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MULTILATERAL INVESTMENT FUND

REGIONAL

NEW MODELS FOR FINANCING EARLY STAGE AGRIBUSSINESS

(RG-T3282 – RG-G1019)

DONORS MEMORANDUM

This document was prepared by the project team comprised of: Alejandro Escobar (MIF/GRU) as Team Leader, William Ernest Mondol (MIF/CCR), Dieter Wittkowski (MIF/LEU); Irani Arraiz (DSP/DVF), and Anna Copplind (GCL/GCL).

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PROJECT SUMMARY

NEW MODELS FOR FINANCING EARLY STAGE AGRIBUSSINESS
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The main problem addressed by this project will be the financing gap faced by the highest-impact, least-served agricultural SMEs. Commercial markets do not – and will not – serve early stage agricultural SMEs because of the inherent risks and unattractive returns. These agricultural SMEs operate on thin margins and cannot afford to pay the interest rates that would cover the operating costs and risks for financial institutions to make the type of seasonal working capital loans these businesses need. Hence, commercial lenders focus on highly collateralized lending above $500K, while microfinance institutions find that their underwriting and risk management protocols are ill-suited for SME lending. Even social lenders active in agricultural markets rarely lend in amounts below $500K. As a result, agricultural SMEs fail to realize their potential impact on farmers—purchasing lower volumes from farmers, processing less food for local markets, and generating less employment and demand for services that might otherwise boost regional economies.

Through this project, Root Capital, an experienced and seasoned social lender with a focus in agriculture, will implement an innovative structure, of Social Impact Incentives (SIINC), that creates a market-correcting payment to compensate for the risk and cost associated with serving early stage SMEs. Such a model will enable Root Capital, and other financial institutions over time, to lend to SMEs that may be unprofitable to serve today, but that demonstrate substantial promise for growth and impact. As these enterprises grow with access to finance, they can be served sustainably. This model will be replicable not just in agriculture but for SME finance across various sectors. A key actor in this model and the executing agency for the project, is Root Capital, a social lender with offices in the region and a demonstrated capacity to identify and serve innovative small holder farmer organizations and enterprises in the agribusiness sector in Latin America, as mentioned above. A pioneer in the agricultural lending space, Root Capital's work with coffee and cocoa cooperatives in the region in the early 2000s, opened the door for a broader spectrum of local lenders who had never provided lending to these types of organizations.

The additional two partners in this project are the Swiss Development Corporation (SDC) who along with the IDB/MIF will act as an "outcome payer", and Roots of Impact (RoI), a specialized advisory firm and market builder for impact investing and development finance who will act as a third-party verifier to ensure that impact criteria are met and oversee the evaluation of the SIINC pilot.

It is expected that the project will unlock US$12 Million in lending from Root Capital to at least 40 early stage agricultural enterprises over a period of 3 years. These enterprises will in turn have an impact on almost 10,000 farm units who are serviced by these SMEs in marketing and financial services. The expected countries for the pilot are Costa Rica, Mexico, Peru and Nicaragua.

ANNEXES

APPENDICES

AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT INFORMATION SYSTEM

ACRONYMS AND ABBREVIATIONS

CRF	Corporate Results Framework
DNA	Diagnostic of Executing Agency Needs
FAO	Food and Agriculture Organization of the United Nations
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IFC	The International Finance Corporation
IIC	Inter American Investment Corporation
LAC	Latin America and the Caribbean
MIF	Multilateral Investment Fund
RC	Root Capital
RoI	Roots of Impact
SEP	Social Entrepreneurship Program
SIINC	Social Impact Incentives
SME	Small and Medium Sized Enterprises

PROJECT INFORMATION

REGIONAL

NEW MODELS FOR FINANCING EARLY STAGE AGRIBUSSINESS

(RG-T3282 – RG-G1019)

