

Performance Report

Q4 2023



A member of Ankole Coffee Producers Cooperative Union (ACPCU) poses with his coffee cherries. Located in Southwest Uganda near Bushenyi, ACPCU has successfully repaid over \$7 million in loans to Root Capital since 2008.





About Root Capital

Root Capital invests in agricultural enterprises so that their success can foster more prosperous, inclusive, and resilient rural communities.

Overview

Through a unique blend of credit and capacity building, Root Capital supports the growth and resilience of agricultural enterprises so they can create prosperity for farming families. We work with these businesses to increase their resilience and adaptation to climate change, streamline their business operations, promote gender equity, and build opportunities for youth. In 2023, as our clients faced a confluence of threats ranging from climate disasters and delayed harvests to market volatility and softening buyer demand, we continued to provide them with the training and capital needed to withstand these challenges—so they can continue to drive meaningful, sustainable impact in rural communities.

Impact

Root Capital financed 213 agricultural enterprises in 2023, reaching nearly 537,000 smallholder farmers. These businesses in turn generated \$788 million in income for farmers. Of these businesses, 54% were climate action leaders and 61% were gender-inclusive, with 33% of our clients meeting both criteria. Root Capital prides itself on building financial inclusion in rural communities by providing financing to local agricultural businesses that would otherwise struggle to find capital. In 2023, 91% of our active loans filled gaps unmet by commercial lenders. The remaining 9% supplemented financing options available in the broader market, helping small and medium enterprises take their operations to the next level.

Root Capital enhances the impact of our financing with advisory services that provide training in areas such as financial management, agronomy, and gender inclusion in the workforce. As we have pivoted to serve a growing number of smaller, earlier stage clients, we recognize how

essential these training services are to our clients as they grow and invest in their communities and to prepare these agricultural businesses for eventual financing. This training is also instrumental in building our clients' resilience, helping them proactively tackle the stressors and shocks that inherently arise in an ever-changing environment. This year, across all our advisory services, we trained leaders and employees from 465 businesses, representing a 21% increase over 2022. We offered more than 5,140 days of training to these businesses in 2023, which was a 42% increase compared to 2022.

We also ramped up our innovative climate finance solutions to help our clients make new investments in projects to mitigate and adapt to climate change, doubling our climate action loan disbursements year over year in 2023. The majority of these loans were for resilient farm management, specifically to support regenerative soil management practices to improve soil quality on agroforestry farms. Some of this climate financing also went to the purchase and installation of solar panels

for greener macadamia processing. These high-impact loans provide financing where commercial banks will not, helping our clients build future climate resilience and promoting long-term sustainability.

Portfolio Performance

Root Capital continued to expand the reach of our lending program in 2023, adding 40 new clients. While we addressed gaps in access to finance, global market headwinds persisted into Q4 2023, making business difficult for the clients we support. These headwinds included coffee price volatility and depressed buyer demand stemming from high inflation and interest rates. In the midst of this challenging global context, we disbursed \$111.4 million in 2023. This was a 34% decrease from 2022, a banner year that marked a near decade high for global coffee prices and Root Capital disbursements. Comparatively speaking, 2023 disbursements were less than 10% below the prior five-year average (2017 to 2021).

Loans to coffee businesses continued to represent the majority (87%) of our total average portfolio balance in 2023. Our coffee clients in Mexico and Central America, where the coffee harvest is in full swing, faced an especially challenging Q4. In addition to the aforementioned challenges, clients in the region also contended with the effects of El Niño, which brought unseasonable rain and cold fronts that delayed the harvest and drying processes. As a result, disbursements in this region were down 52% in Q4 2023 compared to Q4 2022. However, lending client growth was particularly strong, as we added 14 new clients in Mexico and Central America in 2023, compared to eight in 2022. Our new clients in this region are typically small, early-stage businesses that are unlikely to receive funding from other lenders. We remain committed to closing this large financing gap.

