

Performance Report

Q1 2020



Farmer-members of the Solidaridad cooperative in Matagalpa, Nicaragua load up coffee for delivery. The coffee harvest peaked across Central America this quarter.



root capital

OVERVIEW

For over 20 years, Root Capital has supported agricultural enterprises with credit and capacity building so they can generate long-term impact in rural communities. These businesses face existential threats on a daily basis: market instability, gender inequity, and climate change, to name a few. By building their resilience, we're equipping them to address these challenges—along with unpredictable shocks that arise. Shocks like the unprecedented global disruption caused by COVID-19.

As always, our clients are stepping up to meet this latest challenge, mobilizing their teams to ensure business continuity while meeting the urgent health and nutritional needs of their communities. By continuing to work where other lenders have stopped, we can guide these businesses out of this current crisis and help them create a more prosperous future.

COVID-19 Response

Root Capital acted swiftly this quarter to mitigate COVID-19 related risks to our clients and to understand how we can best help agricultural businesses adapt. After undertaking an intensive survey of the pandemic's impact on our clients thus far, we worked with peers, sector leaders, and implementation partners to develop our operational response. We continue to disburse funds and approve loans to existing clients, and have enhanced our advisory program with increased remote capabilities that deepen our impact while minimizing risk. We also developed a Rapid Response Fund as we strive to tailor support to specific health and economic impacts of the COVID-19 crisis on our clients. For more information on our response, [please visit our website](#).

Impact

Through the first quarter of 2020, Root Capital provided financing to 147 businesses working with 498,000 smallholder farmers. Forty-eight percent of these businesses are gender-inclusive: they actively create opportunities for women farmers, employees, and leaders. The businesses Root Capital reached in Q1 paid nearly \$1B directly to producers. Through on-site training, centralized workshops, and remote engagements, Root Capital trained 137 enterprises on the strategic, financial, and operational skills essential for success, including financial management, governance, and digital business intelligence.

We're pleased to report that 79% of our active loans in Q1—and 84% of those closed during the quarter—filled credit needs unmet by commercial lenders, affirming that we continue to provide capital to businesses and communities excluded from traditional financial markets.

Portfolio Performance

Through the first quarter of 2020, Root Capital's average outstanding portfolio balance was \$51M, a slight decline from our average balance of \$53M at the same time last year. Loans to coffee businesses represent the majority of our average portfolio balance at \$38M or 74%. The remainder is primarily loans to cocoa and tree nut businesses (\$5.5M or 11%, combined).

Lending was strong in Central America in Q1, as we supported clients through the annual coffee harvest. More than 50% of our activity in the region took place in the political hotspots of Honduras and Nicaragua, where we represent some of the only sources of financing available. Our continued presence in these countries—and in others where our peer institutions have left—is increasingly important as the health crisis compounds existing challenges that our clients face, like climate change and political instability.

Lending grew across Africa this quarter relative to Q1 2019. In East Africa, we started lending to four new clients, including two in Uganda, as we deepened our support for smallholder coffee farmers. We also maintained a steady presence in the Democratic Republic of the Congo, where disbursements increased 18% this quarter compared to Q1 2019. In West Africa, we began financing two new clients in Côte d'Ivoire, increasing disbursements to regional cocoa businesses by \$1.8M over the same period last year.

Portfolio Quality

The Q1 2020 Portfolio-at-Risk (PAR) greater than 90 days was \$7.8M (14.4%), compared to Q4 2019 (\$6.2M, 13.1%). The increase in our PAR balance was due to several coffee clients in South America being further downgraded during the quarter from the prior year. Over the past twelve months, Root Capital wrote off \$2.8M of past due loans and recovered \$2.3M of previously written-off principal, resulting in a trailing 12-month net-write off ratio of 1.2%.

