has led Root Capital’s efforts in the country.

After two years of conversations, and many postponed attempts due to political instability, we traveled to Haiti this past July for a powerful series of events. The purpose of this trip was three-fold. First, to first conduct a version of the Transform Finance Social Justice Institute for Haitian civil society organizations and social businesses to introduce them to impact investing and the potential for capital to contribute to their goals. Second, to determine the potential for creating an impact investment facility for Haiti’s civil society through input and guidance from various financial organizations and local partners. Lastly, to explore potential investable projects and entities to determine whether direct impact investments could be beneficial – and if so, on what terms and in what alignment with principles of social justice.

This brief report aims to document our experience and hopefully catalyze more opportunities for the impact investing community to support the Haitian people on their own terms.

Andrea Armeni
Executive Director
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Isabelle Clérié
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The Institute

Transform Finance has been very active in providing training and educational opportunities for communities, civil society, and social justice leaders seeking new ways to engage with capital. These range from trainings for activists on investor accountability to sessions with social entrepreneurs on how to bake their mission into the structure of an enterprise.

The Haitian reality provided an interesting challenge for the usual Transform Finance approach. In a context with so much need for economic growth and job creation, does every type of enterprise count as impact? And does it make sense to push the hard edge of transformative, non-extractive, community co-designed models when even just being an entrepreneur is as challenging as it is needed?

We refined our curriculum to focus on the fundamental local needs, as expressed by the partners, and the nexus between capital and the social outcome sought, how impact investors could be a welcome contributor, what that contribution could look like, and how to ensure that the capital achieves the planned impact and does not do more harm than good.

Our local partners recruited potential participants through significant outreach to ensure that different sectors of Haitian society were represented. We aimed for a mix of civil society organizations, for profit businesses, and nonprofits with revenue generating activities. Given our language limitations and the strong divide between Port-au-Prince and the rural parts of the country, we largely focused on entities based in or around Port-au-Prince, yet we were delighted to have attendees coming from other parts of the country. We initially planned for 15 participants but in total we had closer to 25. Attendees were primarily nonprofit community organizations, social businesses, and organizations that work with rural farmer associations.

We understood from our local partners that in these types of settings people are generally not very open and willing to share information about their impact strategies, businesses, and challenges. We were pleasantly surprised that this not the case– the workshops were full of
passionate and open discussions about the real challenges, as well as the aspirations for raising capital from donors and investors, with a willingness to try new things despite past failures.

The rhetoric we had heard about organizations and entrepreneurs becoming dependent on charitable handouts did not match, according to our local partners, the interest they witnessed in actually exploring productive processes and investments, on terms that were fair and adequate for the local situation. Grant support conversations centered on capacity building for entrepreneurs, with a dose of realism and a recognition that a lot of work remains to be done to get to readiness for receiving an investment.

In the context of discussing the need to redefine the power dynamics with investors, there was great interest in what one needs to know to structure an investment on terms that work for the enterprise, rather than just for the capital provider. We emphasized the importance of this point and cautioned against letting the investor’s needs determine the outcomes of the project. We delved into how alternative deal structures, such as revenue-based loans and demand dividends, can be especially apt for many of the productive processes discussed. Most of the participants reported having tried but failed to raise debt financing domestically, have not received any equity investment, and welcomed the prospect of alternative arrangements.

“Impact investing is a very new concept to me but it fits exactly with my work. I find the ideas of impact investing as presented at the Institute very liberating.”

Bobby Duval, Participant
Founder of Fondation l’Athléétique d’Haiti

“It was refreshing to hear such a thoughtful approach to how external capital could intersect with local needs and aspirations, truly lifting up the voices of Haitians.”

Patrick Dessources
Root Capital Haiti
An Impact Funding Facility for Haiti?

During our preliminary conversations we had heard mounting interest in the establishment of an impact fund that, while bringing in foreign capital, would be managed or controlled by Haitians for Haitians.

The need for a domestic fund emerged from three considerations.

1. **The lack of available growth capital, even for financially sustainable businesses**

In less than a year, Haitian commercial banks have increased interest rates for clients at least 5-6%. Banks have actively discouraged clients from making new investments and a good loan in this climate averages between 17-24%.

Microfinance institutions are largely involved in small commerce; very few finance agriculture, and none finance start-ups.

There is no flexible capital, and investment periods of usually 12 months are just too short for most enterprises.

Institutions funding small and medium enterprises employ a definition of SME that covers a tiny percentage of the business sector, with the result that most funding, from PADF to the IDB and Yunus Social Business, chases the same few enterprises, leaving all others behind.

2. **The disconnect between what projects need and what funders (both philanthropic and investors) are generally willing to pay for**

As a result, social businesses turn to aid dollars to increase their capacity and are then subject to exorbitant reporting requirements, restrictions on use of funds, and crippling delays in disbursements. Based on local dynamics, entrepreneurs have suffered from the frequent requirements to place funder logos on their goods: the visibility requirements of aid organizations convey to their workers and suppliers that they are getting “free money”, which
has led to decreased productivity, higher prices from suppliers, and lower willingness to pay from consumers.

