

# PROJECT STATUS REPORT

07/01/2021 - 12/31/2021

## SECTION 1: PROJECT SUMMARY

**Operation number:** RG-T3772

**Suboperation number:** ATN/ME-18326-RG

**Project Name:** Financing Agribusiness and Cooperatives response to COVID-19 in Central America, Colombia, Mexico and Peru

**Purpose:** Smallholder farmers reached by SMEs

|                       |                             |               |                  |
|-----------------------|-----------------------------|---------------|------------------|
| <b>Country admin:</b> | <b>Country beneficiary:</b> | <b>Group:</b> | <b>SubGroup:</b> |
|                       | Costa Rica                  | C             |                  |

**Executing Agency:** Root Capital

**Team Leader:** WILLIAME

**Score Image:**

**Total Score:** 2.438

### Project cycle:

**Report Date:** 2022-01-04

**Approval Date:** 2020-11-05

**Signature Date:** 2020-12-17

**First Disbursement Date:** 2021-05-24

**Original Execution End Date:**

**Current Execution End Date:**

**Original Last Disbursement Date:** 2023-12-17

**Last Current Disbursement Date:** 2023-12-17

## SECTION 2: PERFORMANCE

### Project's performance summary since the beginning

Root Capital is pleased to share this Project Status Report with the Inter-American Development Bank (IDB), detailing achievements from our project Financing Agribusiness and Cooperatives Response to COVID-19 in Central America, Colombia, Mexico, and Peru. This project is building on the progress and lessons learned from the successful and impactful first partnership with IDB, the Swiss Agency for Development and Cooperation (SDC), and Roots of Impact (RoI) and seeks to deliver catalytic financing, capacity-building training, emergency cash infusions, and debt relief to early stage small and growing agricultural businesses' (agri-SGBs). With access to these critical resources, agri-SGBs are positioned to overcome COVID-19's ongoing shocks in order to continue connecting smallholder farmers across Latin America to global markets and reliable incomes. Highlights from the project to date include: - Closing 15 loans to 15 early stage agri-SGBs, disbursing \$5,649,411 in financing to fuel business operations and support incomes for 7,382 smallholder farmers; - Delivering tailored training to 12 agri-SGBs through our Business Advisory Services to help businesses address the persistent impacts of COVID-19 and support their return to growth in the post-pandemic economy; and - Disbursing all \$180,000 in Rapid Response Grants to 12 SIINC-qualified enterprises to help these businesses mitigate urgent COVID-19-related threats to business continuity and their communities. Lending: This project deploys the Social Impact Incentives (SIINC) funding mechanism to expand access to credit for early stage agri-SGBs—defined as having credit needs below \$500,000—by rewarding Root Capital on a per-loan basis for making high-impact loans. Using the SIINC mechanism, Root Capital has already closed 15 loans and disbursed \$5,649,411 to 15 agri-SGBs. RoI—the third party firm who verifies each loan's impact—has confirmed that 100% of these loans would not have been made by a commercial financier and that 67% of these loans would not have been made by any other financier on the same terms as Root Capital. We submitted a cohort of six more SIINC loans to RoI for verification in January 2022; we expect RoI to verify these loans' impact by March 2022. Business Advisory Services: Root Capital delivered 28 days of customized remote training to 12 agri-SGBs. Root Capital prioritized Business Management Advisory (BMA) training throughout 2021 to advance agri-SGBs along their journey to credit-readiness, whether they are an early stage business building foundational credit-management capacity to successfully secure a SIINC loan or a current SIINC-loan recipient preparing to diversify their sources of financing. The most popular training topics in 2021 were Strategic Planning and Accounting, which are particularly important during the heightened uncertainty of the COVID-19 pandemic. Rapid Response Grants: Acting with the urgency required of a global health crisis, Root Capital completed this project component and disbursed all \$15,000 Rapid Response Grants to 12 agri-SGBs, totalling \$180,000 in emergency cash infusions. Agri-SGBs are linchpins for rural economies and livelihoods, especially during times of crisis. Grant recipients applied for funding to implement emergency initiatives that supported business continuity, with many using their grants to purchase personal protective equipment (PPE) for employees, distribute food and vital resources to farmers, or launching new resources to address emerging needs within the community. For example, Flor de Dalia, a small coffee and cocoa cooperative in Nicaragua, received a \$15,000 grant to safeguard both the economic and psychological welfare of their farmers and staff through two interventions: Launching a zero-interest revolving fund to provide farmers with the financial resources needed to improve their production and meet basic needs, shoring up families' food security, access to healthcare and education, and ultimately enhancing their economic stability. Providing employees with a financial voucher to recognize and compensate them for their exceptional efforts to help ensure the stability of the company. Compensation for the extraordinary commitment and sacrifice of these employees will help fortify the enterprise's human capital and ultimately build its sustainability.