Advisory Services

This quarter, Root Capital provided 607 days of on-site capacity building and 22 days of workshop training. Highlights from these sessions included continued expansion of our digital business intelligence (DBI) services to enterprises in East Africa, ensuring they can systematize their data and streamline information management processes. In February, our advisory team in Peru hosted our first climate vulnerability workshop in the region, leveraging the power of DBI to inform attendee businesses' understanding of local climate risks and adaptation options. This workshop ensures these businesses, and the farmers they serve, are better equipped to face the challenges of climate change.

Following an organization-wide pause on travel to mitigate the risks of COVID-19, in mid-March our advisory team pivoted to remote service delivery, investing in systems and processes that will improve our advisory services in the medium and long term.

Financial Results

At the end of the first quarter, Root Capital had an outstanding lending portfolio of \$54M, supported by \$13M in unrestricted net assets, \$10M in subordinated debt, and \$53M of notes payable for an adjusted debt-to-equity ratio of 2.3x. In addition, we have \$16M in grant restricted net assets to support future programmatic activity.

Our restricted net assets increased \$9.9M year over year, as we adopted new revenue recognition accounting standards in Q4 2019. This change resulted in the transfer of off-balance-sheet conditional grants onto our balance sheet, where they are included as part of net assets with restrictions.

Through Q1 2020, Root Capital reported a \$1.4M deficit as compared to \$2.2M surplus in Q1 2019. During the quarter, the lending portfolio generated revenue of \$1.4M—consistent with revenues in Q1 2019—despite \$0.2M negative effects of foreign exchange market volatility. Grant and contribution revenue was \$2.3M compared to \$4.7M in Q1 2019, due primarily to \$2.7M raised through the net asset campaign in 2019. The provisioning expense of \$1M in 2020 reflects a more conservative provisioning outcome as compared to the extremely low \$0.1M in 2019. This was a combination of recognizing the pandemic’s effect on realizability of collateral dependent assets and the downgrading of several clients, primarily in Latin America. Strong recoveries of \$0.8M partially offset this expense.

While Root Capital’s financial position remains strong, we have seen the initial effects of COVID-19 in our Q1 results and anticipate challenges in 2020. We are working with our staff and our generous donors and supporters to mitigate the financial impact through critical grant funding for advisory and lending services so that our support to agricultural communities continue at a time when they are future jeopardized by the impact of the pandemic.

Conclusion

With unpredictability ahead in 2020, some things are certain: coffee, cocoa, and macadamia nut trees will still bear fruit; these crops will still need to be processed and sold; and farming families will still need resources to feed themselves and invest in their futures. As long as these needs remain, Root Capital is committed to supporting resilient agricultural enterprises—the beating hearts of rural communities around the world.

2020 Dashboard

Results	
	Impact
147	Businesses Reached ¹
48%	Percent Gender Inclusive Businesses
498K	Producers Reached
39%	Percent Woman Farmers
13K	Employees Reached
45%	Percent Woman Employees
\$999M	Purchases from Farmers
\$1.1B	Total Sales for the Businesses
783K	Sustainable Hectares under Management
	Lending Program
\$29.8M	Loan Disbursements
\$51M	Average Outstanding Portfolio Balance ²
\$388K	Average Outstanding Balance per Active Loan ²
14.4%	Portfolio-at-Risk Over 90 Days ^{2,3}
1.2%	Net Write-off Ratio (Trailing 12 Months)
	Advisory Services
137	Businesses Served
629	Days of Training Delivered

