Performance Report
Q2 2019

Ever Elajio Castro is the newly elected president of Flor de Dalia, a Nicaraguan coffee cooperative. In addition to their loan, Flor de Dalia receives financial, agronomic, and data management training from Root Capital.
Photo: © Sean Hawkey

root capital

OVERVIEW

Since 1999, Root Capital has demonstrated that lending to previously-overlooked agricultural enterprises is not only viable—it changes lives. We've proven that small and growing agricultural enterprises can successfully manage credit and engage with markets. More than that, they can be engines of impact, transforming entire communities.

That impact has never been clearer. A recent analysis shows that farmers affiliated with enterprises supported by Root Capital earn, on average, 18% higher income than unaffiliated farmers in the same area. This is critical, because more than 2.5 billion people worldwide rely on small-scale farming for their livelihoods—most of them operating on razor-thin margins. These farming communities stand on the frontlines of some of the world's most pressing challenges, from migration to climate change. By providing much-needed credit and capacity building to agricultural enterprises—particularly those that are unable to access it anywhere else—we are building the prosperity and resilience of these communities.

Impact

Through the second quarter of 2019, Root Capital's lending program reached 178 businesses working with 570,000 smallholder farmers—more than 222,000 (39%) of whom were women. From Q1 to Q2, the percentage of our clients that are gender-inclusive remained steady at 48%, an important indicator of success in a sector where opportunities for women are still limited. The businesses reached by Root Capital in Q2 2019 generated more than $1.1B in revenue, with 84% paid out directly to farmers. In addition, through our tailored advisory services, Root Capital trained 166 enterprises to improve their financial management, governance, and technical assistance capacities.

In Q2, we redoubled our focus on businesses with the least access to credit from other commercial and/or social lenders. Ninety percent of loans closed were medium or high additionality, compared to 82% in the same period of 2018. For these businesses, we are one of the few—in some cases the only—lender willing and able to provide critical financing.

Portfolio Performance

In Q2 2019, our average outstanding portfolio balance was $51.7M, a 9% decline from this time last year ($56.4M) but consistent with the first quarter of 2019 ($52.5M). Loans to the coffee, cocoa, and nuts sectors represented 83% of our average balance ($42.9M), compared to 73% in Q2 2018 ($41.3M). Coffee, in particular, composes two-thirds of our average portfolio balance ($34.4M), followed by cocoa enterprises at 10% ($5M), and tree nuts at 7% ($3.5M), indicative of our continued focus on these core value chains.

While our year-to-date global portfolio balance remains smaller compared to 2018, we continue to see positive impacts from our refocused lending strategy. In Q2 2019, disbursements totaled $35.7M, which is 13% higher than disbursements during the same period in 2018 ($31.5M). In fact, it represents our largest disbursement amount per quarter since Q1 2017. We have reached more new clients so far this year compared to 2018, and improved our capacity to more efficiently renew loans for existing clients.

In Central and South America, coffee disbursements of $21.6M continued to drive portfolio performance. While many lenders have pulled back from Nicaragua due to persistent political instability, we have maintained our presence, disbursing more than $1.2M this quarter. As evidenced in the client profile at the end of this report, in West Africa we continue to increase our impact in the cocoa industry, growing our average balance to cocoa enterprises in the region more than 5x from $399,000 in Q2 2018 to $2.3M in Q2 2019. Growth was also significant in the Democratic Republic of Congo, where the balance nearly doubled in the second quarter year-over-year from $1.2M to $2.3M. Amid continuing instability—including the recent declaration of a global health emergency due to Ebola—that lending contributes to the resilience of local communities.

Despite this growth in the DRC, balances overall in East Africa declined by $3.1M from Q2 2018. As discussed in the previous report, we wrote off two large loans in Q1 2019. Additionally, as part of our continued efforts to manage portfolio risk while continuing to serve the needs of our clients, we elected to share exposure on one of our larger clients with another social lender, helping maintain a diversified lending portfolio in the region.

