

Performance Report

Q2 2023



Above: Members of Gasharu Coffee Ltd in Rwanda hand sort coffee beans in June 2023. Gasharu has been a Root Capital client since 2018.





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

Root Capital's proven credit plus capacity model continues to support the growth and resilience of small- and medium-sized agricultural enterprises across Latin America, Africa, and Indonesia. We are closely monitoring ongoing market volatility, driven largely by inflation, coffee price fluctuations, and changing weather patterns, and the resulting impact on our clients. We remain committed to helping our clients improve market access and manage their price risk so that they are more insulated from this market volatility and can better support their farmers.

Impact

Our firm commitment to additionality—that is, lending to clients who otherwise would not have access to similar financing—was reflected in this quarter's impact results. As we continue to expand access to finance for rural businesses, 91% of our active loans this quarter filled gaps unmet by commercial lenders. The remaining 9% supplemented financing options available in the broader market.

Through the end of the second quarter, Root Capital financed 188 businesses, reaching a total of 508,000 farming families. This represents a 10% increase in the number of clients financed year over year.

Our lending program goes beyond simple access to finance and actively supports gender equity and environmental sustainability. Of the 188 businesses reached through the end of Q2 2023, 55% were climate action leaders and 62% were gender-inclusive businesses, with 33% of our clients meeting both criteria.

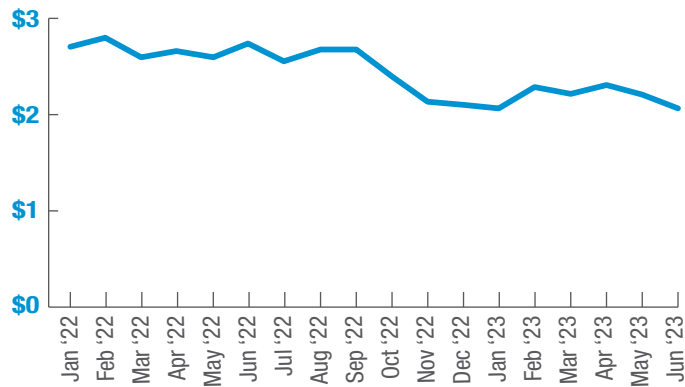
Portfolio Performance

Demand for capital decreased year over year as coffee, cocoa, and macadamia prices remain below 2022 levels and our clients recover from the extreme price volatility of late 2022. During Q2 2023, we disbursed \$31.3 million, representing a 30% decrease from the \$45.3 million disbursed in Q2 2022. Despite the number of disbursements and our average loan balance decreasing this quarter, we are expanding our reach and serving more clients that don't have access to other sources of financing or capacity-building services.

Several factors have driven the lending slowdown, including the drop in coffee price, inflation, global recession, high inventory from last year, and changing weather patterns. These challenges were most keenly felt in South America, where disbursements were down 50% compared to Q2 2022.

The graph below provides context as to how the coffee price changes over the past 18 months have impacted client performance and portfolio quality:

Year Over Year Global Arabica Coffee Prices 2022–2023 (USD per pound)



Source: Federal Reserve Bank of St. Louis

Across the global coffee market, we are also monitoring uncertainty related to upcoming changes to the price minimum for coffee certified by Fairtrade International. When these price adjustments take effect in August 2023, we will continue to evaluate their impact on our clients and the overall demand for fair trade coffee.

Despite softening demand across South America and Africa, the bright spot this quarter in the coffee market was Uganda, where loan disbursements increased an impressive 67% year over year. This was driven by the addition of seven clients since Q2 2022. We continue to expand our presence in both the Arabica and Robusta value chains, where many clients are reaping the benefits of government-sponsored agricultural extension services to help strengthen the farming infrastructure. The increase in activity in Uganda drove a 17% increase in coffee disbursements in East Africa year over year.

Another positive performer this quarter was Central America, where we originated four climate finance loans. These loans are enabling cooperatives and farmers to invest in soil health and to increase their capacity for regenerative agriculture in an economically and environmentally sustainable way. We have been piloting these loans in MAC since 2021 and are excited to continue scaling them up across our portfolio. Across all regions, we disbursed a total of \$452,000 in climate finance loans in Q2 2023.

