

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SUMMARY

- 1. País:** Regional
- 2. Nº Proyecto:** RG-G1036
- 3. Name of Project:** Financing Agrobusiness and Cooperatives response to COVID-19 in Central America, Colombia, Mexico and Perú
- 4. Executing Agency:** Root Capital Inc. (RC)
- 5. Borrower:** Root Capital Inc. (RC)
- 6. IDB División:** Multilateral Investment Fund (MIF) – IDB Lab
- 7. Financing amounts**

	<u>IDB US\$</u>	<u>Counterpart US\$</u>	<u>Total US\$</u>
Contingency Recovery Investment Grant (IDB-Lab)	0	500,000	500,000
Technical Cooperation (IDB-Lab)	0	150,000	150,000
Rapid Response Investment Grant (IDB-Lab)	0	200,000	200,000
SEP Non-Reimbursable Financing (from RG-X1261)	<u>945,000</u>	0	<u>945,000</u>
Total:	945,000	850,000	1,795,000

8. Objective and purpose of the project:

The project's objective is to pilot the SIINC model to strengthen the livelihoods of smallholder farmers in Central America, Colombia, Mexico and Peru by closing the financing gap for high-impact early stage agricultural Small and Growing Businesses (SGBs) .

9. Project Components:

Component I: Social Impact Incentives (SIINC) Payments (SEP (RG-X1261): \$750,000; IDB Lab: \$0). This component includes the SIINC payment mechanism through which the project executing agency (RC) will be compensated up to US\$750,000 based on individual loan results for an estimated 25 medium or high additionality loans of up to US\$500,000 each to be made to early stage SGBs in the project countries, with loan sizes and additionality/results independently verified by Roots of Impact (RoI). These loans provided by RC are typically for short-term working capital needs and production and marketing, and for on-lending to small farmers, who on average have less than 2 hectares in production. RC has an established credit and loan policy, which allows for the adequate analysis and risk management of its credit operations.

Component II: Contingent Recovery Investment Grant Financing (SEP (RG-X1261): \$0; IDB Lab: US\$500,000). This innovative mechanism is intended to provide Root Capital with an element of loss support to encourage it to take on the additional risk associated with SIINC-qualified lending to early stage businesses potentially impacted by COVID-19. Under this mechanism, IDB Lab's contingent recovery investment grant (CR-IG) will provide resources to Root Capital to cover losses related to SIINC-eligible loans to borrowers in Costa Rica, Mexico, Nicaragua, and Guatemala. The

CR-IG financing must be repaid by RC to IDB Lab at the termination of the agreement (repayment period); provided that the amount of repayment shall be calculated by incentive and loss factors.

Component III: Business Advisory Services (SEP (RG-X1261): \$0; IDB Lab: US\$150,000). As many early-stage SGBs lack crisis management capacity, as well as the financial management skills and experience to successfully access and manage credit, the loans incentivized by Components I & II will be complemented by targeted business advisory services delivered by RC to 15 early stage SGBs in the project countries (Guatemala, Honduras, Colombia, Peru, Nicaragua, Costa Rica, and Mexico). Most of the clients receiving training will also be recipients of medium and high additionality loans, but a portion may be earlier stage “pipeline” clients who require crisis management support and catalytic training in financial management in order to accelerate their progress towards basic credit-readiness. Some clients will receive digital business intelligence advisory services and/or agronomic advisory services (including ag-tech) through the cooperatives⁹; 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 and may include crisis management training and other COVID-19-related support. The trainings administered through this project will be delivered either on-site at the businesses’ premises or, if necessary due to COVID-19 travel restrictions, online via remote training, and will last approximately ten days on average, with some businesses receiving between ten and twenty days depending on their individualized training package.

