Dear Friends and Supporters,

The Grassroots Business Fund is pleased to present its first Impact Report. This report highlights GBF’s impact on the businesses we finance and their beneficiaries along three main dimensions, investment, business advisory services, and social/environmental.

We’d like to take this opportunity to thank our generous supporters (donors and investors) who make all our work possible (see page 4).

Sincerely,

Harold Rosen
CEO & Founder

Andrew Adelson
Chairman of the Board

May 2014
EXECUTIVE SUMMARY

Grassroots Business Fund (GBF) is a socially-minded investor that strives to build businesses that create sustainable economic benefits for people with low incomes in Africa, Asia, and Latin America. We provide patient capital and Business Advisory Services (BAS), which are actively supervised, run locally and closely coordinated with our investment work.

GBF is comprised of two organizations: a for-profit investment fund and a non-profit. The latter acts as the fund manager and a capacity building partner for the fund and its investees, as well as running metrics, finance, and control functions, strategic planning, and stakeholder relations. We manage the fund transparently, as performance is visible to all stakeholders, and our investors expect to be repaid with a return.

Since fund inception in November 2011, GBF has committed $21.8 million (almost half the fund) in new investments and $3.2 million from the non-profit for BAS activities. The portfolio is performing well financially and also yielding significant social and economic benefits. It is too early for any definitive judgments about long-term fund performance, but it is clear that BAS is essential and, coupled with carefully-managed patient capital, can lead to improvements in many of our clients, including significant progress in financial planning, operational performance and a transition towards professional management and meaningful governance. If we can maintain our current investment performance, we will repay our investors their principal plus a return, along with delivering meaningful social and economic impact.

NOVICA is a crafts company that connects artisans in developing nations with global consumer markets. GBF invested in NOVICA to strengthen its regional supply chain, which is key to the company’s long-term growth plan.
Impact Summary of GBF’S Existing Clients

SOCIAL IMPACT

<table>
<thead>
<tr>
<th></th>
<th>Economic Value (income &amp; cost savings)</th>
<th>Individuals Directly Supported</th>
<th>Economic Benefit for full project cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness</td>
<td>$15.3m</td>
<td>567,934</td>
<td>$400m</td>
</tr>
<tr>
<td>Artisanal</td>
<td>$8.2m</td>
<td>40,101</td>
<td>$300m</td>
</tr>
<tr>
<td>Other</td>
<td>$12m</td>
<td>701,366</td>
<td>$200m</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$35.5m</td>
<td>1.3 million</td>
<td>$900m</td>
</tr>
</tbody>
</table>

*Total impact counting 4 family members = 5.2 million people

As a group, our investees are profitable, improving business management, and growing fast. Challenges remain, and it is difficult to say which improvements are due to specific GBF activities. Our ultimate success will only become clear when the outcomes of our investments come to fruition and we can judge the resulting social impact. Already, there are signs that our model of risk sharing capital, BAS and high-touch engagement helps our clients improve their operations, build stronger businesses, and create sustained social impact.

GBF’S DISTINCTIVE FEATURES

GBF’s main distinguisher is our BAS, which has improved as we learn from our experience. We began GBF with a long history in BAS and investment work from our days at the International Finance Corporation (IFC), and thus were able to start our fund with considerable experience and contacts. We have since added new approaches and better practices in fund management, delivering and measuring our BAS, sharing our business knowledge with clients and refining our processes.

Our field offices have also grown into a major source of strength for GBF. Two thirds of our staff is now based in the field, which will increase as we continue upgrading our field presence, and...
decentralizing functions from Washington D.C. to the field. Our field offices have become a big part of our execution, deal sourcing and business development. The three Regional Managers have become a central part of GBF’s management team, organizational strategy and leadership.

We also benefit from a strong and well-functioning Board, Investment Committee, BAS Steering Committee, and other advisory groups and experts. Some of our investors spend a significant amount of time mentoring the GBF team, and reviewing our portfolio and programs. This has helped GBF build a reputation as a knowledgeable, no-nonsense investor (but one with a big heart). Our wide geographic spread comes at a cost but has helped us diversify our risks and deal sourcing and maintain selectivity while sticking to our mandate and our standards for both social impact and investment quality.

GBF’S VALUES

The following core values help form key elements of our approach:

• **Business Rigor:** GBF has significant business experience in its staff, board, advisors, funders, and other stakeholders. We have worked hard to apply this in helping us make sound, investment-minded decisions and avoiding social considerations clouding our business judgment. GBF’s transparent, commercial fund structure keeps us (and our investees) on our toes.

• **Learning & Improvement:** We try to stay modest and self-critical, continuing to improve our investment process, BAS, impact assessments, and field capabilities. Over time, we hope to share with the field some of the knowledge and tools we are developing.

• **Making a difference:** We focus on challenging countries and sectors, though balancing this against the need to repay our investors. We have already seen meaningful results in tough segments. This report shares how we are able to make good (though challenging) investments that help our clients achieve financial success, leading to greater social impact.

• **Respecting Diversity:** We have not only a wealth of experience, but also much diversity in perspective among our staff, funders, clients and other stakeholders. This diversity has strengthened our operations in the field, allowed us to work more effectively with clients, and created a uniquely effective team within our organization.

These values help GBF build better social businesses, which will allow us to achieve meaningful social and economic impact on people with low incomes.

**GBF OPERATIONAL HIGHLIGHTS**

- 73% of GBF staff in the field by June 2014
- Spotless repayment record = $2.7m so far in repayments/exits
- Environmental & Social program in place
- BAS program in place with measurement, discipline and early signs of progress
- Fiduciary controls, operational decentralization in place
Donors to the Nonprofit

The Dutch Ministry of Foreign Affairs
(funding managed by FMO)
Government of Canada
(funding managed by IFC)
Norad- The Norwegian Agency for Development Cooperation
OeEB- Development Bank of Austria

Arnold & Porter
Adelson Family Foundation
Stephen Brenninkmeijer
Charly and Lisa Kleissner
(KL Felicitas Foundation)
Harold Rosen and Susan Wedlan

Investors in the Fund

Overseas Private Investment Corporation
Calvert Social Investment Foundation
Deutsche Bank Americas Foundation
DEG-German Development Bank
FMO (The Netherlands Development Finance Company)
Adelson Family Foundation
Judson Berkey
Suzanne Biegel and Daniel Maskit
Peter Braffman and Liz Wedlan
Stephen Brenninkmeijer
Maurizio Caio
Robert J. Caruso (The Kantian Foundation)
Ron & Marty Cordes (The Cordes Foundation)
David Dunn and Tamara Dunietz
Jane Eddy
Jim Hornthal (Hornthal Investment Partners)
Ken Inadomi and Melinda Wolfe
Prashant Jhawar

Marty Kahn
Charly and Lisa Kleissner
(KL Felicitas Foundation)
Serge Kremer
Leah and Jeffrey Kronthal
Sudhir and Sangeeta Maheshwari
Joshua Mailman (Joshua Mailman Foundation)
Seth Meisel
T&J Meyer Family Foundation Ltd
Sari Miller (Trust)
Montpelier Foundation
Mwaghazi Mwachofi
Luisa and Laurence Newman
Dalip Pathak
Harold Rosen and Susan Wedlan
Sir David Scholey
Barend van der Vorm
Wolfensohn & Company, LLC
Anonymous Investors
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# LIST OF ABBREVIATIONS AND ACRONYMS

- BAS Business Advisory Services
- CAL Corredor Agro Limited
- CAVSAC Corporación Agrícola Viñasol
- CFO Chief Financial Officer
- DDD Digital Divide Data
- DFI Development Finance Institution
- EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization
- ERR Economic Rate of Return
- E&S Environmental and Social
- FY Fiscal Year
- GBF Grassroots Business Fund
- GBI Grassroots Business Investors Fund I, L.P.
- GBI-IFC Grassroots Business Initiative (during operation under International Finance Corporation)
- GBP Grassroots Business Partners, Inc.
- GIIN Global Impact Investing Network
- HIB High-impact Businesses
- HR Human Resources
- ICT Information Communication Technology
- IFC International Finance Corporation
- JR Jaipur Rugs
- MFI Microfinance Institution
- MIS Management Information System
- OPEX Operating Expenditure
- SEI Sosial Enterprener Indonesia
- VA Villa Andina

Graphic design: http://theresawellingdesign.com
By supplying to GBF client Villa Andina (see spotlight on page 18), this farmer is able to export her product, grow certified produce, and significantly improve her family's standard of living.
Foreword

Grassroots Business Fund (GBF) is pleased to present our first-ever Impact Report. This is GBF’s initial assessment of our financial, social and economic impacts. Despite being a young organization, we have tried to measure progress against our mission: building sustainable businesses that bring significant, lasting improvements to the lives of large numbers of people with low incomes.

