

Performance Report

Q2 2020



Angelique Karekezi, Managing Director of RWASHOSCCO, uses a handwashing station at cooperative offices in Rwanda as part of Operation Soap-PPE, launched this quarter across the globe.



OVERVIEW

This quarter, Root Capital acted quickly to help agricultural businesses adapt to COVID-19 while building long-term resilience so they can help rural communities face the challenges yet to come. Despite pandemic-related disruption, Root Capital has had a strong quarter marked by improved portfolio quality and deepened impact on farming families when they need our support the most.

COVID-19 Response

Informed by a wide-reaching [global survey](#) of our clients, Root Capital has responded to the COVID-19 pandemic by continuing to support agricultural businesses with our credit-plus-capacity model. In turn, these businesses are doing the crucial work of preserving livelihoods in the midst of uncertainty. More specific details about the impact of COVID-19 on our portfolio—and how we are supporting our clients—can be found in the corresponding sections of this report.

During Q2, Root Capital successfully launched our COVID-19 Resilience Grants as part of our overall response effort. With philanthropic support from donors and investors, we're providing emergency grants to respond to clients' immediate needs. Clients are using these grants to provide payroll protection, distribute soap and PPE, and generally help their communities survive the health and economic impacts of COVID-19. In Q2 alone, these one-time infusions of grant funding provided 57 agricultural enterprises with more than \$439,000. Eventually, these grants will help over 194,000 farmers and employees endure the pandemic. This project makes up just one part of our Rapid Response, for which we are still fundraising. Please visit our website for more information and [learn how you can help](#).

Impact

Through the second quarter of 2020, Root Capital provided financing to 171 businesses working with 642,000 smallholder farmers. Forty-nine percent of these businesses are gender-inclusive, actively creating opportunities for women farmers, employees, and leaders. The businesses Root Capital reached through this quarter paid \$1.1B directly to farmers. So far in 2020, Root Capital has trained 188 enterprises on the strategic, financial, and operational skills essential for success both throughout and beyond the pandemic.

We're pleased to report that 81% of our active loans in Q2—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

In the second quarter of 2020, our average outstanding portfolio balance was \$49.3M, a slight decline from Q2 of last year (\$51.7M). Loans to coffee businesses continue to represent the majority of our average portfolio balance at \$35.9M (73%). The remainder is primarily loans to cocoa and tree nut businesses (\$6.9M, 14%).

Much of this quarter's lending activity was driven by the coffee sector in South America, where the ongoing pandemic decreased harvest activity and global demand for coffee while also limiting our ability to work with new clients. Nonetheless, we saw a similar utilization of funds in coffee in Peru this year as compared to last—highlighting clients' continued credit needs. This quarter saw the continued growth of our portfolio in Peruvian cocoa, where we've disbursed more than twice as much YTD in 2020 compared to the same time in 2019. This includes activity with APROCAM, a cocoa business using a Resilience Grant to help hard-hit indigenous communities react to COVID-19. Find their story at the end of this report.

Across Africa, we continue to see stable growth from 2019. With a renewed focus on coffee in East Africa, we've maintained our lending activity in Rwanda and the Democratic Republic of the Congo while expanding to new clients in Uganda. We have already disbursed more funds in that country through Q2 than we have in a full calendar year since 2013. All loans approved in Uganda this year have been for less than \$600,000 to businesses that wouldn't have been able to access a similar loan from a commercial bank. In West Africa, we added a new client in Ghana working with maize—a crucial crop for domestic food security, especially as pandemic-related shutdowns threaten international supply chains.

In Indonesia, we remain committed to supporting coffee enterprises in the province of Aceh, Sumatra and started working with another women-led business there this quarter. In a conservative region where few women hold positions of power, 50% of our clients are gender-inclusive, a continued success story from our Women in Agriculture Initiative.

Portfolio Quality

At the end of this quarter, our Portfolio-at-Risk (PAR) greater than 90 days significantly decreased to \$2M (4.5%), compared to Q1 of 2020 (\$7.8M, 14.4%). The decrease in our PAR balance is primarily driven by the write-off of legacy loans in the fisheries sector in Mexico. Over the past twelve months, we've written off \$7M of past due loans and recovered \$2M of previously written-off principal for a trailing 12-month net-write off ratio of 10%.

