How Impact Investments Can Strengthen Rural Economies in the Age of Covid-19

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A Report of the CSIS Project on Prosperity and Development
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Introduction

The world is facing an unprecedented health crisis and widespread economic disruption in the face of the Covid-19 virus. The International Monetary Fund (IMF) predicts that the global economy will contract 4.9 percent in 2020, with all emerging and developing regions other than China experiencing recessions to varying degrees (from -0.8 percent in emerging Asia to -10.5 percent in the European Union).\(^1\) While the developing world was initially spared by the pandemic, it now faces the brunt of it, due to higher population densities, the lack of robust health care systems, greater poverty, and poor sanitation. Many public health officials have suggested that the number of cases in these areas may be considerably higher than official reports reveal, which could reverse decades of economic gains in the developing world.\(^2\)

The risks of Covid-19 are further amplified in rural areas. Rural communities in developing countries face severe disparities in terms of jobs, poverty levels, access to markets, education quality, and health care provisions. According to the IMF, rural poverty comprises 63 percent of poverty worldwide, and as high as between 65 and 90 percent of poverty in sub-Saharan Africa.\(^3\) In other words, of the 600 million people living in extreme poverty, 400 million live in rural areas.\(^4\) These communities face significant risks regarding climate change, health care, market access, investment opportunities, and policy changes; they are also less equipped to address external economic and political shocks. Moreover, an increasing number of young people in rural communities are migrating to urban centers because of inadequate economic opportunities in rural areas.\(^5\) The United Nations 2030 Agenda for Sustainable Development calls on states to not to leave anyone behind—if the global community truly wants this goal to become a reality, we need to invest and improve the lives and livelihoods of rural communities, as well as equip rural communities with the tools and expertise they need to build sustainable paths out of poverty (Figure 1).\(^6\)

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As we embark on this great collective journey, we pledge that no one will be left behind. Recognizing that the dignity of the human person is fundamental, we wish to see the goals and targets met for all nations and peoples and for all segments of society. And we will endeavor to reach the furthest behind first.

-2030 UN Agenda for Sustainable Development

Figure 1: United Nations Sustainable Development Targets related to the Rural Economy

Target 1.2: By 2030, reduce at least by half of the proportion of men, women, and children of all ages living in poverty in all its dimensions according to national definitions.

Target 2.3: By 2030, double the agricultural productivity and the incomes of small-scale food producers, particularly women, indigenous peoples, family farmers, pastoralists and fishers, including secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets, and opportunities for value addition and non-farm employment.

Target 8.2: Achieve higher levels of productivity of economies though diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors.


The UN World Urbanization Prospects estimates that 68 percent of the world’s population will be urban by 2050. The reason for this increase in rural-to-urban migration is that many farmers cannot make a living income from agriculture. Despite this rapid urbanization, urban areas are not immune from extreme poverty, and rural communities still remain important economic drivers in many developing countries.

In rural areas, most economic activities center on agriculture, fishing, and forestry, which command 24 percent of total GDP in low-income economies. Rural economies are the starting point of the global food supply chain: according to the Food and Agriculture Organization (FAO),

small-scale and family farmers produce 80 percent of the food supply in sub-Saharan Africa and Asia. Employment in agriculture—though declining—still accounts for 63 percent of jobs in low-income countries and 40 percent in lower middle-income countries (2018). Yet these jobs are usually in the informal sector, and productivity remains low, with many agricultural products lacking additional value opportunities. To compete against larger companies, small shareholder farmers need access to financial markets; better infrastructure, financial instruments, and education; and a robust health care system. In connecting to longer value chains, small share farm holders can increase agricultural productivity while also creating work opportunities that go beyond farms.

Food insecurity is on the rise as a result of the Covid-19 crisis. Before the pandemic, the FAO reported that hunger impacted approximately 690 million people globally. For 2020, it predicts that between 83 million and 132 million additional people may go hungry as a result of the pandemic. Covid-19 has highlighted the fragile and complex nature of global supply chains. On a micro level, rural supply chains are important in providing food both to local communities and to global markets. Covid-related restrictions have led to greater food shortages and loss, and they have made it difficult for farmers to access input, output, and labor markets. While capital-intensive staple commodities have been less affected, higher-value commodities that are more labor-intensive and are produced at food processor plants have suffered the most, due to supply chain disruptions. Covid-19 has shown the importance of investment in these rural supply chains, which are critical to helping countries grow their economies and reduce poverty levels.

With the world in the midst of a recession and increasing food insecurity, innovative financing will be critical to strengthening rural economies in developing countries. In this regard, impact investments—that is, investments in assets such as private debt, publicly traded debt, and private equity that aim to generate social and environmental impact as well as financial returns—should play an increasingly important role in a post-Covid world. Impact investing in the past has introduced innovative financing structures and blended funds (an equity mutual fund with a mix of growth and value stocks), which may be needed for a post-Covid economic recovery.

