

Performance Report

Q4 2021



Root Capital is a nonprofit that helps agricultural enterprises grow so they can build inclusive, sustainable prosperity in rural communities. Since 1999, Root Capital has distributed \$1.6 billion to improve the lives of over 10 million people in farming families.

Overview

Root Capital is proud to report an impactful fourth quarter as we close the books on 2021. Strong lending, reinforced by a healthy portfolio, allowed us to deepen our support for agricultural businesses even as rural communities faced down supply chain challenges, volatile commodity prices, and the accelerating impacts of climate change.

Impact

In 2021, Root Capital mobilized \$148.3M in financing to 184 businesses, reaching 591,000 smallholder farmers and employees. In turn, these businesses paid nearly \$847M directly to farmers. This year, 29% of our clients fit our criteria for being both gender-inclusive businesses *and* climate action leaders. This means that they are expanding opportunities for rural women while helping their communities adapt to climate change. In total, 58% of businesses in our lending portfolio (106 clients) were gender-inclusive and 53% (98) were climate action leaders. In Q4, 90% of our active loans filled credit needs unmet by commercial lenders. This reflects our continued commitment to those agricultural enterprises least served by traditional financial markets.

In 2021, Root Capital's advisory services equipped leaders and employees at 361 businesses with tools to improve their financial health, build farmers' agronomic knowledge, and foster long-term resilience. These services help build our pipeline of potential clients while amplifying our impact in rural communities.

This quarter, we published exciting findings about the impact of longtime client Faranaya, a grain aggregator working with 3,600 farmers in Ghana. With the support of Mastercard Foundation, we found that farmers affiliated with Faranaya increased their sorghum production and [grew their incomes by 33%](#) over their time with the business.

Portfolio Performance

In Q4 2021, high coffee prices continued to drive increased demand for financing from our clients in Latin America. Paired with slightly extended repayment timelines due to shipment delays, our average outstanding portfolio balance was \$52M, up from \$41M in the final quarter of 2020. This marks an increase of nearly 30%.

The increase in the portfolio balance was driven almost entirely by businesses in the coffee sector, which made up 87% of our portfolio balance in Q4 2021 — up from 77% in Q4 2020. Altogether, loans to coffee, cocoa, and macadamia businesses composed 94% of our portfolio balance, demonstrating our growing commitment to these sectors where we have proven our model can be transformative.

As was reported last quarter, the international market price for coffee is at one of its highest points in the last ten years, up 90% at the end of 2021 when compared to the end of 2020. This is driven primarily by global supply chain disruptions and lower coffee yields caused by adverse weather in Brazil brought about by [climate change](#). We are working with our clients to ensure they have the access to finance needed to connect their farmers to these higher prices. In South America, disbursements this quarter were \$11.5M, an increase of 133% when compared to the same period in 2020. In Mexico and Central America, where the coffee harvest is well underway, disbursements in Q4 2021 alone rose to \$23.8M, 60% growth compared to Q4 2020. These rising payments reflect our ability to quickly meet our clients' needs for working capital as markets change.

In Indonesia, we continue to support a small, but impactful, cohort of coffee enterprises as they advance opportunities for women in the region—all of our clients in the country are either women-led or gender-inclusive. We are pleased to report that disbursements in Q4 2021 were \$3.7M, nearly double that of Q4 2020. Coffee enterprises in East Africa posted similarly encouraging early-season results, but we will have more information as the region's harvest develops over the next two quarters.

Portfolio Quality

Our portfolio quality this year continues to be strong. Portfolio-at-Risk (PAR) greater than 90 days decreased modestly to \$1.8M (3.1% of the outstanding portfolio) from \$2M (3.7%) in Q3 2021. This is consistent with the end of 2020 and is down from \$6.2M (13%) in 2019, reflecting sustainable changes to our portfolio makeup. Over the past twelve months, we wrote off \$3.1M of past-due loans and recovered \$1.6M of previously written-off principal, resulting in a trailing 12-month net write-off ratio of 2.8%, down from 5.4% in the prior quarter.

Advisory Services

In 2021, Root Capital provided a record 4,155 days of training to business leaders and employees at 361 agricultural enterprises. As we continue to build the business skills, agronomic capacity, and inclusivity of agricultural enterprises, we are particularly excited by the expansion of our digital business intelligence (DBI) services. This quarter, we hired our first DBI advisor in Indonesia and brought our DBI diagnostic tool—piloted in Latin America—to six organizations in Rwanda. This DBI tool will allow businesses to develop data-informed climate action plans to help their farmers adapt and will improve commercial monitoring systems so businesses can better manage amid volatile price fluctuations. This expansion means that our DBI services are now available in every region across our portfolio.