In other export markets, softening demand also hit the cocoa and macadamia markets this quarter. These exports made up 3% and 4%, respectively, of our Q2 portfolio. The price of macadamia dropped sharply amidst

growing global supply, the diversification of macadamia sources, and consumers feeling the pinch of rising inflation; together, these forces have led to lower demand for financing.

The slowdown in lending activity across regions and markets led to our average portfolio balance decreasing 13% year over year (\$60.5 million in Q2 2022 vs. \$52.8 million in Q2 2023).

Portfolio Quality

Our portfolio quality improved this quarter as we wrote off several nonperforming loans, bringing our Portfolio-at-Risk greater than 90 days from 7.4% (\$4 million) in Q1 2023 to 2.9% (\$1.3 million) in Q2 2023. Year over year our Portfolio-at-Risk greater than 90 days improved slightly from 3.1% in Q2 2022 to 2.9% in Q3 2023.

In Q2 we wrote off \$3.8 million in past due loans, the majority of which were severely impacted by last year's extreme coffee price volatility. Recovery efforts—both guarantees and internal recoveries—recouped nearly \$3M this quarter. As recoveries continued to outpace write-offs, our 12-month net write-off ratio was negative .6%.

Advisory Services

Through the end of Q2 2023, we provided advisory services to 354 clients via a combination of in-person and virtual training sessions and workshops for a total of 2,555 days of training.

A large portion of our advisory services this quarter were concentrated in the region of East Africa, where we provided 1,072 days of training through the end of Q2. Much of this training took place in Uganda, where we made significant progress strengthening our clients' overall business infrastructure and resilience. Our advisory work with coffee clients in Uganda has shown marked influence on the lending portfolio, as evidenced by greater client resilience and an increased number of clients demonstrating credit readiness.

In Uganda, we completed Gender Equity Action Plans with five clients, provided onsite digital business intelligence training with 10 clients, and conducted business

management training with five clients. To boost climate resilience, we began climate adaptation plans with six clients this quarter.

Our Ugandan clients exemplify the potential of Root Capital's credit plus capacity model, showing that when our clients are given targeted capacity strengthening coupled with financing, it generates positive results for their business. Our growing lending program in Uganda demonstrates the effectiveness of this integrated lending and advisory model; see the Portfolio Performance section of this report for more on the strong Q2 lending results of our Ugandan clients.

Financial Results

Late 2022 brought extreme volatility in the price of coffee, which deeply affected our clients. Despite the persistence of challenging market conditions, our balance sheet remains strong. Our low leverage (1.0x debt to equity) coupled with strong recoveries and guarantee instruments buffered the bottom-line impact of this volatility and continued to stabilize our balance sheet.

We generated a \$0.4 million surplus through Q2 2023, compared to the \$27.4M surplus through Q2 2022. (This year-over-year difference in surplus is due in large part to a \$25 million unrestricted contribution we received in early 2022.)

Our net provisioning expense has remained consistent year over year despite a number of write-offs, further demonstrating the effectiveness of our guarantee instruments and our success in recovering previously written-off loans.

We continue to deliberately invest in the people and processes that will enable the future growth of our programs and impact, as well as to strengthen our overall organizational resilience. These investments in our future impact resulted in a 42% increase in operating expenses year over year.

In sum, our conservative level of leverage, risk mitigants, and internal collection efforts have allowed us to maintain a stable balance sheet, despite ongoing market volatility.



Client Highlight: Comon Yaj Noptic

MEXICO

The Comon Yaj Noptic cooperative is nestled deep within the buffer zone of El Triunfo Biosphere Reserve, one of the world's most diverse forest preserves, in Chiapas, Mexico. A Root Capital client since 2010, Comon Yaj Noptic is a small, nimble coffee cooperative whose farmer members are committed to the responsible stewardship of their endangered cloud forest ecosystem. Comon Yaj Noptic has excelled under our credit plus capacity model, exporting organic, fair trade coffee to large international buyers.

