

# PROJECT STATUS REPORT (PSR)

07/01/2022 - 12/31/2022 - PSR-09566

## PROJECT SUMMARY

Operation number

RG-T3772

Suboperation number

ATN/ME-18326-RG

Project Name

Financing Agrobusiness and Cooperatives response to COVID-19 in Central America, Colombia, Mexico and Peru

Team Leader

William Ernest Mondol

Executing Agency

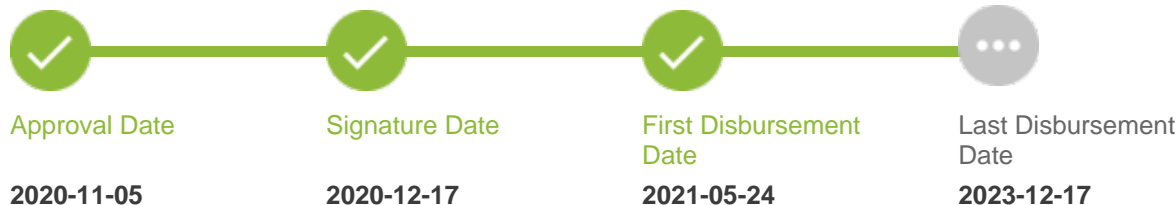
Root Capital

Purpose

Percentage of enterprises that maintain or increase their financial resilience



## Project cycle



## PSR SCORE



- 0 - 1 Red Flag
- 1 - 2 Yellow Flag
- 2 - 4 Green Flag

# LEARNINGS

## 1. Risk and Lessons

### 1.1. Risk

1.1.1. What do you think is the biggest risk that threatens the achievement of the project objectives?

Root Capital is pleased to share this project status report for July to December 2022, detailing achievements and lessons learned from our project Financing Agribusinesses and Cooperatives Response to COVID-19 in Central America, Colombia, Mexico, and Peru. This project deploys the Social Impact Incentives (SIINC) funding mechanism to expand access to credit for early-stage and growing agricultural businesses (agri-SGBs)—defined as having credit needs below \$500,000—by rewarding Root Capital on a per-loan basis for making high-impact loans. The project builds on the progress and learning from Root Capital's first partnership with IDB Lab, the Swiss Agency for Development and Cooperation (SDC), and Roots of Impact (RoI). Beyond seeking to deliver financing, the project also aims to provide capacity-building, emergency cash infusion, and debt relief to participating agri-SGBs. As of this reporting period, we are happy to report that we are on track to achieve all stated project deliverables and there is a little risk we will not complete the project objectives. As mentioned in the previous report, however, a growing risk for agri-SGBs themselves in Latin America is coffee market volatility. Due to the impacts of COVID-19, climate change, and smaller-than-anticipated harvests around the globe, the international market price for coffee soared to a ten-year high in 2021 and then plateaued in 2022. This situation requires clients to have sufficient liquidity to purchase coffee from their farmers at competitive prices, which stresses their cash reserves and access to working capital. Thankfully, this project's intervention provides resources (financial capital and training) that agri-SGBs can leverage to overcome these shocks and build the livelihoods of smallholder farmers across Latin America through continued market access and reliable income. In addition to receiving more working capital, to mitigate the risk of market volatility, our clients have also been using tactics like negotiating open-price buyer contracts (agreeing on the coffee sale price on the date of sale).

### 1.2. Greatest Achievement or Failure

1.2.1. What has been the greatest achievement or failure in the last semester that affected the implementation of the project?

The greatest achievement in the last semester has been continuing our SIINC lending and Business Advisory Services to agri-SGBs in Latin America that are committed to their farmers and communities—something we verify through our robust social and environmental due diligence. Since the beginning of the project, Root Capital has provided 28 early-stage agri-SGBs with a SIINC loan (six more were provided during this reporting period), allowing them to source crops to fulfill buyer contracts, sustain their operations, and preserve premium market linkages and reliable incomes for 9,057 farmers and their families in a post COVID-19 world. In total, Root Capital has disbursed \$10,673,312 to these 24 agri-SGBs, 50% of which are gender-inclusive (defined by Root Capital as being either woman-led with 20% or greater participation by women producers and employees, or having 30% or greater participation by women producers and employees). These 24 agri-SGBs reached a combined annual sales total of \$38M (\$11M reported in 2022) and paid \$30M (or 88% of their revenue) to their smallholder farmers, who sustainably manage 21,621 hectares. In addition, 66% of the agri-SGBs paid their farmers at least 10% above local market prices, guaranteeing higher incomes. Meanwhile, in addition to loan provision, during this reporting period, Root Capital delivered 33.57 days of individualized training to 12 agri-SGBs through a combination of remote and in-person training. Each of these agri-SGBs are in different stages on their journey toward credit-readiness; they are either early stage businesses building foundational credit-management capacity to successfully secure a SIINC loan, or they are current SIINC-loan recipients preparing to diversify their sources of financing. Regardless of maturity, Root Capital continued to prioritize

