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# EVALUATION OF DCA GUARANTEE TO ROOT CAPITAL

REPORT

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## REPORT

**AUGUST 13, 2010**

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### **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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To all of you: the work represented in this report is as much yours as mine. Thank you!

## ACRONYMS

ADAR	Assistance à la Dynamisation de l'Agribusiness au Rwanda
AFR	Africa
ANDE	Aspen Network of Development Entrepreneurs
CEO	Chief Executive Officer
CMS	Credit Management System
COP	Chief of Party
DCA	Development Credit Authority
DRC	Democratic Republic of Congo
EEV	EcoLogic Enterprise Ventures
EGAT/DC	Bureau of Economic Growth, Agriculture and Trade/ Office of Development Credit
FAST	Finance Alliance for Sustainable Trade
GDA	Global Development Alliance
GMCR	Green Mountain Coffee Roasters
IADB	Inter-American Development Bank
ICO	International Coffee Organization
IFC	International Finance Corporation
LAC	Latin America and Caribbean
LLC	Limited Liability Company
MFI	Microfinance Institution
MOU	Memorandum of Understanding
PEARL	Partnership to Enhance Agriculture in Rwanda through Linkages
REDSO	Regional Economic Development Services Office for East and Southern Africa
SME	Small and Medium Enterprise
SPREAD	Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development
UCAR	Union des Caféculteurs du Rwanda
USAID	U.S. Agency for International Development

## EXECUTIVE SUMMARY

Rural, small and medium enterprises (SMEs) struggle to obtain the capital they need to operate and expand their businesses. Yet, SMEs have the potential to provide much-needed employment for rural inhabitants, increase food security, and enhance a country's export revenues. The financial sector has historically viewed agriculture as a risky investment, subject to the vagaries of weather, seasons, and sometimes widely fluctuating prices. In addition, rural producers typically lack acceptable guarantees or collateral, an existing credit history, and bank-required paperwork.<sup>1</sup>

Growing consumer demand for organic and/or fair trade products offers an opportunity for higher incomes and economic growth among rural communities, since certified products command a higher price in world markets than pure commodity crops.<sup>2</sup>

In the fall of 1999, the non-profit corporation EcoLogic Development Fund (EcoLogic) founded EcoLogic Enterprise Ventures (EEV) in Cambridge, Massachusetts to serve as EcoLogic's green financing arm. EEV's purpose was to provide financing to small-scale, eco-enterprises located in environmentally sensitive areas of Latin America. In 2007, EEV split from EcoLogic and changed its name to Root Capital.

With grant funding and low-interest loans from international donor organizations, individuals, foundations, church groups, and corporations, Root Capital provides short-term harvest financing, working capital, and longer-term loans to village-based producer businesses to enhance community economic development.<sup>3</sup> Root Capital supplements its credit provision with technical assistance for both existing and potential clients, to help them improve their financial management.

Recognizing a synergy in vision and goals, the U.S. Agency for International Development's (USAID's) Bureau of Economic Growth, Agriculture and Trade, Office of Development Credit (EGAT/DC) decided in 2003 to support Root Capital's lending to qualified producer/cooperative groups in Mexico, Guatemala, Nicaragua, Panama, and Peru with a 50 percent guarantee, up to a ceiling amount of \$2 million (\$4 million maximum portfolio).

In early 2005, EGAT/DC decided to further support Root Capital's expansion with another portfolio guarantee to help the organization expand its model into East Africa, specifically to finance coffee cooperatives in Rwanda, Tanzania, Uganda, Kenya and Ethiopia.

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<sup>1</sup> Lyon, Sarah. *Culture & Agriculture*. June 28, 2008.

<sup>2</sup> Fair Trade Federation, Interim Report on Fair Trade Trends, July 2008.

<sup>3</sup> "Root Capital Announced as Recipient of Bill & Melinda Gates Foundation's First Agricultural Development Program-Related Investment," Root Capital press release, December 10, 2009.

The table below summarizes key characteristics of the Development Credit Authority (DCA) guarantees.

**TABLE I: DCA LPGS TO ROOT CAPITAL, SUMMARY OF DATA**

LPG	Starting Year	Ending Year	Ceiling Amount (\$)	Number of Loans	Aggregate Amount (\$)	Utilization Rate	Average Loan Size (\$)	Average Loan Tenor (days)
LAC DCA	2003	2008	2 million	22	3,982,250	99.56%	181,011	425
AFR DCA	2005	2008	1 million	15	1,602,000	80.1%	106,800	161

Source: USAID Credit Management System

In June 2010, EGAT/DC requested SEGURA/IP3 Partners LLC to conduct an evaluation of the DCA guarantees provided to Root Capital. This evaluation is the eighth in a series of 20 evaluations<sup>4</sup> of DCA guarantees planned to assess the outputs, outcomes, and impacts of these guarantees. Individually and together, these evaluations are meant to provide EGAT/DC with information to

1. Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results;
2. Contribute to the dialogue about how to engage financial sector institutions as partners in development;
3. Strengthen USAID’s application of DCA as a tool for achievement development results; and
4. Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluator to examine the results of the DCA guarantees to Root Capital at three levels: output, outcome, and impact. At the output level, USAID asked the evaluator to examine the additionality of the guaranteed loans; that is, what differentiates these loans and the way Root Capital used them from business as usual at Root Capital. Outcome-level questions focus on determining the extent to which use of the guarantees has produced changes in Root Capital’s non-guaranteed lending. Impact-level assessment seeks to determine whether changes in Root Capital’s lending behavior have encouraged other, non-partner financial institutions to increase lending to the SME, Fair Trade and

#### Evaluation Questions in Brief

Output level—How did Root Capital use the guarantees?

Outcome level—Did Root Capital’s experience with the guarantees help improve access to credit for rural SME borrowers through its lending outside the guarantee coverage?

Impact level—Did the guarantees have a demonstration effect that resulted in other lenders improving access to credit for the target sector?

Exogenous factors—What exogenous factors have affected the performance of the guarantees at the output, outcome, and impact levels?

<sup>4</sup> The first seven were in Ghana, Honduras, Indonesia, Russia, Philippines, Rwanda, and Ethiopia.

Organic Certified sectors in Latin America and East Africa. In addition, EGAT/DC asked the evaluator to analyze the effects of exogenous factors on changes observed at the three levels. The evaluator wove the exogenous factors through the report's findings, as appropriate.

This evaluation used a mixed methods approach, including statistical analysis of loan data, key informant and group interviews, a survey, and document review. The evaluation began in June 2010 with initial discussions with EGAT/DC to obtain a better understanding of the guarantees, their objectives and context. After reviewing background documents on the guarantees (see Annex II) from EGAT/DC, the evaluator revised the general evaluation framework for all of the DCA evaluations to fit the Root Capital guarantees' objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantees.

The evaluation continued in Cambridge, Massachusetts (Root Capital's headquarters) from July 12 to 16, 2010, including semi-structured interviews with Root Capital staff and review of the organization's portfolio data.

After the fieldwork, the evaluation team collected additional data through email correspondence with USAID officers and other knowledgeable sources, an online survey of Root Capital clients, and internet research. The evaluator used a combination of comparative analysis, statistical analysis, and content pattern analysis to draw findings from all of the collected data, from which she drew conclusions.

Data limitations included the fact that the evaluator did not visit any of the countries to which Root Capital lends, thereby limiting opportunities to obtain information from the range of organizations that might have helped develop findings related to the impact of the DCA guarantees, as well as to exogenous factors affecting the guarantees' performance. However, the evaluator does not believe these limitations significantly impact the conclusions presented in this report.

## **Output-level Conclusions and Findings**

*Question 1.a: Why did Root Capital enter into the guarantees?*

**Conclusions:** Root Capital entered into the guarantees to enable it to expand lending to borrowers and markets which would otherwise have been too risky for the organization's board and credit committee. The first guarantee allowed Root Capital to extend lending to needier, riskier clients, while the second guarantee helped Root Capital expand its operations to East Africa. In both cases, Green Mountain Coffee Roasters' partnership with USAID was instrumental in both Root Capital's expansion and its link to the DCA guarantees.

## Findings

- Three senior Root Capital officers said one of Root Capital's main partners, Green Mountain Coffee Roasters (GMCR), had a partnership with USAID and learned of the DCA opportunity. With the DCA guarantee, Root Capital thought it could expand through bringing loans to the credit committee which were too risky to approve in the absence of the guarantee.
- Root Capital's Regional Director for Latin America said Root Capital used the first DCA guarantee to provide loans to riskier businesses that had less collateral and businesses that were not as solid as those to which Root Capital normally lends.
- According to three senior Root Capital officers, Root Capital's Memorandum of Understanding (MOU) with GMCR included the intention to expand lending to Africa.
- According to Root Capital's Chief Executive Officer (CEO), GMCR, Starbucks, and other, important Root Capital partners suggested they might take their business elsewhere if Root Capital was not willing to lend to their East African suppliers.
- Africa was very risky for Root Capital because of its unfamiliar languages and cultures, fewer Fair Trade-Certified businesses, lower education levels, and more fraud and corruption than in Latin America. The DCA guarantee, Root Capital's officers said, made the board and investors comfortable with lending to Africa.

*Question 1.b: How did Root Capital implement its loan guarantee programs that was different from implementation of its existing portfolio? And why?*

**Conclusions:** Root Capital did not make any changes to its normal loan processes and procedures to accommodate the DCA guarantees, primarily because the guaranteed borrowers were not materially different from nonguaranteed borrowers.

## Findings

- Five senior Root Capital officers said the only changes Root Capital made to its normal loan administration procedures in order to accommodate the guarantees related to reporting to USAID and the act of putting a loan under a guarantee.
- Root Capital's officers said that up until a couple of years ago, Root Capital's loan approval and management procedures were comparatively informal because the organization was so small.
- Even in Africa, Root Capital used the same procedures to evaluate a potential borrower as it regularly used in Latin America, apparently because those procedures worked.
- The types of borrowers to whom Root Capital lent under the guarantees were the same types of borrowers the organization normally lent to: rural SMEs selling Fair Trade and/or Organic Certified products to international buyers through forward purchase contracts in hard currency.

*Question 2.a: What was the additionality of the guarantee?*

*Question 2.b: What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?*

**Conclusions:** Root Capital used both DCA guarantees to lend to riskier clients. It provided financing to businesses that would not otherwise have been able to qualify for a Root Capital loan or at least a loan of the type and size they received under the guarantees. The DCA guarantees helped Root Capital to expand lending to Ethiopia and Rwanda. Root Capital also used the guarantees to debut its Long-Term Working Capital loan product.

### Findings

- Three senior Root Capital officers identified several triggers for putting a loan under one of the DCA guarantees, which made guaranteed loans different from nonguaranteed loans: (a) new clients without a track record with Root Capital; (b) otherwise solid businesses in a difficult financial or management situation; (c) new country/context; (d) larger loans; and (e) new loan products.
- Fifteen of the 31 (48 percent) borrowers under both guarantees were new borrowers to Root Capital.
- At least seven of the borrowers whom Root Capital funded using the guarantees were riskier than Root Capital would normally approve.
- Ethiopia was risky because it was a new country and region for Root Capital and it had unclear, arbitrary regulations governing foreign investment. Although Root Capital used its Africa DCA guarantee to make two loans to Ethiopian coffee cooperatives and went on to make a second, nonguaranteed loan to one of the cooperatives, it eventually decided because of a financial crisis among cooperative unions and Ethiopia's restrictive regulations on collateral, to stop lending to Ethiopian entities.
- Root Capital's Regional Director for Africa said the Rwandan businesses in which Root Capital was interested were young and regulatory issues governing them were still being developed, making the country risky for investment. Because of this risk, all but three of the loans under the Africa DCA guarantee were to Rwandan enterprises, he said.
- Nine of the loans which Root Capital put under the guarantees were much larger than the loan recipients had received previously.
- Root Capital made its first Long-Term Working Capital loan under the Latin America guarantee, in December 2003.

## **Outcome-level Conclusions and Findings**

*Question 3.a: To what extent were desired outcomes achieved so far, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantees? What is the potential for sustainability of these outcomes?*

Conclusions: The Latin America guarantee helped triple Root Capital’s nonguaranteed Latin American portfolio from \$3.3 million pre-guarantee to \$10.9 million<sup>5</sup>. The second guarantee contributed to nearly tripling Root Capital’s nonguaranteed Africa portfolio from \$1 million pre-guarantee to \$2.9 million<sup>6</sup>. Root Capital intends to sustain lending to small and medium Fair Trade and/or Organic Certified producers and processors in Latin America and Africa, thereby sustaining the DCA guarantees’ outcomes.

Since Root Capital’s officers asserted that the organization would not have lent to these borrowers in the absence of the DCA guarantees (see Outputs), the guarantees contributed to these outcomes. Other contributing factors to Root Capital’s continued lending to these customers and markets are likely (a) increased trust between Root Capital and its clients as they got to know each other; (b) Root Capital’s rising knowledge of the East African market (see Outputs); (c) Root Capital’s desire to expand (see answer to Question 3.b below); and (d) increased investor interest in Root Capital’s target markets (see answer to Question 3.b below).

#### Findings

- Of the 19 borrowers which the Latin America DCA guarantee supported, 14 (74 percent) received subsequent, non-DCA-guaranteed loans, at an average value of \$480,000. Six of these borrowers were new Root Capital clients when they received their DCA guaranteed loans.
- Root Capital’s subsequent, nonguaranteed loans to these six new clients accounted for a \$7.6 million increase in Root Capital’s Latin American portfolio over 1999 to 2002 (pre-guarantee) levels.
- Eight of the 12 borrowers under the Africa DCA guarantee received subsequent, non-DCA-guaranteed loans, at an average value of \$228,479. Five of the eight borrowers were new Root Capital clients when they received their DCA-guaranteed loans.
- Subsequent, nonguaranteed lending to these five new clients accounted for a \$1.6 million increase in Root Capital’s Africa portfolio over 2004 to 2005 (pre-guarantee) levels.
- All of Root Capital’s staff members interviewed said the organization intends to halt its geographic expansion for the time being and test new loan products and explore new industries in its existing portfolio of countries in Latin America and Africa.
- Root Capital’s senior officers said the organization’s objective is eventually to “graduate” their clients to accessing finance from locally-available, commercial sources of financing.

*Question 3.b: What factors at the partner bank can be associated with achievement of desired outcomes?*

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<sup>5</sup> The increase represents only the value of nonguaranteed loans to borrowers that first became Root Capital clients under the LAC guarantee.

<sup>6</sup> The increase represents only the value of nonguaranteed loans to borrowers that first became Root Capital clients under the AFR guarantee.

Conclusions: The primary, exogenous factors responsible for Root Capital's growth are: (a) large, unmet need among its target market; and (b) increased capital base. Fueling both has been the increased interest among consumers, buyers, and investors in Fair Trade and Organic Certified products from SMEs in developing countries.

### Findings

- Root Capital's nonguaranteed lending portfolio increased 499 percent (from \$9 million to \$53 million) between 2004 and 2009.
- Asked to what they attribute this growth, all Root Capital staff interviewed cited the large demand among targeted clients for the credit Root Capital offers.
- By the end of 2009, Root Capital counted 20 major philanthropic and corporate investors in its operations, not counting individual investors.
- Asked to what they attribute this interest in Root Capital, all staff members interviewed cited both increased interest in social investing and the attractiveness of Root Capital's 100 percent repayment rate in an unstable financial environment.
- Buyers (Root Capital's partners) have become increasingly interested in Organic and Fair Trade Certified products.
- Root Capital's CEO said that the DCA guarantees contributed to Root Capital's growth by allowing it to reach even further into untouched markets than it would have been comfortable doing otherwise.

## **Impact-level Findings and Conclusions**

*Question 4.a: Have lending terms to the target sector changed since the guarantees?*

*Question 4.b: If so, what role did the DCA guarantees play as a demonstration model?*

Conclusions: Root Capital has increased access to finance, at least for its own clients. There are specific cases of producer groups that have gained access to finance through Root Capital and gone on to access other sources of finance. The DCA guarantees contributed to this progression because they allowed, in some cases, Root Capital to provide (larger) loans to otherwise too risky borrowers.

As organizations gain lending experience and additional lenders enter the market, borrowers have been able to increase the amounts they borrow, although not necessarily their loan tenors. Collateral requirements still vary considerably, but as more government programs, international donors, NGOs, and social investors lend to this sector, collateral requirements have become less stringent for some producer groups. While Root Capital may have influenced some international lenders to adopt its factoring model, since it has employed this model since the beginning the DCA guarantees had little to no influence on this change. Nevertheless, Root Capital is making a positive difference in its clients' businesses and the DCA guarantees supported that assistance.

### Findings

- The training that Root Capital and other organizations provide to the target market increases investor confidence in both the trained and untrained organizations because people see overall a higher level of financial management in the sector, said Root Capital’s Latin America Regional Director.
- The Vice President of Lending at Root Capital said that increased government focus on supporting the agriculture sector has fueled investment in Root Capital’s target market. In Mexico, for example, the Central Bank and Banamex jointly formed Fondo Acción to provide finance to agriculture. Other guarantee funds have supported bank lending to the sector in Peru.
- A USAID/Rwanda representative cited the government’s coffee campaign lending from 2004 to 2005 as primarily responsible for increased investment in the sector.
- The table compares responses from Root Capital clients to the evaluator’s borrower survey.

Latin America Respondents	Africa Respondents
Of the 15 respondents to the Latin America borrower survey who reported the approximate amount of their first and current business loans, 14 realized an increase in loan amounts. Sixty-seven percent of respondents currently have credit valued at more than \$500,000. Most (65 percent) respondents reported their first loan amounts at less than \$100,000.	Of the 11 East African borrower survey respondents who reported their first loan amount and their current loan amount, eight reported higher current loan amounts than their first loan amount, including six DCA beneficiaries. Thirty-five percent of respondents currently have credit valued at more than \$500,000. Most (57 percent) respondents reported first loan amounts at less than \$100,000.
Of the 14 respondents who reported their loan tenors for both their first and current business loans, four (29 percent) realized a longer loan tenor for their current loans (average two to five years as compared to one year or less).	Of the 12 respondents who reported their loan tenors for both their first loan and their current loan, one (a DCA beneficiary) reported a longer current loan tenor—more than five years, as compared with one year or less. Fifty-three percent of respondents reported current loan tenors of 1 year or less.
Of the 12 respondents who reported the collateral requirements for their first and current business loans, four have lower collateral requirements currently. Two have requirements amounting to 50 to 80 percent of the loan amount plus interest, while the other two do not have any collateral requirements.	Of the 12 respondents who reported the collateral requirements for their first business loan and their current loan, three reported a decrease. All three currently have loans with no collateral requirement.
Sixteen (80 percent) of respondents to the question said that access to credit has improved for businesses like theirs over the last seven years and 11 said access has improved considerably.	Fifteen (79 percent) respondents to the question said that access to credit for businesses like theirs had improved over the past seven years, and 10 said access had improved a lot.

# INTRODUCTION

## The Development Problem

Small and medium enterprises (SMEs) are generally considered to be drivers of economic development in any country, generating economic activities and employment, thereby raising incomes, consumer spending, and tax revenues. However, they have historically received little attention in the developing world. Large businesses, of course, can access finance from many sources, especially commercial banks. Microenterprises have been the focus of development aid for decades and microfinance institutions (MFIs) are fairly well established across the world. SMEs, which need larger loans than microenterprises but typically do not have the collateral and financial management experience of larger corporations, find themselves in the ‘missing middle.’<sup>7</sup>

Rural SMEs, in particular, struggle to obtain the capital they need to operate and expand their businesses. Yet, they have the potential to provide much-needed employment for rural inhabitants, increase food security, and enhance a country’s export revenues. The financial sector has historically viewed agriculture as a risky investment, subject to the vagaries of weather, seasons, and sometimes widely fluctuating world commodity prices. In addition, rural producers typically lack acceptable guarantees or collateral, an existing credit history, and bank-required paperwork.<sup>8</sup>

The UN estimates that 49.4 percent of the world’s population lives in rural areas.<sup>9</sup> The less developed a country is, the higher percentage of its population is rural, with an estimated 70.6 percent of least developed countries’ inhabitants living in rural areas.<sup>10</sup> For these populations, agriculture often represents the only means of income.

Coffee, in particular, has been a steady source of revenue for Central America, providing 11 percent of total revenue exports in 1999/2000.<sup>11</sup> However, when the world price of coffee dropped 58 percent between 1998 and 2001,<sup>12</sup> Central American farmers, processors, and exporters suffered as production costs exceeded prices.

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<sup>7</sup> See especially <http://www.microfinancefocus.com/news/2010/01/03/is-microfinance-the-answer-to-the-missing-middle/> and [http://earthtrends.wri.org/features/view\\_feature.php?theme=5&fid=69](http://earthtrends.wri.org/features/view_feature.php?theme=5&fid=69)

<sup>8</sup> Lyon, Sarah. *Culture & Agriculture*. June 28, 2008.

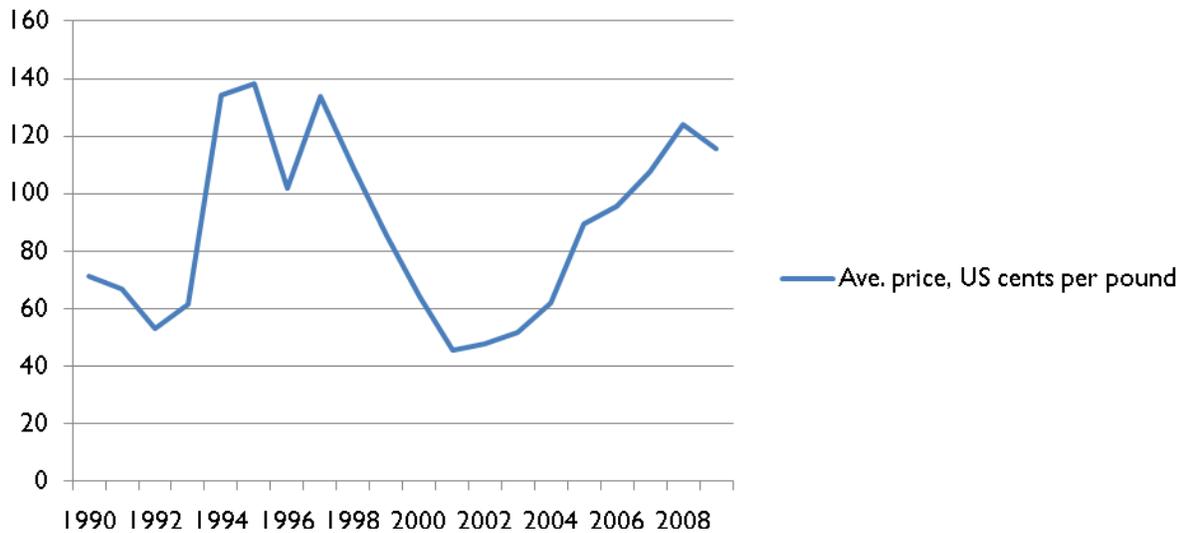
<sup>9</sup> United Nations Population Division, <http://esa.un.org/unup/p2k0data.asp>. Estimate for 2010.

<sup>10</sup> *Ibid.*

<sup>11</sup> USAID EGAT/DC Action Package recommending guarantee for Root Capital, May 1, 2003.

<sup>12</sup> ICO, average composite indicators prices.

**FIGURE I: WORLD COFFEE PRICES, 1990-2008**



Source: ISO. Prices are ISO coffee indicator prices.

Falling prices depressed exports. In Guatemala, for example, coffee exports fell 32 percent, from a high of 4.9 million 60-kg bags in 2000 to 3.3 million bags in 2004, a drop from which it has yet to fully recover.<sup>13</sup> Farmers ceased harvesting coffee crops in 2003 because their operating costs exceeded the revenues they could obtain from their coffee.<sup>14</sup>

There is a major problem with harvesting the coffee in many growing zones because of the lack of financing. Producers simply cannot afford to harvest at the current prices.  
—Fernando Celis, Coffee Producers Associations Council of Mexico, as quoted on Global Exchange

Although world coffee prices have since climbed to pre-crisis levels, commercial lenders became wary of investing in the sector, further restricting producers' and processors' access to credit. Compounding these difficulties has been coffee's vulnerability to commodity speculation, sending false signals to producers about future coffee prices.<sup>15</sup>

In countries such as Ethiopia, which underwent significant market distortions because of a period of increased central government control over the economy, histories of government-backed loans to the agriculture sector without expectation of repayment left commercial banks leery of lending to the sector.

Growing consumer demand for organic and/or fair trade products offers an opportunity for higher incomes and economic growth among rural communities, since certified products command a

<sup>13</sup> International Coffee Organization

<sup>14</sup> Linton, April. *Partnering for Sustainability: Business-NGO Alliances in the Coffee Industry*, 2005.

<sup>15</sup> Supachai Panitchpakdi, Secretary-General of UNCTAD, February 26, 2010.

<http://www.unctad.org/Templates/webflyer.asp?docid=12839&intltemID=3549&lang=1>

higher price in world markets than pure commodity crops. In 2001, the U.S. Department of Agriculture estimated that the market for organic foods would reach at least \$46 billion by 2010 in the European Union, \$45 billion in the United States, and \$11 billion in Japan.<sup>16</sup> The same study found that developed country consumers pay a premium of between 10 and 100 percent above conventional product prices for their organic foods. The Fair Trade Federation reported in 2000 that Fair Trade Certified sales amounted to \$400 million annually, with about 10 percent of that amount going to North America. Coffee at that time was the primary food product under the Fair Trade system and coffee farmers received an estimated 10 cents per kilo more for Fair Trade Certified coffee. Organic and Fair Trade Certified coffee farmers realized an additional 20 cents per kilo.<sup>17</sup>

As demand for Fair Trade Certified products has increased, so too have sales. Average sales of Fair Trade Certified products across Fair Trade organizations increased a whopping 539 percent between 2002 and 2006, as shown in the table below. Imports of Fair Trade Certified coffee into the U.S. amounted to 67.8 million pounds in 2006 alone, representing 3.31 percent of the total U.S. coffee market that year.<sup>18</sup>

**TABLE: SALES OF THE US AND CANADIAN FAIR TRADE INDUSTRY 2002-2006 (US\$ MILLION)**

	2002	2004	2006
FTF and IFAT members (all)	56.2	75.81	456.39
TransFair Canada (all)	9.1	27.14	67.79
TransFair USA (coffee only)	131	369	730
<b>TOTAL</b>	<b>196.3</b>	<b>471.95</b>	<b>1254.18</b>

Note: Overall totals are slightly elevated due to double counting of coffee sales. The sales of FTF/IFAT members who offer certified coffee have been counted twice. However, FTF/IFAT coffee sales represent 5% or less of total certified coffee sales.

Source: Fair Trade Federation, *Interim Report on Fair Trade Trends*, July 2008.