Country and Geographic Location:	Costa Rica, Mexico, Nicaragua, Peru		
Executing Agency:	ROOT Capital (RC)		
Focus Area:	Climate Smart Agriculture		
Coordination with Other Donors/Bank Operations:	This project is part of the group of projects financed in collaboration with the Swiss Development Corporation (SDC) through the Bank's Fund "Mecanismo de Financiamiento de Impacto Catalizador en favor del Empresariado Social / RG-X1261		
Project Beneficiaries:	40 early stage Agro enterprises (SMEs) and 10,000 farmers indirectly.		
Financing:	Technical Cooperation MIF:	US$ 550,000	29%
	Investment Grant MIF:	US$ 500,000	26%
	Loan:	US$ 000,000	
	Other (explain):	US$ 000,000	
	TOTAL MIF FUNDING:	US$ 1,050,000	
	Counterpart TC	US$ 330,000	18%
	Co-financing: Incentives RG-G1018 IGR/SEP	US$500,000	27%
	TOTAL PROJECT BUDGET:	US$ 1,880,000	100%
Execution and Disbursement Period:	36 months of execution and 42 months of disbursement.		
Special Contractual Conditions:	Special conditions precedent to first disbursement will be: (i) IDB/MIF approval of the Annual Operating Plan for the first year; (ii) the appointment of the Project Coordinator; and (iii) the approval of the IDB IGR/SEP project RG-G1018.		
Environmental and Social Impact Review	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.		
Unit responsible for disbursements	Country Office Costa Rica		

I. The Problem

A. Problem Description

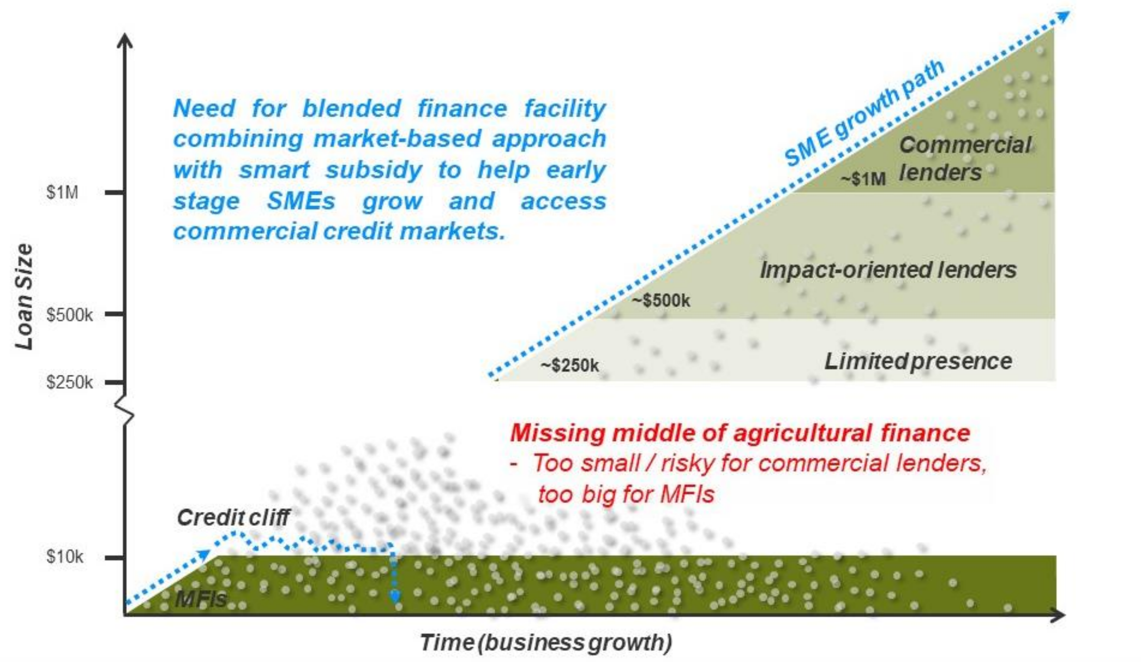
1.1. **Access to Finance for Agricultural SMEs.** Smallholder farmers in developing countries lack reliable access to inputs, credit, markets, technology, and knowledge of best agronomic practices to boost productivity, build resilience to climate change, and increase their incomes. Most live at or below the poverty line, suffer food insecurity, and are vulnerable to the shocks of volatile weather and markets. Agricultural small and medium enterprises (SMEs) are critical conduits that have the potential to transform farmer livelihoods, build resilience to climate change, and contribute to food security and nutrition. Often operating in remote regions with poor infrastructure, agricultural SMEs play an essential role in distributing inputs to smallholder farmers, linking them to markets, and creating employment (e.g., processing, transportation) to grow rural economies.