Business Management Advisory (BMA) engagements during this reporting period in order to address internal financial management gaps among agri-SGBs. The goal of this prioritization is to improve enterprises' abilities to secure and manage credit from Root Capital—via a SIINC loan or another social financier—during the remainder of the project. Specifically, the training followed a detailed work plan developed by Root Capital's advisory team and is responsive to the real needs of each agri-SGB. In particular, Root Capital prioritized Financial Analysis training during this reporting period, which arose as critical in order for enterprises to continue managing the ongoing challenges (increased coffee price and logistics costs) of a somewhat post-COVID-19 world.

### 1.3. Findings and Lessons

1.3.1. What are the most useful findings and lessons from this project that when taken into consideration could improve the execution and results of existing projects and the design of similar projects in the future? A finding describes an action, circumstance or decision that was critical in determining the positive or negative evolution of the project (for example, switching from the development of a blockchain platform to a web-based shared database reduced the cost and time devoted to implementing the traceability capabilities required by the project). A lesson is a concrete, actionable proposal based on a finding that, in similar circumstances, would facilitate problem solving, risk mitigation, and the achievement of results (for example, Develop guidelines and criteria to identify candidates that could benefit from the implementation of a blockchain platform, and assess during the design if the selected project satisfies the criteria before committing to develop one).

Finding #1: 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. Throughout the lifetime of this project, Root Capital's Lending and Risk teams continued to closely monitor our clients' loan performance and had been prepared to utilize this project's contingency recovery grant and debt relief if needed. However, to date, because the 28 SIINC loans have not produced losses, we have not drawn down on these funds—neither the contingent recovery grant nor the debt relief fund has been utilized to facilitate patient terms, interest rate relief, liquidity support, or debt forgiveness as a result of COVID-19. Of note, the "Contingent Recovery Grant" portion of this project is an innovative mechanism intended to provide Root Capital with up to \$500,000 in loan loss support to encourage the taking of additional risk associated with SIINC-qualified lending to early-stage businesses. The "Client Debt Relief" portion of this project initially provided 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. We will know whether or not we will need to draw on the Contingency Recovery Grant funds 24 months after the close of the final SIINC loan under the project, or 24 months after the end of the execution period, whichever comes first. The Client Debt Relief funds have already been reallocated to cover additional SIINC loans (see below for more information). Lesson #2: At the beginning of this project when travel was more limited, and given that most of our clients are located in highly remote areas without sufficient internet access, we had to shift our Advisory Services from in-person to online. This presented challenges for both our clients and our team of advisors, so we conducted workshops on new teaching methods for virtual educational environments to help our advisors be effective distance trainers. As a result, our advisors re-imagined their training methodologies, and moved away from extended Zoom sessions requiring reliable internet connections, adopting more "internet-limited" methods that allowed participants to download materials and learn at their own pace. As COVID-19 cases subsided and travel restrictions were lifted in project countries, Root Capital's clients were eager to resume in-person advisory services. The experience of remote training, however, taught us that a remote approach is well suited for introducing training topics prior to more comprehensive in-person follow-up. While the 'core' of our training engagements (e.g., developing documents and tools or reviewing information) are still to be delivered

in-person at the client's place of business, we are continuing to hone a mixed-modality methodology to provide both in-person and remote advisory services going forward. This will allow us to remain flexible in the face of similar crises and support our goal of permanently adopting a mixed advisory model in order to reach more clients.

## **2. Scalability and replicability**

### **2.1. Scalability Plan**

2.1.1. Now that the Project is in the execution phase, have you developed any concrete plan or action that will allow it to reach a greater number of users/clients/beneficiaries (or broader environmental or resilience to climate change and natural disasters impacts) in the future?