In addition, engaging in fair trade can help producers achieve a level of legitimacy that makes them more attractive clients to national and international lenders.<sup>19</sup>

## Enter Root Capital<sup>20</sup>

In the fall of 1999, the non-profit corporation EcoLogic Development Fund (EcoLogic) founded EcoLogic Enterprise Ventures (EEV) in Cambridge, Massachusetts to serve as EcoLogic's green

<sup>16</sup> Lohr, Luanne. "Factors Affecting International Demand And Trade in Organic Food Products," *Changing Structure of Global Food Consumption and Trade*. USDA WRS 01-01. Pp. 67-79.

<sup>17</sup> The Fair Trade Federation, <http://www.fairtradefederation.org/ht/d/sp/i/197/pid/197>

<sup>18</sup> Fair Trade Federation, *Interim Report on Fair Trade Trends*, July 2008.

<sup>19</sup> Lyon, Sarah. *Culture & Agriculture*. June 28, 2008.

<sup>20</sup> Unless otherwise noted, data in this section are from USAID Action Packages related to the DCA guarantees to Root Capital.

financing arm. EEV's purpose was to provide financing to small-scale, eco-enterprises located in environmentally sensitive areas of Latin America. In 2007, EEV split from EcoLogic and changed its name to Root Capital.

With grant funding and low-interest loans from international donor organizations, individuals, foundations, church groups, and corporations, Root Capital provides short-term harvest financing, working capital, and longer-term loans to village-based producer businesses to enhance community economic development.<sup>21</sup>

Root Capital's unique risk-management lending model involves extending credit to community-based producer organizations that have long term, fixed dollar contracts with one or more major, developed-world trading companies that specialize in certified organic and fair trade commodities and therefore offer prices above world market values. Through an agreement with both the importer and the producer, Root Capital offers pre-export finance of up to 60 percent of the contract value to the producer, to be repaid from the subsequent export sales to the importer. Under the agreement, upon receiving shipments from the producer, the importer pays Root Capital directly for the invoiced shipment amounts. Root Capital then deducts interest and principal from these payments and sends the balance of payment to the producer. Often, the green importers with which Root Capital partners provide technical assistance to producers to help them supply consistent amounts of high quality products.

Root Capital supplements its credit provision with technical assistance for both existing and potential clients, to help them improve their financial management.

With the successful repayment of initial, small, short-term harvest financing loans, Root Capital offers its borrowers larger and longer loans, thereby growing its portfolio. Root Capital also works with NGOs in the targeted sectors<sup>22</sup> and geographic locations to identify worthy borrowers.

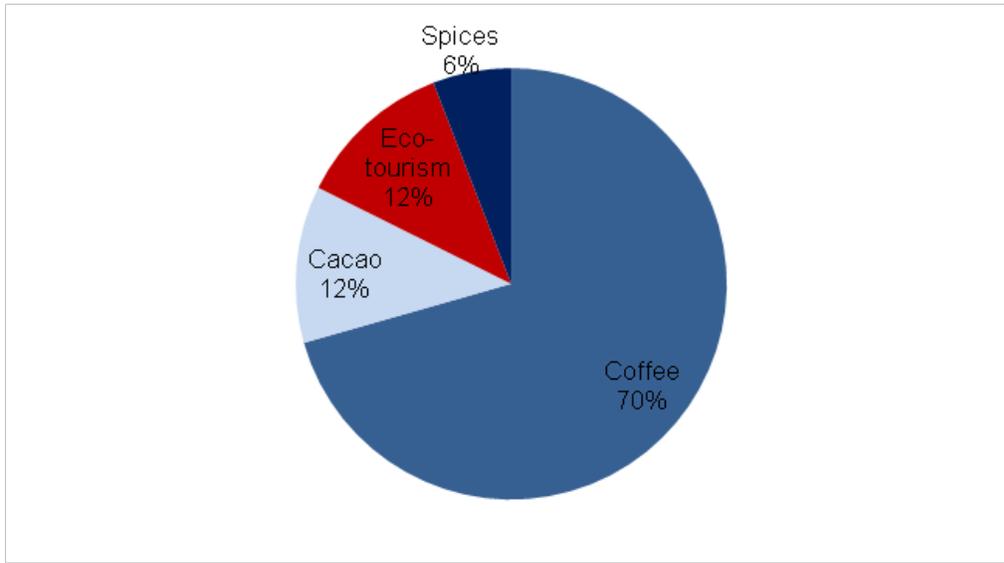
By December 31, 2002, Root Capital had made 34 short- and long-term loans worth a combined total of \$3.6 million to rural coffee, spice, and cocoa producer organizations throughout Latin America. As of January 2003, Root Capital had \$1.721 million in outstanding loans. By March 2003, 70 percent of Root Capital's outstanding loan value had gone to the coffee sector.

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<sup>21</sup> "Root Capital Announced as Recipient of Bill & Melinda Gates Foundation's First Agricultural Development Program-Related Investment," Root Capital press release, December 10, 2009.

<sup>22</sup> Sustainable agriculture, non-timber forest products, certified woods, sustainable fisheries, ecotourism.

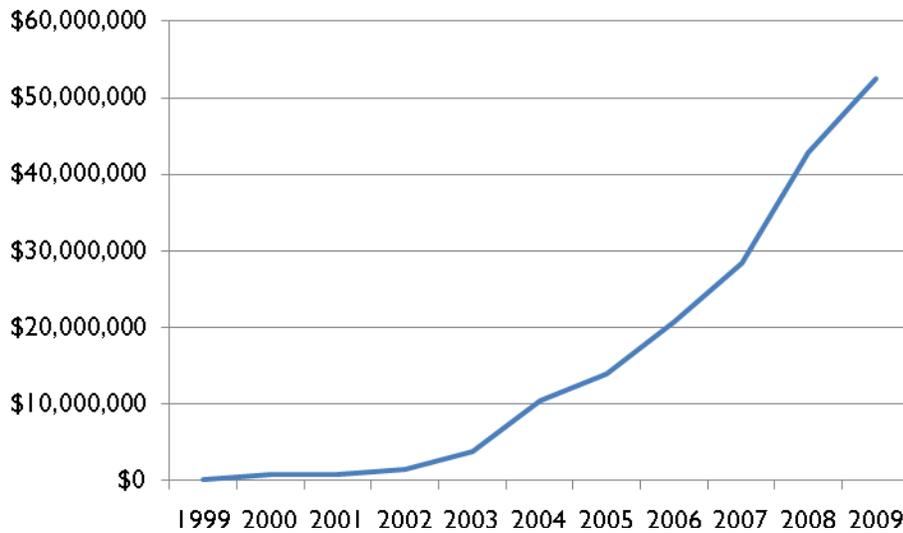
**FIGURE 2: ROOT CAPITAL OUTSTANDING LOAN VALUE, BY SECTOR**



Source: Action Package, May 1, 2003.

Root Capital has grown substantially, especially over the last few years. Between 2005 and 2009, Root Capital's annual disbursements increased 279 percent, as shown in the figure below.

**FIGURE 3: ROOT CAPITAL ANNUAL DISBURSEMENTS, 1999-2009**



Source: Root Capital portfolio data

By the end of 2009, Root Capital had disbursed a cumulative 701 loans worth \$175.8 million to 265 borrowers in 23 industries and 29 countries, and enjoyed a 99% repayment rate.<sup>23</sup> Root Capital began 2010 with approximately 40 staff members; as of the beginning of July it counted 60.<sup>24</sup>

## USAID's Response

Recognizing a synergy in vision and goals, the U.S. Agency for International Development's (USAID's) Bureau of Economic Growth, Agriculture and Trade, Office of Development Credit (EGAT/DC) decided in 2003 to support Root Capital's lending to qualified producer/cooperative groups with a 50 percent guarantee, up to a ceiling amount of \$1 million (\$2 million maximum portfolio). EGAT/DC's rationale was that the guarantee would "facilitate the operations of [Root Capital] and allow it to... provide more finance to qualified producer/cooperative groups than would otherwise be possible."<sup>25</sup> The guarantee would support lending to the same countries in which Root Capital already had outstanding loans: Mexico, Guatemala, Panama, Nicaragua, and Peru. Two years later, Root Capital had made 13 guaranteed loans, reaching a cumulative utilization of over 56 percent.

In early 2005, EGAT/DC decided to further support Root Capital's expansion with another portfolio guarantee to help the organization expand its model into East Africa, specifically to finance coffee cooperatives in Rwanda, Tanzania, Uganda, Kenya and Ethiopia. According to the organization's CEO, Root Capital's expansion plans resulted from its buyer partners' desire to access the African sustainable coffee market. The financing leveraged would complement existing USAID Regional Economic Development Services Office for East and Southern Africa (REDSO) and bilateral mission programs providing technical assistance to the specialty coffee industry in these countries. USAID's goal through this new guarantee was to help Root Capital "provide complementary loans and demonstrate the feasibility of lending to new and lesser known cooperatives against secured contracts with international coffee buyers."<sup>26</sup>

While Root Capital had already approved three loans for cooperatives in Africa, Root Capital's Board of Directors told USAID that without a guarantee, expanding loan activities in Africa would be too risky for the organization. The Development Credit Authority (DCA) guarantee would complement a \$200,000 Global Development Alliance (GDA) grant to the Finance Alliance for Sustainable Trade (FAST), an alliance of specialty coffee organizations led by Root Capital. The purpose of the GDA grant was to identify coffee cooperatives and help Root Capital expand into East Africa.

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<sup>23</sup> Root Capital website, [http://www.rootcapital.org/what\\_our\\_growth.php](http://www.rootcapital.org/what_our_growth.php) and Root Capital portfolio data acquired through this evaluation.

<sup>24</sup> Three Root Capital senior officers

<sup>25</sup> May 1, 2003 Action Package, Section E Guarantor of Last Resort.

<sup>26</sup> April 7, 2005 Action Package, p. 10 (Additionality)

Key characteristics of the two DCA guarantees to Root Capital are provided in the tables below.

**TABLE 2. SUMMARY OF ROOT CAPITAL DCA GUARANTEE AGREEMENT FOR LAC (Sept. 2003)**

Authority	USAID DCA
Type	Loan Portfolio Guarantee
Guaranteed party	Root Capital
Guarantee purpose	Strengthen Ecologic's ability to finance loans to SME agribusinesses and ecotourism businesses in Mexico, Guatemala, Nicaragua, Panama, or Peru
Maximum portfolio amount	\$4 million
USAID guarantee percentage	50%
Guarantee ceiling	\$2 million
Term of guarantee	September 29, 2003 to September 29, 2008
Origination fee	\$20,000 (1% of guarantee ceiling)
Utilization fee	0.5% per annum of average outstanding principal amount guaranteed by USAID.
Maximum	\$800,000 cumulative to any one borrower
Terms	Interest rates and terms consistent with those prevailing among non-profit lenders making loans for similar projects in targeted countries
Qualifying Borrowers	<ul style="list-style-type: none"> <li>• Rural agriculture-producing cooperatives, businesses, or other located in Mexico, Guatemala, Nicaragua, Panama, or Peru</li> <li>• Must have hard currency purchase commitments from established companies or reasonable assurance of hard currency revenues to service the loans</li> <li>• Must be engaged in creditworthy private enterprise (as determined by Ecologic)</li> <li>• Must be non-governmental</li> </ul>
Qualifying Projects	Sectors: coffee, timber, ecotourism, fisheries, cocoa, spices, other pre-approved sectors

**TABLE 3. SUMMARY OF ROOT CAPITAL DCA GUARANTEE AGREEMENT FOR AFR (Jul. 2005)**

Authority	USAID DCA
Type	Loan Portfolio Guarantee
Guaranteed party	Root Capital
Guarantee purpose	Strengthen Ecologic's ability to finance loans to coffee grower/producer cooperatives in Rwanda, Tanzania, Uganda, Kenya and Ethiopia
Maximum portfolio amount	\$2 million
USAID guarantee percentage	50%
Guarantee ceiling	\$1 million
Term of guarantee	July 11, 2005 to July 10, 2008
Origination fee	\$10,000 (1% of guarantee ceiling)
Utilization fee	0.5% per annum of average outstanding principal amount guaranteed by USAID.
Maximum	\$400,000 cumulative principal amount to any one borrower
Terms	Interest rates and terms consistent with those prevailing among private commercial lenders in the borrower's country
Qualifying Borrowers	Non-sovereign Rwandan, Tanzanian, Ugandan, Kenyan and Ethiopian coffee cooperatives in sectors with potential for competitiveness in East Africa and international markets.
Qualifying Projects	Productive investments designed to encourage growth of Qualifying Borrowers

## PURPOSE OF THE EVALUATION

In May 2010, EGAT/DC, which manages the USAID guarantees under the Development Credit Authority, requested SEGURA/IP3 Partners LLC to conduct an evaluation of the DCA guarantees provided to Root Capital. This evaluation is the eighth in a series of 20 evaluations<sup>27</sup> of DCA guarantees planned for the period 2008-2012 to assess the outputs, outcomes, and impacts of these guarantees. Each individual evaluation addresses the performance of a particular guarantee or set of guarantees. An annual meta-evaluation will synthesize results from the individual evaluations to address broader questions about the performance of the DCA guarantee program. According to a general evaluation framework which EGAT/DC officials and contractor staff developed in late 2008, each individual and meta-evaluation should provide EGAT/DC with information to

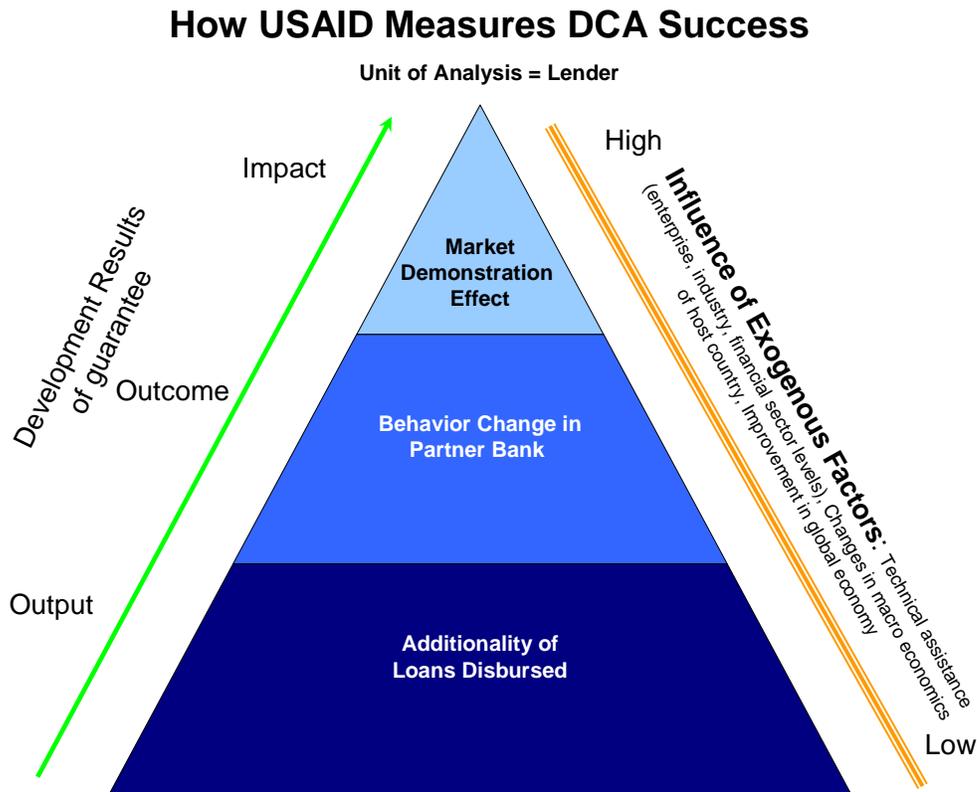
- Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results in countries in which guarantees are provided;
- Contribute to the dialogue about how to engage financial sector institutions as partners in development;
- Strengthen USAID's application of DCA as a tool for achieving development results; and
- Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluator to examine the results of the DCA guarantee to Root Capital at three levels: output, outcome, and impact (see FIGURE 4 below). At the output level, USAID has asked evaluators to examine the additionality of the guaranteed loans in Root Capital's behavior; that is, what differentiates these loans and the way they are administered from business as usual at the organization. Outcome-level questions focus on determining the extent to which use of the guarantee has produced changes in Root Capital's non-guaranteed lending. Impact-level assessment seeks to determine whether changes in Root Capital's behavior have encouraged other, nonpartner financial institutions to increase lending to the target sector. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors (e.g., macroeconomic changes, government regulations) on changes observed at the three levels.

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<sup>27</sup> The first seven were in Ghana, Honduras, Indonesia, Russia, Philippines, Rwanda, and Ethiopia.

FIGURE 4: DCA EVALUATION PYRAMID



Consistent with direction from EGAT/DC, the scope of the evaluation did not include assessment of USAID’s management of the guarantees, nor did it examine the impact of loans made on borrowers or USAID’s strategic objectives. EGAT/DC requested that the evaluation include findings and conclusions, but not recommendations or lessons learned.

## EVALUATION METHODOLOGY

The evaluation used a mixed-methods approach, including database mining, key informant interviews, document review, and a borrower survey. The evaluator, Katharine Hoffman, worked with Project Manager Thibaut Muzart, and Intern Maria Zapata, to complete research after the field work.

The evaluation began in June 2010 with initial discussions with Ms. Ana Luisa Pinto and email correspondence with Mr. Kofi Owusu-Boakye and Mr. Joseph Obi of EGAT/DC to obtain a better understanding of the guarantees, their objectives, and context. After reviewing background documents on the guarantees (see Annex II) from EGAT/DC, Mrs. Hoffman revised the general evaluation framework for all of the MSED/DCA evaluations to fit the Root Capital guarantees' objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantees. A copy of the tailored framework and indicators can be found in Annex I. Based upon the evaluation questions and indicators, Mrs. Hoffman also developed interview guides to frame the planned, semi-structured interviews with Root Capital headquarter staff, an email request for information for USAID mission staff, and a survey for Root Capital borrowers. Those data collection instruments are in Annex V. Prior to embarking for Root Capital's headquarters in Cambridge, Massachusetts, Mrs. Hoffman sent a request for loan data to Root Capital in order to allow the bank's staff time to begin preparing data needed to answer the evaluation questions. Mrs. Hoffman began data collection in Cambridge on July 12 and returned to Washington, D.C. on July 17. The trip included semi-structured interviews with seven Root Capital staff, as well as collection of Root Capital portfolio and performance indicator data.

Mrs. Hoffman, Mr. Muzart, and Ms. Zapata conducted internet research and contacted USAID mission staff and other references to confirm and build upon information gathered from Root Capital. A full list of interviewees is included in Annex IV and a list of references is in Annex II. Mrs. Hoffman also conducted an internet-based survey, using the Survey Monkey software, of Root Capital borrowers that received a guaranteed loan, as well as a random sample of 19 borrowers with non-DCA-guaranteed loans in Central and South America and 12 non-guaranteed borrowers in East Africa. A total of 22 people responded to the Americas survey, a 58 percent response rate. Unfortunately, it was not clear in 15 of these cases whether the respondent represented a DCA-guaranteed borrower or not because the survey was anonymous and there were insufficient distinguishing characteristics between respondents to determine which came from DCA beneficiaries and which did not. Twenty-three people responded to the East Africa survey, resulting in a 96 percent response rate. Sixty percent of the Africa respondents were DCA beneficiaries.

Mrs. Hoffman used a combination of comparative analysis, statistical analysis, and content pattern analysis to draw findings from all of the collected data, from which she drew conclusions.

## Data Limitations

Since the evaluator collected field data only in Cambridge, she was not able to visit the range of organizations that might have helped develop findings related to the impact of the DCA guarantees as well as to exogenous factors affecting the guarantees' performance. Such organizations would include central banks, private banks, financial industry associations, producer industry associations, Root Capital clients, and similar smallholder producers who were not Root Capital clients. Although the evaluation team used desk research and email and telephone correspondence with USAID mission officers and other financial sector experts, it was not able to gather as much hard evidence of changes in access to credit in the targeted sectors and countries as would have been useful for a complete impact-level analysis.

The rest of this report proceeds as follows: the next section provides background information on the history of Root Capital. The subsequent section presents findings and conclusions to answer each of the evaluation questions from the evaluation framework, organized into separate sub-sections for Outputs, Outcomes, and Impacts. Information related to exogenous factors' influence is included in the Output, Outcome, and Impact discussions, where appropriate. Indicator data are similarly woven through the report's findings. The report finishes with a summary of conclusions.

## CONCLUSIONS AND FINDINGS

This section presents findings and conclusions for 5 evaluation questions and 10 sub-questions. It is organized by result level—outputs (four sub-questions), outcomes (two sub-questions), and impacts (two sub-questions). The remaining two sub-questions in the evaluation framework address exogenous factors influencing observed results and are therefore cross-cutting. Findings and conclusions for these questions are embedded within the findings and conclusions for outputs, outcomes, and impacts, as appropriate. Each subsection below addresses a result level and begins with a summary of the evaluation questions at that level. The subsections proceed to address each question separately or in closely related pairs, stating first the conclusions and then presenting the findings that support the conclusions.

### Outputs

At the output level, the evaluation examined whether and to what extent Root Capital used the DCA guarantees to increase access to finance for Fair Trade/Organic Certified SMEs in Latin America and coffee grower/producer cooperatives in East Africa. The evaluation framework includes two questions, each divided into two sub-questions, at the output level, as follows:

- Question 1a: Why did Root Capital enter into the guarantees?
- Question 1b: How did Root Capital implement its loan guarantee programs that was different from implementation of its existing portfolio)? And why?
- Question 2a: What was the additionality of the guarantees?
- Question 2.b: What was the extent to which the DCA guarantees influenced changes in Root Capital's portfolio characteristics?

Tables 4 and 5 below display the status of Root Capital's use of the DCA guarantees from the inception of the Latin America and Caribbean (LAC) DCA guarantee in September 2003 through the present. As shown, while utilization was high during the LAC guarantee, it remained low under the Africa (AFR) guarantee until the final year, when it quickly moved up to 80 percent.

Asked why Root Capital had waited so long to place loans under the second guarantee and then fell short of 100 percent utilization, the Africa Regional Manager explained that his strategy was to hold the guarantee in reserve for use with loans that carried high context risk, rather than borrower risk. Since Root Capital was new to the African market, it was uncomfortable judging the potential impact on loans of political and security instability. For example, he said, Ethiopia has an arbitrary regulatory regime for international financial transactions, by which someone in the Central Bank decides whether or not to allow a foreign entity to operate in the Ethiopian financial market, and on what terms. Since Root Capital did not know how to manage this kind of risk, it put all of its loans to Ethiopian businesses under the guarantee. Borrower risk, encompassing factors such as, lack of credit history, lack of collateral, and inexperienced or unstable management, was an element Root

Capital was comfortable recognizing and managing, given its 6 years of lending experience prior to the East Africa DCA guarantee.

**TABLE 4: SUMMARY OF LAC DCA STATISTICS**

From USAID's Credit Management System (CMS)	
Date of data collection	June 30, 2010
Cumulative utilization amount	\$3,982,250
Cumulative utilization percent	99.56%
Number of loans	22
Average loan size	\$181,011
Average loan tenure	425 days
Number of claims	1
Value of claims	\$86,535

Basic Utilization Data for Root Capital's first DCA Guarantee (Start Date 9/29/2003)  
(from the CMS)

Date of Posted <u>New</u> Activity Quarter ending...	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
3/31/2004	8	\$1,634,000	40.85%
09/30/2004	9	\$1,884,000	47.1%
03/31/2005	13	\$2,267,250	56.68%
09/30/2005	14	\$2,367,250	59.18%
3/31/2006	14	\$2,367,250	59.18%
9/30/2006	17	\$2,957,250	73.93%
3/31/2007	17	\$2,957,250	73.93%
9/30/2007	20	\$3,897,250	97.43%
3/31/2008	21	\$3,945,250	98.63%
9/30/2008	22	\$3,982,250	99.56%

**TABLE 5: SUMMARY OF AFR DCA STATISTICS**

From USAID's Credit Management System (CMS)	
Date of data collection	June 30, 2010
Cumulative utilization amount	\$1,602,000
Cumulative utilization percent	80.1%
Number of loans	15
Average loan size	\$106,800
Average loan tenure	161 days
Number of claims	0
Value of claims	0

Basic Utilization Data for Root Capital's second DCA Guarantee (Start Date 7/11/2005)  
(from the CMS)

Date of Posted <u>New</u> Activity Quarter ending...	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
03/31/2006	1	\$400,000	20%
9/30/2006	4	\$510,000	25.5%
3/31/2007	4	\$510,000	25.5%
9/30/2007	5	\$529,000	26.45%
3/31/2008	10	\$1,359,000	67.95%
9/30/2008	15	\$1,602,000	80.1%

## Conclusions and Findings for Question 1.a

*Why did Root Capital enter into the guarantees?*

### Conclusions

Root Capital entered into the guarantees to enable it to expand lending to borrowers and markets which would otherwise have been too risky for the organization's board and credit committee. The LAC guarantee allowed Root Capital to extend lending to needier, riskier clients, while the AFR guarantee helped Root Capital expand its operations to East Africa. In both cases, Green Mountain Coffee Roasters' partnership with USAID (an exogenous factor) was instrumental in both Root Capital's expansion and its link to the DCA guarantees.

The guarantee allows us to play where we wouldn't otherwise. It widens the funnel.  
—Root Capital CEO

### Findings

Three senior Root Capital officers explained to the evaluator that one of Root Capital's main partners, Green Mountain Coffee Roasters (GMCR), had a partnership with USAID and learned of the DCA opportunity. Root Capital reasoned that it could apply some of GMCR's grant funds to the costs of the DCA guarantee, which Root Capital would use to support its expansion. At the time of the first guarantee, Root Capital lacked sufficient capital and human resources to expand as

much as it desired. With the DCA guarantee, Root Capital reasoned, it could expand through bringing loans to the credit committee which the committee would not approve in the absence of a guarantee. “We never used the guarantee to lower our exposure on a deal or where we were uncomfortable with the quality and transparency of management,” one Root Capital officer explained, “but we got our board and investors comfortable with our expansion with the guarantee.”

Root Capital’s Regional Director for Latin America explained that while the organization targets those businesses which the local financial industry considers unbankable, there are grades of risk even within that category. Root Capital, he said, used the LAC guarantee to provide loans to riskier businesses that have less collateral and businesses that are not as solid as those to which Root Capital normally lends.

Root Capital’s President and CEO confirmed this reasoning by providing a couple of specific examples. La Union Regional de Pequeños Productores de Cafe de Huatusco (Mexico) was financially unstable when

We try to work with the most unbankable organizations. The DCA allows us to do that. If we don’t provide the credit to these organizations, no one else will.

