

RSF quarterly

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Photo courtesy PACT Apparel

「Is there commonwealth
in ecology?」

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HAS BEEN FANTASTIC—
KEEP REFERRALS COMING

INVESTING, LENDING, AND GIVING | INSPIRED BY THE WORK OF RUDOLF STEINER

 FOOD & AGRICULTURE

 EDUCATION & THE ARTS

 ECOLOGICAL STEWARDSHIP



LETTER FROM DON

In Stewardship, Reverence and Respect for Our Gifts

Dear Friends,

Here in Northern California, the drought has highlighted the challenging realities of climate and environment. The timely theme of this Quarterly is Ecological Stewardship, one of our most complicated focus areas. It is complicated because from a certain perspective, ecology includes everything. However, we have tended to look for those projects that recognize the limits of natural resources and are working toward zero waste and innovative upcycling and recycling. So much the better if they are also creating jobs, community, and educational opportunities.

The second part of the focus area name is also significant for us. As I am learning from watching my children grow, the job of parenting is not about directing. Rather, it involves protecting, encouraging, recognizing, and enjoying. These are all essential elements of stewardship. Just as we receive our

children as gifts, so too we should recognize that our human and natural resources come to us as gifts—and are not to be treated as commodities. It is this quality of reverence and respect that we look for in our ecological stewardship projects, and we see it in the work of our partners and colleagues in their impact investing, lending, and giving activities.

Please enjoy this issue and the summer season that comes with it. ☺

Best,

Don Shaffer,
President & CEO

2014 ECOLOGICAL STEWARDSHIP HIGHLIGHTS*

Number of Grants: 102

Grants in Dollars: \$1.3 million

Percentage of Total Grantmaking: 13%

Number of Loans: 12

Loans in Dollars: \$7 million

Percentage of Total Loans: 8%

**Data based on year-end estimates.*



 INSIGHTS

Mining & Community: Deep Impact Investing

John Bloom, Vice President, Organizational Culture,
interviews Chet Tchozewski

Chet Tchozewski has been involved in grassroots environmental philanthropy globally for more than 20 years as founder and director of Global Greengrants Fund. He created the RTC Impact Fund in 2013 to help communities around the world negotiate beneficial agreements with mining companies that want access to their natural resources. John talked with Chet about how this work has the potential to change an industry.

What got you started in impact investing?

I came to it as a classic social entrepreneur. I'm just not satisfied with the impact the environmental grant-making community and the environmental movement have had so far—including my own impact. We've seen very little success. We have to learn from those mistakes and not just say, "We've done our best." We have to adapt and apply both philanthropic and socially responsible investing capital in new ways.

What led you to create the RTC Impact Fund to explore a blend of grant funding and investment to negotiate community agreements for mining projects?

Global Greengrants has made nearly 1,000 small grants related to mining issues over the years, and in almost every case the mine development went through in the end. Often it went through for two reasons. One is that the community really wanted the development and the jobs that went along with it. Two, growing population, prosperity, and consumption of natural resources meant that prices were at record highs. These factors created such incredible pressure to develop new natural resources that the environmental movement was nearly powerless to stop it.

Building on the lessons I learned from Global Greengrants and the limits of what small grants can do, I realized that philanthropy, together with impact investors, could provide access to the financial capital necessary for communities to be able to hire world-class legal representation and other technical people to represent their interests at the negotiating table with some of the world's most powerful and richest corporations. This approach is complex, but adaptive, and we believe it's sufficient to build resilience in communities that want sustainable development.

At the same time, I've seen the emergence of new global governance standards such as the human rights

doctrine of Free, Prior, and Informed Consent (FPIC), and new corporate social responsibility standards, including SEC standards for conflict mineral reporting and voluntary programs such as the Extractive Industries Transparency Initiative (EITI). All, I believe, are the result of pressure from civil society and social movements, which have gained a strength they've never had before—a few dedicated activists can disrupt business as usual at almost any mine, anywhere in the world, at any time.

That is driving up the cost of ignoring social conflict to a point where it's cheaper to deal with the conflict fairly, up front, than it is to allow it to go on. This has forced the industry to acknowledge it needs "social license to operate."

Central to the emergence of this strategy, for me, is the evolution of mission-related and program-related investing (PRI) in U.S. foundations to a point where there's rapidly growing interest in expanding it and taking greater risk to achieve greater social and environmental impact. I think RSF has been on the leading edge of that kind of blended-value approach.