Portfolio Quality

At the end of the second quarter, our Portfolio-at-Risk (PAR) greater than 90 days increased to $6.2M (11.7%) from $4M (7.4%) last quarter—and compared to $4.4M (7.7%) at the end of Q2 2018. The PAR increase was driven primarily by the downgrade of two legacy loans totaling $4.5M in Mexico, each in a niche value chain that Root Capital no longer prioritizes. During the second quarter, we wrote down $700,000 of principal and collected $300,000 in recoveries, leading to a trailing 12-month net write-off ratio of 4.7% as of the end of Q2.

Advisory Services

As part of our continuing efforts to build farmer and business resilience to climate change, we conducted climate vulnerability diagnostics with three coffee clients in Colombia. We also developed our first workshop exploring the nexus of climate change and gender equity, which we piloted with a client in Honduras. Drawing on the success of our Gender Equity Grants, these workshops will help businesses design context-appropriate investments to help their women members adapt to climate change. This is critical, as women's limited access to resources, inputs, and information makes them especially vulnerable to environmental shocks.

This quarter, our Advisory Services team also implemented our first-ever Training of Trainers (ToT) in West Africa and a refresher ToT in East Africa. These trainings are part of our commitment to delivering top quality services globally. In each region, we bring together our local advisors to enhance their knowledge of our advisory methodologies and tools. Armed with these skills, our advisors in West Africa spent the quarter providing leadership training to eight enterprises in Senegal and Cote d'Ivoire, as well as implementing the second session of a farmer-level financial literacy training. In East Africa, they held a workshop for 37 Kenyan businesses that aggregate sorghum, a critical crop for climate resilience. As we get to know these enterprises better, we will assess their need for deeper advisory services and/or their ability to qualify for lending.

Overall, during the second quarter of 2019, our Advisory Services team provided 799 days of on-site training and 77 days of workshop-based training to 166 businesses around the world. With these vital services, our clients are learning how to make strategic, financial, and operational improvements to facilitate the long-term health and growth of their businesses.

Financial Results

Root Capital's year to date $800,000 surplus compares favorably to a $1M deficit in 2018. While our smaller lending portfolio generated $500,000 less revenue than in 2018, this was offset by a $400,000 reduction in net provisioning expense. Root Capital's $60.2M outstanding lending portfolio was supported by $11.9M in unrestricted net assets and $7.5M in subordinated debt, resulting in an adjusted debt-to-equity ratio of 3.1x. In addition, we have $16.4M in grant-funded net assets to support future programmatic activity, comprised of $4.3M in net assets with restrictions and $12.1M in conditional grants that will be added to our future net asset balance as we meet specified conditions and milestones.

Year to date, Root Capital's grant and contribution revenue increased to $8.1M compared to $6.3M through Q2 2018. This includes the $2.7M in unrestricted contribution revenue raised earlier in 2019 as part of our net assets campaign. We also renewed our partnership with Cartier Philanthropy through a three-year, $1.5M grant focused on building resilience and strengthening livelihoods in rural communities across Peru.

Conclusion

Root Capital's vision is a future where a thriving agricultural sector enables smallholder farmers and rural communities around the world to become more prosperous, inclusive, and resilient. The path to that future goes through agricultural enterprises—with credit and capacity building, these enterprises can become engines of transformative change, generating shared benefits for entire communities. We thank all of our donors, investors, and partners for enabling that transformation and for helping us build prosperity for farming families around the world.

2019 Dashboard

Results	
	Impact
178	Businesses Reached [1]
48%	Percent Gender Inclusive Businesses
570K	Farmers Supplying Businesses
39%	Percent Woman Farmers
15K	Employees Reached
43%	Percent Woman Employees
$944M	Purchases from Farmers
$1.1B	Total Sales for the Businesses
477K	Sustainable Hectares under Management
	Lending Program
$35.7M	Loan Disbursements
$51.7M	Average Outstanding Portfolio Balance [2]
$352K	Average Outstanding Balance per Active Loan [2]
11.7%	Portfolio-at-Risk Over 90 Days [2,3]
4.7%	Net Write-off Ratio (Trailing 12 Months)
	Advisory Services
166	Businesses Served
876	Days of Training Delivered

