

# Performance Report

## Q1 2019



Norma Argueta, warehouse manager for Root Capital client COMSA in Honduras. Each year, Q1 marks the height of the coffee harvest for our client businesses in Central America.  
Photo: © Sean Hawkey



# OVERVIEW

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As we enter our 20th year of lending to high-impact businesses around the world, we'd like to express our sincere gratitude to our donors, investors, staff, and client businesses. Since 1999, we've brought critical finance and training to almost 700 enterprises in Latin America, Africa, and Southeast Asia, unlocking higher incomes and better opportunities for 1.3 million farming families. In rural communities around the world, these businesses build livelihoods, create jobs, empower women and young people, sustain peace, and preserve vulnerable ecosystems. None of that transformative impact would be possible without you.

The communities where we work stand on the frontlines of some of the world's most urgent challenges. With coffee prices hovering at a ten-year low, thousands of coffee farmers search for opportunities elsewhere—many of them young people who might otherwise have worked in agriculture for decades to come. At the same time, climate change makes it hard for farmers to predict where crops will survive, threatening the long-term viability of the industries we support.

Root Capital's client businesses are perfectly positioned to confront these crises. They help farmers boost yields and plant new crops that will thrive in unpredictable climates. They create opportunities for young people to pursue careers in agriculture. These businesses are engines of impact that transform rural communities. And whether it's with basic financial training for a small cooperative or a loan that helps an established business pay thousands of farmers fairly, Root Capital is prepared to help these businesses succeed.

## **Impact**

Through the first quarter of 2019, Root Capital reached 157 businesses working with 528,500 smallholder farmers. Forty-eight percent of these businesses are gender-inclusive, meaning that they actively create jobs and opportunities for women farmers, artisans, employees, and leaders. The businesses Root Capital reached in Q1 generated over \$1B in revenue, over 84% of which will be paid directly to producers. Through both on-site engagements and centralized workshops, Root Capital trained 196 enterprises on the strategic, financial, and operational improvements essential for business success, including financial management and accounting, business governance, and mobile technology.

The uniquely tailored credit and advisory services we provide improve our clients' business operations and allow them to create opportunities for farming families. We were particularly encouraged to see that 66% of our active loans—and 74% of loans closed in Q1—were highly or moderately additional, meaning that Root Capital filled credit needs unmet by any other social or commercial lender, respectively.

## **Portfolio Performance**

In Q1 2019, our average outstanding portfolio balance was \$52.0M, a 17% decline from this time last year (\$63.3M) but an 11% increase from Q4 2018 (\$47.1M). Loans to coffee businesses continued to represent more than half of our average portfolio balance at \$35.2M (67%), followed by loans to cocoa businesses at \$4.8M (9%) and loans to processed nuts businesses at \$2.6M (5%).

As we enter our 20th year of lending, we continue to strengthen our lending platform through more prudent underwriting, lower single-borrower exposure limits, and a focus on priority value chains like coffee, cocoa, and macadamia nuts. We're already seeing this strategy bear fruit. In the first quarter, disbursements totaled \$34.2M, 27% higher than in Q1 2018 (\$26.9M). This was largely driven by our strong lending performance in Central America, where the coffee harvest typically peaks in Q1 and drives our portfolio performance early in the year. Compared to Q1 2018, we saw growth in Guatemala and Honduras, where we've historically seen a high degree of competition from commercial and social lenders. We also added two clients to our portfolio in Costa Rica in Q1, expanding our disbursements there to nearly triple that of any year since 2013. As ongoing instability in Nicaragua, continued low coffee prices, and climate change drive farmer migration and exacerbate labor shortages in Central America's Northern Triangle, our high-additionality disbursements remain critical for the businesses at the front lines of these challenges.

## **Portfolio Quality**

At the end of the first quarter, our Portfolio-at-Risk (PAR) greater than 90 days decreased to \$4.0M (7.4%) from \$6.0M (12.7%) last quarter. This improvement was primarily driven by the write-offs of \$1.7M of loans in Q1—including a \$800,000 legacy loan to a fresh fruits and vegetables business, which represents a value chain that Root Capital no longer prioritizes. Over the same period, we collected \$314,000 in recoveries and had a trailing 12-month net write-off ratio of 7.5%.

