



Root Capital: A financing alternative for Local Green-Blue Enterprises

Concept developed by the Caribbean Natural Resources Institute (CANARI) with the Action Learning Group on Financing Local Green-Blue Enterprises (LGEs Finance ALG) in Trinidad and Tobago
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Summary

Local green-blue enterprises (LGEs) are a pathway to environmentally sustainable, inclusive, and resilient economic development. In Trinidad and Tobago, a 2021 study by the Caribbean Natural Resources Institute (CANARI) identified limited access to finance as a key constraint for enhancing growth in the sector. The Action Learning Group on Financing Local Green-Blue Enterprises (LGEs Finance ALG) convened by CANARI recommended that a tailored financial product suitable for LGEs should be developed. One approach suggested is in the form of a fund, Root Capital, which is managed by a cooperative of LGEs.

Root Capital will offer financing in the form of repayment equity of up to TT\$100,000 and loans of up to TT\$250,000 to suitably qualified applicants. A cooperative will serve as an intermediary between its LGE members and financial institutions, which will reduce the risk faced by financial institutions in financing LGEs. Loans disbursed through the fund will be guaranteed through the administrative fees paid by members of the cooperative. Members will also benefit from networking, capacity building and mentorship to become formalised enterprises and grow so that they are able to access business support opportunities offered elsewhere. Good governance in implementation of the fund will be facilitated through strong policies and procedures including on finance, credit and disbursement.

Introduction

MSMEs make up 70-80% of businesses in Caribbean economies. They are the cornerstone of the economy, providing more than 50% of jobs and contributing to 60-70% of Gross Domestic Product. This is a conservative estimate as it does not consider informal enterprises, which in some Caribbean countries have been found to be more than double the number of enterprises in the formal sector. Many MSMEs are in the informal sector, in that these enterprises are not formally registered and do not pay tax, but employ a large percentage of the Caribbean workforce, particularly the poor and vulnerable (CANARI, 2014).

LGEs are a special type of MSME (see Box 1) found in the main economic sectors in the Caribbean (e.g., tourism and agriculture) and are also significant in rural communities,

Box 1: Definition of LGEs by the Green Economy Coalition

LGEs are MSMEs that have a potential positive effect on the global or local environment, community, society, or economy and are businesses that strive to meet triple-bottom line returns (economic, environmental, and social). LGEs consist of informal and formal MSMEs and social enterprises that use green business models, develop green products or green their business practices.



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where many businesses are directly or indirectly based on the use of nature.

LGEs are ideal to drive green-blue economic transformation as they address multiple development priorities including poverty reduction, social development and environmental conservation, especially for rural communities. LGEs are important sources of income for many poor and vulnerable groups, including women and youth, and are therefore an important strategy to address social and economic inequities (CANARI, 2012).

However, access to finance for MSMEs continues to be a challenge and access to finance for MSMEs that are LGEs is even more challenging. This is due to a combination of factors, including the informal nature of many LGEs, the high-risk profiles of these businesses and the limited knowledge of financial institutions about this unique sub-sector.

This challenge was the focus of a global project “Civil society participation for sustainable finance reforms: global coverage” funded by the European Union (DCI/ENV/2020/417-985) and managed by the Green Economy Coalition. The Caribbean Natural Resources Institute (CANARI) implemented the Caribbean component, focusing on Trinidad and Tobago (see [project](#)).

As part of this work, CANARI established an Action Learning Group on Financing Local Green-Blue Enterprises (LGEs Finance ALG) (see [TOR](#) and [members](#)) to explore current initiatives, needs, constraints and opportunities for enhancing financing and other support to LGEs in Trinidad and Tobago. Based on a Contextual Financial Analysis which was conducted, the main gaps were identified as a weak policy framework which failed to define the LGE sector, ad hoc business development support and limited access to finance (CANARI, 2022).

To address the gap in access to financing, the LGEs Finance ALG developed a financial product tailored for LGEs in the form of a fund, Root Capital, which is managed by a cooperative of LGEs.

What is Root Capital?

Root Capital is a fund operated by an LGE cooperative (see Box 2) which aims to support LGEs through the provision of finance, capacity building, mentorship and community.

What are the objectives of Root Capital?