Since 2010, Root Capital has provided Comon Yaj Noptic with nine loans totaling more than \$2.5 million. In 2012, we began to couple this financing with an array of advisory services, from business management training to gender lens advising and agronomic advisory services. These advisory services have helped streamline Comon Yaj Noptic's operations and bolstered the cooperative's resilience in the face of agronomic crises, such as coffee leaf rust, and economic challenges. Comon Yaj Noptic is now better prepared to weather future climate and economic crises, as our advisors have provided guidance on building up a savings fund, restructuring debt, and using incremental savings to pay off debt during lean times. Together, Root Capital and Comon Yaj Noptic are strengthening the cooperative's operational efficiency and working toward a brighter future for coffee farmers in rural Mexico.

Impact Dashboard

IMPACT RESULTS THROUGH Q2		
2023	2022	
395	300	Total Businesses Reached
Advisory Program		
354	247	Businesses Served by Advisory
2555	1709	Days of Training Delivered
37%	37%	Percent Women Participants
49%	50%	Percent Participants Under the Age of 35
Lending Program		
188	171	Businesses Reached by Lending ¹
62%	58%	Percent Gender-Inclusive Businesses ²
55%	60%	Percent Climate Action Leaders ²
508K	509K	Producers Reached
35%	37%	Percent Women Farmers
23K	19K	Employees Reached
65%	56%	Percent Women Employees
\$677M	\$746M	Purchases From Farmers
\$815M	\$884M	Total Sales for the Businesses
415K	479K	Sustainable Hectares Under Management
\$67.6M	\$94.8M	Loan Disbursements
\$41.9M	\$47.5M	Disbursements to Gender-Inclusive Businesses ²
\$40.6M	\$61.1M	Disbursements to Climate Action Leaders ²

1 "Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period.

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

See Terms and Acronyms section for definitions.

Balance Sheet & Statement of Activities

BALANCE SHEET		(as of June 30th)	
Millions of USD	2023	2022	
Cash & Short-Term Investments	60.5	50.8	
Loans Receivable	46.8	64.7	
Allowance for Credit Losses	(2.1)	(2.9)	
Loans Receivable, Net of Allowance	44.8	61.8	
Grants Receivable and Other Assets	19.9	21.3	
Total Assets	125.2	133.9	
Senior Debt	42.7	48.6	
Subordinated Debt	6.8	7.6	
Other Liabilities	3.2	7.2	
Total Liabilities	52.7	63.5	
Net Assets without Donor Restrictions	49.7	45.0	
Net Assets with Donor Restrictions	22.8	25.4	
Total Net Assets	72.5	70.4	
Total Liabilities & Net Assets	125.2	133.9	
Debt-to-Equity Ratio	1.0x	1.2x	
Grant Net Assets*	34.1	28.8	

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

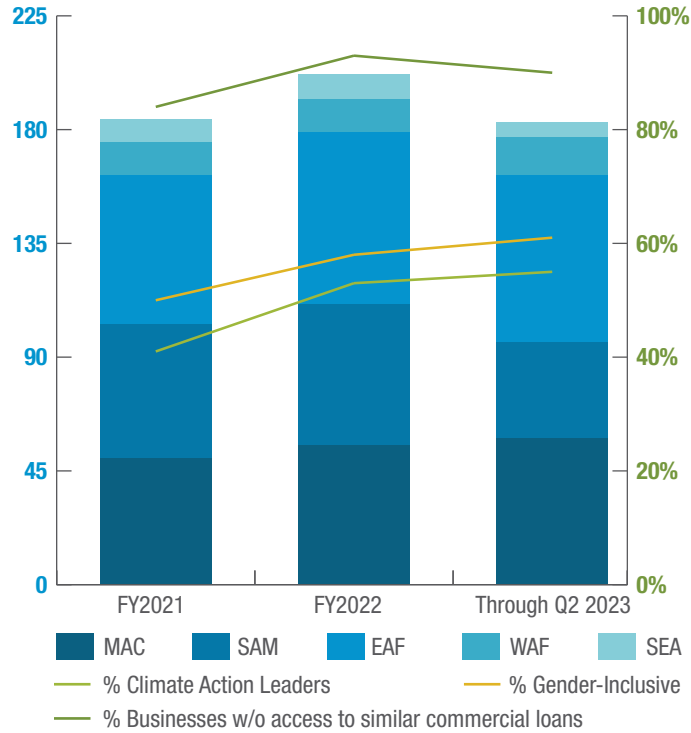
Reclassifications may have been made in the prior year to conform with the current year's presentation.