The convergence of all those factors created an opportunity. I realized there's not a fund in the world that I know of that is aligned with the interests of communities that want to harness mining revenue for sustainable development and community philanthropy.

I don't want to sound like an apologist for the mining sector, but I'm a realist. Even sustainable energy requires materials that aren't currently in circulation. There's very little hope that we'll create a sustainable global economy that doesn't include some kind of mining.

The RTC Impact Fund finances legal and technical representation for communities that have natural resource rights but little capacity to

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IMPACT STORY

PACT Apparel Works to Transform the Supply Chain

by Melinda Cheel, Senior Manager, Marketing & Communications

Pick up a three-pack of men's T-shirts for \$8 and you feel good about getting a great deal—until you consider the true environmental and social costs. Toxic pesticides were used to grow the cotton. The garments were sewn by a sweatshop worker who labors long hours for below-poverty wages. And the T-shirts will wear out before you know it.

Big underwear manufacturers insist they need to make their garments this way—cheap, disposable, toxic—in order to compete. But the people who run Boulder-based PACT Apparel beg to differ. Yes, one of their tees costs \$19.99, but it's made to last. It is 100% organic cotton. And it was assembled in a factory where laborers receive a livable wage, health insurance, and free schooling for their children.

What's more, PACT's T-shirts are flying off the shelves. The company has proven that consumers care about ethical sourcing.



An inspector flashes a smile as she monitors the machines that spin PACT's organic cotton into yarn.

“What sets PACT apart is its commitment and willingness to work with the entire supply chain in a way that few other companies have,” says RSF lending manager Mike Gabriel. “The company is engaged on a very grassroots level.”

INSPIRATION: FAIR TREATMENT FOR LABOR

Jeff Denby and Jason Kibbey created PACT Apparel in 2011 after meeting at business school at the University of California, Berkeley. Before Denby entered graduate school, his job took him to Asia, where he found the labor conditions deplorable. That experience convinced him there should be a better way. Kibbey had worked with Patagonia developing a non-profit called Freedom to Roam, so their partnership was a natural fit.

“What sets PACT apart is its commitment and willingness to work with the entire supply chain in a way that few other companies have.”

“Both Jeff and Jason wanted to move the apparel industry forward from a sustainability and transparency standpoint,” says Seth Beers, PACT's interim chief operating officer. “They thought they could bring basics to market in a more environmentally and socially conscious way.”

INNOVATION: FAIR TRADE FROM FARM TO FACTORY

The company grew quickly, and PACT's products soon became the first Fair Trade–certified clothing to be sold at Whole Foods. But taking the high road had challenges. First, the founders had to find factories that treated workers ethically and that could also handle the size of their business. “Jeff and Jason spent an enormous amount of time and money traveling around the world to find the right partners,” says Beers.

They initially settled upon a factory in Turkey, but in 2013, PACT shifted a large portion of its

manufacturing to a Fair Trade–certified factory in India and started buying its cotton from Chetna Organic, a farming cooperative in India. “It was an opportunity to cut costs,” says RSF’s Gabriel, “but it also allowed PACT to have a much bigger impact on its farmers.”

The social benefits were great. The factory PACT partners with provides good wages and year-round employment to its workers, plus health insurance and free education for workers’ children. At Chetna’s 40,000 small farms, farmers get a higher price for growing organic cotton and receive their payments at the time of harvest. It’s a win-win for everyone—but it involves a lot of costs up front.

“RSF has heard stories like ours before. ... They don’t think PACT is the only one in the world dealing with how to evolve the supply chain in a positive way.”

MISSION FIT: BRIDGING A GAP FOR ECONOMIC JUSTICE

Because Chetna’s farmers have historically lacked access to traditional financing, they need to receive payment for their cotton right at the time of harvest. As a result, PACT has to buy cotton well in advance of manufacturing (in the conventional cotton world, companies buy when they’re ready to make garments). To bridge that gap, PACT often needs influxes of cash—and that’s where RSF comes in.

PACT funded its initial growth with the help of angel investors, and then, in 2011, the private equity firm Revelry Brand acquired PACT. When PACT needed working capital to pay the Chetna farmers at harvest time, though, the company decided upon a loan rather than equity funding. It approached several lenders, but chose RSF—Revelry had introduced them in early 2014—because RSF had the clearest



A worker at PACT’s Fair Trade–certified cut-and-sew factory. In India, men do most of the sewing.

understanding of PACT’s mission and challenges.