## **Advisory Services**

This quarter, our team delivered a Training of Trainers workshop to better equip our advisory team in Latin America to train Root Capital's client businesses in key skills such as business intelligence, climate resilience, and gender-inclusive practices. By continuously investing in skill-building for our advisory team, we commit to providing the highest quality of training possible for our client businesses. In Peru, we held two workshops for 11 of our mobile advisory clients. We're helping these businesses digitize data collection processes formerly done with pen and paper, which enables them to quickly access and accurately analyze information critical to their operations. At the workshops, these clients shared lessons with each other about how they have integrated this information within their existing databases to improve cooperative management.

Also in Q1, Root Capital expanded two key partnerships in Kenya. First, we broadened our longstanding engagement with Partners in Food Solutions (PFS), a nonprofit bringing best-in-class food science expertise to African agro-processors. While we have worked with PFS for a number of years in West Africa, in Q1 the organization began working with three of our macadamia clients in Kenya, bringing this partnership to East Africa for the first time. Meanwhile, our collaboration with Open Capital Group/Arcadia—in which recent management consulting graduates undertake three- to six-month placements with our lending clients—expanded to an additional business this quarter. These analysts have already improved internal controls, financial systems, and inventory management for select client businesses, and we're excited to see this program grow.

Finally, we held our first-ever Advisory workshop in Indonesia, which focused on helping coffee cooperatives navigate the evolving landscape of the country's tax requirements. The workshop was attended by representatives from nine coffee cooperatives. Of the attendees, 75 percent were women and 85 percent were under the age of 35.

## **Financial Results**

In Q1, Root Capital's contribution revenue included \$2.7M in unrestricted net assets. In 2019 and 2020, we are working to increase unrestricted net assets. This increased level of reserves will make Root Capital a more financially resilient organization and position us to meet the needs of our growing lending and advisory clients and the communities they serve.

At the end of Q1, Root Capital posted a \$2.2M surplus, comparing favorably to a \$1.1M deficit in the first quarter of 2018. While our lending portfolio generated \$0.3M less revenue than in Q1 2018, this was more-than-offset by a \$1.8M reduction in net provisioning expense as collections largely offset provisioning for at-risk loans. Root Capital's \$52.5M average outstanding lending portfolio was supported by \$13.3M in unrestricted net assets and \$7.5M in long-term subordinated debt, resulting in a debt-to-equity ratio of 2.9x. In addition, we have \$17.9M in grant funded net assets, a 2% increase over this time last year, comprised of \$5.3M of net assets with restrictions and \$12.6M of conditional grants that will be added to our net asset balance in future periods, as we meet specified conditions and milestones.

## **Conclusion**

The businesses we serve battle low prices, labor shortages, and the effects of a changing climate as they fight to improve their communities. But when they prevail, they help some of the world's most vulnerable people attain sustainable livelihoods. We're committed to giving these businesses the tools they need to confront these challenges, and we're determined to see them succeed. In 2019, we look forward to further collaboration with our donors, investors, and partners; together, we can build prosperity for farming families around the world.

# 2019 Dashboard

Results	
	<b>Impact</b>
157	Businesses Reached <sup>1</sup>
48%	Percent Gender Inclusive Businesses
529K	Farmers Supplying Businesses
40%	Percent Woman Farmers
14K	Employees Reached
42%	Percent Woman Employees
\$898M	Purchases from Farmers
\$1.1B	Total Sales for the Businesses
431K	Sustainable Hectares under Management
	<b>Lending Program</b>
\$34.2M	Loan Disbursements
\$52.5M	Average Outstanding Portfolio Balance <sup>2</sup>
\$371K	Average Outstanding Balance per Active Loan <sup>2</sup>
7.4%	Portfolio-at-Risk Over 90 Days <sup>2,3</sup>
7.5%	Net Write-off Ratio (Trailing 12 Months)
	<b>Advisory Services</b>
196	Businesses Served
834	Days of Training Delivered

<sup>1</sup> "Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period. See Terms and Acronyms.