In Africa, lending to coffee clients in Uganda continued to be a bright spot in our portfolio. Many of these Ugandan businesses produce Robusta coffee, a different variety than the Arabica coffee that most Root Capital clients produce. Robusta coffee experienced a year of near record-high prices in 2023. As a result of this price bump and our work with clients in the Uganda coffee industry

in recent years, our coffee disbursements in Uganda increased 44% in Q4 2023 compared to Q4 2022.

Portfolio Quality

Our portfolio quality decreased in Q4 2023 as our clients faced challenges repaying their loans. Fourth-quarter downgrades were concentrated among our African clients as a result of depressed demand in the coffee market, persistent risk, weather-related quality issues in the Democratic Republic of the Congo, and economic turmoil in Ghana. At the end of Q4 2023, our Portfolio-at-Risk greater than 90 days (PAR>90) ratio increased to 11% (\$3.5 million) in Q4 2023 from 5.6% (\$2.6 million) in Q4 2022. Over the past 12 months, we wrote off \$4.7 million in past due loans, of which over 75% were supported by guarantees. We also recovered \$4.9 million on loans written off through guarantees and our own internal recoveries. As recoveries outpaced write-offs, our trailing 12-month net write-off ratio was negative 0.6%.

Advisory Services

Our agronomic and climate resilience advisory services continue to support and strengthen our clients as they grapple with the damaging effects of unpredictable weather patterns like El Niño, sluggish buyer demand, certification challenges, and increasing regulation. Across Africa and Latin America, we conducted a number of climate risk vulnerability assessments in 2023. These tools assist clients in understanding their climate risk starting point so that effective and targeted adaptation interventions can be implemented.

After assessing climate vulnerability, our agronomic and climate resilience advisory services team helps clients develop climate adaptation plans. Globally, more than 40 clients signed climate adaptation plans in 2023, and 15 clients received grant funding through our climate resilience grants program. These grants finance key activities ranging from climate-smart practices like agroforestry and organic composting to better understanding farmer-level data.

Our agronomic and climate resilience advisory services help our clients take a proactive approach to mitigating

and adapting to the effects of climate change and also prepare these clients for future climate financing. For example, in Central America, our agronomists play a key role in helping clients create soil regeneration plans and in monitoring the impact of the climate loans financing the implementation of these plans.

Financial Results

Root Capital remains financially resilient as we continue to expand our client reach and meet our clients' evolving needs through tailored support. We've increased our unrestricted net assets 4% year over year to \$51.2 million at the close of 2023. We continue to operate with conservative levels of financial leverage. Our debt-to-equity ratio this quarter was 0.9x.

Despite our smaller lending portfolio, which generated \$4.8 million in lending revenue in 2023, we saw year-over-year improvements in our grant revenue and interest and other income. Our net provisioning expense remained favorable at negative \$0.4 million, due to \$1.3 million in direct client recoveries and the guarantees we have in place. This solid financial performance resulted in a surplus of \$1.9 million in 2023.

Despite persistent headwinds and global market volatility, Root Capital continues to innovate and offer new services, products, and capacity building to help our clients weather challenging times, build resilience, and ultimately thrive.



Before and after photos showing the coffee drying process at Flor de Café. Credit: Root Capital

Client Highlight: Flor de Café

NICARAGUA

Founded in 1998 by 113 smallholder coffee farmer members, Cooperativa de Servicios Múltiples Flor de Café R.L. (Flor de Café) is a coffee cooperative in Murra, Nicaragua. Flor de Café is committed to producing sustainable, high-quality coffee for export, as well as supporting its more than 900 members and the surrounding community with technical coffee production assistance and training. Root Capital's partnership with Flor de Café dates back to 2013, when we loaned the cooperative \$455,000. Over the course of 10 years, we have loaned Flor de Café nearly \$7.6 million and provided them with agronomic, climate resilience, digital business, and business management advisory services.

Due to the tropical, humid climate in Murra, ever more powerful storms, and increasing climate shocks, the post-harvest period has brought challenges for Flor de Café's farmers, particularly when drying their coffee under suboptimal and unseasonably wet conditions. The drying period is a key stage in the coffee production process and a major determinant in coffee's quality. For the farmers of Flor de Café, higher-quality coffee translates to higher sale prices, which means higher incomes and improved livelihoods.

