GiveWell's notes from conversation with Willy Foote of Root Capital, September 16, 2011

- One arm of Root Capital is its Sustainable Trade Fund (STF) - the core lending work supporting farmer enterprises with specialty export crops that it started with, which it intends to become self-supporting within five years. That doesn't mean it will transition to maximizing return – where tradeoffs exist, the STF will retain a willingness to trade return for social impact.
- The other arm is the Frontier Portfolios, which aim to pilot ideas for new areas, such as working in post-conflict markets and investing in products targeting food security & nutrition (example: processing micronutrient-rich flour). The ultimate aim would be to eventually develop another self-sustaining model & fund.
- The Strategy, Knowledge, and Innovation (SKI) team keeps track of what has been tried for the Frontier Portfolios and what has been learned. (The rest of these notes concern the Sustainable Trade Fund.)
- Root Capital is interested in setting the pace on social and environmental metrics for other players in its space.
    - Social metrics include year-over-year growth in revenue of client businesses and in payouts to farmers. There are also possible metrics around businesses' impact on their communities. In addition, each loan is rated on sixteen different types of impact in the organization's Social Scorecard, which sits alongside the Credit Scorecard in the loan application.
    - Environmental metrics are still a work in progress. Root Capital does have an environmental scorecard designed around coffee that may be adapted to other crops.
    - The majority of Root Capital's clients are Fair Trade- and / or organic-certified, and Root Capital takes these certifications into consideration in its evaluation of clients' social and environmental impact
- On the types of businesses Root Capital works with:
    - Most are agricultural though there are a few in the forestry, handicraft and apparel sectors.
    - Roughly 80% are cooperatives and associations, where the bulk of management is drawn from membership itself or local areas. These can range from ~50 to ~10,000 members.
    - Currently, sub-Saharan Africa comprises about 20% of the portfolio, but it is targeted to be closer to 45% within 5 years.
    - Many of these businesses are investing in the community - health clinics, potable water, education, etc. - not just creating jobs.
- The livelihoods that farmers obtain by working with Root Capital's client businesses are better than they could get otherwise, both because of the *level* of income and equally important, the *stability* of income.
- Root Capital doesn't want to undercut local sources of capital; it benchmarks against bank lending rates. About 20-25% of client businesses have incrementally graduated to other sources of financing. Root Capital tracks this for each of its client businesses.

- Root Capital also tracks turnover. This year it will do about 250 transactions with about 220 businesses and about 75% of those businesses will be repeat customers. The attrition rate tends to be about 10%.
- Regarding how Root Capital would use additional funds:
    - There are multiple needs, so it depends somewhat on the funder's priorities.
    - The most catalytic use of funds would be to raise first-loss capital that allows Root Capital to leverage its debt. It's looking to raise its debt to equity ratio from about 5:1 presently, trending to 7:1 over the next 5 years, and it needs a loan loss reserve of 10% against its portfolio outstanding, which means raising another $11-12 million over the next few years. Add about $3 million in expected operating deficits over the next five years, and Root Capital needs about $15 million over the next five years to get to the point where its Sustainable Trade Fund is self-sustaining.
    - Another possibility is to fund more work on thought leadership, impact assessment, developing metrics, etc.
    - Finally, Root Capital is also raising philanthropic funds (and very low-interest debt) for its Frontier Fund.