The objectives of Root Capital are to:

- (a) provide an alternative financing option for LGEs which traditionally have had challenges in accessing finance for growth and development;
- (b) serve as an intermediary between LGEs and financial institutions, which reduces the risk faced by financial institutions in financing LGEs;
- (c) support and create an enabling environment of transparency, resilience, and capacity building for both formal and informal LGEs;
- (d) support the transition of informal LGEs to registered business entities, thus allowing them to take advantage of opportunities available only to formal enterprises;
- (e) promote good governance and accountability among cooperative members; and
- (f) provide capacity building for financial institutions on how to better support the LGE sector.

Box 2: Definition of a cooperative by the International Labour Organisation (ILO)

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

What type of financing does Root Capital offer?

Root Capital offers two types of financing:

- Repayment Equity of up to TT\$100,000
- Loans of up to TT\$250,000

Figure 1: Comparison of financing offered by Root Capital

Type of financing	Repayment equity	Loans
Value of financing (TT\$)	\$100,000	\$250,000
Description	Repayment can be made in the form of reinvesting into the Root Capital Fund by 'paying it forward' through mentorship and reinvestment in another LGE	Traditional loan with repayment period, interest rates, term and conditions
Type of business targeted	For start-up enterprises	For growth by more developed enterprises

What are Root Capital's operating procedures and requirements?

Applicants for financing

Applicants must:

1. Be an LGE operating in Trinidad and Tobago
2. Be a member of the cooperative in good standing i.e., updated payment of administrative fees
3. Have submitted a completed application form
4. Agree to a site or verification visit at the location of the enterprise or the place where operations/activities are taking place

Administrative fee guidelines

All members of the cooperative are required to pay an administrative fee to be considered for financing. Administrative fees will be tiered and required on an annual basis. The value of the administrative fee will be determined by the cooperative.

The administrative fee allows for:

- The LGE to display a commitment to their own growth and development
- Development of a foundation to support the administration expenses of the fund
- Recognition of the cooperative as an entity by external parties such as financial institutions, business development support organisations, and policy-making and regulatory bodies
- A predictable annual income which can be used towards varied purposes:
 - Contribution towards the administrative costs of running the cooperative
 - Contribution towards the equity capital
 - Financing capacity building of members including via networking and peer support
 - Marketing of the cooperative
 - Serving as a guarantee on loans by financial institutions

Application form

All LGE applicants for financing must submit a completed application form. While an attempt must be made to ensure that the form is not onerous or overly descriptive in nature, certain key information should be captured (see Box 3).

Box 3: Guidelines for content to include in Root Capital application form

Personal information:

- Date: DD/MM/YR
- Name of applicant (first and last name)
- Sex of applicant (male or female)
- Date of birth (DD/MM/YR); attach verified form of identification
- Address

Business information:

- Primary contact for business: phone number, email address, physical address
- Name of business
- Type of business: formal or informal
 - If formal, indicate the business structure under which currently registered: cooperative, sole trader, limited liability company, partnership, non-profit company
- Number of years which the business has been established or in operation; attach certificate of incorporation where applicable
- Product or service offered
- Current market for sale of goods/services: rural, urban, export, domestic
- Types of natural resources the business uses/impacts on/depends on
- Social characteristics of the business that might be unique e.g., women, youth, or other vulnerable persons
- Number of persons involved in the business
- Primary assets used in operations e.g., equipment
- Estimated earnings of the business: specify if monthly or annually

Support required:

- Requested amount for financing
- Recommender information (name, address, relationship to applicant, any other relevant information)
- Contribution to date to the Root Capital Fund (TT\$)
- When is the financing required by: DD/MM/YR
- Intended use/purpose of the financing

Banking/lending history

- Financial institution which currently bank with (if applicable)
- Describe any previous loan applications made (amount, financial institution, status of loan i.e., being repaid, repaid in full, in arrears)

Policies and procedures

Root Capital's policies and procedures are outlined below:

- Financial Policy – this details proper procedures and standards of conduct for managing the finances of the cooperative. Members of the Board and the respective finance committee will be guided in areas such as the provision of collateral to financial institutions, control of funds, accountability, accessing credit, authorisation of financing and signing authorities.

- Credit Policy & Disbursement Policy – this contains guidelines on the nature and amount of credit granted to applicants (credit limits), procedures for issuance and write off loans/debt. A robust credit policy is essential to the managing the working capital of the cooperative.
- Human Resource Policy – this describes employee rights, responsibilities and behaviours which guide the relationship among employees/volunteers in the cooperative.
- Anti-bribery Policy – this guides the responsibilities and conduct of the cooperative and its members as it relates to bribery, corruption, and ethical conduct in business. The policy is further governed by relevant anti-corruption laws of the State.
- Exclusion & Engagement Policy – this describes the procedures and policies for the exclusion of individuals or entities who have engaged in prohibited conduct (e.g., not funding LGEs that liaise with fundamentalist groups).
- Diversity & Inclusion Policy – this sets forth the policies and procedures to ensure equity, diversity and inclusivity. Particular attention is paid to marginalised groups and incorporation of gender issues.

