



Root Capital

finances the growth of
the agricultural sector

Root Capital promotes agricultural social businesses in order to achieve greater social and economic impact. Its goal is that agricultural enterprises located in vulnerable communities grow during the favorable production and sales periods and that they are resilient during the less favorable seasons. One of them is Maya Ixil, an organic-coffee and honey cooperative from the northwestern Guatemala highlands.

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LOCATION:

Promoter:

- Offices in the United States.

Impact on:

- El Quiché Department, Guatemala.
- It also operates in Colombia, Honduras, Mexico, Nicaragua, Peru, Costa Rica, Indonesia, and seven African countries.



MAIN PARTNERS:

Cooperativa Maya Ixil



DURATION:

2005

-now



TYPE OF INVESTOR/ SILO:

Financial institutions



MOTIVATION/PROBLEM TO TACKLE:

Support agricultural enterprises so that they can grow and withstand crises to improve the farmers' quality of life.



FINAL BENEFICIARIES:

Small agricultural farmers



SECTOR:

Agriculture



TYPE OF FINANCING:

Donation and debt

RESOURCES INVESTED OR DONATED

USD 250,000
(2020)



NON-FINANCIAL SUPPORT OFFERED:

- Business model and/or strategy
- Financial management



SDGS ADDRESSED:

IMPACT:



Small farmers with access to credit to maintain their farms and purchase seedlings and other inputs to renew their crops.

Gender-sensitive food security program to promote family vegetable gardens.



Capacity-building in **organic-agriculture practices**.

In

2009

3 female agricultural producers were part of the cooperative. By 2020, 28 women had become associates.





BACKGROUND AND CONTEXT

Guatemala ranks second in Central America in terms of inequality in the distribution of land and shows significant gaps in the distribution of rural income. Rural Guatemala is characterized by high levels of poverty and exclusion, small and medium scale agricultural production with low yields and modest capital endowment – mainly because of lack of financing – a deficient infrastructure, and limited access to markets.¹

The difficulties faced by small agricultural producers to make their yields grow and have a higher income are one of the main causes of persistent poverty in this Central American country.² This is why creating mechanisms for small farmers to associate and be able to enter new markets competitively and having access to funding are key elements for their growth.³

In Guatemala, there is a large financial gap among small farmers organizations and commercial agricultural companies. Upon applying for credit, small farmers are hampered, since oftentimes their organizations are not old enough or do not have the required financial experience or the securities usually required by traditional financial institutions.

In order to tackle this situation, Root Capital⁴ granted its first loans in 1999 to coffee cooperatives located in the Western Highlands of Guatemala.⁵ Its portfolio includes Cooperativa Maya Ixil, a coffee and honey cooperative that strives to improve indigenous farmers' incomes. Root Capital's support is based on a long-term relationship, in the framework of which it provides enough resources to buy the harvest from producers in advance.

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¹ Cheaz, J. en FAO, (2013). Pequeñas unidades productivas en el altiplano de Guatemala: La experiencia de articulación a cadenas globales de valor y el rol de sus entornos. Food and Agriculture Organization of the United Nations. Accessed at: <http://www.fao.org/family-farming/detail/es/c/340431/>

² Cheaz, J. en FAO, (2013). Op cit.

³ FAO, (2013). Agricultura familiar y acceso a los mercados: Memoria del Seminario-Taller realizado por la Oficina Subregional de FAO para Mesoamérica. Food and Agriculture Organization of the United Nations. Accessed at: <http://www.fao.org/3/a-i3464s.pdf>

⁴ Root Capital works in Latin America, Asia, and Africa. In Latin America, it is located in Mexico, Guatemala, Colombia, Ecuador, and Peru. In Africa, it has regional offices in Kenia and Senegal. Finally, its work in Asia focuses on Indonesia.

⁵ Root Capital, (2020). Quiénes somos. Accessed at: <https://rootcapital.org/es/quienes-somos/>



DESCRIPTION

Root Capital tries to improve the lives of rural producers by linking them to the formal economy by means of loans. The goal of its intervention is to help agricultural enterprises located in disenfranchised communities in different countries so that they can grow during the periods that are favorable for coffee production and sales and be resilient in difficult times.

Root Capital promotes sustainable-agriculture practices, as well as improving harvest profitability among small farmers. In general, the goal is that organizations are financially healthy so that they can grow, if they are interested and have the capacity to do so. The purpose of the intervention is that the families' income flow derived from coffee activities is reliable and growing. The firm also builds capacity among small enterprise employees to manage more loans for the farmers that they represent.