According to the Global Impact Investing Network (GIIN), the impact investment market stands at $715 billion in global assets. In contrast, development aid in 2019 amounted to $152.8 billion. The current crisis presents opportunities to increase investments in rural economies that could create jobs, propel economic development, and contribute to greater food security globally—as well as contribute to long-lasting, sustainable changes.

13. Ibid.
Main Development Challenges for Rural Economies

Two-thirds of the 600 million people living in extreme poverty around the world live in rural areas.\textsuperscript{15} The percentage of the population living in rural areas is especially high in sub-Saharan Africa, South Asia, and Oceania.\textsuperscript{16} In Asia and sub-Saharan Africa, smallholder farmers produce up to 80 percent of the food supply.\textsuperscript{17} To lift rural communities out of poverty, countries face a number of challenges, particularly weak market access and infrastructure connectivity, lack of access to finance, lack of adequate health care, and poor quality education (Figure 2).\textsuperscript{18}

Figure 2: Challenges for Rural Development

<table>
<thead>
<tr>
<th>Weak Market Access and Infrastructure Connectivity</th>
<th>Roads, electricity, and internet connect rural communities with global markets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Access to Finance</td>
<td>Access to bank accounts and credits is a key to growth for micro, small, and medium-sized enterprises (MSMEs).</td>
</tr>
<tr>
<td>Lack of Adequate Healthcare</td>
<td>A robust healthcare system is the most important ingredient in the global response to Covid-19.</td>
</tr>
<tr>
<td>Poor Quality Education</td>
<td>An educated workforce has access to more and higher quality jobs to escape poverty.</td>
</tr>
</tbody>
</table>

Source: Analysis by CSIS Project on Prosperity and Development.

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15. Kharas et al., “To Move the Needle on Ending Extreme Poverty.”
The Covid-19 crisis has exacerbated these underlying challenges. As the world has gone digital in the face of the pandemic, people without internet access and electricity are left behind. Mass unemployment and business closures have left financial institutions overwhelmed. Covid-19 has hit already stretched health care systems, and it has made it even more difficult for children to access education.°

1. Weak Market Access and Infrastructure Connectivity

Physical and digital connectivity are a major stumbling block for rural economies looking to connect to markets. Almost a billion people worldwide live more than two kilometers from a paved road.°° Waterways, ports, and other transportation networks can complement roads, but even with these options, many communities remain out of reach. With greater physical connectivity, businesses could engage more easily with suppliers and customers. Road networks can connect farmers with better inputs and capital, such as high-yield seeds and machines to improve productivity. Roads also connect farmers with larger export markets, where their produce can obtain higher prices and bring in greater income for rural families.

Digital connectivity is similarly underdeveloped: nearly 850 million people worldwide do not have access to electricity, the vast majority of them in rural areas.°°° Some countries have made significant progress on improving connectivity—India, for example, electrified all of its villages in 2018.°°° Yet until other developing countries in Asia, Africa, and South America follow suit, many of the world’s poor will remain isolated from electrical and transportation networks. Electrification does not just keep the lights on in rural areas; it is also a necessity for communities to power their appliances, such as refrigerators and cold storage facilities to store food, inputs, products, and medicine. Electricity enables farmers to invest in trucks and machinery, which reduces the amount of labor required to harvest crops and allows them to devote more time to other income-generating activities.

Consistent access to internet is an additional hurdle: in developing countries, around two-thirds of people lack access to reliable broadband.°°°° Even where rural communities can connect to internet through their mobile phones, the cost of data is often prohibitive. People in sub-Saharan Africa must pay an average of 7.1 percent of their monthly salary for a gigabyte of data; if the average U.S. wage earner paid a comparable rate, a gigabyte would cost them $373.°°°° Even in advanced economies like that of the United States, nearly a quarter of the rural population cannot


access high-speed broadband service.\textsuperscript{25} Better digital infrastructure can empower rural buyers and sellers to engage in e-commerce on a local, regional, and global scale, as well as drive down transaction costs.\textsuperscript{26}

Market access was already a challenge before Covid-19 due to poor connectivity, but now farmers are even more removed from their consumers. Due to pandemic-related restrictions, restaurants and markets have closed, migration has in some cases been prohibited, transportation costs have risen, and intermediaries have stopped coming to rural communities.\textsuperscript{27} Restrictions have also made it difficult for farmers to access input and labor markets, preventing them from buying seeds, fertilizers, and tools, as well as from hiring workers.\textsuperscript{28} In some contexts with resilient input supply chains but poor access to output markets, the result has been a glut in commodities. Ghana’s cashew sector, for example—which would normally be a major source of export revenue for the country—can no longer send its product abroad.\textsuperscript{29} Prices have slumped by 63 percent between January and late March 2020, causing severe revenue shocks to farmers.\textsuperscript{30}

