

Performance Report

Q1 2023



Above: CEO Willy Foote, Board Chair Ana Zacapa, and Chief Strategy Officer Alexandra Tuinstra joined Root Capital staff in Honduras in March to meet with clients.





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 innovative blended finance model enables us to go where other lenders will not, stay when others leave, and advance our mission of unlocking the potential of agricultural small- and medium-sized enterprises to become engines of impact within their rural communities. Despite the challenging headwinds of rising inflation and global market uncertainty, we grew our reach this quarter with the most critically underserved businesses by expanding their access to finance and building their capacity. Thanks to a healthy financial base and prudent management of risk, we are well positioned to continue investing in riskier markets, weather the inherent volatility that comes with high-impact lending, and drive greater impact for our clients.

Impact

Root Capital financed 161 agricultural enterprises in Q1, which in turn generated \$587M in income for more than 324,000 smallholder farmers. Of these businesses, 53% were climate action leaders and 59% were gender-inclusive, with 31% of our clients meeting both of these criteria.

In addition to providing financing, we offered agronomic support to farmers, as well as training to improve their financial management and business skills, promote gender equity, and digitize their operations. In the first quarter, we trained leaders and employees from 278 businesses.

In Q1, 92% of our active loans filled gaps not met by commercial lenders. The remaining 8% supplemented financing options available in the broader market, helping small and medium enterprises take their operations to the next level.

Portfolio Performance

Root Capital's portfolio performance in Q1 was consistent with recent quarters as uncertain global market conditions and softening demand in commodities markets continued to slow lending. Our disbursements were down 27% year-over-year compared to Q1 2022. This slowdown can largely be attributed to the international coffee price, which decreased more than 25% in the latter half of last year, causing a significant drop in demand for financing from coffee businesses. This decrease was somewhat offset by an increase in the number of businesses reached—from 152 in Q1 2022 to 161 in Q1 2023. As a result, our average balance decreased—from \$62.7M in Q1 2022 to \$48.7M in Q1 2023—as the effect of the surge in coffee price wore off.

During the first three quarters of 2022, high coffee prices drove demand for financing. In Q4, coffee prices fell precipitously in response to increased economic uncertainty. This resulted in lower demand for

financing from our clients in Central America as clients delayed closing loans and drawing funds. In Q1 2023, demand increased 29% over the previous quarter with disbursements totaling \$36M.

The harvest in Mexico and Central America drove the bulk of lending activity in the first quarter. Though year-over-year disbursements in the region mirrored the decrease in global coffee prices, we continued to accelerate the reach of our lending program by financing 11 new clients, versus six in Q1 2022.

In East Africa, coffee disbursements in Rwanda and Uganda increased 23% year-over-year, driven largely by activity with new early-stage clients. Demand for Uganda's coffee remains high, and we anticipate continuing to grow our reach in the country. Macadamia clients in Kenya faced multiple challenges, including lower macadamia prices resulting from last year's bumper crop coupled with softening global demand due to inflationary pressures.

In South America, Colombia also outperformed Q1 2022 disbursements, with disbursements of \$1.1M versus \$500K in Q1 2022. As is typical, the bulk of South American lending will occur later in Q2 when the coffee harvest in Peru is at its peak.

Portfolio Quality

Our Portfolio-at-Risk (PAR) greater than 90 days increased to \$4M (7.4% of the outstanding portfolio balance) from \$1.7M (2.7%) in Q1 2022 and \$2.6M (5.6%) in Q4 2022. Coffee price volatility in the region has greatly impacted Root Capital's South American clients, particularly those in Peru, and resulted in delayed repayments. Of the \$4M PAR balance, 60% is in Peru. However, risk to our balance sheet is minimized through guarantee instruments, which covered almost 75% of our global lending portfolio at quarter end. Guarantees serve as an important element of our risk mitigation strategy. Additionally, recoveries in the quarter again outpaced write-offs, resulting in a negative 2.1% 12-month net write-off ratio.