In difficult times, it has promoted production diversification and has tried to ensure a minimum income for coffee activities.

Root Capital does not work based on programs or projects with limited terms; rather, it aims to develop long-term collaborations with the enterprises it supports. It does not consider itself a lending institution, but an active partner for the small enterprises that it finances. Its relationship with Maya Ixil started in February 2005, after a loan application. Since then, the collaboration between both organizations has been characterized by non-financial support and yearly financing.

Maya Ixil is an indigenous cooperative comprising 205 small coffee producers located in Northwest Guatemala. Its objective is to produce coffee organically, improve coffee prices, and achieve market access. It turned to Root Capital because it had been able to negotiate an agreement to export coffee but did not have local access to finance to buy the harvest from producers in advance. In turn, the latter did not have resources to cover the working capital for production – they therefore needed financing at the beginning of the cycle.

Root Capital mobilizes its own resources. So far, it has not had any other investment partner. It is also the only financier that Maya Ixil has, because very few local traditional financial institutions grant loans



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to coffee cooperatives, particularly due to their lack of formalization – and those who do grant loans set very high interest rates.



IMPLEMENTATION

Root Capital invests in agricultural initiatives that can bring about a positive change in communities by means of two lines of work: financial support through loans and consultancy and training services. Its goal is to work with these enterprises in order to improve producers' income, create jobs, empower women and youth, protect the ecosystem, and promote peace in their communities.

To receive financing, it is necessary to apply online or get in touch directly. Root Capital conducts a first quick assessment which, if positive, leads to an on-site visit to the organization. Then, compliance with the requirements set out in a pre-assessment form is evaluated. Within one week, the financier gets in touch with the organization to get more familiar with its financial needs.

In the second stage, a due diligence process is carried out.⁶ Eligible enterprises must submit a formal credit application and provide supporting information. The third stage is an evaluation of the application and a visit by a Root Capital representative to analyze the loan's options and terms, so that it meets the needs of the organization. Between six and eight weeks after submission of the formal application, the decision is communicated. Finally, in the fifth stage, the relevant documentation is produced to formalize the loan, and the loan officer guides the entrepreneur in the financial procedures.

In the case of Maya Ixil, the first loan was granted in 2005 for USD 50,000 and, since then, the cooperative has received continuous financing along with consultancy on issues that have been evolving according to its needs.

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⁶ Due diligence has reference indicators: environmental, which takes into account water treatment, use (or not) of fertilizers, agricultural practices, how many specialized technicians there are for this issue, and general environmental management (organizations usually have certifications by organic-product experts); social, which takes into account how the organization interacts with the community, if there are support programs, how many women are in the team, and if they are in power positions; and financial, which takes into account payments for producers and how they are investing in the community.

 **Tailored
Finance**

Root Capital provides support to organizations that already have some stability. They must have proven results, a profitable business model, at least three years of continuous operations, and annual sales above USD 500,000. Moreover, they must have well-established relationships with consolidated buyers in the international market and a team of enthusiastic leaders with successful track records. Their operations must also have a positive social impact.

Root Capital loans are usually annual and generally invested in working capital. Organizations need financing at the beginning of the year so that small farmers have the necessary funds for the coffee production cycle. The loan amount is determined based on export contracts previously signed by the cooperatives and their clients, which are usually concluded between August and September. Based on those purchase agreements, the tripartite loan agreement is signed between October and November by Root Capital, the coffee buyer, and the cooperative. By including the buyer in the agreement, there is a guarantee for the loan. The reimbursement is operated based on the payment for the exported coffee, from which Root Capital takes the funds lent plus interest. The remaining capital is given back to the cooperative, which decides how to invest it.

Ever since the first loan to Maya Ixil, the process to apply for new loans has been the same. Nevertheless, due diligence has incorporated new criteria, such as gender perspective.

The new loans have been for USD 250,000 on average, with an annual interest rate set at 10%. Usually, the disbursement takes place during the first months of the year, in three installments: 50%, 25%, and 25%. So far, adding up all the loans, almost USD 3 million has been disbursed, based on which Maya Ixil went from having fewer than 30 members to more than 200.⁷

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⁷ Root Capital, (2020). Maya Ixil: Strengthening Economic Opportunities for Indigenous Farmers in Guatemala. Accessed at: <https://rootcapital.org/meet-our-clients/stories/maya-ixil-strengthening-economic-opportunities-for-indigenous-farmers-in-guatemala/>

 **Non-financial
Support**

Non-financial support provided by Root Capital is adapted according to the diagnosis, evolution, and characteristics of the organizations that receive it. The support is provided gradually, by means of consultancy services. These services are usually spread over one or two years, both for organizations that want to take out a loan and those that want to access other potential financiers. An initiative supported by Root Capital receives consultancy since the loan is granted, but it can also request only consultancy support.

