

# Performance Report

## Q3 2023



**Above:** Kopakama Cooperative members sort coffee beans in their warehouse located in the western province of Rwanda. The cooperative has been a Root Capital client since 2021.





## About Root Capital

Root Capital is a nonprofit whose mission is to grow rural prosperity and build the resilience of farming families around the world. We support the growth of agricultural enterprises with access to credit and training so they can transform rural communities.

# Overview

This quarter, Root Capital provided much-needed access to finance and technical training for small and growing agricultural businesses amid a challenging environment. As global headwinds, including inflation, volatile coffee prices, and sluggish demand, persist, Root Capital has continued to grow our reach and remains well situated to meet the evolving needs of clients across Africa, Latin America, and Southeast Asia.

## Impact

In Q3, Root Capital continued to invest in early-stage businesses. These businesses face greater obstacles accessing credit than their larger peers and often require smaller loans, but with the right support they can become engines of impact for rural communities. Root Capital remains a steadfast yet flexible partner to our small, growing agricultural business clients.

Across our portfolio, 91% of our active loans this quarter filled gaps unmet by commercial lenders. Our loans not only help small, growing agricultural enterprises strengthen and scale their operations, but when coupled with advisory services they also advance gender equity and environmental sustainability. Of the 199 businesses we reached through the end of Q3 2023, 54% were climate action leaders and 62% were gender-inclusive businesses, with 32% of our clients meeting both criteria.

We expanded the reach of our lending and advisory programs this quarter. Our advisory services in particular have grown significantly in the past year to serve more clients; we reached 35% more advisory clients and 5% more lending clients through Q3 2023 than at this time

last year. In fact, we reached more clients in Mexico, Central America, and Africa than we did in fiscal years 2021 or 2022.

We provided innovative climate finance solutions to help our clients invest in climate change mitigation and adaptation projects like converting processing plants to solar energy and funding soil regeneration. Our climate action loans are typically smaller than our working capital loans, and they are highly additional to our clients, providing financing where commercial banks will not, helping build climate resilience, and promoting long-term sustainability.

## Portfolio Performance

This year, our clients have faced many challenges, including high inflation, decreased buyer demand, and a reduction in the global price of coffee. As a result, demand for our financing is lower compared to last year. However, Root Capital continues to work with our existing clients to provide the lending capital needed to weather these challenges and help build resilience in the communities they serve. Despite loan disbursements decreasing nearly



35% year-over-year, we have helped many businesses who may not have access to the market. Year to date, we have also disbursed eight climate action loans, totaling \$1.2M, as part of our efforts to scale up climate finance for our agricultural business clients.

Challenges persist in the global coffee market as the price of coffee continues to decline and buyer demand remains sluggish. Brazil, the largest coffee exporter in the world, had a strong harvest this year, which increased supply in the global market and further dampened prices. Coffee buyers remained reluctant to purchase coffee, limiting opportunities for our clients in South America to export their harvest to global markets. Lending clients in Peru have been particularly impacted, resulting in a 60% year-over-year decrease in disbursements. On a positive note, Robusta coffee clients in Uganda benefited from increased demand for this lower-cost alternative to Arabica. Accordingly, our disbursements in Uganda totaled \$13.2M year to date, 45% higher than last year.

Demand in other industries has continued to be slow this quarter, resulting in lower year-over-year disbursements. We disbursed \$2.3M in Q3 2023 to non-coffee clients, compared to \$3M in Q3 2022. This year-over-year decline was primarily driven by reduced activity in the macadamia industry as producers in Kenya struggled with lower prices. The price decline was driven by increased production from Australia and China, which has ballooned global supply, as well as lingering softness in demand. The global cocoa market, on the other hand, remained strong, benefitting our cocoa clients, particularly those in the DRC who work in both coffee and cocoa. Diversified income streams bolster these clients' resilience in the face of the recent coffee market volatility.

## Portfolio Quality

As we navigate tumultuous, risky market conditions, Root Capital is well situated from a portfolio health perspective. Our portfolio quality remains strong at the end of the third quarter, with a Portfolio-at-Risk greater than 90 days (PAR>90) ratio of 3.9%, improving year-over-year from 5.1% in Q3 2022.