Advisory Services

Root Capital's Advisory Services team reached a total of 278 businesses in Q1, compared to 198 total businesses in Q1 2022. In the first quarter, we provided clients with a total of 1,034 advisory days and hosted 20 training workshops.

We had a strong start to our Talent Partnership program, which places recent graduates in internships with clients. In Q1, we placed 57 interns with agribusiness clients seeking to address specific gaps in key departments, such as administration and accounting. Both parties benefit from the program: the businesses work toward strengthening systems and processes and securing financing for their operations and the interns come away with professional skills that they can use in future roles.

Agronomy-focused Talent Partnerships play a key role in East Africa, where interns collect farming data and recommend best practices to agribusinesses. This data helps farmers better understand their productivity and determine useful interventions to boost the overall climate resilience of their businesses. At Bukonzo Organic, a Root Capital client in Western Uganda, intern Ritah Mbambu is helping the business collect and visualize data so that it can be used by management for making agronomic decisions, such as utilizing different fertilizer techniques or shade trees. You can read more about the experience of Bukonzo Organic Farmers Cooperative Union, a woman-owned coffee cooperative that has benefitted from multiple advisory services, in the client highlight section below.

Financial Results

As of March 31, 2023, Root Capital had more than \$50M of unrestricted net assets on our balance sheet and a financial leverage ratio of 1.0x. During the first quarter of 2023, we generated a \$1.0M increase in unrestricted net assets due to strong grant revenue and well-controlled provisioning expenses. These strong Q1 financial results offset investments in operating expenses and reductions in lending revenue owing to the previously-discussed decrease in the lending portfolio balance.

Our lending portfolio generated revenue of \$1.0M—down 43% from Q1 2022. This decrease was driven largely by our smaller portfolio size as a result of reduced coffee prices.

Our gross provisioning at the close of Q1 was favorable due to the successful recoveries of previously written off clients' loans in prior years. We had overall negative net provisioning due to higher-than-expected recoveries from clients, leaving us well positioned as a risk-resilient organization.

Our operating expenses increased to \$5.2M in Q1 as we continued to add staff, strengthen our infrastructure, and invest in the systems necessary to expand our impact. Our grant revenue was \$4.9M, up 29% from \$3.8M in Q1 2022.

Our lending balance was \$54.3M at the close of Q1, a 14% decrease from Q1 2022. As noted above, this reduction reflects the impact of volatile global commodities markets. Our portfolio is supported by \$50.3M in unrestricted net assets, \$6.8M in subordinated debt, and \$45.6M in senior notes. Additionally, we hold \$39.1M in grant-funded restricted net assets to support our future programmatic activity.

Conclusion

Amidst unfavorable macroeconomic factors, including decreasing coffee and macadamia prices, softening demand, high inventory, and overall market volatility, Q1 had its fair share of challenges. Root Capital's loan volume mirrored overall market trends and reflected our renewed focus on new, smaller clients and climate lending. We ended the first quarter with a solid balance sheet, including an increase in unrestricted net assets and strong restricted grant releases, that will enable us to support our clients and farming families around the world.



Client Highlight: Bukonzo Organic Farmers Cooperative Union

EAST AFRICA

General Manager of Bukonzo Organic Farmers Cooperative Union, Josinta Kabughu, is a rarity in Western Uganda: a woman managing a business within the highly male-dominated agricultural sector. Josinta knows the impacts of climate change firsthand, as do the 1,260 women members of Bukonzo, who have less access to money, resources, and training to build climate resilience than male farmers. Bukonzo, a cooperative union consisting of 12 coffee cooperatives in the foothills of the Rwenzori Mountains in Uganda, is using credit and training from Root Capital to help its farmers become more resilient to climate impacts. Since 2020, we have provided Bukonzo with \$1.5 million in credit, as well as training. To date, Bukonzo has received our Agronomic & Climate Resilience Advisory services and participated in our Talent Partnerships program. This program places young graduates into internships at local agricultural enterprises, creating a win-win situation: jobs for the next generation and a stronger talent pool for rural businesses. Thanks to Root Capital's credit plus capacity model, Bukonzo is empowering women coffee farmers and equipping them for a more prosperous, resilient future.

