

# Performance Report

## Q3 2021



Women employees process coffee at the Maraba coffee cooperative in Rwanda. This quarter, enterprises in East Africa and South America took advantage of high coffee prices to boost the livelihoods of their farmers.





# Overview

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This quarter, Root Capital's clients continued to drive meaningful change in rural communities. As the global coffee price hit a seven-year high, coffee enterprises moved quickly to manage their risks while taking advantage of improved prices. Root Capital met the moment by working with coffee enterprises—which continue to represent the vast majority of our portfolio—to boost incomes for farming families and ensure they're equipped for a resilient future. As the world continues to battle a persistent pandemic and the worsening impacts of climate change, this quarter's performance is a testament to the enduring power of agricultural enterprises to drive change in rural communities across the world.

## Impact

Through the third quarter of 2021, Root Capital provided financing to 178 businesses reaching 578,000 smallholder farmers. These businesses in turn paid nearly \$834M directly to farmers. Fifty-two percent of our lending clients were gender-inclusive and actively created opportunities for women farmers and employees. So far this year, Root Capital's advisory services have equipped leaders and employees working at 307 businesses with the tools they need to improve their financial management, provide agronomic support to farmers, and plan for an uncertain future.

This quarter, 90% of our active loans and 95% of total loans closed filled credit needs unmet by commercial lenders. These figures are near all-time highs and reflect our continued commitment to expanding access to finance for previously underserved agricultural enterprises and continuing to support our clients through crises.

## Portfolio Performance

In Q3 2021, our average outstanding portfolio balance was \$53M, up from \$44M in Q3 2020—an increase of more than 20%. This growth was driven by steadily rising coffee prices that caused many of our clients to increase their demand for financing.

Our commitment to businesses in the coffee, cocoa, and tree nut sectors remains as strong as ever, representing 93% of our portfolio balance in Q3 2021, consistent with prior quarters. Loans to coffee businesses, in particular, continue to represent the majority of our portfolio balance at 84%.

As is typical for the third quarter, most of our portfolio activity came from coffee clients in South America as they undertook their annual harvest. This effect was heightened this year due to rising coffee prices caused by adverse weather events in Brazil, the world's largest producer of coffee. This quarter, we disbursed \$22M to coffee clients in South America with

over 90% going to cooperatives in Peru. Disbursements in that country grew 40% this quarter compared to Q3 2020. Increased activity was also driven by portfolio growth as we closed loans with six new clients in Q3, bringing the total number of new clients in Peru this year to 10.

The increase in coffee prices also had positive impacts in East Africa, helping to drive continued growth in disbursements and average balance in the region. As a result, this quarter, we disbursed nearly \$6M across the Democratic Republic of the Congo, Rwanda, and Uganda. Overall disbursements to coffee businesses in East Africa are up 45% compared to the same time last year.

In Mexico and Central America, our lending team is actively working with new clients and closing renewals with existing clients to support financing needs for the upcoming coffee harvest. We expect increased activity during the next two quarters.

## **Portfolio Quality**

Our portfolio quality this year continues to be strong. Portfolio-at-Risk (PAR) greater than 90 days increased modestly from \$1.5M in Q2 of 2021 (2.8% of the outstanding portfolio) to \$2.0M (3.7%). Over the past twelve months, we wrote off \$4.1M of past-due loans and recovered \$1.4M of previously written-off principal, resulting in a trailing 12-month net write-off ratio of 5.4%, down from 8% in the prior quarter.

## **Advisory Services**

Through Q3 2021, Root Capital provided 2,950 days of training to business leaders and employees at 307 agricultural enterprises. We continued to roll out our gender equity advisory services aimed at deepening women's inclusion and opportunities at agricultural businesses. We hosted several workshops on "Gender, Business, and Unconscious Bias" in Mexico and Central America. Additionally, our clients worked in partnership with Root Capital advisors to assess gaps in gender equity and build work plans to improve opportunities for women.