Advisory Services

In just a few months, we've ushered in a new digital era at Root Capital that will enable us to reach more clients more efficiently throughout and beyond the pandemic with high-quality,

tailored training. In Q2 2020, our advisory team delivered over 500 days of remote training to 122 organizations, expanding the total number of businesses trained this year to 188. To pivot successfully to remote training, our advisors developed new work plans and curricula, working closely with clients to overcome digital barriers so they could continue to build business resilience. For many clients this included contingency planning to update previous cash flow projections and prepare for potential future disruptions. In West Africa, we began a partnership with the African Management Institute to provide six-month virtual coaching to our clients in pandemic-specific skills such as operations adaptation and business risk assessment.

Our team also created educational materials to help clients mitigate the risk of COVID-19 transmission in their communities while continuing to operate despite disruptions to markets and supply chains. We supplied businesses in Africa with illustrated posters of hygiene practices while our clients in South America received tailored harvest guides and webinar training to support them as they developed safe pandemic operation plans.

Financial Results

At the end of the second quarter, Root Capital's \$49M outstanding lending portfolio was supported by \$13.2M in unrestricted net assets, \$9.6M in subordinated debt, and \$53M of notes payable for an adjusted debt-to-equity ratio of 2.3x. In addition, we have \$14.5M in restricted net assets to support our future programmatic activity.

Through Q2 2020, Root Capital reported a \$1.4M deficit as compared to a \$0.8M surplus through this point last year. Year-to-date, the lending portfolio generated revenue of \$2.8M— in line with the same period last year. Grant and contribution revenue was \$5.4M compared to \$8.1M through Q2 2019, due primarily to \$2.7M raised through the net asset campaign in 2019. The year-to-date provisioning expense of \$1.0M in 2020 compares favorably to the \$2.1M in 2019, despite the large write-offs we took during Q2.

Midway through the year, Root Capital remains in a healthy financial position, with a strong balance sheet and significantly improved portfolio quality. With continued support from our donors and investors, Root Capital can help agricultural enterprises and farming communities adapt to the health and economic impacts of this crisis.

Conclusion

The effects of the pandemic are being felt by many of our clients, especially as the virus spreads to rural communities. But we remain in a strong position to provide sustained support, ensuring that agricultural businesses can continue to serve as critical engines of impact in rural communities. The cloud of this pandemic has not dimmed Root Capital's vision: a future where a thriving agricultural sector enables rural communities around the world to become more prosperous, inclusive, and resilient.

2020 Dashboard

Results	
	Impact
270	Total Businesses Reached
49%	Percent Gender Inclusive Businesses
642K	Producers Reached
40%	Percent Woman Farmers
15K	Employees Reached
48%	Percent Woman Employees
\$1.1B	Purchases from Farmers
\$1.2B	Total Sales for the Businesses
837K	Sustainable Hectares under Management
	Lending Program
171	Businesses Reached ¹
\$61.7M	Loan Disbursements
\$49M	Average Outstanding Portfolio Balance ²
\$359K	Average Outstanding Balance per Active Loan ²
4.5%	Portfolio-at-Risk Over 90 Days ^{2,3}
10.3%	Net Write-off Ratio (Trailing 12 Months)
	Advisory Services
188	Businesses Served
1,153	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.

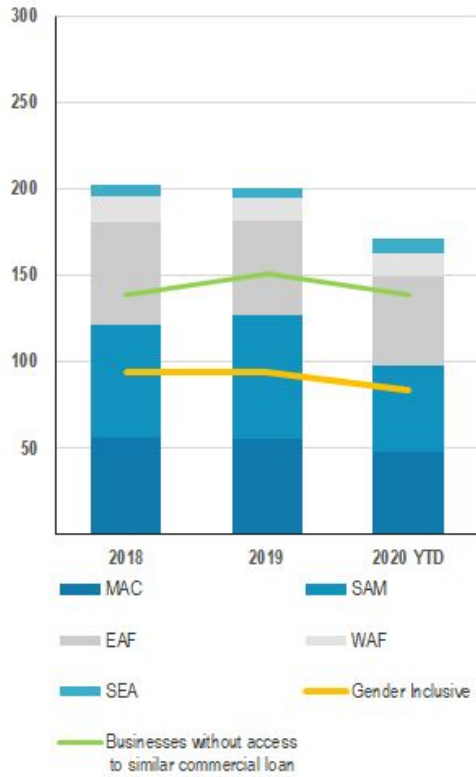
² Results are for the current quarter only.