[1] *"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.*

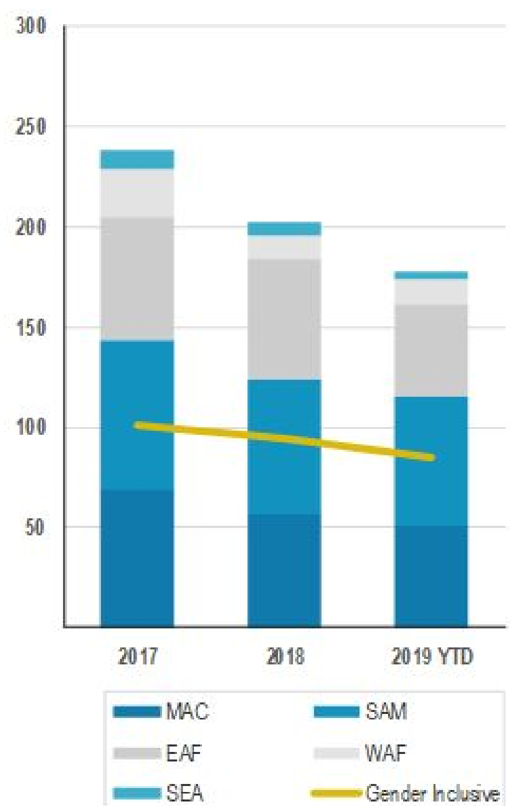
[2] *Results are for the current quarter only.*