In Latin America, we continue to advance our new gender equity advisory service, which helps businesses become more inclusive and invests in leadership and other opportunities for women. This quarter, we conducted outreach and awareness sessions with clients,

developed unique curricula for workshops on gender in business and financial education for women, and worked with clients to draft tailored gender equity plans. These plans will help businesses align practices with policies to become more inclusive and expand opportunities for rural women.

Financial Results

At the end of the fourth quarter, Root Capital's \$56M outstanding lending portfolio was supported by \$17.9M in unrestricted net assets, \$7.6M in subordinated debt, and \$45.3M of senior notes for a debt-to-equity ratio of 3x. In addition, we had \$25.7M in restricted net assets and \$3.4M of additional off-balance-sheet grants that will be recognized on our balance sheet in future periods.

For 2021, Root Capital is pleased to report a surplus of \$2.4M compared to an \$883K surplus in 2020. This surplus is associated with significant improvement in our portfolio quality, combined with repayments from several legacy nonperforming loans previously provisioned for at higher rates. In 2021, we recovered \$1.6M from previously written-off loans. These recoveries, along with the continued strong portfolio performance, resulted in a provisioning expense of \$0.5M versus \$2.9M in 2020.

Revenue realized from restricted grants and unrestricted contribution revenue was \$14M compared to \$15.8M in 2020. Pandemic travel restrictions continue to delay previously planned in-person activities, resulting in lower programmatic expenses and, therefore, reducing utilization of related grant revenue. The lending portfolio generated revenue of \$6.1M, a 17% increase from the same period last year.

2021 was our most successful fundraising year to date. Institutions, foundations, and individuals committed over \$26M to support our mission of building prosperity and resilience in rural communities. As Root Capital enters 2022, we have a strong balance sheet and healthy portfolio, setting us up for success as we accelerate progress on our [five-year strategic plan](#).

Conclusion

Throughout 2021, Root Capital's healthy portfolio enabled us to drive deep, sustainable impact in rural communities around the world. As the coffee price continues to rise, we are poised to help our client agricultural businesses take advantage of the bull market while providing the business management capacity necessary to protect against risk. As we enter 2022, Root Capital is set to grow our portfolio responsibly as we look to deepen our partnership with the businesses and communities that need us most.

2021 Dashboard

Impact Results

398	Total Businesses Reached
	Advisory Program
361	Businesses Served by Advisory
4,155	Days of Training Delivered
36%	→ Percent Woman Participants
45%	→ Percent Participants Under the Age of 35
	Lending Program
184	Businesses Reached by Lending ¹
58%	→ Percent Gender-Inclusive Businesses
591K	Producers Reached
36%	→ Percent Woman Farmers
22K	Employees Reached
58%	→ Percent Woman Employees
\$847M	Purchases from Farmers
\$1.0 B	Total Sales for the Businesses
560K	Sustainable Hectares under Management
\$148.3M	Loan Disbursements
\$80.5M	→ Disbursements to Gender-Inclusive Businesses ²
\$83.5M	→ 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.

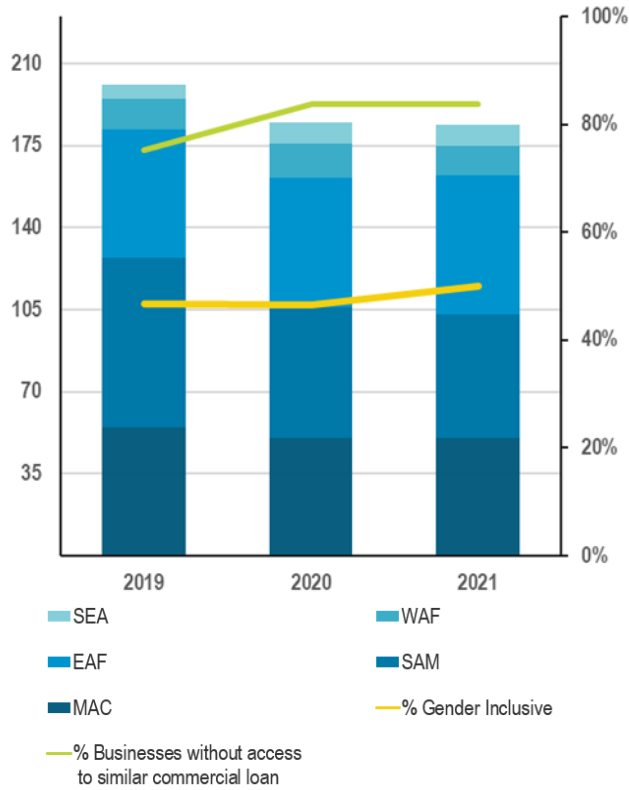
² A number of our client businesses are both gender inclusive and climate action leaders. Because of this, disbursements to those businesses are counted under both of these totals.