During this reporting period, in July 2022, IDB Lab and SDC approved a reallocation of \$195K in project funds initially designed for debt relief support to instead cover an additional seven SIINC loans through this project. Root Capital requested this reallocation given that clients were not in need of the debt relief as previously projected. With seven more loans, Root Capital argued that we could continue serving early-stage agri-SGBs and supporting premium market linkages for vulnerable smallholder farmers. At present, Root Capital is working on putting together a submission of these potential loans to RoI, in order to seek approval for distribution. Meanwhile, based on the growing success and impact to date of our SIINC pilot with IDB Lab, Root Capital began exploring opportunities to replicate and adapt this outcome-based mechanism with new partners, and to this end, was able to secure an additional \$3.86M from Walmart Foundation and Visa Foundation in 2022 to launch projects modeled after SIINC. With support from these partners, we will boost our gender-lens investing in Central America and Sub-Saharan Africa, and cover the incremental costs of making loans to women-led and gender-inclusive businesses. Through our efforts, we plan to finance an additional 46 agri-SMEs (small- and medium-sized enterprises) worldwide that benefit more than 45,000 women employees and farmers. In addition, we plan to design similar outcome-based payment mechanisms with other funders to boost our investments in other crucial, yet underserved market segments around the globe. To this end, Root Capital has begun early-stage discussions with a Swiss consultancy called Accelerate Green in order to explore the potential of a SIINC-inspired pilot that could unlock philanthropic capital in support of unprofitable, yet high-impact loans to agri-SMEs globally. With SDC, we have also begun exploring the possibilities of bringing the SIINC model to Africa. Similar to Accelerate Green, these discussions are in quite an early stage. We are keen to keep IDB Lab informed of our progress on the development of these SIINC adaptations. By extending and replicating the core components of Root Capital and IDB Lab's SIINC project, we will not only expand our reach and impact, but will fundamentally enhance the sustainability of businesses and communities around the world.

### **2.2. Costs and Partners to Scale**

2.2.1. Now that the project is in the execution phase, do you know how much it costs to offer your product / service per user / client / beneficiary? Is this a factor that could affect reaching a greater number of users / clients / beneficiaries in the future? Has any public or private institution requested this information from you, looking for scaling or replicating the model / product / service?

In our previous report, we shared that recent analysis showed the average cost-per-loan for SIINC loans is about \$31K and the average agribusinesses receiving a SIINC loan supports 390 smallholder farmers. Simplified, \$1 in lending operation costs supports premium market linkages for 12 smallholders. Cost, of course, is a major barrier for lenders in terms of making loans under \$500K to early-stage agri-SGBs, as loan earnings are often insufficient. In other words, the earnings of early stage agri-SGBs typically do not outpace or even neutralize the cost of their loans. As such, the SIINC project was specifically designed to cover the costs of these loans for early-stage agri-SGBs, allowing Root Capital to reach underserved segments. The success of the project to date is a clear sign that \$24K-\$28K in incentive payments effectively covers the costs of making high-cost, high-impact loans. This had led Root Capital to

already adapt and replicate the SIINC model with two corporate foundation partners. Through these relationships, we will be making new SIINC-like loans to agri-SGBs in Latin America and Sub-Saharan Africa.

## 2.3. Facilitating or Hindering Factors

2.3.1. Has any of these factors affected the number of users/clients/beneficiaries (more/fewer) reached by the project compared to what was originally planned (or environmental or resilience to climate change and natural disasters impacts)?

[Proposed solution responds to key/persistent/priority problem]

Others, Which?

The COVID-19 pandemic and its disruptions to global supply chains threatened and continue to threaten the sustainability of agri-SGBs in Latin America. Root Capital and IDB Lab built off our existing partnership to develop and deploy this project in the context of the COVID-19 crisis specifically precisely in order to expand access to financing for the most underserved and vulnerable segment of the agri-SGB market at a time they needed it most—through loans and emergency grants. This meets their needs and priorities as it helps these enterprises to weather the COVID-19 pandemic and its ongoing impacts, maintain their operations, and drive rural economies despite the challenge of the times. In addition to providing capital, Root Capital offers a suite of Advisory Services to complement our financial services. Our BMA services build the necessary foundational business management skills (including digitally-enabled business analysis and climate mitigation planning) that agri-SGBs can use to grow, reduce their ongoing risk for current and future lenders, and enhance sustainable and impactful business strategies and models. Not only do BMA services build agri-SGB management capacities, they are also proven to open up access to even more finance given increases in agri-SGB credit-readiness for fair and right-sized financing. During this reporting period in particular, Root Capital delivered 21.19 days of BMA training to nine agri-SGBs through a combination of remote and in-person offerings.

