

# Performance Report

## Q3 2020



An employee processes cocoa at C.A.C. Pangoa, a cooperative in central Peru. Disbursements to cocoa enterprises in the country were up 186% year-over-year through the third quarter of 2020.



# OVERVIEW

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As an impact-first lender, Root Capital uses blended finance to go where others don't—providing continued support for agricultural businesses when they need it most. Whether it's staring down the existential threat of climate change or quickly pivoting in the face of COVID-19, these businesses—when supported—can build resilience for themselves and their community. As the effects of the pandemic persist, this quarter's positive results across our portfolio affirm the importance of that continued support.

## **COVID-19 Response**

During this quarter, Root Capital continued to provide our clients with the urgent financing and training they need to withstand the COVID-19 pandemic. Specifics on how we've tailored our services to the critical needs of the moment can be found in the corresponding sections of this report.

Through the generosity of our donors, we've raised nearly \$4M in new funding for our COVID-19 Rapid Response fund. These funds allow us to provide emergency support to our clients. For example, COVID-19 Resilience Grants, which businesses can use to mitigate the virus' spread in rural communities with soap and PPE while ensuring operations can continue throughout the pandemic. In the second and third quarters of 2020, we disbursed \$1.3M in Resilience Grants to 79 businesses reaching nearly 208,000 farmers. For more information on early milestones and our plan to support our clients in the months to come, [please read our six-month impact report](#).

## **Impact**

Through the third quarter of 2020, Root Capital provided financing to 180 businesses working with 681,000 smallholder farmers. Forty-six percent of these businesses are gender-inclusive, meaning they actively create opportunities for women farmers, employees, and leaders. The businesses Root Capital reached through this quarter paid \$1.1B directly to farmers—86% of their total revenues. So far in 2020, Root Capital has trained 224 enterprises on the strategic, financial, and operational skills essential for success both throughout and beyond the pandemic.

We're pleased to report that 82% of our active loans in Q3—and 89% of those closed during the quarter—filled credit needs unmet by commercial lenders, affirming that we continue to provide capital to businesses and communities excluded from traditional financial markets.

## Portfolio Performance

During Q3 2020, our average outstanding portfolio balance was \$44M, a 15% decline from Q3 2019 (\$52M). This decrease is a result of our continued strategic refocusing in core industries of coffee, cocoa, and tree nuts as we write off non-performing loans. These sectors comprised 93% of our portfolio balance this quarter, up from 83% in Q3 2019. We disbursed \$27M in these industries this quarter, a 26% increase year over year. Loans to coffee businesses continue to represent the majority of our average portfolio balance, standing at \$34M (77%) in the third quarter.

This quarter, we're reporting strong results from East Africa despite shifting harvest timelines and demand due to the pandemic. Compared to 2019, disbursements here were up (19% YTD) and new loan originations rose (31% YTD). An increase in disbursements to new coffee clients in Uganda made up for lower activity for coffee in Rwanda and macadamia in Kenya due to shipping and market delays caused by COVID-19 shutdowns.

Root Capital's coffee and cocoa lending activities have remained strong in South America as we deepened relationships with longtime clients and began to work with two new clients. To adapt to COVID-19 travel restrictions, we pioneered remote due diligence and approval processes for these new lending relationships. This year, growth has been particularly strong in Peru's cocoa industry where our disbursements increased by \$2.3M (184%) compared to the same period last year. This is an exciting area for growth that combines our deep experiences both in Peru and in the global cocoa industry.

In Central America and Mexico, each and every dollar we disbursed in the most recent harvest season was repaid, and trends in our other regions are similarly positive—though their harvests are still ongoing.

## Portfolio Quality

At the end of this quarter our Portfolio-at-Risk (PAR) greater than 90 days remained stable at \$2M (4.5%), consistent with Q2 of 2020. Over the past twelve months, we wrote off \$7.9M of past due loans and recovered \$1.3M of previously written-off principal, resulting in a trailing 12-month net write-off ratio of 14%. The decrease in our PAR balance compared to Q3 2019 is driven by the write-off of legacy loans in the fisheries sector in Mexico in Q2 2020 and legacy loans originating up to eight years prior.