If development partners can address the short-term shock to market access as well as increase long-term infrastructure connectivity, people in rural areas can become integrated in agricultural value chains. Without digital and physical infrastructure, value chains are underdeveloped; farmers may simply engage in subsistence agriculture or sell their produce to neighbors, which limits their income growth opportunities. Recent months have shown that those that do have access to infrastructure can continue to sell their agricultural products, and often significantly increase sales.

As infrastructure improves, value chains become more sophisticated and diverse. Farmers can source their seeds, fertilizers, and machines from increasingly distant locations. They can also use the internet and local networks to join formal producer organizations, which aggregate crops from many smallholders and ensure consistent quality.\textsuperscript{31} Farmers that join organizations such as cooperatives can sell not just to the local community, but also to intermediaries who will transport their goods to a larger market. The economy can expand to include manufacturing and services, as agro-processors, distributors, retailers, restaurants, and exporters develop around the agricultural sector. Agricultural value chains raise wages and the quality of work for people working on farms and open up new opportunities in other sectors.

2. Limited Access to Finance

Beyond infrastructure, access to finance is necessary to spur rural development. In developed financial markets, bank accounts are an avenue for people to store their savings and loans, while lines of credit

\begin{itemize}
  \item \textsuperscript{26} World Bank, \textit{World Development Report 2016}.
  \item \textsuperscript{28} Ibid.
  \item \textsuperscript{30} Ibid.
allow investments in their farms or businesses and can cover emergency expenses. In rural areas, however, formal financial institutions are less prevalent. With limited access to these institutions and the internet, people may simply lack awareness of the tools that are available to them.

Even in cases where people are aware of the financial tools at their disposal, access to formal financial institutions can be incredibly difficult. Poorly enforced property rights can prevent people from using their homes or land as collateral; women are especially at a disadvantage, since they comprise only 15 percent of landholders worldwide.\(^\text{32}\) Additionally, around one billion people worldwide lack a formal ID, making it difficult to prove their identity.\(^\text{33}\) Even for the small percentage of rural residents in developing countries who are aware of available tools, can prove identification, and are able to offer collateral (such land or property), traditional banks are often unwilling to engage. For very small deposits and loans, the overhead cost may surpass the fees and interest that the banks expects to receive.\(^\text{34}\)

In the past, remittances—funds received from relatives or friends working abroad—have partially filled the financial gap, but they are likely to decline as unemployment rises in developed economies and many migrants return home due to Covid-19.\(^\text{35}\) Given these many obstacles, poor people in need of credit often rely on informal networks of local shop owners, friends, and family members, whose own financial position may be only slightly more secure.\(^\text{36}\) They may also turn toward predatory financial institutions that trap borrowers in high-interest loans; in Kenya, for example, one popular mobile lender charges monthly interest rates as high as 43.4 percent.\(^\text{37}\) Because interest rates are above market rate at formal institutions, many people in rural areas rely on informal money lenders for credit. All of these barriers inhibit economic mobility and are push factors for outmigration to more prosperous urban centers.

Rural areas in the developing world can benefit from creative approaches to overcoming these challenges. In contexts where broadband is available, digital IDs and mobile apps can enable people's education on the financial options open to them and verify their identity for financial institutions. This has proven successful in India: in 2009, the Indian government launched a biometric ID program called Aadhaar, and within six years, one billion people had enrolled.\(^\text{38}\) In a country where social security, pensions, savings accounts, school registration, and bill payment were once unreliable and

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riddled with fraud, Indian citizens now have a simple way to access financial services. A program similar to Aadhaar could take on different iterations in the developing world and has the potential to open up markets to swaths of the rural population.

Moreover, microcredit and financial technology (fintech) offer alternatives to traditional banking. In Uganda, for example, less than a third of people have a traditional savings account. First Access, a software platform developed in New York, provides local Ugandan microlenders with a “highly repeatable process” to quickly and cheaply appraise prospective borrowers. Another example is M-Pesa, a mobile payment system developed by the UK Department for International Development and Vodafone in the early 2000s, which gained widespread popularity in Kenya and has now spread throughout sub-Saharan Africa and to Albania and India. It has over 30 million users worldwide. With greater financial access, people have a reliable safety net in case of emergencies, can further invest in their small business or start a new business, and are able to invest for long-term economic prosperity.