To contend with these drying challenges, Root Capital's agronomic advisors suggested covered solar dryers. We provided a climate resilience grant to cover the initial funds necessary for the cooperative to purchase and construct six covered coffee dryers throughout various communities in Murra. The use of these covered dryers has helped ensure a controlled, efficient, and reliable coffee drying process for Flor de Café's farmers, with the end result being cleaner, better-quality coffee, greater exportable coffee yields, and higher incomes for the cooperative and its members. In fact, Flor de Café has seen such success from investing in this new drying technology that the cooperative won an award for cleanest coffee production from the Nicaraguan government. This award recognizes Nicaraguan companies that voluntarily commit to protecting the environment while simultaneously improving their industrial efficiency and competitiveness to achieve sustainable development. Learn more about Flor de Café and their recent award on [our blog](#)

Impact Dashboard

IMPACT RESULTS THROUGH Q4		
2023	2022	
497	421	Total Businesses Reached
Advisory Program		
465	384	Businesses Served by Advisory
5,141	3,618	Days of Training Delivered
39%	38%	Percent Women Participants
45%	48%	Percent Participants Under the Age of 35
Lending Program		
213	202	Businesses Reached by Lending ¹
61%	58%	Percent Gender-Inclusive Businesses ²
54%	56%	Percent Climate Action Leaders ²
537K	563K	Producers Reached
35%	36%	Percent Women Farmers
25K	21K	Employees Reached
65%	56%	Percent Women Employees
\$788M	\$820M	Purchases From Farmers
\$934M	\$972M	Total Sales for the Businesses
445K	512K	Sustainable Hectares Under Management
\$111.4M	\$167.5M	Loan Disbursements
\$70.9M	\$92.3M	Disbursements to Gender-Inclusive Businesses ²
\$65M	\$98.3M	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 on page 10 for definitions.

Balance Sheet & Statement of Activities

BALANCE SHEET		(As of December 31st)	
Millions of USD	2023	2022	
Cash & Short-Term Investments	74.1	67.6	
Loans Receivable	31.4	46.4	
Allowance for Credit Losses	(1.7)	(2.4)	
Loans Receivable, Net of Allowance	29.7	44.0	
Grants Receivable and Other Assets	16.7	18.1	
Total Assets	120.4	129.6	
Senior Debt	40.5	45.5	
Subordinated Debt	6.8	6.8	
Other Liabilities	3.9	4.2	
Total Liabilities	51.2	56.5	
Net Assets without Donor Restrictions	51.2	49.3	
Net Assets with Donor Restrictions	18.0	23.8	
Total Net Assets	69.2	73.1	
Total Liabilities & Net Assets	120.4	129.6	
Debt-to-Equity Ratio	0.9x	1.1x	
Grant Net Assets*	26.3	37.6	

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

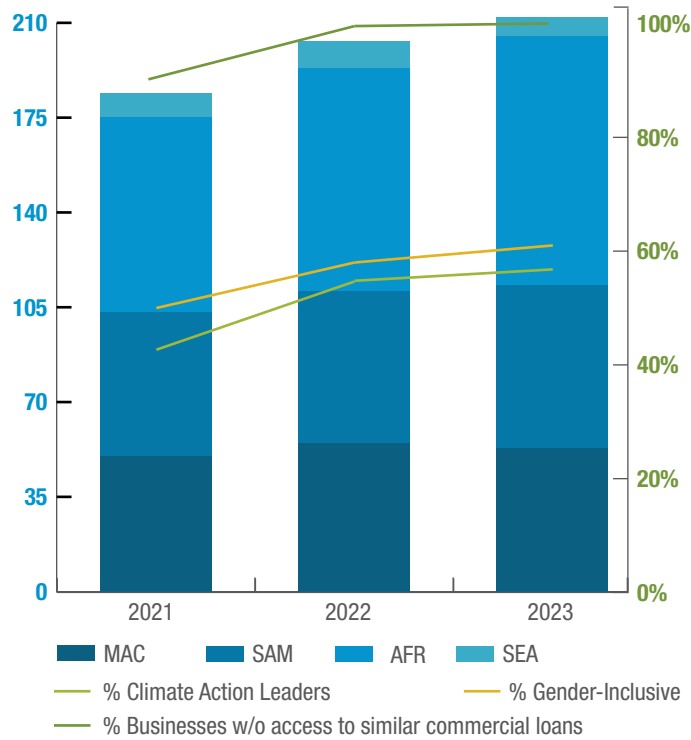
Reclassifications may have been made in the prior year to conform with the current year's presentation.