[3] *Figures represent performance as of the last day of the quarter.*

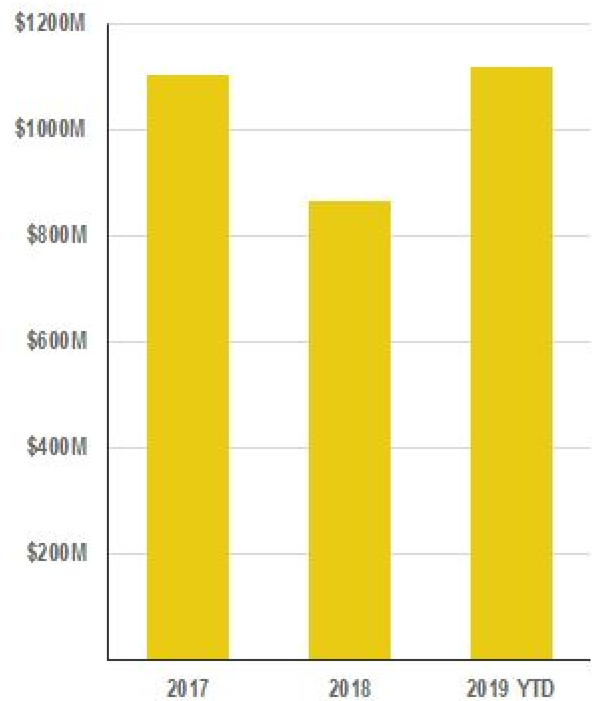
PORTFOLIO PERFORMANCE

Impact

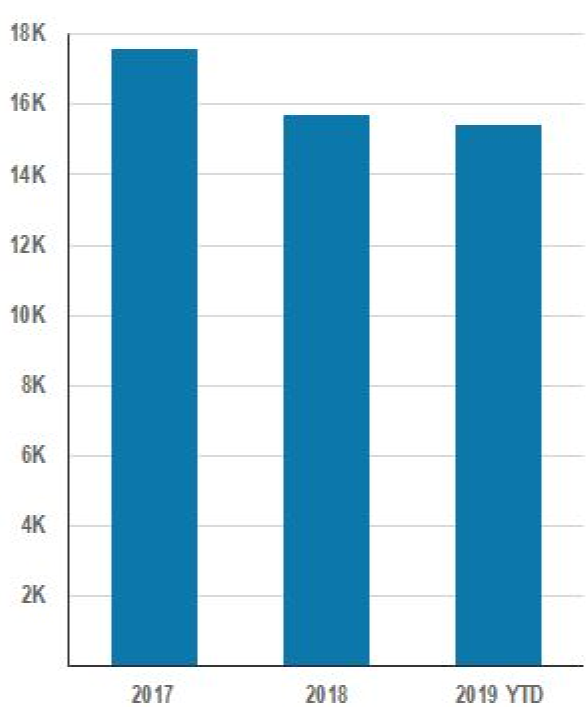
Businesses Reached by Region



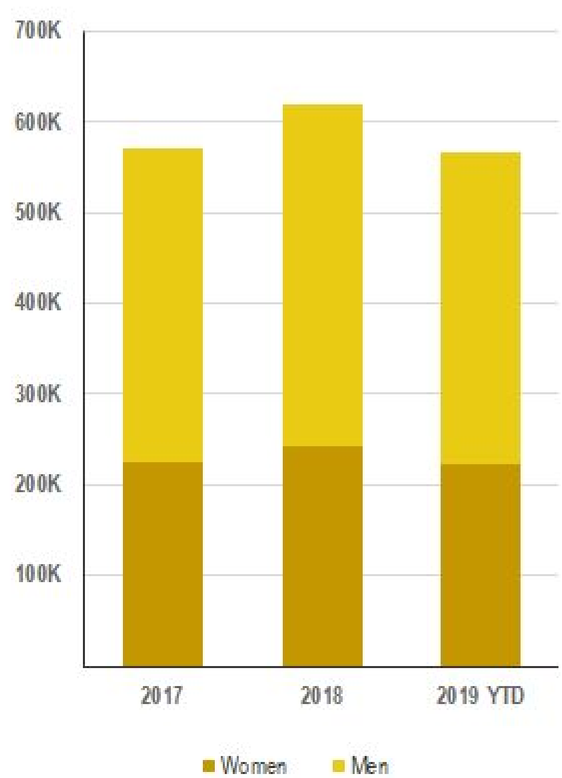
Total Businesses' Sales

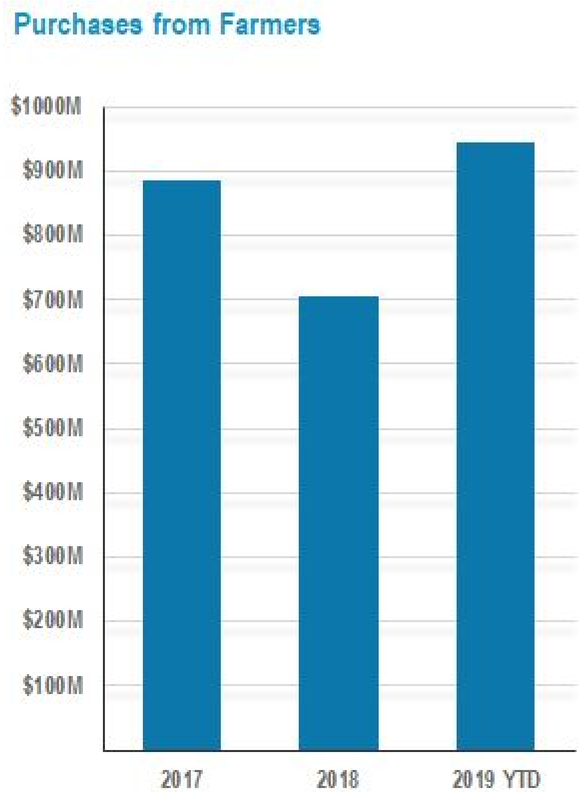


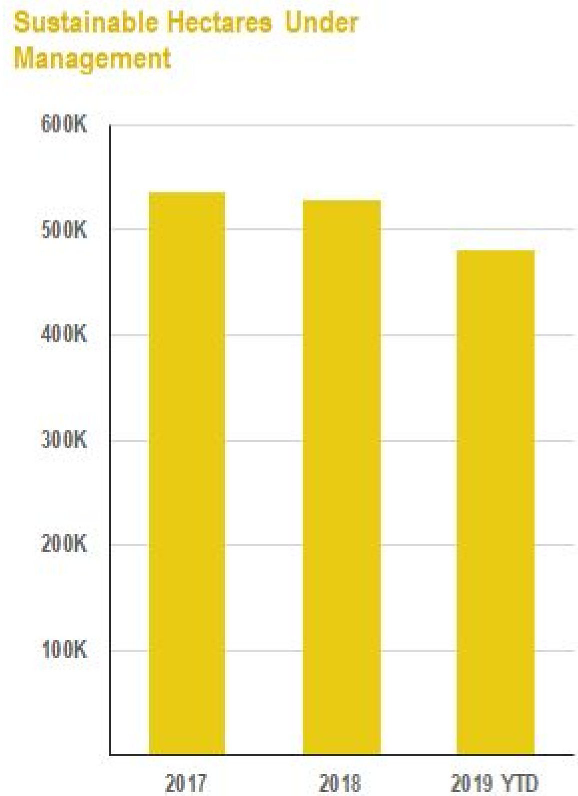
Employees Reached



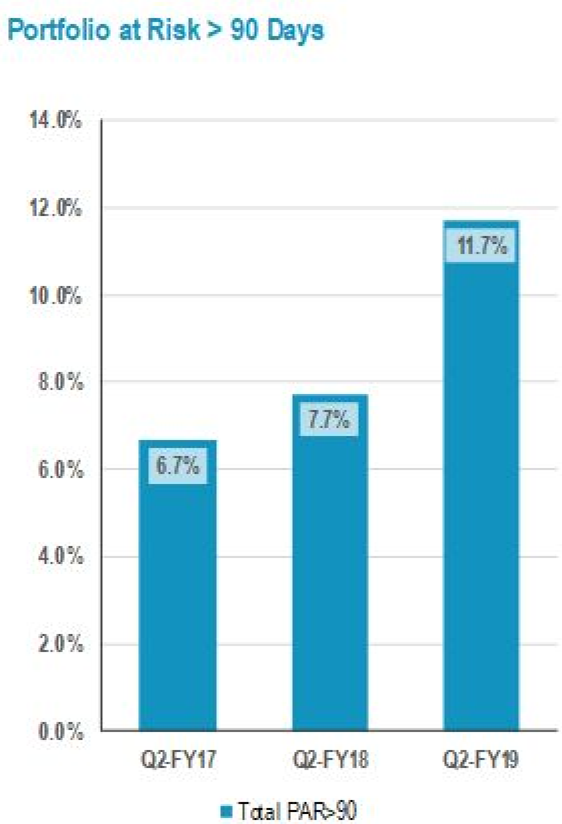
Farmers Supplying Businesses

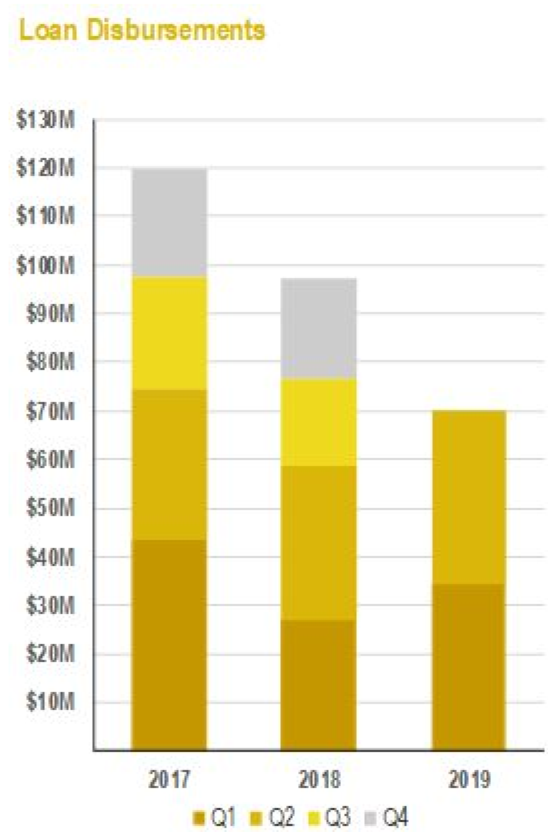




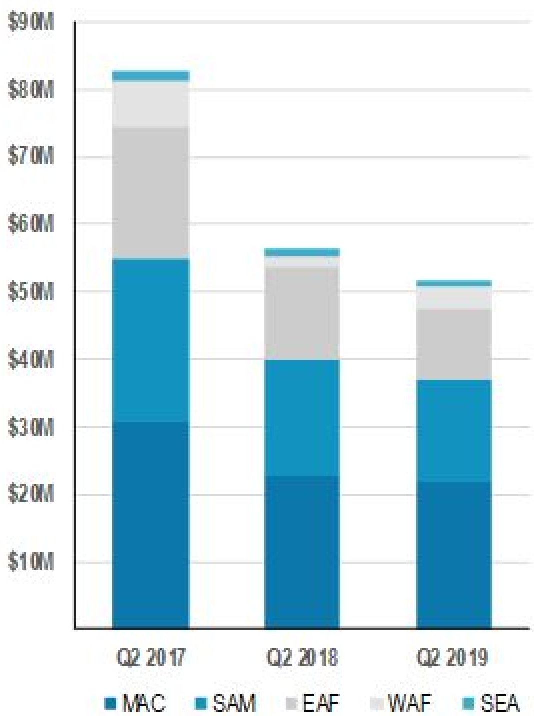


Lending & Advisory Services

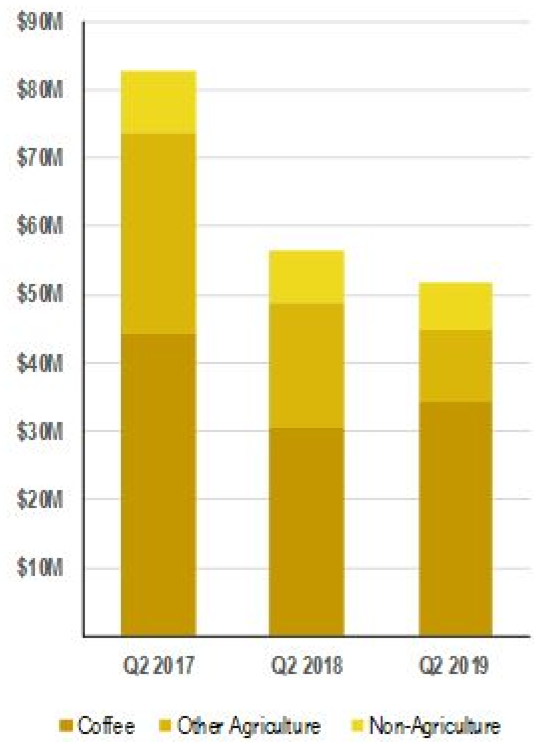




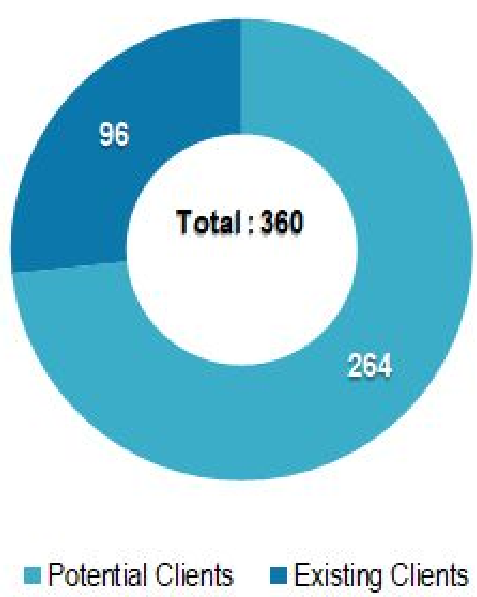
Average Balance by Region



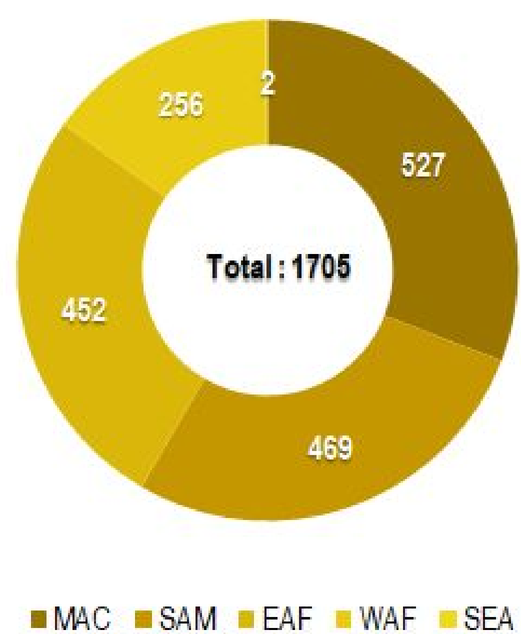
Average Balance by Industry



Businesses Served by Advisory (through Q2)



Days of Training Delivered (through Q2)



Balance Sheet & Statement of Activities

Balance Sheet		
	As of June 30th	
Millions of USD	2019	2018
Cash and Short-Term Investments	29.0	26.8
Loans Receivable	60.2	62.3
Allowance for Credit Losses	(10.1)	(8.9)