3. Lack of Adequate Health Care

Health care disparities are an additional barrier to overcome in rural areas, since oftentimes the geographic distance to an adequate hospital or health care provider is greater than in an urban area. Generally, there are fewer health care professionals in rural areas and medical facilities are sparse. Inadequate infrastructure, poverty, and poor nutrition compound the problem of limited access. The combination of factors has serious health implications for rural communities: globally, maternal mortality rates are about 2.5 times higher for rural women than for their urban counterparts. Even in the United States, those living in rural areas are at greater risk of death from heart disease, cancer, unintentional injury, chronic lower respiratory disease, and stroke.

While large hospitals may not be economically viable in rural areas, primary care clinics and mobile doctors can be innovative solutions to the rural-urban health care gap. Primary care is the main entry point to health services for most people in developing regions. By emphasizing preventative medicine and building personal relationships with patients, primary care providers can build trust,
lower costs, and ultimately improve health outcomes for rural communities.\(^{47}\) Better health care systems would help people directly, giving them the necessary support required for Covid-19 and other medical issues. Health investments would also help people indirectly; when people in rural areas have affordable access to quality health care, they are able to show up to work consistently, bringing in greater income for their families.

The Covid-19 pandemic has further strained health care systems; people in rural areas must wait days for their testing kits to be delivered to labs in major cities, if they can even get tested at all.\(^{48}\) In June 2020, Nigerian doctors engaged in a nationwide strike after dozens of health care workers were infected with the virus due to a shortage of personal protective equipment.\(^{49}\) False statements by elected officials and distrust of medical personnel exacerbate the problem, both in developing and developed countries.\(^{50}\)

### 4. Poor Quality Education

Rural communities in the developing world experience greater challenges in educating their children. Teachers are frequently absent from classrooms or lack qualifications, students must often skip school to help their families or do paid work, transportation to schools is inadequate, and overall the quality of education is low.\(^ {51}\) Lack of access to quality education harms rural communities’ economic prospects and workforce development. Improving and investing in human capital would create more opportunities for those living in rural environments to escape poverty.

Children in rural communities are more likely to drop out of school and have lower schooling than children in urban settings. In all but nine of the 95 developing countries that the World Bank analyzed in the 2017 World Development Report, more urban students than rural students had received a sixth grade education.\(^ {52}\) In Ethiopia, Niger, and the Central African Republic, sixth grade completion rates were over 40 percent higher in urban areas relative to rural communities.\(^ {53}\) Sixty percent of rural Chinese students drop out before high school.\(^ {54}\) For those who do graduate, enrollment at a top-ranked university is all but impossible; one study found that an applicant from Beijing is 41 more times likely to gain admission to Peking University than a comparable student from the rural province of Anhui.\(^ {55}\)

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47. Strasser, Kam, and Regalado, “Rural Health Care Access and Policy.”
49. Ibid.
Girls are especially at risk of inadequate schooling. In 1960, almost 50 percent of women and 37 percent of men had no formal schooling. By 2010, the figures had fallen to 20 percent and 10 percent, respectively.\textsuperscript{56} Child marriage, societal views against education for women, and inability to afford school fees are among the factors that allow the gap to persist.\textsuperscript{57}

Furthermore, the Covid-19 pandemic is disrupting many children’s education in rural communities, erasing schooling gains made in past years. While e-learning has served as a replacement for in-person schooling, many teachers and parents are unable to fully adapt their curriculum to a virtual setting. In addition, the digital infrastructure needed for e-learning is not widely available in rural areas in developing countries due to poor internet access and inadequate school funding.

\textsuperscript{56} Pamela Jakiela and Susannah Hares, \textit{Mind the Gap: 5 Facts About the Gender Gap in Education}, (Washington, DC: Center for Global Development, June 2019), https://www.cgdev.org/blog/mind-gap-5-facts-about-gender-gap-education#:~:text=Fact%201%3A%20Worldwide%2C%20women%20are,attainment%20was%20just%203.3%20years.

Impact Investing as an Innovative Tool to Support Rural Economies

Impact investing is one tool that could be better purposed to help address the unique challenges that rural economies face. Unlike traditional investments, impact investments aim to generate a positive social or environmental outcome, in addition to a financial return. These impacts can include strengthening infrastructure, improving financial access, and building up human capital in the regions that need it most.

Individuals, firms, foundations, and non-profit organizations are among the institutions that engage in impact investing. After identifying their strategic objectives, the investor provides funds to a beneficiary organization. The recipient then plans, implements, and evaluates a project in line with their investors’ goals (Figure 3). By working with a beneficiary and a community, investors hope to achieve both a social and financial return. According to the GIIN’s 2020 Annual Impact Investor Survey, 99 percent of respondents indicated that their return on investment met or exceeded their impact expectations, and 88 percent were satisfied with their financial return.