See Terms and Acronyms on page 11 for definitions.

Results

Lending Impact

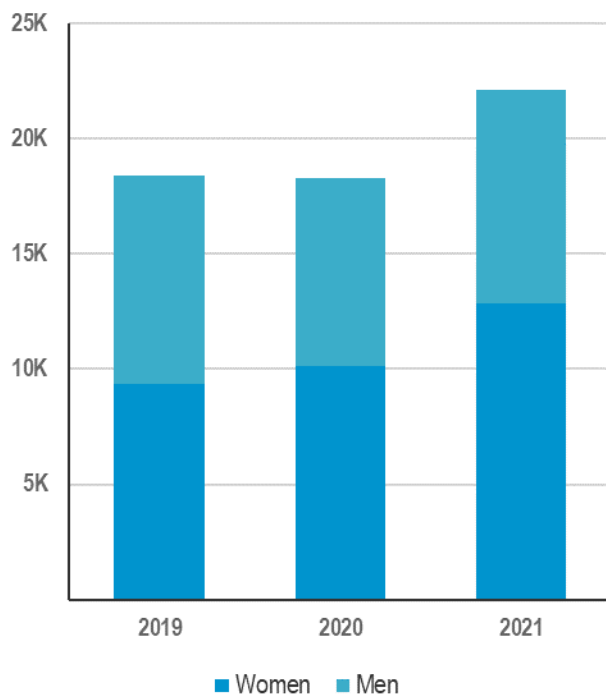
Businesses Reached (Lending Program)



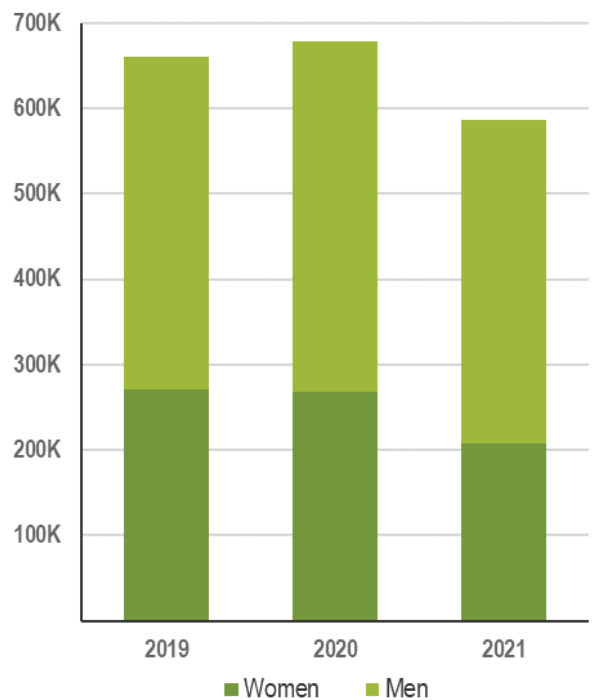
Purchases from Farmers and Client Businesses' Sales