Increasingly our advisors are able to return to in-person training where local health guidance allows. In other places, Root Capital continues to develop remote training for agricultural enterprises. In parts of Mexico and Central America, we successfully designed a multi-part training model, delivering eight hours of online financial workshops supported by 12 pre-recorded lessons that reinforce the learning from the workshops. These will expand our virtual resource library, making our remote advisory services even more scalable and valuable for agricultural enterprises.

## **Financial Results**

At the end of the third quarter, Root Capital's \$54M outstanding lending portfolio was supported by \$16.3M in unrestricted net assets, \$5.1M in subordinated debt, and \$43.5M of senior notes for a debt-to-equity ratio of 3.0x. In addition, we had \$15.7M in restricted net assets and \$3.5M of additional off-balance-sheet grants that will be recognized on our balance sheet in future periods.

Through Q3 2021, Root Capital is pleased to report a surplus of \$732K compared to a \$28K deficit through this point last year. This surplus is associated with significant improvement in our portfolio quality combined with repayments from several nonperforming loans previously provisioned for at higher rates. In the first three quarters of this year, we have recovered \$1.2M from previously written-off loans. These recoveries, along with the continued strong portfolio performance, resulted in a negative provisioning expense of \$1.5M through the third quarter.

So far this year, grant and contribution revenue was \$7.3M compared to \$10.8M in 2020. Pandemic travel restrictions continue to delay previously planned in-person activities, resulting in lower programmatic expenses and, therefore, utilization of related grant revenue. Through this quarter, the lending portfolio generated revenue of \$4.6M, an 8% increase from the same period last year.

Root Capital enters the final quarter of 2021 in a robust financial position.

## **Conclusion**

With a healthy balance sheet and steady activity planned for the remainder of the year, Root Capital remains in a strong position to continue to transform rural communities. As grinding poverty persists in farming communities and the impacts of climate change worsen, we're supporting rural leaders as they build a greener, more inclusive future for us all.

# 2021 Dashboard

| Impact Results  |   |
|-----------------|---|
| <b>343</b>      | Total Businesses Reached                                  |
|                 | <b>Advisory Program</b>                                   |
| <b>307</b>      | Businesses Served by Advisory                             |
| <b>2,950</b>    | Days of Training Delivered                                |
| <b>36%</b>      | Percent Woman Participants                                |
| <b>47%</b>      | Percent Participants Under the Age of 35                  |
|                 | <b>Lending Program</b>                                    |
| <b>178</b>      | Businesses Reached by Lending <sup>1</sup>                |
| <b>52%</b>      | Percent Gender-Inclusive Businesses                       |
| <b>578K</b>     | Producers Reached   |
| <b>35%</b>      | Percent Woman Farmers                                     |
| <b>21K</b>      | Employees Reached   |
| <b>60%</b>      | Percent Woman Employees                                   |
| <b>\$834M</b>   | Purchases from Farmers                                    |
| <b>\$993M</b>   | Total Sales for the Businesses                            |
| <b>536K</b>     | Sustainable Hectares under Management                     |
| <b>\$102.8M</b> | Loan Disbursements  |
| <b>\$52.9M</b>  | Disbursements to Gender-Inclusive Businesses <sup>2</sup> |
| <b>\$55.8M</b>  | 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.

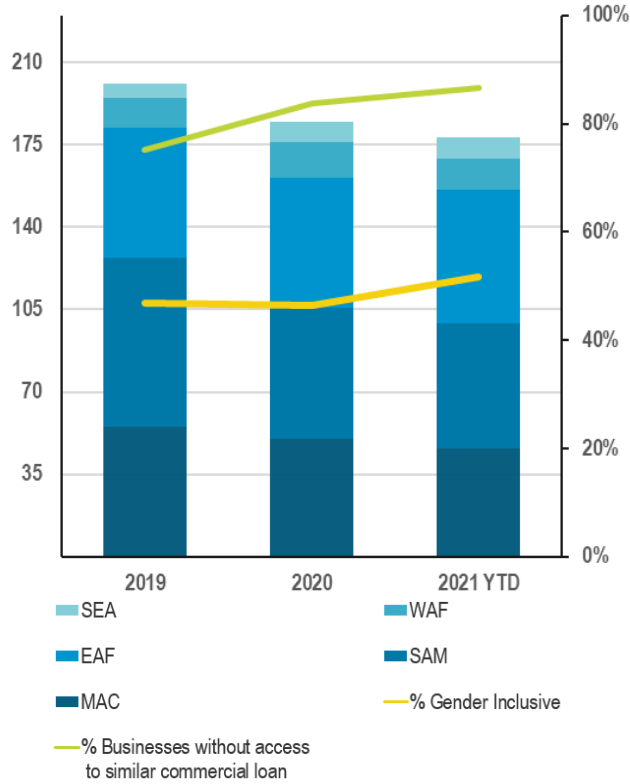
<sup>2</sup> A number of our client businesses are both Gender Inclusive and Climate Action Leaders.