³ Figures represent performance as of the last day of the quarter.

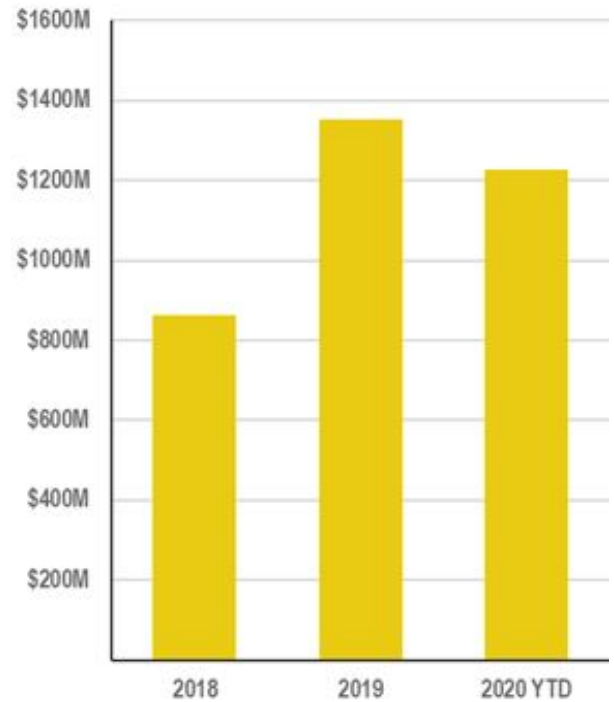
PORTFOLIO PERFORMANCE

Impact

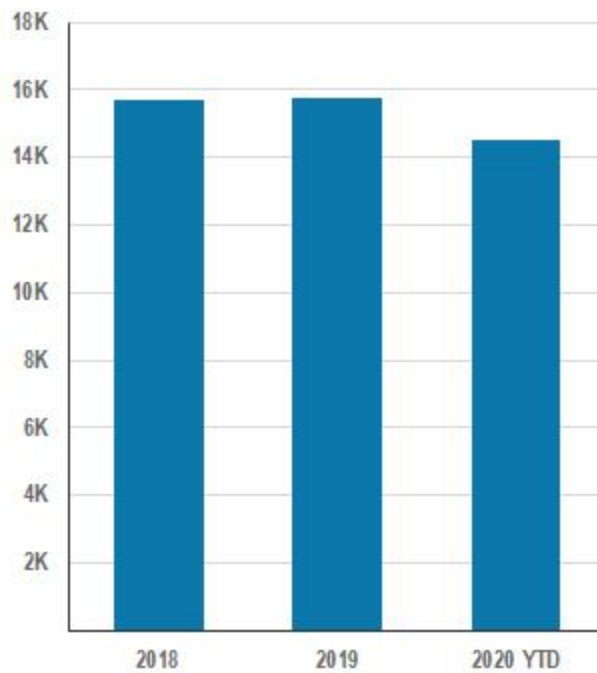
Businesses Reached (Lending Program)