## Advisory Services

We remain committed to delivering best-in-class business management advisory services throughout the pandemic. That includes adapting *with* our clients to help them confront the challenges of COVID-19 and build resilience for the future. This quarter, we continued to pilot new types of group advisory services, including a second webinar for clients in Latin America

featuring industry experts explaining the market impacts of COVID-19. We also provided tailored services: for example, our team in West Africa worked with nine businesses in Ghana and Cote d'Ivoire to access COVID-19 tax relief offered by their national governments.

This quarter, we made exciting strides with our digital business intelligence (DBI) services, which uses the power of data to build resilience for agricultural businesses and the communities they sustain. In Senegal, we onboarded two new rice mills in Q3—meaning that five clients in the country are now able to cut costs and improve transparency using our digital inventory management platform. Also this quarter, we expanded our DBI-enabled climate resilience advisory in Latin America and East Africa. Our advisors hosted a climate vulnerability workshop in Colombia and provided ongoing adaptation planning support in Nicaragua and Peru. We also launched climate resilience advisory services in Rwanda, where we have already enrolled two clients.

## **Financial Results**

At the end of the third quarter, Root Capital's \$51M outstanding lending portfolio was supported by \$15M in unrestricted net assets, \$8M in subordinated debt, and \$53M of senior notes for an adjusted debt-to-equity ratio of 2.4x. In addition, we have \$14.9M in restricted net assets to support our future programmatic activity.

Through Q3 2020, Root Capital reported a slight deficit of \$28K compared to a \$1.6M surplus through this point last year. Grant and contribution revenue was \$10.7M YTD compared to \$11.4M in 2019. Through this quarter, the lending portfolio generated revenue of \$4.2M, similar to \$4.3M through the same period last year. Our year-to-date provisioning expense of \$1.4M compares favorably to \$2.1M in 2019, despite the large write-offs of legacy loans taken so far in 2020

Root Capital remains in a healthy financial position at the end of the third quarter, with a strong balance sheet and significantly improved portfolio quality.

## **Conclusion**

As COVID-19 persists, the risks remain particularly acute for rural communities far from health centers. With continued support from our donors and investors, we can stand by our clients when they need us most to ensure that resilient agricultural businesses form the backbone of a green, inclusive, and sustainable recovery.

# 2020 DASHBOARD (Year to Date)

Results	
290	Total Businesses Reached
Lending Program Impact	
180	Businesses Reached <sup>1</sup>
46%	Percent Gender Inclusive Businesses
681K	Producers Reached
39%	Percent Woman Farmers
16K	Employees Reached
51%	Percent Woman Employees
\$1.1B	Purchases from Farmers
\$1.2B	Total Sales for the Businesses
950K	Sustainable Hectares under Management
Lending Program	
\$90.4M	Loan Disbursements
\$44M	Average Outstanding Portfolio Balance <sup>2</sup>
\$340K	Average Outstanding Balance per Active Loan <sup>2</sup>
4.5%	Portfolio-at-Risk Over 90 Days <sup>2,3</sup>
14.1%	Net Write-off Ratio (Trailing 12 Months)
Advisory Services	
224	Businesses Served
2,057	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.

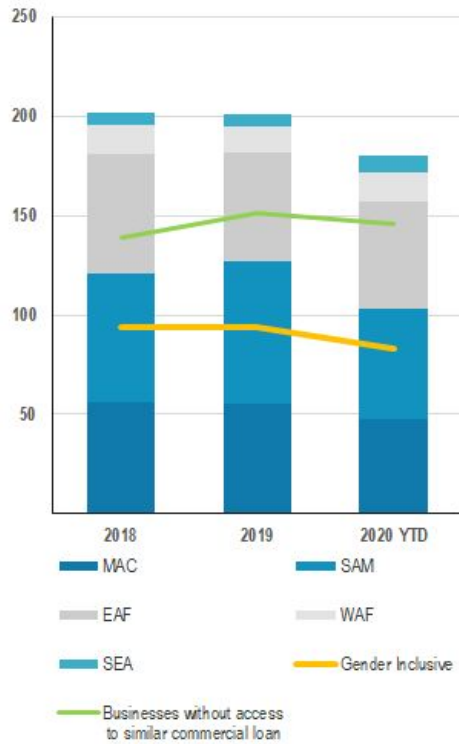
<sup>2</sup> Results are for the current quarter only.

