

# Performance Report

## Q1 2022



Christian, an agronomist at Musasa Coffee Cooperative in Rwanda, tends to a growing coffee plant. Christian's team is working with interns through Root Capital's Talent Partnerships program to help farmers implement climate smart agriculture.



# Overview

This quarter marked two years since COVID-19 began disrupting lives and livelihoods around the world. Amid continued unpredictable impacts of the pandemic, including persistent supply chain challenges, Root Capital is proud to report that the small and growing agricultural businesses that make up our portfolio have remained resilient.

## Impact

During the first quarter of 2022, Root Capital financed 152 businesses reaching 393,000 smallholder farmers. Of these businesses, 57% were gender-inclusive and 61% were climate action leaders. Some of our clients met both criteria, meaning they're making critical progress on climate solutions and gender equity. So far this year, our client agricultural businesses have generated over \$673M in income for farmers. Root Capital also trained leaders and employees from 198 businesses on skills to improve financial management, provide agronomic support to farmers, and adapt to climate change.

In keeping with our mission to expand financial access for small and growing agricultural businesses, we are happy to report that 92% of our active loans this quarter filled credit needs unmet by commercial lenders, up from 85% in Q1 2021.

## Portfolio Performance

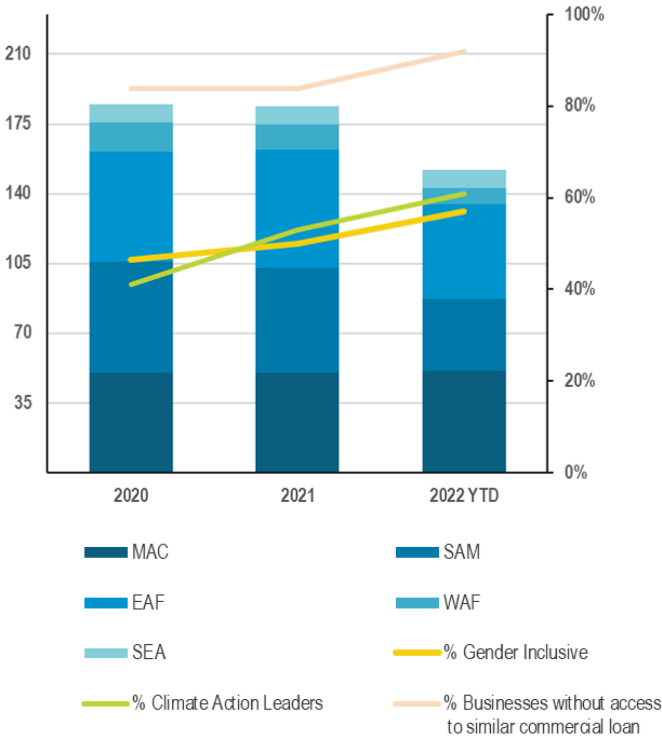
In Q1 2022, our average outstanding portfolio balance was \$63M, a 31% increase from our average balance in Q1 of last year, as demand for working capital increased in the face of continued high coffee prices. Lingering supply chain challenges caused some South American clients to hold outstanding balances for longer than usual, but nearly all of these loans had been repaid by the end of the

### 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.

## Lending Impact

Businesses Reached (Lending Program)



quarter. Loans to coffee businesses continue to represent the majority of our portfolio balance at 91%.

Our strong lending performance this quarter was driven—as is typical in Q1—by coffee clients in Mexico and Central America as we finance their annual harvest. High coffee prices led to increased demand for working capital and more disbursements. In the region, disbursements increased 83% year-over-year, led by a doubling of disbursements in Honduras and a near-tripling of disbursements in Mexico. Our proximity to clients has allowed us to be responsive to their increased demand for capital and ensure they can take advantage of these higher prices to deliver more value to their farmer members.