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

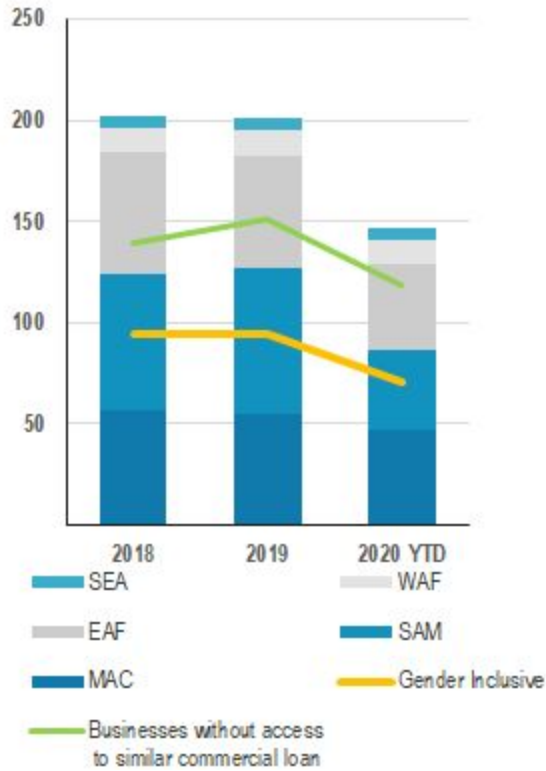
² Results are for the current quarter only.

³ Figures represent performance as of the last day of the quarter.