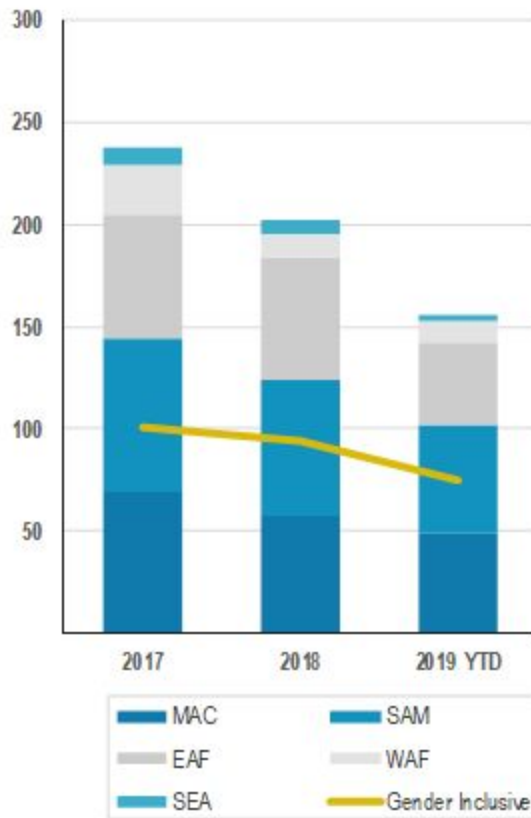
<sup>2</sup> Results are for the current quarter only.

<sup>3</sup> Figures represent performance on last day of quarter.