See Terms and Acronyms on page 11 for definitions.

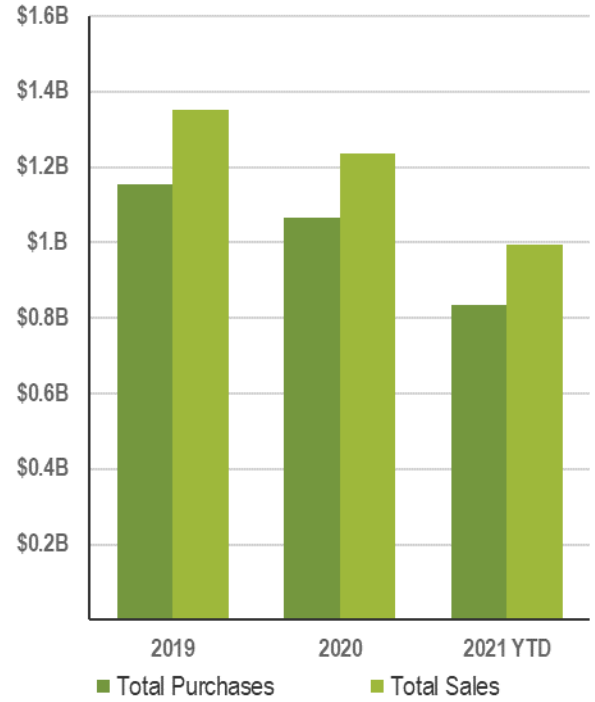
# Results

## Lending Impact

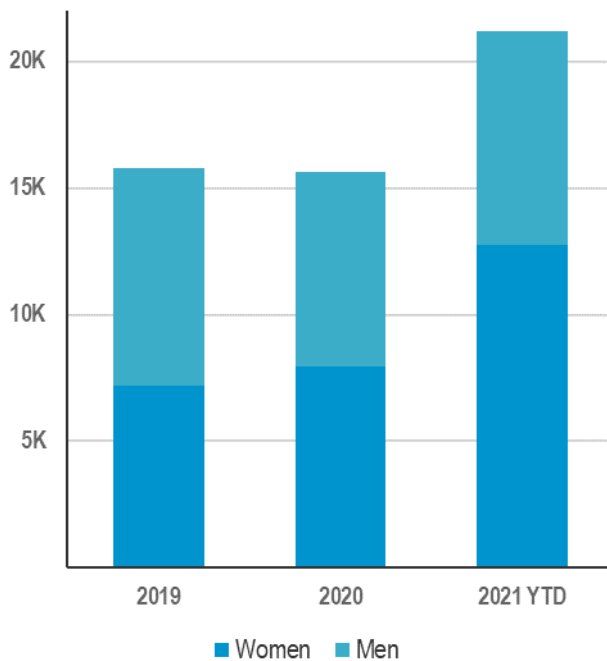
### Businesses Reached (Lending Program)