### Supervision Team Leader comments

Root Capital has shown its ability to develop financial products tailored to the needs of small farmers so that they can face the health crisis.

### Project's performance summary in the last 6 months

Root Capital is pleased to share accomplishments from this project from July to December 2021 by component: Lending: During the reporting period, Root Capital provided five early stage agri-SGBs with a SIINC loan. With credit, these businesses were able to source crops to fulfill buyer contracts, sustaining their operations and preserving premium market linkages that provide reliable incomes for their farmers and their families—incomes that anchor post-COVID-19 recovery in rural communities. Root Capital's mandate is to support agri-SGBs committed to their farmers and communities, which we verify through our robust social and environmental due diligence. The \$3,360,776 Root Capital disbursed to these five agri-SGBs fueled rural prosperity and enabled the following outcomes: With total combined sales of \$9M and paying \$7.5M (or 83% of their revenue) to their 5,074 smallholder farmers, these agri-SGBs are contributing to the local economy and growing their businesses and revenues to increase their local impact; 60% of agri-SMEs paid their farmers at least 10% above local market prices, guaranteeing higher incomes for thousands of farming families; and 20% of agri-SGBs are gender inclusive (defined as having 30% or greater participation by women producers and employees, or is woman-led with 20% or greater participation by women producers and employees) and generating inclusive economic opportunities for women in agriculture. Business Advisory Services: During the reporting period, Root Capital delivered 29 days of individualized training to 11 agri-SGBs through a combination of remote and in-person training. Root Capital is prioritizing Business Management Advisory (BMA) engagements throughout Year 1 of this project in order to address pressing internal financial management gaps within participating agri-SGBs' operations that jeopardize profitability, credit-readiness, and long-term sustainability. Our focus on building core business skills early in the project with tailored BMA training will improve their ability to secure and manage credit from Root Capital, via a SIINC loan, or another social financier in Years 2 and 3 of the project. Each day of tailored training follows a detailed work plan developed by Root Capital's team of advisors using comprehensive enterprise diagnostics to pinpoint intervention needs and incorporating feedback from managers about business priorities. The most popular training topics this period were Strategic Planning and Accounting, which are particularly important during the heightened uncertainty of the COVID-19 pandemic. Production costs for most agri-SGBs have increased due to rerouted and delayed shipments as a result of interstate travel restrictions, national border closures, and a global shortage of shipping containers. With our adapted advisory curriculum, our training is helping agri-SGBs maneuver the pandemic's shocks to regional supply chains by staying apprised of market and logistical shifts, monitoring changes in income and expenses, and appropriately accounting for shifts in revenue or costs.

### Supervision Team Leader comments

The pandemic has brought changes in consumption trends that have favored agricultural goods, however the most vulnerable producers require technical assistance to be able to take advantage of changing business opportunities.

## SECTION 3: INDICATORS AND MILESTONES

| C1 : Social Impact Incentives (SIINC) Payments |   | Weight 0%  |                      | Qualification Satisfactory      |             |
|--|---|------------|----------------------|---------------------------------|-------------|
|  | Indicators  | Baseline   | Planned              | Achieved                        | Status      |
| I1   | Number of additional (medium or high additionality) loans of \$500,000 or less closed in target countries   | 0          | 25 ( 2022-12-17)     | 15 ( 2022-01-18)                | In progress |
| I2   | Number of additional loans of \$500,000 or less closed with gender-inclusive businesses in target countries   | 0          | 7 ( 2022-12-17)      | 6 ( 2022-01-18)                 | In progress |
| C2 : Contingent Recovery Grant Financing       |   | Weight 59% |                      | Qualification Satisfactory      |             |
|  | Indicators  | Baseline   | Planned              | Achieved                        | Status      |
| I1   | Number of loans closed  | 0          | 25 ( 2022-12-17)     | 15 ( 2021-12-31)                | In progress |
| C3 : Business Advisory Services                |   | Weight 18% |                      | Qualification Satisfactory      |             |
|  | Indicators  | Baseline   | Planned              | Achieved                        | Status      |
| I1   | Number of enterprises receiving technical assistance, to build their crisis management capacity and position them successfully for recovery                                   | 0          | 15 ( 2022-12-17)     | 12 ( 2022-01-18)                | In progress |
| C4 : Rapid Response Grants                     |   | Weight 23% |                      | Qualification High Satisfactory |             |
|  | Indicators  | Baseline   | Planned              | Achieved                        | Status      |
| I1   | Number of Rapid Response Grants provided to SIINC-qualified enterprises to help address the urgent needs of the businesses and their communities as they weather the pandemic | 0          | 12 ( 2021-12-17)     | 12 ( 2021-06-30)                | Finished    |
| I2   | Amount of Rapid Response Grants provided (US\$)   | 0          | 180000 ( 2021-12-17) | 180000 ( 2021-06-30)            | Finished    |