“We really like that RSF has heard stories like ours before,” says Beers. “They have worked with other sustainable agriculture companies, and they don’t think PACT is the only company in the world dealing with how to evolve the supply chain in a positive way and deal with some of the financial gaps.”

In May 2014, RSF extended a \$1.5 million asset-based line of credit to PACT. The lender has continued to stay deeply involved, too. “We talk all the time and work hard to understand how its whole supply chain works,” says Gabriel.

IMPACT: SCALING UP FOR SUPPLY CHAIN EVOLUTION

RSF’s line of credit has fueled rapid growth. PACT had \$4 million in revenue in 2013 and expects \$9 million in sales this year. The company also expects to turn profitable around the same time. PACT has no interest in expanding its product lines—it’s intentionally focusing on basics—but it is talking with mass retailers interested in carrying its products.

If that happens, PACT will be one step closer to its goal. “We aren’t really interested in making the greenest, most-pure pair of underwear for just five consumers in the world,” says Beers. “What we want is to have an impact in scale and to have consumers demand an evolution in the supply chain. The industry is so large that the social and environmental impacts can be huge.”

BORROWER AT A GLANCE: PACT APPAREL

HQ: Boulder, CO

Impact Area: Apparel, Agriculture

RSF relationship:

\$1.5 million asset-based line of credit

Communities served:

American consumers, Turkish and Indian factory workers, Indian organic farmers

Employees: 17

Revenue/budget: \$9 million

> “Mining & Community” continued from page 3

benefit from those rights. How will that work?

Our vision is to help communities understand that this isn't charity. They will have to learn how to manage the investments and how to find legal representatives that will really go to the mat with them and for them. When the process succeeds, the investors will get a small return in exchange for the considerably greater benefits that the community should expect as a result of world-class legal representation.

Root Capital is one model, because it's been successful in the agricultural sector. But what I have discovered is an aversion to mining. Nobody wanted to deal with it because it's nasty and dirty, and has a reputation for being one of the most abusive industries in the world. That presented an opportunity too. Even a small pivot could have a tectonic impact on the extractives sector if we could harness its two percent of global GDP for community benefits, even in a small way in a few places.

What are the next steps for the RTC Impact Fund?

We expect to have some investment opportunities later this year. We're starting with capacity-building grants in communities to show goodwill and open discussions. One project in the Philippines is a site where the community would like help in negotiating the reopening of a gold mine. The Philippines has stood out to us from the beginning in our research on the political, economic, and regulatory climates under which this could work best. There are several sites there where we are in discussions with the communities, the companies, and the regulators about whether this model might be effective.

You're seeking a modest return for investors. What are other measures of success? How will you evaluate impact?

The return of benefits to communities is first and foremost. Did the community get enough to repay investors? Did the community negotiate an agreement that is more beneficial than it would have been without representation? Did it develop an independent, democratic community foundation?

The larger measure of success is whether the mining industry recognizes the cost of a social license to operate in their business model. They must account for the benefits that they must pay to the community. And it's not optional or voluntary.

A third goal is to create a market-based mechanism for social change: to create a path for thousands of lawyers, geologists, and mineral economists to find a successful career working on behalf of communities instead of companies.

I'll add a fourth: we show that this approach to investment can have the two kinds of returns that impact and PRI investors seek: they can have return of principal, and see enormous social and environmental benefit to communities. And we do that so successfully that ordinary investors and regular banks start to say, hey, we'll loan you money to negotiate with this company because we know there's \$40 billion of gold in the ground and they owe you one percent of it.

That's the kind of thing that would be a tectonic shift—anybody with natural resources and the rights to them could easily find competitive financing to negotiate a good deal. That has not even been conceivable until now.

What are the obstacles?

Here's the key: for communities to trust that this is not just another get-rich-quick scheme from foreign investors. These communities have every right to distrust investors who have exploited them for centuries. We're trading off some financial return for what I hope will be huge social and environmental impact.

What have you learned so far? Was there anything particularly eye-opening?

Some of the leading mining companies are sending signals that they're ready to embrace FPIC, EITI, and other corporate reporting and behavior norms. The industry is actually interested in this strategy because they realize that anything short of it will be an incomplete social license to operate, and that failure will eventually come back to their bottom line.