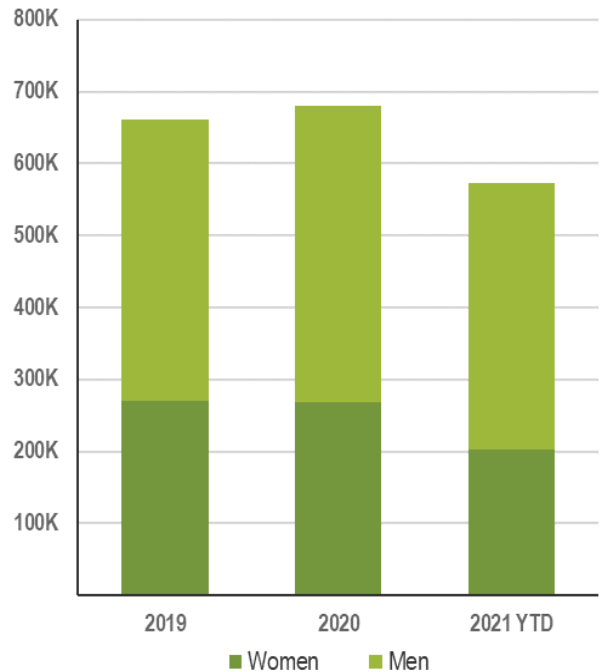
### Purchases from Farmers and Client Businesses' Sales



