

PROJECT STATUS REPORT (FINAL)

07/01/2021 - 12/31/2021

SECTION 1: PROJECT SUMMARY

Operation number: RG-T3282

Suboperation number: ATN/ME-16974-RG

Project Name: New Models for Financing Early Stage Agribusinesses

Purpose: Social Impact Incentives (SIINC) model

Country admin:

COSTA RICA

Country beneficiary:

Regional

Group:

C

SubGroup:

Executing Agency: Root Capital

Team Leader: WILLIAME

Score Image:

Total Score: 2.424

Project cycle:

Report Date: 2022-01-04

Approval Date: 2018-10-11

Signature Date: 2018-12-26

First Disbursement Date: 2019-07-08

Original Execution End Date:

Current Execution End Date:

Original Last Disbursement Date: 2022-06-26

Last Current Disbursement Date: 2022-06-26

SECTION 2: RESULTS AND ACHIEVEMENTS

Project's performance after finished

Root Capital is proud to share this final Project Status Report detailing our accomplishments from Social Impact Incentives (SIINC) to Unlock Finance for Early Stage Agricultural Businesses in Latin America. This project was a collaboration with the Swiss Agency for Development and Cooperation (SDC), Roots of Impact (RoI), and the Inter-American Development Bank (IDB), to pilot the SIINC funding mechanism, which rewarded Root Capital for making high-impact—but also high-risk and high-cost—loans to early stage agricultural small- and medium-sized enterprises (agri-SMEs) traditionally excluded from commercial lending markets in Latin America. We are pleased to report the project was highly successful: Root Capital achieved all project targets and milestones, even as the COVID-19 pandemic forced Root Capital to adapt project activities. Our seamless transition to remote service delivery in the face of COVID-19 allowed us to sustain our support of agri-SMEs throughout this global health crisis and achieve the following results:

C1 Social Impact Incentives (SIINC) Payments: The SIINC mechanism compensated Root Capital \$22K-\$29K per loan for making loans under \$500K to agri-SMEs with limited access to finance (verified by the independent advisory firm Roots of Impact). Root Capital made 39 SIINC loans against the project target of 40 and we drew down the full \$1M in SIINC outcome payments. The \$1M in SIINC outcome payments enabled Root Capital to disburse \$12.4M in working capital to 32 agri-SMEs, which unlocked \$48M in revenue and \$41M in payments to their 9,320 smallholder farmers—fueling rural economies and improving smallholder farmer livelihoods. Excitingly, we exceeded our project milestone of reaching three new Root Capital lending clients and provided 12 agri-SMEs with their first Root Capital loan through SIINC.

C2 Business Advisory Services (BAS): We paired SIINC's expanded access to financing with our BAS to deliver tailored training to 33 agri-SMEs to build their foundational financial management capacities and increase their credit-readiness. We reached 15 new agri-SMEs with BAS during the project (against a target of 10), and 45% of agri-SMEs participating in BAS also received a SIINC loan as part of our proven credit-plus-capacity model for unlocking enterprise growth. Under this project component, Root Capital partnered with Lima Coffee in Peru to implement blockchain to provide traceability for coffee micro-lots from the farm through export in order to evaluate blockchain's feasibility and scalability for increasing agri-SMEs' traceability capacities. As a result of the pilot, Lima Coffee will export their coffee in bags with QR codes that will direct buyers to a dashboard showing information specific to each lot purchased. Due to pandemic-related shipping delays, the coffee will be exported in early 2022.

C3 Impact Assessment and Learning: To broadcast the overwhelming success of our project, Root Capital presented SIINC at four dissemination events: (1) a webinar hosted by Catalyst 2030 where Root Capital co-presented with SDC and RoI on the SIINC mechanism's efficacy for fueling agri-SME growth; (2) a panel on mechanisms for impact-linked finance hosted by the Esmée Fairbairn Foundation; (3) the University of Zurich's Initiative for Blended Finance executive education program; and (4) the Global Executive Leadership Roundtable in the Netherlands to build momentum on transforming gender inclusion in agricultural supply chains. We also published a blog post that inspired ImpactAlpha, a leading online news source for impact investing, to write an article for their website about our SIINC pilot. To meet the demand for learnings, we completed a SIINC learning report to build evidence for the use of outcomes-based financing to raise investments in high-impact, early stage agri-SMEs that we will publish on our website and submit to sector-leading publications like the Stanford Social Innovation Review. To mitigate COVID-19's impact on this project and our clients' operations, Root Capital implemented operational changes to ensure the continuity of activities while protecting our staff and clients: **SIINC Lending:** Our Lending and Treasury staff remained fully operational to retain agri-SMEs' access to working capital, and we primarily addressed COVID-19's impacts on our portfolio through heightened loan monitoring. We also secured funding from IDB to facilitate interest rate relief, liquidity support, and debt forgiveness, yet no SIINC loan recipients have applied for debt relief to date. **Business Advisory Services:** Root Capital shifted to remote training and we adapted training curriculum to help agri-SMEs to better address the heightened uncertainty of operating