STATEMENT OF ACTIVITIES		(Year to date June 30th)	
Millions of USD	2023	2022	
Revenue			
Grant Revenue	10.0	8.0	
Contribution Revenue	0.2	25.1	
Lending Revenue	2.5	3.5	
Interest & Other Income	0.8	0.0	
Total Revenue	13.4	36.7	
Expenses			
Operating Expenses	12.5	8.8	
Provisioning Expense	0.1	0.1	
Interest Expense	0.4	0.5	
Total Expenses	13.1	9.4	
Surplus	0.4	27.4	

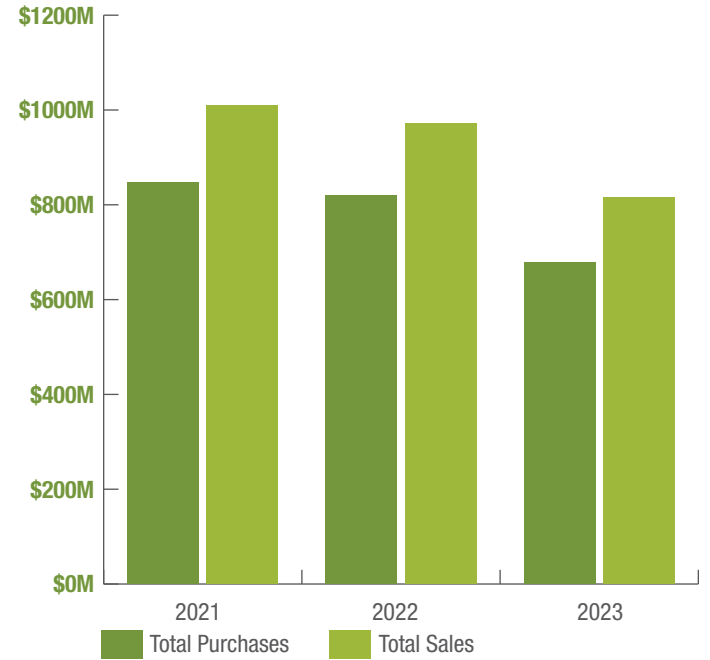
Performance

Lending Impact

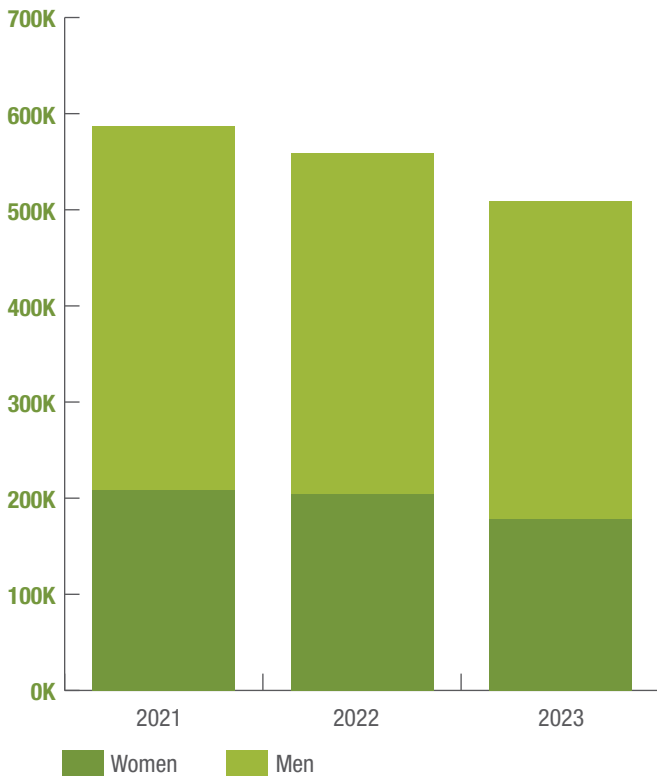
Businesses Reached (Lending Program) Through Q2 2023