STATEMENT OF ACTIVITIES		(Year to date December 31st)	
Millions of USD	2023	2022	
Revenue			
Grant Revenue	20.1	17.1	
Contribution Revenue	2.3	27.0	
Lending Revenue	4.8	7.0	
Interest & Other Income	2.5	.7	
Total Revenue	29.6	51.8	
Expenses			
Operating Expenses	27.3	19.9	
Provisioning Expense	(.4)	(.7)	
Interest Expense	.8	.9	
Total Expenses	27.8	20.1	
Surplus	1.9	31.7	

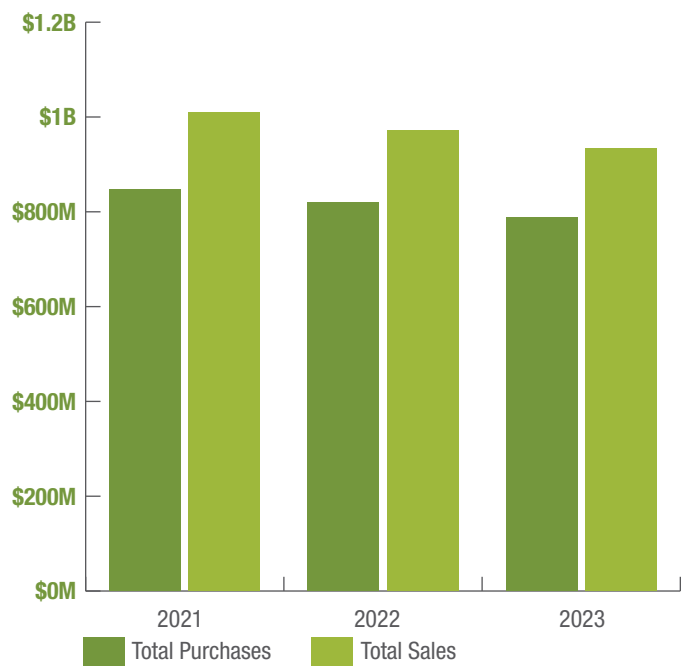
Performance

Lending Impact

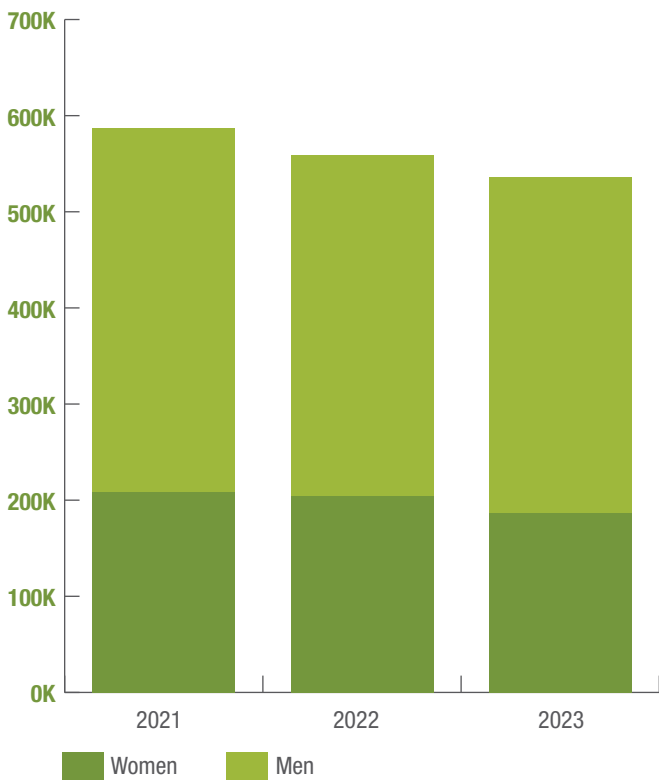
Businesses Reached (Lending Program) Through Q4 2023