1.2. Yet agricultural SMEs typically fail to realize their potential in large part because they fall in the "missing middle" (see Diagram 1). This is the gap in the financial markets between microfinance to individuals and commercial finance to larger corporations and infrastructure projects. The International Finance Corporation estimates the financing gap for SMEs in emerging markets to be $1 trillion, and SMEs globally report that inadequate financing is the single biggest barrier to growth.1 The missing middle is particularly pronounced in the agriculture sector. The risk from market forces (e.g., price and demand volatility), climate patterns, and crop failure compound the challenges facing SMEs in other emerging market sectors. Further, developing countries have yet to establish publicly funded programs for insurance, disaster relief, and other supports that are the foundation for the agricultural market in North America and Europe.

1.3. The main problem addressed by this project will be the financing gap faced by the highest-impact, least-served agricultural SMEs. Commercial markets do not – and will not – serve early stage agricultural SMEs because of the inherent risks and unattractive returns. These agricultural SMEs operate on thin margins and cannot afford to pay the interest rates that would cover the operating costs and risks for financial institutions to make the type of seasonal working capital loans these businesses need. Hence, commercial lenders focus on highly collateralized lending above $500K, while microfinance institutions find that their underwriting and risk management protocols are ill-suited for SME lending. Even social lenders active in agricultural markets rarely lend in amounts below $500K. As a result, agricultural SMEs fail to realize their potential impact on farmers—purchasing lower volumes from farmers, processing less food for local markets, and generating less employment and demand for services that might otherwise boost regional economies.

[1] The Elephant in the Room: Financial Inclusion for the Missing Middle, 2015

Diagram 1. SME Growth Path and the "Missing Middle"



1.4. **Root Capital's Experience**. Root Capital (RC) is a pioneering impact lender to agricultural businesses in the developing world, with 18 years of experience innovating in frontier markets. RC seeks to improve farmer livelihoods by providing credit and capacity building to unlock the growth and impact potential of agricultural SMEs that would otherwise fall in the "missing middle". Since its founding in 1999, RC has lent $1.2 billion to more than 670 agricultural businesses aggregating over 1 million farm households, and has provided critical capacity-building training to more than 1180 agricultural enterprises.

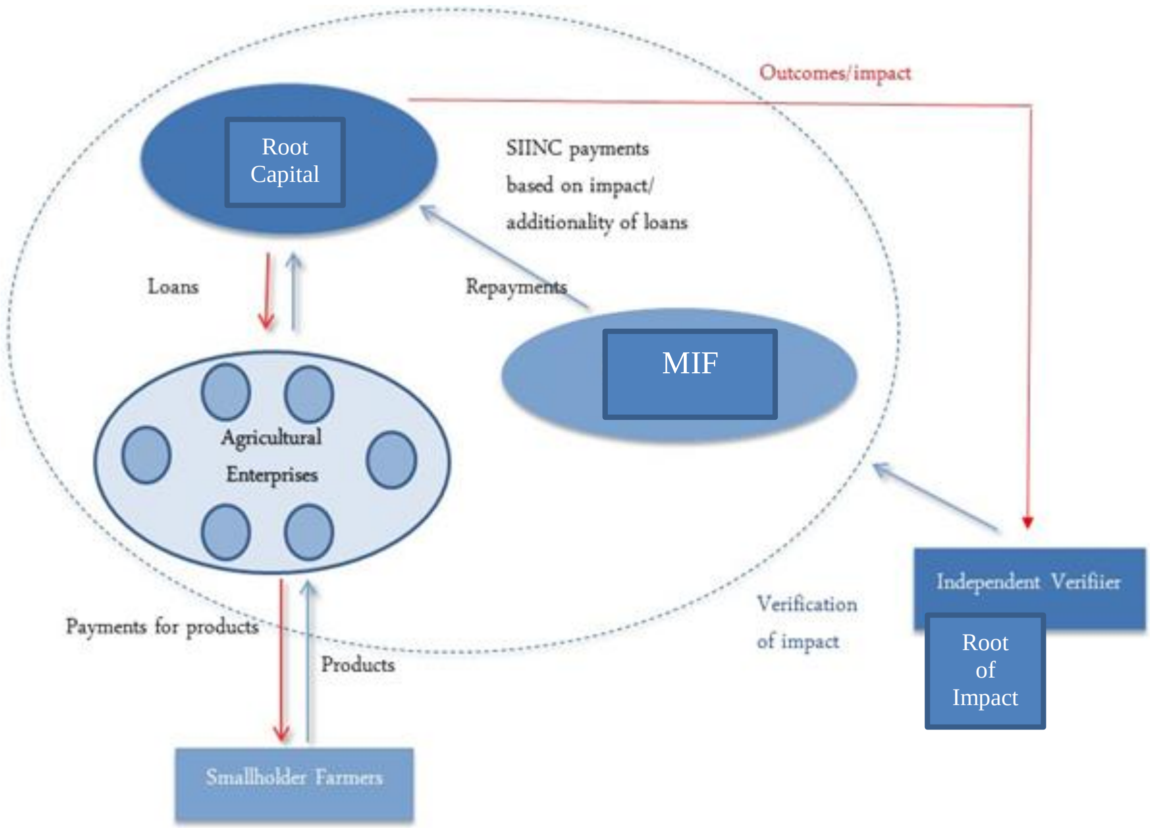
1.5. **Lessons Learned in Agricultural Lending.** Much of RC's lending throughout its history has targeted earlier stage SMEs requiring $100-500k but lacking credit history or formal collateral; these high-risk, high-impact clients are costly to serve. One key learning over time has been the catalyzing role of targeted business advisory services. Building SME management capacity through a package of services tailored to an SME's specific needs and priorities can accelerate an SME's pathway to credit-readiness and access to financing; for SMEs that may already qualify for basic financing, business advisory services can have profound benefits, unlocking sustainable, lasting growth in ways that an infusion of credit alone often cannot. RC's impact as a lender is greatest when its clients grow and reach more small-scale farmers--and when they could not do so without access to finance from Root Capital. This learning has led the organization to hone in on "additionality", the extent to which their loans would be additional to what the client otherwise would have received from other lenders, as a key measure of impact as a lender.