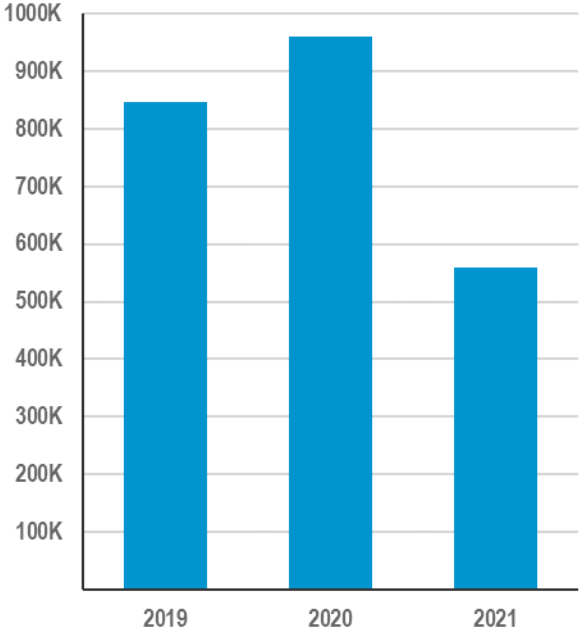
Employees Reached



Farmers Supplying Businesses

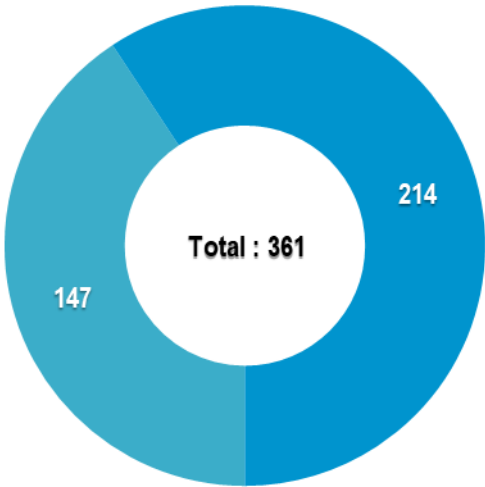


Sustainable Hectares Under Management



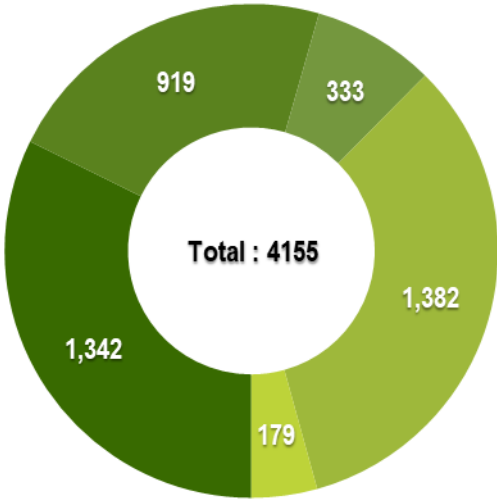
Advisory Impact

Businesses Served by Advisory Through Q4



Existing Lending Clients Potential Lending Clients

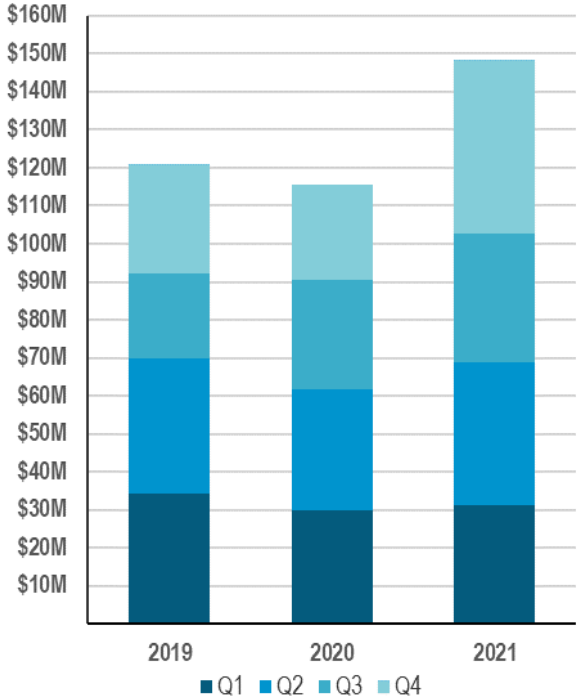
Days of Training Delivered Through Q4



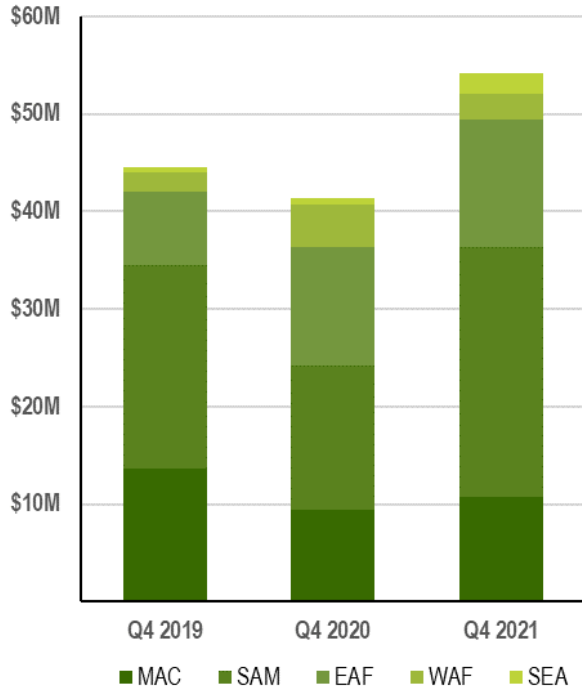
MAC SAM WAF EAF SEA

Portfolio Performance

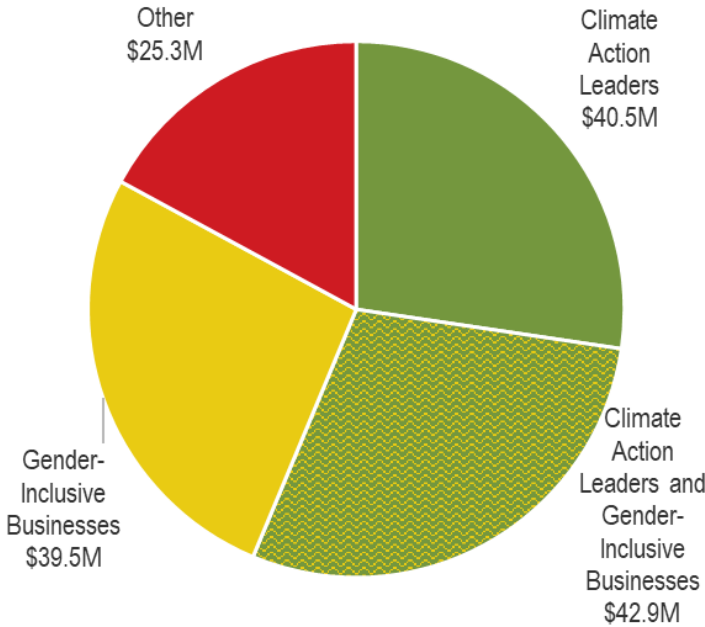
Total Loan Disbursements



Average Balance by Region



Disbursements to Clients by Program



Balance Sheet & Statement of Activities

Balance Sheet		
	As of December 31st	
<i>Millions of USD</i>	2021	2020
Cash and Short-Term Investments	33.9	32.5
Loans Receivable	56.4	44.9
Allowance for Credit Losses	(2.8)	(4.5)
Loans Receivable, Net of Allowance	53.6	40.4
Other Assets	13.3	11.1
Total Assets	100.9	84.0
Senior Debt	45.3	44.5
Subordinated Debt	7.6	7.1
Other Liabilities	4.3	3.4
Total Liabilities	57.2	55.0
Unrestricted Net Assets	17.9	15.5
Net Assets with Restrictions	25.7	13.5
Total Net Assets	43.6	29.0
Total Liabilities & Net Assets	100.9	84.0
Debt-to-Equity Ratio	3.0x	3.3x
Grant Net Assets*	29.1	16.3

* 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 December 31st

<i>Millions of USD</i>	2021	2020
Revenue		
Grant Revenue	9.0	8.9
Contribution Revenue	5.0	6.9
Lending Revenue	6.1	5.2
Interest and Other Income	.2	.8
Total Revenue	20.3	21.9
Expenses		
Operating Expenses	16.5	16.8
Provisioning Expense	.5	2.9
Interest Expense	1.0	1.4
Total Expenses	17.9	21.0
Surplus	2.4	.9

Statement of Activities represents the financial results without donor restrictions.

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.