Impact Dashboard

IMPACT RESULTS THROUGH Q1		
2023	2022	
320	250	Total Businesses Reached
Advisory Program		
278	198	Businesses Served by Advisory
1,034	871	Days of Training Delivered
35%	38%	Percent Women Participants
50%	52%	Percent Participants Under the Age of 35
Lending Program		
161	152	Businesses Reached by Lending ¹
59%	57%	Percent Gender-Inclusive Businesses ²
53%	61%	Percent Climate Action Leaders ²
324K	393K	Producers Reached
37%	38%	Percent Women Farmers
16K	17K	Employees Reached
61%	58%	Percent Women Employees
\$587M	\$673M	Purchases From Farmers
\$493M	\$800M	Total Sales for the Businesses
328K	426K	Sustainable Hectares Under Management
\$36.4M	\$49.5M	Loan Disbursements
\$22.9M	\$27.2M	Disbursements to Gender-Inclusive Businesses ²
\$23.5M	\$38.3M	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 March 31st)	
Millions of USD	2023	2022	
Cash & Short-Term Investments	63.6	29.2	
Loans Receivable	54.2	62.7	
Allowance for Credit Losses	(2.8)	(3.9)	
Loans Receivable, Net of Allowance	51.5	58.9	
Grants Receivable and Other Assets	16.6	45.3	
Total Assets	131.7	133.4	
Senior Debt	45.6	47.3	
Subordinated Debt	6.8	7.6	
Other Liabilities	3.1	7.6	
Total Liabilities	55.5	62.5	
Net Assets without Donor Restrictions	50.4	43.6	
Net Assets with Donor Restrictions	25.8	27.3	
Total Net Assets	76.2	70.9	
Total Liabilities & Net Assets	131.7	133.4	
Debt-to-Equity Ratio	1.0x	1.3x	
Grant Net Assets*	39.1	31.0	

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

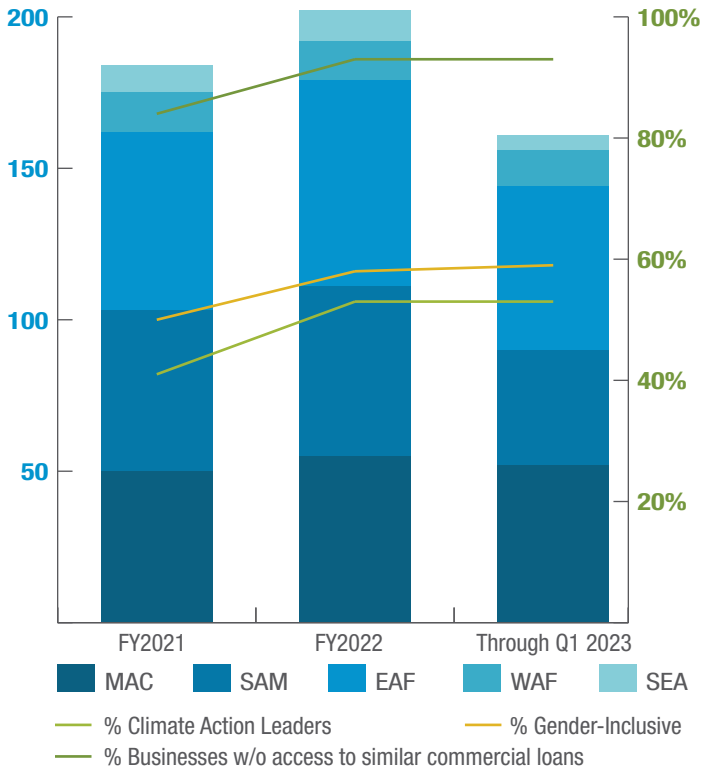
Reclassifications may have been made in the prior year to conform with the current year's presentation.