GBF generates impact by providing patient capital and Business Advisory Services (BAS) to strengthen and scale businesses, which in turn generate social impact through sustainable earnings for smallholder farmers and artisans, or affordable and better quality products and services. The report assesses GBF’s impact on our investees as well as these investees’ impact on their beneficiaries.

GBF’s portfolio includes many types of beneficiaries and projects spread throughout poor, rural areas in developing countries. This makes for challenges in assessing our impact, especially for a relatively young fund like GBF. Still, we do what we can to assess our achievements, learn from our experiences, and improve where needed. Eventually these efforts will also let us contribute to the field of impact investing. For now, even basic metrics are giving us and our clients useful management information, while also providing GBF’s stakeholders information on our progress and results. A few methodological and other points about the Report:

- The report is targeted primarily to our existing and prospective funders, and other stakeholders. We have tried to balance transparency against client confidentiality to provide the option of sharing this Report with a broader audience. Annexes and working papers are available by request for those with a need and interest to see more.

- This report was prepared internally by GBF staff. It does not claim to be an independent assessment, nor does it purport to give definitive estimates of our eventual impact or overall success.

- We measure the impact of our BAS (see Chapter III) mainly through an internally-developed rating system, which shows promise, but is still a work-in-progress. It has already helped to focus our BAS on strengthening clients’ governance, planning, financial management, and other key areas. Our emphasis on several thematic BAS issues is helping us learn and improve across diverse deals and regions. It also provides a framework for sharing information and successful models with our clients and funders. GBF also gathers client feedback on our BAS via periodic client surveys. While the rating system and surveys are useful, the ultimate impact of our BAS will be judged through clients’ improved business results and the social impact generated as a result.

Our Mission and Values

GBF works toward a world where economic opportunity reaches everyone. Our mission is to grow viable businesses that generate sustainable earnings or savings for people with low incomes in Africa, Asia, and Latin America.

In our work, we:

- Use business rigor to make investments that deliver sustainable financial and social results.

- Strive to continuously learn from our experiences, and adapt to the context of our local operating environments.

- Are passionate about making a difference in the lives of people with low incomes.

- Respect diversity in our people and perspectives and we believe this makes us a uniquely effective team.
• When discussing Financial Impact (Chapter IV), we focus mainly on the portfolio’s financial performance. It is too early to measure the full results of GBF’s investments, but our focus for now is simply to capture the portfolio’s current health and recent results, show our early impact and glean some of the lessons learned so far. This gives us a baseline for judging future progress, or extracting further lessons such as how to use BAS most effectively to improve our clients’ business results.

• We estimate Social Impact (Chapter V) starting from reports and financial projections for each investment. The underlying forecasts continue to evolve in light of actual experience and results. Therefore, this report should be taken as a framework rather than a definitive measure of our long-term impact. These estimates do, however, indicate that if our investees perform as expected, they should produce significant, and sustainable, economic and social benefits for large numbers of people with low incomes.

• While GBF’s fund is just under three years old, our antecedents go back longer into our previous phase in the International Finance Corporation (IFC) as the Grassroots Business Initiative (GBI-IFC). We were thus able to evaluate the performance of eight of GBI-IFC’s investments that predate the fund (Chapter VII). While our model then was somewhat different (for example, we had far fewer field-based staff), this exercise provides some noteworthy learnings, some of which are helping improve our ongoing work.

Kenyan client, Pwani Feeds, processes and sells animal feeds to poultry farmers, purchases eggs produced by the farmers, and sells them to retailers. Pwani Feeds also offers post-sales support and assistance with animal health, simultaneously helping their farmers and strengthening their supply chain.
I. The Field & GBF’s Model

SMALL BUSINESSES AND HIGH-IMPACT BUSINESSES

Small businesses play a key role in improving the lives of the poor, but there remains a shortage of enterprises in developing countries that are both ready for long-term investments and can generate high social impact.\textsuperscript{xii}

GBF invests in High-Impact Businesses (HIBs), which we define as those generating sustainable economic benefits for large numbers of the poor.\textsuperscript{xiii} They tend to have complicated business models and supply chains, but are generally underdeveloped in management, operations, and planning. They are often family-owned and founder-operated, and thus constrained and reluctant to bring in additional management, partners, and business approaches.

As HIBs grow, their needs change and become more sophisticated. They often have trouble acquiring the type of risk-sharing capital and business assistance needed to scale up operations and improve their commercial viability. Instead they depend on short-term debt – which is costly, heavily secured, and can dry up quickly – rather than a more stable blend of equity and debt of various tenors and risk profiles. The resulting high financial costs, tenuous liquidity, and refinancing risks limit businesses to a short-term perspective, which can prevent them from investing in value-adding equipment and processes.

BAS has gained recognition as an important tool in developing such businesses, yet there are few success stories of efficient and effective delivery of BAS to HIBs in challenging markets. The field needs BAS to develop investment-ready businesses with strong social impact – ones that can sustainably improve the lives of large numbers of people living on low incomes while financing themselves and scaling up with commercial funding. This is one of the main challenges of the field of Impact Investing.

GBF’s structure responds to this situation. Our donor-funded non-profit allows us to provide enterprise-level capacity building to clients, while our private investment fund complements our BAS with long-term, risk sharing patient capital. Traditional private equity firms have played a role in implementing such a structure, while most lenders and investors to small businesses typically have not; GBF has been doing so with success. This dual approach is best suited for “growth stage” businesses. We have found that a mezzanine instrument provides the best way for us to invest in our clients, as opposed to “pure” equity or heavily secured debt. Challenges remain in perfecting this blended approach, but we have seen much promise in providing many of the kinds of assistance that HIBs need but often lack.\textsuperscript{xiv}
GBF’s “high-touch” approach delivers quality business assistance along with our investment monitoring and support. GBF forms true partnerships with clients while remaining a business-minded, rigorous, and transparent investor. Our field offices increasingly lead this work and have evolved to where they now deliver part of our BAS and coordinate the rest via external consultants. Additionally, the field offices increasingly lead social impact measurement and drive our Environmental and Social (E&S) policies and execution. Sharing the risks and costs of building viable HIBs – supported by our local offices – allows us to work closely with businesses that are challenging but generate meaningful impact.

RBI International (RBI) sources hand-woven textiles and embroidered materials from artisans across the West Bengal region of India. During due diligence, GBF provided pre-investment BAS to RBI to establish a merger with local designers and to work with more local artisan groups.
II. Overview of GBF’s Portfolio

GBF committed $21.8 million to 19 deals in our first two years of operations, $6.9 million in Africa, $7.8 million in Asia, and $7 million in Latin America. In the past year, our clients generated $35.5 million in social benefits, and have directly supported 1.3 million beneficiaries (see Chapter V for details). The average portfolio company ended the year with $5.5 million in assets, and annual revenues $6.3 million.

GBF focuses our investments in developing countries. Weighting by committed capital, thus far, we have invested in countries with an average GNI Per Capita (USD 2005) of $1,818, which is less than half the average for many prominent development finance institutions’ (DFI) portfolios.

Our portfolio demonstrates a growing concentration on agriculture, which comprises over half of the existing investments (see chart to the right) and an even larger share of our pipeline. Agribusinesses are especially challenging and risky investments, as they are susceptible to climate and market volatility, supply chain bottlenecks, and other hurdles. Yet agriculture remains the main source of income and employment for 70% of the world’s poor, and offers unmatched opportunities for wealth creation, particularly in hard-to-reach rural areas. As discussed in Chapter V, the majority of beneficiaries across our portfolio live below relevant poverty lines. Through our efforts in beneficiary-level surveys, we are establishing a baseline understanding of the poverty level of the people our clients reach, and a process to follow up on that data in the years to come. This will allow us to observe whether our clients’ beneficiaries are making progress out of poverty, partly as a result of their relationships with our clients.