amidst COVID-19. For example, we adapted training content to help agri-SMEs to track the cost of rerouting shipments, sourcing personal protective equipment (PPE) for employees and farmers, or adding collection centers.

Supervision Team Leader comments

Root Capital was able to adapt its business model to the challenges brought by the pandemic, changing its training model to support companies in the face of the uncertainty posed by COVID, and adjusting the financial conditions of its loan portfolio.

Final evaluation

In conjunction with Roots of Impact (RoI), Root Capital completed a comprehensive final project evaluation to distill key project impacts, identify valuable learnings, and build the evidence base for deploying SIINC mechanisms to increase investments in early stage agri-SMEs. Our evaluation found that after just two years, SIINC created measurable impact for Root Capital, its client agri-SMEs, and smallholder farmers: A total of \$1M in outcome payments enabled Root Capital to disburse \$12M in loans to 32 high-impact, early stage agri-SMEs. These enterprises earned \$48M in revenue and generated \$41M in income for 9,300 smallholder farmers. SIINC had a meaningful impact on the makeup of Root Capital's portfolio: In project countries, we made twice as many loans that no other financier would have made on the same terms as Root Capital during the project than we did in the same period before the project. It also showed how SIINC can be catalytic in boosting client outcomes. Over half of SIINC clients (18 of 32) grew their annual revenues, with the average client revenue growing by 41% over pre-SIINC levels. In addition, 47% of enterprises subsequently gained larger loans from Root Capital—on average \$130,000 larger—with 9% receiving a loan >\$500K. That pushed these clients over the threshold for requiring subsidy. Also, 9% increased their access to other sources of finance after 18 months, with two clients accessing social financing and one client accessing commercial financing. The pilot also generated significant learning—for Root Capital and other social enterprises interested in implementing SIINC or other outcomes-based financing projects: Items critical to the project's success included: strong systems and processes, loan officer commitment, complementary advisory services, and strong collaboration among partners. SIINC helped Root Capital reach agri-SMEs working in more socially vulnerable areas. Our SIINC clients were twice as likely to operate in areas of extreme poverty than the rest of our Latin America portfolio. SIINC clients performed as well on their loans as the rest of Root Capital's global coffee portfolio, despite their early stage and smaller size. SIINC clients also saw larger year-on-year sales growth rates than average, growing at a rate of 43% compared to historical growth rates for Root Capital clients in Central America (26%) and South America (34%). The amount of the incentive payment was well-aligned with the costs to serve these businesses. No SIINC loans were profitable without the SIINC subsidy, which ranged from \$22K-\$29K. On average, each SIINC loan would have generated a \$21,100 loss for Root Capital without the SIINC subsidy. The mechanism matters. When the impact payment is aligned with and covers the costs to generate a specific outcome, it is more likely that the outcome will be reached. The project's challenges included: faster-than-expected drawdown of outcome payments, late changes in loan terms, and the complexity of measuring additionality. Building off the success and learning of this project, Root Capital and others are expanding our use of SIINC and other outcomes-based financing mechanisms. Root Capital, RoI, IDB Lab and SDC launched a second SIINC project to support early-stage agri-SMEs throughout the COVID-19 pandemic. Additionally, Root Capital, in partnership with the Walmart Foundation and Visa Foundation, launched a SIINC-like gender lens investing initiative in 2021.

Supervision Team Leader comments

The SIINC model has enabled Root Capital to reach profitability while supporting high impact SGBs in socially vulnerable areas.