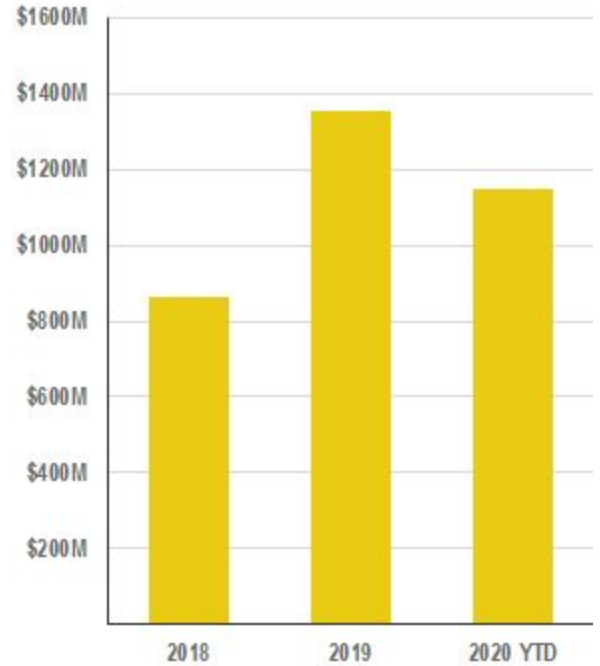
PORTFOLIO PERFORMANCE

Impact

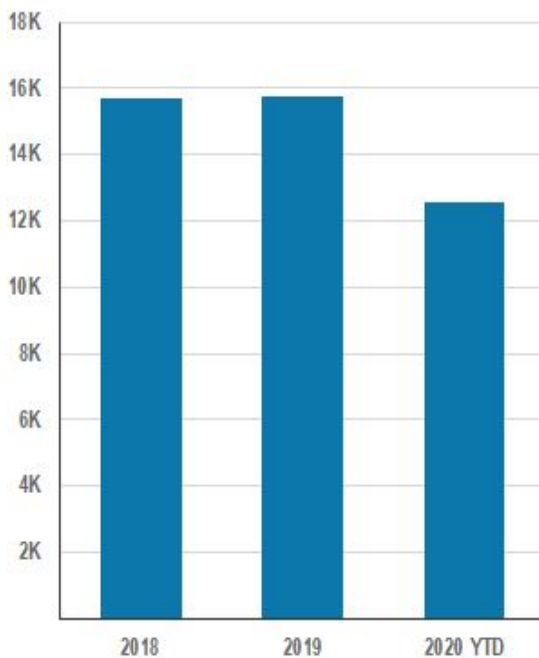
Businesses Reached by Region



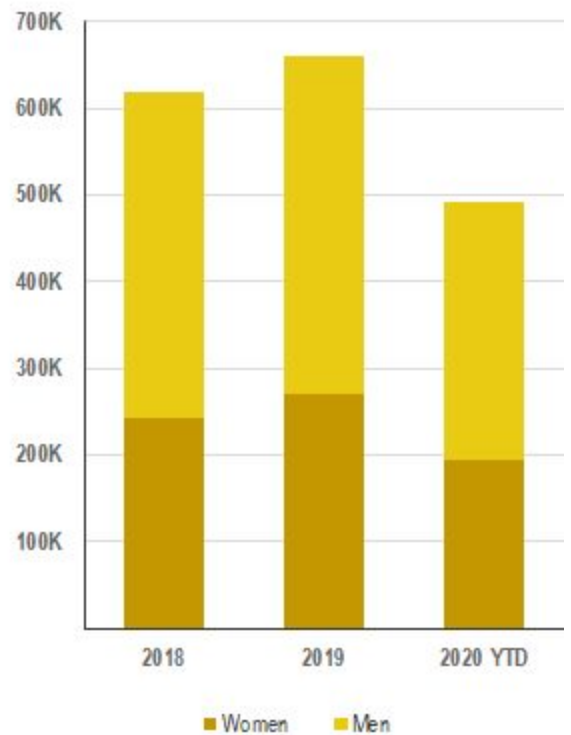
Total Businesses' Sales



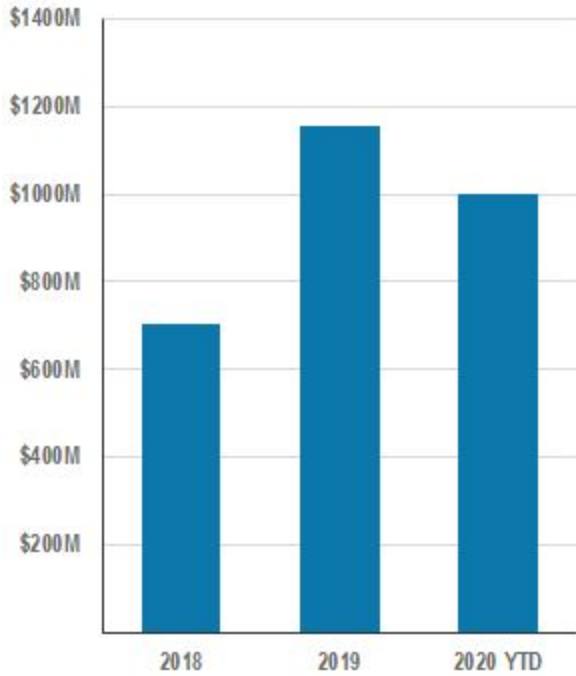
Employees Reached



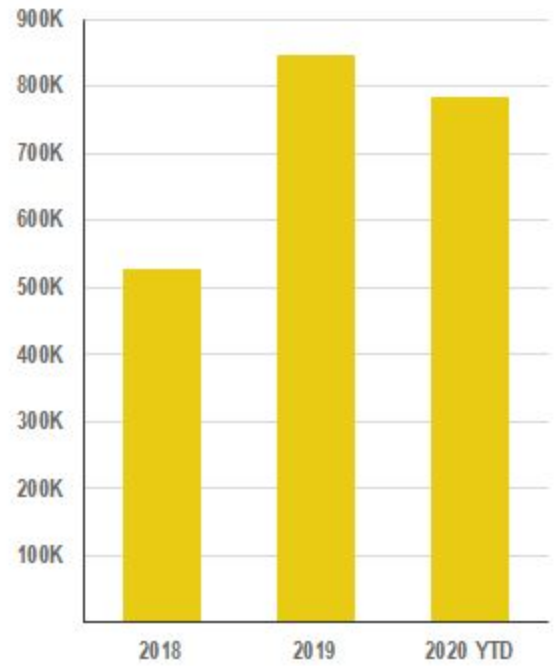
Farmers Supplying Businesses



Purchases from Farmers

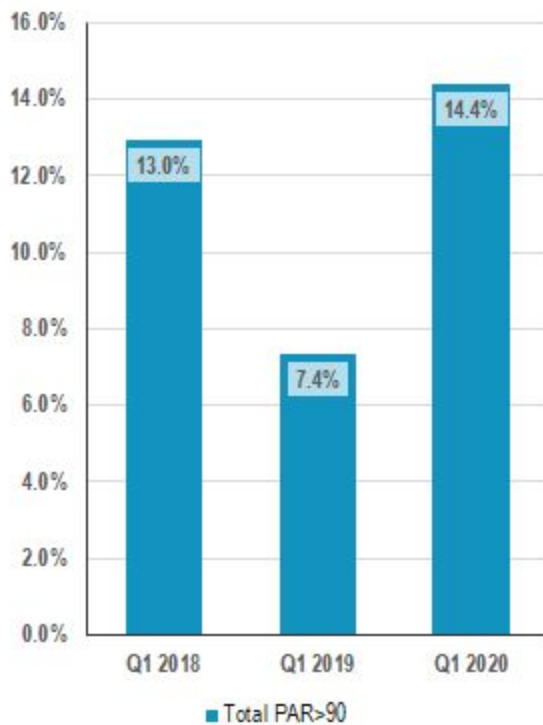


Sustainable Hectares Under Management

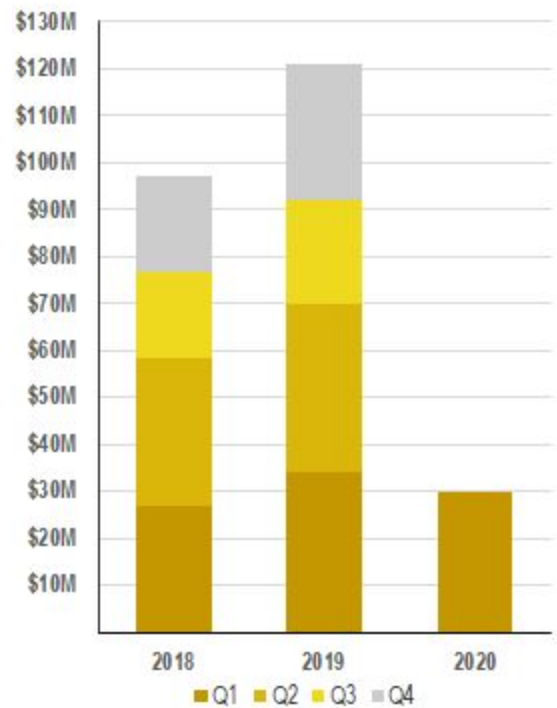


Lending & Advisory Services

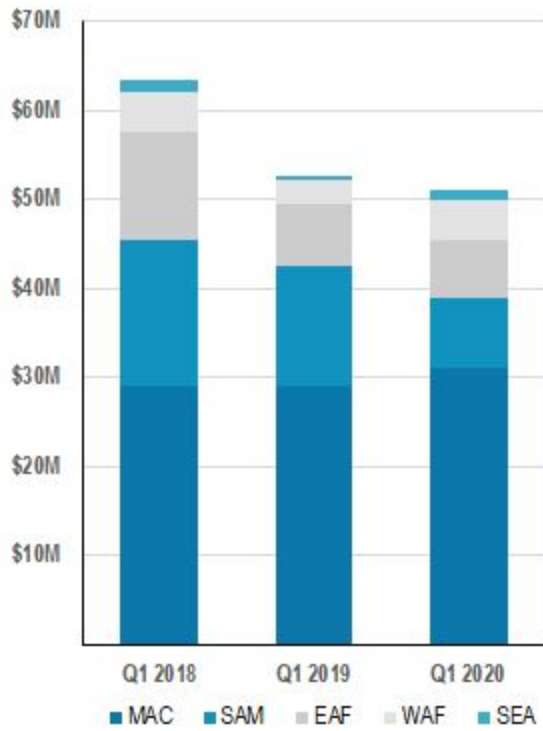
Portfolio at Risk > 90 Days



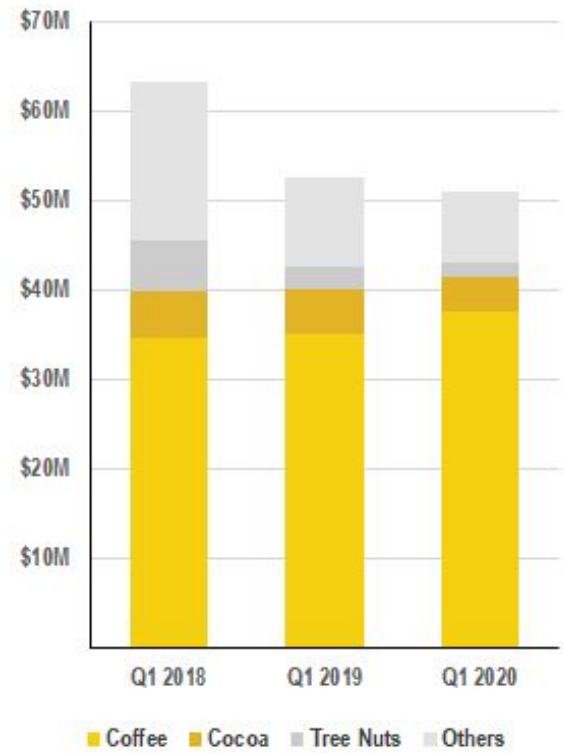
Loan Disbursements



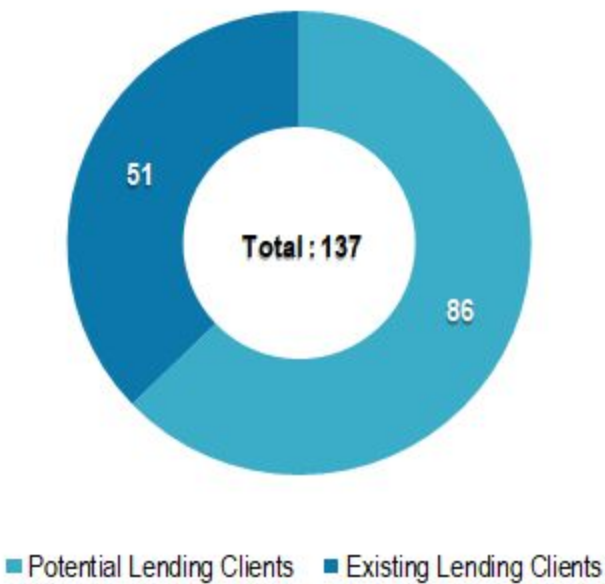
Average Balance by Region



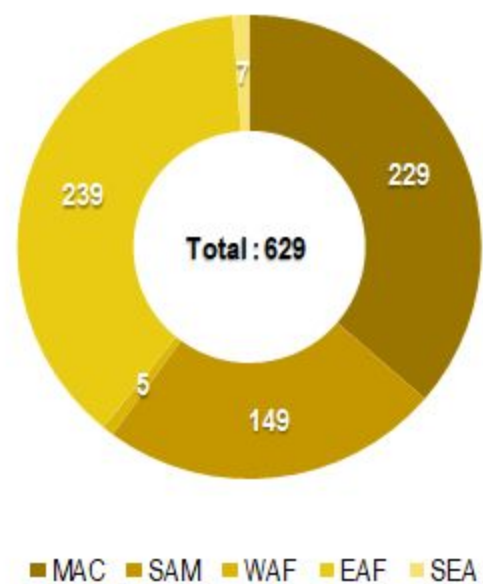
Average Balance by Industry



Businesses Served by Advisory Through Q1



Days of Training Delivered Through Q1



Balance Sheet & Statement of Activities

Balance Sheet		
	As of March 31st	
<i>Millions of USD</i>	2020	2019
Cash and Short-Term Investments	29.8	32.3
Loans Receivable	53.9	54.0
Allowance for Credit Losses	(7.6)	(6.4)
Loans Receivable, Net of Allowance	46.3	47.6
Other Assets	22.1	8.9
Total Assets	98.2	88.8
Senior Debt	52.9	60.6