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

# PORTFOLIO PERFORMANCE

## Impact

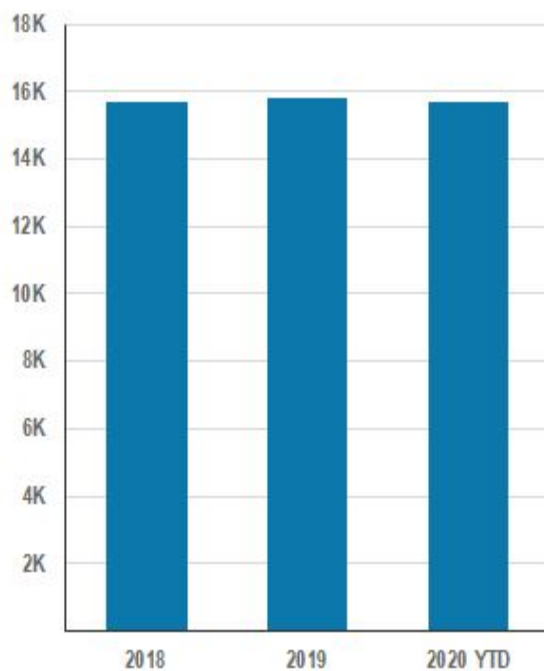
### Businesses Reached (Lending Program)



