

# Knowledge Leader

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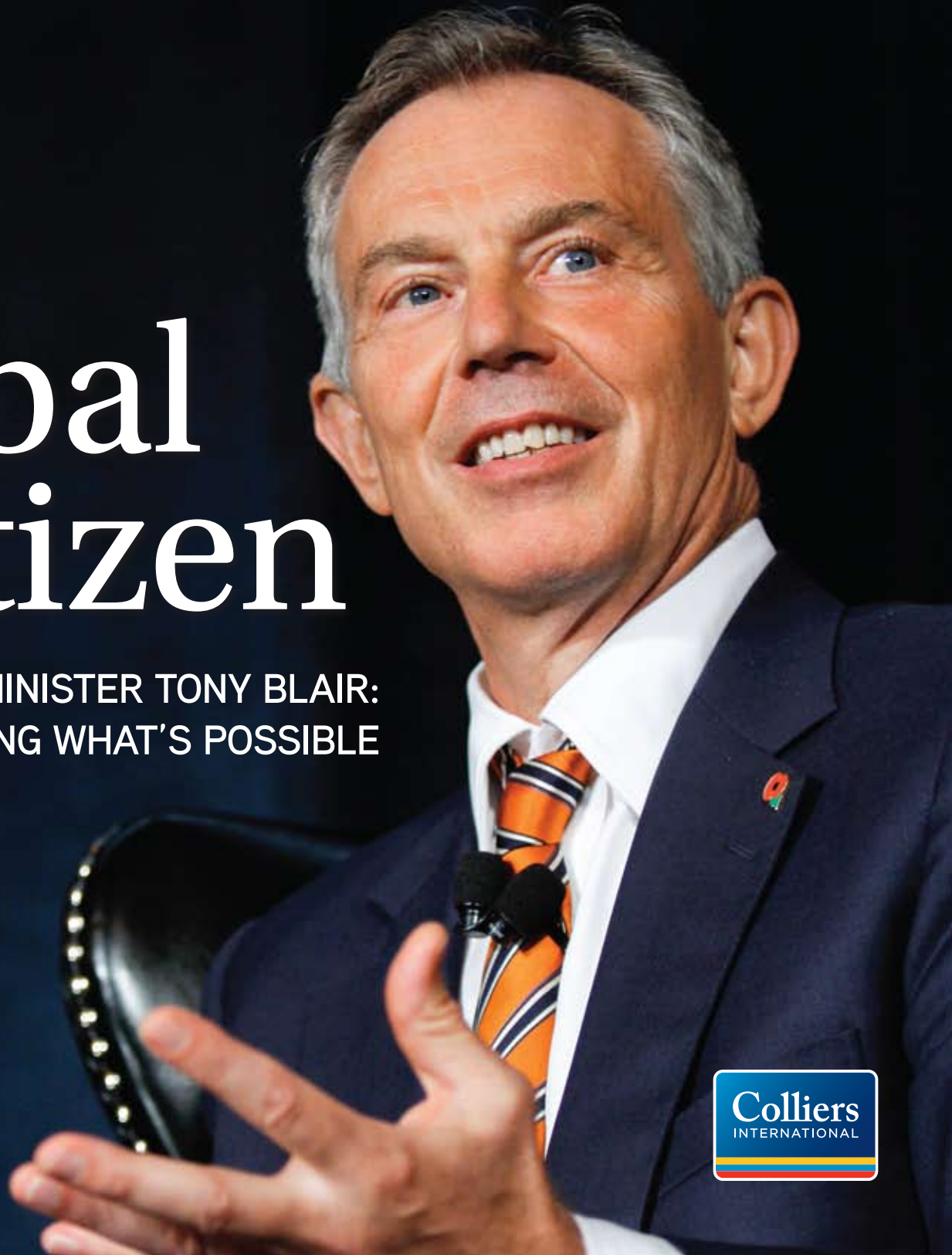
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# Global Citizen

FORMER PRIME MINISTER TONY BLAIR:  
SHOWING WHAT'S POSSIBLE



# Investing in Community

BUILD YOUR OWN NEST EGG WHILE CONTRIBUTING TO THE GROWTH OF AN IMPOVERISHED COMMUNITY OR DEVELOPING COUNTRY. BY JESSICA C. TRUPIN, MPA



Global Partnerships' Social Investment Fund 2010 provides loan capital to microfinance institutions that serve people living in poverty in Latin America.

**THEY ARE IMPOSING**-sounding terms with long histories and the potential for enormous human impact: Microcredit. Mission-related investing. Socially responsible investing (SRI). Microfinance institution (MFI).