–Root Capital Regional Manager, Latin America

Root Capital first encountered it, but it was a key supplier to GMCR. La Union managed to strip out the risky part of its business, but Root Capital’s CEO said he could not have credibly taken a loan to La Union to the credit committee without the security of the LAC guarantee. In the case of APROCASSI (Peru), the organization had imploded because of fraud, but it was gradually turning itself around. With the security of the guarantee, Root Capital agreed to finance APROCASSI.

According to three senior Root Capital officers, Root Capital’s Memorandum of Understanding (MOU) with GMCR included the intention to expand lending to Africa. Along with Starbucks and other major Root Capital partners, GMCR emphasized the importance of the East African coffee market and urged Root Capital to be a “one-stop shop” for its value chain partners.<sup>28</sup> GMCR also promised to support the transition by introducing Root Capital to its key African suppliers. According to Root Capital’s CEO, the organization’s partners also suggested that they might take their business elsewhere if Root Capital was not willing to lend to their East African suppliers, providing a pressure for expansion exogenous to the DCA guarantee. This urging, combined with Root Capital’s desire to serve additional locations and communities, convinced it to enter the African market.

The USAID Action Package approving the 2005 DCA guarantee to Root Capital states that Root Capital’s Board of Directors was uncomfortable with the risk of expanding lending into Africa. While the organization had 6 years of experience lending to small producer organizations in Latin America, Africa was an entirely new market with which Root Capital’s officers were unfamiliar. Four senior Root Capital officers confirmed this information, explaining that the distance, unfamiliar languages and cultures of Africa were daunting to the organization. The number of organizations that were Fair Trade Certified was lower in Africa than in Latin America and lower

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<sup>28</sup> Root Capital CEO

education levels meant that African businesses had fewer staff with a management background. Fraud and corruption were bigger problems in Africa and locating businesses with competent and transparent management was a significant challenge. The DCA guarantee, Root Capital's officers explained, made the board and investors comfortable with lending to Africa.

## **Conclusions and Findings for Question 1.b**

*How did Root Capital implement its loan guarantee programs that was different from implementation of its existing portfolio? And why?*

### Conclusions

Root Capital did not make any changes to its normal loan processes and procedures to accommodate the DCA guarantees, primarily because the guaranteed borrowers were not materially different from nonguaranteed borrowers and Root Capital had already developed a system that worked for these types of borrowers. Root Capital's rapid growth over the last couple of years has pushed it to streamline and formalize its procedures and processes, but it had no need to do so during the period of the guarantees, when it was still very small.

### Findings

According to five senior Root Capital officers, the only changes Root Capital made to its normal loan administration procedures in order to accommodate the guarantees related to reporting to USAID and the act of putting a loan under the guarantee. Root Capital's officers made sure to keep track of the guarantees and to keep the credit committee informed of what was available and until what dates. They also made sure to file reports on time to USAID. There was no staff training per se, though all of the staff members knew about the guarantee, since Root Capital was so small at the time. According to one Root Capital officer, only about four staff members were regularly handling loans at the time of the guarantees.

According to these five Root Capital officers, the process Root Capital used to place a potential borrower under the guarantee was rather ad hoc. In some cases, officers decided that a particular business they wanted to fund would appear too risky to be approved in the credit committee and, therefore, the officers decided to advocate putting the loan under the guarantee. In other cases, the credit committee suggested putting a riskier loan under the guarantee. In the case of Africa, as explained above, Root Capital used the guarantee to lend to businesses in riskier regulatory and political environments.

Even in Africa, Root Capital used the same procedures to evaluate a potential borrower as it regularly used in Latin America, apparently because those procedures worked.

There appear to be two reasons why Root Capital did not change its regular processes or procedures to accommodate the guarantees. First, the types of borrowers to whom Root Capital lent under the guarantees were the same types of borrowers the organization normally lent to: rural SMEs selling

Fair Trade and/or Organic Certified products to international buyers through forward purchase contracts in hard currency. The only difference between borrowers under the guarantee and non-guaranteed borrowers, as explained above, was that guaranteed borrowers appeared to be a little riskier. As Root Capital's CEO said, "we were already doing these kinds of deals."

Second, all of the Root Capital officers with whom the evaluator spoke said that up until a couple of years ago, Root Capital's loan approval and management procedures were comparatively informal. The handful of credit officers collected detailed financial and management information from potential borrowers, visited and spoke with the businesses' officers, and wrote their findings in credit memos. Credit officers discussed potential borrowers with a Root Capital vice president and, if both were in agreement, submitted the credit memos to the credit committee, which made the final decision about to whom and how much to lend. Over the last couple of years, in response to its rapid growth, Root Capital developed a scoring model and accompanying software, along with formalized procedures, to streamline borrower assessment and loan approval and management.

One rather curious aspect of the way in which Root Capital used the guarantees was that for 17 of the 35 loans (49 percent) which benefitted from the DCA guarantees, Root Capital put only part of the loan under a guarantee, usually the first disbursement. According to the Root Capital Regional Directors with whom the evaluator spoke, there are two, interrelated reasons for putting parts of loans under the guarantees: (1) often, Root Capital disburses just a portion of a total approved loan amount to an organization and then watches how the organization performs. If the performance is satisfactory, Root Capital disburses more. Root Capital did not want to pay the utilization fees on the total approved loan amount when it did not know whether or not it would disburse the full amount. (2) Root Capital often provides a kind of revolving loan to its clients. Root Capital will make the first disbursement (sometimes putting it under the guarantee) and, once the borrower has paid back that amount, Root Capital re-lends the same amount.

## **Conclusions and Findings for Questions 2.a and 2.b**

*Question 2.a: What was the additionality of the guarantees?*

*Question 2.b: What was the extent to which the DCA guarantees influenced changes in partner bank portfolio characteristics?*

### Conclusions

Root Capital used both DCA guarantees to lend to riskier clients. Through these guarantees, it provided financing to businesses that would not otherwise have been able to qualify for a Root Capital loan or at least a loan of the type and size they received. The DCA guarantees helped Root Capital to expand lending to Ethiopia and Rwanda. Although USAID-funded technical assistance projects contributed to the AFR guarantee's use by introducing potential clients to Root Capital, the organization would likely not have entered the East African market in the first place without the DCA guarantee. It would not have lent at all to Ethiopia without the guarantee. The guarantees contributed to Root Capital's education on financing the East African Fair Trade/Organic Certified

coffee markets. Root Capital also used the guarantees to debut its Long-Term Working Capital loan product.

Findings

As mentioned above, Root Capital’s senior officers told the evaluator that the organization used the DCA guarantees to lend to businesses that would ordinarily be too risky, either because of recent financial or management issues or because of context risk, to receive credit committee approval. These senior officers identified several triggers for putting a loan under one of the DCA guarantees, as follows:

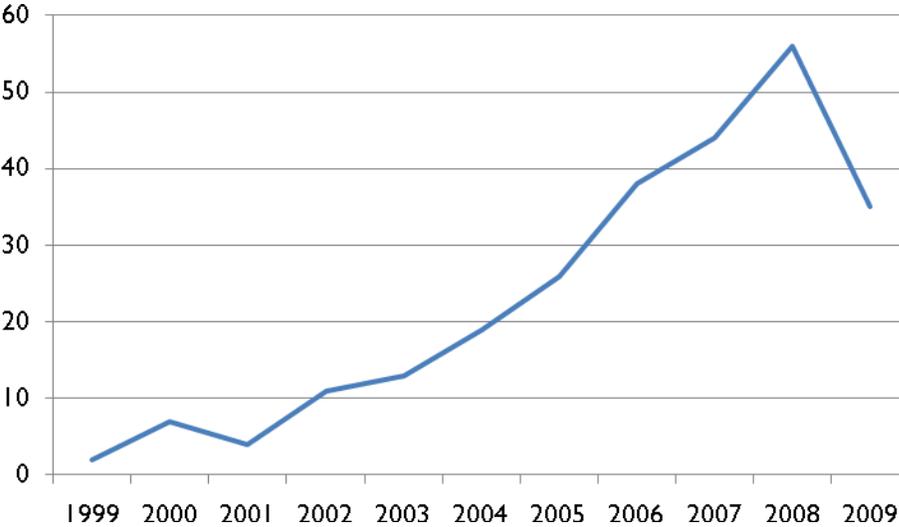
- New clients without a track record with Root Capital
- Otherwise solid businesses in a difficult financial or management situation
- New country/context risk
- Larger loans
- New Loan Products

These triggers, they said, would likely have inhibited Root Capital from making the questionable loans, if it had not been for the guarantees. Below, we examine each of these factors in turn.

New Clients

Fifteen of the 31 (48 percent) borrowers under both guarantees were new borrowers to Root Capital. Seven were in Africa and eight were in Latin America. As shown in the figure below, the number of new clients in Root Capital’s nonguaranteed portfolio has increased substantially since it began operations, which is indicative of the organization’s rapid growth.

**FIGURE 5: NUMBER OF NEW ROOT CAPITAL CLIENTS, BY YEAR**



Source: Root Capital Portfolio data

Of the seven new clients in Africa, USAID-funded technical assistance projects introduced Root Capital to three Rwandan coffee cooperatives—KAYCO Mountain Coffee, Kibuye Mountain Coffee, and Kopabakagi. The Partnership to Enhance Agriculture in Rwanda through Linkages (PEARL) and Assistance à la Dynamisation de l'Agribusiness au Rwanda (ADAR) projects had been working with Kopabakagi, as well as three other cooperatives that received funding both prior to and under the DCA guarantee—COCAMUGI Coffee Cooperative (Mugombwa), Dukunde Kawa Association (Musasa), and Union des Caféculteurs du Rwanda (UCAR).<sup>29</sup> In addition to the deals which PEARL and ADAR directly facilitated with Root Capital, PEARL linked other private Rwandan investors and cooperatives with Root Capital through an introductory meeting, to which all coffee stakeholders were invited.<sup>30</sup> Root Capital's CEO explained that USAID technical assistance had “primed” the East Africa coffee industry, helping cooperatives to become creditworthy businesses.

According to Root Capital's Regional Director for Africa, Root Capital would not have financed these cooperatives, even with the PEARL and ADAR projects' facilitation, in the absence of the DCA guarantee. Through this experience, he said, Root Capital is now better able to conduct risk assessment in Africa. In fact, he said, knowing what he does now, he would not finance some of these groups today (see Nonperforming Loans below).

### Struggling Businesses

At least seven of the borrowers whom Root Capital funded using the guarantees were riskier than Root Capital would normally approve.

One borrower experienced fraud problems but because it was turning itself around, Root Capital wanted to support its progress and therefore used the guarantee to justify the loan to the credit committee.<sup>31</sup>

Another client experienced internal upheaval with two boards of directors and a change in management. Without the guarantee, the Regional Director for Latin America said, Root Capital would not have made the loan. But Root Capital knew the organization and wanted to help it improve. Now, he said, the organization is a stable cooperative with solid management.

In the case of two other clients, the general managers were unwilling to devolve power to other members of the organizations, putting the organizations at risk should anything happen to those general managers. In one of these cases, the general manager did not want to build capital in the

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<sup>29</sup> Root Capital Regional Manager for Africa and Chief of Part of the USAID-funded SPREAD project, a follow-on project to PEARL

<sup>30</sup> COP of SPREAD

<sup>31</sup> Root Capital President/CEO

organization because he was afraid the members would ask him to distribute the money to them. Therefore, he had no working capital available. Despite these management issues, Root Capital wanted to support the organizations' growth, so it put loans to the two organizations under the DCA guarantee.<sup>32</sup>

A fifth borrower worked in the handcraft sector and its products were not well known on the export market. The DCA guarantee, said the Regional Director for Latin America, allowed Root Capital to finance the business.

A sixth coffee cooperative in which Root Capital was interested had managed to decapitalize itself and was purchasing coffee cherries for processing from both members and non-members. Yet, the cooperative was a key supplier for GMCR and managed to remove the risky part of its business. With the DCA guarantee, Root Capital was able to finance the business.<sup>33</sup>

Finally, one coffee cooperative to which Root Capital wanted to lend suffered the firing of its manager over political differences. Root Capital used the second DCA guarantee to make its credit committee comfortable with lending to this cooperative.<sup>34</sup>

### Risky Context

Root Capital used the guarantees to lessen the risk of entering new countries, specifically Honduras, Ethiopia, and Rwanda. Prior to receiving the LAC DCA guarantee in 2003, Root Capital lent primarily to Mexico, followed by Guatemala, as shown in the figure below.

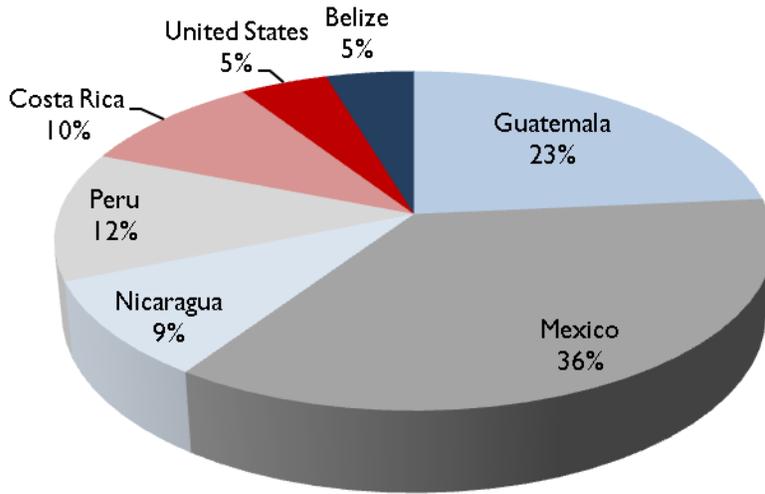
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<sup>32</sup> Root Capital Regional Director, Latin America

<sup>33</sup> Root Capital President/CEO

<sup>34</sup> Root Capital President/CEO

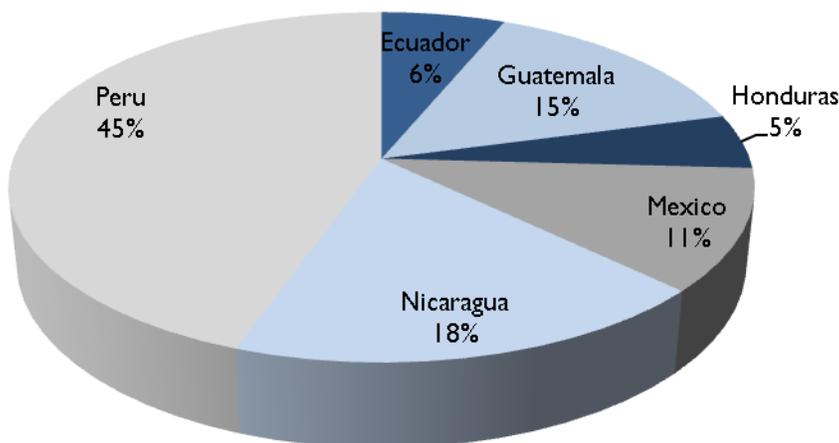
**FIGURE 6: CUMULATIVE ROOT CAPITAL DISBURSEMENTS BY COUNTRY, 1999-2002**



Source: Root Capital portfolio data

Although the purpose of the LAC DCA guarantee was to support Root Capital lending to Mexico, Guatemala, Nicaragua, Panama, or Peru, Root Capital lent under the guarantee to borrowers in Ecuador, Guatemala, Honduras, Mexico, Nicaragua, and Peru. As shown in the figure below, Root Capital lent most of its DCA-guaranteed portfolio to Peruvian borrowers, followed by Nicaraguans.

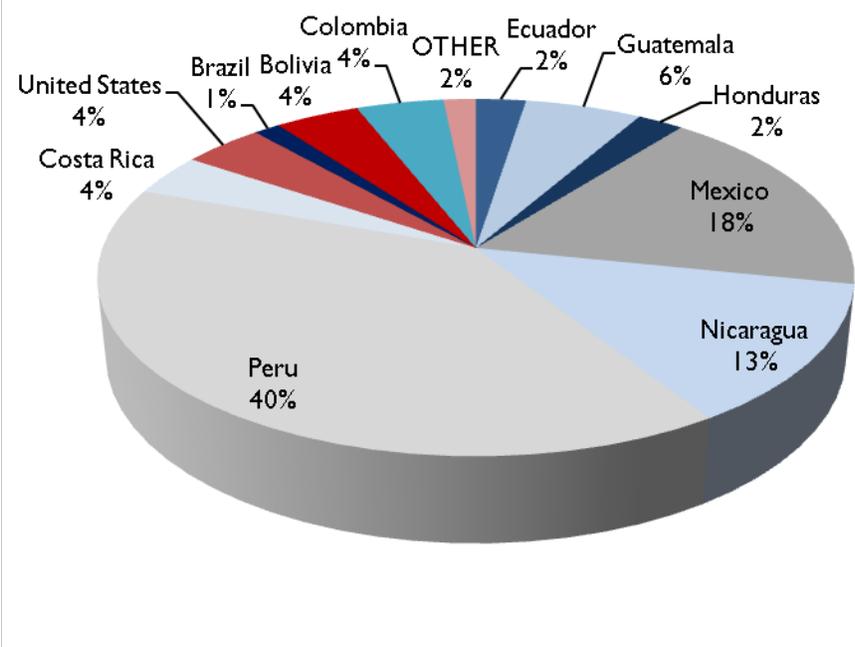
**FIGURE 7: DCA GUARANTEED LENDING, BY COUNTRY (LAC, 2003-2008)**



Source: CMS

During the guarantee period (2003-2008), Root Capital’s nonguaranteed portfolio followed a similar pattern as its guaranteed portfolio, as shown in the figure below, the major exception being that Root Capital branched out to additional countries without the guarantee’s protection: Brazil, Bolivia, Colombia, Belize, El Salvador, Chile, Dominican Republic, and Paraguay.

**FIGURE 8: ROOT CAPITAL NONGUARANTEED LENDING, 2003-2008 (LAC)**



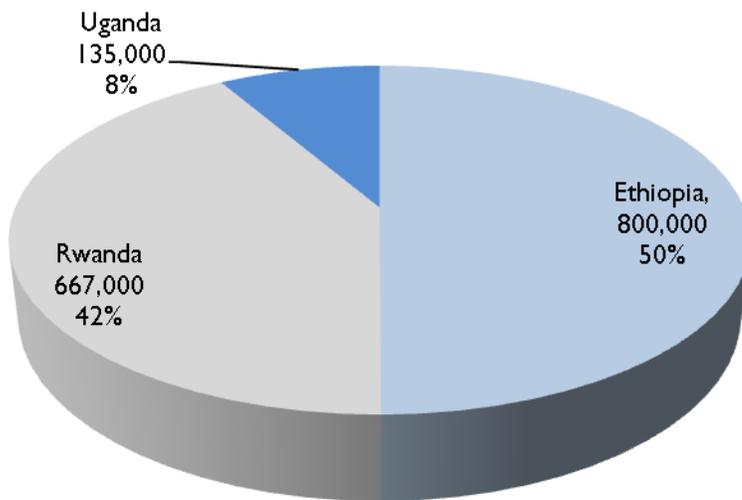
Source: Root Capital portfolio data

Root Capital placed its first loan to a Honduran enterprise, La Central de Cooperativas Cafetaleras de Honduras, under the LAC DCA guarantee in February 2005. It went on to make 16 additional loans to Honduran businesses over the following 4 years.

As mentioned above, the Root Capital Regional Director for Africa explained that the organization used its AFR guarantee to address what he called “context risk,” rather than risks inherent to a particular borrower. Contextual risks, such as an unstable political or security environment, or an arbitrary regulatory regime, were more difficult for Root Capital to manage, especially in Africa, where it had no experience prior to 2004. Therefore, it used the 2005 DCA guarantee to manage context risk, primarily in Ethiopia and Rwanda.

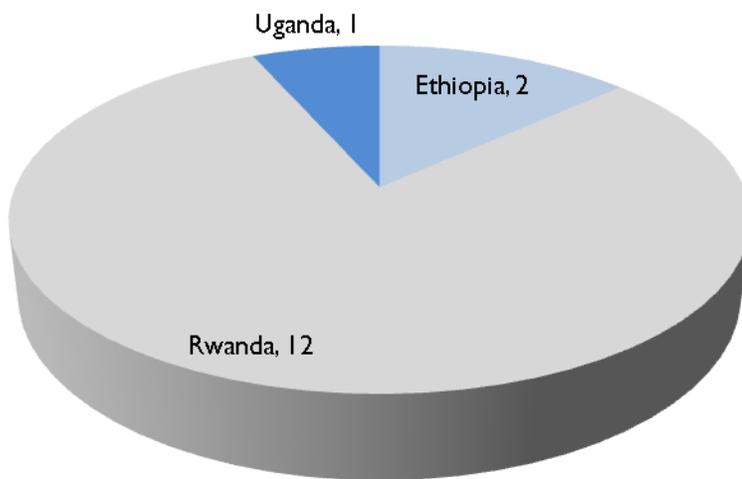
As shown in the figures below, while 42 percent of the value of loans disbursed under the AFR guarantee went to Ethiopian businesses, most of the loans actually went to Rwandan cooperatives. Root Capital did not begin lending to Uganda with the guarantee; it made its first loan to a Ugandan business without the guarantee’s protection.

**FIGURE 9: DCA GUARANTEED LENDING VALUE, BY COUNTRY (AFR)**



Source: CMS

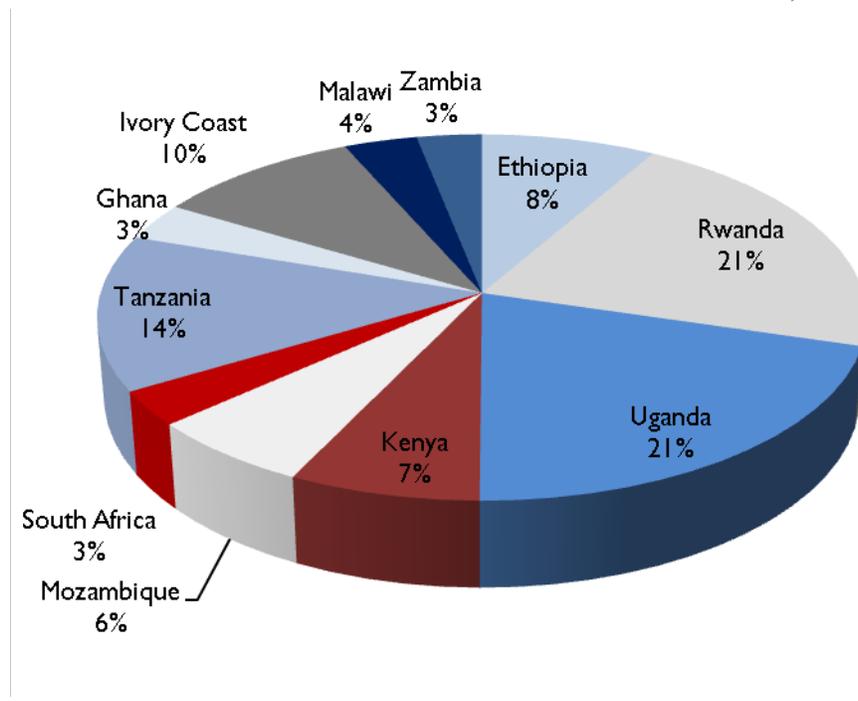
**FIGURE 10: NUMBER OF DCA GUARANTEED LOANS, BY COUNTRY (AFR)**



Source: CMS

At the time of the guarantee (2005-2008), Root Capital branched out to additional African countries, as shown in the figure below. Rwanda remained one of its principal African countries.

FIGURE 11: ROOT CAPITAL NONGUARANTEED LENDING, 2005-2008 (AFR)



Source: Root Capital portfolio data.

Ethiopia was risky on many fronts, not just as a new country and new region for Root Capital, but also because of unclear regulations governing foreign investment in the country. According to the President/CEO and Regional Director for Africa, operating as a foreign financial entity in Ethiopia requires central bank approval. The Regional Director asked the central bank representative with whom he met what criteria the bank used to approve or reject a foreign entity's proposal to lend to Ethiopian businesses. The reply was, "it has to be good for Ethiopia." The official added that in order to lend to Ethiopian enterprises, Root Capital had to register its collateral (i.e., export contracts) with the bank. However, Root Capital typically manages risk through substituting contracts used as collateral when an original contract looks unlikely to be filled. This risk management procedure was impossible under the Ethiopian regulation. Although Root Capital used its AFR DCA guarantee to make two loans to Ethiopian coffee cooperatives and went on to make a second, non-guaranteed loan to one of the cooperatives, it eventually decided because of a financial crisis among cooperative unions and its inability to substitute contracts to manage risk, to stop lending to Ethiopian entities.

Rwanda was also a risky market for Root Capital to enter. The Regional Director for Africa explained that although the country had been producing coffee for some time, it had only recently begun to engage in processing and marketing high quality coffee.<sup>35</sup> The businesses in which Root Capital and its partners were interested were young and regulatory issues governing them were still being developed, making the place risky for investment. It is because of this risk, the Regional

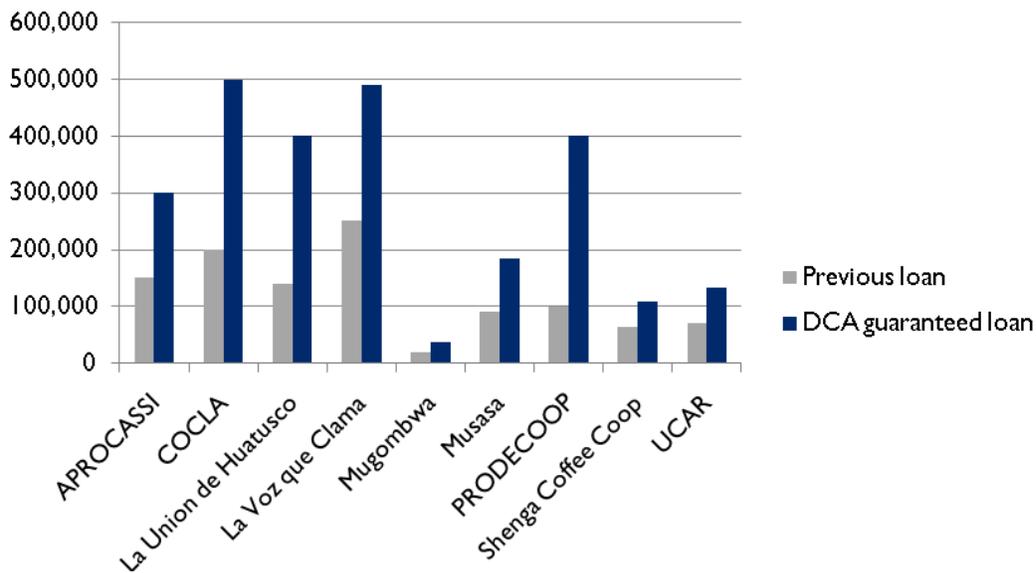
<sup>35</sup> The recent evaluation of the DCA guarantee given to Bank of Kigali in Rwanda found the same thing.

