Our work was featured in the New York Times, and we were honored to be chosen as a winner of the G-20 SME Finance Challenge. At the award ceremony, we shared the stage with international heads of state in Seoul, South Korea. We also launched a new initiative, “Root Lab” to accelerate the development and dissemination of innovations that will broaden Root Capital’s impact.

I am proud of our efforts in 2010, but I also know that we must do more. With civil conflicts raging in places like the Democratic Republic of the Congo and Côte D’Ivoire, and rampant violence spreading in Mexico and spilling over national borders, there is a growing consensus among scholars and policymakers on the strong interconnectivity of economic development, peace, and security.

While poverty and inequality can incite conflict, economic reconstruction can contribute to peace. Fully 40 percent of armed conflicts that end in a negotiated settlement revert to violence within ten years. Not surprisingly, private investment is slow to enter post-conflict regions—yet because the majority of people in these regions are farmers, and because the industrial base takes longer to rebuild, agriculture is one of the few sectors that can rapidly absorb large amounts of labor and rebuild rural livelihoods.

Through targeted lending in post-conflict countries from Colombia and Guatemala to Liberia, Rwanda, and Uganda, Root Capital is expanding its role in supporting rural enterprises and helping vulnerable populations recover. On the next page, we highlight a loan we made in 2010 to the Gulu Agricultural Development Company (GADC), a cotton ginner and exporter in northern Uganda. In an area ravaged by armed conflict and struggling with a poverty rate of 61 percent, GADC is now anchoring the region’s economic revival, providing access to seeds and securing markets for more than 40,000 smallholder farmers and their families.

Having seen the power of a solution as basic as a reliable cash crop, I can’t help but be hopeful. For GADC and the cotton growers trapped in the “missing middle” of rural finance, achieving sustainable agricultural livelihoods could make the long-term difference between war and peace. We are energized to continue exploring solutions together, and look forward to hard work, collaboration, and innovation in the year ahead.

Sincerely,

William F. Foote
Client Profile: Gulu Agricultural Development Company, (GADC)

Two years ago, Richard and Erin Wilobo returned to their land in the Gulu district of northern Uganda. Forced to flee their village years before in the wake of widespread violence instigated by the Lord’s Resistance Army (LRA)—a brutal rebel group that waged Africa’s longest-running insurgency—they hoped that peace would mean leaving the indignities of life in an internally displaced person (IDP) camp and reclaiming their land and livelihoods.

Instead, they found an impoverished region wracked by the devastating effects of civil strife, a plight they shared with more than a million IDPs. Their house had been burned to the ground. Their few assets, mainly livestock and tools, were gone. With minimal access to seeds, markets, or credit, Richard, Erin, and their neighbors struggled to find hope and rebuild their livelihoods. Cotton had once been a reliable source of income for smallholder farmers like Richard, but the only commercial ginnery in the Gulu district had laid dormant since 1999.

To resurrect the local cotton ecosystem, Bruce Robertson founded the Gulu Agricultural Development Company (GADC). Bruce, a South African entrepreneur and chairman of the Uganda Ginners and Cotton Exporters Association, leased the Gulu ginnery in October 2009 at the request of the Cotton Development Organization (CDO), a Ugandan government organization working to stimulate cotton production in the Gulu district and improve household incomes. GADC has since rehabilitated the Gulu ginnery and thereby created economic opportunities for more than 40,000 smallholder farmers like Richard and Erin.

Because of GADC’s work, Richard and Erin have also begun rebuilding their lives. During the cotton season, GADC trained Richard on effective harvesting and sorting techniques. He now produces high-quality cotton that he sells for premium prices. With this income, he plans to replace the livestock he lost after fleeing his home. Livestock is an important investment; it provides both a source of food as well as savings for sudden expenses like school fees for Richard’s six children.

Farmers receive additional benefits from GADC. The company is promoting sustainable practices and techniques, including minimizing water and pesticide use, conservation farming, and organic farming. GADC is also distributing seedlings to be planted in order to reverse deforestation. These practices will help ensure that Richard and other cotton farmers in the Gulu region reap future prosperity from a stable cotton ecosystem.

