



PARTNERING TO ACCELERATE ENTREPRENEURSHIP

ROOT CAPITAL: INVESTING IN RURAL AGRIBUSINESSES

Through the **Partnering to Accelerate Entrepreneurship (PACE) Initiative**, USAID's U.S. Global Development Lab aims to catalyze private sector investment into early-stage enterprises by identifying and testing innovative models or approaches that help entrepreneurs bridge the pioneer gap—thus unlocking the potential of thousands of promising enterprises around the world.

THE CHALLENGE

Around the world, more than 500 million families depend on agriculture for their livelihoods but in rural areas, these smallholder farmers often struggle to access markets to sell their crops. Small and growing businesses (SGBs) have the potential to connect individual farmers to markets they cannot reach on their own, creating sustainable livelihoods and driving overall economic growth.

Yet many SGBs struggle to access the resources they need to grow, especially during their early stages. Too big for microfinance and too small or risky for commercial banking, these businesses have limited access to the credit, capital and business services. Furthermore, agricultural entrepreneurs and their employees often need financial management training to drive business growth and increase benefits to farmers.

Root Capital, a nonprofit based in Cambridge, MA, aims to bridge these gaps by lending capital, delivering financial management training and strengthening market connections for rural agricultural enterprises in Africa and Latin America. With access to these resources, agricultural SGBs become engines of economic impact by providing higher and more stable incomes for farming families and creating job opportunities in rural areas. However, successfully lending to early-stage SGBs that need small loans requires significant social and environmental due diligence and targeted financial advisory services to ensure SGBs are investment-ready.

THE PARTNERSHIP

In October 2016, USAID and Root Capital entered into a three-year partnership through the PACE Initiative to unlock the growth and impact potential of early-stage SGBs in Africa and Latin America by offering small loans paired with financial advisory services.

The partnership seeks to increase lending to early-stage SGBs that have financing needs in the \$50,000 to \$150,000 range and would otherwise struggle to access financing. Recognizing that capital alone is not enough to drive business growth, Root Capital provides targeted financial advisory services to current and prospective borrowers—on topics that include financial planning, accounting and risk

management—to enhance the capacity of businesses to apply for and manage credit, thus creating the enabling conditions for business growth.

Additionally, this partnership supports Root Capital’s learning initiative. By understanding the costs, risks and impacts associated with investing in early-stage businesses, Root Capital aims to influence how public and private capital is allocated towards lending models that support the growth of agricultural SGBs. With USAID’s support, Root Capital will measure and evaluate the economic costs, social and environmental impacts and financial returns of lending to SGBs. If successful, USAID and Root Capital plan to build the case for increased investment in blended capital approaches to support SGBs.

THE RESULTS

Since the beginning of the partnership, Root Capital has made significant progress towards reaching early-stage agricultural enterprises in sub-Saharan Africa, Central America and Peru across a number of industries including coffee, nuts, rice, grains and fresh vegetables.

In 2016, Root Capital reached 52 early-stage agribusinesses with loans of \$50,000-\$150,000, supported by this partnership. With access to credit, these agribusinesses connected more than 53,000 smallholder farmers, including 21,000 women, to markets, helped them earn higher and more stable incomes and generated over \$40 million in annual revenues.

As the partnership continues, Root Capital intends to demonstrate that early-stage businesses are able to fulfill their promise as engines of growth and prosperity for rural communities. USAID and Root Capital aim to expand the industry’s understanding of the economics and impacts associated with lending to agricultural businesses that operate in some of the world’s most unbanked communities.

For More Information

To learn more about the PACE Initiative, visit www.usaid.gov/pace.

About the U.S. Global Development Lab

The U.S. Global Development Lab serves as an innovation hub. The Lab takes smart risks to test new ideas and partner within the U.S. Agency for International Development (USAID) and with other actors to harness the power of innovative tools and approaches that accelerate development impact.

The Lab is a reflection of USAID’s broad embrace of innovation to bring about positive change and solve some of the world’s most pressing challenges. It works across USAID and within the broader international development community to test innovative tools and methods. When a new approach proves effective, the Lab works to increase its adoption throughout USAID and with our partners.