Director explained, that all but three of the loans under the second DCA guarantee were to Rwandan enterprises.

Loan Size

Nine of the loans which Root Capital put under the guarantees were much larger than the clients had received previously. As shown in the figure below, these clients realized substantially larger loans under the guarantee. PRODECOOP (Nicaragua) realized the largest gains, with a 300 percent increases in loan size.

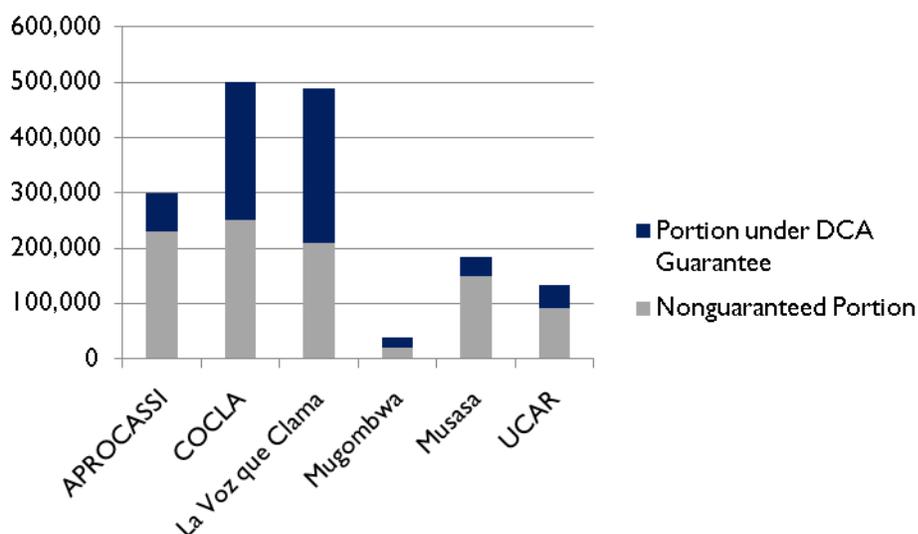
**FIGURE 12: NONGUARANTEED VS. GUARANTEED LOAN SIZES**



Source: Root Capital Portfolio data and CMS

For six of these loans, Root Capital put only part of the loan under a DCA guarantee. As shown in the figure below, the DCA-guaranteed portions contributed between 19 and 57 percent of the total loan values. Therefore, the guarantee directly contributed to the longer loans these clients received.

**FIGURE 13: CONTRIBUTION OF GUARANTEE TO LOAN VALUE**



Source: Root Capital portfolio data and CMS

### New Loan Products<sup>36</sup>

In some cases, Root Capital used the DCA guarantees to introduce a new loan product to an existing client.

La Voz que Clama en el Desierto (Guatemala) received its first Capital Expenditure loan under the guarantee. Most (85 percent) of Root Capital’s cumulative portfolio is in short-term Trade Credit, a form of working capital that provides credit to processors and coops to enable them to purchase raw product from producers. When the processors/coops sell the product to exporters, the revenue repays Root Capital’s loan. Capital Expenditure loans, on the other hand, tend to be longer-term and are designed to help clients make investments in their businesses. In La Voz’s case, for example, the organization used its Capital Expenditure loan to make on-farm investments to increase organic coffee production yields.

Rainforest Trading in Peru also received its first Capital Expenditure loan under the DCA guarantee, which it used to purchase equipment for constructing a dry mill for its coffee.

CECOCAFEN, a Nicaraguan coffee cooperative, received its first Long-Term Working Capital loan under the LAC DCA guarantee, which it used to improve the capacity of its agro-industrial processing facility and provide off-season maintenance for one of the organization’s member producer organizations. In fact, the CECOCAFEN loan was the first time Root Capital used the Long-Term Working Capital product, in December 2003.

### Non-performing loans

<sup>36</sup> Information in this sub-section is from the CMS and Root Capital’s portfolio data.

As mentioned in the Introduction, Root Capital has enjoyed a 99 percent repayment rate and has recorded only three defaults in Latin America and two in Africa during its 10 years of lending experience. One of the Latin American defaults was under the LAC DCA guarantee and both of the African defaults began under the AFR DCA guarantee. These statistics further support Root Capital’s officers’ assertions that lending in Africa is riskier for them than their traditional Latin American market.

La Voz que Clama en el Desierto, a Guatemalan coffee processor and the one defaulter under the LAC guarantee, was, according to Root Capital’s CEO, one of GMCR’s favorite suppliers, and Root Capital had been providing Trade Credit to the organization. Using the guarantee, Root Capital provided La Voz with its first Capital Expenditure loan to help it pay for some processing facilities it had acquired. Unfortunately, a series of events undermined the organization’s ability to repay its guaranteed loan. First, it had a bad production year; then, Hurricane Iris destroyed much of its coffee crops. Finally, the organization’s director passed away and turned out to be corrupt, causing the organization to lose confidence in its senior management. Nevertheless, Root Capital had some faith in the organization and restructured its loan from four years to 10 years, with a new maturity date in 2018. Since that time, Root Capital has been able to recover some funds from La Voz, which it has shared with USAID.

Root Capital provided one more loan to La Voz in 2008 for \$110,000, despite restructuring its previous loan. The reason, explained the Regional Director for Latin America, was that La Voz was getting its business back

**We want to create better businesses, not get our money back at any cost.**  
—Root Capital Regional Director, Latin America

on track and needed financial support to restart exporting. Without any capital, it was unable to export in 2007. With this new loan, La Voz did revitalize its business and was able to repay the 2008 loan in full. Root Capital realized, the Regional Director explained, that by helping La Voz to get back on its feet, it would increase La Voz’s chances of repaying the restructured loan.

Although there were no defaults in the Africa DCA portfolio, two of the loans did go into default after the guarantee expired. In the spring of 2008, Root Capital put the first tranches of two loans under the second guarantee—one to COCAMUGI Coffee Cooperative (Mugombwa) and one to UCAR. Root Capital made the second disbursements two months later, at which point it realized that it was no longer within the allowable period to place loans under the guarantee. Unfortunately, both organizations had management issues. Mugombwa had poor management competence and low product quality, which meant it was selling its coffee at a much lower price than it could have if its quality was higher. UCAR’s manager was arrested because of fraud. Although Root Capital pursued collections on both loans, it wrote off \$12,000 of Mugombwa’s \$38,000 loan (32 percent) and \$40,000 of UCAR’s \$133,000 loan (33 percent) in December 2009.

As described above, USAID’s PEARL and ADAR projects facilitated the loans between Root Capital and Mugombwa and UCAR, respectively. Root Capital’s Regional Director for Africa said

that after this experience, he decided never again to finance businesses primarily based upon whether or not they had received technical assistance. “We learned at our cost,” he reflected, “but we wouldn’t have done it in the first place if it hadn’t been for the guarantee.” Therefore, the guarantee provided Root Capital with a learning experience.

The guarantee-supported loans to Mugombwa and UCAR, however, were not the first loans Root Capital made to these organizations. UCAR had received and paid off two loans prior to receiving the \$133,000 loan, although both were for substantially lower amounts (\$23,000 and \$39,000). Prior to receiving its \$38,000 loan, Mugombwa had received and paid off a \$19,000 loan in 2007.

## Outcomes

The outcome level of the evaluation seeks to determine to what extent Root Capital applied changes it made with the DCA guarantees’ influence to its non-DCA-guaranteed lending. The evaluation framework includes one question with two sub-questions at the outcome level, as follows:

- Question 3.a: To what extent were desired outcomes achieved so far, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantees? What is the potential for sustainability of these outcomes?
- Question 3.b: What factors at the partner level can be associated with achievement of desired outcomes?

## Conclusions and Findings for Question 3.a

*To what extent were desired outcomes achieved so far, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantees? What is the potential for sustainability of these outcomes?*

The purpose of each guarantee agreement with Root Capital describes the outcomes to be achieved, as follows:

DCA 1: Strengthen Ecologic’s (Root Capital’s) ability to finance loans to SME agribusinesses and ecotourism businesses in Mexico, Guatemala, Nicaragua, Panama, or Peru

DCA 2: Strengthen Ecologic’s (Root Capital’s) ability to finance loans to coffee grower/producer cooperatives in Rwanda, Tanzania, Uganda, Kenya and Ethiopia

To answer Question 3, we analyzed Root Capital’s non USAID-guaranteed lending according to three parameters: (1) Root Capital’s lending to formerly guaranteed borrowers; (2) Root Capital’s lending to similar borrowers without a guarantee; and (3) Root Capital’s retention of new loan products. Since the two guarantees focus on two geographically different markets, we discuss Root Capital’s Latin American portfolio and African portfolio separately.

## Conclusions

The LAC DCA guarantee did expand Root Capital's Latin American coffee portfolio, as it contributed to tripling the organization's non-guaranteed lending portfolio from a cumulative \$3.3 million pre-guarantee to \$10.9 million<sup>37</sup> in 2009. The AFR DCA guarantee was a key element in Root Capital's expansion into East Africa and contributed to more than doubling Root Capital's non-guaranteed Africa portfolio over pre-guarantee levels<sup>38</sup>.

The DCA guarantees encouraged Root Capital to lend to and retain as customers 17 organizations in Latin America and East Africa, representing 55 percent of the clients who received DCA guaranteed loans.

The LAC DCA guarantee contributed to Root Capital's entry into the Honduran market.

The AFR DCA guarantee was instrumental in encouraging Root Capital's entry into the East African market, in which it has expanded lending significantly without the guarantee's protection. Although pressure from Root Capital's buyer partners piqued the non-profit's interest in lending to the East African market, the guarantee allowed Root Capital to gain experience with this market while minimizing the associated risks.

Since Root Capital's officers asserted that the organization would not have lent to these borrowers in the absence of the DCA guarantees (see Outputs), the guarantees contributed to these outcomes. Exogenous factors that contributed to Root Capital's continued lending to these customers and markets are likely (a) increased trust between Root Capital and its clients as they got to know each other and Root Capital worked to improve clients' management; (b) Root Capital's rising knowledge of the East African market (see Outputs); (c) Root Capital's desire to expand; and (d) increased investor interest in Root Capital's target markets (see answer to Question 3.b below).

The DCA guarantees had no perceptible impact on Root Capital's choice of industries, though it appears to have had some influence over Root Capital's introduction of its Long-Term Working Capital loan product.

Root Capital intends to sustain lending to small and medium Fair Trade and Organic Certified producers and processors in Latin America and Africa, thereby sustaining the DCA guarantees' outcomes. Since Root Capital intends to work with creditworthy clients until they transition to commercial banks for their credit needs, the DCA beneficiaries whom Root Capital retained will likely continue to benefit from the organization's credit offerings.

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<sup>37</sup> The increase represents only the value of nonguaranteed loans to borrowers that first became Root Capital clients under the LAC guarantee.

<sup>38</sup> The increase represents only the value of nonguaranteed loans to borrowers that first became Root Capital clients under the AFR guarantee

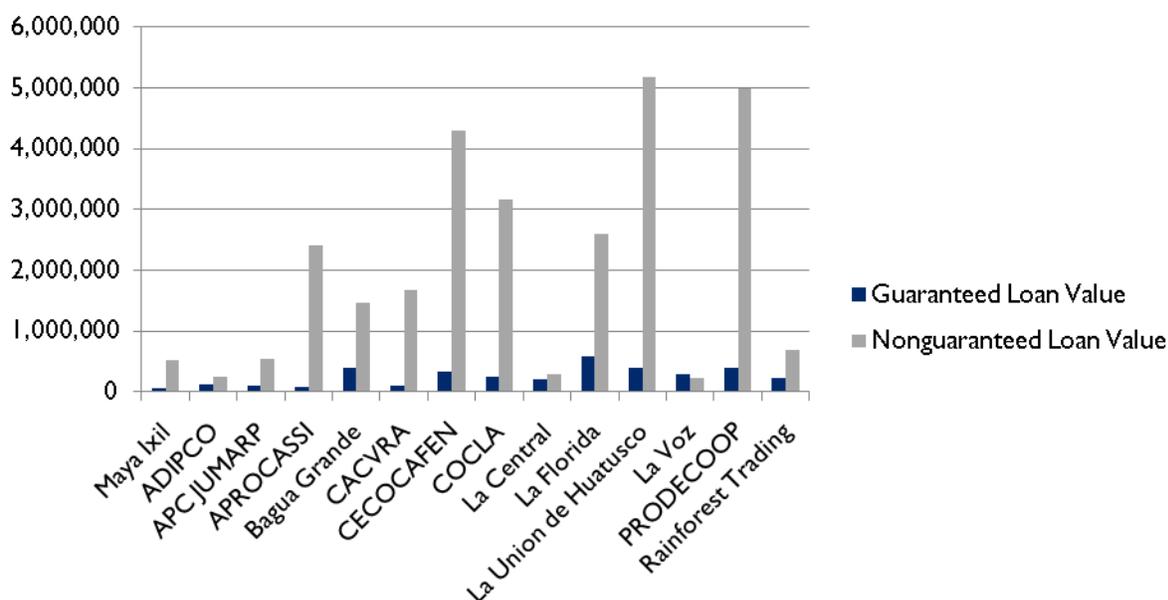
## Findings

### Root Capital Lending to Formerly Guaranteed Borrowers

#### Latin America

Of the 19 borrowers which the LAC DCA guarantee supported, 14 (74 percent) received subsequent, non-DCA-guaranteed loans from Root Capital. On average, these borrowers received four additional loans at an average value of \$480,000. As shown in the figure below, on average these 14 borrowers received eight times more money in subsequent loans than they had received under the guarantee. Eleven of the 14 borrowers were still clients in 2009.<sup>39</sup> Six<sup>40</sup> of these 14 borrowers were new Root Capital clients when they received their DCA guaranteed loans.

**FIGURE 14: NONGUARANTEED LOANS TO GUARANTEED BORROWERS (LAC)**



NOTE: the nonguaranteed loan values reflect only those loans that were awarded after the guaranteed loans were made, by borrower.  
Source: Root Capital portfolio data and CMS

The total, nonguaranteed lending to these 14 clients represents 25 percent of Root Capital's nonguaranteed lending between 2004 and 2009. Nonguaranteed lending to the six new borrowers under the first guarantee represented seven percent of Root Capital's 2004 to 2009 portfolio. These loans to these new borrowers accounted for a tripling of Root Capital's Latin American portfolio over 1999 to 2002 (pre-guarantee) levels, from \$3.3 million to \$10.9 million.

#### East Africa

<sup>39</sup> APC JUMARP, APROCASSI, Bagua Grande, CACVRA, CECOCAFEN, COCLA, La Florida, La Union de Huatusco, PRODECOOP, Maya Ixil, Rainforest Trading

<sup>40</sup> ADIPCO, APC JUMARP, CACVRA, CECOCAFEN, Maya Ixil, La Central

Likely reflecting Africa's higher risk, African borrowers that received guaranteed loans were not as likely to receive subsequent, nonguaranteed loans; nor did continuing clients receive as much loan money as their Latin American counterparts.

Of the 12 borrowers which the AFR DCA guarantee supported, eight (67 percent) received subsequent, non-DCA-guaranteed loans from Root Capital. Each received an average of two additional loans at an average value of \$228,479, for a combined total that accounts for 56 percent of Root Capital's nonguaranteed portfolio in Ethiopia, Uganda, and Rwanda during 2006 to 2009. As shown below, on average, these borrowers received three times more money in subsequent loans than they had received under the guarantee.

Three of the eight borrowers were also beneficiaries of DCA guarantees provided to Bank of Kigali (Kayco and Shenga)<sup>41</sup> in Rwanda and Bank of Abyssinia in Ethiopia (YCFC)<sup>42</sup>. These guarantees, as their evaluations found, contributed to increasing these beneficiaries' creditworthiness.

Five of the eight borrowers were still clients in 2009.<sup>43</sup> Five of the eight borrowers were also new to Root Capital when they received their DCA guaranteed loans.<sup>44</sup> Their total nonguaranteed borrowing amounts to 33 percent of Root Capital's 2006 to 2009 (nonguaranteed) portfolio in Ethiopia, Uganda, and Rwanda. These loans account by themselves for an almost tripling in Root Capital's Africa portfolio over 2004 to 2005 (pre-guarantee) levels. The USAID-funded ADAR project introduced Root Capital to KAYCO and Kibuye, while PEARL linked Musasa with Root Capital.

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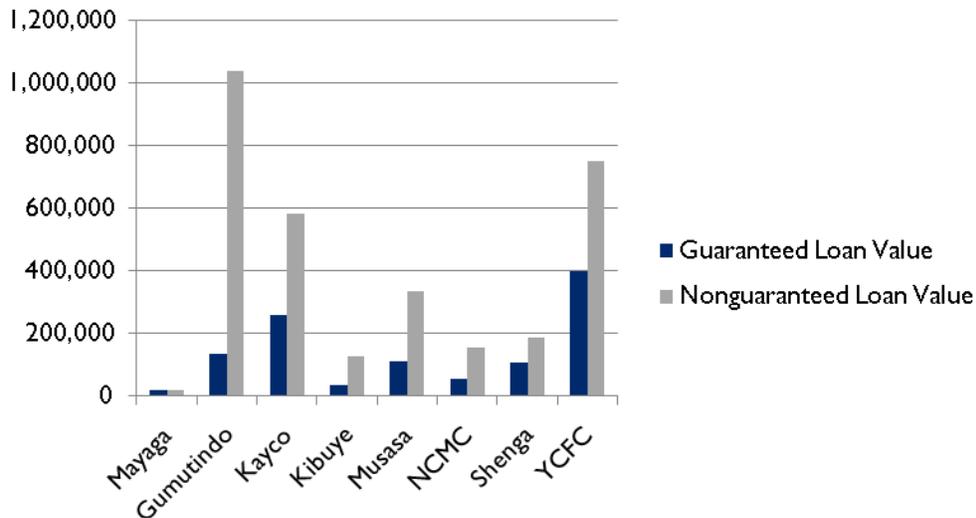
<sup>41</sup> Mr. Joseph Obi, USAID/EGAT/DC.

<sup>42</sup> CMS.

<sup>43</sup> Gumutindo, Kayco, Musasa, NCMC, and Shenga

<sup>44</sup> Mayaga, Kayco, Kibuye, NCMC, and Yirgacheffe. Root Capital began lending to East African borrowers without the protection of the guarantee because the Regional Director for Africa held the guarantee in reserve to cover the loans with particularly high context risk.

**FIGURE 15: NONGUARANTEED LOANS TO GUARANTEED BORROWERS (AFR)**



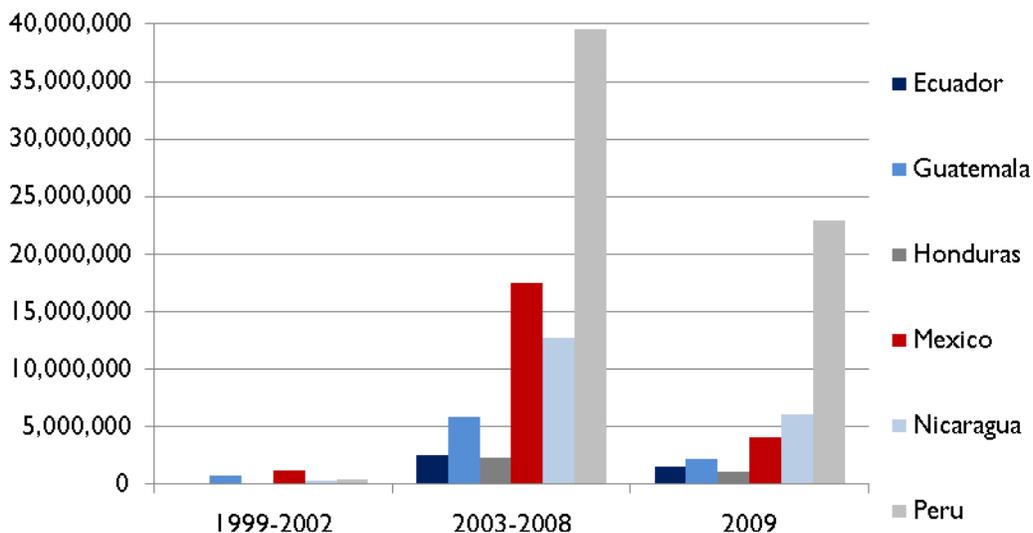
NOTE: the nonguaranteed loan values reflect only those loans that were awarded after the guaranteed loans were made, by borrower.  
Source: Root Capital portfolio data and CMS

### Root Capital Lending to Similar Borrowers

#### Latin America

As shown in the figure below, with the exception of the period prior to the DCA guarantee (1999-2002), when Mexico claimed the largest share of Root Capital’s non-DCA-guaranteed portfolio, the majority of Root Capital’s non-DCA-guaranteed lending has been to Peru, which has accounted for 42 percent of Root Capital’s total, non-DCA-guaranteed lending during the period 1999-2009.

**FIGURE 16: ROOT CAPITAL'S ANNUAL DISBURSEMENTS, BY COUNTRY (LAC, NON-GUARANTEED)**



Source: Root Capital portfolio data

As noted under Outputs, Root Capital made its first loan to a Honduran enterprise under the DCA guarantee. Since that February 2005 loan, Root Capital has disbursed a total of \$3.5 million to eight Honduran enterprises.

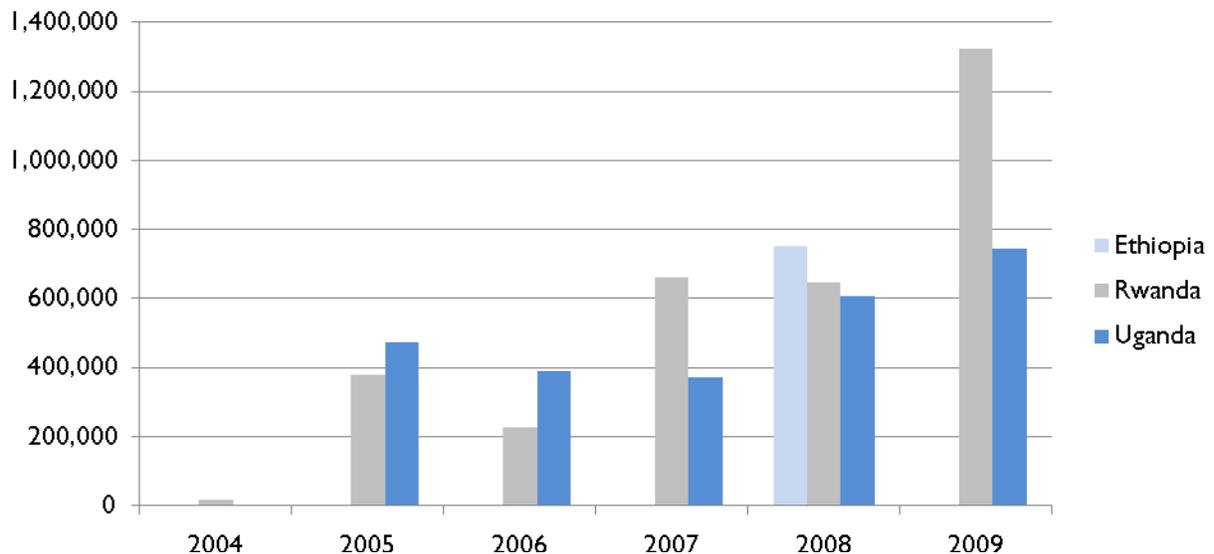
East Africa

As shown in the figure below, Root Capital’s nonguaranteed lending to the East African countries which the DCA guarantee supported grew steadily over the period 2004 to 2009. Although Ethiopia accounted for a large percentage of the loan values, Root Capital discontinued lending to the country after 2008 because it was not allowed to swap contracts used as collateral under the Ethiopian central bank’s rules (see Outputs). By contrast, the organization’s nonguaranteed lending to Rwandan enterprises grew 105 percent between 2008 and 2009, likely reflecting the end of the DCA guarantee. Disbursements under the guarantee accounted for 50 percent of the total value of disbursements to Rwandan enterprises in 2008.

All of you who work with USAID have really made a difference that would not be there if not for your hard work. I have lived with the poorest of coffee farmers and there is little to no hope without the wide ranging efforts of USAID. Getting credit and credit offered without outrageous interest rates is a serious problem. The potential is there to seriously improve personal incomes from improvements in agricultural practices, however there are still many roadblocks to success. Keep up the good work!

Scott A. Wagner  
(Rukundo Nshuti)

**FIGURE 17: ROOT CAPITAL’S ANNUAL DISBURSEMENTS, BY COUNTRY (EAST AFRICA, NON-GUARANTEED)**



Source: Root Capital portfolio data

As described under Outputs, Root Capital made its first loan to an Ethiopian organization under the DCA guarantee. It made one additional, nonguaranteed loan to Ethiopia in December 2008, for \$750,000.

Root Capital's pre-guarantee lending to Rwandan organizations totaled \$397,200 during 2004 and 2005. During the period 2006 to 2008, guaranteed lending to Rwandan cooperatives accounted for 30 percent of Root Capital's total lending to the country. After the guarantee in 2009, lending to Rwandans surged to a total of \$1.3 million in disbursements to 8 borrowers. Of the 29 borrowers in Rwanda during 2004 to 2009, USAID's PEARL and ADAR project introduced Root Capital to eight, according to Root Capital's Regional Director for Africa and the Chief of Party (COP) for the USAID Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development (SPREAD) project.

Root Capital's partners also played a role in its expansion into East Africa, particularly Rwanda. According to the Regional Director for Africa, GMCR and Starbucks wanted Root Capital to lend to their suppliers in Rwanda. Twin Trading in the UK and the Gates Foundation in the U.S. urged Root Capital to enter the Ugandan and Tanzanian markets. GMCR has been working with Abakundakawa, the recipient of Root Capital's first Africa loan in 2004, through a joint Clinton Global Initiative with TransFair USA and the Cordes Foundation.<sup>45</sup> Starbucks works with the Dukunde Kawa Cooperative (Musasa).<sup>46</sup> Starbucks first became involved with Dukunde Kawa in Rwanda in 2005.<sup>47</sup> However, business analysts have acknowledged that USAID's agribusiness programs in Rwanda were responsible for leading Rwandan coffee producers into specialty coffee production,<sup>48</sup> thereby presumably contributing to buyers' interest in the market and, therefore, Root Capital's lending.

### Industries

Borrowers that received DCA-guaranteed loans in Latin America and East Africa were predominantly in the coffee sector, the one exception being the Mexican pottery dealer Barro sin Plomo (Echery Pottery). Coffee was not a new sector to Root Capital; in fact, the organization had been making coffee loans since 2000. The only other industries it was funding at that time were cocoa and spices, to which it started lending in 1999.