GBF focuses on for-profit companies with social impact imbedded in their business models, as opposed to social enterprises trying to transform into commercial businesses. Both business performance and social impact must be central to our clients’ missions. GBF invests in companies that are either already profitable or show promise of reaching profitability and that will continue to deliver large-scale social impact. The following chapters evaluate our impact in terms of BAS, financial results, and our investees’ impact on their low-income suppliers or consumers.
CV Prima Indonesia (“Squeeze”) is a leading manufacturer and supplier of fresh, tropical juices to the growing hotels, restaurants and café market segment in Indonesia. GBF’s loan to Squeeze provided working capital for the company’s planned expansion into new markets through increasing pasteurization facility’s capacity.
III. Impact of GBF’s Business Advisory Services

A HYBRID APPROACH TO IMPACT INVESTMENT: THE KEY ROLE OF CAPACITY BUILDING

As noted, GBF’s BAS is central to our business model. All of our investees receive customized BAS support, mostly concentrating on strengthening financial management and strategy. As noted, GBF’s clients are high-impact but many have challenging characteristics. Most of our clients are operated by owners and founders who are passionate and committed to the objectives of the company. Yet these ownership structures are typically unable to afford the additional management they need to strengthen themselves and achieve rapid growth. Through our BAS, GBF helps clients enact necessary changes while simultaneously ensuring that they maintain their business model and social impact.

We designed our BAS program based on almost 20 years of experience in the early stages of microfinance and social investment. Microfinance institutions (MFIs) typically receive technical assistance that ceases when the MFIs reach financial self-sufficiency. Similarly, GBF provides BAS for a limited time during the early stages of our engagement with investees. We try to support BAS projects that are catalytic, help our clients grow to scale, become commercially sustainable, and create social impact, with little or no need for subsidies going forward.

GBF is transparent about its expected returns on the fund, and the need for BAS subsidies. To leverage our BAS work, GBF has a cost-sharing policy requiring clients to contribute meaningfully to the cost of their BAS. This promotes ownership, aligns incentives, encourages prioritization of the project, and improves the chances that BAS will provide tangible, lasting value to the company.

While BAS subsidies rarely continue beyond two years from GBF’s initial disbursement, we still monitor investments with a high-touch approach that ensures sustained engagement after BAS ends. We continue to monitor companies’ financial results and conditions and to offer advice; in the process, we improve the overall companies’ success while enhancing our prospects of a financial return on our investment.

GBF designs, executes, and monitors BAS in conjunction with our investment work. Our field offices now lead the efforts to manage and deliver BAS both directly and through third-party consultants. Our staff and advisors also provide GBF with additional expertise in capacity building and investing in HIBs. GBF management provides frequent support and guidance for mid-course adjustments both to our own field teams and also to clients.

ABILITY SCORES & SUCCESS FACTORS

To guide and measure our BAS, GBF designed a management and assessment framework based on key indicators of enterprise management. This system uses Ability Scores and Success Factors. GBF calculates Ability Scores at the start of an investment, and semi-annually thereafter through a scoring survey and GBF staff’s knowledge of the company. While not scientific, these scores provide a starting point for understanding performance and tracking progress across the same six BAS activity categories: Financial Management, Operations, Corporate Governance, Strategy, Legal, and Environment & Social Management. In our experience, these areas target the major challenges to strengthening enterprises and achieving sound growth.

Part of GBF’s due diligence identifies specific goals to be met within the coming year, and we label these goals as Success Factors. We implement practical plans based on these factors by working actively with the client, engaging local consultants, complemented by a smart blend
After GBF and the client have implemented these plans successfully, the Success Factors can be marked as “achieved.” GBF shares and discusses these results with clients as part of our investment management process (along with other factors such as top line growth, improved margins, etc.). This process lets us address deeper enterprise-level management issues, overall portfolio health, and generally prioritize our activities. A few key indicators of business health (gleaned from the ability score questionnaires) are indicated in Figure 3.3.

CLIENT FEEDBACK

Beyond Ability Scores and Success Factors, GBF also uses periodic Client Feedback Surveys to assess how our investees feel about our involvement, including the effectiveness of our BAS. These surveys allow us to learn from our clients, adjust our approach, and observe larger trends, all of which contribute to our BAS strategy.

Our Client Feedback Surveys have revealed some useful feedback; for example, a number of our clients would like GBF to share more of its financial and business analysis with them, as well as success stories and models from elsewhere in our portfolio. In response, GBF increasingly shares such information during client meetings, giving our analysis of the company’s recent and projected financial results, key BAS issues and results, and our impact metrics evaluation.

Our clients have also voiced that consultants embedded in a company over a longer period of time were more impactful than those who only had a short engagement. This has shaped our current strategy; and in some cases where there is demand for a certain kind of help among several investees in the same region and thematic areas, GBF has hired long-term shared resources, such as the Portfolio Chief Financial Officer (CFO), highlighted in Figure 3.4.
LEARNING, ACCOUNTABILITY, AND A RESULTS-BASED CULTURE

Some of the main lessons specific to our BAS work are:

- **Patience** – Management improvements need time to implement, and can initially encounter inertia or resistance. The best results come from a gradual approach, which allows us to build trust with our investees and for our BAS to evolve in parallel with the enterprise’s capabilities and management buy-in.

- **Start Small** – GBF’s portfolio companies are often management-constrained, making it easy to overshoot on BAS efforts. The key is to start small, and gradually go deeper only when the investee has the capacity to absorb, execute, and benefit from additional BAS.

- **Go Local** – GBF’s local offices are critical for BAS execution. They allow GBF to continuously monitor our BAS efforts and make frequent adjustments. Even when we work with external consultants (as opposed to our own staff), we find locally-based experts who can actively participate in BAS projects with our investees and stay involved over a long period of time, although at a reduced intensity.

- **Financial Planning and Management** – It is clear that cash budgeting and tracking reports (the need for which arise from GBF mezzanine-style investments) are important to our clients’ overall financial management. On the other hand, an investment product with long maturity is one of GBF’s main comparative advantages. Therefore, we try to structure investments appropriately by seeking balance between short and long-term goals, and by supporting our clients in adopting good financial practices and planning.

The objective of our BAS is to improve the business performance of our investees, and thereby generate greater social and financial impact. To achieve these goals, interests must be aligned with the client. Accountability and learning are important to continuous improvement – and this is true of our clients as well as GBF itself.

GBF’s results-based culture also holds our own staff accountable. Our annual personnel and department reviews factor in BAS results; e.g. Ability Scores improvement, achievement of Success Factors and client feedback. These areas are included in our regular staff performance reviews, and also inform our continuous upgrading of our BAS procedures.

GBF’s BAS framework has proved to be a useful tool, but we still consider it a work in progress. Our overall success can only be judged when

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**Figure 3.4 - Spotlight: India Portfolio CFO**

As a full-time consultant with over 15 years of experience, GBF’s “portfolio CFO” currently works with each of our clients in India to address their specific financial management challenges.

Throughout 2013, GBF portfolio companies in India embraced the portfolio CFO as part of their team and shared the cost of his time. The CFO is currently working with the companies to implement a cash flow management tool, enabling management decision-making to be driven by financial and operational information. Since joining the team in early 2013, the number of clients that regularly reviewed and updated a financial dashboard with adequate data increased from 33% (June 2013) to 50% (December 2013).

The Portfolio CFO has also helped to create synergies across GBF’s portfolio, allowing us to spread ideas between companies and develop best practices.
BAS SPOTLIGHT – VILLA ANDINA

Villa Andina (VA) sells dehydrated aguaymanto and mango fruits domestically and to export markets. The company sources from a network of over 380 small-scale farmers in the Cajamarca region of Peru. VA provides agricultural assistance and high quality inputs to farmers, ensuring that the product maintains an acceptable level of consistency and quality. One of the first clients of the Fund (GBI-I), Villa Andina is a good example of BAS being paired with patient investment capital to boost company capacity and financial results, thereby increasing its impact in low-income communities.