Figure 3: How Impact Investing Works

<table>
<thead>
<tr>
<th>Impact Investor</th>
<th>Beneficiary Organization</th>
<th>Community in Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms, foundations, governments, and multilaterals look for ways to achieve a return on investment while also maximizing their social impact.</td>
<td>Micro, small, and medium sized enterprises (MSMEs) provide opportunities to the local community and offer a financial return to the investor.</td>
<td>Poor people in rural areas benefit from investments in infrastructure, health, education, and financial access.</td>
</tr>
</tbody>
</table>


The Global Impact Investing Network (GIIN) estimates in 2020 that over 1,720 organizations manage impact investments, overseeing around $715 billion in assets worldwide—up from $502 billion in

2019, a year-over-year increase of 42 percent. The impact investment market is now over four times greater than annual official development assistance. The bulk of assets under management go toward the United States, Canada, and Europe (Figure 4). While impact investing is already a sizeable global market, it continues to rise: 69 percent of impact investors described the market as “growing steadily” in 2020, with 30 percent of survey respondents believing that it was “in its infancy” or “about to take off”.

Figure 4: Geographical Distribution of Assets under Management

Source: GIIN 2020 Annual Impact Investor Survey. MENA indicates the Middle East and North Africa, while WNS Europe indicates Western, Northern, and Southern Europe.

Asset allocations in the impact investing space are spread out among diverse sectors. Currently, 20 percent of assets under management go toward financial services, including microfinance. However, this figure also captures assets that are spent on agricultural or energy interventions, for example, that happen to run through the financial sector. 16 percent of assets are invested in energy, while 10 percent are invested in forestry. The food and agriculture, housing, and health care sectors are among the other major beneficiaries (Figure 5).

Although impact investing is a promising and growing field, it faces obstacles including the need for better reporting of results and new metrics, since environmental and social returns are hard to evaluate and monitor. Although new metrics have been proposed, such as the social return on

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63. Ibid., xiv.

64. Ibid., 33.
investment (SROI) and a forward-looking estimate—the impact multiple of money (IMM i.e., the monetary value of the social and environmental likely benefit from each dollar invested)—the industry has to adopt a set of standardized measures to be more transparent and accountable to both their funders and beneficiaries. Integrating financial, environmental, and social data will be a key challenge to resolve going forward.

Moreover, greater collaboration with official aid donors and traditional philanthropy can help impact investors reach their beneficiaries more carefully. In the monitoring and evaluation stage, USAID and the Rockefeller Foundation have worked to create performance indexes so that impact investors know which projects are delivering the greatest social or environmental return. As more development stakeholders encourage impact investing and share best practices, the field will grow in size and the quality of investments will increase.

Figure 5: Sectoral Distribution of Assets under Management

Source: GIIN 2020 Annual Impact Investor Survey. WASH indicates water, sanitation, and health, while ICT indicates information and communications technology.

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68. Ibid.
Given the size of the existing market and its potential to grow, impact investments can be an innovative tool to strengthen rural economies. Digital and physical connectivity, financial access, and human capital are three areas where impact investments can provide long-term opportunities, as well as alleviate the burden of Covid-19.

1. Increasing Market Access and Connectivity

Lack of access to information, inputs, and storage and transportation infrastructure are barriers to economic growth in rural communities. To improve market access and connectivity, impact investors should look to physical and electrical infrastructure projects, as well as investments in transportation, water, sanitation, and telecommunications. Traditionally, rural villages have received electricity from regional grids that are planned and funded from the top down. Today, private enterprises and nonprofit groups have taken a novel approach by investing in microgrids, which can operate independently of the larger electrical system.69

For example, Sunfunder, a firm founded in 2012, aims to support these efforts as part of a larger goal to mitigate the effects of climate change.70 In 2017, they launched a $47 million Beyond the Grid Fund, linking investors with solar microgrid companies in sub-Saharan Africa, India, and the Pacific. The project now supplies 4.5 million people with clean electricity and offsets 412,000 tones of CO₂ emissions annually. Given their success with Beyond the Grid, Sunfunder has now launched a new $85 million fund to build on that progress.71

To improve access to input markets and increase farmers’ productivity, the Canada-based Lundin Foundation invested $175,000 in Rent-to-Own Limited Zambia, a company that leases agricultural equipment. Unlike other providers of equipment, Rent-to-Own offers more flexible financing models for farmers as well as technical guidance. When the rental period ends, farmers have the option to keep the equipment. The Lundin Foundation’s investment allowed Rent-to-Own to expand to more remote areas in Zambia, providing more ploughs, ox carts, irrigation systems, and carpenter planes to smallholder farmers.72 The Rent-to-Own model is appealing since it increases the farmers’ capital and technical expertise, which can likely have greater long-term economic benefits.