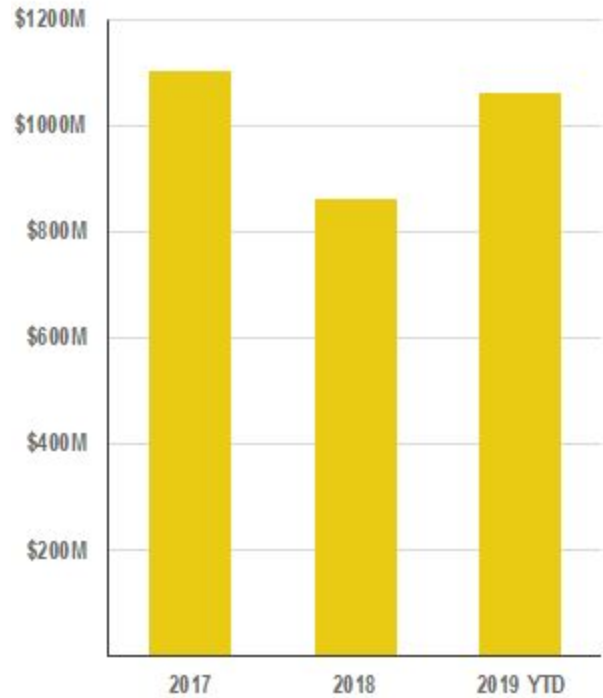
# PORTFOLIO PERFORMANCE

## Impact

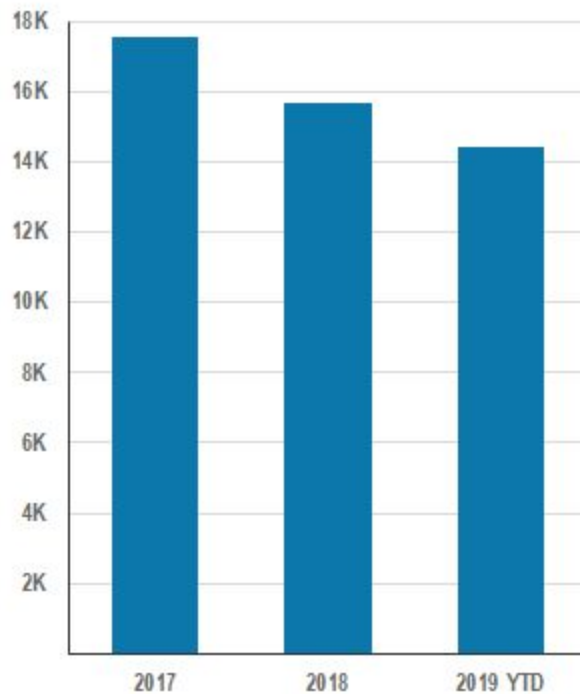
### Businesses Reached by Region



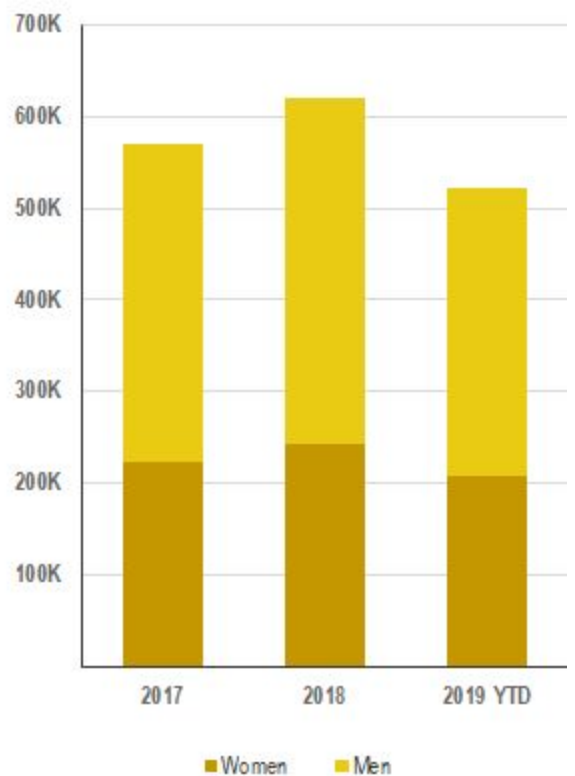
### Total Businesses' Sales



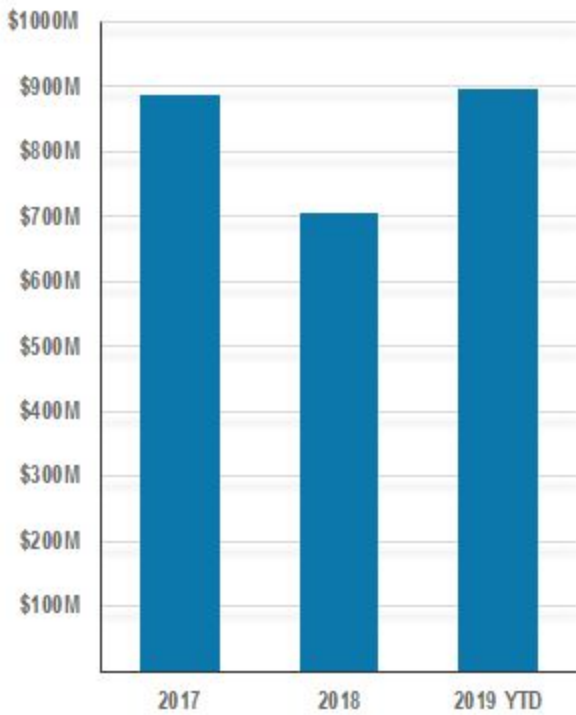
### Employees Reached



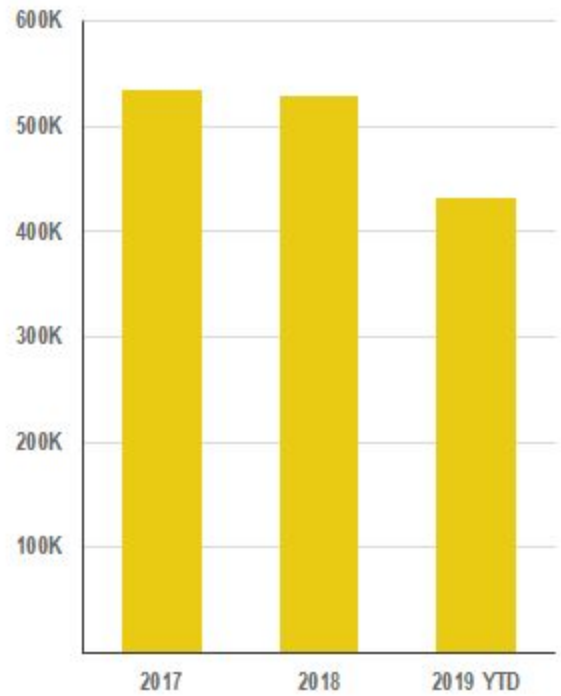
### Farmers Supplying Businesses



### Purchases from Farmers

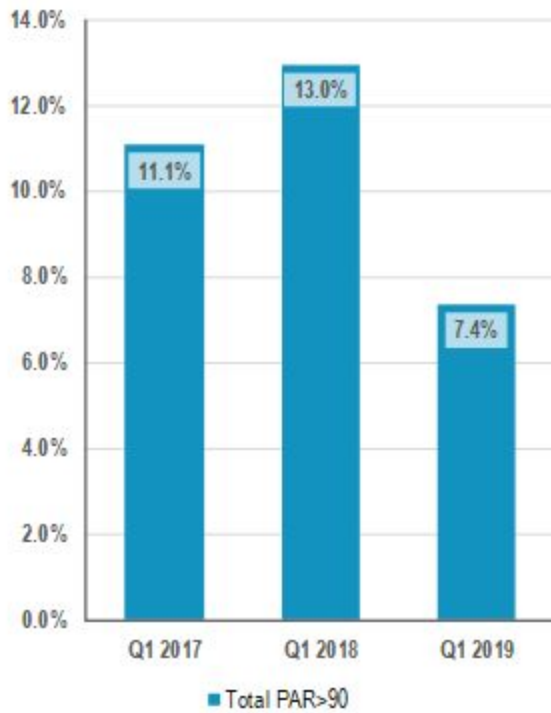


### Sustainable Hectares Under Management

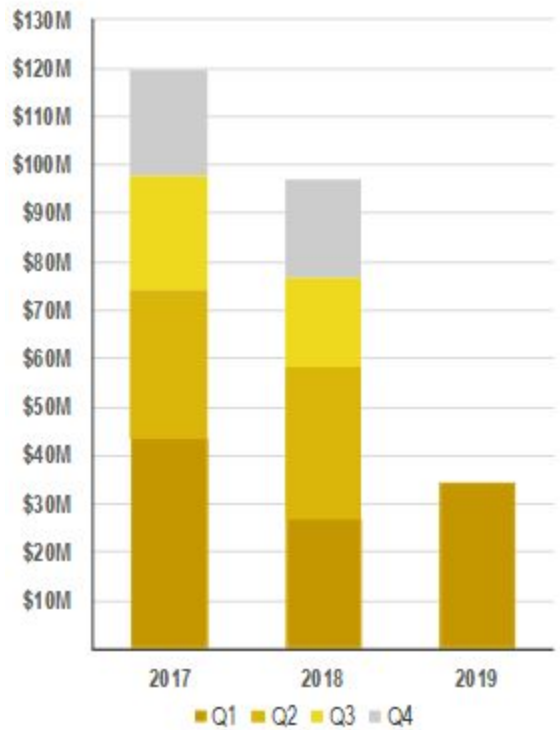


## Lending & Advisory Services

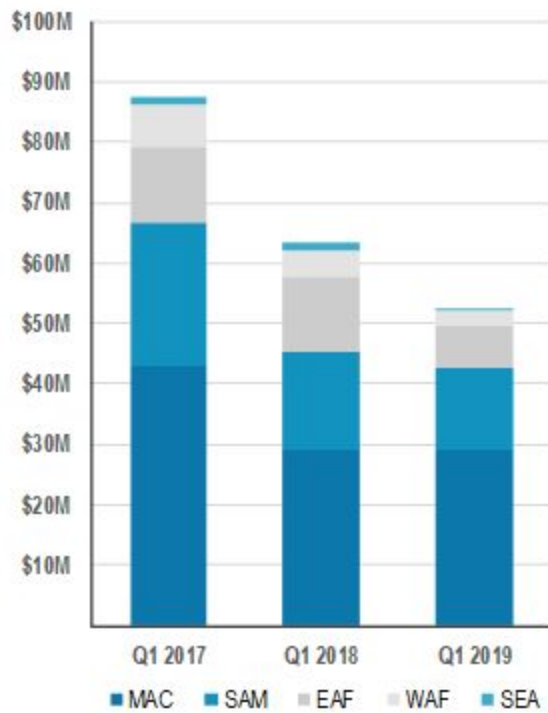