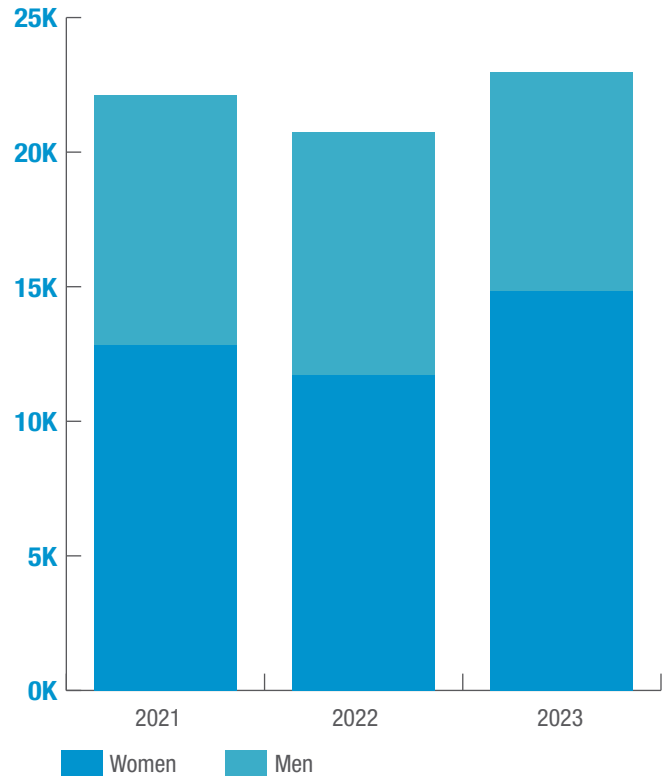
Purchases From Farmers & Client Businesses' Sales Through Q2 2023