SECTION 3: INDICATORS

C1 : Social Impact Incentives (SIINC) Payments		Weight 70%		Qualification High Satisfactory		
	Indicators	Baseline	Planned		Achieved	Status
I1		0	40 (2021-12-26)		32 (2020-07-24)	In progress
C2 : Business Advisory Services		Weight 30%		Qualification High Satisfactory		
	Indicators	Baseline	Planned		Achieved	Status
I1	Number of businesses in target countries that receive financial advisory services (FAS)	0	30 (2021-12-26)		33 (2021-01-21)	Finished
C3 : Impact Assessment and Learning		Weight 0%		Qualification High Satisfactory		
	Indicators	Baseline	Planned		Achieved	Status
I1		0	0 (2021-12-26)		Yes (2021-07-30)	Finished
	Milestones	Planned Value		Achieved Value	Due Date	Achieved Date
	Conditions Prior	1		1	2019-06-24	2019-06-26
	Proof of concept of financial traceability and blockchain identity analysis	1		1	2021-03-25	2021-03-25
	At least 3 organizations become new RC clients	1		10	2020-06-26	2019-10-31
	Dissemination event	1		2	2021-12-15	2021-08-26
	At least 10 new businesses receive financial advisory services	10		10	2021-06-30	2021-04-14

Critical facts that have affected project's performance

- Environmental restrictions

Others, Which?

The pandemic was a game changer for the project, forcing Root Capital to adapt its business model.

SECTION 4: RISKS

	Impact Area	Severity	Prob.	Date	Responsible	Mitigation action
Effects of climate change and other weather-related shocks	Business Advisory Services	(4) High	Medium 60%	2020-02-04	Executing Agency	The services Root Capital will extend to these clients will increase the resilience capacities of these SMEs. With access to credit and growth, SMEs are able to implement key initiatives such as income diversification programs, crop renovation and rehabilitation, and agronomic training for supplying farmers.
Credit/default risk	Intermediary Outcome	(3) Medium	High 80%	2020-02-04	Executing Agency	Root Capital's Finance & Credit Risk Committee and the Risk Oversight Committee will closely monitor Root Capital's lending performance and decision-making on a monthly basis and will only allow RC to lend to businesses that meet the basic parameters for credit-worthiness.
Verifying loan additionality determinations	Social Impact Incentives (SIINC) Payments	(2) Low	Low 40%	2020-02-04	Executing Agency	Root Capital has a robust internal system for regulating and standardizing additionality attributions and Loan Officers have been extensively trained in defining loan additionality. Additional training will be provided to further ensure standard definitions and practices between Loan Officers and regional offices.
Market volatility	Social Impact Incentives (SIINC) Payments	(3) Medium	Medium 60%	2020-02-04	Executing Agency	RC mitigates market risk by lending against forward contracts where possible, reviewing country specific lending regulations and currency controls and performing markets assessments to understand the relative stability or volatility of agricultural product prices.
COVID-19	Business Advisory Services, Impact Assessment and Learning	(4) High	High 80%	2020-07-25	Executing Agency	The entire Root capital team has implemented actions that ensure the safety of employees and constant support for customers. The use of remote technology and methodologies has been promoted, the Advisory team adjusted the advisory services curriculum to support organizations to face this crisis.
TOTAL RISKS QUANTITY: 5		IN EFFECT RISKS: 5		NOT IN EFFECT RISKS: 0		MITIGATED RISKS: 0

SECTION 5: SUSTAINABILITY

Indicate likelihood of project sustainability after project completion: P

Justification:

RC has managed to attract the interest of other impact investors, they are currently working on a similar scheme with Walmart Foundation.

[There were no aspects reported during this period]

Actions related to sustainability which have been implemented in the project:

At the close of our project with IDB, Root Capital is highly optimistic that the SIINC mechanism's positive impacts on our lending and agri-SMEs in Latin America will be sustained beyond the project to create wide-reaching ripple effects for the agricultural finance sector. Below we outline three core pieces of evidence for the short- and long-term sustainability of our partnership with IDB: SIINC Catalyzed Early Stage Agri-SME Access to Finance: Through SIINC, Root Capital reached agri-SMEs with limited access to working capital: RoI verified 100% of SIINC loans would not have been made by a commercial bank and 77% would not have been made by any other financier on the same terms as Root Capital. Access to working capital is specially catalytic for early stage agri-SMEs; SIINC-loan recipients grew their revenues year-on-year by 43%, 17 points more than the historical growth rate for Root Capital clients in Latin America. As these early stage agri-SMEs grow their sales footprint, their credit needs grow as well and become financially sustainable for other lenders. Evidence of this sustainability include: 47% of agri-SMEs gained larger subsequent loans from Root Capital, on average \$130,000 larger; 20% of agri-SMEs graduated to more mature forms of finance, with three agri-SMEs receiving a subsequent loan from Root Capital for more than \$500K (over the threshold loan amount requiring SIINC subsidy) and another three agri-SMEs gaining access to commercial financing; and 18% of agri-SMEs who participated in Business

