

## Root Capital's Role in Mitigating Climate Change

### **The Impact of Climate Change on the Developing World**

**Oxford, England, April 30, 2008—Al Gore spoke at the Skoll World Forum in Oxford, England last month.** Many of us had already seen the dramatic visual evidence of climate change in “An Inconvenient Truth.” But we were not prepared for the Nobel laureate’s stunning update on the rate at which the Arctic polar ice cap is receding.

In late spring 2007, the polar ice cap was approximately the size of the 48 contiguous states less the area of Arizona. During the course of summer 2007, a huge chunk of the ice cap—roughly the size of one-third of the United States—melted. In the words of Arctic climatologist Dr. Konrad Steffens, it “fell of a cliff.” The former Vice President suggested that at this rate of melting, the polar ice cap could disappear within five years!

While people in the developed world are by far the largest contributors to CO<sub>2</sub> emissions, the poorest people in developing nations endure the greatest hardship from global warming. Tearfund, a UK-based international development agency, reports in “Climate of Disaster” that 98% of the 443,000 people killed and 2.5 billion people affected by weather-related incidents in the past 10 years live in developing countries.<sup>1</sup>

As 70% of the 2.7 billion people surviving on \$2 a day are in rural areas, largely dependent on agriculture, changes in weather patterns have significant consequences on their livelihoods. With the accelerating disappearance of the polar ice cap, however, Gore underlined at the Skoll World Forum that now CO<sub>2</sub> reduction is a matter of survival for us all. He exhorted every one of us to pursue what he calls a “unified earth theory” -- the partnering of the developed *and* developing worlds to create transformative change to reduce CO<sub>2</sub>. In this context, those primarily concerned with poverty need not view the climate crisis as a competitor for precious financial resources and public attention, but rather as an opportunity to unify social change efforts in a coordinated movement that shifts the world to a low carbon sustainable economy.

### **What We're Doing**

In the context of Gore’s urgent message, Root Capital’s work to connect rural communities in the developing world to viable markets in consumer countries takes on new meaning. In many ways, we are about equipping poor rural inhabitants with the resources to adapt to climate change. The increased income generation resulting from access to financial services and business training enables our clients to pursue strategies ranging from diversifying their incomes to investing in water-efficient infrastructure.

Root Capital’s model also supports viable income-generating alternatives to deforestation -- shown to contribute globally to approximately 20% of annual greenhouse gas emissions. This happens through our proactive screening of businesses whose sustainable agricultural practices are certified, thereby guaranteeing a minimum threshold of forest cover in their productive areas. In fact, groups we have

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<sup>1</sup> “Climate of Disaster,” Tearfund, 2007.

financed for several years often go above and beyond the minimum threshold by, for example, creating protected reserves and planting additional shade cover. Hence, the protection and preservation of forest in and around their productive areas is not only aligned with their income generation goals, but also with the larger goal of climate change mitigation.

We at Root Capital emerged from the Skoll World Forum with even more conviction that we need to bring our solution to scale – not only for the benefit of hard-working families and rural communities in the developing world, but for the global community as well.

Creating economic incentives for sustainable livelihoods in developing countries is a necessary part of the solution to climate change. Root Capital's financing enables grassroots businesses to access specialty markets where consumers are willing to pay a premium for products that reflect their social and environmental values. From encouraging sustainable production to preventing deforestation, the two case studies below highlight how Root Capital's borrowers are employing climate change mitigation strategies while simultaneously providing enhanced economic opportunity for their members.

### **Sustainable Production and Reforestation in Latin America**

The Cooperativa Agraria Cafetalera Pangoa (Pangoa) in Peru's central region of Junín exemplifies the process by which a rural grassroots business moves towards increased environmental sustainability through a combination of its own initiative and market incentives. Since 2000, Pangoa has obtained organic certification and organic production now comprises more than half of the coffee production of its 591 members on their 2,173 hectares of land. The number of members with organic production has doubled over the past three years as farmers recognize that environmentally sustainable practices are in their family's long-term interests and, through premium prices for organic coffee, are able to invest in organic conversion.

Many of Pangoa's members are nearing retirement yet have minimal savings and cannot expect support from the government. At the same time, the region faces a severe deforestation problem. Pangoa has developed an innovative "retirement plan" to address both problems simultaneously by encouraging each member to plant 2,400 trees (1,200 for each spouse). The saplings, which cost 50 centavos each (approximately \$0.15) can be harvested in 10 years, at which time they will generate enough revenue to provide an income for the retired couple that planted them. Implementing this program across Pangoa's 590 members would yield over one million new trees.

### **Prevention of Deforestation in Africa**

Root Capital's loan to the Savannah Fruit Company (SFC) in Ghana finances the purchases and processing of shea nuts. Shea is the most numerous of a group of native tree species that grow across the semi-arid Sahel and provide a crucial natural barrier to the southward expansion of the Sahara desert. Shea is traditionally collected and processed into butter by women, and the prevailing cultural practice has been that women receive and control the income from shea sales. SFC was formed in 2006 as a mission-driven business with a goal of creating more direct commercial links between village-level groups of shea butter producers and global cosmetic ingredient markets. The company works in close partnership with the cooperatives of women nut collectors/ processors from which it sources shea butter, paying premium prices and providing quality training and organizational development assistance through a contract with the Dutch rural development organization SNV. Since 80% of Africa's shea exports are currently sold as raw nuts to large industrial processors in Europe for use as a food ingredient, value-added export of traditionally-processed shea butter through companies like SFC provides economic incentives for slowing the southern creep of desertification and preserving fragile habitats in one of West Africa's most impoverished regions.