In March 2012, GBF provided working capital and BAS targeted around building the company’s capacity to finance and manage the growth of the business. BAS plans for Villa Andina included the following components:

1. **Improving Financial & Operations Management Capacity:** These areas required attention because the company was young, small, and growing. GBF helped the Company improve financial planning, cash flow planning, and tracking to address cash shortages which undermined VA’s ability to meet client demand. GBF’s BAS helped the company negotiate with clients for advances, allowing an increase in sales without increasing external financing. GBF and VA also hired an operations management advisor to decrease operating expenses, increase efficiency, and plan for plant expansion.

2. **Helping the Company Sell More and Deliver Higher Economic Impact on Farmers:** The company needed marketing assistance in securing key certifications to attract additional buyers in key markets. GBF staff and BAS-funded consultants helped the company secure Fair Trade USA, Japanese Organic, Kosher as well as ISO 22000 certifications. We also conducted an Environmental & Social review to verify compliance with labor and environmental standards.

VA has already more than doubled their revenues from the level prior to GBF’s engagement. In addition, VA added new farmers, demonstrating an upward trend of expanded economic impact as the company continues to grow. GBF and the company are only one and a half years into a seven-year relationship, and although challenges remain, BAS seems to have been a positive contribution to the investment and partnership between GBF and this client.

A worker at Villa Andina sorts aguaymanto.
IV. Financial Impact

As of March 2014, GBF committed $21.8m of investment capital to 19 companies across Latin America, East Africa and Asia. GBF is still young, but the results to date are encouraging and we have successfully exited six investments and booked almost half of our fund.

Our investments are distributed almost equally between the three regions (see Figure 4.1). GBF’s patient capital can take the form of unsecured debt, equity and quasi-equity, with an average investment term of seven years. The majority of our investments are subordinated debt or redeemable equity with a base rate plus “kickers,” or supplemental income features linked to company results.

PROFITABILITY

As GBF’s engagement progresses, investees tend to improve their management, planning, and performance in key areas. The table below summarizes the most recent financial standing of the average GBF investee:

| Figure 4.2 – Average Investee Figures as of Dec 2013 (Weighted by annual revenue) |
|---|---|
| Revenue | $6,312,448 |
| Revenue Growth | 25% |
| Gross Margin % | 39% |
| EBITDA | $1,101,438 |
| EBITDA Growth | 91% |
| Total Assets | $10,087,822 |
| Total Current Liabilities | $6,847,351 |
| Total Equity | $1,553,096 |
| Fixed Assets / Total Assets | 24% |
| Long-term Capital / Total Assets | 42% |
| GBF Investment / Long-term Capital | 58% |
| GBF Investment / Total Assets | 25% |

Portfolio companies showed annual revenue growth of 25% in the past year. Only 5 companies out of 18 had sales declines (mostly due to downturns in agricultural conditions), but were generally able to sustain margins by making operational adjustments to reduce costs.

Our average portfolio company has positive EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of $1,101,438. Eighty-three percent of GBF’s clients are either EBITDA-positive (meaning that they cover all operational expenses with business revenues), or are expected to reach EBITDA breakeven in the next few quarters. This EBITDA is also in a sense understated; as our clients generally expense items like research and development, or facilities improvements, rather than categorizing them as fixed assets.

The healthy EBITDA growth shows that our companies not only increased their revenues but also improved their efficiency and management of their expenses and resources. Eleven out of 18 companies in the portfolio showed EBITDA improvement in the past year.

As discussed in Chapter I, many of GBF’s clients previously relied primarily on short-term financing. This constrains a company’s cash flow, creates liquidity and refinancing risk, and often causes high financial expenses. It also limits the possibility of fixed asset expansion. Therefore, GBF focuses on providing long-term, risk-sharing capital, and preparing clients to attract additional commercial financing in the future. The
aim is to help companies alleviate pressure on liquidity, invest in their own growth and productivity, and provide larger and more sustained economic benefits to poor communities. GBF works with clients in our capacity building and investment monitoring programs to stress the importance of cash planning and better financial management – both as a productivity improver and a risk mitigator.

Overall, GBF’s portfolio shows a cash yield of 7.7%. The portfolio earned $1.4 million in interest, dividend, and fee reflows and another $2.7 million in principal reflows (repayments of loan principal or redemption of shares). Seven out of 18 active clients – just over a third of the portfolio – have begun making principal repayments/redemptions to GBF. Most investments require regular payment of at least minimum interest from the beginning.

As of December 2013, we received 98.5% of all expected payments from portfolio companies. This became 100% on February 15, 2014. This is partly a result of our field-based presence and BAS in financial planning and management; but our investees also learn a lot about financial management simply by servicing GBF’s investment. The success of the fund relies on maintaining full and on-time repayments from our clients. By working closely with our portfolio companies on cash flow planning and management, our field staff help improve clients’ financial management (see BAS, Chapter III), while in the process helping secure reflows to the fund.

CASH FLOW AND REPAYMENT

Due largely to GBF’s investment, our portfolio companies show increased liquidity and more adequate capital structures than they would with short-term debt. The interest coverage ratio (average weighted by annual revenue) across the portfolio is 2.0x, and the debt service coverage ratio is 1.7x. For the 11 companies with positive EBITDA, only two have interest coverage ratios less than one, and only four have debt service coverage ratios less than one. Liquid assets are sufficient to cover short-term obligations (see Figure 4.3), and companies have an average of 85 days of cash on hand relative to operational expenses. In general, our average portfolio company has enough earnings to cover interest payments and debt service/rollovers as they come due – though there remains a rollover risk from most clients’ continued heavy dependence on short-term debt.

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**CLIENT SPOTLIGHT: CORREDOR AGRO (CAL)**

Corredor Agro (CAL) is an agribusiness operating in Mozambique. The company trades and promotes cultivation of maize, soya beans, sesame seeds and cassava. CAL supports small-scale farmers and links them to better inputs, credit, logistics and markets. CAL further contributes to the economic development of northern Mozambique through paying competitive prices to a large number of farmers, offering predictable, stable demand via minimum purchase commitments, and by providing inputs, grading and processing, and extension services to improve yield and quality. All of these activities help the company provide sustainable access to lucrative markets, both domestic and international.

Grassroots Business Fund partnered with CAL because of the company’s potential to achieve large-scale social impact through its supply chain while achieving sustainable growth and improved financial performance of CAL itself. CAL and GBF are implementing a series of projects to help strengthen the company’s management capacity and to expand its outgrower network, including:

- Building a new financial model and cash projection tools that are user-friendly, accurate, and informative for better decision making;
- Implementing a seed multiplication program to improve quality;
- Improving the accounting system and training personnel;
- Developing a Grower Management System, which will enable the Company to understand its supply chain and link operational to financial data;
- Hiring short-term personnel support to manage the growth phase.

While challenges remain, CAL is making progress toward its goal of becoming a viable, large-scale business generating positive economic and social impact for large numbers of rural farmers.

<table>
<thead>
<tr>
<th>Farmers and Plant Workers</th>
<th>6,280</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$5.9m</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>63%</td>
</tr>
<tr>
<td>EBITDA Growth</td>
<td>79%</td>
</tr>
<tr>
<td>GBF BAS Committed</td>
<td>$91K</td>
</tr>
<tr>
<td>Client match</td>
<td>38%</td>
</tr>
</tbody>
</table>

To better serve their farmers, CAL collects grain at rural distribution centers.
MOBILIZATION

GBF attempts to address a mismatch between the long-term funding needs of our clients and the short-term, highly secured capital they have typically been able to access. With the help of GBF’s long-term capital and capacity building, our portfolio companies have been able to arrange a weighted average of $4.9m in long-term funding additional to GBF’s investment, and several are making plans for larger financing. Mobilization occurs at three levels: the fund level, the investment level, and the beneficiary level (including microproducers and consumers). All three levels in turn lead to compounding increases in social impact.

Because GBF is generally the first outside investor to provide risk sharing capital, this mobilization is an encouraging sign that our clients have increased their commercial viability. GBF’s eventual $49 million of investments are projected to contribute to the delivery of $900 million of net economic value to their beneficiaries (Chapter V). Our goal is for all of our portfolio companies to grow to scale and become profitable and well-funded so they can achieve sustainable long-term impact. GBF’s portfolio is young, but there are indications that as clients progress in key BAS areas, business performance improves as well. As discussed, building successful, sustainable businesses is the best way for GBF to create lasting, significant social impact on people with low incomes.