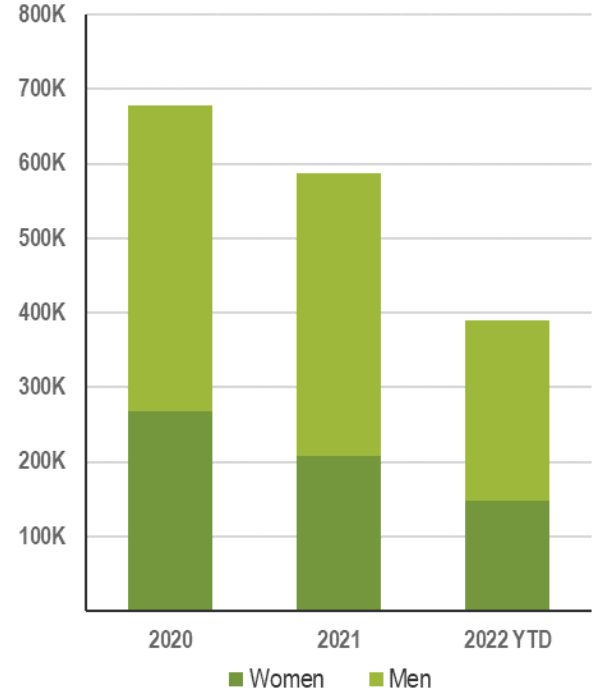
We are pleased to share news of a new loan in East Africa as part of our pilot climate finance loans, which finance projects aimed at climate adaptation and mitigation. This loan will allow a macadamia nut processor to install solar panels and help their factory transition to renewable energy. You can learn more about our new climate finance loans [on our blog](#).

Root Capital continues to expand the reach of our lending program with the addition of 12 new lending clients this quarter. Three quarters of these enterprises were already participating in our advisory services program, building the core business skills they need to access Root Capital’s financing and maximize its impact.

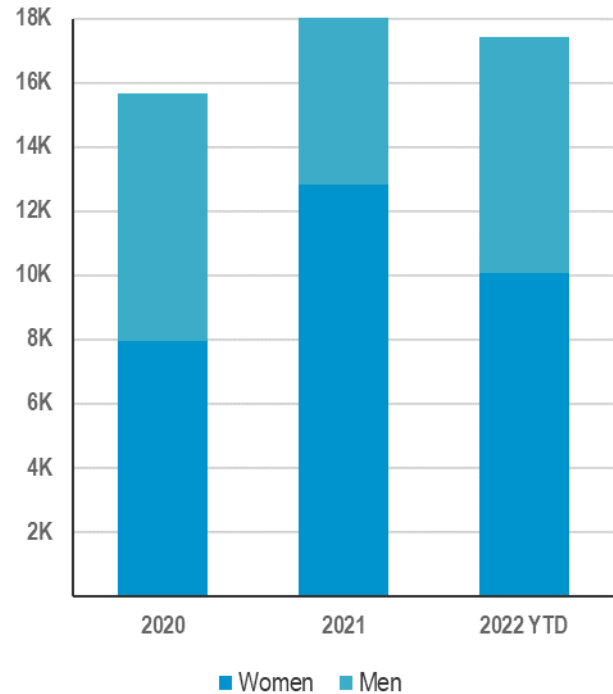
**Portfolio Quality**

As we grow the size of our lending program, our portfolio quality remains historically high. At the end of Q1 2022, our Portfolio-at-Risk greater than 90 days remained stable at \$1.7M

**Farmers Supplying Businesses**



**Employees Reached**



(2.7% of the loan portfolio outstanding) compared to \$1.8M in Q4 of 2021 (3.1%). Over the past twelve months, we wrote off \$2.6M of past due legacy loans and recovered \$1.4M on nonperforming loans, resulting in a trailing 12-month net write-off ratio of 2.2%.

### Advisory Services

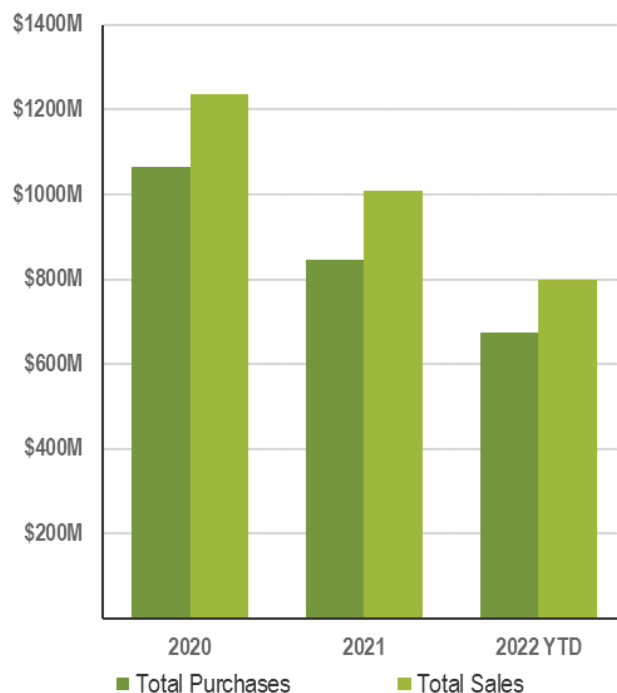
As the impacts of climate change accelerate in rural communities, our Agronomic and Climate Resilience Advisory Services are helping farming businesses adapt to present challenges, plan for the future, and reduce their own environmental footprint. This quarter, we worked with clients in Mexico and Central America to launch digital climate adaptation dashboards that will help them identify climate impacts in real time and deploy agronomic support to the farmers who need it most.