## 2.4. Scalability Scope

2.4.1. How feasible it is that the organization could reach a number of users/clients/beneficiaries 5, 10 or 100 times the number originally planned in the project design, five years after the project ends?

[It could reach between 5 times and 10 times the number of users/clients/beneficiaries originally planned in the project design five years after its closure]

2.4.2. How likely is the organization to reach that number five years after the project ends?

[Highly probable (above 90% chance)]

## 2.5. IDB Group business relation

2.5.1. Has a business relation been created with another part of the IDB Group different from IDB Lab?

No, Root Capital has not created any new business relations with another part of the IDB Group outside of IDB Lab as a specific result of this project. However, we would be excited to create new business relationships with the IDB Group to continue our impactful work.

## 2.6. Replicability Partners

2.6.1. Are you aware of any other entity at a national or international level that has copied / replicated completely or partially the business model of the project? Did you collaborate in the process with that entity?

[Yes]

If Yes, Explain

Yes, as previously mentioned, Root Capital has replicated core components of our SIINC project with IDB Lab by launching projects with Walmart Foundation and Visa Foundation. With these partners, Root Capital is 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 meanwhile designing similar outcome-based payment mechanisms with other funders and partners to boost our investments in other crucial, yet underserved market segments around the globe. These partners include SDC as well as a Swiss consultancy called Accelerate Green. Both collaborations are in early-stage discussions. With SDC, we are exploring the possibilities of bringing the SIINC model to Africa. With Accelerate Green, we are focusing on the potential of a SIINC-inspired pilot to unlock philanthropic capital in support of unprofitable, yet high-impact loans to agri-SMEs globally.

## 2.7. Replicability Scope

2.7.1. Number of users / clients / beneficiaries reached by entities that have fully or partially replicated / copied the business model / products / services implemented with the support of the project?

[Less than 2 times the number of users / clients / beneficiaries planned in the original project design]

2.7.2. Have you experienced, in the last year, significant expansion (50% or more) of the reach of the business model of the project beyond what was expected in the original project design (due to increasing of the organizational size, operational scope or geographic spread)?

[No]

2.7.3. Number of users / clients / beneficiaries reached as of the end of the year?

[Less than 2 times the number of users / clients / beneficiaries planned in the original project design]

## 2.8. Sustainability

2.8.1. How do you think the project will continue once the IDB Lab financing ends? Examples: it has identified external financing sources to continue operating, it has reached the breakeven point through the sale of services and products, it has obtained the support of public institutions or the private sector, it will adjust the business model to remain viable (via franchises, etc.)

Root Capital's "credit-plus-capacity" model is what moves agri-SGBs towards long-term sustainability and ensures the impact of our projects even once financing ends. First, our Business Advisory Services—which are supported through this project in addition to direct client financing—allow us to provide enterprises with targeted support to meet their individual needs and address their individual areas for improvement, both before and during a financing relationship. Advisory services thus allow us to improve agri-SGBs' internal management capabilities, which ensures that Root Capital can confidently offer first-time loans, and then build client capacity to secure and maintain more commercial credit in the future, fueling their long-term growth and sustainability. As an example of the impact of our advisory services, 86% (six out of seven) of agri-SGBs receiving their first-ever Root Capital loan through the SIINC project previously received intensive Business Advisory Services training through a previous IDB Lab-supported project; this opened up \$2M in financing that would not have been offered by any commercial lender on the same terms as Root Capital. Of note, across our entire portfolio, 34% of clients who begin with only Root Capital financing graduate to commercial financing within an average of 2.5 years. Second, as previously stated, by providing credit through the SIINC payment mechanism, Root Capital is able to catalyze finance for agri-SGBs that are traditionally underserved in financial markets. Beyond advancing their creditworthiness in the eyes of commercial lenders, we also expect that this will lead to long-term sustainability as it is likely to grow agri-SGB revenues by a minimum of 20% per year (this is the average revenue growth for Root Capital lending clients). Furthermore, the project's provision of Rapid Response Grants has enabled agri-SGBs to respond to COVID-19-related shocks to their business operations in order to sustain their impact on rural livelihoods despite times of crisis. The \$180,000 of Rapid Response Grant funds we disbursed in Year 1 supported a breadth of emergency client-led initiatives, lessening the local impacts of the pandemic and helping businesses and farmers persist. Lessons learned from this process will position agri-SGBs