Farmers Supplying Businesses Through Q2 2023

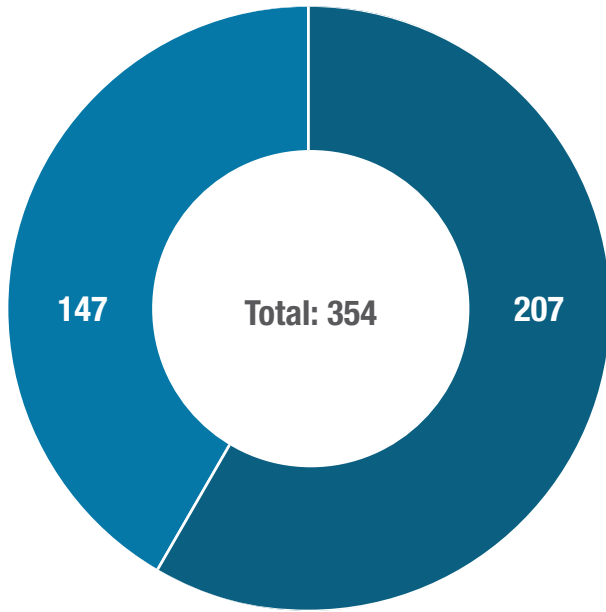


Employees Reached Through Q2 2023



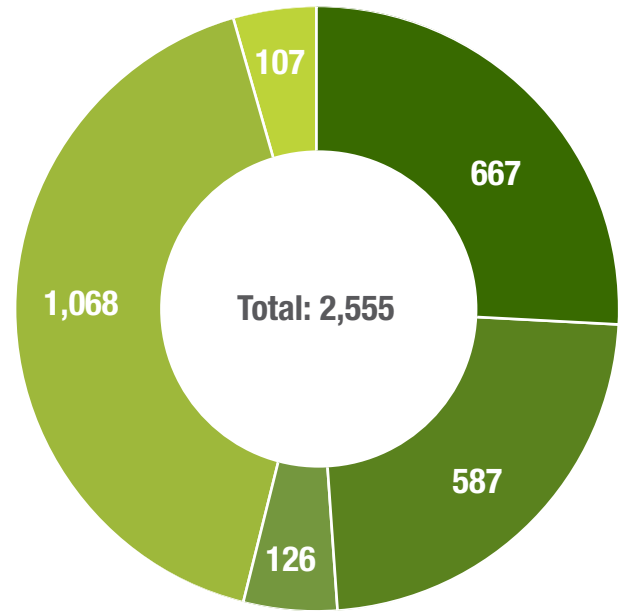
Advisory Impact

Businesses Served by Advisory Through Q2 2023



Existing Lending Clients Potential Lending Clients

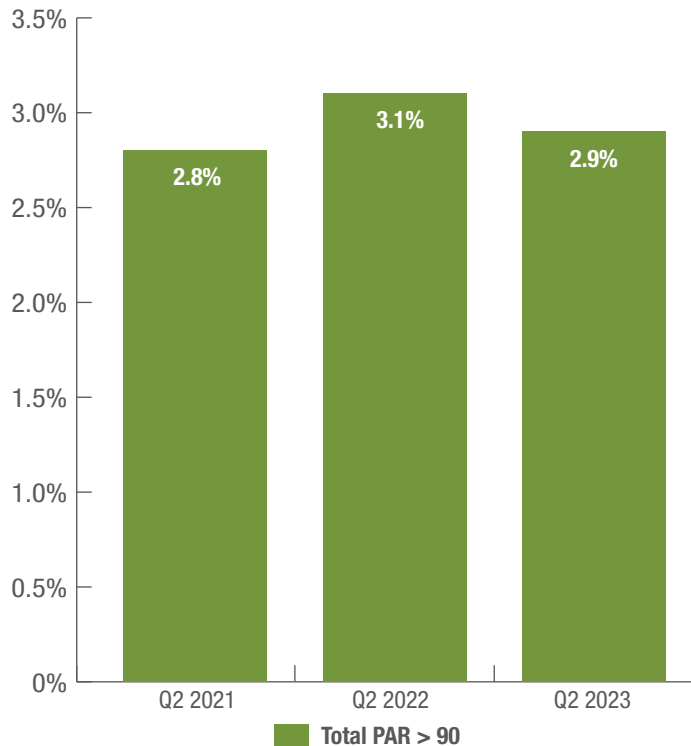
Days of Training Delivered Through Q2 2023