I've learned, on the community side, that there's a much better understanding of how PRI and impact investments could work to their benefit than I expected, even in very isolated communities. They get it. Communities are ready for this, and nobody's come to them before with deliberately constrained self-interest. ↻

CHET TCHOZEWSKI

is a serial social entrepreneur and founder of the RTC Impact Fund and the Global Greengrants Fund. He has served on the boards of the Chino Cienega Foundation, the Voqal Fund, the Environmental Grantmakers Association, and many others. Email him at chet@rtcimpactfund.org. Get the report, *Mining and Communities*, at onearthfuture.org/research/publications.



The Next 25 Social Enterprise Stars: Forging New Relationships

by Ted Levinson, Senior Director, Lending

There's still time to refer potential borrowers to RSF through our Next 25 Social Enterprise Stars campaign (see excellent examples at right), but we're close enough to the end of this yearlong campaign to reflect on the results. Not surprisingly, it's all about the relationships.

The community response has been fantastic. We've been able to connect with many inspiring social enterprises that we would not have known about without the campaign. Many of our partners and friends have been hustling on social media and in their networks to get the word out, and we've gotten numerous referrals from our Scouts group.

I want to give special thanks to the 20-plus organizations that have been regularly tweeting and posting about Social Enterprise Stars over the past months, as well as those who've made personal referrals. The campaign web page has received more than 3,000 views, and we have connected with many social enterprises that are a good fit with our loan program.

Please keep the referrals coming—we're always on the lookout for social enterprises that are solving challenging problems. The following borrowers are great examples of ideal matches in each of our focus areas.



FOOD & AGRICULTURE: DC CENTRAL KITCHEN

DC Central Kitchen (dcentralkitchen.org) reduces hunger with recycled food, trains unemployed, at-risk adults for culinary careers, serves healthy school meals, and helps to rebuild the urban food system. Since its founding in 1989, DC Central Kitchen has prepared and delivered over 25 million meals to underserved populations.

EDUCATION & THE ARTS: DIGITAL DIVIDE DATA

Digital Divide Data (digitaldividedata.com) provides high-quality business process outsourcing services to a global client base using talented youth in developing countries, who gain access to professional opportunities and can earn a higher income.

ECOLOGICAL STEWARDSHIP: EUREKA RECYCLING

Eureka Recycling (eurekarecycling.org) is one of the largest non-profit recyclers in the United States and the only organization in Minnesota that specializes in zero waste. Eureka Recycling provides curbside recycling services to Saint Paul residences and engages in waste reduction education, programs, and advocacy.

Know any enterprises that fit the star profile? Send them to Wanted: Social Enterprise Stars (rsfsocialfinance.org/social-enterprise-stars). ↻

Social Enterprise Star Lending Criteria

To receive a loan from RSF, an enterprise should have the following qualifications:

- A social mission in one of RSF's three focus areas: Food & Agriculture, Education & the Arts, and Ecological Stewardship
- Incorporation in the U.S. or Canada
- Strong collateral (which may include pledge or guarantee communities)
- Funding needs ranging from \$200,000 to \$5 million (\$100,000+ for arts organizations)
- 3 or more years of operating history
- Operational profit, or a clear path to profitability in 12 months
- Annual revenue of \$1 million or more (\$500,000 for arts organizations)

Join Us at These Events

For the latest on RSF's participation in conferences and events, check out our "Events" page at rfsocialfinance.org/calendar

SOCAP CONFERENCE

10/6/15-10/9/15
San Francisco, CA
socap15.socialcapitalmarkets.net

BIONEERS CONFERENCE

10/16/15-10/18/15
San Rafael, CA
conference.bioneers.org

INSIDE RSF

7/27/15
RSF Webinar, 1pm PDT
rfsocialfinance.org/calendar

WHAT'S AHEAD

The next *RSF Quarterly* will be published in October 2015 and will focus on Food & Agriculture. We like hearing from you! Please send comments on this issue or ideas for the next to melinda.cheel@rfsocialfinance.org or call 415.561.6157.



NEW LEAF PAPER®
ENVIRONMENTAL BENEFITS STATEMENT
of using post-consumer waste fiber vs. virgin fiber

RSF Social Finance saved the following resources by using 321 pounds of Reincarnation Matte, made with 100% recycled fiber and 100% post-consumer waste and manufactured with electricity that is offset with Green-e® certified renewable energy certificates.

QUARTERLY Newsletter Summer, 2015: 3,950 units

trees	water	energy	solid waste	greenhouse gases
2 fully grown	901 gallons	0.9 Million BTUs	60 pounds	166 pounds

Calculations based on research by Environmental Defense Fund and other members of the Paper Task Force.
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