Root Capital's first loan to the handcraft sector was to a Peruvian company in 2005, prior to the first loan it made to Barro sin Plomo in March 2007. The guaranteed loan it made to Barro sin Plomo was in December 2007, the last loan the company received through 2009. The handcrafts sector

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<sup>45</sup> "Green Mountain Coffee Releases Spring Revival Blend, Featuring Fair Trade Certified Coffee from Rwanda," Green Mountain Coffee Press Release, March 22, 2010. <http://www.gmcr.com/en/pressroom/PressReleases/SpringRevivalBlend.aspx>

<sup>46</sup> Adams, Tim. "Starbucks founder spreads gospel of hope in Rwanda," *Guardian*, London, UK: July 19, 2009.

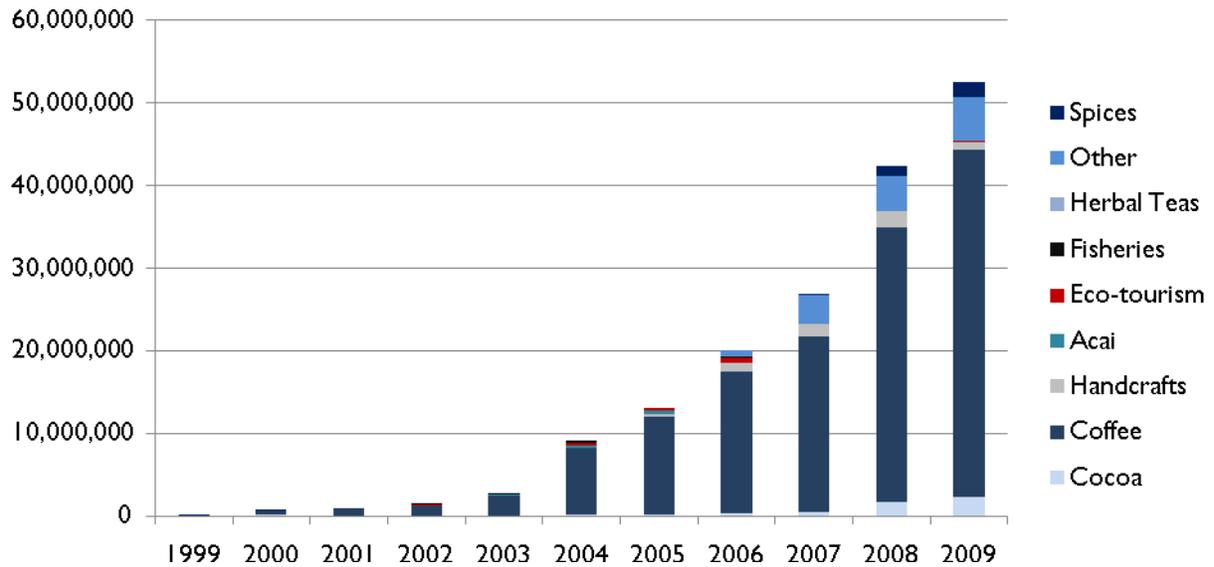
<sup>47</sup> "Business Wire: Starbucks and Fairtrade Partner in Rwanda," Bridge2Rwanda, September 14, 2009. <http://www.bridge2rwanda.org/2009/09/business-wire-starbucks-and-fairtrade-partner-in-rwanda/>

<sup>48</sup> "Java Rwanda: Starbucks to Sell Rwandan Coffee," Associated Press, March 1, 2006, <http://www.foxnews.com/story/0,2933,186519,00.html>

continued to grow within Root Capital’s portfolio, however, at an astounding 293 percent from \$230,000 in 2005 to \$904,600 in 2009.

As shown in the figure below, coffee has continued to dominate Root Capital’s non-DCA-guaranteed portfolio, varying between 61 percent and 93 percent of Root Capital’s total disbursements over the period 2000 to 2009. This dominance likely relates, at least in part, to the fact that Root Capital’s two largest partners/investors are GMCR and Starbucks, both coffee companies. Handcrafts, on the other hand, have accounted for only between 2 percent and 6 percent of Root Capital’s disbursements.

**FIGURE 18: ROOT CAPITAL ANNUAL DISBURSEMENTS, BY SECTOR**



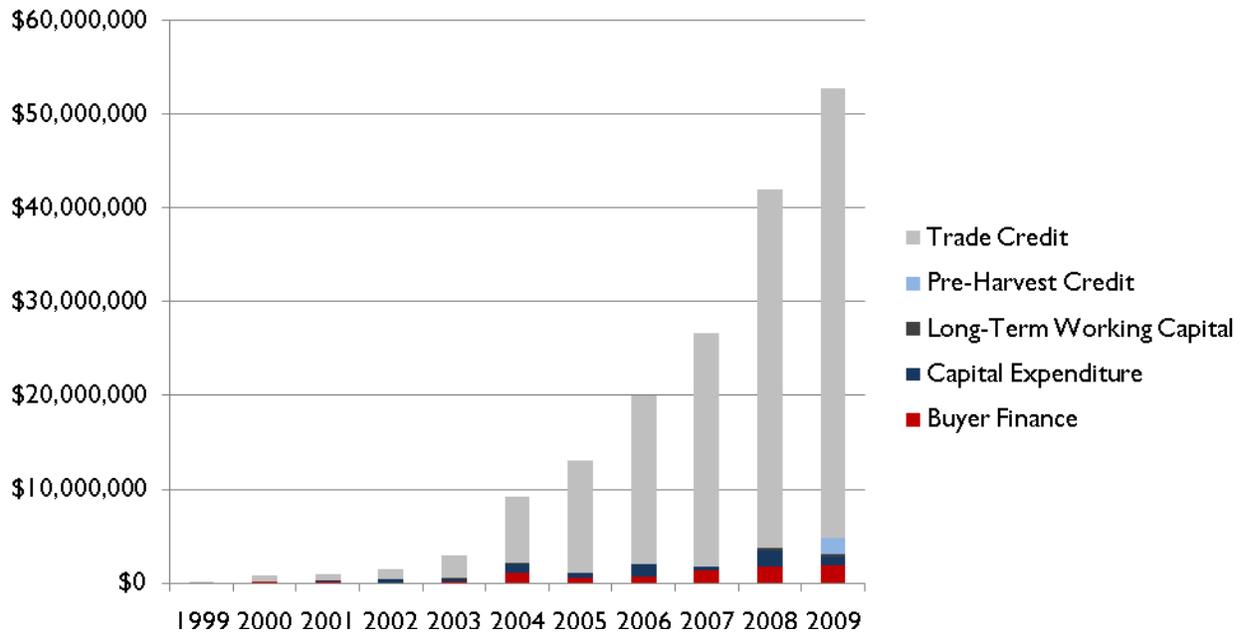
Source: Root Capital portfolio data

New Loan Products

Root Capital made its first Long-Term Working Capital loan under the protection of the DCA guarantee in December 2003, a \$170,000 loan to a Nicaraguan coffee supplier. Since then, Root Capital has made four additional Long-Term Working Capital loans to suppliers in four countries, worth a cumulative total of \$660,000.

For the most part, however, Trade Credit continues to dominate Root Capital’s portfolio, as shown in the figure below.

**FIGURE 19: ROOT CAPITAL'S NONGUARANTEED LENDING, BY LOAN PRODUCT**



Source: Root Capital Portfolio Data

As described under Outputs, three borrowers received their first non-Trade Credit loan under the DCA guarantees: La Voz que Clama en el Desierto, Rainforest Trading, and CECOCAFEN. CECOCAFEN was the first Root Capital borrower to receive a Long-Term Working Capital Loan, which was also the first loan Root Capital made to the organization. CECOCAFEN went on to receive eight additional loans, one of which was Pre-Harvest Credit<sup>49</sup>; the rest were Trade Credit.

Unfortunately, La Voz defaulted on its first Capital Expenditure loan, which Root Capital subsequently restructured and which the organization has been repaying gradually. Root Capital made two additional loans to La Voz—one later in 2004 and the next in 2008; both were Trade Credit.

Root Capital made five additional loans to Rainforest Trading after its first Capital Expenditure loan; all were Trade Credits.

What is the potential for sustainability of these outcomes?

Asked about Root Capital’s future plans, all of the organization’s staff members interviewed said it intends to deepen its engagement with its current markets. That is, for the time being, it has halted geographic expansion and intends to test new loan products and explore new industries within its

<sup>49</sup> Pre-Harvest Credit is a type of working capital loan that helps producers purchase inputs and pay for labor prior to harvest. Trade Credit is also a working capital loan, specifically designed to help cooperatives purchase products from members for sale to international markets.

current portfolio of countries in Latin America and Africa. Potential areas for future exploration which staff members mentioned included the following:

- Differentiate funds within Root Capital (2 interviewees): growth fund, seed fund, innovation fund
- Expand financial training for current and potential clients, as well as for local financial institutions (2 interviewees)
- Finance domestic food crops
- Finance agro-inputs
- Create in-country LLCs owned by Root Capital to allow attracting domestic capital in the countries in which Root Capital works

In addition, Root Capital's senior officers interviewed said that the organization's objective is eventually to "graduate" their clients to accessing finance from locally-available, commercial sources of funding. The theory is that through gaining experience in borrowing and with the technical assistance Root Capital provides, its clients will become more attractive investments for commercial banks. The degree to which this transition is happening is discussed under Impacts.

### **Conclusions and Findings for Question 3.b**

*What factors at the partner bank level can be associated with achievement of desired outcomes?*

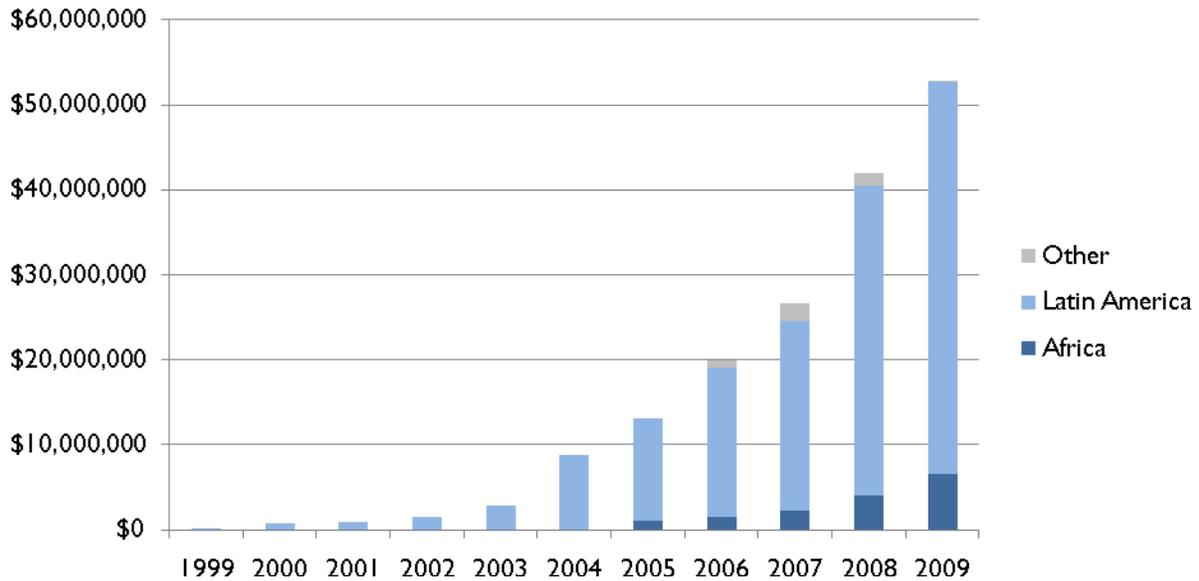
#### Conclusions

The primary, exogenous factors responsible for Root Capital's growth are: (a) large, unmet need among its target market; and (b) increased capital base. Fueling both has been the increased interest among consumers, buyers, and investors in Fair Trade and Organic Certified products from small and medium businesses (exogenous factors).

#### Findings

Root Capital's nonguaranteed portfolio has increase dramatically over the last few years, as shown in the figure below. In fact, Root Capital's nonguaranteed lending portfolio increased from \$9 million to \$53 million between 2004 and 2009.

**FIGURE 20: ROOT CAPITAL'S NONGUARANTEED LENDING, BY REGION AND YEAR**



Source: Root Capital portfolio data

Asked to what they attribute this dramatic growth, all Root Capital staff interviewed cited the large demand among targeted clients for the credit Root Capital offers. Root Capital’s Regional Director for Latin America also observed that the organization has learned over the years how to conduct and manage lending to its target market and is now able to manage risk more effectively.

The demand is there. Our growth is limited by our loan capital and our capacity.  
 —Root Capital Regional Director for Latin America

The number of organizations investing in Root Capital has also increased substantially. By the end of 2009, it counted 20 major philanthropic and corporate investors, not counting individual investors.<sup>50</sup> Asked to what they attribute this interest in Root Capital, all staff members interviewed noted both increased investor interest in social investing and the attractiveness of Root Capital’s 100 percent repayment rate to investors in an unstable financial environment. As the Regional Director for Africa noted, there are now industry associations for social impact investing, including the Aspen Network of Development Entrepreneurs (ANDE) and FAST (which Root Capital helped found). Two senior Root Capital officers observed that there are few organizations with experience conducting social investment, which has drawn investors to Root Capital. As the Africa Director explained: “It’s really just ACUMEN and us.”<sup>51</sup>

<sup>50</sup> “Root Capital Announced as Recipient of Bill & Melinda Gates Foundation’s First Agricultural Development Program-Related Investment,” Root Capital press release, December 10, 2009.

<sup>51</sup> ACUMEN is a non-profit, global venture fund that combines investment with technical assistance to support entrepreneurs in poverty-stricken countries. With seed capital from the Rockefeller Foundation, Cisco Systems Foundation, and three individual philanthropists, ACUMEN Fund was established on April 1, 2001. It invests in agriculture, energy, health, housing, and water in India, Kenya, Pakistan, Tanzania, the UK, and the U.S. From ACUMEN’s website: [www.acumenfund.org](http://www.acumenfund.org).

The global economic downturn has also played a role, as plummeting stock prices and bank interest rates have made investment in Root Capital more attractive.<sup>52</sup>

In addition, buyers (Root Capital's partners) have become increasingly interested in Organic and Fair Trade Certified products. Root Capital's Regional Director for Africa noted that Cadbury is now 100 percent Fair Trade Certified sourced. Nestle, COSTCO, and WalMart have also responded to consumer demand by obtaining Fair Trade Certified products. "Our supply chain grew from a niche market to mainstream," the regional director commented.

Over the last 10 years, the concept of ethical sourcing has gone mainstream.  
—Root Capital Regional Director for Africa

Aside from these exogenous, market-driven factors, Root Capital's CEO asserted that the DCA guarantees contributed to the organization's growth by allowing it to reach even further into untouched markets than it would have been comfortable doing otherwise.

## Impacts

At the impact level, the evaluation examined whether and to what extent Root Capital's lending behavior with the guarantee influenced other, non-partner financial institutions' lending behavior towards SME fair trade/organic coffee producers/processors in Latin America and East Africa.

## Conclusions and Findings for Questions 4.a and 4.b

*Question 4.a: Have lending terms to the target sector changed since the guarantees?*

*Question 4.b: If so, what role did the DCA guarantees play as a demonstration model?*

In the absence of a pre-project evaluation and without talking with a variety of financial institutions in each of the countries which the guarantee targeted, it is nigh impossible to determine what loan terms were for organic/fair trade coffee producers/processors 8 years ago, before the first DCA guarantee with Root Capital began. However, the evaluation team did ask interviewees their opinions about how access to credit has changed for the target market over this period and surveyed Root Capital clients to obtain hard data on changes in loan terms since they began borrowing.

## Conclusions

Clearly, Root Capital has increased access to finance, at least for its own clients. Not surprisingly, however, given the breadth of the sector and Root Capital's small size, its behavior has not been the only factor in SME producers'/processors' access to credit. Increased consumer and investor interest in socially responsible production have encouraged a growing lender focus on the sector. Because of this increased interest, new lenders have been established to service this market. Government programs in producers' countries are pumping funds into agricultural growth as a

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<sup>52</sup> Two Root Capital officers

means of economic development and poverty reduction. Various donor (including USAID and DCA), government, and social lender technical assistance programs have strengthened the targeted organizations and increased lender confidence in their ability to repay loans.

At the same time, there are specific cases of producer groups that have gained access to finance initially through Root Capital and gone on to access other sources of finance. The DCA guarantees contributed to this progression because they allowed, in some cases, Root Capital to provide (larger) loans to otherwise too risky borrowers.

As organizations gain lending experience and additional lenders enter the market, borrowers have been able to increase the amounts they borrow, although not necessarily their loan tenors. Collateral requirements still vary considerably, but as more government programs, international donors, NGOs, and social investors lend to this sector, collateral requirements have become less stringent for some producer groups. While Root Capital may have influenced some international lenders to adopt its factoring model, since it has employed this model since the beginning, the DCA guarantee had little to no influence on this change. Nevertheless, Root Capital is clearly making a positive difference in its clients' businesses and the DCA guarantees supported that assistance.

In Africa, since Root Capital's officers contend that the organization might not have lent to the region in the absence of the DCA guarantee, EGAT/DC can take credit for the increased access to finance which the African beneficiaries enjoy.

Producers, even those with products that target specialty markets, still struggle in some cases and may be dependent upon international donors and social lenders for some time, but progress has been made and there is no reason to think that the positive trends will not continue.

### Findings

Five of six interviewees, including a USAID/Peru officer, three Root Capital officers, and a USAID project COP, thought access to credit has improved to some extent for smallholder coffee producers/processors in the countries which the DCA guarantees targeted.

The Regional Directors for Africa and Latin America explained that Root Capital purposely works with businesses that lack a credit history and, through lending to them and providing them with technical assistance, Root Capital's goal is for the businesses to transition to local commercial banks for their financing needs. For example, the Africa Director said, the larger cooperatives in Peru, Nicaragua, and Mexico are now attracting commercial capital. There is so much investor interest in this kind of lending that European social lenders snap up Root Capital clients, too, he said. "If a borrower is a Root Capital borrower, these other organizations will scoop it up," he explained.

Root Capital's two Regional Directors explained that the success of microfinance created a paradigm in financial markets and investors are now looking for new equity markets. Responding to this

interest have been “niche finance providers” like Root Capital that provide innovations like purchase order discounting and factoring to developing country businesses. Shared Interest Society and Triodos, the Africa Regional Director said, also lend against purchase orders. Biashara Factors in Kenya does the same thing. In Rwanda and Ethiopia, Root Capital’s CEO said, Root Capital was the first organization to provide financing through a purchase order. The Latin America Director noted that over the last 3 to 4 years, as Root Capital and other, similar, investors have been successful, other financial institutions, such as responsAbility, have jumped into the market.

Profiles of a variety of lenders to Root Capital’s target market are provided in Annex VI.

Root Capital’s Vice President of Finance told the evaluator that Root Capital had to begin offering cheaper lending rates as it began encountering more competition from other funds. Many European funds, for example, have government support or zero cost of capital. Interest rates have specifically come down for Trade Credit. He estimated, too, that more than half of Root Capital’s clients have been able to access local sources of financing. Other financial organizations, he agreed, watch what Root Capital does and then lure away its borrowers. APROCASSI and Yirgacheffe (both DCA beneficiaries) are two examples, as well as many of Root Capital’s Peruvian clients. The European groups, he said, are adopting Root Capital’s lending model and refocusing funding on SMEs from MFIs.

Root Capital’s Regional Director for Africa, the Vice President of Lending, and a Portfolio Analyst explained that, just as demand for fair trade products has increased, so, too, has investor interest in social impact investing. There are now industry associations for social impact investing, such as ANDE and FAST. The Social

Capital Markets Conference is now in its second year of connecting people investing for social impact.

Addressing social problems through market mechanisms is popular now.

Root Capital’s Regional Director for Latin America estimated that approximately 10 to 15 percent of the organization’s clients have started to access commercial financing. For example, CECOCAFEN, COCLA, and La Florida (all beneficiaries of the first DCA guarantee) have access

to local loans and he estimated that another two or three of the Latin American DCA beneficiaries had acquired such access. He attributed this access at least partially to the DCA: “If we hadn’t been able to keep lending to them, some cooperatives would be in trouble now. In some cases, the DCA

#### **Root Capital Success Story**

Prior to working for Root Capital, the Latin America Regional Director spent 8 years managing a coffee cooperative in Guatemala. During the first 3 to 4 years, the coop worked on improving the quality of its coffee and looking for a market. Within the first four years, it gradually increased exports to four containers per year. “Then we got stuck.” The cooperative lacked capital to purchase coffee from its members and no financial institution was willing to lend to it. “One day, I got a call from [Root Capital’s CEO] and within a couple of months, we had a loan from Root Capital. We grew from four containers to 20 containers because we got access to finance.”

made it possible to keep working with the cooperative. So the DCA had an indirect effect” on expanding access to credit for some cooperatives.

Root Capital’s Regional Director for Africa named falling government debt, saturation in the corporate sector, and increased competition as the primary factors affecting access to credit. Some countries, for example, Rwanda, are opening their markets to foreign banks, attracting the likes of FINA, Ecobank, and Equity. By contrast, in Ethiopia, there is stagnation in the banking sector, he said, because foreign investors are barred from the country.<sup>53</sup>

The Vice President of Lending at Root Capital reflected that increased government focus on supporting the agriculture sector has fueled investment in Root Capital’s target market. In Mexico, for example, the Central Bank and Banamex jointly formed Fondo Acción to provide finance to agriculture. Other guarantee funds have supported private bank lending to the sector in Peru and MFIs there are establishing mid-sized operations to finance the agriculture sector. Some MFIs have even emerged from cooperatives. Profiles of several government programs, including Fondo Acción, are included in Annex VI.

A USAID/Rwanda representative cited the government’s coffee campaign lending from 2004 to 2005 as primarily responsible for increased investment in the sector, in addition to avid bank participation in the campaign and the contributions of USAID-funded technical assistance projects like PEARL and ADAR. The Rwandan Government also established a Rural Investment Facility with funding from the World Bank and agricultural guarantee funds within the National Bank of Rwanda, with the support of the Dutch.

In addition, the Latin America Director observed that USAID and the Interamerican Development Bank (IDB) have been focusing more on the types of businesses Root Capital finances, which makes them more visible to other financiers. Added to this focus is the financial training that Root Capital and other organizations provide to the target market, which increases investor confidence in both the trained and untrained organizations because people see overall a higher level of financial management in the sector. For example, he said, 10 years ago, none of the Latin American coffee coops was doing cupping<sup>54</sup>. Now, most of them have a cupping lab. Similarly, 99 percent of coops now have financial statements, which they did not 10 years ago. With higher product quality and better financial management, these cooperatives have become more bankable.

A USAID/Peru officer agreed that increased quality of coffee there has led to an increase in price and access to specialized export markets, which in turn has fed back into product improvement and led to access to even more sophisticated markets.

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<sup>53</sup> The evaluation of the DCA guarantees to Bank of Abyssinia in Ethiopia found the same thing.

<sup>54</sup> “Cupping is one of the coffee tasting techniques used... to evaluate coffee aroma and the flavor profile of a coffee. To understand the minor differences between coffee growing regions, it is important to taste coffee from around the world side-by-side. Cupping is also used to evaluate a defective coffee or to create coffee blends.” ([www.coffeeresearch.org](http://www.coffeeresearch.org))

Various donors have been working with coffee cooperatives to improve the quality of their coffee and link them to specialty international markets. The International Finance Corporation (IFC) has been working with the international coffee trader, ECOM Agroindustrial Corporation to provide finance and technical assistance to smallholder coffee producers/processors in Nicaragua and Southern Mexico (see Annex VI.) Fondo Acción in Mexico and Root Capital have also been providing capacity building to producers/processors with which they work.

The International Coffee Organization (ICO) has been providing technical assistance to coffee producers in Mexico and Nicaragua. A project that ran from 2002 to 2005 supported seven producer organizations with a total of 11,000 members by offering workshops, training sessions, sales promotion tours, and international exchanges. The assistance focused on increasing access to fair trade, organic, and gourmet markets; improving adherence to standards and internal controls; and improving quality, marketing, management, finance, and logistics. The ICO reported that the project resulted in a doubling of sales to premium markets, from 80,000 to 160,000 46-kilogram bags, which meant the producer organizations obtained a premium price of nearly 60 cents per pound, nearly double the commercial value. The organization also reported expanding working capital among beneficiaries from \$4.3 million to \$12.2 million per year through loans that used premium market contracts as a guarantee, as Root Capital operates.<sup>55</sup>

In Africa, DCA guarantees to Bank of Kigali in Rwanda and Bank of Abyssinia in Ethiopia covered loans to four Root Capital beneficiaries: KAYCO and Shenga in Rwanda and Yirgacheffe and Sidama in Ethiopia.<sup>56</sup> These guarantees, therefore, contributed to any increased creditworthiness these cooperatives have enjoyed.

The COP of the USAID-funded SPREAD project in Rwanda explained that as Rwanda has come to be known for high quality coffee, demand for its coffee has tripled, from 1100 metric tons of fully washed coffee in 2005 to 3500 metric tons in 2009. The evaluation of the DCA guarantee to Bank of Kigali found that USAID-funded technical assistance projects, including SPREAD, were responsible for significantly improving the quality of Rwandan coffee.

At the same time, a Root Capital Portfolio Analyst observed that many banks still do not lend to Root Capital's target market because the borrowers lack assets. The Vice President of Lending added that local banks still perceive the agriculture sector as risky because of a culture of non-payment in some countries from when agricultural organizations received funds from government banks with no real expectation of repayment. There is also a general lack of understanding of the specialty market, he said, in addition to a lack of borrower capacity. Root Capital's CEO contended that banks will never do pre-harvest finance because of the risks. The world price for the product

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<sup>55</sup> *Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua*, International Coffee Organization, May 4, 2006.

<sup>56</sup> Mr. Joseph Obi of USAID/EGAT/DC and the CMS

could drop between when the loan is made and when the harvest is sold, or bad weather could destroy crops, rendering the borrower unable to pay back the loan from crop sales. There is no managerial talent in the Rwandan cooperatives, the CEO said, and the country lacks a social infrastructure and business culture.

An IFC/Nicaragua representative noted that rural producers there still face significant problems in accessing finance, including

- Commercial bank mistrust of the sector
- Producers' fear of taking out a loan
- Lack of medium- and long-term loans
- Interest rates of 12-18 percent
- Land required as collateral, with insecure land titling a major issue

### Empirical Numbers

Over the last couple of years, Root Capital has begun collecting data on a selection of indicators from its clients to enable it to track economic and social changes impacting them through Root Capital's support. According to Root Capital's logic model, at the capital-market outcomes level, it tracks two indicators: (1) number of co-investments and (2) number of enterprises accessing commercial capital. It collects data for these indicators when a client applies for a loan and when it renews the loan (usually annually). The Impact Assessment Team estimated that ¼ of Root Capital's portfolio has access to some level of commercial capital, but not yet enough to cover all of the clients' credit needs.