Root Capital offers four types of services: 1) Financial advice, which covers cash flows, financial statement analysis, how to submit information to the Board, etc.; 2) Agricultural advice, particularly related to coffee and its sustainable production; 3) Business intelligence services, such as the use of digital media, data collection, and information-based decision-making; and 4) Climate resilience advice. Climate change has made it more difficult to cultivate certain types of land, which is why Root Capital provides training on productive reconversion. Its goal is that organizations are able to build more resilience and institutional strength in the long term.



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At first, Maya Ixil received basic legal and financial advice. Over time, this consultancy has become more sophisticated. After the first loan, it received advice on how to manage internal credit. Due to the coffee rust crisis, which has dramatically affected production, farmers were given advice to produce honey. At the initiative of Maya Ixil, training has been also provided on gender equality in the family and the organization.

The inclusion of gender issues in the organizations' decision-making processes and everyday operations is addressed in all the modalities and methodologies of financial support.

Currently, work is under way to manage the organization in a digital way. Because of the pandemic, consultancy takes place remotely. It is estimated that the cooperative has received, in total, more than

250 days of training,⁸ with which it has improved its financial planning and internal governance. And given that the Board of Directors of Maya Ixil is renewed every four years, without the possibility of re-election, continuous training has been very important to keep the Board prepared.



RESULTS

Root Capital conducts impact studies on very specific initiatives by means of external consultants, with methodological and implementation supervision through its Impact team.

In order to homogenize follow-up, it has reference indicators that allow to assess progress after the investment and monitor productivity.

In the case of Maya Ixil, it reviews the cooperative's progress on a semi-annual basis and evaluates the intervention at the end of the year. The evaluation addresses environmental, social, and financial aspects, and its results are essential to the approval of subsequent financing. Maya Ixil monitors finances every six months, through its Accounting department.

Some of the results achieved by Maya Ixil are:

- ... Small farmers are promptly paid for coffee sales, which has allowed the cooperative to grow from 30 members to more than 200.
- ... By 2013, the members of Maya Ixil reported income equivalent to more than double the income of families that are not members of the cooperative.
- ... In light of the volatility of coffee prices, the cooperative's production has diversified to include honey, ensuring an alternative source of income for producers.
- ... As of the inclusion of gender issues, women's participation in the cooperative has been promoted, both in the administrative and productive areas. In 2009, the cooperative had 3 female agricultural

⁸ Root Capital, (2020). Op cit.

producers. Today, there are more than 28 female associates. Furthermore, a woman represents Maya Ixil in the region's fair-trade Board.

These results have allowed Maya Ixil to offer credit for farm maintenance and to purchase seedlings and inputs for renovation. Besides, it has developed a food-security program in order to promote family vegetable gardens and encourages training on organic-agriculture practices.



LEARNINGS AND PERSPECTIVES

The relationship between Root Capital and Maya Ixil has been maintained and has grown over the years thanks to the cooperative's intention to replicate good practices learned and to the strong bond of trust that has been built. According to Maya Ixil, the support provided by Root Capital during the hardest periods for coffee production and sales and the knowledge shared on legal and organizational issues have proven essential for the cooperative's maintenance and growth.

However, Root Capital and Maya Ixil have faced some challenges. The first of them has been the size of the Maya Ixil team. Only six people are in charge of the organization's operations, which has made it difficult for Root Capital to spread new knowledge. This is one of the main challenges faced by Maya Ixil, because of the constant work overload to which the personnel is exposed. Additionally, the Boards of Directors of coffee cooperatives do not necessarily speak Spanish, which is why communication in different languages has been a challenge.

As for Maya Ixil, the main challenge revolves around maintaining the bond of trust with Root Capital and its clients, which is based to a great extent on the quality of its coffee and the fair-trade guidelines followed by the cooperative.

The trust relationship between both organizations has been of utmost importance in the context of COVID-19, as was the case in the time of the coffee rust. Root Capital remains committed to providing support by promoting the financial security of the organization and its portfolio. It is also considering

changing the health protocols for coffee production and sales, adapting them to the new restrictions derived from the pandemic. Maya Ixil aims to promote mutual support and solidarity between producers and the cooperative to move forward.