2. Expanding Financial Access

Without access to well-developed domestic capital markets, many enterprises rely on high-risk, high-cost informal networks, or they simply operate without credit.73 International impact investors can present a safer alternative and decrease risks. Another issue is the lack of aggregation, which means that opportunities tend to be small and therefore transaction costs are high. There is also a huge lack of working capital and investment in agriculture production, which is seen as much more risky than other sectors due to weather and other uncontrollable factors.

71. Ibid.
For example, in Bihar, one of the poorest states of India, Heifer International provides goats and seeds to families to get their farms up and running. Women also form self-help groups, pooling their savings and receiving technical support from Heifer’s local teams. Once the families have started their business, they give the goats and seeds to other families. The project has now directly supported 24,000 families in total, with indirect benefits for the rest of the community. Building on these traditional economic development projects, Heifer International has launched Heifer Impact Capital, leveraging more than $9 million to support 37,000 farmers and entrepreneurs around the world during the first two years of existence. By catalyzing private investments, Heifer Impact Capital’s products—such as debt, mezzanine, guarantees, and (in some cases) equity—have allowed enterprises to grow and connect to global supply chains. Heifer Impact Capital is currently looking to significantly scale these efforts; by partnering with other NGOs, DFIs, impact investors, and donors to create a blended finance vehicle, they aim to reach many more families in the future.

In another case of improving financial access, U.S.-based Leapfrog Investments provided $13.9 million in equity to AllLife, a South African firm that offers affordable life insurance to people living with HIV/AIDS and diabetes. AllLife was at an early stage of growth when they received the investment in 2010. Since then, they have more than doubled their revenue and expanded access to patients who previously could not afford life insurance.

### 3. Improving Human Capital

A third area where impact investors can make a difference is enhancing human capital by funding specific interventions in health and education. Lok Capital, an India-based fund, makes long-term equity investments, aiming for inclusive growth. In one investment, Lok provided over $813,000 to the Drishti-Eye Center, an organization that prevents blindness in rural communities. Given the additional funding, the Eye Center built three hospitals and three vision centers, hired new staff, and expanded their marketing. The pricing model is targeted at poor communities, and Drishti also engages in corporate social responsibility campaigns to provide free services for those who cannot afford their rates. With better access to vital health care, the beneficiaries of Lok Capital’s investment will lead a better life and be able to continue to work, bringing in income for their families.

In low- and middle-income countries, the World Health Organization estimates that about 10 percent of medicines are counterfeit. Nigeria’s food and drug regulatory body decided to tackle this problem in 2010, by partnering with Sproxil, a small firm based in the United States. Sproxil began offering a free text-message service, allowing pharmaceutical customers to take a photo of their medicine label and identify whether it is genuine or counterfeit. Within two years, more than one in

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75. Ibid.


every 200 people in Nigeria had used the service. Acumen Fund, a global impact investor, invested $1.79 million in equity toward Sproxil, allowing the company to improve its technology and expand operations to East Africa and India.81

In education, impact investing has made advances toward e-learning for rural communities. General Atlantic, a growth equity firm, and GGV Capital, a venture capital firm, decided in December 2019 to invest $150 million in Ruangguru, an Indonesian e-learning company.82 The investment could not have come at a better time as students in Indonesia move online to limit exposure to Covid-19.83 Ruangguru continues to serve K-12 students, and with the influx of funds, the company hopes to expand across Indonesia and into Vietnam.84

These success stories illustrate how impact investing can promote positive social and environmental outcomes. Through diligent research, monitoring, and evaluation, investors can promote rural development while also realizing a financial return.

How Can Impact Investors Help during the Covid-19 Pandemic?

Impact investors must carefully consider how to respond to the pandemic and the global economic downturn. Rural economies require additional investment, given that Covid-19 has further exacerbated disparities between urban and rural areas. While impact investors should not invest in companies that will likely shut down in the coming months, funds have found creative ways to ameliorate the situation.

First, investors like Ceniarth, LLC, have offered more flexibility to borrowers by restructuring loans, deferring interest repayment deadlines, and lowering rates.85 Second, some impact investors have extended emergency zero-interest loans to keep social enterprises open and allow them to keep paying their workers. Big Society Capital, a UK-based fund, has deployed £100 million along these lines to meet borrowers’ needs.86 Third, lenders can reallocate their capital toward the most pressing community needs. In May 2020, the Global Impact Investing Network launched a Response, Recovery, and Resilience Investment Coalition, coordinating its members’ goals to prioritize financial inclusion, food security, and health in the face of the ongoing crisis.87

Looking Ahead: How Can Impact Investing Strengthen Rural Development?