In East Africa we are supporting climate action and building business capacity through our Talent Partnership program, which matches young folks with rural businesses that can use their expertise. We have 21 interns working in agronomy between Kenya, Rwanda, and Uganda and are excited to announce that this quarter, we placed our 100th intern through the program. To date, we've placed 142 interns, 48% of whom are women.

### Financial Results

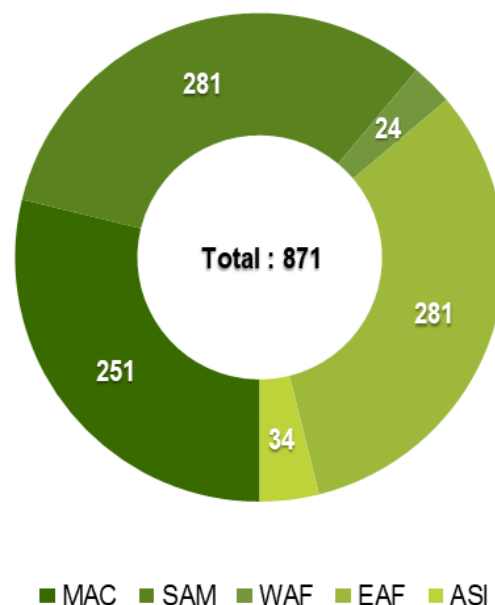
At the end of the first quarter, Root Capital's \$62.7M outstanding lending portfolio was supported by \$43.8M in unrestricted net assets, \$7.6M in subordinated debt, and \$47.3M in senior notes, resulting in a debt-to-equity ratio of 1.3x. In addition, we hold \$27.1M in grant-funded restricted net assets to support our future programmatic

### Purchases from Farmers and Client Businesses' Sales



### Advisory Impact

#### Days of Training Delivered Through Q1



activity. During the first quarter, Root Capital’s unrestricted net assets increased by \$25.9M.

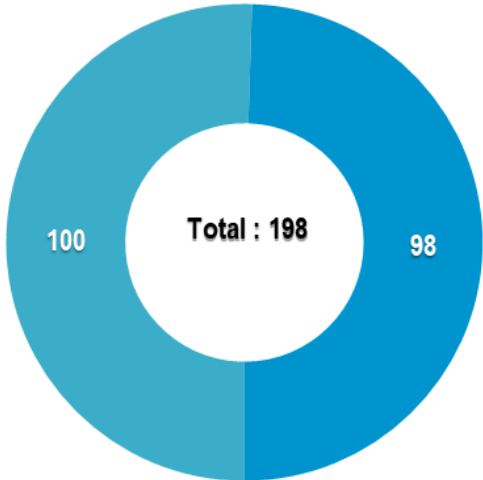
Our favorable financial results were driven by several generous donations, including a gift from philanthropist MacKenzie Scott. These donations acknowledge Root Capital’s decades of impact and serve as a critical investment in our long-term impact. We are incredibly grateful for our donors and investors who help us reach more rural communities around the world.

Our lending portfolio generated revenue of \$1.8M—a slight increase from Q1 2021. During this quarter, our \$1.0M provisioning expense was positively impacted by \$0.3M of recoveries and continued strong portfolio quality. The negative provisioning expense in the prior year was positively impacted by \$0.5M of recoveries coupled with a reduction in provisioning expense as several clients repaid past-due loans previously provisioned for at a higher rate. Our grant revenue was up slightly to \$1.8M compared to \$1.6M in Q1 2021, driven by a return to in-person training where public health guidelines allow. We recognized \$27M of contribution revenue in the quarter.

**Conclusion**

Root Capital begins Q2 2022 in a healthy financial position, ready to bolster our clients’ resilience in the face of present and growing challenges. As we enter the second year of our 2025 Strategy, the support of our investors and donors ensures we can help rural communities thrive.