Social businesses also get trapped in a donor-centered business model where they have to adapt their plans constantly to fit the requirements du jour. They also have to comply with parameters that suit the funder more than the business: multilateral institutions, for example, allow their investments to cover equipment but they provide a list of approved brands. Reliance on donor funding has also decreased the likelihood of getting bank loans, as the banks come to mistrust the capacity to absorb the loan, let alone pay it back.

3. The wariness around yet another form of wealth extraction and of external control over the economic affairs of the country

Haiti’s long history of independence stands in stark contrast with decades of foreign interference and meddling. Economic levers, especially foreign aid, have been used for political aims that led to broad skepticism of all outside economic support. There is a clear understanding that commercial investors would use their leverage to extract even more resources from the country, rather than creating local wealth. A consensus exists that capital would be most helpful if it created a cycle of wealth within the country, yet entrepreneurs have not found such capital so far.

There is a clear lack in general of well-known examples of successful financing interventions (even those that might have happened generally get buried in favor of more shocking stories of abuse and inefficiency). The authentic trust building element of any financial support effort in Haiti is crucial – and this is something that no outside institution can build overnight, or even in a few years.
The Opportunity Within the Challenge

These considerations, while daunting, also create a clear opportunity to support Haiti in a different way. Throughout all our meetings, the Transform Finance principles of community engagement, non-extractiveness, and fair allocation of risk and rewards were received as a potentially solid approach for a different type of investment facility.

Our discussions emphasized the need for Haitian leadership so as to ensure true community participation, dispel mistrust, and create local capacity to manage investment funds.

An investment facility that could reinvest domestically, rather than leaking the value outside the country, would be met enthusiastically. So would one where the type of capital provided is sensitive to the local needs and timelines. All this would come most easily from the deep engagement of all stakeholders, including the very entities that the fund would capitalize.

Based on the interest in these principles, we presented the broad outline of the Buen Vivir Fund being launched by IDEX/Thousand Currents, of which Transform Finance is the implementation partner. The Fund lends to grassroots enterprises in the Global South to advance grassroots-led economic innovations that build wealth, community power and well-being. The Fund promotes financial models and practices that support communities’ holistic well-being, as opposed to focusing solely on maximizing individuals’ capital accumulation. Rather than imposing terms and models designed by investors, the Buen Vivir Fund flips the traditional approach by identifying effective lending practices developed by grassroots groups themselves and applying these practices to the level of a global fund. In its pilot phase, the Buen Vivir Fund is bringing together a $1 million “founding circle” of 8 investors and 10 grassroots groups to co-design the terms and targets of the investments.

A co-designed fund rooted in social justice principles could be a tremendous resource for Haiti. Besides providing much needed capital on terms that make sense locally, it would go a long way toward restoring a sense of trust in the possibility that investors may after all have the country’s best interest at heart.

We expect to continue supporting the local leadership that is currently seeking to design such a fund for Haiti.
Understanding the Need

A constant refrain we heard is “Haiti needs everything” – which is true enough, and can have a crippling effect on deciding where to start.

Basics like reliable electricity are not a given, and many businesses rely on expensive generators. Road infrastructure has its limits, especially in rural areas, and access to markets is non-existent. These challenges to economic growth could benefit from meaningful investments but also constitute a barrier to investments.

Other limiting factors to economic growth are more structural. Haiti ranks 182nd in the World Bank’s Ease of Doing Business scale and 179th for access to credit. At a very practical level, we learned that a container can easily be stuck in customs from 1 to 12 months; that few companies keep accurate accounting books or are even properly incorporated; that even incorporating a business is a byzantine effort that can take 100 days and it costs a staggering 80 times, by proportion of income, what it costs in an OECD country.

Many of these challenges require the type of large scale intervention that is beyond the purview of private impact investment. Coupled with the currently feeble political situation and lack of clear leadership, we decided to focus on the more actionable area of enterprise capital.
The Greatest Addressable Need: Enterprise Capital and Capacity

We honed in on the most recurring themes for capital needs across the board:

- **Seed Capital** – Currently there are no institutions providing equity seed funding for new businesses and no external private (angel) capital is available for startups. Much like in other places, “friends and family” capital is limited to those who already come from privileged backgrounds and, if not sought carefully, it may place the risk of enterprise failure on those least able to bear it.

- **Growth Capital** – Established businesses that are ready for growth are not finding willing investors to provide mezzanine or growth capital. There is very limited M&A activity (and no public equities market) that would incentivize the provision of growth equity capital. Banks are extremely risk averse and the interest rates charged make bank loans largely unattainable, even against collateral.

- **Patient/Flexible/Concessionary Capital** – The capital currently available to social businesses is predominantly in grant form, which is limited and inconsistent. There are a few reduced rate loan products, such as the 8% loans provided by Yunus Social Business. Available loans are often secured against the assets of the individual, not the business. In either case, the investment period is rarely more than 12 months.