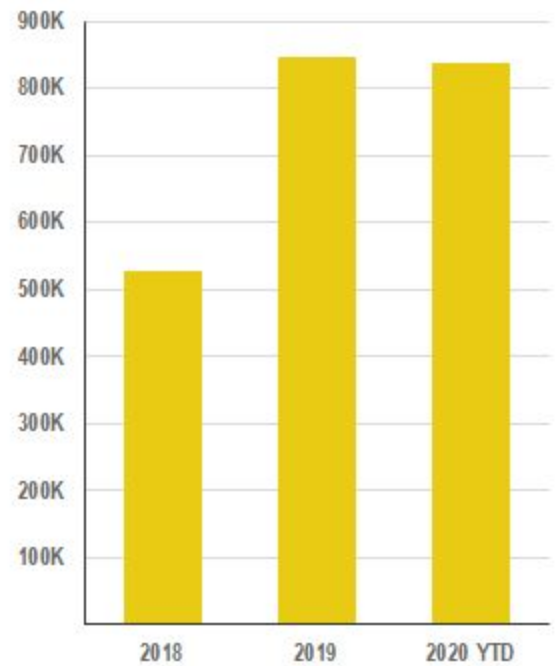
Total Businesses' Sales



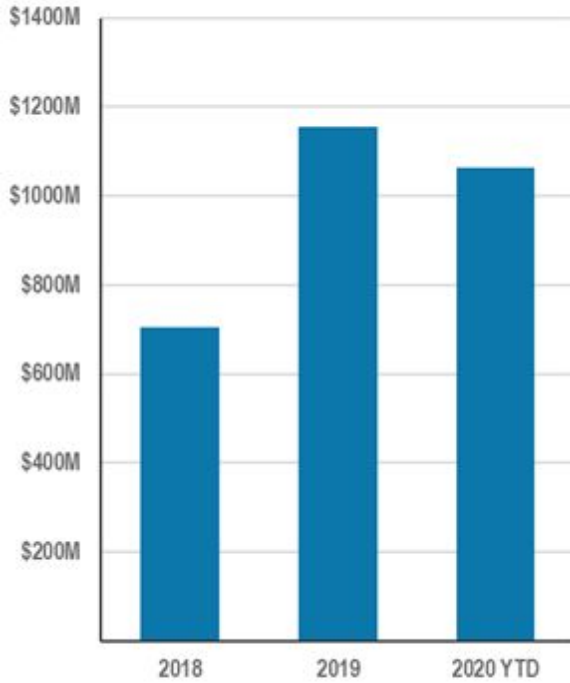
Employees Reached



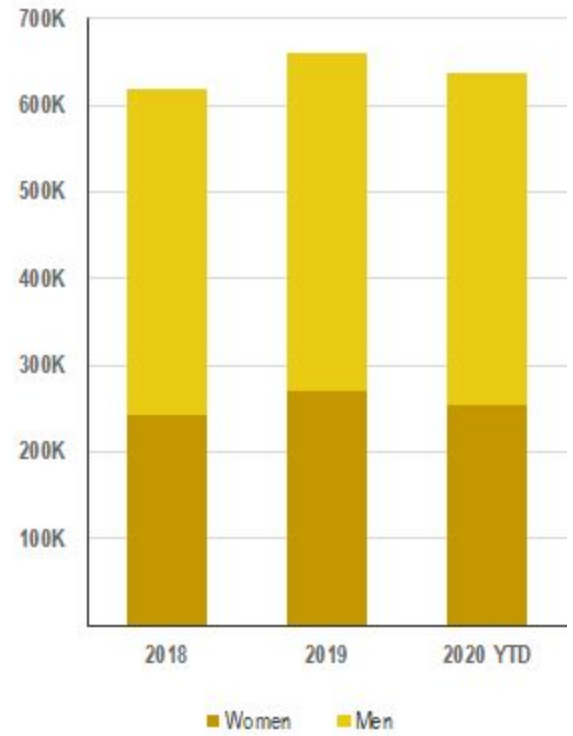
Sustainable Hectares Under Management



Purchases from Farmers

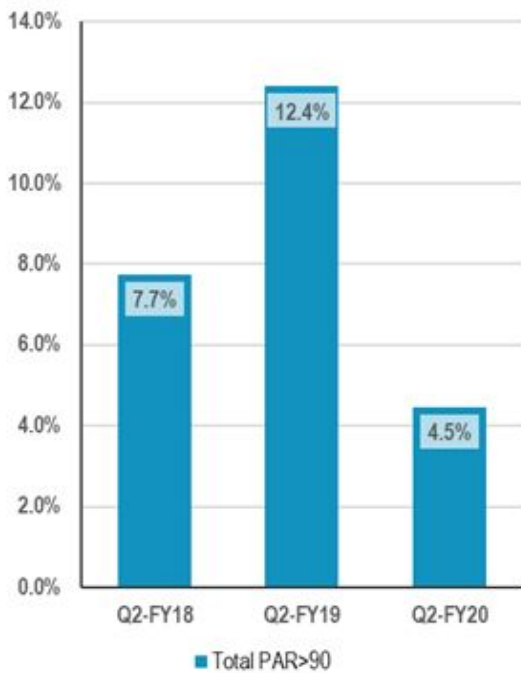


Farmers Supplying Businesses

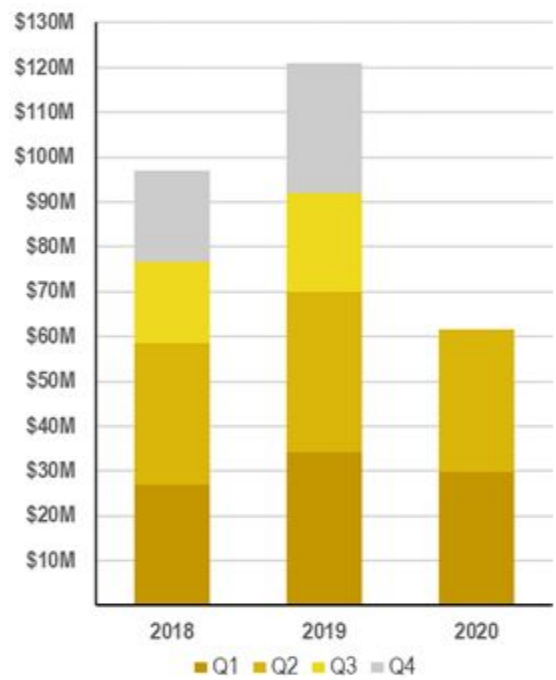


Lending & Advisory Services

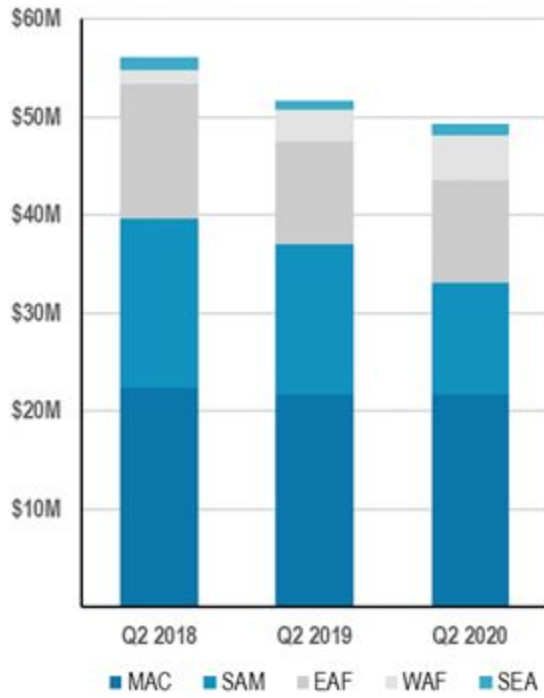
Portfolio at Risk > 90 Days



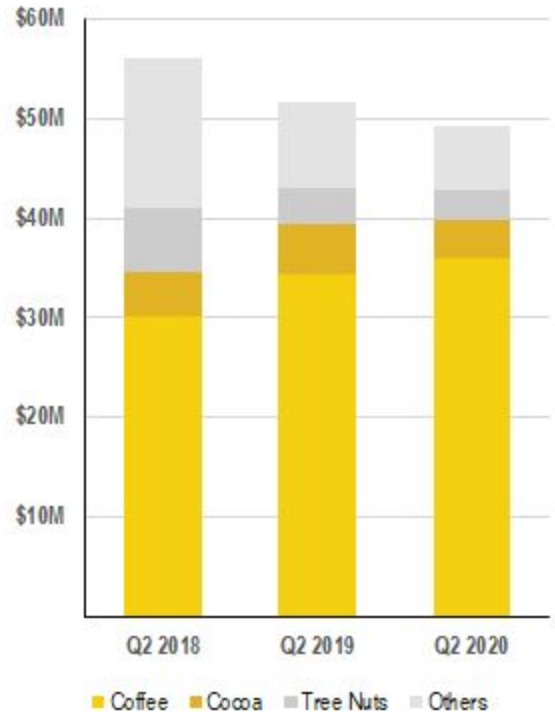
Loan Disbursements



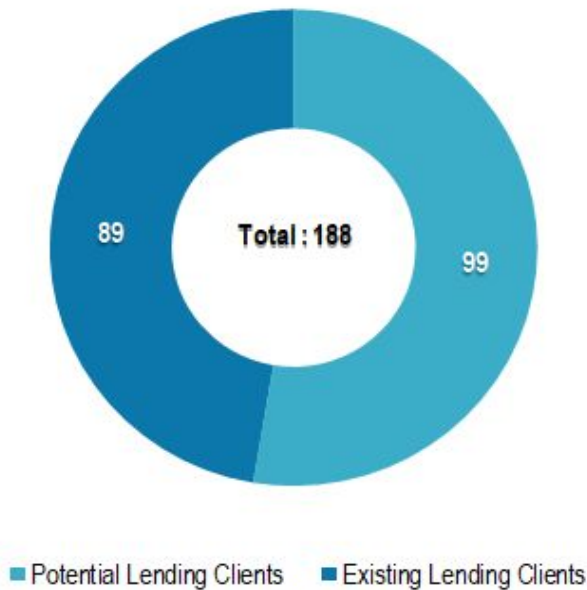
Average Balance by Region



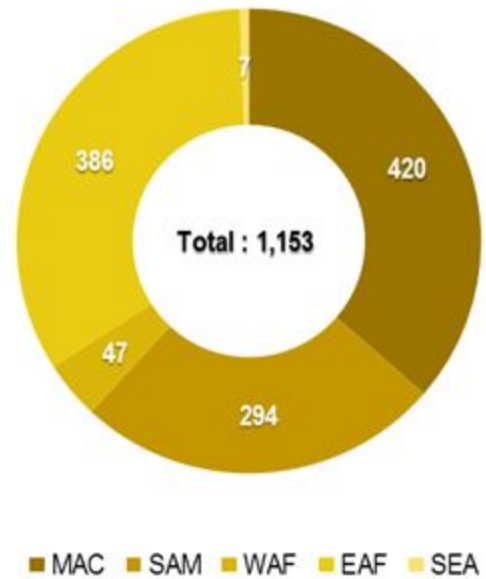
Average Balance by Industry



Businesses Served by Advisory Through Q2



Days of Training Delivered Through Q2



Balance Sheet & Statement of Activities

Balance Sheet		
<i>Millions of USD</i>	Q2-2020	Q2-2019
Cash and Short-Term Investments	36.3	29.0
Loans Receivable	49.1	60.2
Allowance for Credit Losses	(6.6)	(10.1)
Loans Receivable, Net of Allowance	42.5	50.2
Other Assets	16.5	7.5
Total Assets	95.3	86.7
Senior Debt	52.5	59.6
Subordinated Debt	9.6	7.5
Other Liabilities	5.5	3.4
Total Liabilities	67.6	70.5