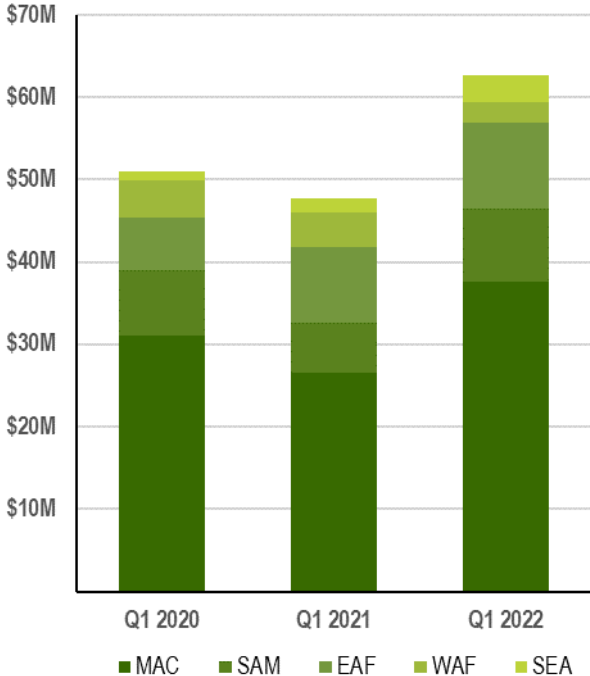
**Businesses Served by Advisory Through Q1**



■ Existing Lending Clients    ■ Potential Lending Clients

**Portfolio Performance**

**Average Balance by Region**



## CLIENT HIGHLIGHT: Flor De Dalia || Nicaragua

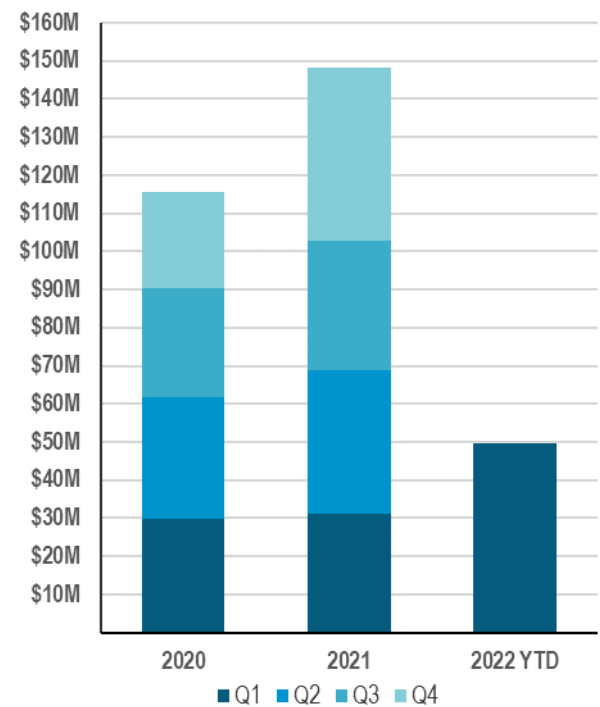
In the foothills of northern Nicaragua, the Flor de Dalia coffee cooperative connects over 200 farming families with higher incomes and better livelihoods. Wiston Vilchez, general manager of the cooperative, explains the cooperative’s mission: “We want to sell coffee of **quality in all meanings of the word**... the quality of the coffee, but also the quality of how this coffee gets from the farm—of what we are doing on the family level, on the community level.”

Root Capital began working with the cooperative in 2017, providing training on business management, quality control, and financial organization. This training set the cooperative up to successfully receive their first loan with Root Capital in 2018. Since then, we’ve grown together, nearly doubling their credit access over the years to a \$230,000 loan for this most-recent harvest.