STATEMENT OF ACTIVITIES		(Year to date March 31st)	
Millions of USD	2023	2022	
Revenue			
Grant Revenue	4.9	3.8	
Contribution Revenue	0.1	25.1	
Lending Revenue	1.0	1.8	
Interest & Other Income	0.4	0.0	
Total Revenue	6.4	30.7	
Expenses			
Operating Expenses	5.2	3.6	
Provisioning Expense	(0.1)	1.0	
Interest Expense	0.2	0.2	
Total Expenses	5.3	4.8	
Surplus	1.0	25.9	

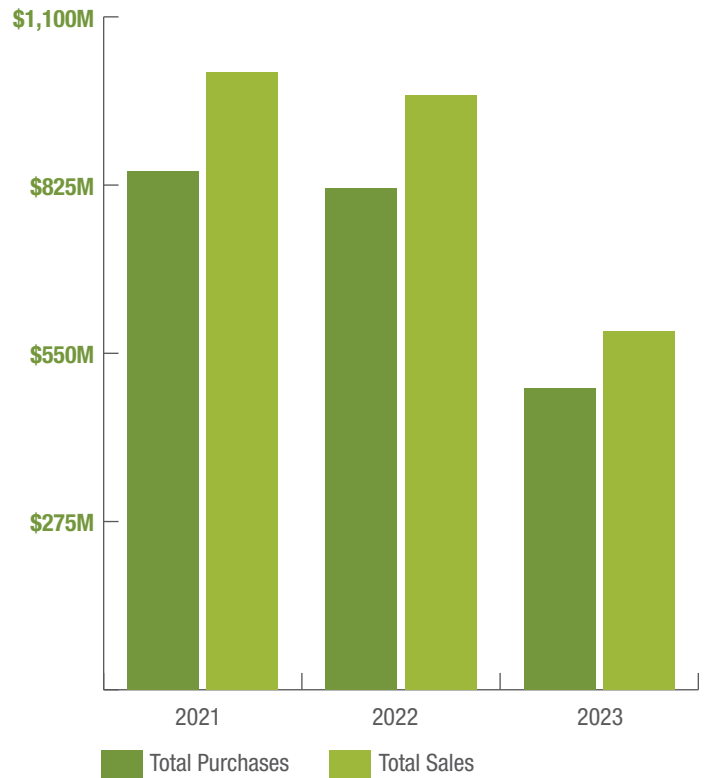
Performance

Lending Impact

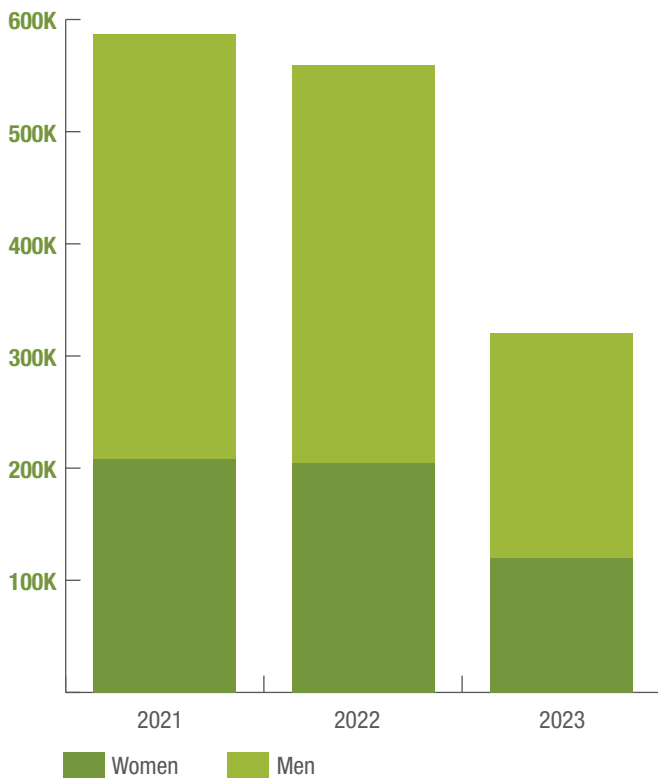
Businesses Reached (Lending Program)