Unrestricted Net Assets	13.2	11.9
Net Assets with Restrictions	14.5	4.3
Total Net Assets	27.7	16.2
Total Liabilities & Net Assets	95.3	86.7
Debt-to-Equity Ratio*	2.3 x	3.1 x
Grant Net Assets**	24.2	13.7

* 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.

Statement of Activities

Year-to-date as of June 30th

<i>Millions of USD</i>	2020	2019
Revenue		
Grant Revenue	4.3	4.2
Contribution Revenue	1.2	3.9
Lending Revenue	2.8	2.8
Interest Income	0.1	0.2
Total Revenue	8.3	11.1
Expenses		
Operating Expenses	7.8	7.4
Provisioning Expense	1.1	2.1
Interest Expense	0.7	0.8
Total Expenses	9.7	10.4
Surplus / (Deficit)	(1.4)	0.8

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.

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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, 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).



Staff of APROCAM delivers Root Capital-sponsored health materials to a cooperative member.

Client Profile

APROCAM

Location: Amazonas, Peru

For decades, the indigenous Awajún people of northern Peru have struggled to overcome systemic poverty, discrimination, and violence. Now, working with the APROCAM cocoa cooperative, they're reaching higher incomes and a better quality of life. Since their first ever loan in 2014 for \$200,000, APROCAM has received cumulative financing of nearly \$2.5M from Root Capital. Paired with business training, the cooperative has grown their cocoa sales and become a more resilient business. This quarter, Root Capital provided remote financial literacy training to ensure APROCAM can continue to plan for the future while reacting to the immediate impacts of the pandemic.

The cooperative estimates that nearly 90% of the Awajún community have contracted COVID-19, leading local health clinics to run out of basic supplies, such as painkillers. Working quickly, we provided a grant to APROCAM to respond to immediate health needs. Accustomed to bringing agricultural inputs and training to their members, the cooperative took advantage of these service delivery channels to instead dispatch medicine and PPE to hard-hit, neglected communities.

Challenges loom for APROCAM; but when equipped with the tools they need, they can help their community withstand this pandemic and work toward a brighter future.