Loans Receivable, Net of Allowance	50.2	53.3
Other Assets	7.5	15.5
Total Assets	**86.7**	**95.6**
Senior Debt	59.6	64.9
Subordinated Debt	7.5	8.5
Other Liabilities	3.4	8.3
Total Liabilities	**70.5**	**81.7**
Unrestricted Net Assets	11.9	9.5
Net Assets with Restrictions	4.3	4.4
Total Net Assets	**16.2**	**14.0**
Total Liabilities & Net Assets	**86.7**	**95.6**
Debt-to-Equity Ratio*	3.1 x	3.6 x
Grant Net Assets**	16.4	16.8

** The debt to equity ratio presented here is adjusted to include subordinated debt as equity, reflecting its equity-like characteristics.*

*** Grant Net Assets include $4.3M of net assets with restrictions, as well as $12.1M 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	Year-to-date as of June 30th	
Millions of USD	2019	2018
Revenue		
Grant Revenue	4.4	3.7
Contribution Revenue	3.7	2.6
Lending Revenue	2.8	3.3
Interest Income	.2	.1
Total Revenue	**11.1**	**9.6**
Expenses		
Operating Expenses	7.4	7.3
Provisioning Expense	2.1	2.5
Interest Expense	.8	.9
Total Expenses	**10.4**	**10.7**