1.6. **Root Capital's impact and additionality**. In recent years, RC developed a data-driven approach for integrating impact and financial considerations in investment decisions, known as the "Efficient Impact Frontier" (EIF) framework,2 which was fully operationalized within their loan portfolio during 2017. Through this approach, RC strives to reach the highest-impact clients, given the constraints of their economic model. To do so, RC systematically assesses and tracks the "additionality" of each loan, sorting our loans into "low", "medium", and "high" additionality brackets: "high" additionality if the recipient of the loan would not have received a loan in the same amount and under the same terms from any other lender, "medium" if the recipient would not have received such a loan from a commercial lender, and "low" additionality if the same loan would have been made by a commercial lender. Operationalizing this approach has allowed RC to systematically track the relative performance and cost to fully service the loans in each bracket (full costs to underwrite these loans). What it has not changed, however, is the reality that many of the SME recipients of medium and high additionality loans, SMEs that demonstrate substantial promise for growth and impact, remain unprofitable for RC to serve today. Without a shift in the constraints of the economic model—and the economic model of every social lender—maximum impact will remain out of reach.

1.7. **The Project**. The project aims to shift these constraints by proposing an innovative Social Impact Incentives (SIINC) structure that creates a market-correcting payment to compensate for the risk and cost associated with serving early stage SMEs (see Diagram 2 below). Such a model would enable RC, and other financial institutions over time, to make medium and high additionality loans to earlier stage SMEs that may be unprofitable to serve. As these enterprises grow with access to finance, they can be served sustainably. This model will be replicable not just in agriculture but for SME finance across various sectors. To accomplish this plan, RC has worked together with the MIF to design the proposed project. The MIF has agreed to fund 25% of the project with a non-reimbursable TC, complemented by an SDC investment grant managed by the Bank through the RG-X1261 fund. These funds will be in turn supported by SEP resources for the financing component, approved through a separate procedure. In case of the SEP, financing will be based on impacts achieved through a pay for impact arrangement operated under the LAC-Impact facility of the SEP.

1.8. The Swiss Agency for Development and Cooperation (SDC), has developed with the MIF the SIINC model of funding, in order to structure adequate financing of innovative projects that have a high social impact. This project will form part of the overall LAC-Impact program financed by SDC, which was created to co-finance SIINC projects across the region. To date, this program has funded 3 SIINC projects (VIA-Honduras, Clínicas del Azúcar-Mexico, and Inka Moss-Peru). Another SIINC project with Algramo-Chile is in preparation. The SDC funds will be used to finance the non-reimbursable SIINC payments, and would be the first SIINC project to support agricultural lending to early stage agricultural SMEs

[2] See our November 2016 article in the Stanford Social Innovation Review (SSIR), "Towards the Efficient Impact Frontier".