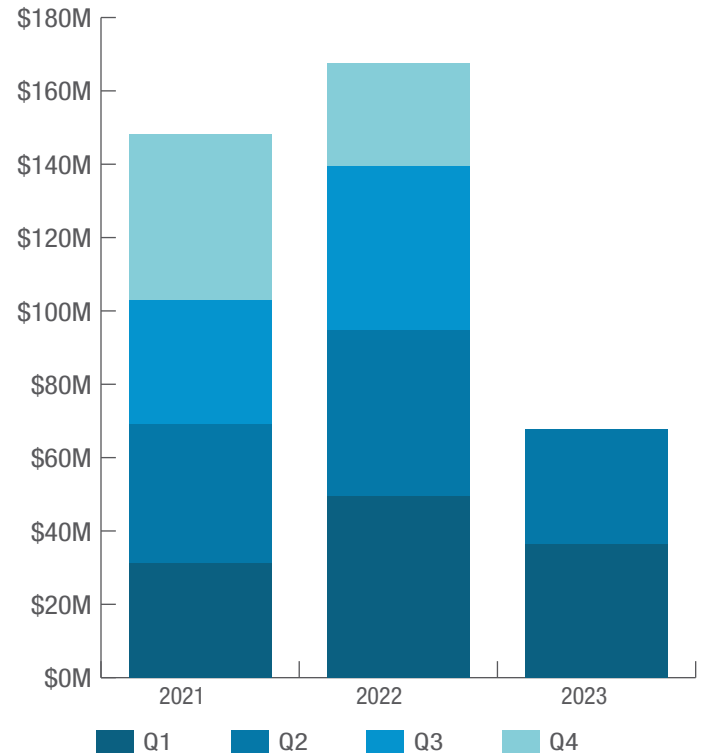
MAC SAM WAF EAF ASI

Portfolio Performance

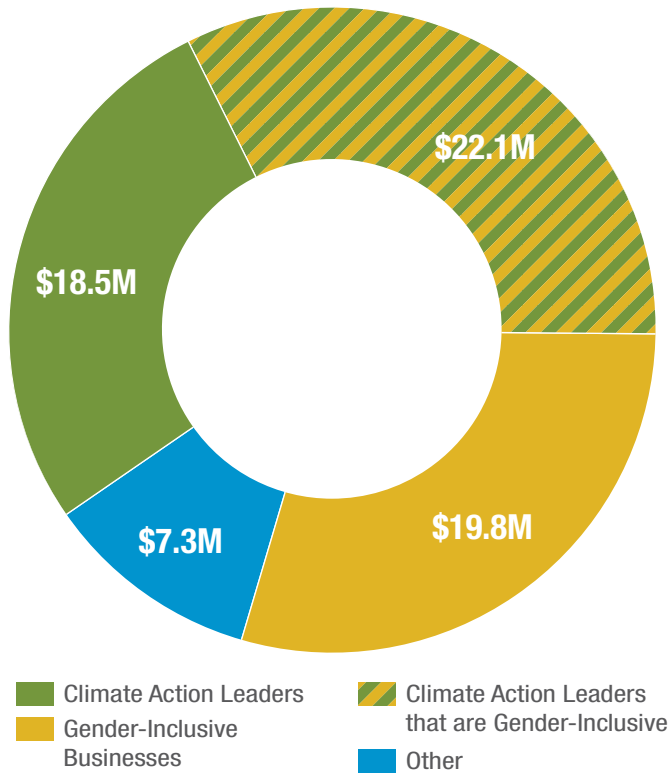
Portfolio-at-Risk > 90 Days Through Q2 2023



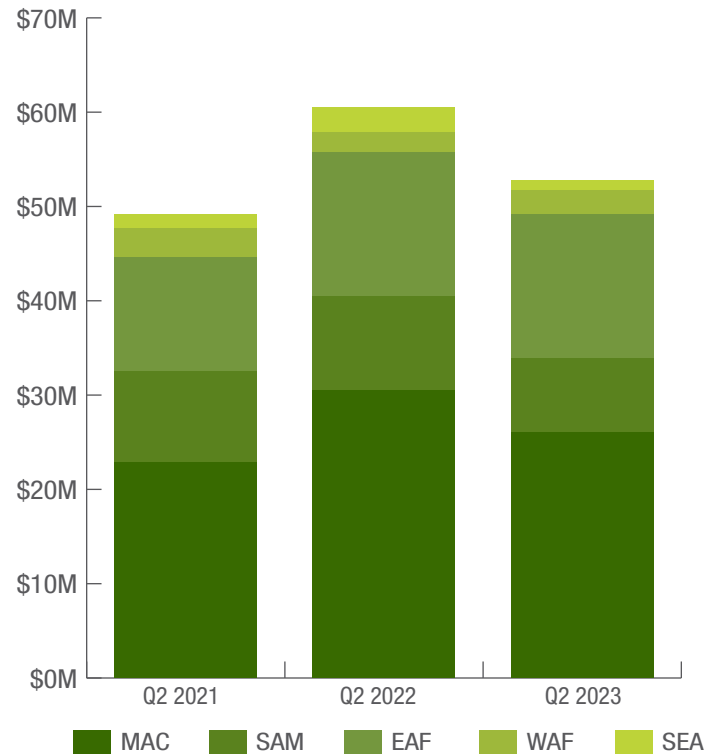
Total Loan Disbursements Through Q2 2023



Disbursements to Clients by Program Through Q2 2023



Average Balance by Region Through Q2 2023



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 or email 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), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).