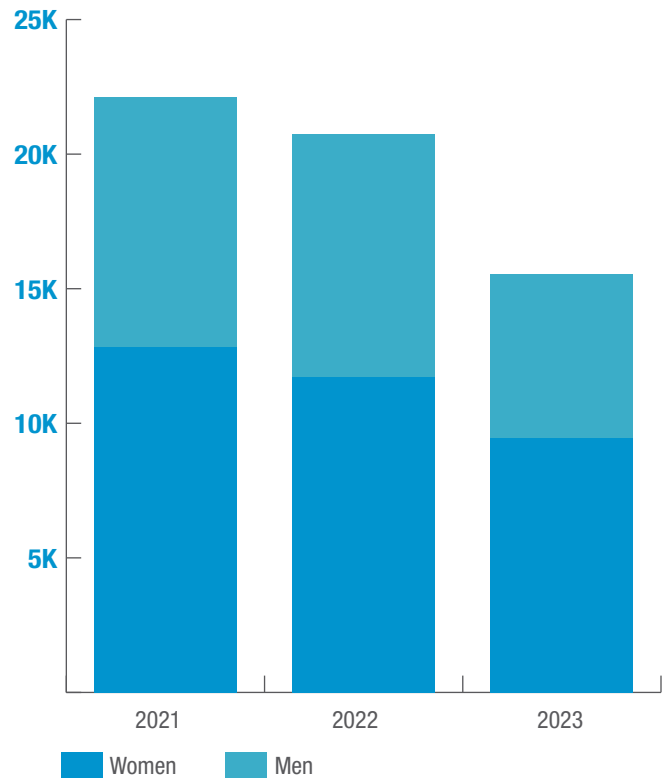
Purchases From Farmers & Client Businesses' Sales