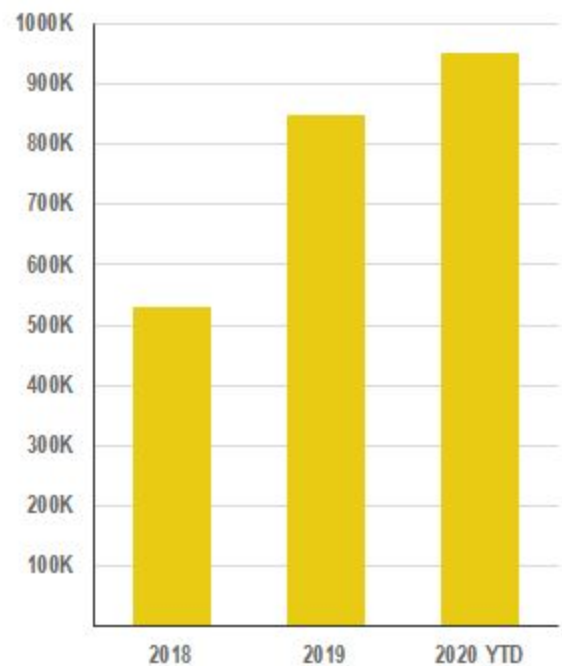
### Total Businesses' Sales



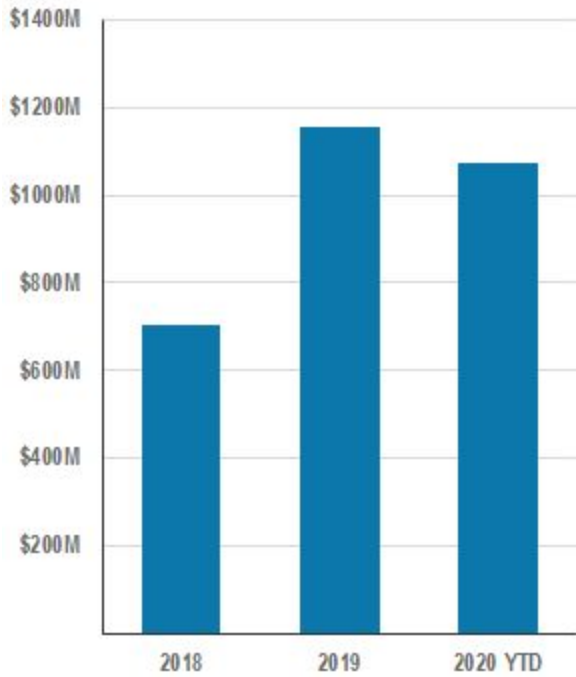
### Employees Reached



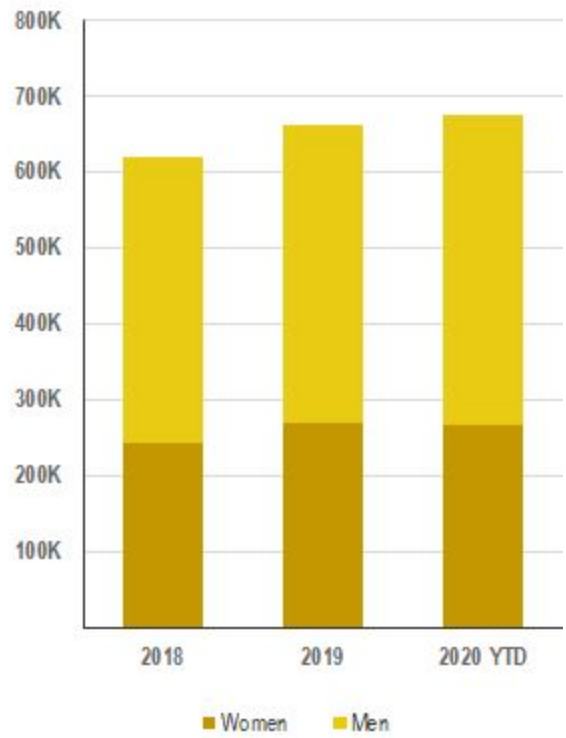
### Sustainable Hectares Under Management