- **Ecosystem Investments** – Challenges such as management capacity and even basic support for incorporation have hindered enterprise launch and growth. The Ministry of Commerce and Industry has pushed for SME development with technical assistance and business plan development programs. There have even been a few financing mechanisms for SMEs. Access to these services, however, was uniformly described as “a total nightmare”. As such, there is an opportunity, beyond direct investments into enterprises, to invest more generally in the economic support ecosystem. Funding for collective impact initiatives, such as a co-working space with administrative services, could have a large impact on multiple projects at once.

- **Agriculture Financing** – Agriculture makes up over 20% of Haiti’s GDP and accounts for almost 40% of employment, and yet the financing entities working in the sector are doing so very timidly. Private banks don’t fund the agricultural sector, at least not unless the activity is being directed by a major player (often with foreign interests attached). Development institutions that work in agriculture do so through intermediaries, and the handful of microfinance institutions that work in agriculture, including Root Capital do not do direct to farmer financing.
Next Steps

We continue to work with our local partners in Haiti as we feel that we can make a meaningful contribution. For all the challenges that exist, it seems clear that even small interventions, if done properly, could have a meaningful catalytic effect, and ideally serve as a model for others who wish to follow.

We intend to support the continued learning around impact investing by the participants in the Institute. Many of them requested some one on one time with our partners on the ground to talk about their individual projects – both in order to access capital and to improve their understanding of how they can deepen their impact.

We are committed to supporting the creation of a locally-led impact investing fund. However, it seems unlikely that such an effort will be launched in short order. We remain in conversation with entities that are contemplating impact investing efforts for Haiti – and we socialized with them our concerns around interventions that do not center the needs and aspirations of the community and the crucial role of local leadership.
Appendix: Three Sample Enterprises

We highlight the following three enterprises, among the several that we visited and spent extensive time with, merely as examples of the variety of entities that could do remarkably well with an injection of capital on the right terms. We are not endorsing these businesses from either an impact or an investment diligence perspective.

Partenariat pour le Développement Locale

PDL is a community organization working to strengthen peasant associations in rural Haiti. PDL provides capacity building and technical assistance to these organizations and has long-standing relationships with farmer communities, having been around for almost 30 years. In the early 1990s PDL helped organize the farmers into member associations. PDL has supported over 24,000 people to organize into over 1,540 gwoupman, or solidarity groups of 10-15 people, across over 235 villages. They are organized into 17 inter-village peasant associations for locally led development. Each person contributes an equal amount at the start into a mutual loan fund. After a few loans, the members would invite new members to either put money into the fund or borrow from the fund. Such structures are entirely based on a system of reputation collateral and uses social influences to monitor the borrowers. The individual fund capacity averages about USD2,000, even though the need for the loans is much bigger. Members can request an average of USD50.00 to USD100.00 for a loan period of 6 months at 2.5% interest per month. PDL’s experience has been very positive, especially with women, who make up more than half of the microcredit clients and who have a 90%, or higher, rate of repayment.

For over a year PDL has been seeking financing to further develop the microcredit programs of the member associations. While it is important to PDL that the funds come directly from the community’s savings and be a capacity and agency building endeavor for and by the community, there are opportunities to support the availability of capital for the farmer groups through, for example, matching loans that would recirculate within the local system.

PDL’s unrelenting focus on community-driven processes and the support of the economic development on the farmers’ own terms is particularly aligned with the Transform Finance principles.
FECCANO (Cap Haitien)

FECCANO is a meta-cooperative of cacao cooperatives based in Cap Haitian with over one thousand members working across seven member co-ops. FECCANO executes contracts from international buyers on behalf of the members, who deposit the cacao and process it for shipment. FECCANO negotiates fair trade prices that include a “prim flo” allocated to social projects across the cooperatives through democratic decision making. Some of the more experienced co-ops have developed an internal credit system where the members have access to micro credit at favorable interest rates.

Given the demand for quality cacao and the local potential for cacao production, FECCANO can expand to include more members, even though it has a significant need for technical assistance to get the new member farmers trained up to FECCANO standards. One of the biggest challenges is accessing working capital to pay producers up front for their product. The administrative team is committed to giving cacao more value and improving the supply chain so that local producers could live off of it. Over the years FECCANO’s work has raised the bar for surrounding cacao co-ops and revalued cacao farming for many discouraged growers who could not find a good market for their cacao.

Fondation l’Athlétique d’Haïti (Cité Soleil)

FAH started out as a soccer program and evolved over 20 years to become a broader community-centered organization. FAH runs two schools with about 500 students and six sports centers around the country that work with over 1,000 children. The sports centers serve as after school programs for children that would otherwise have few places to go. Its primary activities are centered around the town of Cité Soleil, one of Haiti’s most dangerous neighborhoods with the highest propensity for gang violence. FAH’s activities have
demonstrated the potential to keep children from becoming gang members. Over the years FAH has been able to facilitate professional soccer contracts for many players, and they are very proud to say that most of the players in the Haitian national soccer team played with FAH as children.

The organization is testing an earned income model through a trash sorting project, which hires local youths, sells plastics, iron, and cardboard to local recyclers and composes the organic material for local sale. The demand is proven and, based on the interest by the local youths, FAH is seeking to expand this project. A move toward earned income would also allow FAH to grow its staff for the schools, which are currently under-resourced.