Farmers Supplying Businesses

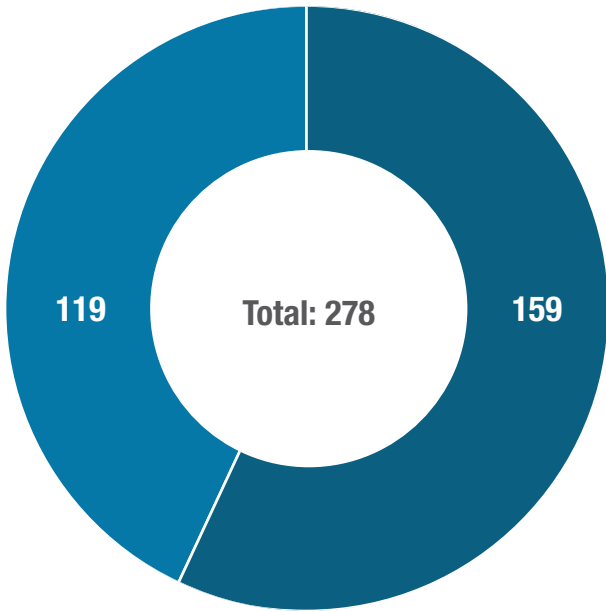


Employees Reached



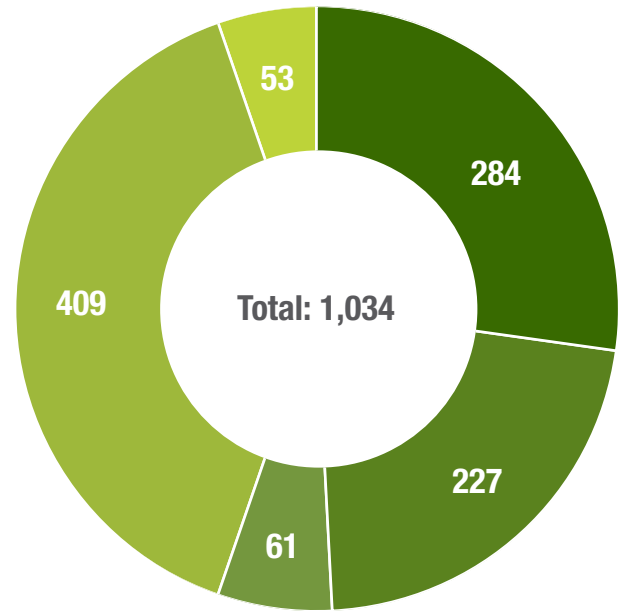
Advisory Impact

Businesses Served by Advisory Through Q1



Existing Lending Clients Potential Lending Clients

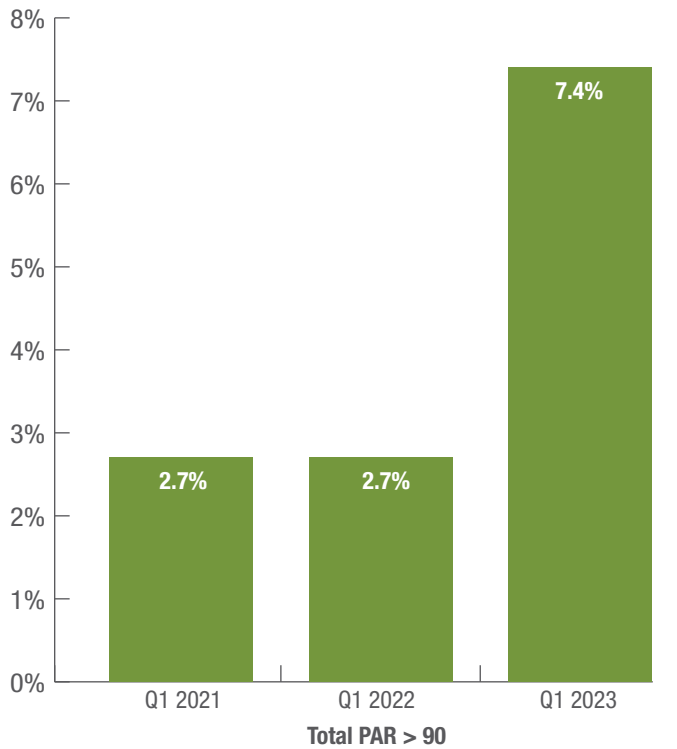
Days of Training Delivered Through Q1



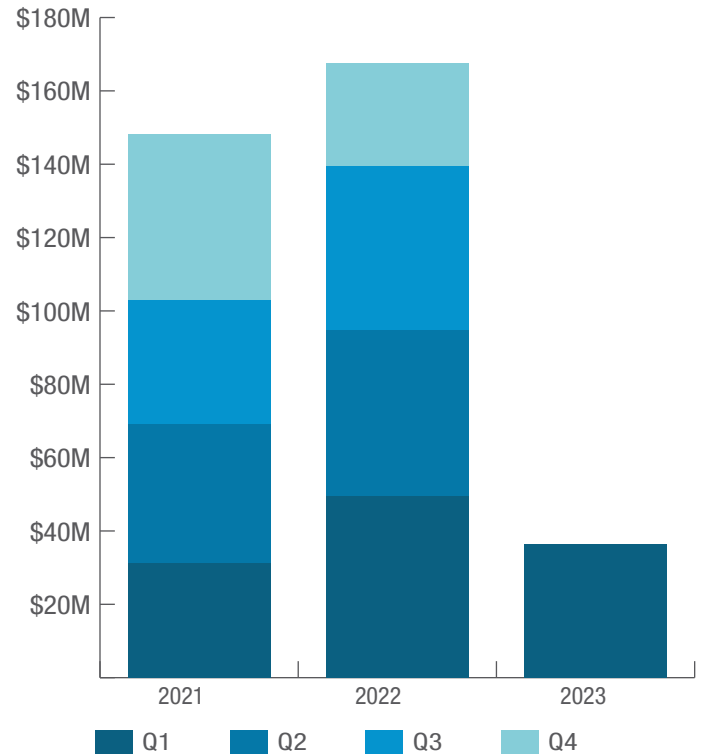