|           | Indicators   | Baseline | Planned               | Achieved              | Status      |
|-----------|--|----------|-----------------------|-----------------------|-------------|
| <b>II</b> | Total amount of credit invested in early stage enterprises that commercial lenders would not provide | 0        | 6000000 ( 2022-12-17) | 5649411 ( 2022-01-18) | In progress |

|  | Milestones   | Planned Value | Achieved Value | Due Date   | Achieved Date | Status   |
|--|--|---------------|----------------|------------|---------------|----------|
|  | Condiciones Previas / Prior Conditions   | 1             | 1              | 2021-06-17 | 2021-06-10    | Achieved |
|  | At least 10 rapid response grants disbursed to SMEs.                             | 10            | 12             | 2021-12-30 | 2022-01-18    | Achieved |
|  | Launch of technical assistance advisory to support crisis management in the SMEs | 10            | 0              | 2022-06-30 |               | Pending  |
|  | Loans of \$500,000 or less in target countries with medium-high additionality    | 20            | 0              | 2023-06-30 |               | Pending  |
|  | Smallholder farmers reached by SMEs receiving SIINC-enabled loans                | 4000          | 0              | 2022-12-30 |               | Pending  |

#### Critical facts that have affected project's performance

- Design of project/Components

#### Others, Which?

Root Capital has not utilized two project components to date: Contingent Recovery Grant: This innovative mechanism is intended to provide Root Capital with loan loss support to encourage Root Capital to take on the additional risk associated with SIINC-qualified lending to early stage businesses during COVID-19, covering up to \$500,000 of loan losses incurred during the project. Root Capital has not drawn down on these funds to date because this project's current cohort of 15 SIINC loans have not produced losses, yet we remain prepared to apply for these funds if needed. Client Debt Relief: This project component provides Root Capital with \$195,000 to facilitate debt relief for SIINC-qualified clients experiencing difficulties in repaying their loan due to COVID-19's impacts. As of December 2021, no SIINC loan recipients have applied for debt relief and we will continue to diligently monitor the evolving situation to deploy debt relief as needed. Overall, Root Capital strives to prevent borrowers from defaulting on their loan obligations by being diligent about monitoring for potential problems and keeping borrowers informed about their responsibilities. If a loan does become deemed at risk, Root Capital's lending staff assess the situation and work with the client to come to a suitable solution, typically a modification or restructuring of loan terms, which may include debt relief in the form of interest waivers or principal forgiveness. Root Capital's Lending and Risk teams will continue to closely monitor our clients' loan performance and are prepared to utilize this project's contingency recovery grant and debt relief as needed—especially as global markets react to the spread of the Omicron variant.

## SECTION 4: RISKS

| Impact Area         | Severity  | Prob.      | Date       | Responsible | Mitigation action   |
|---------------------|---|------------|------------|-------------|---|
| Credit/Default risk | Rapid Response Grants, Social Impact Incentives (SIINC) Payments, Contingent Recovery Grant Financing | (3) Medium | Medium 60% | 2021-02-11  | Executing Agency  |
|                     |   |            |            |             | The project have 3 mechanisms to help mitigate this risk: 1. Proactively supporting clients to prevent default: The project's Advisory Services will help build the internal capacity of clients, so they can plan for, respond to, and recover from crises and disruptions. In addition, the proposed Rapid Response Grants and Debt Relief fund will enable Root Capital proactively and with flexibility to work to address clients' urgent needs during the crisis. 2. Ameliorating the effects of client default: If clients do default at elevated rates, the project's Contingent Recovery Grant will help ameliorate some of the impact on Root Capital's balance sheet, encouraging Root Capital to continue offering high-impact, highrisk loans even during this period of extremely elevated market risk. 3. Complementing RC existing risk management systems: Although SIINC payments will incentivize RC to make relatively unprofitable loans, they will not override RC's existing Risk Management infrastructure, which includes the RC Finance & Credit Risk Committee that sets RC's risk appetite and reviews credit performance and quality, and the Risk Oversight Committee which closely monitors the particulars of RC's lending performance and decision-making on a monthly basis. These committees will only allow RC to lend to businesses that meet basic parameters for credit-worthiness, and while SIINC payments can shift |