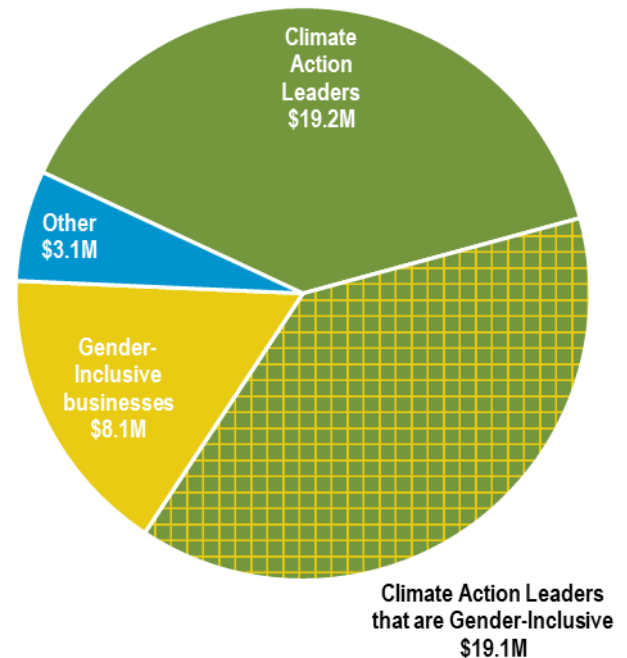
Now, as the cooperative faces down the threat of climate change, we’re equipping them with new tools to adapt. In Q1 2021, our advisors trained Wiston’s team on climate adaptation planning and digital business intelligence. Through use of our [Cultivar Data Platform](#), Flor de Dalia can monitor farm-level climate impacts at the touch of a button and help farmers adapt. Beyond helping individual farmers respond to climate change’s impacts, Flor de Dalia and Root Capital are helping the 200 farmer-members adopt climate smart farming practices and regenerative agriculture to steward the land for generations to come.

Learn more about our work with Flor de Dalia, and watch an interview with Wiston, [on our blog](#).

## Total Loan Disbursements



## Disbursements to Clients by Program



# Impact Dashboard

Impact Results—Through Q1		
2022	2021	
<b>250</b>	258	Total Businesses Reached
Advisory Program		
<b>198</b>	208	Businesses Served by Advisory
<b>871</b>	797	Days of Training Delivered
<b>38%</b>	33%	→ Percent Woman Participants
<b>52%</b>	47%	→ Percent Participants Under the Age of 35
Lending Program		
<b>152</b>	136	Businesses Reached by Lending <sup>1</sup>
<b>57%</b>	49%	→ Percent Gender-Inclusive Businesses <sup>2</sup>
<b>61%</b>	51%	→ Percent Climate Action Leaders <sup>2</sup>
<b>393K</b>	486K	Producers Reached
<b>38%</b>	38%	→ Percent Woman Farmers
<b>17K</b>	14K	Employees Reached
<b>58%</b>	52%	→ Percent Woman Employees
<b>\$673M</b>	\$746M	Purchases from Farmers
<b>\$800M</b>	\$888M	Total Sales for the Businesses
<b>426K</b>	460K	Sustainable Hectares under Management
<b>\$49.5M</b>	\$31.3M	Loan Disbursements
<b>\$27.2M</b>	\$15.1M	→ Disbursements to Gender-Inclusive Businesses <sup>2</sup>
<b>\$38.3M</b>	\$19.1M	→ 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 March 31	
<i>Millions of USD</i>	2022	2021
Cash and Short-Term Investments	29.2	21.2
Loans Receivable	62.7	53.4
Allowance for Credit Losses	(3.9)	(3.3)
Loans Receivable, Net of Allowance	58.9	50.2
Other Assets	45.3	15.7
<b>Total Assets</b>	<b>133.4</b>	<b>87.0</b>
Senior Debt	47.3	45.9
Subordinated Debt	7.6	5.1
Other Liabilities	7.6	6.6
<b>Total Liabilities</b>	<b>62.5</b>	<b>57.5</b>
Net Assets Without Donor Restrictions	43.8	16.0
Net Assets With Donor Restrictions	27.1	13.5
<b>Total Net Assets</b>	<b>70.9</b>	<b>29.5</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>133.4</b>	<b>87.0</b>
Debt-to-Equity Ratio	1.3x	3.2x
Grant Net Assets*	31.0	16.0

\* 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>		
	As of March 31	
<i>Millions of USD</i>	2022	2021
<b>Revenue</b>		
Grant Revenue	1.8	1.6
Contribution Revenue	27.1	.3
Lending Revenue	1.8	1.4
<b>Total Revenue</b>	<b>30.7</b>	<b>3.4</b>
<b>Expenses</b>		
Operating Expenses	3.6	3.6
Provisioning Expense	1.0	(1.0)
Interest Expense	.2	.3
<b>Total Expenses</b>	<b>4.8</b>	<b>2.9</b>
<b>Change in Net Assets without Donor Restrictions</b>	<b>25.9</b>	<b>.5</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 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), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).