Investment programs such as these have been around for centuries, with variations in virtually every culture: from the Irish Loan Fund begun in the 1700s by Jonathan Swift, to Cambodia's rotating savings and credit associations called *tontines* to West Africa's *likelemba*—a solidarity savings program through which members contribute to a savings “pot” which is then donated to one of the members.

In the 1970s, experiments in microcredit included small loans made primarily to women under the presumption that women were more likely to make loan payments. Those loans required extraordinarily high repayment rates—rates which bested the formal financial sectors in the same countries. International development agencies, governments and bankers took notice and in the mid-1990s, microcredit started to give way to microfinance, the provision of other financial services beyond simply credit to poor communities. As these organizations evolve, more of them are now also offering health care screenings, immunizations, business training and other services.

In 2010, the next evolution of microcredit was introduced when Seattle-based nonprofit Global Partnerships created the Social Investment Fund 2010, a \$20-million debt fund designed to provide loan capital to MFIs that serve people living in poverty in Latin America. In addition to supporting the work of economic and social development, the fund—the organization's fourth—is designed to provide a sustainable return to investors. What sets this fund apart is not just its strategy—to anchor and promote the growth of high-performing, socially focused MFIs that help impoverished people create livelihoods and improve their lives—but also its investors. Investors in Global Partnerships' funds—including development banks, foundations, academic institutions, faith-based nonprofits and accredited individual investors—share a commitment to earning a double bottom-line return: financial return *and* social return.



## Instead of just asking what their money can do for them, younger investors are asking what their money can do for others.

The Social Investment Fund 2010 is a prime example of *impact investments*. Impact investments are defined by Hope Consulting (a San Francisco-based strategy consulting firm focused on the social sector) as “investments that have an active social and/or environmental objective in addition to a financial objective.”

Hope Consulting’s Money for Good initiative found that there’s a \$120 billion market opportunity for impact investments, and much of that growth is coming from younger investors who have grown up with superior access to information, have had exposure to divestment campaigns on college campuses, and, in some cases, acquired sudden wealth from the technology boom of the late 90s. Instead of just asking what their money can do for them, younger investors are asking what their money can do for others.

But why would anyone choose to invest in a fund that promises, at the outset, not to maximize profits?


According to Michael Brown, Vice President of Community Leadership at the Seattle Foundation, the greater goal is impact. “We want our investment back, of course, and to see our return maximized. But a maximized return doesn’t necessarily need to be financial. Foundations manage significant assets and though we use those assets to support our grant-making, more foundations and donors are recognizing that there are other ways to utilize their assets to achieve greater impact.”

Global Partnerships has spent the past decade and a half focused on expanding opportunities for individuals living in poverty through partnerships with high-performing, socially focused, microfinance institutions. Their 24 partners—local, on-the-ground nonprofits in impoverished communities—serve close to 850,000 borrowers throughout seven countries in Latin America. Its focus on both financial and social impact makes its funds an appealing choice for investors who want to realize investment return and work for the betterment of society. By seeking MFIs that provide their clients with

not just financial services, but also social services such as health care and financial education, Global Partnerships is able to ensure a healthy flow of capital into those communities, as well as a sustainable flow of profits to their investors.

SRI uses three basic investment strategies: negative screening, shareholder advocacy and community investment or microfinance. Negative screening is when, for example, an investor chooses to avoid any investment in tobacco companies.

The second method, shareholder advocacy, is more powerful, according to Johann Klaassen, Ph.D., Vice President of Managed Account Solutions at First Affirmative Financial Network, a registered investment advisory firm based in Colorado Springs, Colo., that provides consulting and investment management services nationwide. Klaassen is an expert on socially responsible investing and explains that, with shareholder advocacy: “We can use our ownership stake to take the issues that matter most to us before corporate leadership in private meetings, or before the world in proxy filings. Shareholder advocates have made great strides in recent years, and have caused many corporations to make fundamental changes in the way they do business—changes for the better.” As for the third strategy—community investment—Klaassen says that is the most powerful of all three, and “reaches directly to where people live.”

This tactic has certainly paid dividends in the case of Lucia Tarqui, a Bolivian microentrepreneur who is one of Global Partnerships’ success stories. The microloans and other support Lucia received from Global Partnerships’ nonprofit partner Pro Mujer was enough to allow her to build her piggybank-making business, which allowed her to buy a car, which allowed her to expand her business and keep her four young daughters in school. Multiply this story by hundreds of thousands, add in a repayment rate of 98 percent and you begin to see the tremendous human impact of Global Partnerships’ capital. 



Bolivian Lucia Tarqui (top) received microloans which allowed her to build her piggybank-making business and keep her daughters in school.