### Portfolio at Risk > 90 Days



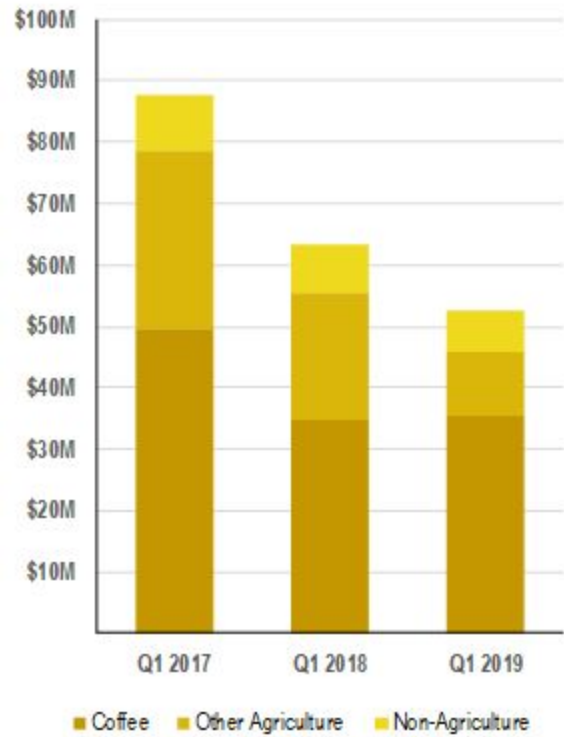
### Loan Disbursements



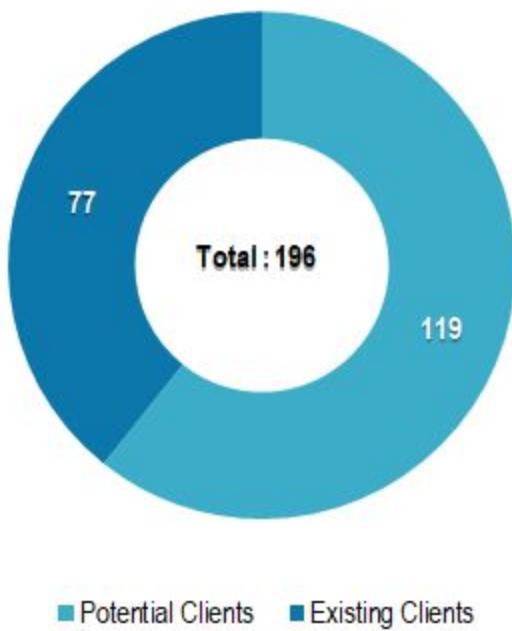
### Average Balance by Region



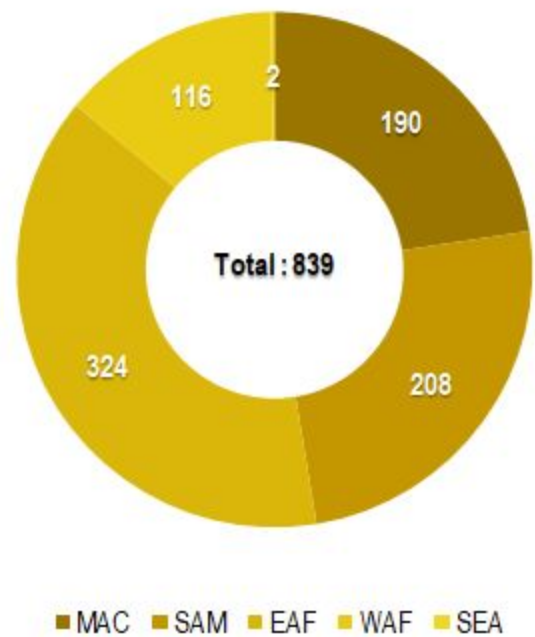
### Average Balance by Industry



### Businesses Served by Advisory (through Q1)



### Days of Training Delivered (through Q1)





## Balance Sheet & Statement of Activities

<b>Balance Sheet</b>		
<i>Thousands of USD</i>	Q1 2019	Q1 2018
Cash and Short-Term Investments	32.3	24.3
Loans Receivable	59.0	65.1
Allowance for Credit Losses	(8.9)	(10.3)
Loans Receivable, Net of Allowance	50.1	54.7
Other Assets	6.3	14.4
<b>Total Assets</b>	<b>88.8</b>	<b>93.4</b>
Senior Debt	60.6	63.1
Subordinated Debt	7.5	9.2
Other Liabilities	2.1	7.0
<b>Total Liabilities</b>	<b>70.2</b>	<b>79.3</b>
Unrestricted Net Assets	13.3	9.6
Net Assets with Restrictions	5.3	4.6
<b>Total Net Assets</b>	<b>18.6</b>	<b>14.2</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>88.8</b>	<b>93.4</b>
Debt-to-Equity Ratio*	2.9 x	3.4 x
Grant Net Assets**	17.9	17.5

\* Debt to equity includes long-term subordinated debt as equity, reflecting its equity-like characteristics.