The evaluator asked the Impact Assessment Team for data on beneficiaries of the DCA guarantees. The team was able to provide data on only eight of them (all in Latin America) because Root Capital did not consistently collect data on the rest. As the Director of Impact Assessment explained, "it's a metric we only started to centralize in 2008." For this reason, it would take Root Capital at least several weeks to aggregate data on all of the organization's borrowers, she said.

Of the eight DCA beneficiaries, only one had access to commercial funding prior to receiving a DCA-guaranteed loan. Subsequent to the DCA loan, two additional borrowers gained access to commercial finance. Although there are no data to say conclusively that the DCA guarantee enabled this increased access to finance, it would seem reasonable to speculate that it at least contributed by providing these borrowers with Root Capital finance in the first place, thereby giving them a credit history.

### *Latin America Borrower Survey*

Of the 17 Latin Americans who responded to the borrower survey question, nine (53 percent) said they had access to sources of business finance other than Root Capital prior to receiving their first Root Capital loan. These alternative sources of finance included the following:

- Verde Ventures: investment fund managed by Conservation International that supports SMEs “that contribute to healthy ecosystems and human well-being”
- Banco de Occidente: Colombian private bank
- BBVA Banco Continental in Peru: part of the Banco Bilbao Vizcaya Argentinian banking group
- Oikocredit (two respondents): private, Dutch fund offering microcredit and social investing
- Banco de Desarrollo Rural (two respondents): privatized Guatemalan bank with a development focus
- Alterfin: Belgian microfinance fund
- a coffee buyer

Five of the eight respondents who received their first business loan from Root Capital subsequently acquired funding from alternative sources, including the following:

- Banorte: privatized, Mexican bank
- Calvert Foundation: nonprofit organization offering community investment
- Agrobanco: Peruvian, agrarian bank
- Banco Interamericano de Finanzas: Peruvian bank
- responsAbility: a Swiss social investment fund founded in 2003 that channels investments from social investors to microenterprises, SMEs, Fair Trade producers, and independent media organizations.
- Shared Interest Society (two respondents): British investment cooperative that invests in fair trade businesses in developing countries
- Oikocredit (two respondents)
- Alterfin
- FODEPRO: Fondo de Desarrollo Productivo, a Peruvian regional government fund created in 2007 to support economically, culturally, and socially marginalized sectors.
- Cooperativa de Ahorro y Crédito Santo Cristo de Bagazan: Peruvian savings and credit cooperative

Of the 15 respondents who reported the approximate amount of their first and current business loans, 14 realized an increase in loan amounts, though in several cases, respondents are currently borrowing from multiple institutions. Sixty-seven percent of respondents currently have credit valued at more than \$500,000. Most (65 percent) respondents reported their first loan amounts at less than \$100,000. Only one respondent realized a decrease between his first business loan and his current loan; in both cases, the respondent said he borrowed solely from Root Capital. In both cases, this respondent used his loan to purchase inventory or raw materials.

Of the 14 respondents who reported their loan tenors for both their first and current loans, four (29 percent) realized a longer loan tenor for their current loan (average 2 to 5 years, as compared to 1

year or less); one reported a shorter current loan tenor; and the remainder reported little to no difference. Sixty-seven percent (12) of the respondents who provided their current loan tenor have tenors of one year or shorter. All but one of these 12 were using their loans for working capital or purchasing raw materials; the one exception has an investment loan from Root Capital.

Of the 12 respondents who reported the collateral requirements for their first and current business loans, four have lower collateral requirements currently. Two have requirements amounting to 50 to 80 percent of the loan amount plus interest, while the other two do not have any collateral requirements. The one respondent who actually has a higher current collateral requirement transitioned from obtaining capital from a buyer with no collateral required to borrowing from Root Capital and five additional lenders.

Sixteen (80 percent) of respondents to the question said that access to credit has improved for businesses like theirs over the last 7 years and 11 said access has improved considerably. Three respondents thought access had remained about the same and one thought access had declined considerably. Asked to explain their responses, borrowers offered the following:

*Improvement*

- “We could say that credit has improved for the collection and marketing of coffee.” (Ecuadoran cocoa producer, DCA beneficiary)
- “Previously, we depended on intermediary exporters taking days and months to pay for the product, [which was] a big problem for the organization because the associates did not deliver all of their production. Currently, with the funds we have received from Root Capital, in quality of credit, the organization has improved with respect to member production and marketing.” (Guatemalan coffee cooperative, DCA beneficiary)
- “Better processes of access, support during the credit, extra credit benefits like training and technical assistance.” (Mexican coffee producer)
- “Access to credit has improved a little because many financiers have emerged, but the amounts that they offer are low and the interest rates are very high. But when one has needs, one is obliged to pay these interest rates.” Prior to receiving its first business loan from the Rural Development Bank, this Guatemalan coffee producer obtained credit from exporters who bought the organization’s coffee, who charged very high interest rates.
- “In our case, our organization has obtained more credibility, in accordance with the volumes of coffee marketed.” (Guatemalan coffee producer)
- “We think that access to credit has improved, although one must also be clear that the interest rate has also increased and certainly this is not good for the organizations.” (Guatemalan coffee producer)
- “According to our history (paid off the loan principals plus the interest), it’s easier to access new sources of financing. On the other hand, new sources of funding have emerged, such as NGOs and others.” (Guatemalan coffee producer)

- “Loans have become easier, more communication, allows negotiation.” (Peruvian coffee producer)
- “External financial entities interested in financing specialty coffee organizations.” (Peruvian coffee producer)
- “Now there are more organizations that receive funds directly, but the amounts and disbursements (dates) are inadequate.” (Peruvian coffee producer)
- “Globalization has permitted spreading access to credit opportunities, considering lenders’ risk management and comprehensive evaluation mechanisms that permit establishing their repayment capacity and possibilities of fulfilling their agreements.” (Peruvian coffee producer)
- “Increasing the line of credit, rapid evaluation” (Peruvian coffee producer)
- “Access to credit has improved, both from organizations outside of Nicaragua as well as at the local level, but the local level continues to have procedures that are difficult to complete. In addition, the costs are very high.” (Nicaraguan coffee producer)
- “Currently, there are many enterprises that offer financial services.” (Nicaraguan coffee producer)
- “Access to credit is inconsistent: the offer of funds varies considerably from one year to another.” (Nicaraguan coffee and sesame producer)

### *Still Difficult*

- “We feel that our business is more financially solid, with more credit history, a positive track record including during the most vicious crisis, but still we do not have the ability to obtain credit either through traditional routes or through non-traditional routes.” (Peruvian ecotourism provider)
- “Access to credit for agroexporters continues to be difficult and costly.” (Colombian chili exporter)
- “Although it is true that it has improved, the requirements and conditions, as well as rapidity of attention, are not better now than before.” (Peruvian garment vendor)
- “Nothing has changed for coffee. There is no credit facility by its own nature.” (Mexican coffee producer)
- “Because of the global economic crisis, credit is being cut back every day, because of the unstable performance of the market.” (Mexican coffee producer)

The history with Root Capital is the following: We began with \$50,000 through a trust fund in an Ecuadoran bank. Finally, we ended in 2007 with \$350,000 [DCA guaranteed]. We are very grateful for this financial entity because it believed in us. We are a union without personal profit motives and made up of very small cocoa producers situated in the marginal rural sector. In response to this trust, we complied with all conditions and thanks to God, we do not owe anything.

—Root Capital Borrower, DCA Beneficiary

According to four Root Capital officers, the average interest rate across the organization now is 9.5 to 14 percent. Root Capital tries to keep its rates generally consistent with local market rates so as not to subsidize their borrowers and make it easier for the borrower to transition (eventually) to commercial financial sources. However, the Africa Regional Director explained that in cases like Ghana, where excessive government borrowing has pushed interest rates to 28 percent, Root Capital chooses to keep its clients' interest rates much lower.

Asked if all of their credit needs were currently met, 76 percent of respondents said no. Seventy-five percent of these respondents said they need a longer loan; 44 percent said they need a larger loan; one said he applied for a loan but was rejected; and another said the loan costs are too high. Four respondents said they have applied for a loan, but have not yet received it. One DCA beneficiary complained, "Root Capital's conditions changed and they asked for other documents in order to provide us credit. We had to have a purchase order and on the basis of that they lent us only 60 percent of the amount of the contract. That's not doable!" This borrower received his first loan from Root Capital in 2004; the DCA guaranteed loan was in 2007. This borrower currently borrows only from Root Capital.

Ninety percent of respondents said they thought they would borrow from Root Capital in the future. Of these, 63 percent thought they would complement Root Capital loans with other funding, including their own resources, another bank, a money lender, other financial organizations like Root Capital, a MFI, a government program or NGO, and group lending organizations. One respondent said he would borrow from Banco Produzcamos (Nicaraguan state bank that began operating this year and lends to agricultural producers and cattle farmers) and HSBC Bank. A Guatemalan coffee organization commented, "We need credit for production and at the moment I do not know who can finance us in this area."

#### *East Africa Borrower Survey*

Of the 17 East Africans who responded to the borrower survey question, nine (53 percent) said they had access to sources of business finance other than Root Capital prior to receiving their first Root Capital loan. These alternative sources of finance included the following:

- Rwanda Commercial Bank (three respondents)
- Bank of Kigali (three respondents)
- Rwanda Development Bank (two respondents)
- "Local bank" (two respondents)
- Barclays Bank
- "bank"

Seven of these respondents were in Rwanda, one in Uganda, and one in Ethiopia. Of these nine respondents, seven were DCA beneficiaries. None of the respondents who first borrowed from Root Capital subsequently received funds from an alternative source. However, four of the respondents, including two DCA beneficiaries, that had first borrowed from a local bank

supplemented funds from that institution with a Root Capital loan, indicating that Root Capital likely filled a gap in the institutions' financial needs. In addition, two respondents said they supplemented their Root Capital loans with loans from Root Capital competitors—Triodos and Rabobank. One borrower, a DCA beneficiary, received his first loan from Bank of Kigali but has his current loan with Root Capital.

Of the 11 respondents who reported their first loan amount and their current loan amount, eight (73 percent) reported higher current loan amounts than their first loan amount, including six DCA beneficiaries. Thirty-five percent of respondents currently have credit valued at more than \$500,000. Most (57 percent) respondents reported first loan amounts at less than \$100,000.

Of the 12 respondents who reported their loan tenors for both their first loan and their current loan, one (a DCA beneficiary) reported a longer current loan tenor—more than 5 years, as compared with 1 year or less. Two respondents (both DCA beneficiaries) reported a shorter current tenor, and the rest realized little to no change in their loan tenors between their first loans and their current loans. Most (53 percent) of respondents reported current loan tenors of one year or less.

Of the 12 respondents who reported the collateral requirements for their first business loan and their current loan, five reported no change in collateral requirements, while two reported an increase and three reported a decrease. All three latter respondents currently have loans with no collateral requirements. One respondent who reported two current loans said that his loan from Root Capital carried more than 100 percent of the value of the loan plus interest as collateral, while his loan from the Rwanda Development Bank had no collateral requirement. Two of the three who enjoyed a reduction in collateral requirement were DCA beneficiaries.

Fifteen (79 percent) of respondents to the question said that access to credit for businesses like theirs had improved over the past 7 years, and 10 said access had improved a lot. Two people thought access had remained the same, one thought it had declined a little, and one did not know. Seventy percent of the respondents who said access to credit had improved a lot were in Rwanda; the one person who thought access had declined was also in Rwanda. Asked to explain their answers, respondents offered the following:

*Improvement*

- “The Root Capital loan has changed many things in my life” and in society. (Rwanda, a DCA beneficiary)
- Access to credit improved the cooperative's performance and increased its capital. (Rwanda, a DCA beneficiary)
- “There are more choices now than there were then. More international lending institutions are providing an alternative beyond the local banks, i.e., Root Capital, Shared Interest, Progresso, Endelea, etc.” (Rwanda, two respondents, DCA beneficiaries)
- “Government and donors helped much in facilitating credit access.” (Rwanda, DCA beneficiary)

- Prior to receiving the loan, the organization could not purchase even one container of coffee; now it can purchase five. (Rwanda, DCA beneficiary)
- “Government and donors put in place some tools to facilitate access to business loans (Agriculture guarantee fund, subsidies, USAID DCA, etc.).” (Rwanda, likely a Bank of Kigali DCA beneficiary)
- “My company has only three years experience in exporting certified cocoa beans. I received a working capital loan from Root Capital, which was what I needed to move forward. After that, my client started to be reassured about my company and increased its order from 65 tons in 2008 to 650 metric tons in 2009, and increased 100 percent to 2,500 metric tons in 2010. This is because of the huge support I received from Root Capital and its subordinate. We thank them a lot and ask them again and again not to step down as we really need their support.” (Tanzania)
- “Credit from Root Capital has improved our business because as a small cooperative, we did not have enough collateral, other than the potential and the clients who realized that we can deliver coffee. We also paid a very low interest rate to Root Capital, compared to banks.” (Uganda)
- “Up until 2008, when we received our first loan from Root Capital, we had no access to loans at all because we were a young enterprise and we were operating in a very high risk environment, with risky crops (vanilla).” (Uganda and DRC)
- “This is the first year we have access to credit.” (Mali)

#### *Still Difficult*

- Access to credit has not improved for investors or those trying to become partners or lease a facility. (Rwanda, DCA beneficiary)
- Rwandan banks are not providing long-term loans and they require a lot of collateral. (Rwanda, a DCA beneficiary)
- The criteria are “very complicated.” (Rwanda, DCA beneficiary)
- Cost of capital is very high—interest rates are too high and collateral requirements are too great. (Uganda)
- It is still not easy for a small business that sells fresh produce to get a loan. (Burkina Faso)
- Getting access to a loan is difficult, but it is normal for a bank to analyze the risk of a project. (Rwanda, DCA beneficiary)

Asked if all of their credit needs were currently met, 71 percent of respondents said no. Three of the five respondents who said yes were DCA beneficiaries. Nine of the 12 respondents whose credit needs are not currently met said they need larger loans; seven said they needed longer loans. A Rwandan coffee cooperative that was also a DCA beneficiary explained that, “groups defaulted on loans, so now stuck with no loans.” Another Rwandan DCA beneficiary said that his cooperative is “currently looking at loan options that could fit our business model.”

Asked from where they think they will obtain credit in the future, half of the 18 respondents said they will use Root Capital. An additional four (22 percent) respondents said they plan to complement Root Capital loans with loans from other sources, specifically, a bank (three respondents) or “other social lenders.” One respondent said he would use a cooperative and a bank and one was not sure. Finally, one respondent commented, “Given that the majority of the groups have defaulted, we will look for other lenders willing to lend.”

## SUMMARY OF CONCLUSIONS

### Output-Level Conclusions

Root Capital entered into the guarantees to enable it to expand lending to borrowers and markets which would otherwise have been too risky for the organization's board and credit committee. The first guarantee allowed Root Capital to extend lending to needier, riskier clients in Latin America, while the second guarantee helped Root Capital expand its operations to East Africa. In both cases, GMCR's partnership with USAID was instrumental in both Root Capital's expansion and its link to the DCA guarantees.

Root Capital did not make any changes to its normal loan approval processes and procedures to accommodate the DCA guarantees, primarily because the guaranteed borrowers were not materially different from nonguaranteed borrowers and Root Capital had already developed a system that worked for these types of borrowers. Root Capital's rapid growth over the last couple of years has pushed it to streamline and formalize its procedures and processes, but it had no need to do so during the period of the guarantees, when it was still very small.

Root Capital used both DCA guarantees to lend to riskier clients. Through these guarantees, it provided financing to businesses that would not otherwise have been able to qualify for a Root Capital loan or at least a loan of the type and size they received. The Africa DCA guarantee helped Root Capital to expand lending to Ethiopia and Rwanda. Although USAID-funded technical assistance projects contributed to the Africa guarantee's use by introducing potential clients to Root Capital, the organization would likely not have entered the East African market in the first place without the DCA guarantee. It would not have lent at all to Ethiopia without the guarantee. The guarantees contributed to Root Capital's education on financing the East African Fair Trade/Organic Certified coffee markets. Root Capital also used the guarantees to debut its Long-Term Working Capital loan product.

### Outcome-Level Conclusions

The first DCA guarantee did expand Root Capital's Latin American coffee portfolio, as it contributed to tripling the organization's non-guaranteed lending portfolio by from \$3.5 million pre-guarantee to \$10.9 million. The second DCA guarantee was a key element in Root Capital's expansion into East Africa and contributed to nearly tripling Root Capital's non-guaranteed Africa portfolio from \$1 million pre-guarantee to \$2.9 million.

The DCA guarantees encouraged Root Capital to lend to and retain as customers 17 organizations in Latin America and East Africa, representing 55 percent of the clients who received DCA guaranteed loans.

The Africa DCA guarantee was instrumental in encouraging Root Capital's entry into the East African market, in which it has expanded lending significantly without the guarantee's protection.

Although pressure from Root Capital's buyer partners piqued the non-profit's interest in lending to the East African market, the guarantee allowed Root Capital to gain experience with this market while minimizing the associated risk.

Other, exogenous, contributing factors to Root Capital's continued lending to these customers and markets are likely (a) increased trust between Root Capital and its clients as they got to know each other and Root Capital worked to improve clients' management; (b) Root Capital's rising knowledge of the East African market; (c) Root Capital's desire to expand; and (d) increased investor interest in Root Capital's target markets.

The DCA guarantees had no perceptible impact on Root Capital's choice of industries, though it appears to have had some influence over Root Capital's introduction of its Long-Term Working Capital loan product.

Root Capital intends to sustain lending to small and medium Fair Trade and Organic Certified producers and processors in Latin America and Africa, thereby sustaining the DCA guarantees' outcomes. Since Root Capital intends to work with creditworthy clients until they transition to commercial banks for their credit needs, the DCA beneficiaries whom Root Capital retained will likely continue to benefit from the organization's credit offerings.

The primary (exogenous) factors responsible for Root Capital's growth are: (a) large, unmet need among its target market; and (b) increased capital base. Fueling both has been the increased interest among consumers, buyers, and investors in Fair Trade and Organic Certified products from small and medium businesses.

## **Impact-Level Conclusions**

Clearly, Root Capital has increased access to finance, at least for its own clients. Not surprisingly, however, given the breadth of the sector and Root Capital's small size, its behavior has not been the only factor in SME producers'/processors' access to credit. Exogenous factors include increased consumer and investor interest in socially responsible production, which have encouraged a growing lender focus on the sector. Because of this increased interest, new lenders have been established to service this market. Government programs in producers' countries are pumping funds into agricultural growth as a means of economic development and poverty reduction. Various donor (including USAID), government, and social lender technical assistance programs have strengthened the targeted organizations and increased lender confidence in their ability to repay loans.

At the same time, there are specific cases of producer groups that have gained access to finance initially through Root Capital and gone on to access other sources of finance. The DCA guarantees contributed to this progression because they allowed, in some cases, Root Capital to provide (larger) loans to otherwise too risky borrowers.

As organizations gain lending experience and additional lenders enter the market, borrowers have been able to increase the amounts they borrow, although not necessarily their loan tenors. Collateral requirements still vary considerably, but as more government programs, international donors, NGOs, and social investors lend to this sector, collateral requirements have become less stringent for some producer groups. While Root Capital may have influenced some international lenders to adopt its factoring model, since it has employed this model since their beginning, the DCA guarantees had little to no influence on this change. Nevertheless, Root Capital is clearly making a positive difference in its clients' businesses and the DCA guarantees supported that assistance.

In Africa, since Root Capital's officers contend that the organization would not have lent to the region in the absence of the DCA guarantee, EGAT/DC can take credit for the increased access to finance which the African beneficiaries enjoy.

Producers, even those with products that target specialty markets, still struggle in some cases and may be dependent upon international donors and social lenders for some time, but progress has been made and there is no reason to think that the positive trends will not continue.

## Annexes

### Annex I: Evaluation Framework and Indicators

#### Evaluation of DCA Operations in Root Capital: Evaluation Framework

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
<b>OUTPUT LEVEL (Additionality of Loans Disbursed ...):</b>			
<p>1a. Why did Root Capital enter into the guarantee?</p> <p>1b. How did Root Capital implement its loan guarantee programs that made it different than their existing portfolio (e.g., revised methodologies, new products, marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?</p> <ul style="list-style-type: none"> <li>• Why didn't Root Capital fully utilize its second DCA guarantee?</li> <li>• Why were there no defaulters under the second DCA guarantee as compared with the one under the first guarantee?</li> </ul>	<p>(1) CMS data</p> <p>(1) DCA documents: Risk assessments, Action Packages, Legal Agreements, biennial review</p> <p>(1) or (2) DC/Mission documents</p> <p>(2) DC/Mission/ contractor/ staff</p> <p>(2) ROOT CAPITAL's head office staff members</p> <ul style="list-style-type: none"> <li>• William Foote (President)</li> <li>• Investment Officers</li> </ul> <p>(2) ROOT CAPITAL's regional reps. and other NGOs</p> <ul style="list-style-type: none"> <li>• Twin Traders (UK) and Schleuters (supplier for Starbucks) (African importers)</li> <li>• TransfairUSA (trade due</li> </ul>	<p>(1) Review of data and documents in Washington/DCA; interviews with DCA staff</p> <p>(2) Interviews of cognizant USAID / contractor staff (if relevant)</p> <p>(2) Review of Root Capital data in the field</p> <p>(2) Guided interviews with Root Capital staff (HQ and branches)</p> <p>(2) Guided interviews or email correspondence with partner NGOs</p>	<p>DCA use: Purposes 2 &amp; 4 above and to enhance discussions with potential guarantee partners; to enhance the training that DCA provides to guarantee partners, missions, et al.</p> <p>Other Comments: this is primarily <i>descriptive</i> for each guarantee partner.</p>

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
	<p>(1) pre-field activities (2) field activities</p> <p>diligence)</p> <ul style="list-style-type: none"> <li>• Part-time Kenya-based consultant</li> <li>• Chemonics field staff in Africa</li> </ul> <p>(2) EcoLogic staff that interact with Root Capital, especially in the countries</p> <ul style="list-style-type: none"> <li>• Sebastian Charchalac Santay (Producer Relations Manager)—in Guatemala</li> </ul> <p>(2) Financial Alliance for Sustainable Trade reps involved</p>	<p>(1) pre-field activities (2) field activities</p>	
<p>2a. What was the additionality of the guarantee?</p> <p>2b. What was the extent to which the DCA guarantee influenced changes in Root Capital portfolio characteristics?</p> <ul style="list-style-type: none"> <li>• To what extent did the first DCA agreement allow Root Capital to further its expansion into its existing markets?</li> </ul>	<p>(1) CMS (1) DCA biennial review (1) DCA portfolio managers</p> <p>(2) Root Capital’s head office staff members</p> <ul style="list-style-type: none"> <li>• William Foote (President)</li> <li>• Investment Officers</li> <li>• Africa-based investment officer</li> </ul> <p>EcoLogic staff that interact with Root Capital, especially in the countries</p> <ul style="list-style-type: none"> <li>• Sebastian Charchalac</li> </ul>	<p>(1) Analysis of CMS data (1) Document review (1) Interviews of cognizant DCA staff</p> <p>(2) Guided Interviews of Root Capital staff</p> <p>(2) Analysis of Root Capital electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)</p>	<p>DCA use: To report on loans to stakeholders and Purposes 3 &amp;4 above.</p> <p>Other Comments: Question 2a is <i>descriptive</i> and <i>comparative</i> for each guarantee partner, addressing what happened with loans under guarantees vs. what would likely have happened without the guarantees. Question 2b is <i>explanatory</i>, i.e., the extent to which the DCA guarantees influenced change.</p> <p>What we learn can affect what DCA does when talking to potential and actual guarantee partners, e.g., asking them what they would change with a guarantee; encouraging banks to do x, y, or z; and so</p>

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
	<p>(1) pre-field activities (2) field activities</p> <p>Santay (Producer Relations Manager)—in Guatemala</p> <p>(2) Root Capital electronic files (as available) or samples of files (1) or (2) Root Capital annual reports (2) Mission technical officers, CTOs and TA providers</p> <p>(2) ROOT CAPITAL's regional reps. and other NGOs</p> <ul style="list-style-type: none"> <li>• Twin Traders (UK) and Schleuters (supplier for Starbucks) (African importers)</li> <li>• TransfairUSA (trade due diligence)</li> <li>• Part-time Kenya-based consultant</li> <li>• Chemonics field staff in Africa</li> </ul> <p>(2) Financial Alliance for Sustainable Trade reps involved</p>	<p>(1) pre-field activities (2) field activities</p> <p>(2) Guided interviews or email correspondence with partner NGOs</p>	<p>on in discussions; DCA TA and training to banks; and DCA encouragement of missions to provide TA and training aimed at increasing positive bank policies and behavior.</p>
<b>OUTCOME LEVEL (Root Capital Behavior Change):</b>			
3a. To what extent were desired outcomes achieved, and sustained, as	(1) CMS data review (1) DCA documents: Risk	(1) Analysis of CMS data (1) Document review	DCA use: Purposes 2, 3 & 4 above; to identify ways to achieve desired outcomes when dealing with

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
<p>intended in the Action Packages and Legal Agreements, outside the protection of the DCA guarantee (e.g., through increased Root Capital lending to target sector / region, changes in lending terms, procedures, etc.)?</p> <ul style="list-style-type: none"> <li>• Did Root Capital continue lending to guaranteed borrowers without a guarantee?</li> <li>• Did Root Capital start lending to similar borrowers (in East Africa) without a guarantee?</li> <li>• Over the life of the guarantee and afterward, how much did the targeted sector portfolio grow from start of the guarantee, as a percentage of the overall portfolio?</li> </ul> <p>3b. What factors can be associated with achievement of desired outcomes (e.g., the DCA, TA; Root Capital staff training; revised Root Capital strategy, procedures and structure; new management, etc.)?</p> <ul style="list-style-type: none"> <li>• What makes Root Capital an appropriate lender to these markets, as compared to</li> </ul>	<p>(1) pre-field activities (2) field activities</p> <p>assessments, Action Packages, Legal Agreements, biennial review</p> <p>(2) Mission documents (2) Root Capital electronic files (as available) or samples of files (2) Root Capital annual reports (2) Mission/ contractor/ staff (2) TA providers (2) Root Capital staff (see above) (2) Root Capital borrowers under both guarantees</p>	<p>(1) pre-field activities (2) field activities</p> <p>(2) Interviews of cognizant Mission / contractor staff and other stakeholders</p> <p>(2) Guided interviews of Root Capital staff</p> <p>(2) Analysis of Root Capital electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)</p> <p>(2) Mini-surveys with Root Capital borrowers</p>	<p>potential guarantee recipients; to enhance the training that DCA provides to guarantee partners, missions, et al.</p> <p>Other comments: Question 3a. is both <i>descriptive</i> and <i>comparative</i> (actual outcomes achieved through guarantees vs. intended outcomes). Question 3b is <i>explanatory</i> in nature (to identify factors associated with why desired outcomes were achieved or not). Question 3c would be <i>descriptive</i>, and cross-cutting.</p>

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
financial institutions that are already there?	(1) pre-field activities (2) field activities	(1) pre-field activities (2) field activities	
<b>IMPACT LEVEL (Market Demonstration Effect):</b>			
<p>4a. Have lending terms to the target sector changed since the guarantee?</p> <ul style="list-style-type: none"> <li>Have the financial institutions in the targeted countries expanded their lending to the targeted borrowers?</li> </ul> <p>4b. If so, what role did the DCA guarantee play as a demonstration model?</p>	<p>(1) and (2) Sector/banking reports/ data</p> <p>(1) Evaluation reports on Ethiopia, Rwanda, and Honduras DCA guarantees</p> <p>(2) Root Capital managers/staff (see above)</p> <p>(2) Root Capital’s regional reps. and other NGOs</p> <ul style="list-style-type: none"> <li>Twin Traders (UK) and Schleuters (supplier for Starbucks) (African importers)</li> <li>TransfairUSA (trade due diligence)</li> <li>Part-time Kenya-based consultant</li> <li>Chemonics field staff in Africa</li> <li>EcoLogic staff that interact with Root Capital, especially in the countries</li> <li>Sebastian Charchalac</li> </ul>	<p>(1) and (2) Documents review</p> <p>(2) Interviews of cognizant USAID / other donor staff /other stakeholders</p> <p>(2) Guided interviews of Root Capital staff</p> <p>(2) Guided interviews or email correspondence with partner NGOs</p> <p>(2) Mini-surveys of Root Capital borrowers</p>	<p>DCA use: Purposes 1 &amp; 2.</p> <p>Other comments: These questions will be answered qualitatively, for the most part, citing available sectoral data as appropriate.</p>

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
	(1) pre-field activities (2) field activities  Santay (Producer Relations Manager)—in Guatemala (2) USAID TA providers (2) East Africa Fine Coffee Association reps involved with borrowers (2) Financial Alliance for Sustainable Trade reps involved (2) Root Capital borrowers under both guarantees (2) USAID Mission representatives	(1) pre-field activities (2) field activities	
<b>QUESTIONS THAT APPLY TO ALL THREE LEVELS—OUTPUT, OUTCOME AND IMPACT:</b>			
5a. What are the exogenous factors (e.g., financial sector reform, changes in government bond yields, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the financial sector? How have they done so?  5b. Have the exogenous factors affected the performance of the DCA guarantees (i.e., at output,	(1) Review of World Bank, and other donor or research documents / web sites  (2) Cognizant USAID / contractor staff / other donor representatives  (2) Root Capital managers/staff (see above)  (2) Root Capital’s regional reps. and other NGOs	(1) Document review  (2) Interviews of cognizant USAID / contractor staff  (2) Guided interviews of Root Capital staff  (2) Guided interviews or email correspondence with partner NGOs	DCA use: To set in context the Evaluation findings for Questions 1 – 6.

