

PROJECT STATUS REPORT

01/01/2020 - 06/30/2020

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

Project cycle:

Report Date: 2020 - 07 - 01

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: PERFORMANCE

Project's performance summary since the beginning

Root Capital has made significant progress under the project, "New Models for Financing Early Stage Agribusiness," supported by the Inter-American Development Bank. Co-created by Root Capital, Roots of Impact, and the Swiss Agency for Development and Cooperation (SDC), this project deploys the Social Impact Incentives (SIINC) model, a novel funding mechanism that rewards organizations when they have achieved verified social impact. Under this project, IDB Lab and SDC incentivize Root Capital with up to \$1 million for making high-impact—but also high-risk and high-cost—loans to early-stage agricultural businesses in Colombia, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, and Peru. SDC and IDB make outcome payments to Root Capital for disbursing small loans that either no other social lender or no other commercial nor social lender would make. The project also provides advisory service support through individualized training to strengthen the financial management capacities of agribusinesses that are not yet credit-ready or need additional training to manage larger amounts of credit. Since October 2018, Root Capital has built the credit-readiness of 42 agribusinesses in Latin America—against a target of 50—through a combination of access to catalytic financing and capacity-building training. The agribusinesses served through this project support the livelihoods of over 10,000 smallholder farmers. Additional key achievements to-date include: 1. Providing 39 SIINC loans to 32 agribusinesses (of which 77% were loans that only Root Capital would make); 2. Disbursing \$12.15M USD in credit, surpassing the project target of \$12M; and, 3. Delivering individualized financial management training to 24 agribusinesses. Social Impact Incentives (SIINC) Payments Since the project began, Root Capital has made 39 loans and disbursed a total of \$12.15M in catalytic financing to 32 early stage agribusinesses in Latin America, with seven agribusinesses receiving two SIINC loans each. Our achievements under this project component to-date demonstrate the efficacy of the SIINC mechanism for unlocking access to finance for early stage agribusinesses. Through SIINC, we have added 13 new agribusinesses to our Lending portfolio in Latin America. When comparing our pre-SIINC portfolio in 2018 with our SIINC portfolio in 2019, Root Capital has: 1. Increased the percentage of loans that no other financier would have made on the same terms as Root Capital 39 percentage points; and 2. Increased the portion of loans closed equal to or under \$300K by 9 percentage points. The backbone of Root Capital's SIINC portfolio is seasonal working capital loans, a proven financial product for catalyzing enterprise growth. Through the SIINC mechanism, Root Capital has successfully made 39 working capital loans ranging from \$130K - \$500K USD. These loans are tied to the agribusiness's harvest and sales cycles to ensure the client's repayment schedule is in harmony with their seasonal cash flow. Structuring the loan this way means that our clients can pay their farmers on-time for their crop, which is important for two reasons: 1. Farmers are less likely to side-sell a portion of their crop to a middleman for an immediate and sometimes lower price; and 2. The agribusiness is better able to build solid and trusted relationships with their farmers and can over time source more crops, fulfill larger buyer contracts, and grow sales. Access to credit is critical for these agribusinesses to sustain their operations, but many remain ineligible for traditional forms of finance due to their heightened risk, high cost-to-serve, and smaller credit needs. Roots of Impact—the third-party firm hired to verify each loan's impact—has verified that 100% of project loans would not have been made by a commercial bank and no other financier would have made 77% of these loans on the same terms as Root Capital. As a result, the 32 early stage agribusinesses reached with our catalytic financing are securing the livelihoods of 10,786 smallholder farmers. By unlocking access to finance, Root Capital is empowering these cooperatives to show their elevated commitment to their farmers. Key impact results from our 32 agribusiness clients to date include: 1. Combined reported earnings of \$44.4M USD in revenue and paying \$37.3M USD to smallholder farmers (84% of their revenues); 2. 28% meet Root Capital's standards for being gender inclusive (defined as having at least a 30% women farmer base OR being a women-led business with at least a 20% women farmer base); and 3. 72% pay farmer-members at least 10% above local market prices. Business Advisory Services Through a second project component, Root Capital is building the financial management capacity of 24 early stage agribusinesses through individualized training delivered on-site at the agribusiness's place of operations. To date, 13 of these businesses have also received a SIINC loan to further unlock their growth potential. Our Business Advisory Services training is an important part of expanding access to finance for early stage agribusinesses, because they address internal gaps in an agribusiness's operations that hinder their ability to secure and manage credit from Root Capital and, eventually, commercial banks. Since October 2018, Root Capital has delivered over 331 days of on-site training. Every day of on-site training follows a detailed workplan developed specifically for each client using 1) comprehensive diagnostics that pinpoint intervention needs and 2) feedback from agribusiness managers about their business priorities and concerns. Training topics vary, but all span the spectrum of core credit-readiness components, from "internal controls" for effective accounting practices to "financial planning and analysis" to guide short- and long-term business goal setting. As an example, Root Capital is working with Cultivadores del Reino, a coffee cooperative in Honduras, to establish internal regulations for all matters regarding credit administration and accounting procedures, detailing them in a staff manual. Root Capital worked with cooperative staff to spot check loan paperwork to make sure it was up-to-date as well as sampled incoming and outgoing checks to verify their details against the cooperative's ledger. At