toward long-term growth and recovery. Indeed, agri-SGBs are local “engines of impact” for rural communities, and in times of crisis, they serve as critical platforms for distributing humanitarian aid at scale. They are also an important market segment; by continuing to tightly couple our capacity-building interventions with catalytic financing, we know that together, Root Capital and IDB Lab we can unlock agri-SGB growth and increase the viability of future partnerships with commercial financiers.

### **3. Implementation**

#### **3.1. Facilitating or Hindering Factors**

3.1.1. What specific aspects have (positively or negatively) affected the implementation of the project the most?

[Available resources, External shocks that affect the economy in general (natural disasters)]

3.1.2. Explain in detail how these factors that you identified have made the implementation of the project easier or more difficult

**Facilitating Factors: Available Resources** Rapid Response Grant (RRG) recipients noted that the flexibility of funds was critical for them in addressing the acute threats of the COVID-19 pandemic and in building their resilience to future shocks—reiterating the importance of this project component. In addition, during the RRG planning and implementation process, recipients collaborated with Root Capital’s team of expert advisors to identify well-suited and feasible solutions to build enterprise resilience. In areas where the pandemic’s immediate health impacts had subsided, recipients worked with Root Capital to develop plans to use portions of their RRG funds to invest in on-farm productivity. This allowed agri-SGBs to revamp the agronomic maintenance and technical assistance work that had been delayed due to previous year’s constraints on travel and other investments. Beyond providing support in the immediate term, our final evaluations of the RRG mechanism showed that the RRG planning process taught agri-SGBs just how critical resilience planning is to long-term success. This is a lesson that we know will live on, as clients will be able to incorporate similar planning structures into future recovery activities.

**Hindering Factors: External Shocks** High coffee prices and global shortfalls in coffee production caused by frosts, untimely rains, and other factors (such as the ongoing impacts of COVID-19) have fueled demand and competition for coffee beans, driving up the price of purchases from farmers. This dynamic greatly impacted our clients’ price risk as some agri-SGBs paid more to buy coffee than the price stated in their fixed contracts with buyers—effectively decimating their profit margins. Meanwhile, months-long shipping delays and the increased price of shipping due to the ongoing global shortage of containers in the wake of COVID-19 have delayed transactions up and down the supply chain. This has not only threatened agri-SGBs’ bottom lines but also caused them to be delayed in re-paying their loans to Root Capital, further dampening our ability to deliver continued working capital. We are thus working with clients in Latin America to extend loan maturity dates to accommodate later payments when needed.

#### **3.2. Novel Technologies Factors**

3.2.1. If the project makes use of novel technologies or methodologies, what factors have facilitated or hindered the implementation of the technological solution initially proposed by the project?

[Previous experience of the executing agency / client with the technology, Interest from industry experts or academics outside the executing agency / client]

### **4. Development Outcomes (Quantitative)**

4.0 Has your project contributed to any of the following indicators in the last 12 months (last year)?

[4.6. Not contribute]

### **5. Development Outcomes (Qualitative)**

5.1. Target population identified in the design

Is the target population that was identified in the design being reached by the project? Select the target population actually reached by the project that was originally identified in the project design.

[SMEs, Women, Rural population]

## 5.2. Population served NOT identified in the project design

5.2.1. Select if there are Groups that were NOT originally identified in the project design but are being reached in the execution phase?

[None]

## 5.3. Facilitating or Hindering Factors

5.3.1. Factors that have affected (facilitated or hindered) reaching these groups, or the resilience/environmental impacts, in the numbers/dimensions that the project had originally planned.