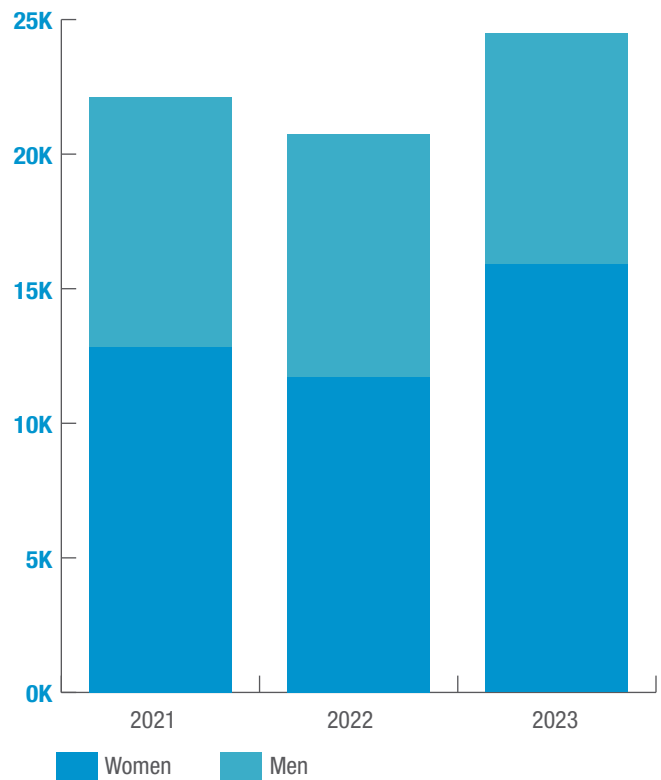
Purchases From Farmers & Client Businesses' Sales Through Q4 2023