the end of the training, the cooperative appointed an employee to enforce the cooperative's compliance with internal regulations to keep their finances in working order. With the manual and tighter compliance control, Cultivadores del Reino can expect to produce more accurate financial statements that banks require to approve any loan application. Supervision Team Leader comments

The SIINC instrument has shown its effectiveness as a social development tool for small small agri-businesses.

Project's performance summary in the last 6 months

The last six months of this project, January through June 2020, have primarily focused on navigating the impacts of the COVID-19 pandemic, both in terms of Root Capital's ability to carry out project activities as well as shifting priorities to help clients weather negative economic and social impacts. Please find further details on COVID-19's impacts on this project in the "Justification" section below, and additional measures Root Capital is taking to secure our client's livelihoods in the "Sustainability" section. Since January 2020, Root Capital has continued progressing towards meeting targets for both project components. Achievements from January - June 2020 include: SIINC Payments Root Capital submitted two cohorts of 14 SIINC loans each to Roots of Impact for independent verification of each loan's impact. Roots of Impact approved both cohorts in January 2020 and March 2020 respectively, bringing the total to 28 SIINC loans approved since January 2020. From these 28 loans, Root Capital: 1. Added 12 new Lending clients; 2. Provided 8 loans to gender inclusive businesses; 3. Went further down market as 75% of these loans would not have been made by any other financier—neither commercial nor social—on the same terms as Root Capital; and 4. Supported 27 agribusinesses who secure the livelihoods of 7,937 smallholder farmers. Business Advisory Services Root Capital provided a total of 194 days of individualized training to 14 agribusinesses. All 14 clients are early stage agribusinesses working with Root Capital through our Business Advisory Services to build their credit-readiness. Five of these clients are receiving a SIINC loan in tandem with their on-site training to further catalyze their business growth. To continue meeting our clients' training needs during COVID-19, we made internal changes to our service delivery to accommodate remote training—where possible—and develop new training curriculums to reflect the changes in the operating environment (more details are available below in the "Justification" section). Root Capital resumed Advisory Services in May and has delivered 92 days of individualized training: with 56 days of training delivered remotely via Zoom, and 36 days delivered in-person, adhering to social distancing guidelines.

Supervision Team Leader comments

Root Capital has adapted its model to continue providing training and advisory services during the pandemic to minimize the impact on its clients.

SECTION 3: INDICATORS AND MILESTONES

C1 : Social Impact Incentives (SIINC) Payments **Weight 70% Qualification High Satisfactory**

Indicators	Baseline	Planned	Achieved	Status
I1	0	40 (2021 - 12 - 26)	11 (2020 - 02 - 04)	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)	11 (2020 - 02 - 04)	In progress

C3 : Impact Assessment and Learning **Weight 0% Qualification High Satisfactory**

Indicators	Baseline	Planned	Achieved	Status
I1	0	0 (2021 - 10 - 11)	0 (2020 - 02 - 04)	In progress

Milestones	Planned Value	Achieved Value	Due Date	Achieved Date	Status
Conditions Prior	1	1	2019 - 06 - 24	2020 - 02 - 20	Achieved
Proof of concept of financial traceability and blockchain identity analysis	1	0	2020 - 12 - 26		Pending
At least 3 organizations become new RC clients	1	10	2020 - 06 - 26	2020 - 06 - 10	Achieved
Dissemination event	1	0	2021 - 06 - 30		Pending
At least 10 new businesses receive financial advisory services	10	0	2021 - 12 - 30		Pending

CRITICAL FACTS THAT HAVE AFFECTED PROJECT'S PERFORMANCE

Others, Which?