[Demand for the product/service (market needs)]

5.3.2. Explain in detail how these factors that you have identified have affected the ability of the project to reach the groups (achieve resilience/environmental impacts) in the numbers/dimensions originally expected

Facilitating Factors: Demand for the Product/Service Through our sector-leading portfolio of impact management work, Root Capital assesses the level to which our loans fill a financing gap for our clients. During the first year of the project, in collaboration with Rol—the third-party firm that verifies each loan’s impact—we confirmed that 100% of loans through the SIINC project provided would not have been made by a commercial financier, and 67% of these loans would not have been made by any other financier on the same terms as Root Capital. Our most recent submission to Rol for Year 2 of the project led to an analysis of the additional SIINC loans we proposed and provided during this reporting period. Once again, Rol confirmed that 100% of these loans would not have been made by a commercial financier, and they further stated that 57% would not have been made by any other financier on the same terms as Root Capital. These results demonstrate to us that by analyzing our clients’ financing gaps, we are able to effectively deliver working capital to the agribusinesses that are most acutely in need/demand, but underserved by today’s financial markets. At present, Root Capital is putting together a final submission to Rol of seven loans we aim to provide to clients as a result of the reallocation of \$195K in debt relief.

## INDICATORS

 Overachieved  Achieved  Pending  In process  Overdue

### C1: Social Impact Incentives (SIINC) Payments

**Weight:** 0%

**Qualification:** High Satisfactory

100%

Indicators	Planned	Achieved	Status
I1 Number of additional (medium or high additionality) loans of \$500,000 or less closed in target countries	25 ( 2022-12-17)	28 ( 2022-12-31)	
I2 Number of additional loans of \$500,000 or less closed with gender-inclusive businesses in target countries	7 ( 2022-12-17)	14 ( 2022-12-31)	

### C2: Contingent Recovery Grant Financing

**Weight:** 59%

**Qualification:** High Satisfactory

100%

Indicators	Planned	Achieved	Status
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I1

Number of loans closed

25 ( 2022-12-17)

28 ( 2022-12-31)

C3: Business Advisory Services

Weight: 18%

Qualification: High Satisfactory

100%			
Indicators	Planned	Achieved	Status
I1 Number of enterprises receiving technical assistance, to build their crisis management capacity and position them successfully for recovery	15 ( 2022-12-17)	18 ( 2022-09-09)	

C4: Rapid Response Grants

Weight: 23%

Qualification: Satisfactory

100%			
Indicators	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	12 ( 2021-12-17)	12 ( 2021-06-30)	
I2 Amount of Rapid Response Grants provided (US\$)	180000 ( 2021-12-17)	180000 ( 2021-06-30)	

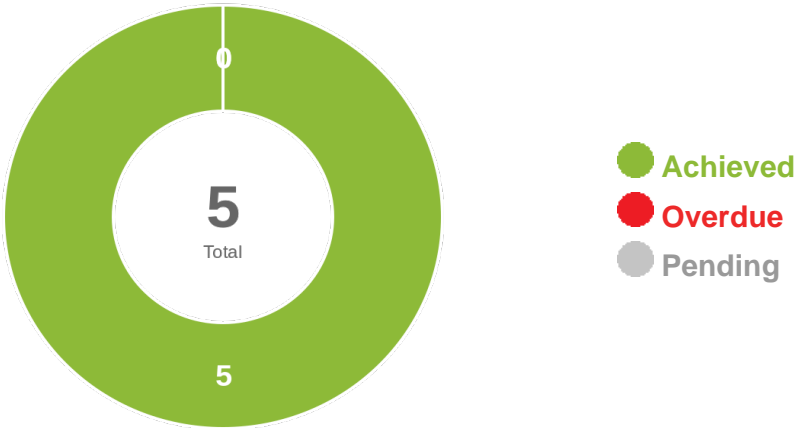
C5: Debt Relief Fund


Weight: 0%

Qualification: High Satisfactory

100%			
Indicators	Planned	Achieved	Status
I1 Total amount of credit invested in early stage enterprises that commercial lenders would not provide	6000000 ( 2022-12-17)	10673312 ( 2022-12-31)	

MILESTONES



Milestones	Achieved Value	Due Date	Achieved Date	Status
*Condiciones Previas / Prior Conditions	1	2021-06-17	2021-06-10	
*At least 10 rapid response grants disbursed to SMEs.	10	2021-12-30	2022-01-18	
*Launch of technical assistance advisory to support crisis management in the SMEs	10	2022-06-30	2022-05-17	
*Loans of \$500,000 or less in target countries with medium-high additionality	20	2023-06-30	2022-12-31	
*Smallholder farmers reached by SMEs receiving SIINC-enabled loans	4000	2022-12-30	2022-12-30	