GBF client Pwani Feeds employs a farm gate distribution and transaction-bundling model which lowers operational cost to farmers. This model promotes returning customers, which strengthens Pwani’s supply chain and financial viability.
V. Social Impact

Metrics for incremental income or savings generation for people with low incomes form the foundation of our impact measurement. However, our experience suggests that businesses generate impact in many other ways, such as supply chain distribution models that connect small-scale producers with more lucrative markets. Many of our clients provide their smallholder farmers with higher quality agricultural inputs, technical assistance, training, equipment, and even financing – all of which spark secondary purchases, community-development multipliers, related business opportunities, and expanded wealth creation.

MEASURES OF HISTORICAL SOCIAL IMPACT

GBF’s tracking of social and economic impact attempts to measure aspects of companies that are operationally useful to our clients, and can also help us and our funders monitor the impact generated by our investees. Each GBF portfolio company submits quarterly reports that capture a few basic metrics such as the number of beneficiaries the client reaches, the amount of payments or savings generated, and the proportion of payments or savings going to the poor. These metrics provide us and our clients with a basic understanding of the relationship between our client and its workers or suppliers. Besides informing GBF and our own stakeholders, metrics also can help our clients’ supply chain management, help increase their production, improve their efficiencies, and strengthen marketing efforts.

The average GBF client is a growth-stage company that typically works with supplier networks, averaging close to 4,900 micro-suppliers (farmers or artisans) and 180 employees. A distinguishing feature of our clients is that their main social and economic benefits accrue to large networks of suppliers or consumers, rather than the firm’s own employees.

The key to GBF’s social impact is building our investee companies to become more viable – which means these social impacts will grow and carry on for many years. The rest of this section analyzes the social impact GBF achieves through investments.

GBF’S SOCIAL IMPACT TO DATE

In 2013 the 19 investees in GBF’s portfolio generated an estimated $23.4 million of income for smallholder farmers, artisans and workers, and another $12 million in savings through products and services. GBF’s investees support roughly 608,000 individuals through direct income, and generated savings to over 1.3 million more people. These figures should grow considerably over the next few years as GBF invests the remainder of our fund and helps these and our existing investees grow stronger.

<table>
<thead>
<tr>
<th>Figure 5.2 - FY 2013 Social Impact (Data as of December 31, 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Direct People Reached</td>
</tr>
<tr>
<td>Agribusiness</td>
</tr>
<tr>
<td>Artisanal</td>
</tr>
<tr>
<td>Products and Services</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
thus enabling them to provide even more social and economic opportunities. Key social impact data is captured in Figure 5.2.

The “Products and Services” category includes several investments that benefit large numbers of people in a relatively small way, e.g., a company that produces high-efficiency stoves that provide kerosene savings or a manufacturer of agricultural processing equipment that increases farmer productivity. While the per-beneficiary benefit is far lower in these cases, there are large numbers of people affected so the total economic benefit is still significant. GBF’s sources for evaluating our clients’ social impact include analysis of client reports, supervision and BAS work, and social and economic return on investment projections (see below).

PROJECTED SOCIAL IMPACT

We analyze our clients’ reported metrics together with our financial forecasts (used in GBF’s semi-annual portfolio valuations) to estimate an Economic Rate of Return (ERR) for each investee. The ERR projects the economic value created for various stakeholder groups (including investors, workers, and low-income suppliers and customers) during 10 years of operations, expressed as an annualized social and economic return, relative to the capital employed to produce that impact. From these projections, we can also observe the total value generated by the company and the portion that benefits low-income stakeholders (suppliers and workers). Based on existing operations, GBF’s clients achieve significant social impact with potential for greater impact going forward.

The current portfolio looks likely to generate $466m in economic value over a 10-year period. We estimate that once our $49 million fund is fully booked and BAS deployed, our clients will generate roughly $900 million in economic value over the life of the fund. Using what we believe are conservative estimates of social impacts, these would amount to an annualized economic and social return of about 52% on the capital invested in these enterprises. GBF’s focus on building commercially sustainable businesses is key to these returns, and we expect these companies will continue to grow and generate social benefits far into the future.

CONFIRMING IMPACT

Since GBF invests in intermediate businesses, we have limited visibility into the income levels and overall social conditions of our investees’ suppliers or customers. We rely heavily on beneficiary information that is self-reported by our clients. When possible, we cross-check this client-reported data against the financial information we receive, supplemented by what we observe through our work with clients. GBF is also trying to spot-check social impacts through supplier-level surveys. Through these surveys, we gather demographic information about the suppliers and workers of our clients and establish a base line and process to track progress over time. This is, in effect, an adaptation of surveys that have been present in the field for over a decade.

WHO ARE WE REACHING?

In FY 2013, GBF conducted impact verification surveys for three agribusiness clients in Latin America, and beneficiary-level surveys for three artisanal clients in India (see box). We are in the process of conducting a similar study in
Africa. These studies give us a better understanding of supplier demographics and poverty levels, as well as standard-of-living metrics such as education levels and asset ownership. We have limited knowledge on the gender profile of our client’s beneficiaries; however, studies like the survey in India and our effort to roll out similar studies in Africa and Latin America should provide further information on gender and other demographic features. Figure 5.4 summarizes what the early surveys have told us about who our clients are reaching.

GBF is implementing these surveys gradually across the portfolio to learn, adapt, and improve our estimates and processes. Results thus far suggest that our clients are indeed working with predominantly poor and often marginalized communities. GBF estimates that nearly all the farmers, artisans, workers, and consumers working directly with the portfolio companies surveyed live below the $1/day poverty line. This suggests that GBF clients bring sustainable, meaningful, and scalable opportunities to large numbers of the poor.

GBF intends to conduct a pilot study in each region in the coming year. Using the results from these studies, we hope to implement a statistical sampling and refresh process across our portfolio. This will help us obtain meaningful data about the condition and progress of our clients’ beneficiaries, including whether their economic status improves over time.

### HOUSEHOLD RESEARCH SURVEYS: KEY LESSONS FROM ARTISANAL BUSINESSES IN INDIA

GBF recently conducted a household survey of artisans that work with three GBF clients, crafts companies in India. The survey included 678 interviews, and showed that 55% of artisans in these supplier networks are women from marginalized castes with limited access to economic opportunities outside of working with GBF’s clients. Practically, all of these artisans support households where each individual lives under the $1/day poverty line.

---

**Figure 5.4 – Beneficiary Demographics**

<table>
<thead>
<tr>
<th>Demographic Group</th>
<th># Direct Beneficiaries</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relationship with the Business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers &amp; Artisans</td>
<td>606,588</td>
<td>46%</td>
</tr>
<tr>
<td>Workers</td>
<td>3,568</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Consumers</td>
<td>699,845</td>
<td>53%</td>
</tr>
<tr>
<td><strong>By Income Level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $1/day</td>
<td>1.31m</td>
<td>99.8%</td>
</tr>
</tbody>
</table>
THE STORY OF A GBF INVESTEES: JAIPUR RUGS (JR)

GBF client Jaipur Rugs is a well-known social enterprise in India. It designs, markets and supervises the production of artisanal rugs. JR maintains impactful relationships with its artisans, more than half of whom are lower-income rural women. It provides inputs and equipment, and in some cases even provides its weavers with loans to buy looms. JR empowers low-income artisans to become entrepreneurs and employs thousands of poor people. Additionally, the company has a foundation that provides training, education, and health benefits to the artisans and their families.

When GBF began its engagement with JR in 2010, the company faced serious challenges in management, planning, and finance. Our BAS (some of it delivered before we invested) consisted of financial planning, foreign exchange risk management, inventory management, and corporate governance, including help in establishing a functional advisory Board and Family Council.

GBF invested in 2012, and today the company is profitable and growing quickly. GBF has continued (but scaled down) its BAS work with JR. We established a social accountability review and a child labor policy across its supply chain, and are helping management install sound, sensible compliance monitor-

Over half of GBF Indian client Jaipur Rugs’ beneficiaries are rural, female artisans.

ing. JR also benefited from GBF’s Portfolio CFO (see page 15). These interventions have helped strengthen JR’s financial and overall management, planning, and business rigor. The company’s owner feels GBF has made a big impact, and has been a special kind of partner.