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, 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).



Kenia Ubada, general manager of UCCEI, in the cooperative's warehouse among sacks of coffee.

Client Profile

UCCEI

Location: Matagalpa, Nicaragua

Nestled in Nicaragua's northern mountains, the woman-led UCCEI cooperative has been helping farmers improve their livelihoods since its founding in 2009. But Kenia Ubada, one of the founders of UCCEI, recalls how difficult it was to launch the cooperative without access to finance they needed to reach premium markets. **"It was hard enough learning to manage the business,"** she said. **"Thank goodness Root Capital came, and provided us with our very first loan of \$300,000 back in 2010. They trusted us, believed in us."**

More than a decade later, Kenia is the cooperative's general manager, but the precarious political situation in Nicaragua means that Root Capital remains UCCEI's only source of financing. Despite these continuing challenges, we have been able to grow the cooperative's line of credit from that initial \$300K loan to nearly \$2.5M today. As a result, the cooperative's sales have grown too, from \$950K in 2013 to well over \$4.5M in 2020. Now, as the cooperative takes advantage of higher coffee prices on the international market, **UCCEI utilized more than 3X as much credit from Root Capital in Q4 2021 compared to the same period last year.** This means more coffee brought to market and more money in the pockets of farmers.

Our advisory team pairs this credit with training on business skills, including a workshop on financial management this quarter. This credit-plus-capacity model ensures UCCEI can make market fluctuations work for their farmers while growing sustainably over the long term.