Farmers Supplying Businesses Through Q4 2023

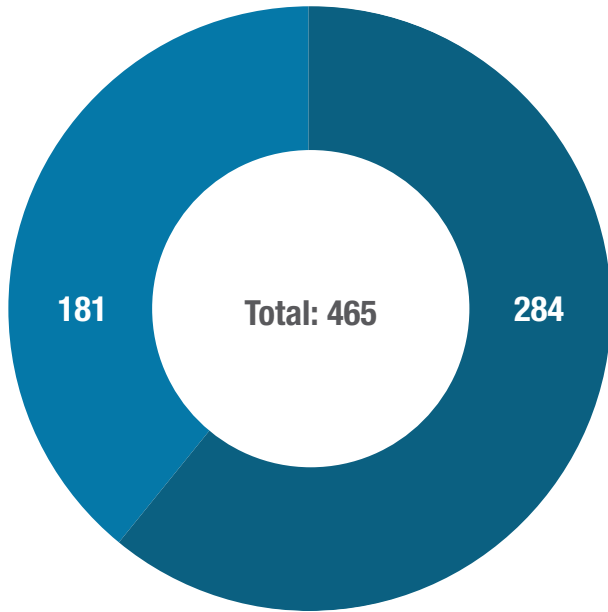


Employees Reached Through Q4 2023



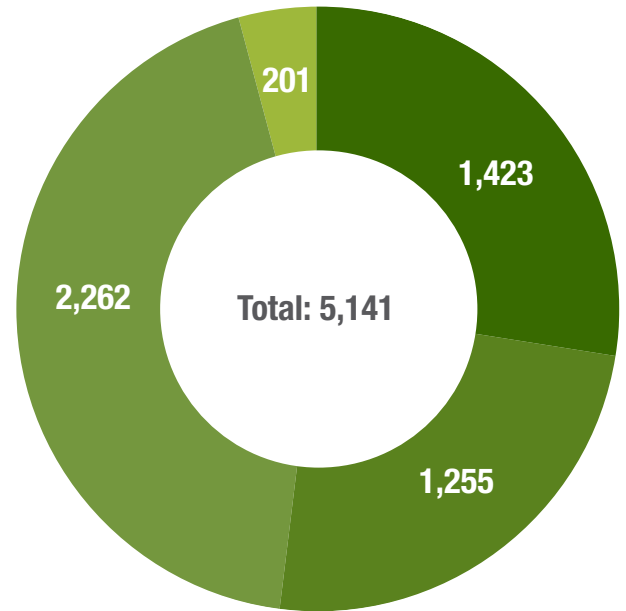
Advisory Impact

Businesses Served by Advisory Through Q4 2023



Existing Lending Clients Potential Lending Clients

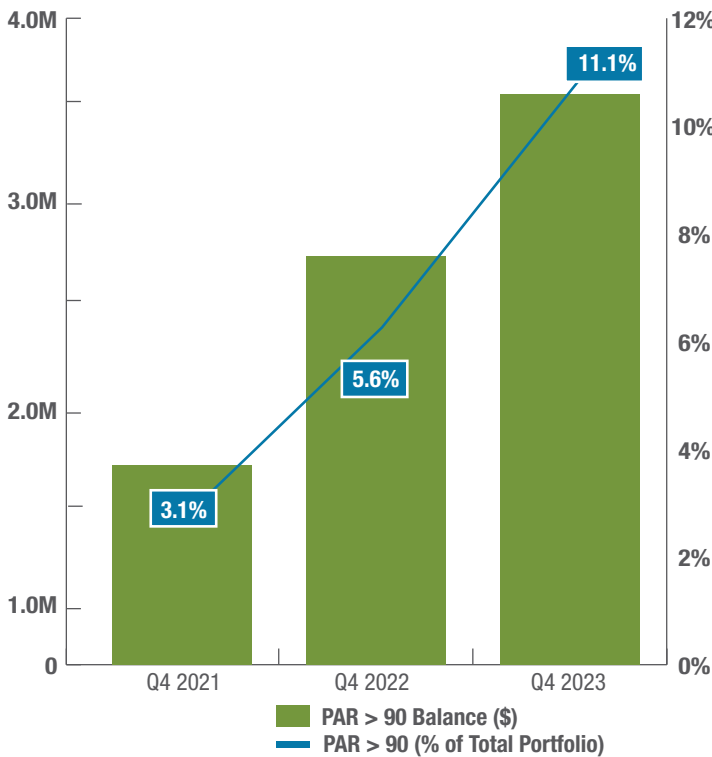
Days of Training Delivered Through Q4 2023