JAIPUR RUGS QUICK FACTS

<table>
<thead>
<tr>
<th>Estimated Beneficiaries:</th>
<th>21,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Revenues:</td>
<td>$33.3m</td>
</tr>
<tr>
<td>Revenue Growth:</td>
<td>30%</td>
</tr>
<tr>
<td>Economic Rate of Return (ERR):</td>
<td>50%</td>
</tr>
<tr>
<td>Percentage of ERR Value to Low Income Groups:</td>
<td>29%</td>
</tr>
</tbody>
</table>

“Through expertise provided in financial and business planning, GBF has helped us ensure accelerated growth and greater opportunities at the grassroots and marketplace.”

– Asha Chaudhary, President, Jaipur Rugs Co.
VI. Environmental and Social Risk Management

BF provides part of its BAS assistance to improve investees’ environmental and social (E&S) policies and practices (see Chapter III). The objective is to help our clients run their operations efficiently and safely. This not only keeps GBF in compliance with our own funders, but it can also positively impact our investees’ operations, suppliers, workers, and the environment. Building strong companies that work responsibly with the environment, their workers and surrounding communities can set a positive example across the impact investment field.

GBF has developed an E&S framework that helps our clients identify and address the E&S risks associated with their operations. We developed this system by drawing on elements used by GIIN (Global Impact Investing Network), DFIs and other stakeholders; and adapting them to the particularities of GBF’s mandate and clients. As a part of our investment and BAS process, GBF partners with mainly local experts to identify and mitigate E&S management risks on entry. And once a company enters GBF’s portfolio, GBF regularly monitors its E&S compliance.

GBF’s portfolio companies are currently implementing a series of mutually-agreed risk mitigation steps, aimed at improving key E&S aspects of their businesses. The initial priority is to ensure full compliance with local and national laws and international regulations. As of December 31, 2013, 74% of companies have completed E&S reviews and begun implementing their action plans. Twenty one percent have had follow-on reviews to confirm that previously-identified issues were being adequately addressed.

This system has helped our portfolio companies make a number of E&S improvements, such as installing safety equipment, maintaining decent records and certification documents, tracking and managing resource use, and adopting policies to address specific risks. Indicators of our E&S activity to date follow below:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients with E&amp;S Reviews and Action Plans</td>
<td>74%</td>
</tr>
<tr>
<td>Clients with functional human resources policies</td>
<td>50%</td>
</tr>
<tr>
<td>Clients with environmental management procedures, certifications, and/or applicable permits</td>
<td>53%</td>
</tr>
</tbody>
</table>

**BENEFITS OF E&S**

The benefits of improved E&S management go well beyond social responsibility. They can serve to manage risks and add value to a client’s operations. Examples of these benefits are as follows:

- **Certifications:** Industree, an artisan goods company in India, is certifying producers with SA8000, a set of standards which protects basic human rights and maintains quality workplaces. This certification will protect and help retain Industree’s supplier network, but will also allow the company to reach high-margin, socially-oriented markets. Other certifications, such as social accountability and fair trade certifications, give businesses access to new and often more lucrative markets while improving the safety of employees and products.

- **Healthy and safe workplaces:** Two of our portfolio clients in Kenya (BrazAfric, an agricultural equipment company, and Pwani Feeds, a feed processor and shell egg marketer) are installing fire safety equipment to protect their facilities. Safety equipment reduces accidents and hazards, thus improving productivity. Two other clients (SKEPL in India and Villa Andina in Peru) are moving...
facilities; GBF is working with both clients to ensure these new facilities are healthy, safe, legally compliant, and resource efficient.

- **Efficient resource use:** As part of our BAS, Peruvian agribusiness Corporación Agrícola Viñasol (CAVSAC) (pictured below), is investing in a resource optimization plan to monitor and maximize energy efficiency and water conservation.

Corporacion Agricola Vinasol (CAVSAC) purchases snow peas, sugar snaps, asparagus and other vegetables and fruits from smallholder farmers in Peru and processes and sells them in the local and export markets (US and Europe). Alongside providing other BAS, GBF is helping CAVSAC improve resource utilization.
VII. Former Clients: Impact and Lessons Learned

GBF’s institutional history provides us with an opportunity to learn from our previous experience. Prior to the formation of GBF in 2008, we operated as the International Finance Corporation’s Grassroots Business Initiative (GBI-IFC). From 2008-2011, we operated independently as Grassroots Business Partners, Inc. (GBP) until we raised our current private investment fund (GBI-I) in 2011. While GBI-IFC and GBP were entirely grant-funded, these entities still provided clients with a mix of patient capital investment and BAS.

The companies we worked with during these earlier phases have a longer track record than our current fund’s portfolio. We recently reached out to several clients from these previous phases of GBF’s work to see how their businesses have performed since receiving our assistance, how they feel about our approach, the impact we had on them, and what we might learn from our earlier engagement. It is worth noting that our approach at that time was less extensive, as we operated with limited funding and very few field staff. Due to the companies’ size and viability issues, when we established our current for-profit fund in 2011, none of the companies surveyed were transferred into GBI-I.

The former clients we contacted, along with a brief description of the technical assistance we provided, are as follows:

- **Digital Divide Data (DDD)** delivers data entry, digitization, content conversion, and research services to clients worldwide. The social enterprise employs hundreds of disadvantaged young people in Cambodia, Laos, and Kenya, half of whom are women. GBI-IFC helped DDD separate development from business expenses, deploy early investment capital, and devise a plan for operational expansion.

- **Drishtee** originally delivered fee-based e-services, such as e-governance, education, and insurance, to rural populations in northern and northeastern India through ICT kiosks that were owned and operated by local entrepreneurs. More recently, it transformed into a rural supply chain and distribution system for basic consumer goods. GBI-IFC worked with management to shift the business model toward commercial sustainability.

- **Gone Rural** (pictured below), based in Swaziland, supplies raw materials, training, and markets for female artisans, thus providing them with substantial additional income from craft production. GBP worked closely for an extended period of time with Gone Rural’s management to develop financial forecasting tools, which allowed the company to match its capital structure to its operational and financial needs. The organization’s management still uses these tools and has expanded to a supply chain of over 760 women in remote areas of Swaziland. The female artisans directly earn 30 to 60% of the sale price of any artisanal good, which is quite high by international norms. Additionally, the artisans’ relationship with Gone Rural provides access to training and HIV awareness workshops.

- **SOLyDES Foundation** (formerly PRODEM) works in Bolivia to improve small businesses’ relationships with their suppliers, provid-
ing technical assistance both to the SMEs themselves and to the suppliers. GBP helped several parts of the organization, including providing funding for a facility to finance small enterprises, and provided financing and BAS support to the small enterprises within the facility.

- **Irupana** (pictured below) processes and sells natural, organic cereals from Bolivian smallholder farmers, thereby helping them reach larger and more lucrative markets. GBI-IFC helped Irupana strengthen its management, governance, and financial planning, among other areas. GBI-IFC worked directly with Irupana’s management team to strengthen their board of directors, which has now developed into a diverse and knowledgeable group of shareholders and external members. The Board now regularly gives major strategic input, which has helped Irupana experience tremendous revenue growth and improvement in profitability. This growth has allowed it to better support its beneficiaries.

- **Juhudi Kilimo** is an asset financing enterprise that assists small agribusiness producers in Kenya. The company focuses on rural agricultural development. GBI-IFC supported early program piloting, upgrading of procedures, and strategic planning. Our BAS included initial secondment of a CEO, who has now joined the Company on a full-time basis.

- **Lotus Foods** supports sustainable global agriculture by promoting traditional heirloom rice varieties sourced from farmers in Asia. GBP provided Lotus Foods with early capital, provided BAS assistance with basic financial planning and management, and helped the company hire a national sales manager, whom Lotus Foods attributes to helping the company expand sales.

- **Sosial Enterprener Indonesia (SEI)** is an angel fund of Indonesian business leaders for which GBI-IFC was an early promoter and investor. SEI provides capital and technical assistance to early-stage SMEs in Indonesia that have a solid combination of commercialization and outreach at a grassroots level. GBP helped set up SEI’s stakeholder group in addition to strengthening its operations and portfolio management.