Year-to-date we have written off \$4.5 million of past due loans, the vast majority of which were supported by guarantees, which offset \$3.5M of losses. Our guarantees are portfolio risk mitigants that allow Root Capital to work with early-stage lending clients in high-risk markets. We also recovered \$1 million of previously written-off loans through our continued collections efforts. As recoveries and guarantees continued to outpace write-offs, our 12-month net write-off ratio was negative 0.2%.

## Advisory Services

With an ever-changing landscape of climate impacts and fluctuating agricultural product prices, Root Capital's suite of advisory services helps our clients successfully navigate high volatility. Our Digital Business Intelligence advisory service supports our clients in harnessing data for decision-making purposes. This practice improves clients' bankability, bolsters their climate resilience, and helps them better prepare for future climate, agronomic, and economic shocks.

In South America, in particular, where extreme coffee market volatility this quarter required agile mitigation strategies, our clients continued to put their data to use on a daily basis, whether it was to comply with international market standards and meet certification requirements or to negotiate contracts and understand their ability to fulfill them by tracking coffee inventory in real time.

Data collection, analysis, and management are essential skills for our clients. The Commercial Monitoring Dashboard, which clients develop with the support of our advisors, is a key resource that helps our clients make better and quicker data-driven decisions. The dashboard tracks key data for basic business management and is shared with our lending and risk teams, allowing for real-time monitoring and more agile strategy realignment.

Resilience grants are another important component of the advisory services that we offer to select clients to help them bolster their climate resilience. This quarter we disbursed six climate resilience grants in South

America to fund climate adaptation plans for four clients in Peru and two clients in Colombia. These grants provide catalytic funding so clients can initiate or scale up important climate adaptation investments, such as starting or expanding tree nurseries. Resilience grants also help clients prepare for eventual climate financing. They are a key tool that Root Capital uses to cultivate client potential and lending preparedness.

## Financial Results

Root Capital remains financially strong. Through Q3, we've increased our unrestricted net asset balance by \$1M to \$50.4M and we continue to operate with conservative levels of financial leverage. Our debt-to-equity ratio this quarter was 0.9x.

Our strong financial performance through the third quarter resulted from several offsetting factors. While our smaller lending portfolio generated nearly 30% less lending revenue than in the first three quarters of 2022, improvements in interest income, favorable provisioning, and solid grant revenue more than offset the decline in lending revenue. Our net provisioning expense continues to be favorable due to recoveries and our strong portfolio quality.

Though challenges persist in our core coffee and macadamia markets, Root Capital is well positioned to weather periods of risk and high volatility in service of our high-impact lending.

Root Capital continues to work with our existing clients to provide the lending capital needed to weather these challenges and help build resilience in the communities they serve.



## Client Highlight: Rebuild Women's Hope

### DRC

Founded by Marcelline Budza in 2013, Rebuild Women's Hope (RWH) is a women-led coffee cooperative dedicated to empowering women in agriculture. Located on the large remote island of Idjwi in Lake Kivu in the eastern DRC, RWH boasts more than 3,050 farmer members who grow coffee. RWH has played a critical role in the local community, expanding access to the local farmers' coffee by introducing new buyers and new markets for export, which in turn has improved farmer livelihoods.

RWH became a Root Capital lending client in 2019, with their first loan totaling \$150,000. Since then, we have increased our financial support, providing \$1.4 million in financing to RWH to date. During the most recent harvest in February 2023, we provided \$300,000 in seasonal working capital, coupled with advisory services in business management and agronomic training. Thanks to these on-site advisory workshops, RWH has streamlined their accounting, taxation, and financial processes, thereby improving overall operational efficiency. The cooperative also received a resilience grant from Root Capital in 2021, which they used to reconstruct a coffee washing station destroyed by rainwater in a strong storm.

RWH is deeply committed to the Idjwi community and strongly believes in increasing women's income so that they can improve their standard of living and become financially independent. With our support, RWH is creating a more inclusive environment for women working in coffee in the DRC.