1.9. **Beneficiaries**: The project is designed to enhance the livelihoods of smallholder farmers supplying early stage agricultural SMEs in Latin America. The project will focus on Costa Rica, Peru, Nicaragua, and Mexico. In these countries, the early stage SMEs that RC seeks to serve are often farmer-directed cooperatives that purchase crops, usually corn, sugar, coffee or cocoa, from their supplying smallholder farmers. With growth, these SMEs become engines of impact. They help link farmers to global markets; distribute productivity-enhancing inputs like seed and fertilizer; provide farmers with agronomic trainings that enable adaptation and ensure stable incomes despite the extreme weather caused by climate change; create leadership opportunities for women and youth; and generate other downstream economic activities (i.e., transportation, retail, and services) that drive rural economies. It is expected that at least 40 early stage agro enterprises will be served with training and finance.

1.10. Selling to a thriving, growing agricultural SME thus offers a way for farmers and their families to improve their quality of life. Agricultural cooperatives that RC serves through lending and advisory services tend to pay about 80-90% of their revenues to farmers, a proportion that we have found stays constant as businesses grow. In Latin America, on average farmers earn 10 to 15% more selling to these cooperatives than they otherwise would by selling into local markets. These additional several hundred dollars per household allow families to cover more of their basic necessities, such as paying for children's education and healthcare. With each early-stage SME reaching on average 200-300 smallholder farmers, the project estimates that the 40 SIINC-qualified loans and

the tailored SME trainings supported by this project would strengthen the livelihoods of 8,000 to 12,000 smallholder farmers and their households across the target countries, ultimately improving the quality of life of approximately 50,000 rural residents.

II. The Innovation Proposal

A. Project Description

2.1. The expected impact of the project is to strengthen the livelihoods of smallholder farmers in Latin America, focusing on Peru, Nicaragua, Costa Rica, and Mexico, by closing the financing gap for high-risk, high-impact early stage agricultural SMEs. With access to credit and targeted capacity-building training, these early stage SMEs are better able to grow, thrive, and support supplying farmers and their communities.

2.2. **Innovation**: in addition to Root Capital, the main lender to the SMEs, two other actors will participate in the project. Roots of Impact (RoI), an advisory firm specialized in impact lending and who will be operating as the key verifying agent to measure and verify results and impact. And secondly, the Swiss Development Corporation, who along with the SEP resources, will be an ”outcome payer” to Root Capital, if the social impact targets are met.

2.3. The expected result of the project is to demonstrate that the SIINC model can be applied to create a sustainable, cost-effective mechanism to close the financing gap for early stage SMEs, thus boosting growth and incomes for smallholder farmers, and over time creating a greater than 2:1 impact return on investment in terms of project cost relative to incremental income gains. Specifically, at a cost of US$2 M, RC estimates that this project will leverage US$12 million in high and medium additionality loans to 40 early stage businesses. These SMEs will generate an estimated US$24M in income for smallholder farmers, including an estimated $3.6M in incremental income. Additionally, by including differential pricing for varied levels of impact (with four brackets determined by loan size and level of additionality; see details in following sections), this project will generate substantial learning for IDB/MIF and RoI to apply in future SIINC projects.

2.4. **Component I: Social Impact Incentives (SIINC) Payments (MIF: US$500,000 ; (SEP): US$ 500,000**)
The main component will be the SIINC payment mechanism through which the project executing agency (RC) will be compensated up to US$1,000,000 for making 40 medium or high additionality loans of up to US$500,000 each to early stage SMEs in the project countries, with loan sizes and additionality independently verified by RoI. The differentiated per-loan payments by impact bracket are summarized in the table below:

Impact Criteria	Per-Loan Payment
Medium additionality loans between $300k-$500k	$22,000
Medium additionality loans <$300k	$24,000
High additionality loans between $300k-$500k	$26,000
High additionality loans <$300k	$28,000
Gender inclusivity (*)	+$1,000

(*) For each additional loan that is gender inclusive as defined in the criteria of the incentive scheme, a bonus will be added of $1,000.