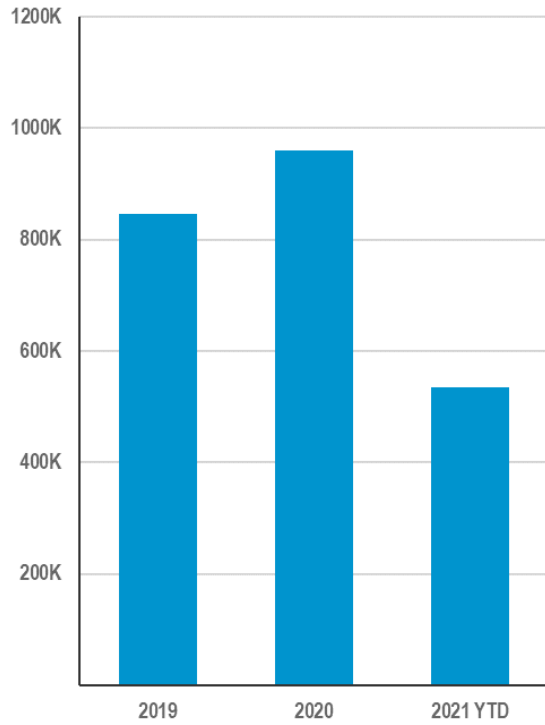
### Employees Reached



### Farmers Supplying Businesses

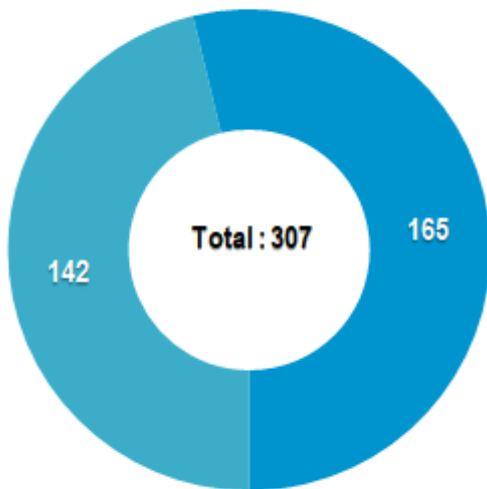


### Sustainable Hectares Under Management



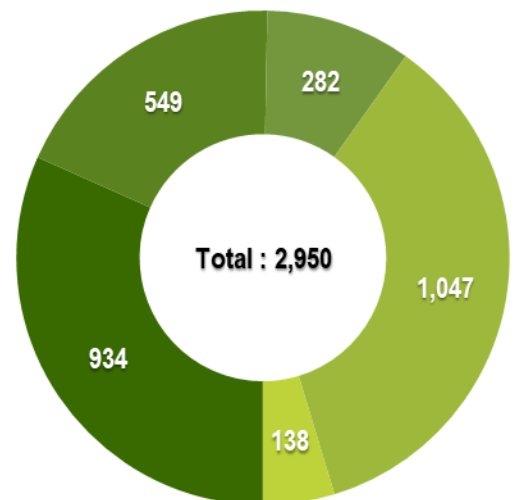
### Advisory Impact

#### Businesses Served by Advisory Through Q3



■ Existing Lending Clients   ■ Potential Lending Clients

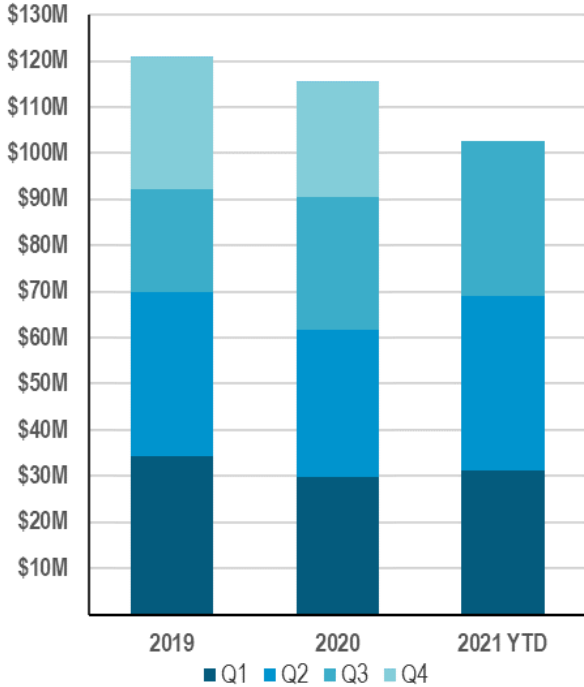
#### Days of Training Delivered Through Q3