# Impact Dashboard

IMPACT RESULTS THROUGH Q3		
2023	2022	
458	351	Total Businesses Reached
Advisory Program		
425	314	Businesses Served by Advisory
3913	2645	Days of Training Delivered
39%	38%	Percent Women Participants
50%	50%	Percent Participants Under the Age of 35
Lending Program		
199	189	Businesses Reached by Lending <sup>1</sup>
62%	58%	Percent Gender-Inclusive Businesses <sup>2</sup>
54%	56%	Percent Climate Action Leaders <sup>2</sup>
517K	551K	Producers Reached
35%	37%	Percent Women Farmers
24K	20K	Employees Reached
65%	55%	Percent Women Employees
\$718M	\$793M	Purchases From Farmers
\$859M	\$943M	Total Sales for the Businesses
421K	494K	Sustainable Hectares Under Management
\$90.8M	\$139.3M	Loan Disbursements
\$57.9M	\$74.6M	Disbursements to Gender-Inclusive Businesses <sup>2</sup>
\$51.9M	\$80.7M	Disbursements to Climate Action Leaders <sup>2</sup>

<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.

<sup>2</sup> A number of our client businesses are both Gender-Inclusive and Climate Action Leaders.

See Terms and Acronyms on page 10 for definitions.

# Balance Sheet & Statement of Activities

BALANCE SHEET		(as of September 30th)	
Millions of USD	2023	2022	
Cash & Short-Term Investments	68.8	54.2	
Loans Receivable	34.7	65.6	
Allowance for Credit Losses	(1.7)	(2.2)	
Loans Receivable, Net of Allowance	32.9	63.4	
Grants Receivable and Other Assets	19.2	18.4	
<b>Total Assets</b>	<b>120.9</b>	<b>135.9</b>	
Senior Debt	40.8	49.5	
Subordinated Debt	6.8	7.6	
Other Liabilities	3.4	6.9	
<b>Total Liabilities</b>	<b>51.0</b>	<b>63.9</b>	
Net Assets without Donor Restrictions	50.4	46.9	
Net Assets with Donor Restrictions	19.6	25.1	
<b>Total Net Assets</b>	<b>69.9</b>	<b>72.0</b>	
<b>Total Liabilities &amp; Net Assets</b>	<b>120.9</b>	<b>135.9</b>	
Debt-to-Equity Ratio	0.9	1.2x	
Grant Net Assets*	29.2	39.3	

\*Our grant net assets include off-balance-sheet conditional grants.

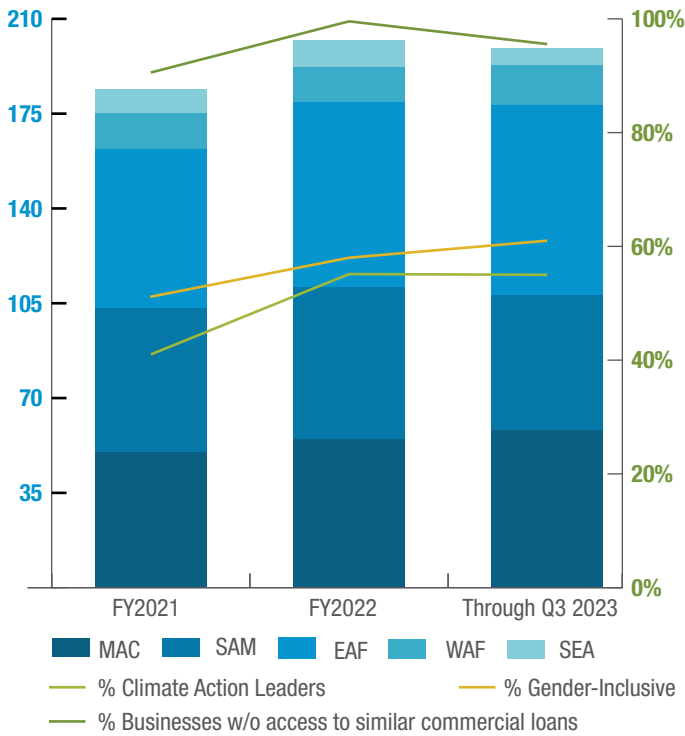
Reclassifications may have been made in the prior year to conform with the current year's presentation.