MAC SAM WAF EAF ASI

Portfolio Performance

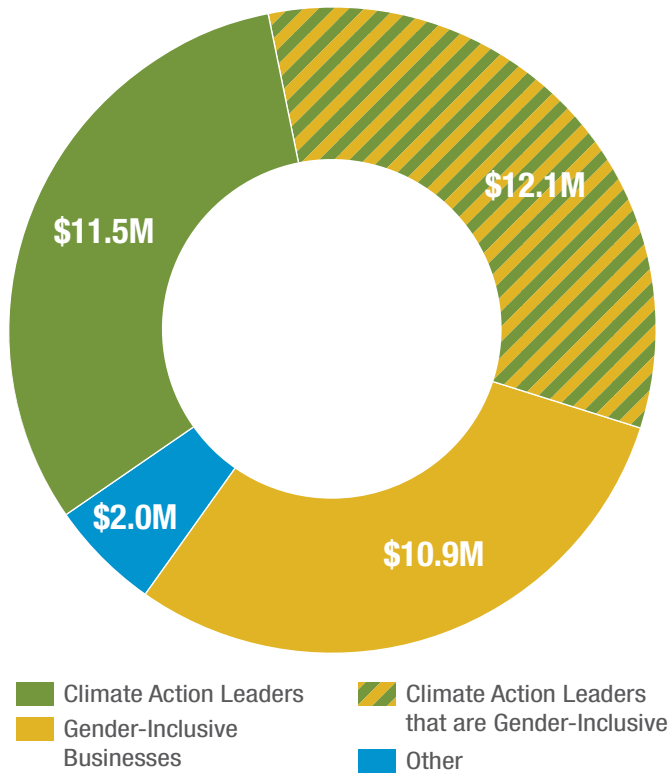
Portfolio-at-Risk > 90 Days



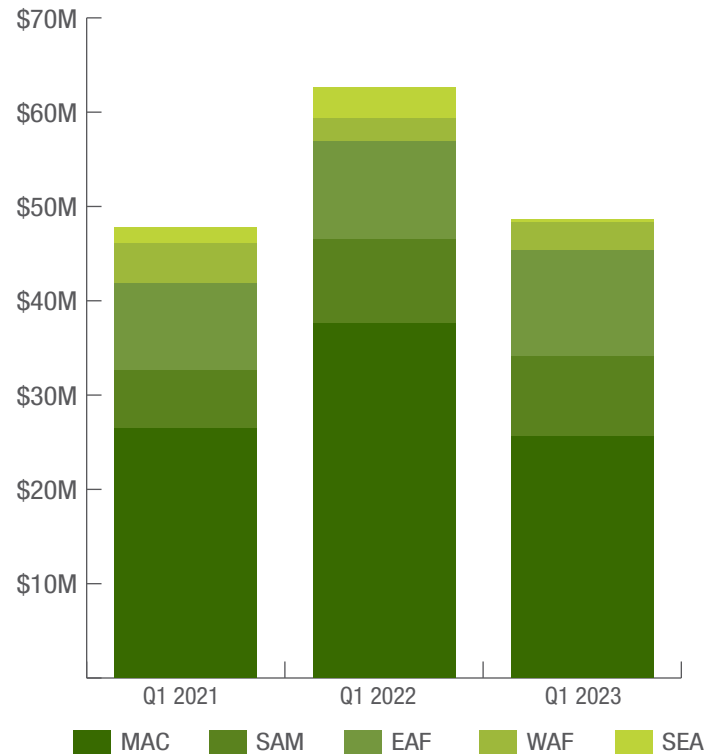
Total Loan Disbursements



Disbursements to Clients by Program



Average Balance by Region



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 “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).