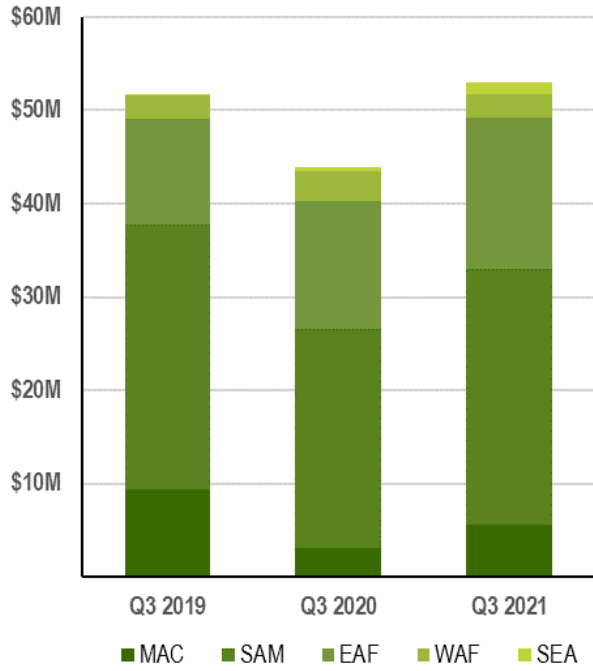
■ MAC   ■ SAM   ■ WAF   ■ EAF   ■ SEA

# Portfolio Performance

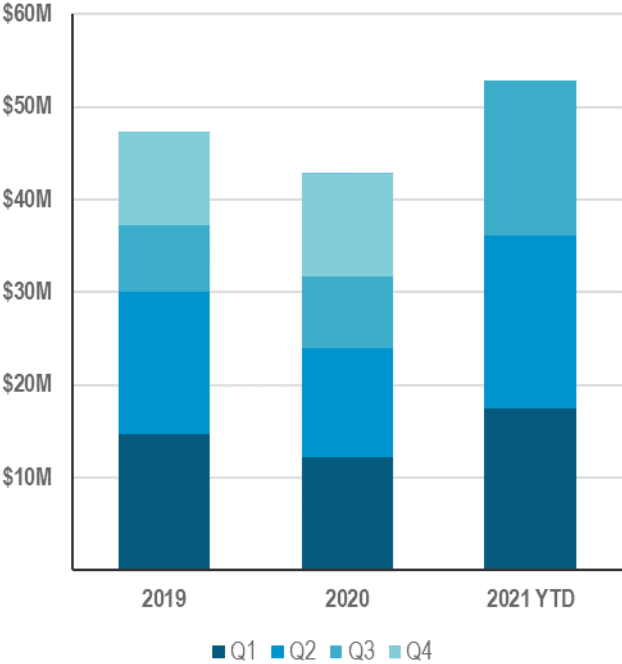
### Total Loan Disbursements



### Average Balance by Region



### Disbursements to Gender-Inclusive Businesses





## Balance Sheet & Statement of Activities

| <b>Balance Sheet</b>                      |             |             |
|---|-------------|-------------|
| <i>Millions of USD</i>                    | Q3 2021     | Q3 2020     |
| Cash and Short-Term Investments           | 20.3        | 34.6        |
| Loans Receivable                          | 53.7        | 51.2        |
| Allowance for Credit Losses               | (2.4)       | (5.6)       |
| Loans Receivable, Net of Allowance        | 51.3        | 45.6        |
| Other Assets                              | 12.2        | 11.4        |
| <b>Total Assets</b>                       | <b>83.8</b> | <b>91.6</b> |
| Senior Debt                               | 43.5        | 52.5        |
| Subordinated Debt                         | 5.1         | 7.7         |
| Other Liabilities                         | 3.2         | 3.8         |
| <b>Total Liabilities</b>                  | <b>51.8</b> | <b>63.9</b> |
| Unrestricted Net Assets                   | 16.3        | 14.6        |
| Net Assets with Restrictions              | 15.7        | 13.1        |
| <b>Total Net Assets</b>                   | <b>32.0</b> | <b>27.7</b> |
| <b>Total Liabilities &amp; Net Assets</b> | <b>83.8</b> | <b>91.6</b> |
| Debt-to-Equity Ratio                      | 3.0x        | 4.1x        |
| Grant Net Assets*                         | 19.2        | 14.9        |

\* 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.

| <b>Statement of Activities</b> |                             |             |
|--------------------------------|-----------------------------|-------------|
|                                | Year to date September 30th |             |
| <i>Millions of USD</i>         | 2021                        | 2020        |
| <b>Revenue</b>                 |                             |             |
| Grant Revenue                  | 5.9                         | 6.9         |
| Contribution Revenue           | 1.4                         | 3.9         |
| Lending Revenue                | 4.6                         | 4.2         |
| Interest and Other Income      | .0                          | .1          |
| <b>Total Revenue</b>           | <b>11.9</b>                 | <b>15.1</b> |
| <b>Expenses</b>                |                             |             |
| Operating Expenses             | 11.9                        | 12.6        |
| Provisioning Expense           | (1.5)                       | 1.4         |
| Interest Expense               | .7                          | 1.1         |
| <b>Total Expenses</b>          | <b>11.2</b>                 | <b>15.1</b> |
| <b>Surplus</b>                 | <b>.7</b>                   | <b>(.0)</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.

**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 earned during the period 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, for use 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), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).



A staff member works in the Chirinos plant nursery where the co-op raises climate-resilient seedlings.

## Client Profile

### C.A.C. Chirinos

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Location: Cajamarca, Peru

Atop a steep mountain in Cajamarca, Peru, sits the Chirinos coffee cooperative. When Root Capital first met the business in 2004, they were serving just 100 farming families and selling their coffee on the local market. Since then, we've provided extensive training as they've grown their loan tenfold from \$200K to \$2M. These resources have helped Chirinos grow to a mature cooperative connecting nearly 800 farmers with higher prices on the international market.

Despite this growth, Chirinos faces an urgent threat: climate change. To help Chirinos combat this, Root Capital provides agronomic and climate resilience advisory services to the cooperative, helping their agronomic team train local farmers on climate-smart agricultural practices that will boost yields and incomes in the face of climate threats. Since 2020, we've increased our support for the cooperative's adaptation efforts by providing technological solutions through our Digital Business Intelligence advisory services.

Combining farm-level data with industry-leading climate maps, our advisors determined the climate risk of individual members. Now, the cooperative can provide tailored solutions to those farmers' specific risks using disease-resistant seedlings, fertilizer application advice, and more. We're using today's most cutting-edge tools to help farmers and businesses build climate resilience for tomorrow.