Capacity building guidelines

Many of the challenges which LGEs face stem from their limited capacity, knowledge about areas that are not their core competence and access to networks.

LGEs which are receiving finance will be required to participate in a mandatory two-year minimum mentorship (see Box 4). Mentorship may take the form of:

- Peer to peer mentorship where LGEs which previously accessed finance are required to mentor others.
- Targeted mentorship in particular areas such as finance or marketing. This can take the form of short programmes or draw upon the internal expertise of financial institutions involved.
- One on one mentorship with a business development advisor.

Box 4: What is a mentor?

MSME business mentors are typically business experts from government agencies, local and international civil society organisations, technical assistance agencies and donors as well as independent consultants. Mentors serve as trusted counsellors and advisers to MSMEs, working with them to share knowledge, skills, experiences, insights and opinions.

Pairing a LGE with a mentor for a period of two years as a method of support will allow for the business to expand their networks, build capacity and have an experienced guide while they build and grow, ultimately supporting the repayment of any funds disbursed.

Mentors will receive relevant training on how to support the unique needs of LGEs. CANARI has developed several tools which have been used with LGEs (see Box 5). Mentors will have access to these tools as part of Root Capital's training and development of mentors.

Box 5: CANARI's customised tools for LGEs

CANARI has developed customised tools, which are used as part of capacity building for LGEs. These tools are:

- [The Local Green- Blue Enterprise Radar](#): The Radar helps LGEs to self-assess how they are delivering 'triple bottom line' benefits (economic, environmental and social) and good governance, and what are possible areas for improvement.
- [A methodology for 'Climate-proofing' local green enterprises](#): This step-by-step guide helps LGEs to build value chains of their enterprise, analyse their climate vulnerabilities and determine possible resilience-building strategies.
- [The capacity assessment tool for micro and small enterprises](#): This tool utilises appreciative inquiry to draw out strengths and then identify potential areas for strengthening of the LGEs.

Support areas have been identified to build the capacity of both LGEs and financial institutions involved in the fund (see Figure 2).

Figure 2: Areas for capacity building

Capacity building for LGEs	Capacity building for financial institutions
<ul style="list-style-type: none"> • Support for LGEs to transition from an informal status to registered status, including adherence to and an understanding of the statutory requirements (national insurance contributions, tax laws) for registered/unregistered organisations • Support for LGEs to become investor ready and bankable • Support in understanding basic financial transactions e.g., opening a bank account, interpreting account statements • Support in the use of technology e.g., social media, e-commerce, digital banking services • Introduction of an Information Management System for measuring and managing the LGE's data • Linking the Sustainable Development Goals (SDGs) to business operations • Monitoring, Evaluation and Learning systems (MEL) • Strong structures for governance and decision making at the board and management levels • Environmental sustainability and sustainable use of natural resources • Climate impacts on the business and climate proofing/resilience building 	<ul style="list-style-type: none"> • Understanding of what an LGE is and their unique needs and operations • How to engage with rural, nature-based and informal enterprises • Green financing

Road map

The establishment of Root Capital as a fund for LGEs requires a step-by-step road map towards its creation and implementation. Support is required from an intermediary organisation (e.g., CANARI, YBTT) towards the formation of the cooperative. The cooperative may employ a model of smaller cooperatives belonging to a particular sector (e.g., agriculture, ecotourism) or sharing the same geographic areas (e.g., a community-based cooperative operating in Nariva or Brasso Seco).

A possible road map is outlined below:

- Existing cooperatives of LGEs and individual LGEs register, for example via CANARI's Caribbean LGEs Knowledge Platform at <https://greenenterprisescanari.org/>
- LGEs are connected to varied support organisations for capacity building and development to form a cooperative
- Financial modelling is undertaken for the formation of the cooperative
- A large-scale network of cooperative members is built over time
- Financial institutions are sensitised and educated on the cooperative
- Financial institutions are mobilised to commit funding towards Root Capital

It is expected that as the membership of the cooperative grows, financial institutions and other funding bodies will be encouraged to support the Root Capital fund.

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