The current Covid-19 pandemic will likely widen existing urban-rural inequalities and increase economic vulnerabilities present in rural communities. United Nations Conference on Trade and Development (UNCTAD) projections point to a 40 percent decrease in foreign direct investment globally from 2020 to 2021. However, after growth in the recent years, impact investing is expected to stay relatively steady. Impact investors have expressed a commitment to scale up efforts in responding to the Covid-19 pandemic and in aiding recovery, and they have financed companies directly working in addressing the pandemic. Furthermore, most impact investors are expected to maintain or boost their impact investments this year due to Covid-19, and most plan to invest in areas related to the United Nations’ Sustainable Development Goals (SDGs). Based on the survey, 63 percent of investors are unlikely or very unlikely to change their investing themes—which are aligned with the UN goals—over the next five years, noting that the causes they support are being exacerbated by the pandemic.

The impact investing industry—through organizations such as Root Capital, Heifer Impact Capital, TechnoServe, and others—has been at the forefront of developing sustainable solutions to address the needs of the most vulnerable groups, including smallholder farmers, indigenous communities, youth, and women entrepreneurs. Along with investment capital, business development support services are also required with these vulnerable groups. As the industry grows and matures, there are several areas of intervention where these investments and BDS services can make a difference for the livelihoods of rural communities:

**Target investments in rural connectivity to support farmers’ access to markets.** Investments in roads, electricity, and internet access are needed in rural areas to connect these economies to markets. By using infrastructure to connect inputs, products, and labor to markets, farmers can enhance their own productivity, integrate into global value chains, and create work opportunities in other sectors.

91. Ibid.
Impact investors can provide financing in the form of equity, loans, and capital—focusing on microgrids, renewable energy sources, and services distributing mobile devices in rural communities. However, investors often point to the lack of bankable and commercially viable projects as a major challenge in investing in developing countries. In order for more quality infrastructure projects for rural economies to develop, further concerted efforts need to be put into preparing a sound pipeline of bankable projects. A related role is for donors, development finance institutions, and impact investors to assist developing country governments in preparing project pipelines and to provide technical assistance into the early stage of the project development process, thus increasing the number of bankable infrastructure deals.

**Become agricultural stewards, ensuring that smallholders capture a fair share of the value chain.**

When designing interventions in the agriculture value chain, impact investors need to understand all the stages and other actors along a specific product value chain to ensure that the farmers receive a generous margin when selling their crops. As already mentioned, smallholder farmers lack finance, human capital, and strong relationships with buyers and markets; additionally, many of these small agricultural producers are not aggregated into formal enterprises or farmer cooperatives. One area where impact investors can play a larger role is helping set up and strengthening these “aggregators” through technical assistance, loan guarantees, and direct lending. Impact investors can identify producer organizations that work well with farmers, and they can help the farmer negotiate for a larger share of the proceeds from agricultural products. Another area where impact investors can play an increasing role is in helping financial intermediaries—such as microfinance institutions, savings and loan cooperatives, and commercial banks—reach rural areas through innovative lending models and tools that are more adapted to meet the financial needs of smallholders. Finally, impact investors can connect partners for community-based work by forming and supporting local coalitions.

**Use blended finance and technical assistance to strengthen rural MSMEs.** Micro, small, and medium-sized social enterprises (MSMEs) face different financing challenges at different stages. At early stages where risk is high and expected returns are low, they may benefit most from government or international partner grants. During the growth stage, they can benefit most from impact investors. Later on, when risk is low and expected returns are highest, they may even attract commercial lenders. Impact investors should place their work in the context of other sources of finance. Furthermore, impact investors who are willing to accept concessional returns can help de-risk investments and catalyze more commercial types of investors. Impact investors can help their recipients by supplying

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capital, but they can also draw on their expertise working with other social enterprises. Investors should offer smallholders advice on how best to grow their business, as well as connect them to a network of experts and practitioners in their field.

**Develop metrics to identify the social enterprises that could best benefit from impact investments.** Too often, impact investors provide capital and issue loans to socially oriented firms that they have a personal connection with. To maximize social and environmental impact and financial return, however, they should subject their investment proposals to more rigorous quantitative analysis. Investors should have to demonstrate both enterprise impact (i.e., that the social enterprise is providing a unique service, rather than just displacing other firms that could provide as much benefit to the community) and additionality (i.e., that their capital will help the recipient surpass some obstacle rather than simply displacing other investors). At the same time, impact investors need to agree upon a robust system of monitoring and evaluation, choosing metrics before the project begins and assessing an investment on those terms, so that social impact can be accurately measured and reported. They should also be transparent about outcomes, sharing them with audiences beyond their investors so that other development partners can learn from successes as well as missteps.