Surplus / (Deficit)	.8	(1.0)

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 or email info@rootcapital.org.

Terms and Acronyms

Additionality: A loan's additionality is defined as: 1) low, if the enterprise could obtain a similar loan on similar terms from a *commercial* lender; 2) medium, if the enterprise could obtain a similar loan on similar terms from a *social or government* lender; or 3) high, if the enterprise could not obtain a similar loan on similar terms from *any* other source.

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).

Two of the nearly 50,000 women farmers who sell their harvest to Kuapa Kokoo. *(Photo: Divine Chocolate)*

Client Profile

Kuapa Kokoo

Location: Kumasi, Ghana

Hundreds of thousands of farmers in Ghana depend on cocoa for their livelihoods—it's one of the country's largest exports. However, many of these farmers earn low incomes and struggle to access decent education or medical care. In such a large and vital industry, Kuapa Kokoo stands out. In 1993, a group of 2,000 cocoa farmers joined forces to found a business that could connect farmers with international markets. Since then, Kuapa Kokoo has grown to more than 100,000 cocoa growers, nearly half of whom are women.

Kuapa Kokoo's leaders are invested in the wellbeing of their farmers. From the beginning, the business has committed to fair labor practices—a commitment that earned them Fair Trade and UTZ certifications. The enterprise uses the premium prices earned from those certifications to invest in projects that benefit their entire region, including income diversification programs, medical services, and mobile agronomic advisory.

Since 2013, Root Capital has extended a cumulative $4.5 million in financing to Kuapa Kokoo. We've also supported the business with training to build their team's capacity to manage large and complex loans. As Kuapa Kokoo has expanded its services to meet the evolving needs of its farmer-members, Root Capital's support has helped the enterprise implement those services effectively while still paying farmers fairly and on time.