\*\* Grant Net Assets include \$5.3M of net assets with restrictions, as well as \$12.6M of conditional grants held off of our balance sheet. As grant conditions are met in future periods, we will add the off-balance sheet conditional grants to the net assets with restrictions balance.

## Statement of Activities

<i>Millions of USD</i>	Q1 2019	Q1 2018
<b>Revenue</b>		
Grant Revenue	1.6	1.8
Contribution Revenue	3.1	1.1
Lending Revenue	1.3	1.6
Interest Income	0.1	0.0
<b>Total Revenue</b>	<b>6.2</b>	<b>4.6</b>
<b>Expenses</b>		
Operating Expenses	3.4	3.4
Provisioning Expense	0.1	1.9
Interest Expense	0.5	0.5
<b>Total Expenses</b>	<b>4.0</b>	<b>5.7</b>
<b>Surplus / (Deficit)</b>	<b>2.2</b>	<b>(1.1)</b>

### Disclosure

The financial data is deemed accurate, but is not audited. Annual audited financial statements can be found on [Root Capital's website](#). Additionally, past performance is not indicative of future results, and no assurances can be given that the Notes will be repaid.

For additional information, please go to [www.rootcapital.org](http://www.rootcapital.org) or email [info@rootcapital.org](mailto:info@rootcapital.org).

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## Terms and Acronyms

**Businesses Reached:** We report “clients reached” to capture the number of businesses financed using our capital. Clients reached are those that had an outstanding loan balance at any point in the reporting period. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

**Contribution Revenue:** Revenue earned during the period without donor restrictions generally received from individuals or foundations.

**Debt-to-Equity:** The ratio of Senior Debt to the sum of Unrestricted Net Assets and Subordinated Debt. Our calculation treats subordinated debt as equity, reflecting its equity-like characteristics.

**Gender-Inclusive Clients:** A gender-inclusive business is one where women make up at least 30% of enterprise farmer suppliers or employees, or the enterprise is woman-led and women make up at least 20% of enterprise farmer suppliers or employees.

**Grant Revenue:** Revenue earned during the period generally from foundations or governments under multi-year agreements.

**Interest Expense:** Interest expense incurred on debt.

**Interest Income:** Interest revenue generated on cash and investments.

**Lending Revenue:** Revenue generated from our lending activities, comprised of fees and interest earned on our lending portfolio.

**Net Write-off Ratio:** A trailing 12-month figure representing the previous 12 months' write-offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

**Provisioning Expense:** Allowance for loan loss expense on our lending portfolio, net of recovered funds.

**Region Acronyms:** MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).



Root Capital and Coopelibertad staff on a recent visit to the cooperative's headquarters.

## Client Profile

### COOPELIBERTAD

Location: Heredia, Costa Rica

In the early 1960s, most coffee in Costa Rica was produced on large plantations that provided few opportunities for small farmers to succeed. Seeking better incomes, 266 farmers banded together to start a cooperative where they could have a greater say in their economic futures. In their first meeting, a founding member of the cooperative stated, “In the union of their efforts, we coffee farmers see an opportunity to be free to manage our small businesses how we want.” They named their new business *Coopelibertad*: The Cooperative of Freedom.

Since then, this cooperative has grown exponentially. They’ve doubled in membership to 454 producer-members, and source coffee from an additional 1,645 coffee farmers, guaranteeing stable incomes for more than 2,000 people altogether. They’ve also obtained Fair Trade and Rainforest Alliance certifications, and last year were awarded a prize for efficient energy use from Costa Rican energy company CNFL. The cooperative is committed to the well-being of its producer-members: it provides them training that boosts their yields and sells them key farming inputs like organic fertilizer on credit, so they can pay for them after the harvest.

We are currently the cooperative’s primary financier, offering them a \$1.5 million line of credit used throughout Q1 to pay farmers in cash at the height of a busy harvest. More than fifty years after they were founded, Coopelibertad remains committed to economic freedom for farmers and Root Capital is determined to give the co-op the resources they need to succeed.