Subordinated Debt	9.6	7.5
Other Liabilities	7.3	2.1
Total Liabilities	69.8	70.2
Unrestricted Net Assets	13.2	13.3
Net Assets with Restrictions	15.2	5.3
Total Net Assets	28.5	18.6
Total Liabilities & Net Assets	98.2	88.8
Debt-to-Equity Ratio*	2.3 x	2.9 x
Grant Net Assets**	15.6	17.9

* The debt-to-equity ratio is adjusted to include subordinated debt as equity, reflecting its equity-like characteristics.

** Our net assets with restrictions increased \$9.9M year over year, as we adopted new revenue recognition accounting standards in the fourth quarter of 2019. This change resulted in the transfer of off-balance-sheet conditional grants onto our balance sheet, where they are included in net assets with restrictions and other assets.

Statement of Activities

Year-to-date as of March 31st

<i>Millions of USD</i>	2020	2019
Revenue		
Grant Revenue	1.8	1.6
Contribution Revenue	0.5	3.1
Lending Revenue	1.4	1.3
Interest Income	0.0	0.1
Total Revenue	3.7	6.2
Expenses		
Operating Expenses	3.7	3.4
Provisioning Expense	1.0	0.1
Interest Expense	0.4	0.5
Total Expenses	5.1	4.0
Surplus / (Deficit)	(1.4)	2.2

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.