2.5. **Component II: Business Advisory Services (MIF: US$550,000; Counterpart: US$ 0)**

2.6. As many early-stage SMEs lack the financial management skills and experience to successfully access and manage credit, the loans from Component 1 will be complemented by targeted business advisory services delivered by RC to 30 early stage SMEs in the project countries (Peru, Nicaragua, Costa Rica, and Mexico). In this regard, RC has developed its financial and mobile technology training program over the past decade with key support from IDB-MIF, and its capacity building services are considered best-in-class for agricultural SMEs in Latin America. Most of the clients receiving training will also be recipients of medium and high additionality loans, but a portion may be even earlier stage “pipeline” clients who require catalytic training in financial management in order to accelerate their progress towards basic credit-readiness. Some clients will receive mobile technology advisory services and/or agronomic advisory services; these clients will likely be more advanced early stage clients on the cusp of “graduating out” into larger, more financially sustainable lending brackets, and for whom these extra services could accelerate their growth trajectory. The exact package of services delivered per business will depend on the business’s needs and capacities. The trainings administered through this project will occur on-site at the businesses’ premises, and will last approximately ten days on average, with some businesses receiving between ten and twenty days depending on their individualized training package.

2.7. In addition to the advisory services, RC will test a pilot project with financial traceability, and blockchain identity analysis. Leveraging the information systems available to RC, it will select among the borrowers, SMEs with the capacity to trace production data back to the farmer or producer, in order to test a block chain identity analysis, with the objective to see how data along the financial value chain can return to the farmer for his own use. A budget of $25,000 has been set aside

for this effort and the terms of reference for the analysis will be a milestone of the project.

2.8. **<u>Component III: Impact Assessment and Learning (MIF US$0; Counterpart US$330,000)</u>**

2.9. The third component of the project will consist of an impact and learning agenda, through which RC will study the effectiveness and impact of the project and disseminate findings through articles, presentations at industry events, and other fora. Two core innovations will be tested in this project: the extension of the innovative SIINC model to RC's portfolio of impact investments, and the implementation of differentiated pricing into a pay-for-impact SIINC mechanism. Developed by RoI and currently in the pilot stage with three other social enterprises in a project also supported by IDB-MIF, the SIINC model creates a mechanism for market-based approaches that leverage private capital and cover most, but not all, of their costs--to attract investment. This project would mark the first time this mechanism has been applied to an investment portfolio, as well as the first time RoI and IDB-MIF will test differentiated impact pricing. The SIINC approach creates a revenue stream that will allow RC to serve early stage SMEs sustainably; while RC is able to cover its costs for larger loans to well-established SMEs, smaller loans to early stage SMEs are unprofitable. Philanthropic funding has allowed RC to serve these enterprises at a modest scale to date but such funding is not reliable or scalable. Through the SIINC mechanism, over time RC and other financial institutions will be able to close the financing gap for the missing middle so SMEs can realize their growth and impact potential. Businesses requiring operating subsidy to serve initially will require less and then no support in the future as they grow and require larger loans.

B. Project Results, Measurement, Monitoring and Evaluation

2.10. At the end of the implementation period, the project is expected to contribute to the MIF's and Bank's Corporate Results Framework (CRF) as follows: (i) 40 new early stage agribusiness SMEs receive financing (CRF 230400); (ii) 30 new agribusiness SMEs receive technical advise in financial management (CRF 130100); (iii) at least 10 new firms (financial intermediaries) have been added to the financing options of the early stage companies (not CRF indicator); (iv) 40 early stage agribusiness companies still operate three years after their inclusion in the project (CRF 330201); and (v) the total amount of credit to early stage enterprises by the project reaches US$12 Million (CRF 230700).

2.11. The main objective of this project is to measure results and pay the executing agency for the accomplishment of such results and the expected impact achieved. Therefore, the project has incorporated within its operating structure, a mechanism to monitor and verify impact and outcomes. The details of the process are described in Annex VI and are an integral part of the execution agreement with Root Capital. In the Plan, Key Performance Indicators (KPI) have been defined and set in agreement between all parties including the SDC, RoI, Root Capital and the MIF. These include: (i) the number of additional loans (with medium or high additionality) of $500,000 or less closed in the target countries; (ii) number of additional loans of $500,000 or less closed with gender inclusive

businesses in the target countries; and (iii) the number of businesses in the target countries that receive financial training. The same Plan establishes the following key processes for implementation: (a) verification of loan officer training and knowledge on the impact framework; (b) a review of the qualifying loan; and (c) spot checking. Finally the Plan details the monitoring tools to be used throughout the project life which include the borrower's capital structure report and revenue figures, the report describing the additionality determination, the organizational metrics, a key stakeholder interview guide, and a borrower interview guide.