**BAS INITIATIVES, FINANCIAL AND SOCIAL RESULTS**

According to our former clients, GBF’s capacity building efforts helped their organizations develop meaningful board and governance structures, operational and financial plans, and other management tools and skills. The combination of this technical assistance with long-term risk sharing capital, has enabled significant growth and improvement since the initial GBF investment. Some aggregated figures are shown in Figure 7.1.
The aggregate figures demonstrate significant improvement since GBI-IFC’s initial involvement, especially in clients’ revenue growth. Much of this revenue growth, particularly within recent years, can be traced to new financing obtained by clients after GBF’s investment. Half of the eight former clients were able to attract additional investments totaling over $1m each since GBF’s intervention. Additionally, the average percentage of total spending sourced from grant funding is estimated at 9%, representing a serious reduction in these enterprises’ dependence on grants. Between the mobilization of additional capital and improved profitability, there’s reason for optimism regarding the financial health and prospects for these former clients, and also the value of GBF’s earlier interventions.

LESSONS LEARNED FROM FORMER CLIENTS

Our work with these former clients reinforces our conclusion that building high-impact companies in challenging markets requires a long perspective, close contact with clients, patience, and constant monitoring and adjustment. We also present some broader lessons learned in the following chapter, but some lessons specific to our former clients are as follows:

- Impact investors should have their own staff in the field. This approach allows for the use of small, highly-tailored pieces of local consulting, as opposed to generic programs with expensive, mainly foreign consulting firms. Flown-in consultants do not always fit with the local context and practicalities of each company. Use of our own local staff for some of this assistance also allows for close monitoring and frequent adjustments of projects (for more, see Chapter III – BAS).

- Improved Management Information Systems (MIS) can be helpful and in some cases even crucial in helping enterprises improve management and planning. However, impact investors often view MIS or IT-based solutions as a “silver bullet,” and one can overwhelm clients with a system-dominated approach. Technical assistance for these systems should carefully fit the client’s capabilities and level of interest.

- Even after GBI-IFC’s investment and in cases where companies’ track records had improved significantly, some former clients continued to struggle to find risk sharing long-term funding. These companies felt they would have benefited from a continued relationship with GBF to provide either more funding, or at least general support and connections to additional funders in the field.

- Enterprises need strengthening before rushing to scale. The current philosophy in impact investing sometimes discourages this amidst the desire to book assets. A rush to grow before the management, business model, and financing can handle such growth can damage even good companies. Rapid growth requires a solid foundation and true alignment among stakeholders regarding objectives, returns, and other key strategies.

Our former clients feel that when investors pair capital with tailored BAS projects to strengthen an enterprise, they can create a stronger and bigger company with greater social impact on the poor. Several of our earlier investees stated that GBF’s blended approach demonstrates the kind of comprehensive approach needed in the field of impact investing.

**Figure 7.1 - Key Aggregated Financial Indicators** (Avg across all figures for clients’ most recent fiscal year)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual revenue growth since GBI-IFC / GBP commitment</td>
<td>20%</td>
</tr>
<tr>
<td>Average percentage of total spending sourced from grant funding</td>
<td>9%</td>
</tr>
<tr>
<td>Average debt : equity ratio</td>
<td>0.72</td>
</tr>
<tr>
<td>Average current ratio</td>
<td>1.60</td>
</tr>
</tbody>
</table>
GBF’s footprint in Africa is characterized by a diverse portfolio of high impact businesses, recognized field presence in Kenya, and a strong network of Business Advisory Service partners.
VIII. Looking Ahead

Our tools and approaches show much promise for the future of GBF. Some interesting models are emerging within our BAS work (see spotlight on page 16), including regional social impact research and systems for managing BAS around key company development points. A number of these processes have shown that they can help improve overall company results by affecting real improvements in a number of key management areas.

LISTENING, LEARNING, AND IMPROVING

GBF faces a tough mission and needs to continue building more effective tools and approaches. We believe GBF can provide a useful contribution to the field of impact investing by remaining practical, learning from its successes as well as its failures, drawing in the best expertise possible, building a solid track record, and sharing our findings and approaches as they prove themselves.

Beyond the more specific lessons noted earlier, some of the more general lessons from our work so far:

Simplicity

We (like our clients) face resource constraints, so we should keep things simple in our BAS projects and investments. Efforts are more likely to succeed and build traction with clients if they are practical, easily implemented, and require only a modest part of the client’s management time to implement or maintain. We strive to limit reporting requirements for our clients, and to also make these reports beneficial to their own forecasting and planning.

Business Rigor

GBF needs to balance our target for an acceptable return for our investors against our goal to create lasting business impact for clients and social and economic impact for their beneficiaries. We need to show vision and courage in our investments, but we also need to avoid allowing social objectives to cloud our business judgments. Pushing hard with our investees and turning them into better businesses is by far the best way for us to create sustainable large-scale social impact.

Patience

Organizational change in our clients takes time and sustained engagement. We have learned to gain trust through extended collaboration, up-close monitoring, careful phasing, and making periodic adjustments in our capital injections as well as our BAS. Rushing and overloading our clients or going out of sequence often backfires. It is important to not overdo systems and solutions. GBF’s clients are thinly managed, stretched financially and take time to build trust. So one should be prepared to live with gradual progress, a degree of imperfection and get comfortable with small steps, continued handholding and frequent adjustments in course.
“DNA” Matters

It is generally better to start with for-profit businesses and build social impact through their business models – as opposed to trying to convert socially-driven organizations into a for-profit mindset. Even within for-profits, there are considerable challenges such as addressing the conversion from family-owned/controlled businesses into professionally-managed companies with solid governance, and professionalized operation, management, and planning.

Improving, by Learning from Failure

GBF’s biggest mistakes have come when we:

• disbursed before we really understood the company’s finances and operations;
• became emotionally attached to a client, and prematurely eased up on our business rigor;
• let BAS selection and execution weaken because of a good social story;
• tried to change the “DNA” of an organization by making social, non-profit organizations into commercially-viable businesses. As noted, GBF now targets for-profit businesses that have social impact built into their business model.

OUR ULTIMATE GOAL

This report presents the current findings of our portfolio, and our best estimates of which processes and models seem to be working in achieving GBF’s ultimate objective: sustainably raising living standards for people with low incomes. We will measure our ultimate success by the business performance of our clients, and in turn their impact on the millions of farmers, artisans, workers, consumers and dependents whose lives can be improved by our work.

GBF client KZ Noir, a coffee collection and processing company operating in Rwanda, buys coffee cherries from over 6,000 smallholder farmers. GBF is working to mitigate KZ Noir’s financing challenges by providing BAS on financial management, thereby improving the company’s commercial viability.
Five datasets drive the information presented in this report. Each of the data sets represents a slightly different set of clients; they are as follows:

- **Historical Social Impact**: 18 total clients presented as of Dec 31, 2013, includes Gone Rural, an artisanal company which exited the fund as of Dec 31, 2013. Gone Rural received a working capital loan that was transferred to GBF’s fund from the portfolio that predates the formal fund (see Section VII Legacy Clients). For this reason, our supervision and BAS engagement with Gone Rural differed from other clients, and it is not included in any of the data sets below.

- **Projected Social Impact**: 18 total clients presented as a snapshot as of Dec 31, 2013, does not include Gone Rural.

- **Business Performance**: 19 total clients presented as of December 31, 2013, does not include Gone Rural.

- **Portfolio Composition & Characteristics**: 19 total clients presented as of March 31, 2014, includes a new $1.5m deal committed in Q3 of FY 2014, CV Prima Indonesia (Squeeze).

- **Business Advisory Services Impact**: 18 total clients presented as of Dec 31, 2013, does not include Gone Rural.