**Advocate for government policies to incentivize impact investing.** Impact investors should work with policymakers to ensure a favorable environment for making socially oriented investments. The Small Enterprise Assistance Funds (SEAF), for example, has supported Section 501(c)3 tax exemptions from the U.S. Internal Revenue Service (IRS), allowing it and other qualified impact investment managers to accept grants and donor assisted funds as long as SEAF maintains its focus on developing underserved markets. Funds can benefit from investing in markets where these incentives already exist, and they should push for similar incentives in other countries.

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Conclusion

Rural economies have the potential to create meaningful economic opportunities in the future and attract youth to careers and entrepreneurial opportunities in the agricultural value chain. Higher urbanization rates and growing populations will mean that more people will need to be fed, and as the middle class grows globally, populations will demand higher-protein diets as well as more diverse products. Additionally, a growing consumer class with changing tastes and the invention of new technologies can be deployed to make food production more efficient and diverse. Furthermore, services associated with food production—such as storage, food safety, marketing, packaging, and advertising—are components of the food value chain that might be more attractive to youth in terms of available economic opportunities.

That said, rural development needs to go beyond the notion of improving agricultural productivity; it must promote agricultural transformation that modernizes and commercializes agriculture, encourages investments in human capital in rural areas, and bolsters private enterprise and investment. Developing and enabling institutions and farmers as entrepreneurs are important steps in addressing some of the inefficiencies of the agriculture industry, with the ultimate goal of allowing farmers to make a living income from their businesses. Beyond increasing productivity, rural development must focus on enabling smallholder farmers to lead a transformation in their communities by earning a living income and thriving, not just surviving. The access that smallholder farmers have to entrepreneurial opportunities is one component of a country’s ability to become an agricultural exporter. Cooperative extension services, for instance, are one way of providing farmers with the support they need. Farmers need reliable institutions that are willing to fund extension services, as well as the accompanying technology required to widely disseminate the service programs. Donors must support their host-country governments in obtaining these capabilities and then enforce their use in improving critical sectors such as rural development and agribusiness.

The Covid-19 pandemic has disrupted global food supply chains, testing their resiliency and highlighting the existing inequalities between rural and urban areas. Economic recovery efforts post-Covid-19 should call for greater attention and investment in rural areas to prevent future shocks. Impact investments can fill the financing gap while addressing pervasive problems like connectivity.

and access to finance, creating a more sustainable economic model for rural economies going forward. Impact investing can also catalyze other sources of finance investments and push governments to make the kinds of investments and reforms that can be transformational for rural economies. Impact investors can become active partners of governments, donors, the private sector, and traditional philanthropy to support rural development. Not only can established partnerships help farmers and agribusinesses prosper, but they can instill industry knowledge and know-how that will last beyond the duration of the partnership.
About the Authors

**Daniel F. Runde** is senior vice president, director of the Project on Prosperity and Development, and holds the William A. Schreyer Chair in Global Analysis at CSIS. A global thought leader and change agent, his work centers on leveraging U.S. soft power and the central roles of the private sector and good governance in creating a more free and prosperous world. Mr. Runde has been recognized for influencing the debate on USAID-State Department relations, as an architect of the BUILD Act, and led the debate surrounding the role and future of the World Bank Group. Mr. Runde has also influenced thinking about U.S. economic engagement with Africa (of which he is in favor of much more) and domestic resource mobilization. Mr. Runde holds the Officer’s Cross in the Order of Isabel la Católica, a Spanish Civil Order.

Previously, Mr. Runde held senior leadership roles at the International Finance Corporation (IFC). From 2005 to 2007, he was director of the Office of Global Development Alliances (GDA) at the U.S. Agency for International Development (USAID), and he led the GDA partnership initiative by providing training, networks, staff, funds, and advice to establish and strengthen public-private partnerships. His efforts at USAID leveraged $4.8 billion through 100 direct alliances and 300 others through training and technical assistance.

Mr. Runde is the chairman of the Advisory Committee on Voluntary Foreign Aid (ACVFA), and he also serves as the chair of the Sub-Saharan Africa Advisory Committee for the Export-Import Bank of the United States (EXIM). He also serves on the board of the International Foundation for Electoral Systems (IFES), the Millennium Challenge Corporation (MCC) Advisory Council, the Western NIS Enterprise Fund (WNISEF), and the Ashesi University Foundation (a private university located in Accra, Ghana). Mr. Runde is also a lifetime member of the Council on Foreign Relations (CFR) as well as a member of Bretton Woods. Mr. Runde is a regular contributor to *The Hill* and hosts a podcast series, Building the Future with Dan Runde: Freedom, Prosperity, & Foreign Policy.

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