### Purchases from Farmers

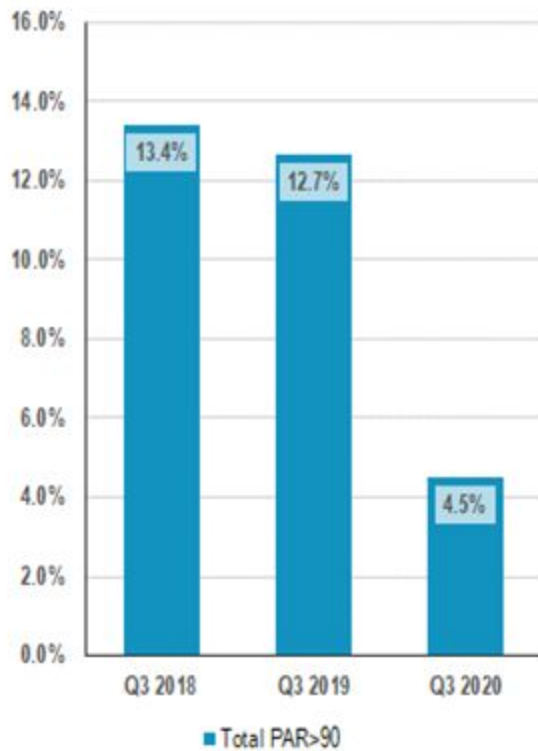


### Farmers Supplying Businesses

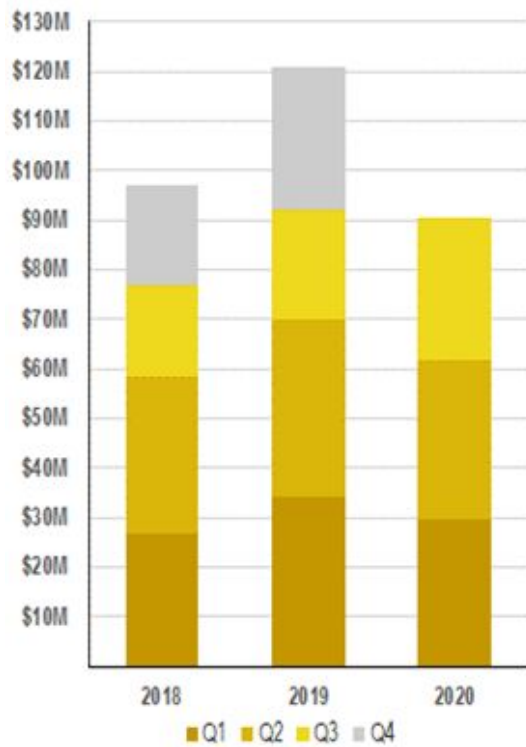


## Lending & Advisory Services

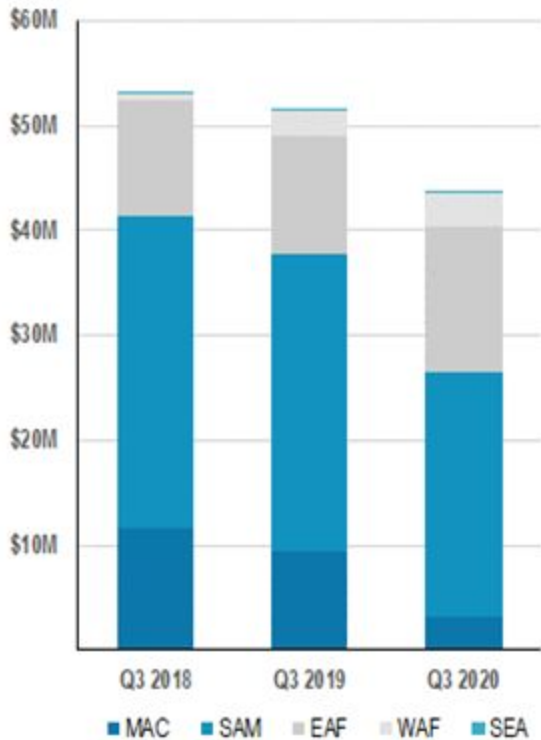
### Portfolio at Risk > 90 Days



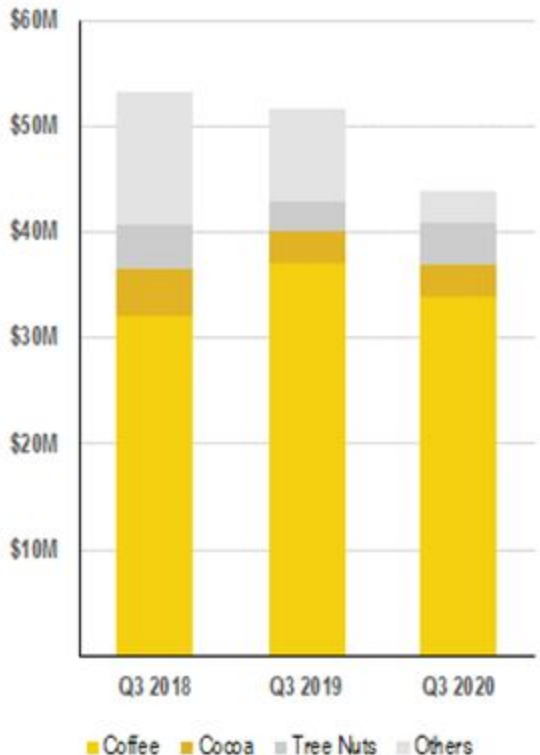
### Loan Disbursements



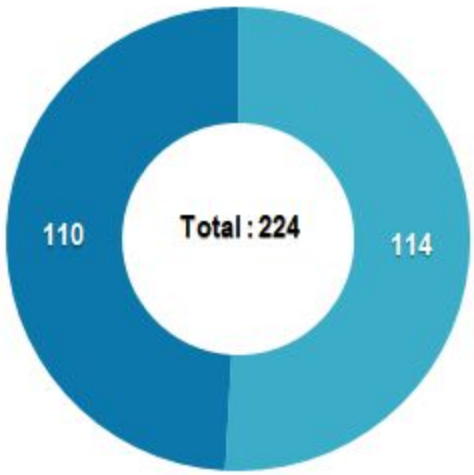
### Average Balance by Region



### Average Balance by Industry

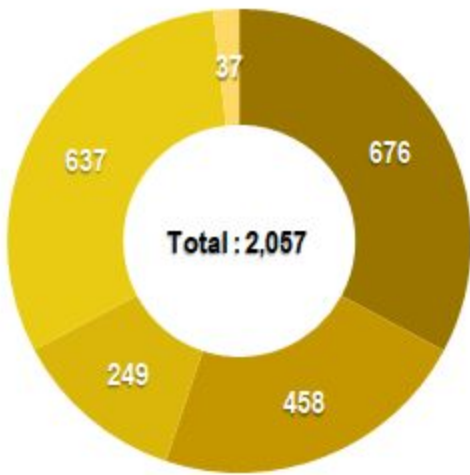


### Businesses Served by Advisory Through Q3



Existing Lending Clients Potential Lending Clients

### Days of Training Delivered Through Q3



MAC SAM WAF EAF SEA



## Balance Sheet & Statement of Activities

<b>Balance Sheet</b>		
<i>Millions of USD</i>	Q3 2020	Q3 2019
Cash and Short-Term Investments	34.6	37.1
Loans Receivable	51.2	55.6
Allowance for Credit Losses	(5.6)	(10.5)
Loans Receivable, Net of Allowance	45.6	45.1
Other Assets	11.4	7.7
<b>Total Assets</b>	<b>91.6</b>	<b>89.9</b>
Senior Debt	52.5	58.4
Subordinated Debt	7.7	10.0
Other Liabilities	3.7	4.3
<b>Total Liabilities</b>	<b>63.9</b>	<b>72.7</b>
Unrestricted Net Assets	14.6	12.8
Net Assets with Restrictions	13.1	4.4
<b>Total Net Assets</b>	<b>27.7</b>	<b>17.2</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>91.6</b>	<b>89.9</b>
Debt-to-Equity Ratio*	2.4x	2.6x
Grant Net Assets**	14.9	14.4

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

\*\* Our net assets with restrictions increased \$9.9M year over year, as we adopted new revenue recognition accounting standards in the fourth quarter of 2019. This change resulted in the transfer of off-balance-sheet conditional grants onto our balance sheet, where they are included in net assets with restrictions and other assets. Reclassifications may have been made in the prior year to conform with the current year's presentation.

## Statement of Activities

Year-to-date as of September 30th

<i>Millions of USD</i>	2020	2019
<b>Revenue</b>		
Grant Revenue	7.1	6.6
Contribution Revenue	3.6	4.8
Lending Revenue	4.2	4.3