2.12. **Evaluation:** The project will incorporate a final evaluation. The scope of the final evaluation may include examination of the following key questions: (i) the extent to which the SIINC model has worked or not; (ii) the profitability of the executing agency through the implementation of the program; (iii) the ability of the executing agency to access further funding for the model or cover the costs of it itself; (iv) the uptake of the model by other financial intermediaries or actors; and finally (iv) the ability of the early stage entities to access other sources of finance as a result of the project.

III. Alignment with IDB Group, Scalability, and Risks

A. Alignment with IDB Group

3.1 **Alignment with Country Strategy**. The project is aligned with the IDB institutional strategy by supporting the insertion of small-scale farms into value chains and by addressing cross cutting issues such as climate change and environmental sustainability. It is aligned with the Bank's strategy of improving agricultural productivity and competitiveness and expanding access to financial services for agricultural producers. The project aligns with IICs priority business areas of improving access to finance and TA for SMEs, supporting innovation, and green growth. It also focuses on improving market links with agricultural value chains, a key IIC business sector.

3.2 the project will contribute to the IDBG's institutional strategy goals of reducing poverty, increasing sustainable growth, and fostering development through the private sector by: (i) providing key financing services to underserved SMEs; (ii) promoting the adoption and dissemination of farm management tools, training and quality control systems; and, (iii) creating new opportunities in farm- related activities, particularly for women and youth who are more vulnerable to unemployment and migration. In addition, the project will introduce technologies that constitute an innovation in region's agricultural finance sector.

B. Scalability

3.3 Scaling of the project will be achieved by replication and incorporation of the early stage SMEs into the loan portfolio of other financial service providers. It is expected that local Banks, other social impact investors and anchor companies, will enter this space as they see and assess the capacity of Root Capital to lend to this market segment. The initial commitment of RC to provide $12 Million in lending will be more than doubled by other actors in the sector.

C. Project and Institutional Risks

3.4 The project team has identified the following risks and corresponding mitigation strategies which are embedded in the project design:

3.5 **Risk 1: Credit/Default risk**: Although SIINC payments will mitigate the cost to serve for the high-risk, high-impact lending clients reached through this project, it will not eliminate the elevated risk of default by these early-stage businesses. **Mitigating factor**: Although SIINC payments will incentivize RC to make unprofitable loans, they will not override RC's existing Risk Management infrastructure, which includes a 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 our basic parameters for credit-worthiness, and while SIINC payments will shift the overall risk calculus, they will do so to a limited extent, allowing RC to continue to try to mitigate default risk to the extent possible.

3.6 **Risk 2: Verifying loan additionality determinations**: RC's Loan Officers' determinations of loan additionality are made on a client-by-client basis according to the client's ability to access alternative finance on the same terms offered by RC. The terms of loans can be varied and nuanced, spanning collateral requirements, interest rates, loan tenor, use of loan, etc. RoI's due diligence efforts will require a deep and dynamic examination of all the factors of additionality in order to verify RC's determination. **Mitigating factor**: Due to RC's implementation of the Efficient Impact Frontier, RC 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 at the launch of this project to further ensure standard definitions and practices between Loan Officers and regional offices. RoI is prepared to implement a comprehensive due diligence and verification process involving numerous RC departments and external stakeholders.

3.7 **Risk 3: Market volatility**: RC's existing Risk Management policies and procedures cannot entirely correct for the inherent volatility and unpredictability of smallholder agriculture; clients and loans that appear creditworthy at time of loan application approval may not be entirely resilient to sudden shifts in crop prices due to regional/global factors. **Mitigating factor**: RC mitigates market risk by lending against forward contracts where possible, reviewing country-specific lending regulations and currency controls, and performing market assessments to understand the relative stability or volatility of agricultural product prices.