Other: The COVID-19 pandemic has caused social and economic crises that impact Root Capital's client agribusinesses, especially in Latin America, and threaten their survival in a time when they are needed most to support supply chains, livelihoods and food security. To accompany agricultural enterprises through this crisis and beyond, Root Capital is delivering support to our clients through a four-stage crisis management approach: (1) understand enterprises' situation, so that then we can help them to (2) withstand the immediate crisis, (3) recover in the medium-term, and ultimately (4) re-imagine their strategies for growth and success in the long-term "new normal". Since March 2020, Root Capital has rightly focused on the first two stages of our approach, and we outline additional details about our measures for helping our clients recover in the "Sustainability" section. Below we detail how project activities have shifted as a result of the pandemic. Understand: In early April 2020, Root Capital surveyed 134 Lending and Advisory Services clients across our global portfolio to better understand the direct impacts of COVID-19 on their businesses, employees, and smallholder farmers. The survey results have helped inform Root Capital's initial crisis response strategy. Preliminary survey findings for our clients in Latin America include: More than 60% of clients anticipate a delay in their operations ranging from 2 weeks to 2 months, which could lead to depressed and delayed income to farmers, employee layoffs, and reduced services to farmers; and, Over 65% of our clients wish to continue Business Advisory Services remotely, specifically requesting training in business management. Withstand: In March 2020, Root Capital shifted project service delivery and implemented operational changes to ensure the greatest possible continuity of project activities while protecting staff and clients—many of whom operate in remote regions without access to sufficient healthcare. Key changes include: Lending: Our Lending and Treasury staff are fully operational for regular loan servicing to ensure clients with active loans retain their access to working capital, and we do not expect delays in processing disbursement requests for active loans. Looking ahead, with staff unable to conduct in-person due diligence visits and most registrars closed, there could be delays in processing loans in the closing stage as well as new loan applications. Furthermore, there is an increased risk of delays in loan repayment and Root Capital is working

with philanthropic partners to enable temporary debt relief so that businesses can avoid default. Business Advisory Services: Root Capital is continuing to support our clients remotely by identifying new capacity-building and digital solutions to ensure business continuity during COVID-19. In March, we suspended all in-person services and recalled our advisors from the field, shifting their focus on updating training curriculum and refining training methodology to better provide our services remotely. In May, we resumed our individualized “on-site” trainings remotely, focusing on financial management and analysis, particularly to support scenario planning based on operational realities.

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:

ASPECTS THAT PUT THE PROJECT SUSTAINABILITY AT RISK

Factor	Comments
3. A market is not generated for the project's services and/or activities (low payment capacity or low demand for those services)	There is a need to catalyze additional funds from impact investors to scale the model.

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

Short-term Sustainability: Root Capital is working with members of IDB and SDC to secure funding for the next 24 months to help early-stage agribusinesses withstand and recover from the COVID-19 crisis. The proposed activities are related to our COVID-19 management strategy (mentioned above) and include the following components: \$750,000 in outcome payments via counterpart from SDC to incentivize an estimated 25 high-impact, high-risk loans to fill critical financing needs of agri-SGBs during this crisis; \$500,000 via an innovative contingent recovery grant (CRG) from IDB Lab to further unlock Root Capital's risk appetite to make these high-impact investments, despite elevated market risk due to COVID-19; \$200,000 for Rapid Response Grants to help fill 12 SIINC-qualified enterprises' and their communities' urgent needs as they weather the pandemic; \$150,000 from IDB Lab/ for accompanying technical assistance for 15 SIINC-qualified enterprises, to build their crisis management capacity and position them successfully for recovery; and \$195,000 in counterpart support from SDC to create a flexible Debt Relief Fund for SIINC-qualified enterprises that face challenges repaying their SIINC loans. Long-term Sustainability: Root Capital moves our clients towards long-term sustainability through our “credit + capacity” model, a proven method for fueling agribusiness growth. Through our capacity-building Advisory Services, Root Capital provides tailored training interventions that address the unique need of agribusinesses to improve their internal management capacities. With stronger management, agribusinesses build their credit-readiness so

they can secure the financing that propels long-term growth and sustainability. Agribusinesses that receive Root Capital financing over multiple years grow at an average rate of 20% per year, gradually increasing their credit needs to commercially sustainable levels. In fact, 34% of clients who begin with only Root Capital financing graduate to commercial financing within an average of 2.5 years.

SECTION 6: PRACTICAL LESSONS

	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	2020 - 02 - 11
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	2020 - 02 - 11
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