Component IV: Rapid Response Investment Grants (SEP (RG-X1261): 0\$; IDB Lab: US\$200,000) To further support early stage SGBs as they and their communities manage the ongoing social and economic impacts of the COVID-19 crisis, RC will complement this project’s high-impact lending and tailored advisory services with Rapid Response Grants to an estimated 12 SIINC-qualifying enterprises. These one-time, non-repayable emergency grants will be quickly deployed to address needs that clients identify either within their own operations or in their communities, including those relating to food security, health and sanitation (such as purchasing personal protective equipment), or mitigating the effects of lost income for employees and/or farmers. Results from a global survey of Root Capital’s clients showed that a majority (75%) foresee a setback or delay in harvesting, processing, shipping, or sale of their product, with a median delay of 30 days. For certain businesses, especially the particularly cash-poor early stage SGBs served by this project, this will mean that their cash flows will go negative for a prolonged period of time and they will be forced to operate below their break-even point and beyond their cash reserves unless drastic action is taken to help facilitate additional liquidity. As an example, due to delays in contracts, clients might need help making payroll or capitalizing their internal credit systems to provide liquidity to farmers and employees to purchase food or other essential items.

This investment grant mechanism will help RC provide for these urgent cash flow needs of its clients. Clients will be selected by RC according to a systematic prioritization process that will take into account their local context, community needs, and business situation.

Component V: Debt Relief Fund (SEP (RG-X1261): \$195,000; IDB Lab: US\$0) According to a client survey conducted in Q2 2020, 23% of Root Capital clients globally foresee needing loan restructuring, and this number is likely to increase as delays in returning to the pre-COVID levels of production and sales continue and the possibility of economic recession looms. As agricultural value chains remain active during COVID-19, agri-SGBs require the working capital to operate their businesses, continue to participate in value chains, and support livelihoods. To support the continued

flow of goods and services, Root Capital is prepared to use the counterpart support provided as an investment grant from the SEP (funded by SDC) to cover losses to continue serving clients facing COVID-19-related delays and setbacks.

10. Project Beneficiaries:

The project is designed to protect, and ultimately improve, the livelihoods of smallholder farmers supplying early stage agricultural SGBs in Latin America, many of which have not been reached by RC before. The project focuses on countries where Root Capital has a strong lending presence, where it has sufficient operational capacity to manage the different components proposed by the project, and where it has seen that the need for support is most needed. These countries are Guatemala, Honduras, Costa Rica, Nicaragua, Colombia, Peru, and Mexico. In these countries, the early stage SGBs that RC serves are often farmer-directed cooperatives that purchase crops, usually corn, fruits, sugar, coffee or cocoa, from their supplying smallholder farmers. These cooperatives that RC serves through lending and advisory services tend to pay about 80-90% of their revenues to farmers, a proportion that 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.

11. Expected results and capture of benefits:

At the end of the implementation period, the project is expected to have accomplished the following: (i) 25 new (medium or high additionality) loans made to early stage agribusinesses; (ii) 15 agribusiness SGBs receive technical assistance to build their crisis management capacity and position them for successful recovery from the COVID-19 pandemic; and (iii) the total amount of credit extended to early stage enterprises via the project reaches US\$6 Million.

The project has incorporated within its operating plan structure a mechanism to monitor and verify project results, the details of which are described in Document 4. In the performance plan, Key Performance Indicators (KPI) have been defined by agreement between all relevant project parties: SDC, RoI, Root Capital and the IDB Lab. These indicators, which reflect some of the focused project incentives for RC in the target countries, include: (i) the number of additional loans (with medium or high additionality) of \$500,000 or less closed and funded in the target countries; (ii) number of additional loans of \$500,000 or less closed with gender inclusive businesses in the target countries; (iii) total amount of credit invested in early stage enterprises that commercial lenders would not have provided; (iv) number of Rapid Response Grants provided to SIINC-qualified businesses to help address the urgent needs of businesses and their communities as they weather the pandemic; (v) number of enterprises receiving technical assistance to build their crisis management capacity and position them successfully for recovery. The same performance plan establishes the following key processes for verification of the above KPIs (i) and (ii), necessary for project Component I: Social Impact Incentives (SIINC) Payments: (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 performance 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.

The project will seek to replicate the results of the intervention to other SGBs both in the countries of the project, but also in other countries where SGBs play a critical role in financing and reaching last mile farmers.