Root Capital’s co-investment in GADC with Acumen Fund will help the company purchase cotton from farmers, add value through the ginning process, and deliver product to market. “All of these components,” says Bruce, “are key to achieving a seamless value chain, maximizing return to the farmers, and leading northern Uganda on its road to recovery.” For Richard and other smallholder farmers, these benefits are also key to achieving sustainable livelihoods and peace.

Above: Richard Wilobo and his wife, Erin, with one of their six children. Richard shared how much it meant to return to his land with his family.

Facing: An employee packs cotton onto a truck bed for transport to the Gulu Agricultural Development Company (GADC) where it will be ginned for export.
COTTON AT A GLANCE
Cotton is the largest money-making nonfood crop produced in the world, grown in more than 100 countries.

The Food and Agriculture Organization of the UN estimates that nearly 100 million rural families directly depend on cotton production.

For countries in Africa, cotton is a driving force behind economic development, with cotton earnings accounting for 40-60% of the GDP in countries like Burkina Faso, Benin, Mali, Chad, and Senegal, and a smaller but still significant percentage in Malawi, Zimbabwe, and Uganda.

The geography of northern Uganda is well suited to growing cotton, making it an important livelihood activity in the region hit hardest by the LRA's activities.

Cotton prices are currently at a 15-year high.

UGANDA AT A GLANCE
POPULATION 33,398,682

LANGUAGES English (official), Swahili, Luganda, Luo, Runyankore, Ateso, Lumarasaba, Lusoga, Lunyaole, Samia (vernacular)

POVERTY RATE 31.1%

RECENT HISTORY 1987-2006: Attacks by the Lord's Resistance Army (LRA) displace 1.4 million Ugandans who flee to internal camps. The LRA is accused of widespread human rights violations including murder, abduction, mutilation, sexual enslavement of women and children, and forced recruitment of child soldiers.

2006-Present: One million Internally Displaced People (IDPs) return to their land. Years of violence have severely disrupted farming, manufacturing, and trading activities in the north.

*This syndicated loan totals $2.2M and is managed by Root Capital. The additional $1.1M loan capital is provided by Acumen Fund, a fellow member of the Aspen Network of Development Entrepreneurs.
ROOT CAPITAL PERFORMANCE DASHBOARD Q4, 2010

For a complete review of Root Capital’s dashboard, please see our Quarterly Performance Report. This report is produced for all financial partners and supporters and is available on our website at www.rootcapital.org/performance.

$80M / 172 / 227 / $41M /
Loan disbursements  Borrowers  Loans  Outstanding portfolio balance
194K / $322M / $250M /
Farmers/Artisans reached  Borrower enterprise revenue  Enterprise payments to rural producers
45K / 340K / 1K /
Female farmers/artisans reached  Hectares under sustainable cultivation  Financial training participants

ROOT CAPITAL IMPACT

Through our Lending program and Advisory and Training activities, Root Capital strengthens rural small and growing businesses (SGBs). While our ultimate goal is to improve farmer household income, our financing also strengthens local communities, promotes sustainable landscapes, and increases the availability of commercial sources of capital.

Outputs: Capital and Financial Training
We disbursed $80M to 172 rural SGBs and trained managers from 129 enterprises during 2010.

Enterprise Level Outcomes: Small and Growing Business Growth
In 2010, our borrower enterprises generated $322M in revenue.

Household Level Outcomes: Higher/Stable Incomes and Improved Livelihoods
Our clients purchased $250M in coffee, cocoa, sesame, honey, spices, shea butter, shrimp, handicrafts, pineapple, mango, vegetables, cashews, peanuts, and alcohol (for cosmetics) from 194,000 local suppliers during 2010. On average, these purchases contributed $1,290 to annual household income.

Community Level Outcomes: Sustainable Landscapes and Gender Equality
In 2010, we supported approximately 45,000 women producers. In addition, our clients managed nearly 340,000 sustainable hectares of agricultural, forested, and wild-harvested land.

Capital Market Level Outcomes: Dynamic Capital Markets and Rural Economies
In 2010, 35% of our borrowers accessed commercial capital. Our clients also received $2M in co-investment loans from our partner financial institutions.

For additional information, please go to www.rootcapital.org or email info@rootcapital.org.

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