Advisory Services secured a SIINC loan under our new partnership with IDB. SIINC Sustainably Increased Root Capital's High-Impact Lending: An illuminating analysis determined that, despite being riskier due to their nascent operations, SIINC-loan recipients performed as well on their loans as mature agri-SMEs in terms of loan loss rate (defined as the percentage of loan principal lost on loans closed from 2015 to 2020, excluding guarantees). Therefore, SIINC propelled us down-market to serve more early stage, high-impact agri-SMEs in Latin America without taking on too much risk, boosting the impact of our lending portfolio in the following ways: Increasing the percent of new businesses entering our portfolio by four points; Maintaining the percent of loans in our portfolio under \$500K while we implemented more austere lending policies to reduce our risk exposure and build the sustainability of our global lending platform; Doubling the percent of loans that no other financier would have made on the same terms as Root Capital so that we could reach far beyond our peers and commercial lenders in the region. Adapting the SIINC Mechanism with New Partners: An assessment of SIINC loan-level economics confirmed the average \$25,000 per-loan SIINC payment effectively covered the average operating deficit of SIINC loans. With the SIINC mechanism's proof of concept validated, Root Capital secured \$3.86M from the Walmart and Visa Foundations to launch projects modeled after SIINC. With these funds, we will deploy two outcome-based payment mechanisms to boost our gender-lens investing in Central America and Sub-Saharan Africa, two regions that are particularly challenging for women entrepreneurs. By covering the incremental costs of making loans to women-led and gender-inclusive businesses, we expect to extend credit to at least 46 agri-SMEs around the globe, benefitting more than 45,000 women employees and farmers. We are designing similar outcome-based payment mechanisms with other funders to boost our investments in other crucial, yet underserved market segments around the globe.

SECTION 6: KNOWLEDGE

	Relative to	Author	Date
Setting up SIINC for Success: Applying the SIINC model to social financing is entirely new application for not only Root Capital, but the industry as well. To accommodate for it, Root Capital had to adapt our current systems for tracking loans (detailed above in the Project Management section) and train loan officers to think outside of the "business as usual" mindset. For them, this new funding mechanism has expanded the spectrum of clients Root Capital serves, deepening their work with a client segment typically not served by Root Capital as the elevated risks and costs of these loans was outside of our risk appetite. For example, Root Capital developed a flyer with key SIINC information and has posted these flyers in all of the offices across Latin America to serve as a constant reminder of the additional loans we can now pursue. With the systems in place, Root Capital finds that applying the SIINC model is very straightforward and indeed allows Root to meet the high demand for these	Implementation	Melanny Zúñiga	2019-12-31
Extra-bandwidth for SIINC Clients: As shared above, the SIINC model is allowing Root Capital to reach earlier stage businesses with catalytic financing than we have in the past. For almost all of the agribusinesses reached, Root Capital is one of their first sources of finance. Loan officers note that being one of the businesses first financiers requires extra time on the loan officer's part to support the business prepare the required documentation (i.e. detailed financial statements, projected cash flow records, etc.). Knowing this, loan officers are planning for more time in the due diligence/credit approval process with SIINC-loan recipients to allow for opportunities to help these businesses produce financial documents of the caliber required for Root Capital and other forms of financing.	Implementation	Melanny Zúñiga	2019-12-31
Root Capital collected its final incentive payment, drawing down the entire \$1M SIINC incentive payment fund, after making our 39th SIINC loan in April 2020, 18 months earlier than the project end date. Completing this project's lending component ahead of schedule signaled the SIINC mechanism's necessity and success. Root Capital was able to reach businesses earlier and more quickly than expected because 1) The project design correctly identified the barriers to reaching these agri-SMEs and properly implemented the financial incentive needed to be able to finance them; and 2) Our in-country teams were trained in the SIINC project immediately after the project launch so that we could promptly begin project implementation. As a result of this pilot, we now have a clearer understanding of the rate at which Root Capital is capable of making SIINC loans and future Root Capital projects that employ the SIINC mechanism will reflect this learning.	Management	Scot Caple	2021-01-27
(design) Data digitization is the critical first step in unlocking the value of blockchain technology for agri-SMEs: Root Capital recommends that partners working with agri-SMEs to implement blockchain start with digitization and the benefit of digitizing data to unlock greater potential for agri-SMEs to engage with other value chain partners or unlock insightful business analytics. The largest barrier to implementing blockchain is the need for high-quality and timely data, which is especially difficult for agri-SMEs to routinely collect given the remote location of coffee farmers, limited internet connectivity, and scarcity of technological equipment. Starting with and proving the value of digitizing information by leveraging blockchain can effectively reduce the barriers to entry for agri-SMEs.	Implementation	Root Capital	2021-12-31
(design) Agri-SMEs must Include the cost of digital traceability (which may include blockchain) in their pricing strategy: Regardless of the systems used to implement blockchain, the continuous process of collecting detailed, farmer-level data for all lots of coffee produced is both challenging and expensive for agri-SMEs. For any agri-SME working to implement blockchain sustainably, they must calculate and include the costs of blockchain data collection as part of their costs of production and ensure their buyers are willing to support this cost, otherwise the ongoing costs of blockchain will outweigh its benefits.	Implementation	Root Capital	2021-12-31