Interest Income	0.1	0.4
<b>Total Revenue</b>	<b>15.1</b>	<b>16.1</b>
<b>Expenses</b>		
Operating Expenses	12.6	11.1
Provisioning Expense	1.4	2.1
Interest Expense	1.1	1.2
<b>Total Expenses</b>	<b>15.1</b>	<b>14.5</b>
<b>Surplus / (Deficit)</b>	<b>(0.0)</b>	<b>1.6</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 and employees, or the enterprise is woman-led and women make up at least 20% of enterprise farmer suppliers and 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; comprises 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).



Maraba staff take a farmer's temperature while distributing soap, PPE, and food kits to their members.

## Client Profile

### Maraba

Location: Butare, Rwanda

In April 1994, coffee farmers near the small town of Maraba had just begun their annual harvest when the country erupted into genocidal violence. Three months later, nearly a million Rwandans had been slaughtered and many more displaced. Coffee farmers returned to find their farms in ruins. In 1999, members of the community took matters into their own hands and formed the Maraba cooperative. By connecting farmers—many of them women—to premium international markets, Maraba set out to earn families higher incomes and rebuild after tragedy.

Since 2005, Root Capital has been a steadfast partner in their impact. We've provided \$3.7M in cumulative financing complemented by training in business and agronomic skills—including digital business intelligence. This support unlocks higher prices for farmers and positions Maraba for long-term growth and resilience.

In April 2020, as a new crisis—COVID-19—gripped the community, Root Capital approved another loan to Maraba. As markets and export channels shut down, farmers couldn't afford to wait for payment. Maraba used their loan to pay farmers on time for their harvests while they waited for these channels to re-open. We also provided Maraba with a COVID-19 resilience grant, which they're using to deliver soap and PPE to farmers, saving lives *and* preserving livelihoods.