3.8 **Risk 4: Effects of climate change and other weather-related shocks**: Many of the early stage SMEs RC seeks to serve through this project will be small-scale coffee cooperatives in Latin America, where the effects of climate change on coffee yields and harvest timing are acutely felt. These effects may hinder the impact of our work with these clients. **Mitigating factor**: The services RC will be able to extend to these clients through this project, namely affordable financing and targeted management, agronomic and mobile technology capacity building, will increase the resilience capacities of these SMEs, rendering them better-positioned

to weather the effects of climate change. 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.

IV. Instrument and Budget Proposal

4.1 The project has a total cost of US$ 1,880,000 of which US$1,050,000 (44%) will be provided by the MIF, and US$ 830,000 (56%) by the counterpart. Counterpart resources provided by the executing agency include US $500,000 for SIINC payments and US $330,000 for advisory services and the cost of the impact assessment and monitoring. The execution period will be of 36 months and the disbursement period will be of 42 months.

4.2 The instrument to be used for MIF financing is a non-reimbursable grant. The project budget is summarized in the following table:

	MIF	**Counterpart**	**Total**
Project Components			
Component 1: SIINC Incentives	500,000	500,000	1,000,000
Component 2: Business Advisory Services	550,000	0	550,000
Component 3: Impact Assessment and Learning		330,000	330,000
Grand Total	1,050,000	830,000	1,880,000
% of Financing	**56%**	**44%**	**100%**

V. Executing Agency (EA) and Implementation Structure

A. Executing Agency(s) Description

5.1 Root Capital (Root) is a pioneering lender and technical assistance provider to agricultural businesses in the developing world, with 18 years of experience innovating in frontier markets. Founded in 1999 and first incubated as Ecologic Finance, Root was incorporated as a 501(c)(3) in 2006. Root seeks to improve farmer livelihoods by providing credit and capacity building to unlock the growth and impact potential of agricultural SMEs. Since its founding, Root has lent $1.2 billion to over 670 agricultural businesses aggregating 1.3 million farm households (impacting 5.8 million people). Much of Root's lending has targeted earlier stage SMEs requiring $100-500K but lacking credit history or formal collateral.

5.2 In 2017, Root Capital disbursed $120 million to 244 small agricultural businesses with an average loan portfolio balance of $65 million. The organization has assets of $105 million and liabilities of $89 million. It ended the year with net earnings of $100,000, thanks to a disciplined underwriting and targeted expense management. While Root Capital wrote off close to $7.2 million in bad loans, it recovered over $2 million to put the net write off ratio at a healthy 6.5%. through its lending operations in 2017 Root Capital reached 571,000 producers who purchased $887 million worth of crops.

5.3 Root Capital has a global office based in Cambridge, MA and several regional offices in Latin America, sub-Saharan Africa, and Indonesia. Of the 110 employees, the majority are based in the regional offices where they are hired locally and facilitate a close relationship with clients, and are responsive to clients' evolving needs. Furthermore, the senior and middle management teams have a demonstrated commitment to rigorous screening of potential clients, crop policies, and environmental and social impacts.

B. Implementation Structure and Mechanism

5.4 The project will be executed by Root Capital from its regional office in Costa Rica and it will be implemented in 36 months. RC will establish a core project execution unit in San Jose, staffed by a team of 5 professional and technical officers. This team will receive administrative and technical support and leadership from RC Headquarters.

5.5 The project will be implemented in close collaboration from Roots of Impact. Roots of Impact (RoI) is a specialized advisory firm and market builder based in Germany, for impact investing and development finance. It creates innovative financing solutions for scaling social enterprises, and advises impact investors, public funders and philanthropists in implementing them. RoI has pioneered the SIINC concept (described above) and is currently piloting it in partnership with the IDB-MIF and Swiss Development Corporation in Latin America. RoI will act as the external agent to ensure compliance and adherence to the impact and results expected by the project. The costs related to the participation of RoI will be covered by the SDC.

VI. Compliance with Milestones and Special Fiduciary Arrangements

6.1 **Disbursement by Results, Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, Bank procurement policy[3] and financial management[4] arrangements as specified in Annex V.

VII. Information Disclosure

7.1 **Access to Information:** Project information is not considered confidential under the IDB Access to Information Policy. This document is therefore public in accordance with said policy.

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[3] Link to the Policy: Procurement of Works and Goods Policy

[4] Link to the document Operational Guidelines for Management of Milestones and Financial Supervision for MIF and SEP Technical Cooperation Projects