EVALUATION QUESTIONS	DATA SOURCES	DATA COLLECTION METHODS	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
<p>outcome and impact levels)? If so, how?</p>	<p>(1) pre-field activities (2) field activities</p> <ul style="list-style-type: none"> <li>• Twin Traders (UK) and Schleuters (supplier for Starbucks) (African importers)</li> <li>• TransfairUSA (trade due diligence)</li> <li>• Part-time Kenya-based consultant</li> <li>• Chemonics field staff in Africa</li> <li>• EcoLogic staff that interact with Root Capital, especially in the countries</li> <li>• Sebastian Charchalac Santay (Producer Relations Manager)—in Guatemala</li> </ul> <p>(2) East Africa Fine Coffee Association reps involved with borrowers (2) Financial Alliance for Sustainable Trade reps involved (2) Root Capital borrowers under both guarantees</p>	<p>(1) pre-field activities (2) field activities</p>	

**Evaluation of DCA Operations in Root Capital: Evaluation Indicators**

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
<b>OUTPUT LEVEL</b>		
<p>1a. Why did Root Capital enter into the guarantee?</p> <p>1b. How did Root Capital implement its loan guarantee programs that made it different than their existing portfolio (e.g., revised methodologies, new products, marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?</p>	<p>1 a. Description of reasoning</p> <p>1.b Qualitative description of differences between program implementation procedures and “business as usual” implementation procedures</p> <ul style="list-style-type: none"> <li>➤ Qualitative description of differences between assessment criteria used for DCA guaranteed and nonguaranteed loans</li> <li>➤ Qualitative description of loan approval and administration procedures between DCA guaranteed and nonguaranteed loans</li> <li>➤ Qualitative description of loan monitoring procedures between DCA guaranteed and nonguaranteed loans</li> <li>➤ Qualitative description of marketing campaigns, staff structure, communications structure, etc. between DCA guaranteed and nonguaranteed loans</li> <li>➤ Number and description of any new loan products introduced under the guarantees</li> </ul>	<p>Content pattern analysis of documents, interview notes</p>
<p>2a. What was the additionality of the guarantee?</p> <p>2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?</p>	<p>Root Capital loan portfolio pre, during, post DCA guarantees, by year if possible</p> <ul style="list-style-type: none"> <li>● Risk level of clients</li> <li>● Value of loans to target sectors and regions in total Root Capital portfolio</li> <li>● Number of loans to target sectors and</li> </ul>	<p>Comparative analysis—pre vs. post agreements</p> <p>Statistical analysis (value, mean, median, minimum and maximum)</p>

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
	<p>regions in total Root Capital portfolio</p> <ul style="list-style-type: none"> <li>• Average/ representative loan size and frequency distribution</li> <li>• Average (or representative) loan tenor</li> <li>• Rules for collateral requirements (including types of collateral, % relative to loan size)</li> <li>• % of covered borrowers who were new clients</li> <li>• Average interest rate</li> <li>• Number and value of loans per borrower</li> <li>• % arrears / NPLs in target sector compared to overall portfolio</li> <li>• Ratio of female to male owned businesses as borrowers (if available)</li> </ul>	
OUTCOME LEVEL		
<p>3a. To what extent were desired outcomes achieved, and sustained, as intended in the Action Packages and Legal Agreements, outside the protection of the DCA guarantee (e.g., through increased Root Capital lending to target sector / region, changes in lending terms, procedures, etc.)?</p> <ul style="list-style-type: none"> <li>• Did Root Capital continue lending to guaranteed borrowers without a guarantee?</li> <li>• Did Root Capital start lending to similar borrowers (in East Africa) without a guarantee?</li> <li>• Over the life of the guarantee and afterward, how much did the targeted sector portfolio grow from start of the guarantee, as a percentage of the overall portfolio?</li> </ul>	<p>Root Capital portfolio performance outside of DCA guarantee coverage, by year (if possible):</p> <ul style="list-style-type: none"> <li>• % of new borrowers under the guarantees who received nonguaranteed loans</li> <li>• Average % difference in loan value between guaranteed and nonguaranteed loans to the same borrower</li> <li>• Value of loans to target sectors and regions in total Root Capital portfolio</li> <li>• Number of loans to target sectors and regions in total Root Capital portfolio</li> <li>• Average (or representative) loan size and frequency distribution</li> </ul>	<p>Comparative analysis—pre vs. post DCA agreement, between CIB locations</p> <p>Statistical analysis (value, mean, median, minimum and maximum)</p> <p>Content pattern analysis of documents, interview notes</p>

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
<ul style="list-style-type: none"> <li>Did Root Capital retain any changes in methodologies/procedures/products/terms made under the guarantees, after the guarantees expired?</li> </ul> <p>3b. What factors at the partner bank level can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management; guarantees from other sources, etc.)?</p>	<ul style="list-style-type: none"> <li>Average (or representative) loan tenor</li> <li>Rules for collateral requirements (including types of collateral, % relative to loan size)</li> <li>Average interest rate</li> <li>Number and value of loans per borrower</li> <li>% arrears / NPLs in target sector compared to overall portfolio, by year if possible</li> <li>Ratio of female to male owned businesses as borrowers (if available)</li> </ul> <p>Qualitative description of differences between loan approval implementation procedures, pre- and post- DCA agreements</p> <p>Qualitative description of any new products introduced and retained</p>	
<b>IMPACT LEVEL</b>		
<p>4a. Have lending terms to the target sector changed since the guarantee?</p> <ul style="list-style-type: none"> <li>Have the financial institutions in the targeted countries expanded their lending to the targeted borrowers?</li> </ul> <p>4b. If so, what role did the DCA guarantee play as a demonstration model?</p>	<p>Number of other, non-partner banks that initiated lending to the sectors/regions targeted by the guarantees</p> <p>Number of other, non-partner banks that increased lending to the sectors/regions targeted by the guarantees</p> <p>Percent of industry experts that name Root Capital's activities as an important reason for increased lending to these sectors/regions</p>	<p>Comparative analysis by region, pre and post the DCA agreement</p> <p>Content pattern analysis of interview notes</p>

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
	<p>Percent of borrowers under the guarantees who have received financing from other banks, as well as terms and conditions of their loans</p> <p>Percent of borrowers under the guarantees who have received increased credit since the guarantees (i.e., larger/longer loans and/or lower interest rates, collateral requirements)</p> <p>Degree of similarity/difference between (non-USAID guaranteed) loan terms within other banks and those within Root Capital, for the sectors/regions covered by the guarantees</p>	
<b>EXOGENOUS FACTORS</b>		
<p>5a. What are the exogenous factors (e.g., financial sector reform, changes in government bond yields, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the financial sector? How have they done so?</p> <p>5b. Have the exogenous factors affected the performance of the DCA guarantees (i.e., at output, outcome and impact levels)? If so, how?</p>	<p>various</p>	<p>various</p>

## Annex II: Resources Used

Data from the CMS

June 18, 2007 notice of change of name from Ecologic to Root Capital

Adams, Tim. "Starbucks founder spreads gospel of hope in Rwanda," *Guardian*, London, UK: July 19, 2009.

ANACAFE, [www.anacafe.org](http://www.anacafe.org)

ACUMEN, [www.acumenfund.org](http://www.acumenfund.org)

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"Business Wire: Starbucks and Fairtrade Partner in Rwanda," *Bridge2Rwanda*, September 14, 2009. <http://www.bridge2rwanda.org/2009/09/business-wire-starbucks-and-fairtrade-partner-in-rwanda/>

Calvert Foundation, [www.calvertfoundation.org](http://www.calvertfoundation.org)

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*Credit Bureaus and the Rural Microfinance Sector: Peru, Guatemala, and Bolivia*, The University of California at Berkeley and The FAO Office for Latin America, December 8, 2003.

Eakin, Hallie, C. Tucker and E. Castellanos. "Responding to the coffee crisis: a pilot study of farmers' adaptations in Mexico, Guatemala and Honduras," *The Geographic Journal*, The Royal Geographic Society: Vol. 172, No. 2, June 2006. Pp. 156-171.

Economist Intelligence Unit reports for Ecuador, Honduras, Guatemala, Mexico, Nicaragua, Peru, Ethiopia, Rwanda, and Uganda

The Fair Trade Federation, <http://www.fairtradefederation.org/ht/d/sp/i/197/pid/197>

"Financiamiento Agrícola y Rural en México," *Revista Alide*, 6-01, January-April, 2006.

Foote, William. "A Healing Brew: Community-based Commerce Helps Mend the Broken Nation of Rwanda," *The Miami Herald*, November 29, 2004.

Global Exchange, <http://www.globalexchange.org/campaigns/fairtrade/coffee/cooperatives.html>

"Green Mountain Coffee Releases Spring Revival Blend, Featuring Fair Trade Certified Coffee from Rwanda," Green Mountain Coffee Press Release, March 22, 2010.

<http://www.gmcr.com/en/pressroom/PressReleases/SpringRevivalBlend.aspx>

Griswold, David. "Filling the Finance Gap for Coffee Growers," *Fresh Cup Magazine*, August 2006, pp. 54-55.

Hoffman, Katharine W. *Evaluation of DCA Guarantee to Bank of Abyssinia, Ethiopia*. USAID, Washington, DC: February 26, 2010.

*Interim Report on Fair Trade Trends*, Fair Trade Federation: July 2008.

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## Annex III: Final Trip Schedule

Monday – July 12, 2010

<b>TIME</b>	<b>Agenda</b>
3:30pm- 4:30pm	Introductions (all except William Foote)

Tuesday – July 13, 2010

<b>TIME</b>	<b>Agenda</b>
2pm- 4pm	Interview (William Foote, CEO)
4:30pm- 6pm	Interview (Briana Malloy, Portfolio Analyst)

Wednesday – July 14, 2010

<b>TIME</b>	<b>Agenda</b>
11am- 2pm	Interview (Josè Luis Rojas, VP of Lending, Portfolio Management)

Thursday – July 15, 2010

<b>TIME</b>	<b>Agenda</b>
12pm-2pm	Interview (Jeronimo Bollen, Regional Director, Latin America), by phone (617) 475.5269
Place: Honey	
2pm-4pm	Interview (Nate Schaffran, Regional Director, Africa)
Place: Honey	

Friday – July 16, 2010

<b>TIME</b>	<b>Agenda</b>
10:30 am- 12pm	Interview (Mike McCreless, Impact Assessment Officer and Patty Devaney, Director of Impact Assessment)
Place: Honey	

## **Annex IV: Interviewees**

### Root Capital Staff

Jerónimo Bollen, Regional Director for Latin America

Patricia Devaney, Director of Impact Assessment

William Foote, President and CEO

Briana Malloy, Portfolio Analyst

Mike McCreless, Impact Assessment Officer

José Luis Rojas, Vice President of Lending and Portfolio Management

Nate Schaffran, Regional Director for Africa

### USAID Officers

Eduardo Albareda, Trade and Finance Specialist, USAID/Peru

Fina Kayisanabo, USAID/Rwanda

Jean Claude Kayisinga, COP, USAID/SPREAD

Josefina Martinez, Economist, USAID/Guatemala

Joseph Obi, EGAT/DC

Kofi Owusu-Boakye, EGAT/DC

Ana Luisa Pinto, EGAT/DC

Carlos Solis, Finance and Program Analyst, USAID/Honduras

### Other Sector Experts

Roberto Albisetti, Senior Manager, IFC/Mexico

Ronald Guevara, General Manager, Quillacoop

Ana Jiménez, COPEME, Peru

Raina Lang, Operations Analyst, IFC/Nicaragua

## Annex V: Interview Guides

### Root Capital Client Survey

Country:

Date:

#### Gender of respondent (M/F): *Part 1: General Profile*

	Question	Answer
2	In which sector does your enterprise work?  (Circle all that apply)	1 = coffee  2 = cocoa  3 = pottery/crafts  4 = spices  5 = OTHER (please explain) _____

*Part 2: Current Loan*

	Question	Answer
4	When did your enterprise receive its first business loan?	(specify year) _____
5	Prior to receiving your first business loan, how did you finance your business?	1 = I used my own money 2 = I borrowed from my family or friends 3 = I used a money lender 4 = I used a government program or NGO 5 = I used a cooperative 6 = I used a microfinance institution 7=I used a bank 8 = OTHER (please explain) _____ 99 = don't know / not applicable
6	Does your enterprise currently have a business loan?	1 = yes (go to <b>Question 7</b> ) 2 = no (go to <b>Part 3, Question 13</b> ) 99 = don't know
7	If you responded "yes" to Question 6, with which financial institution(s) is/are your loan(s)?	(Please specify) _____

	Question	Answer
8	<p>If you responded “yes” to Question 6, what is the total value of all of your current loans?</p>	<p>1 = Less than USD 50,000</p> <p>2 = USD 50,000 to 100,000</p> <p>3 = USD 100,000 to 200,000</p> <p>4 = USD 200,000 to 500,000</p> <p>5 = more than USD 500,000</p> <p>99 = don't know / not applicable</p>
10	<p>If you responded “yes” to Question 6, what is the purpose of your loan(s)?</p> <p>(check all that apply)</p>	<p>1 = start-up financing</p> <p>2 = working capital</p> <p>3 = investment capital</p> <p>4 = marketing</p> <p>5 = purchase of inventory or raw materials</p> <p>6 = purchase of vehicle or equipment</p> <p>7 = OTHER (please explain) _____</p> <p>99 = don't know / not applicable</p>

	Question	Answer
11	If you responded “yes” to Question 6, what is the term of your longest <i>current</i> loan?	<p>1 = 1 year or less</p> <p>2 = 2 years to 5 years</p> <p>3 = more than 5 years</p> <p>99 = don't know / not applicable</p>
12	If you responded “yes” to Question 6, what is the collateral requirement?	<p>1=no collateral</p> <p>1 = up to 50% of the value of loan principal plus interest</p> <p>2 = 50 to 80% of the value of the loan principal plus interest</p> <p>3 = 80 to 100% of the value of the loan principal plus interest</p> <p>4 = more than 100% of the value of the loan principal plus interest</p> <p>99 = don't know</p>

*Part 3: Previous Loan*

	Question	Answer
13	Did your enterprise have a business loan in the past?	1 = yes (go to <b>Question 14</b> ) 2 = no (go to <b>Part 4, Question 20</b> ) 99 = don't know / not applicable (go to <b>Part 4, Question 20</b> )
	If you responded "yes" to Question 13, when did you receive your first business loan?	(please specify year) _____
14	If you responded "yes" to Question 13, from which financial institution was your first business loan?	(please specify) _____
15	If you responded "yes" to Question 13, what was the amount of your first business loan?	1 = Less than USD 50,000 2 = USD 50,000 to 100,000 3 = USD 100,000 to 200,000 4 = USD 200,000 to 500,000 5 = more than USD 500,000 99 = don't know / not applicable

	Question	Answer
17	If you responded “yes” to Question 13, what was the purpose of your loan?	1 = start-up financing 2 = working capital 3 = investment capital 4 = marketing 5 = purchase of inventory or raw materials 6 = purchase of vehicle or equipment 7 = OTHER (please explain) _____ 99 = don't know / not applicable
18	If you responded “yes” to Question 13, what was the loan term?	1 = 1 year or less 2 = 2 years to 5 years 3 = more than 5 years 99 = don't know / not applicable
19	If you responded “yes” to Question 13, what was the collateral requirement?	1=no collateral 2 = up to 50% of the value of loan principal plus interest 3 = 50 to 80% of the value of the loan principal plus interest 4 = 80 to 100% of the value of the loan principal plus interest 5 = more than 100% of the value of the loan principal plus interest 99 = don't know

*Part 4: Access to Credit*

	Question	Answer
20	Looking back over the past 7 years, how has access to credit for businesses like yours changed?	1 = Access to credit has improved a lot 2 = Access to credit has improved a little 3 = Access to credit has remained the same 4 = Access to credit has declined a little 5 = Access to credit has declined a lot 99 = don't know
	Please explain your answer to Question 20.	(please explain)
21	Are all of your credit needs currently met?	1 = yes 2 = no 99 = don't know
22	If you answered "no" to Question 21, why not?	1 = I am applying for a new loan now, but have not yet received it 2 = I already applied for a loan, but it was not approved 3 = I need a loan that is bigger than what I have 4 = I need a loan that is longer than what I have 5 = OTHER (please explain) _____ 99 = don't know/no response
	From where do you think you will borrow in the future?	1 = I will use my own money 2 = I will borrow from my family or friends 3 = I will use a money lender

	Question	Answer
		<p>4 = I will use a government program or NGO</p> <p>5 = I will use a cooperative</p> <p>6 = I will use a microfinance institution</p> <p>7=I will use a bank</p> <p>8=I will use Root Capital</p> <p>8 = OTHER (please explain)</p> <hr/> <p>99 = don't know / not applicable</p>

## Encuesta para Clientes de Root Capital

País:

Fecha:

Género del entrevistado (M/F): *Primera Parte: Perfil General*

	Question	Answer
2	¿En qué sector trabaja su negocio?  (Circule todas las que apliquen)	1 = café  2 = cacao  3 = cerámica/artesanías  4 = especias  5 = OTRO (por favor indique) _____

*Segunda Parte: Préstamo Actual*

	Question	Answer
4	¿Cuándo recibió su empresa el primer préstamo de negocio?	(indique el año) _____
5	¿De qué manera financiaba su negocio antes de recibir su primer préstamo?	1 = Usaba mis propios fondos 2 = Pedía dinero prestado a mi familia o amigos 3 = Usaba un prestamista 4 = Por medio de un programa del gobierno o una ONG 5 = Por medio de una cooperativa 6 = Por medio de una institución de microfinanciamiento 7= Por medio de una entidad bancaria 8 = OTRO (por favor indique) _____ 99 = No se / No aplica
6	¿Cuenta actualmente su empresa con un préstamo de negocio?	1 = si (pase a la <b>Pregunta 7</b> ) 2 = no (pase a la <b>Pregunta 13</b> de la <b>Tercera Parte</b> ) 99 = No se
7	Si usted respondió "sí" en la Pregunta 6, ¿Cuál es/son la(s) entidad(es) financiera(s) que le concedió/ieron su préstamo(s)?	(Por favor indique) _____

	Question	Answer

	Question	Answer
8	Si usted respondió "sí" en la Pregunta 6, ¿Cuál es el monto total de todos sus préstamos <i>actuales</i> ?	<p>1 = Menos de \$50,000 dólares americanos</p> <p>2 = Entre \$50,000 y \$100,000 dólares americanos</p> <p>3 = Entre \$100,000 y \$200,000 dólares americanos</p> <p>4 = Entre \$200,000 y \$500,000 dólares americanos</p> <p>5 = Más de \$500,000 dólares americanos</p> <p>99 = No se / No aplica</p>
10	Si usted respondió "sí" en la Pregunta 6, ¿Cuál es el propósito de su(s) préstamo(s)?  (Señale todas respuestas que le convienen)	<p>1 = Financiación inicial</p> <p>2 = Capital de trabajo</p> <p>3 = Capital de inversión</p> <p>4 = Mercadeo</p> <p>5 = Adquisición de inventario o de materias primas</p> <p>6 = Adquisición de vehículos o equipos</p> <p>7 = OTRO (por favor indique) _____</p> <p>99 = No se / No aplica</p>

	Question	Answer
11	Si usted respondió "sí" en la Pregunta 6, ¿Cuál es el plazo de su préstamo <i>actual</i> que es lo más largo?	1 = 1 año o menos 2 = De 2 a 5 años 3 = Más de 5 años 99 = No se / No aplica
12	Si usted respondió "sí" en la Pregunta 6, ¿Cuál es el requisito de garantía?	1=Sin garantía 1 = Hasta 50% del valor inicial del préstamo más intereses 2 = Del 50% al 80% del valor inicial del préstamo más intereses 3 = Del 80% al 100% del valor inicial del préstamo más intereses 4 = Más del 100% del valor inicial del préstamo más intereses 99 = No se

*Tercera Parte: Préstamo Anterior*

	Question	Answer
13	¿Ha recibido su empresa un préstamo de negocio en los últimos años?	1 = Si (pase a la <b>Pregunta 14</b> ) 2 = No (pase a la <b>Pregunta 20</b> de la <b>Cuarta Parte</b> ) 99 = No se / No aplica (pase a la <b>Pregunta 20</b> de la <b>Cuarta Parte</b> )
	Si usted respondió "sí" en la Pregunta 13, ¿Cuándo recibió su primer préstamo de negocio?	(Por favor indique el año) _____
14	Si usted respondió "sí" en la Pregunta 13, ¿Cuál fue la entidad financiera que le concedió su primer préstamo de negocio?	(Por favor indique) _____
15	Si usted respondió "sí" en la Pregunta 13, ¿Cuál fue el monto de su primer préstamo de negocio?	1 = Menos de \$50,000 dólares americanos 2 = Entre \$50,000 y \$100,000 dólares americanos 3 = Entre \$100,000 y \$200,000 dólares americanos 4 = Entre \$200,000 y \$500,000 dólares americanos 5 = Más de \$500,000 dólares americanos 99 = No se / No aplica

	Question	Answer
17	Si usted respondió "sí" en la Pregunta 13, ¿Cuál fue el propósito de su préstamo?	1 = Financiación inicial 2 = Capital de trabajo 3 = Capital de inversión 4 = Mercadeo 5 = Adquisición de inventario o de materias primas 6 = Adquisición de vehículos o equipos 7 = OTRO (por favor indique) _____ 99 = No se / No aplica
18	Si usted respondió "sí" en la Pregunta 13, ¿Cuál fue el plazo del préstamo?	1 = 1 año o menos 2 = De 2 a 5 años 3 = Más de 5 años 99 = No se / No aplica
19	Si usted respondió "sí" en la Pregunta 13, ¿Cuál fue el requisito de garantía?	1=Sin garantía 1 = Hasta 50% del valor inicial del préstamo más intereses 2 = Del 50% al 80% del valor inicial del préstamo más intereses 3 = Del 80% al 100% del valor inicial del préstamo más intereses 4 = Más del 100% del valor inicial del préstamo más intereses 99 = No se

*Cuarta Parte: Acceso al Crédito*

	Question	Answer
20	Mirando hacia atrás, ¿Cómo ha cambiado el acceso al crédito para empresas similares a la suya en los últimos 7 años?	1 = El acceso al crédito ha mejorado considerablemente 2 = El acceso al crédito ha mejorado un poco 3 = El acceso al crédito ha permanecido igual 4 = El acceso al crédito a disminuido un poco 5 = El acceso al crédito a disminuido considerablemente 99 = No se
	Por favor explique su respuesta a la Pregunta 20.	(Por favor explique)
21	¿Están siendo cumplidas todas sus necesidades de crédito?	1 = Si 2 = No 99 = No se
22	Si usted respondió "no" en la Pregunta 21, ¿Cuál es la razón?	1 = Estoy aplicando a un nuevo préstamo pero todavía no lo he recibido. 2 = Apliqué para un préstamo pero no fue aprobado. 3 = Necesito un préstamo más grande al que actualmente tengo 4 = Necesito un préstamo que tenga un plazo mayor al que actualmente tengo 5 = OTRO (por favor explique) _____ 99 = No se / No tengo respuesta
	¿De donde cree que provendrán sus próximos préstamos?	1 = De mis propios fondos 2 = De dinero prestado por mi familia o amigos

	Question	Answer
		<p>3 = De un prestamista</p> <p>4 = De un programa del gobierno o una ONG</p> <p>5 = De una cooperativa</p> <p>6 = De una institución de microfinanciamiento</p> <p>7= De una entidad bancaria</p> <p>8= De Root Capital</p> <p>8 = OTRO (por favor indique)</p> <hr/> <p>99 = No se / No aplica</p>

## Root Capital Interview Guide

Intro: Who we are and why here. We are not evaluating Root Capital—this assessment is one of many we are doing for USAID/DCA so that they can get an objective picture of what happened with many loan guarantees around the world so that DCA can learn from these experiences, with respect to improving the process and use of future guarantees.