Contribution Revenue: Revenue earned during the period without donor restrictions, generally received from individuals or foundations.

Debt-to-Equity: The ratio of senior debt to the sum of unrestricted net assets and subordinated debt. Our calculation treats subordinated debt as equity, reflecting its equity-like characteristics.

Gender-Inclusive Clients: A gender-inclusive business is one where women make up at least 30% of enterprise farmer suppliers and employees, or the enterprise is woman-led and women make up at least 20% of enterprise farmer suppliers and employees.

Grant Revenue: Revenue earned during the period generally from foundations or governments under multi-year agreements.

Interest Expense: Interest expense incurred on debt.

Interest Income: Interest revenue generated on cash and investments.

Lending Revenue: Revenue generated from our lending activities, comprised of 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.

Region Acronyms: MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).



Staff of ACPCU near cooperative offices in the town of Ishanka in the Bushenyi district of Uganda.

Client Profile

Ankole Coffee Producers Co-operative Union (ACPCU)

Location: Bushenyi, Uganda

The Ankole Coffee Producers Cooperative Union (ACPCU) was founded in 2006 to connect 3,800 smallholder coffee farmers with better livelihoods. In order to achieve this mission, the cooperative union needed access to financing to buy the coffee. But no financial institution would meet their credit needs. In 2008, Root Capital provided ACPCU with its first-ever loan, allowing the cooperative to export directly and access higher prices on the international market. “The loan that Root Capital extended to us marked the turning point,” said John Nuwagaba, general manager of the cooperative.

That credit, paired with advisory training on financial systems from Root Capital, has helped ACPCU grow its sales fifty-fold, now reaching more than 15,000 farmers. The enterprise has also constructed a new processing plant, expanding opportunities for farmers and workers in the region.

In the face of the COVID-19 pandemic, ACPCU has begun using its Fairtrade premium to supply farmers with hand sanitizer, soap, and personal protective equipment like face masks. Transformational credit and capacity building has turned ACPCU into a resilient business, capable of meeting new challenges like COVID-19 and thriving for years to come.