STATEMENT OF ACTIVITIES		(Year to date September 30th)	
Millions of USD	2023	2022	
<b>Revenue</b>			
Grant Revenue	15.0	12.0	
Contribution Revenue	0.5	25.2	
Lending Revenue	3.8	5.4	
Interest & Other Income	1.5	0.2	
<b>Total Revenue</b>	<b>20.8</b>	<b>42.8</b>	
<b>Expenses</b>			
Operating Expenses	19.2	13.9	
Provisioning Expense	(0.1)	(0.9)	
Interest Expense	0.6	0.7	
<b>Total Expenses</b>	<b>19.7</b>	<b>13.6</b>	
<b>Surplus</b>	<b>1.0</b>	<b>29.2</b>	

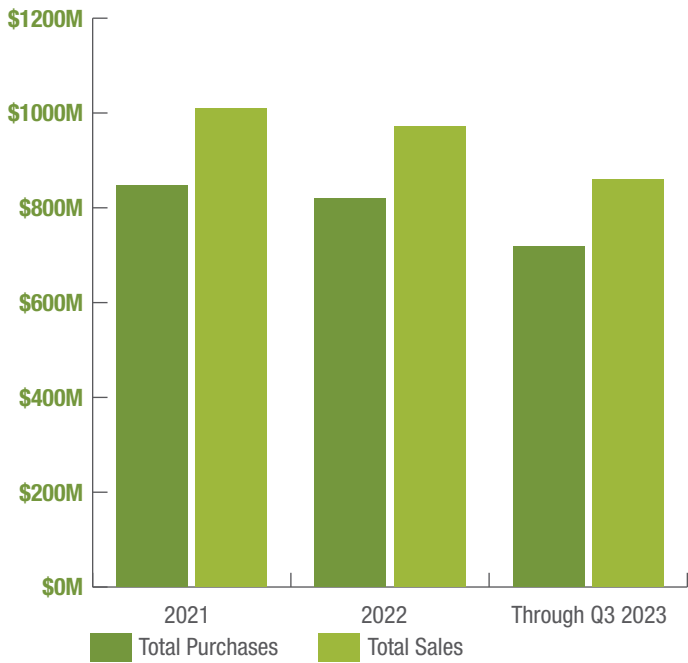
# Performance

## Lending Impact

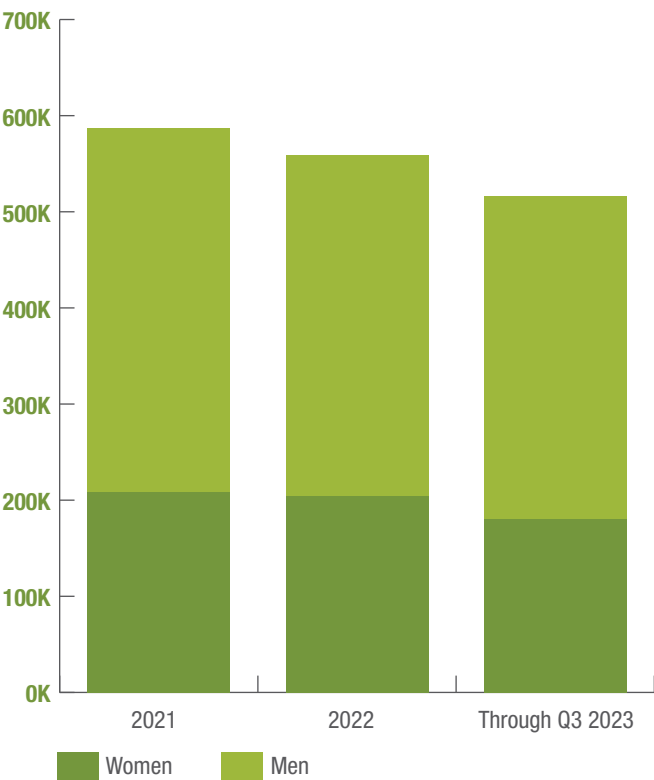
Businesses Reached (Lending Program)  
Through Q3 2023