Please state your position and describe your role within Root Capital. When did you join the organization and how long have you been here?

### **Question 1a**

1. Why did Root Capital enter into the first DCA guarantee?
  - a. What constraints did Root Capital face in expanding into these markets? Have they changed over time?
  - b. How did the USAID guarantee address those constraints? If not, why not?
2. How and why did Root Capital decide to enter the East African market?
  - a. Have these reasons changed over time?
  - b. What constraints did Root Capital face in expanding into these markets? Have they changed over time?
  - c. How did the USAID guarantee address those constraints? If not, why not?

### **Question 1b**

1. What was the process you used to assess a potential borrower and place the borrower under the guarantees? Did this process change at all over time?
2. What changes in procedures, processes, structure, etc. did you have to make to accommodate the guarantees? To what degree have you maintained these changes?
3. How did loan approval and administration procedures differ (if at all) between guaranteed and non-guaranteed loans, pre and during the guarantee period?
  - a. Did loan processes and procedures differ at all between the LAC loans and the African loans?
4. How were staff members trained to use the guarantees?

### **Questions 2a & 2b**

(for investment officers ONLY: Obtain data previously requested.) How did loan terms and conditions (i.e., tenors, interest rates, collateral requirements, loan purposes, etc.) differ between USAID-guaranteed and non-guaranteed loans? How did they change over time?

1. Why did Root Capital stop lending under the Africa guarantee when it reached 80 percent utilization?
2. Why didn't you place any loans to Kenya or Tanzania under the guarantee? Why did you place so many loans to Rwanda under the guarantee?
3. Why did Root Capital wait until 2008 to put most (8 of 15) of the loans under the Africa guarantee?
4. What procedures does Root Capital use to recoup non-performing loans?
  - a. Are these procedures any different for USAID-guaranteed compared to non-guaranteed loans?
  - b. How did Root Capital avoid defaults under the Africa guarantee, as compared to the LAC guarantee?
5. Considering the loans placed under USAID coverage, would Root Capital have extended loans to those borrowers without guarantee coverage? Why or why not?
  - a. If yes, would the loan have been for a lower/higher value without guarantee coverage? If yes, why did the DCA guarantee affect loan size?
  - b. If yes, would the tenor of the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect loan tenor?
  - c. If yes, would the interest rate on the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect the interest rate?

### **Questions 3a and 3b**

1. To which producer organizations did USAID help introduce Root Capital in Africa? How were these relationships established? Does Root Capital continue to lend to these organizations?
2. Root Capital's portfolio has increased substantially over the last 7 years, both in terms of volume and value of lending as well as number of countries (and regions) covered. To what do you attribute this growth?
  - a. Did TA, staff training, revised bank strategy, improved procedures, or other factors help Root Capital to expand lending? If so, how? How important was each of these factors?
3. The number of organizations investing in Root Capital has also increased substantially. To what do you attribute this growing interest in Root Capital?
4. How close is Root Capital to self-sufficiency?
5. What are Root Capital's future plans/objectives?

6. What makes Root Capital a more appropriate lender in your markets, as opposed to national financial institutions?

**Questions 4a and 4b**

1. Have any other financial institutions begun or noticeably increased lending to Root Capital's target markets since 2003? If so, please name them. Why do you think they have begun/increased lending to these markets?
2. Who are Root Capital's main competitors in these markets?
3. To what extent have access to loans, or loan terms, changed for SME eco-producers in LAC and East Africa since 2003?
  - a. What factors have been responsible for the changes/lack of change?
4. What could be done to improve access to credit for these producers?
  - a. I saw that Root Capital was intending to begin a technical assistance program for financial institutions to help them lend to SMEs. Has this program begun? What have you been doing and what have been the results so far?

**Questions 5a and 5b**

1. What primary factors have affected access to credit for SME eco-producers in LAC and East Africa since 2003?

## USAID Interview Guide

1. What is your position at USAID? How long have you been in this position?
2. Please describe briefly the history of the Mission's/Bureau's work with Root Capital (if any). What have been the results of this work?
3. Did the Mission/Bureau market the guarantees with Root Capital? If so, how?
4. Please briefly describe any USAID projects targeting the specialty coffee sector in X country since 2003.
5. Did USAID introduce Root Capital to any prospective borrowers in X country? If so, which ones?
6. Have any other financial institutions begun or noticeably increased lending to SME coffee producers/exporters since 2003? If so, please name them. Why do you think they have begun/increased lending to these markets?
  - b. Do you have any longitudinal data on lending to this sector?
7. To what extent have access to loans, or loan terms, changed for SME coffee producers/exporters since 2003?
  - i. What factors have been responsible for the changes/lack of change?
  - ii. Have any USAID-funded projects played a role in credit access? Please explain.

## Questions for EGAT/DC

1. Can you please briefly explain the history of the DCA guarantees with Root Capital (e.g., why was it needed, how has it performed in your view, have there been any particular issues with the guarantees, etc.)?
2. The 2005 Biennial Review suggests the Missions were requiring their approval before Ecologic could put loans under coverage. Don't see this mentioned in the Agreements. To what extent was this occurring? Until when?
3. Why did Root Capital leave so much money on the table from the second Agreement (\$380,000)?
4. 12 of the 15 Africa loans went to Rwanda, 2 to Ethiopia, 1 to Uganda. Why such a large focus on Rwanda? Why didn't Root Capital branch out to other countries included in the Agreement (i.e., Tanzania, Kenya, more in Uganda and Ethiopia)?
5. Similarly, of the 22 LAC loans, only one went to Ecuador and one to Honduras. Why not more?
6. No mention was made in the 2005 Agreement of the claim made under the 2003 Agreement, for a loan to La Voz que Clama en el Desierto. What happened with this loan?
7. My understanding from reading the Action Package for the first DCA guarantee with Ecologic was that USAID wanted to contribute to Ecologic's efforts, enabling it to provide financing to additional borrowers, NOT to encourage it to lend to organizations it otherwise would not finance. Is this true? Or were the *intended* DCA borrowers different in some way from Ecologic's usual borrowers? What outputs (additionality) and outcomes was DCA expecting from the first guarantee?
8. To what extent have missions been part of the Root Capital guarantees? Which ones? (bilateral/regional) Contacts?
9. To what extent were TA programs done in conjunction with the Root Capital guarantees? Contacts with TA providers?
10. What outputs/outcomes/impacts do you expect from the first guarantee (LAC)?

## **Annex VI: Profiles of Non-partner Lenders to Root Capital's Market**

### *COOPAC Quillabamba*

This savings and credit cooperative based in Cusco, Peru began lending to coffee cooperatives in 2005 and has since disbursed approximately 10 million soles (approx. \$3.5 million).

### *Fondo Acción*

Banamex, with funds from the Mexican Commercial Bank, founded the Sociedad Financiera de Objeto Múltiple Fondo Acción Banamex (Sofom Fondo Acción) in 2008 to provide credit to small and medium producers and enterprises planning projects that will generate local employment in rural areas of Mexico. Urban enterprises are also eligible for funding if they form part of the value chain of rural organizations or provide a tangible benefit to rural populations.<sup>57</sup>

Sofom Fondo Acción grew out of the Fondo Acción Fund, which Banamex's social arm and the Interamerican Development Bank's Multilateral Investment Fund funded from 1995 to 2007. Similar to Root Capital, Fondo Acción Trust also provided technical assistance to producers to improve their technical, management, and business performance.<sup>58</sup>

In 2003, Fondo Acción Banamex had taken over Root Capital's (then EcoLogic Finance) pre-trade financing of coffee cooperatives in Mexico.<sup>59</sup>

By July 2007, Fondo Acción Banamex had already lent 155 million pesos, primarily to agriculture, cattle, and ecotourism projects in the states of Michoacán, Chiapas, Guerrero and Oaxaca.<sup>60</sup>

According to Banamex's website, in 2000, the social arm of Banamex created the Fomento Ecológico Banamex, which supports sustainable production in ecologically sensitive areas of Mexico.

### *Bank of Kigali*

The evaluation of the DCA guarantee to Bank of Kigali found that although it did not change its lending practices outside of the guarantee it received, it did continue to make working capital loans to some former DCA borrowers, though it required 100 percent collateral. However, since the bank had made only two loans to the coffee sector prior to the DCA guarantee, the evaluation concluded

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<sup>57</sup> "Ingresa Banamex a la banca social," ELUNIVERSAL.com.mx, May 16, 2008.

<http://www.eluniversal.com.mx/articulos/47052.html>

<sup>58</sup> "Fideicomiso "Fondo Acción" de Apoyo a Proyectos Productivos," Roberto Hernandez Ramirez,

[http://www.robertohernandez.org/index.php?option=com\\_content&view=article&id=284:fideicomiso-fondo-Acción-de-apoyo-a-proyectos-productivos&catid=70:ds-fomento-social-banamex&Itemid=126](http://www.robertohernandez.org/index.php?option=com_content&view=article&id=284:fideicomiso-fondo-Acción-de-apoyo-a-proyectos-productivos&catid=70:ds-fomento-social-banamex&Itemid=126)

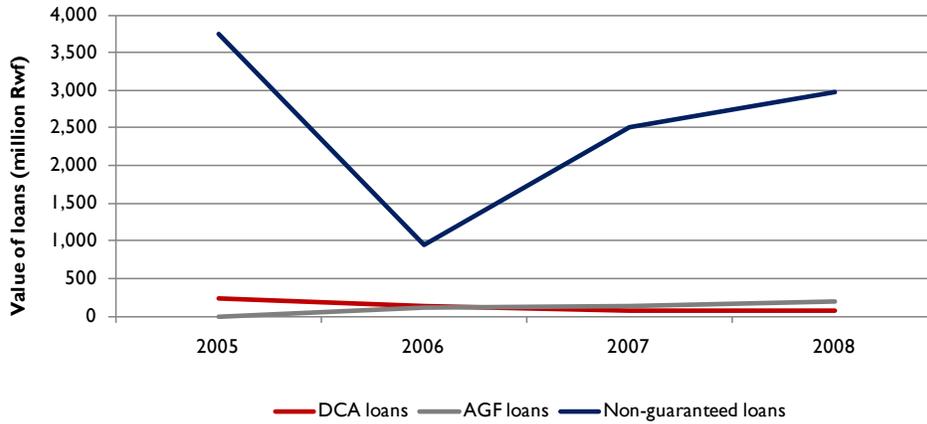
<sup>59</sup> Kooker, Naomi R. "Fair-trade finance: Nonprofit lender funds growers," *Boston Business Journal*, Vol. 25, No. 15: May 13-19, 2005.

<sup>60</sup> "Fondo Banamex otorgará casi 310 mdp al campo," admin-impreso.milenio.com, July 16, 2010.

[http://www.freshplaza.es/news\\_detail.asp?id=40607](http://www.freshplaza.es/news_detail.asp?id=40607)

that the guarantee was responsible for increasing the bank’s lending to this sector, at least during the guarantee period.

**FIGURE 21. BANK OF KIGALI WORKING CAPITAL LENDING, 2005-2008 (MILLION RWF)**



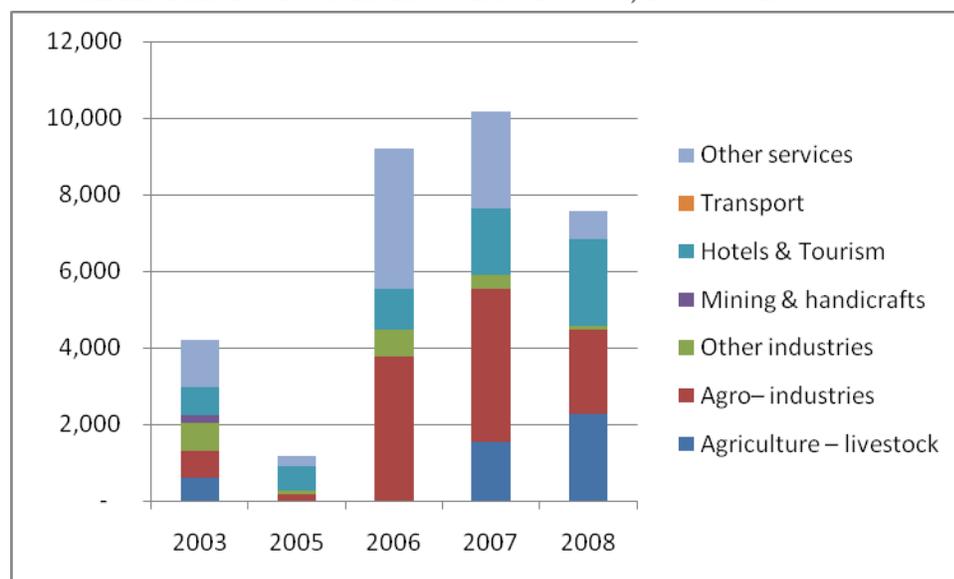
Root Capital’s CEO and Vice President of Lending told the evaluator that he had heard that Rwandan President Kagame instructed Rwandan banks to finance coffee cooperatives because an international organization (Root Capital) was lending to them. Apparently, the banks did so, but overfinanced the cooperatives, which became overindebted. So the country needed other financing groups like Root Capital to come back into the market.

*Rwandan Development Bank*

The Rwandan Development Bank (BRD) is a semi-public institution with a development focus. As of 2008, the Government of Rwanda owned 20.62 percent of the bank, local public institutions owned 24.05 percent, and international development institutions and the private sector owned the remainder.

As shown in the figure below, BRD’s lending to agro-industry, which includes coffee processing, grew from 17 percent to 29 percent of total lending between 2003 and 2008. However, in 2007, coffee exports contracted compared to the previous year.

**FIGURE 22: BRD DISBURSEMENTS BY SECTOR, 2003 TO 2008**



Source: BRD Annual Reports, 2003 and 2008. Disbursements are in millions of Rwandan Francs.

In addition, the bank administers the Fund for Refinancing and Development of Microfinance credit lines. As of December 31, 2008, credit lines for construction and working capital of coffee washing stations and coffee farmers and MFIs amounted to 2,968,122 million Rwandan Francs and a received balance of 1,886,220 million RWF, or 36 percent of the total received balance.

In addition, in 2008, BRD provided technical assistance to the coffee sector, as follows:

- Organization of external audits for four cooperatives in collaboration with partners PCDRE, MINICOM, and (USAID-funded) SPREAD
- Restructuring of the Board of Directors of 3 cooperatives, as well as KOPABAKAGI (a Root Capital borrower), KOAKAKA, and CPRB
- Organization of two training sessions for coffee cooperatives on “Cost management in coffee washing stations” and financial reporting
- Organization of a seminar for the 2008 coffee campaign
- Organization in collaboration with IFC of a one-day seminar on “micro lending and poverty alleviation”

According to the *New Times* (a government-sponsored publication) in December 2009, the BRD began supporting the development of coffee washing stations in 2003, as part of the government’s focus on this sector.<sup>61</sup>

*Rwanda Commercial Bank*<sup>62</sup>

<sup>61</sup> Ngarambe, Alex. “Rwanda: Coffee Farmers to Benefit From BRD’s FRW4 Billion Loan,” *The New Times*, Rwanda: December 19, 2009. As reprinted on allAfrica.com: <http://allafrica.com/stories/200912190015.html>

<sup>62</sup> All information in this paragraph is from the bank’s website: [www.bcr.co.rw](http://www.bcr.co.rw)

According to the entity’s website, the Banque Commerciale du Rwanda (BCR) was founded in May 1963 and privatized in December 2004. The Rwandan government currently owns a 20 percent stake in the bank, with Actis—a UK-based private equity investor in emerging markets—accounting for the remaining 80 percent. The bank provides pre-export finance for export sectors. Unfortunately, its website does not provide sector-disaggregated lending figures.

### *Banque Populaire du Rwanda*<sup>63</sup>

The first Banque Populaire du Rwanda was founded in 1975, after which additional, autonomous banques populaires sprouted throughout the country. In 1986, these various banks united to form the Union des Banques Populaires du Rwanda, which in 2008 became the commercial Banque Populaire du Rwanda S.A (BPR).

The bank offers a set of loan products specifically for rural customers, as follows:

- Agriculture Loan: for production, processing, distribution. Terms: amount equivalent to not more than 80 percent of proposed project cost, client contributes 20 percent of project costs; tenors up to 5 years; payments can be monthly, quarterly, or seasonal; collateral worth at least 125 percent of the financed project.
- SME Loan: designed to improve competitiveness of small and medium enterprises in various sectors, through supporting production, investment, or working capital. Terms: amount equivalent to not more than 80 percent of proposed project cost, client contributes 20 percent of project cost; interest rates depend on customer rating; tenors up to 3 years; collateral may be a joint guarantee for a cooperative.
- Micro-credit: designed to fund groups of 3 to 30 people or associations of up to 30 people, for income generation or enterprise development. Terms: amounts not exceeding 250,000 RWF for an individual in a group and 5,000,000 RWF for an association; tenors up to 12 months; collateral consists of a moral guarantee in case of a group or the association’s assets.
- BIOGAS-INDUHURAMURYANGO: for building a biogas facility for cooking and lighting in a rural household.

Unfortunately, BPR’s website does not provide sector- or loan product-disaggregated lending data.

According to the IMF, in 2006 the Rwandan Government opened a 124 million RWF guarantee facility with BPR for microfinance of seasonal credit. It also created an agricultural guarantee facility within the National Bank of Rwanda to support coffee, specifically.<sup>64</sup> According to BPR, this guarantee facility “is to promote financing to viable rural projects without enough collateral or regarded as risky by banks.” The maximum tenor is 12 months, with a loan ceiling amount of RWF 5 million; RWF 10 million for women’s associations.

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<sup>63</sup> All information in this section, unless otherwise noted, is from BPR’s website, [www.bpr.rw](http://www.bpr.rw)

<sup>64</sup> *Rwanda: poverty reduction strategy paper: annual progress report*, International Monetary Fund: February 2006.

### *Calvert Foundation*<sup>65</sup>

The Calvert Foundation is a U.S.-based financial intermediary that uses funds from 6,000 investors to make loans (\$200 million so far) to 250 organizations worldwide, typically MFIs, loan funds, affordable housing developers, and social enterprises. The foundation began lending abroad in 1995 with its first “Community Investment Note,” a type of bond, although the organization was incorporated in 1988 as a socially responsible investor.

In 2008, 1.2 percent of the organization’s lending went to the Fair Trade sector, down slightly from 1.6 percent in 2007. From 2002 to 2007, Calvert lent nearly \$7 million to Fair Trade coffee cooperatives in Mexico, Nicaragua, and Peru.

Root Capital is actually a sub-advisor to the Calvert Foundation and performs site visits and monitors the investments made through MicroPlace, a social business engaged in microfinance, to which the Calvert Foundation lends.

Calvert lends between \$50,000 and \$2.5 million, but no more than 10 percent of an applicant’s assets. Tenors are typically 5 years and interest rates are below market, though consistent with U.S. Treasury rates. Calvert does not require any collateral from its clients.

### *responsAbility*<sup>66</sup>

responsAbility channels investments from social investors to microenterprises, SMEs, Fair Trade producers, and independent media organizations. It also advises banks and other investors on how to invest in socially responsible ventures. responsAbility was founded in 2003 and its founders/shareholders include Baumann & Cie, Credit Suisse, Raiffeisen Schweiz, Swiss Re, Bank Vontobel AG and George Avenue. The Millennium Development Goals serve as the framework underpinning its lending criteria, which are centered around good governance as well as social and environmental responsibility.

As of the end of 2009, the organization’s social investments totaled around \$900 million in 60 countries. responsAbility reported that its Fair Trade financing activities impacted 34,000 cocoa and coffee farmers that year. Loan amounts are at least \$200,000 and a maximum of 30 percent of the borrower’s projected sales revenues. Tenors are up to 12 months for working capital and longer for project financing.

Similar to Root Capital, responsAbility uses borrowers’ sales contracts with reliable buyers as collateral. According to two Root Capital officers, responsAbility used to lend without collateral and mended its ways only recently. Also like Root Capital, responsAbility requires its Fair Trade borrowers to show proof of sustainable trading relationships with accredited partners and be Fair Trade and/or Environmentally or Socially Responsible certified.

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<sup>65</sup> Unless otherwise noted, information from this section is from [www.calvertfoundation.org](http://www.calvertfoundation.org)

<sup>66</sup> Unless otherwise noted, information in this section is from responsAbility’s website, [www.responsability.com](http://www.responsability.com)

responsAbility also invests in SMEs and MFIs and, according to one Root Capital officer, has a much larger capital base than Root Capital.

#### *Other Actors*

An IFC officer interviewed reported supporting ECOM Agroindustrial Corporation, a major coffee trader, to provide loans to Nicaraguan and Southern Mexican cooperatives and smallholder coffee producers from 2007 to 2010. Combined with technical assistance, IFC provided a \$25 million loan to ECOM.<sup>67</sup> Although ECOM's interest rates and collateral requirements were comparable to that of a Nicaraguan bank, repayment terms were flexible, which allowed for delays due to adverse weather conditions. In addition, ECOM accepted an inventory assessment conducted by its own agronomists at each producers' operation as collateral. Sometimes, the workers themselves acted as guarantors for land by putting their own land title forward as collateral for the ECOM loan. ECOM also helped farmers with the land titling process.

Asked how IFC decided to fund coffee producers through a buyer, the IFC officer explained, "ECOM approached IFC looking for financing and technical assistance for their producers. They were already providing working capital to producers in the region, but were noticing that there was a demand for longer term financing for producers who wanted to participate in sustainability initiatives (certification) and for producers who just wanted to make overall improvements on their farms."

In June 2008, similar to USAID/DC's support of Root Capital, IFC provided additional investment to ECOM, to support working capital and investment for ECOM's buying operations in Africa (Kenya, Uganda, Tanzania) and Asia.<sup>68</sup>

While it is possible that Root Capital's model and DCA's support stimulated ECOM's financing idea, the evaluators have found no proof of a connection.

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<sup>67</sup> IFC website, [www.ifc.org](http://www.ifc.org)

<sup>68</sup> UNDP, WFP, IFAD, UN Global Compact, and FAO. 2008. Food Sustainability: A Guide to Private Sector Action

Country	Financial Institution	Loan Products	Loan Tenors	Annual Interest Rates	Collateral
Guatemala	National Association of Coffee Producers (ANACAFE)	Farming Diversification Loans Commercial Loans Debt Restructuring Fianancial Improvement of the Small Coffee Grower Program	FD Seasonal: up to 18 months FD semi-permanent and permanent: up to 10 years Agroindustrialization: up to 10 years Commercial: up to 1 year Debt Restructuring: up to 10 years Financial Improvement: 12 months to 8 years	8.5%  Financial Improvement Program: 10.5%	
Peru	Oikocredit		1 to 6 years	“in accordance with the level of risk undertaken and interest rates in the market”	
Great Britain	Triodos Bank	Loans to MFIs for onlending		Base rate: 0.5%	
U.S.	Calvert Foundation	Affordable Housing Community Development Financial Institution/Small Business Environment Fair Trade Microfinance Mission Plus Non-Traditional	1 to 5 years	Below market, but consistent with US Treasury rates	None required
Netherlands	Rabobank	Loans Guarantees			
Rwanda	Bank of Kigali	Short-term loans: •Overdraft •Working capital finance •Pre-export finance •LC-Import/Export finance	Credit facility/overdraft: 12 months Investment Loan: 7	17.25%	

Country	Financial Institution	Loan Products	Loan Tenors	Annual Interest Rates	Collateral
		<ul style="list-style-type: none"> <li>•Advance on contract loan</li> <li>•Bill discount loan</li> <li>•Bank guarantees</li> <li>•Coffee campaign</li> <li>•Personal loan</li> </ul> Long-term loans: <ul style="list-style-type: none"> <li>•Mortgage loan</li> <li>•Real estate development loan</li> <li>•Investment Loans</li> <li>•Equipment Loans</li> <li>•Vehicle Loans</li> </ul>	years		
Rwanda	BDR	Investment Loans	Up to 10 years; current average of 7 to 8 years	12 to 16%	Mortgages with title deeds; A pledge of receivables; The joint guaranty of spouse, associates, other partners; A guarantee from the Government; a guarantee fund, a bank, other partners, foreign organisations, etc.; The pledge of material or financial resources; Accident and fire insurance
Rwanda	BCR	Construction Loan, Investment Loan, Equipment Loan, Leasing, Working Capital Overdrafts, Bill Discounting, Tradeline, Aspire, Insurance Premium Finance, Letter of Credit (export), Pre-export Finance, Bank Guarantee (export), Bid Bond	Investment Loan: 3 yo 5 years Equipment Loan: 3 to 5 years Tradeline: up to 3 months Insurance Premium Finance: 3, 6, or 9 months		Bill Discounting: bill of receivables Tradeline: purchase contract with a “reputable company”
Rwanda	BPR	Agricultural Loan SME Loan Microcredit Biogas Agricultural Guarantee Fund	Agricultural Loan: up to 5 years SME Loan: up to 3 years Microcredit: up to 12		Agricultural loan: at least 125% of financed project; can be assets, soft collateral, joint guarantee for associations/cooperatives, insurance for the collateral, guarantee fund

Country	Financial Institution	Loan Products	Loan Tenors	Annual Interest Rates	Collateral
			months AGF: up to 12 months		SME Loan: Movable or immovable assets, assets acquired by the loan, Joint guarantee for associations / cooperatives Microcredit loan: joint guarantee, association's assets Biogas: personal contribution of RWF 200,000, 3 exotic cows or 4 local cows
Switzerland	responsAbility	Debt Financing for Fair Trade Producers Debt Financing and Equity Investment for MFIs Financing for SMEs in Developing Countries	Fair Trade: up to 12 months for working capital		Fair Trade: Sales contracts with reliable buyers
Mexico	FINRURAL <sup>69</sup>	Credit Program Financial Support to Cattle Sector in Yucatan State Rural Financial Institutions	Credit: working capital: up to 12 months; longer for investment projects Cattle: 2 years for capital loans; 6 yrs. For fixed asset loans RFI: 1 yr. for capital loans; 3 yrs. For fixed asset loan	Credit: 12 to 15%	Credit and Cattle: 20-30% of value of project RFI: guarantee fund for at least 20 percent of the credit line

<sup>69</sup> *Financiamiento Agrícola y Rural en México*