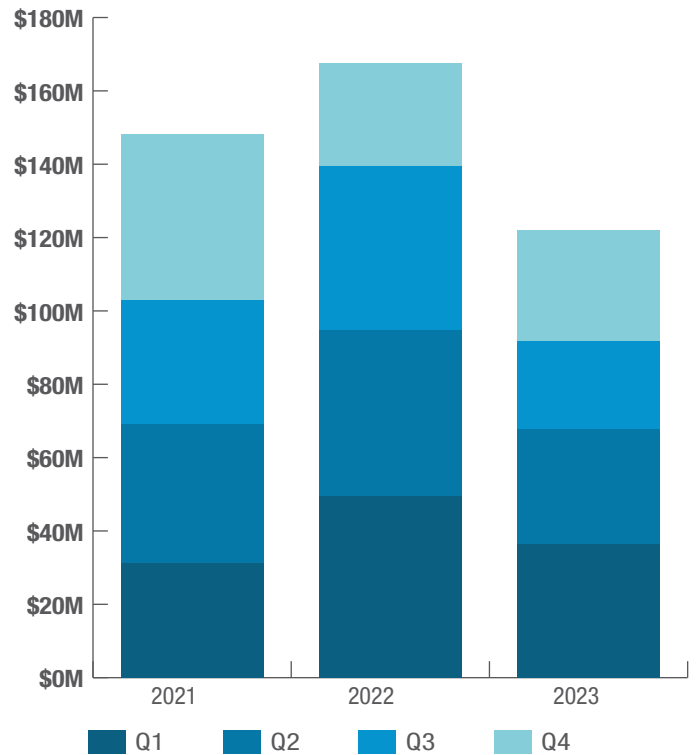
MAC SAM AFR SEA

Portfolio Performance

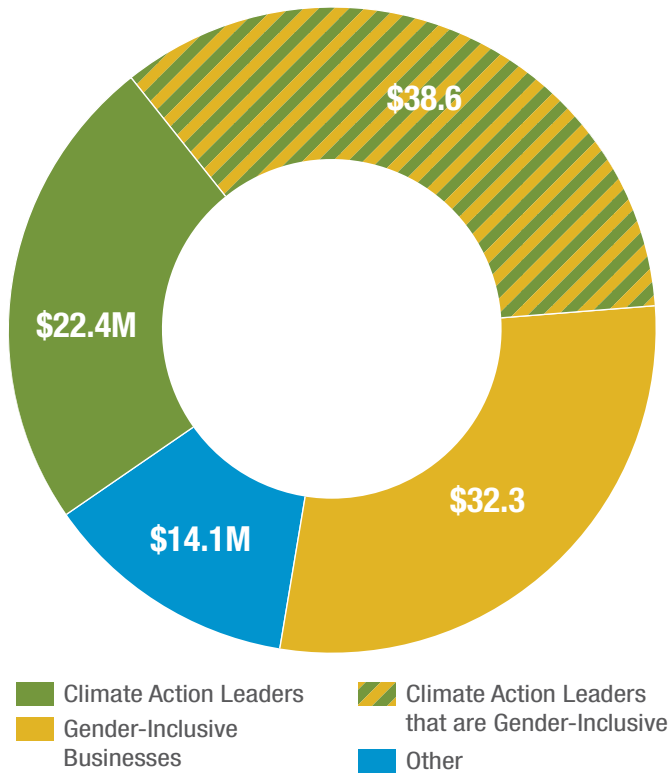
Portfolio-at-Risk > 90 Days



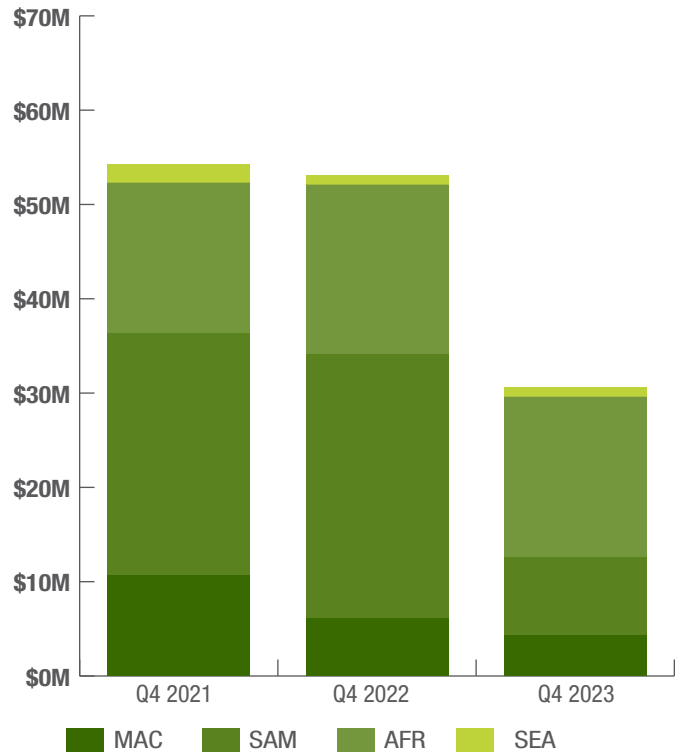
Total Loan Disbursements Through Q4 2023



Disbursements to Clients by Program Through Q4 2023



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 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), AFR (Africa), SEA (Southeast Asia).