(finding) SIINC-loan recipients perform well on their loans and generate greater impact than mature agribusinesses: Root Capital compared core metrics from the 32 agri-SMEs in our SIINC portfolio to our overall lending portfolio and found two enlightening statistics that underscore the impact and sustainability of the SIINC mechanism: 1. SIINC-loan recipients performed as well on their loans as mature agribusinesses in terms of loan loss rate (defined as the percentage of loan principal lost on loans closed from 2015 to 2020, excluding guarantees); and 2. SIINC-loan recipients grew their revenues year-on-year (YoY) by 43%, 17 points more than the YoY historical growth rate for Root Capital clients in Latin America.

Implementation Root Capital 2021-12-31

(finding) The SIINC payment effectively covered the elevated costs of making high-impact loans: The average \$25,000 per-loan SIINC payment effectively covered the average operating deficit of SIINC loans. Through our sector-leading portfolio impact management, we assign an “expected impact rating”(EIR) of 0-10 to each loan so we can graph the loan’s expected profit/loss against its expected impact so that Root Capital can prioritize loan subsidies for the highest impact businesses. The average EIR for SIINC loans was 7.8, well above our global average of 6.7 and signalling especially impactful loans. Post-project analysis found that no SIINC loan broke even; the largest loss we incurred on a loan during the project was \$43,000, the smallest loss was \$4,400, and the average loss was \$21,095—just below the average SIINC per-loan payment.

Implementation Root Capital 2021-12-31

Optimizing Impact Goals with Project Goals: The goal of this project is to pilot the SIINC pay-for-impact mechanism with a further innovation within the SIINC mechanism by using a differentiated pricing model to incentivize smaller loans that no other financier would have made on the same terms as Root Capital with higher impact payments. As a result, applying the differentiated pricing model to the SIINC mechanism sets an impact criteria that incentivizes Root Capital to make more higher-impact loans when possible. However, there are certain project targets that encourage Root Capital to prioritize the volume of project outputs over seeking the highest impact possible, creating a disconnect between the project’s intended impact and the metrics that measure actual impact. In the following Lessons Learned, we offer program design ideas that incorporate new methodologies to better set targets to unlock the full potential of the incentive payments.

Design Melanny Zúñiga 2020-07-24

Better projecting number of SIINC loans: Root Capital has identified a more effective method to set project goals for the number of SIINC loans possible given a certain project-maximum for total incentive payments. Instead of using the average per-loan incentive payment to derive a project goal—as Root Capital did for this project—we recommend using the maximum per-loan incentive payment to estimate the number of loans possible under the total SIINC payments. By structuring project goals this way, implementing partners can make the highest impact loans possible while meeting project goals for total number of loans.

Design Melanny Zúñiga 2020-07-24

Aligning targets for total amount of credit disbursed: The differentiated pricing encourages Root Capital to make smaller loans where possible; however, setting a project target of disbursing \$12M in credit compels Root Capital to make larger loans in order to reach project goals. For future project design, we would emphasize setting credit targets using the smallest loan amount expected. For example, Root Capital’s smallest SIINC loan to date is \$130K USD, multiplied by the target of 40 loans would set a \$5.2M USD credit disbursement target, instead of \$12M.

Design Melanny Zúñiga 2020-07-24