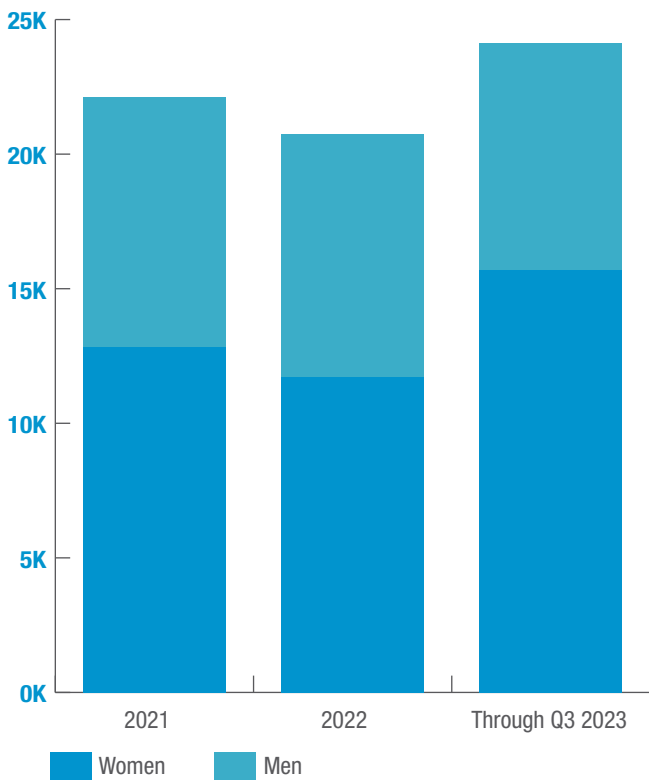
Purchases From Farmers & Client Businesses' Sales  
Through Q3 2023