**Estimate for Total Projected Economic Benefit** once the fund is fully booked.

**Committed figures are as of March 31, 2014.**

**Weighted by annual revenue. Data reflects the last four quarters available for each client.**

**Weighted by annual revenue. Data reflects the last four quarters available for each client as of December 2013.**

**Data is as of December 31, 2013.**

**98.5% of all expected payments from portfolio companies were received as of December 31, 2013. This became 100% on February 15, 2014.**

Thirteen out of fourteen participating clients reporting this in GBF’s 2013 Client Feedback Survey

GBF uses the term significant to describe the level of social and economic impact our investees have; this translates to social benefits (income, training) and economic benefits (jobs, better outputs) that our investees have on their direct and indirect beneficiaries. By significant, we mean that our clients are producing this type of impact for hundreds, and sometimes thousands, of poor people. Our success depends on our ability to build the businesses financially and through BAS, and significant social impact.

The types of beneficiaries and projects that GBF works with include different sectors and business lines, large and smaller enterprises, family-owned businesses, across different countries with diverse levels of income and poverty.

Due to various factors, some of these clients were not transferred to the Fund (GBI-I).

We use “small business” here to encapsulate two common terminologies of the industry: “Small and Medium enterprises” (SMEs) and Small and Growing Businesses.

The term large numbers is used to describe hundreds or thousands of people impacted by GBF’s investees.

Assistance here means our blended capital approach of providing investments to meet working capital needs along with grants for technical assistance to improve various functions of the business (financial management and planning, operations, marketing & strategy, legal compliance, and so forth).

Our relationships with clients are “High-Touch” in that we frequently interact with our clients, and take a very “hands on” approach as a helpful and involved investor and partner.
GBF does not target the poorest countries; we focus on low-income and lower-middle income countries, which are referred to in this report as “lower-income” countries. These countries still have significant poor people that are impacted by GBF’s clients.

Using the most recent publically available data from major Development Finance Institutions, we identified the investment commitment amounts for each country where these organizations work. The World Bank defines GNI per capita as: gross national income divided by midyear population. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Using this GNI Per Capita figure, adjusted to the 2005 value of the US Dollar, we calculated the average GNI Per Capita for GBF and for the DFIs in this dataset, weighted by investment committed in each country. GBF’s weighted portfolio average is $1,818 and the included DFI’s weighted average GNI Per Capita (USD 2005) was $4,366, more than double the GNI Per Capita of GBF’s portfolio.

This figure comes from the World Bank, found here: http://data.worldbank.org/topic/agriculture-and-rural-development. “For the 70 percent of the world’s poor who live in rural areas, agriculture is the main source of income and employment.” [Accessed on: 3/21/2014]

GBF tries to analyze our impact on those living at the $1/day poverty line. This poverty line indicator reflects beneficiaries’ income level, not their consumption level. We do not claim to reach the poorest; instead we reach large numbers of lower-income individuals. To arrive at this estimate, we take reported payments to suppliers and workers and net out estimated costs to suppliers. We assume that money earned from a GBF’s client only constitutes 50% of the household earnings for the beneficiary. From the total estimated household earnings, we divide by the total number of people supported (direct + 4 dependents per individual). This gives a per person income estimate, which we then divide by 365 days to estimate a daily income.

See end note ii – we mean large-scale to affect hundreds or thousands of people with social benefits as shown in chapter V.

Only includes investments transferred or booked within 6 months of Fund start to ensure consistent sample.

These figures represent the Fund only. GBF has another $600m of non-transferred investments being serviced.

Some of these exits were not in the original portfolio, thus there is revenue and economic value GBF created but has not been counted in our impact figures, as they were exited before the establishment of the Fund.

Kickers reflect the sharing the profits and successes of our portfolio clients. Again, our Structure keeps us matched (risks and upsides).

The portfolio has generated a 7.7% current yield on the outstanding provisioned portfolio over the last 12 months. This is above the Fund’s cost of capital, which is estimated at 6%. The current yield reflects the average return on the outstanding portfolio from interest, dividend, and fee income paid in cash by portfolio companies to date. This does not deduct management fees or principal losses. It also does not include accrued interest, unrealized gains, or expected royalty based on equity kickers.

Typically this funding is senior to GBF’s debt, but could vary by client.

These are arithmetic averages for only clients with supply chains of producers (agribusiness, artisanal, etc.).

We do not attempt to capture any of these secondary benefits in the economic and social return calculations which follow.
Here we evaluate the total impact of the company; not just concentrating on GBF’s investment. Overtime we will try and find a way to establish our marginal value/benefit.

To calculate the ERR we use a 10-year projection of flows. To measure capital employed in the company, we use CAPEX and Working Capital flows. Economic outflows are measured through net income, income taxes, interest, salaries, and benefits to low income suppliers, workers, and consumers. Applying an IRR calculation to these economic flows, we arrive at the ERR mentioned in the report. We can then measure the proportion of economic value generated that is accrued to low income groups. This figure substantiates that companies are “high-impact,” delivering significant portions of benefits generated to people with low incomes. Of course, the calculations are based on several assumptions and projections. They are not to be taken as exact figures, but as estimates that reflect the benefits that our clients generate through operations. In some cases, where companies have operated for several years, we might account for previous operational losses to capture the cost of setting up the company’s infrastructure for operating.

These figures: Projected Capital Employed and Total Projected Economic Flows are the sum of net present value of all 10 years of flows included in the ERR calculation for each client.

This accounts for no terminal value, only partial recognition of flows to beneficiaries and no secondary economic benefits. In addition to business sustainability and social impact through direct payments to the poor, our companies also contribute by paying taxes, creating jobs, and economic value.

GBF clients report the full value of purchases made from farmers or artisans in their supplier networks. We adjust these reported payments and savings and deduct estimated costs incurred by suppliers to deliver goods for sale. In economic return on investment calculations, GBF also applies a second deduction to include only incremental economic value (that which the supplier would likely otherwise not be able to access) generated for low income groups.

Verifications include small sample, between [3% and 10%], of farmers from each client’s supplier network, and the questionnaires cover information aimed at verifying the company’s reported metrics and business details. Surveys ask questions related to the products being grown, delivery and collection processes, and payment schedules. In 2013, GBF conducted social impact verifications for five agribusiness clients in Peru. The studies included a small sample, between [3% and 10%], of farmers from each client’s supplier network, and the questions covered information related to the products being grown, delivery and collection, and payment schedules. The goal of the study was to confirm assumptions about the relationship between farmers and the company, and to get information to better understand the economic impact for farmers. Through this process we are able to refine the assumptions that drive reported income generated from clients and economic return on investment calculations.

Beneficiary level surveys employ randomized sampling techniques to gather demographic data about the populations supported by GBF’s clients. In addition to information included in verifications, the questionnaires also use proxy poverty indicators such as asset ownership, housing, and access to communications; observed improvement in household income; impact of other benefits like health, education, training and empowerment. In 2013, GBF conducted a pilot study with three artisan companies in India. The survey employed advanced sampling techniques to ensure randomization. Beneficiary data across the three clients was collected by asking a set of 10 questions to 678 people, across 10 states in 9 different languages.
517 hours over 47 days were spent in the field. This included time spent to travel and cover a total of 16,450 kilometers.

The indicator of percent of the population supported by GBF’s clients that is living under $1 and and $2 / day is based on beneficiaries’ income level, not consumption. To estimate this percentage, we assume the following: 1) each income earner supports 4 dependents, representing an average household size in developing countries; 2) income earned through work with a GBF client represents 50% of the total annual income for a household.

All companies in GBF’s portfolio are given an E&S Risk Categorization. We have an E&S Policy that informs us of the necessary actions required according to that categorization. Most companies, with the exception of the lowest risk ones, will require a third party E&S review within the first six months of disbursement and ongoing compliance checks in subsequent years. GBF then develops E&S action plans which identify priorities and service plans, which are implemented through targeted BAS in facilities maintenance, labor practices, energy use, waste disposal, and so forth. As with all of GBF’s activities, we apply business sense to prioritize the most important, highest risk issues and focus our resources toward addressing those.

GBF’s initial closing was November 21, 2011; our spin-off phase from IFC began in mid-2008.

One client, Gone Rural, did get a small working capital loan in the current fund. Gone Rural exited GBF’s current fund in Q2 of FY14.

Indian client Servals Automatic Private Limited (Servals) provides clean, efficient, and affordable burners and stoves to consumers with low incomes. GBF provided Servals with a loan to expand its geographic presence in the kerosene burner market, set up a distribution channel, and launch an improved biomass stove.
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