|  |                       |                           |            |                               |                  |   |
|--|-----------------------|---------------------------|------------|-------------------------------|------------------|---|
| Prioritization and use of Rapid Response Grants            | Rapid Response Grants | (3) Medium                | Low 40%    | 2021-02-11                    | Executing Agency | the overall risk calculus, they will do so to a limited extent. RC's Risk and Lending teams are closely monitoring the evolving conditions due to COVID-19 in the project's countries and value chains.<br><br>RC will apply its robust monitoring and oversight protocols established for its existing small grant program for client agri-SGBs. Relevant procedures include application of a rigorous prioritization and assessment tool to identify top-priority clients to receive grants; active facilitation and guidance for SGBs during grant proposal origination; thorough internal review of proposals by members of RC Lending, Advisory, and Impact teams. |
| Market volatility  | Final Outcome         | (3) Medium                | Medium 60% | 2021-02-11                    | Executing Agency | RC mitigates market risk by lending against forward contracts where possible, reviewing country-specific lending regulations and currency controls, and performing ongoing market assessments. RC is maintaining close contact with clients' buyers, other industry partners, and its teams on the ground, in order to track shifting market conditions and anticipate potential problems   |
| Effects of climate change and other weather-related shocks | Intermediary Outcome  | (3) Medium                | Medium 60% | 2021-02-11                    | Executing Agency | With access to credit and growth, SGBs are able to implement key initiatives such as income diversification programs, crop renovation and rehabilitation, and agronomic training for supplying farmers.   |
| <b>TOTAL RISKS QUANTITY: 4</b>                             |                       | <b>IN EFFECT RISKS: 4</b> |            | <b>NOT IN EFFECT RISKS: 0</b> |                  | <b>MITIGATED RISKS: 0</b>   |

## 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 deploying outcome-based payment mechanisms with resource from Walmart and Visa Foundations.

*[There were no aspects reported during this period]*

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

Root Capital has identified two core measures to build the sustainability of this project's impacts on agri-SGB growth and Root Capital's ability to serve the early stage segment: 1). Deploying "Credit-Plus-Capacity" Models to Build the Sustainability of Early Stage Agri-SGB Lending: Root Capital moves agri-SGBs towards long-term sustainability through our "credit-plus-capacity" model, a proven method for fueling business growth. Our capacity-building Business Advisory Services provide tailored training interventions that improve their internal management capacities agri-SGBs. With stronger management, agri-SGBs build their credit-readiness so they can secure the financing that propels long-term growth and sustainability. For example, four of the agri-SGBs receiving SIINC loans through this project previously received intensive Business Advisory Services training through our first IDB-supported project, opening up \$950K in access to finance that would not have been offered by any other financier on the same terms as Root Capital. With access to finance through the SIINC mechanism, Root Capital expects these agri-SGBs to grow their revenues by a minimum of 20% per year (the average revenue growth for Root Capital lending clients) and gradually increase 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. By continuing to tightly couple our capacity-building interventions with our catalytic financing, we expect to unlock agri-SGB growth and create a market segment more viable and for social and commercial financiers to serve at scale. 2). Adapting the SIINC Mechanism with New Partners: Based on the growing success of our SIINC pilot with IDB, Root Capital has secured \$3.86M from the Walmart and Visa Foundations to launch projects modeled after SIINC. With funds from these partners, we are deploying two outcome-based payment mechanisms modeled after SIINC that will 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: PRACTICAL LESSONS

|   | Relative to | Author | Date |
|---|-------------|--------|------|
| Leveraging Rapid Response Grants (RRG) to catalyze future agri-SGB resilience: Rapid Response Grant (RRG) recipients noted the flexibility of funds was important for addressing the acute threats of the COVID-19 pandemic and building their resilience to future |             |        |      |

shocks—echoing the importance of fluid responses. During the RRG planning and implementation process, recipients collaborated with our team of expert advisors to identify well-suited and feasible solutions to build enterprise resilience. For example, in areas where the pandemic’s immediate health impacts had subsided, recipients used portions of their RRGs to invest in on-farm productivity, making up for routine agronomic maintenance that had to be delayed last year. Our final evaluations showed that the RRG process taught agri-SGBs just how critical resilience planning is to long-term success, a legacy that will help to carry these enterprises into long-term recovery in the post-pandemic economy.