Farmers Supplying Businesses Through Q3 2023

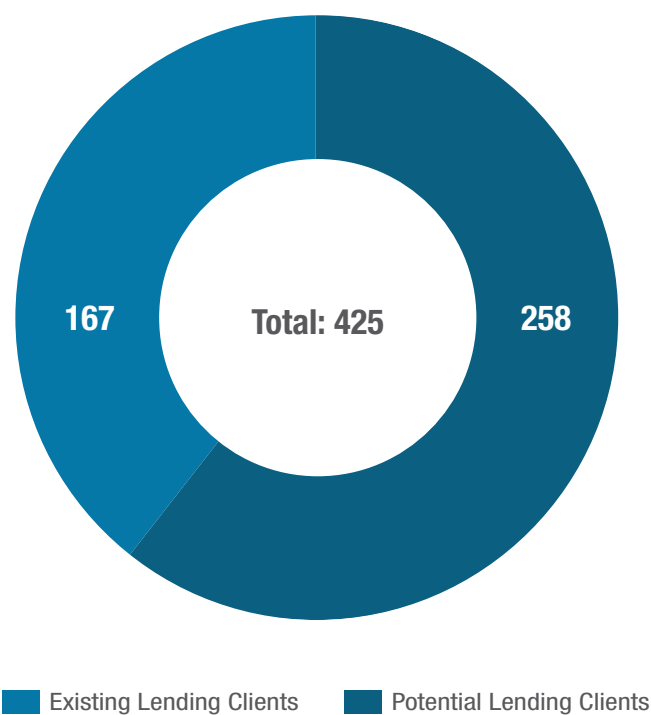


Employees Reached Through Q3 2023

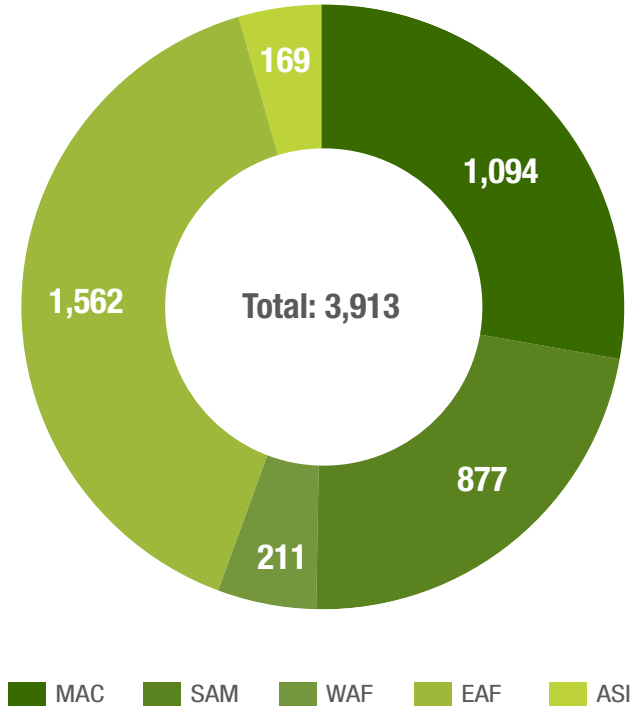


# Advisory Impact

Businesses Served by Advisory Through Q3 2023

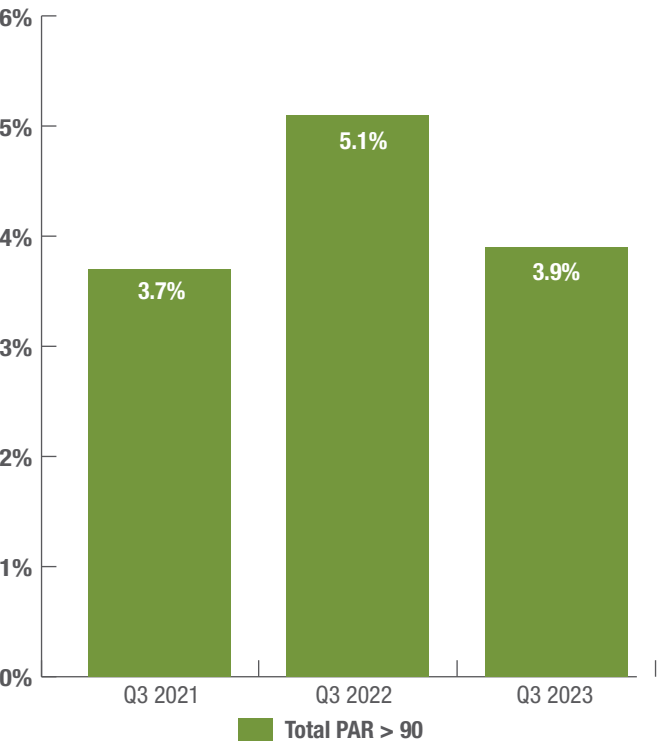


Days of Training Delivered Through Q3 2023

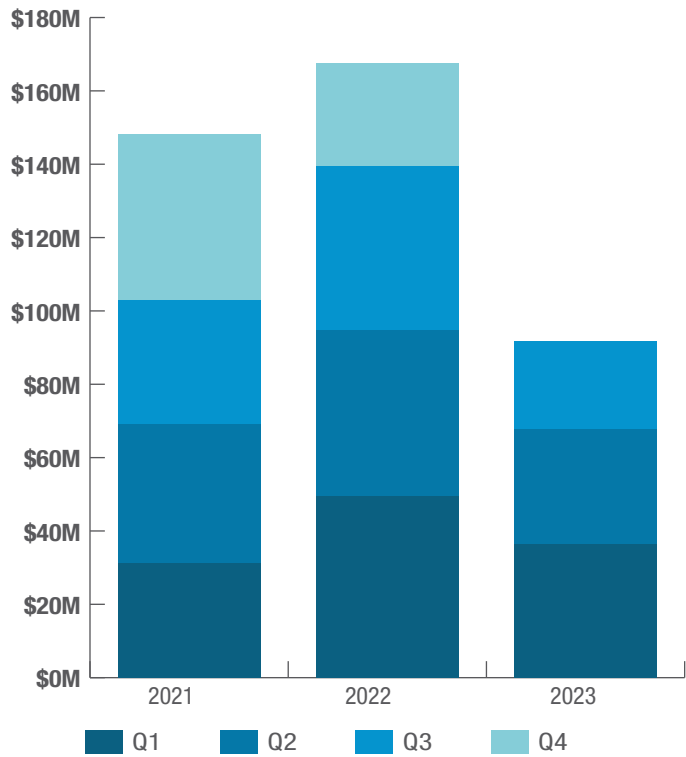


# Portfolio Performance

Portfolio-at-Risk > 90 Days

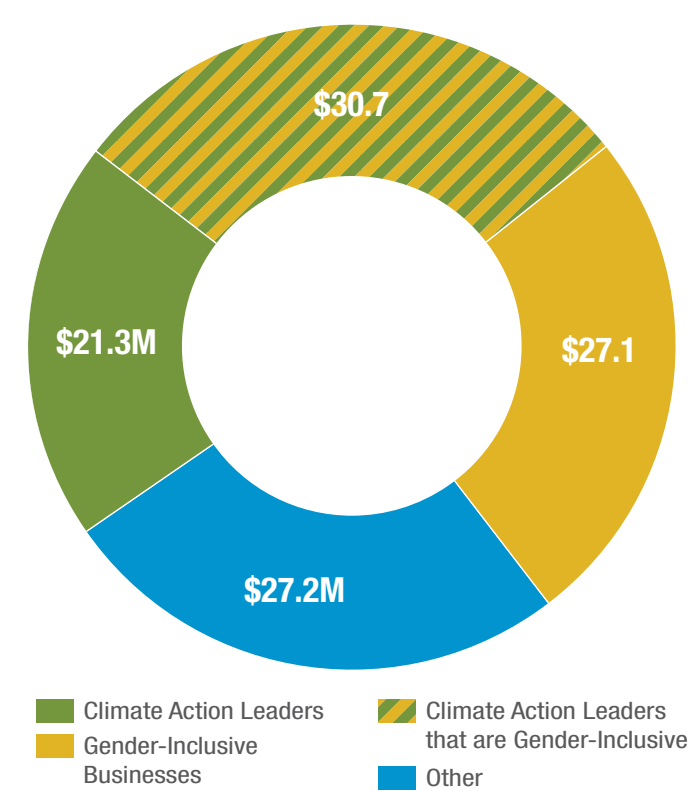


Total Loan Disbursements Through Q3 2023

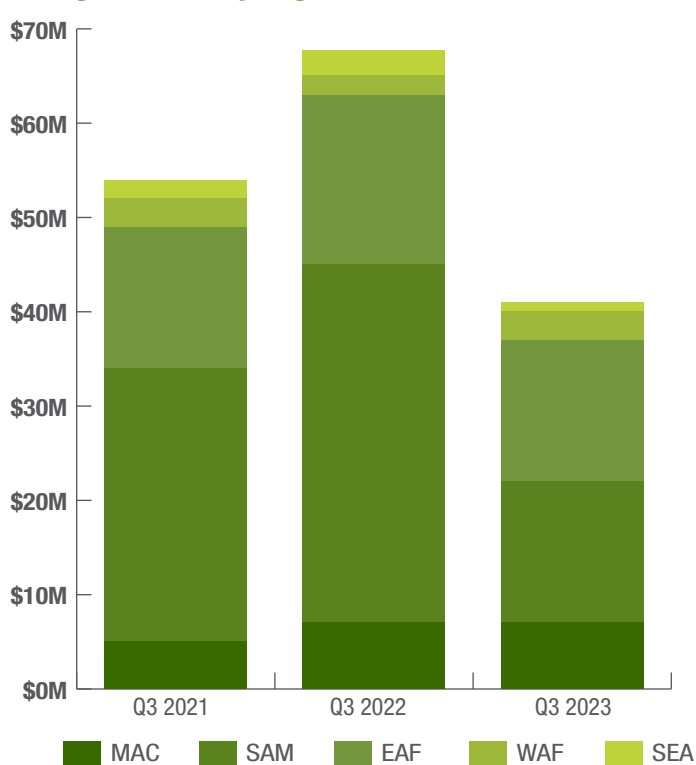




Disbursements to Clients by Program Through Q3 2023



Average Balance by Region



**Disclosure**

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

**Climate Action Leader:** An active lending client making substantial contributions to climate change mitigation and/or adaptation by: reducing atmospheric greenhouse gas concentrations through natural climate solutions like reforestation and/or reducing climate risk and building adaptive capacity within their communities.

**Contribution Revenue:** Revenue without donor restrictions generally received from individuals or foundations.

**Debt-to-Equity:** The ratio of senior and subordinated debt to unrestricted net assets.

**Gender-Inclusive Business:** Women make up more than 30% of enterprise farmer suppliers and employees OR the enterprise is women-led and women make up more than 20% of enterprise farmers, suppliers, and employees.

**Grant Revenue:** Philanthropic donations, generally from foundations or governments, used in the current fiscal year.

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

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

**Lending Revenue:** Revenue generated from our lending activities, comprising 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 and loan portfolio guarantee fees.

**Region Acronyms:** MAC (Mexico and Central America), SAM (South America), AFR (Africa), SEA (Southeast Asia).