

# IFC GBI Program Evaluation

## *Final report and case studies*

December 20, 2007

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December 20, 2007

Geeta Batra  
International Finance Corporation  
The World Bank Group  
Washington, DC

Dear Ms. Batra and members of the IFC GBI evaluation steering committee,

We are pleased to submit the final report from the evaluation of the IFC's Grassroots Business Initiative (GBI). This report is the culmination of an intensive three month review of GBI's activities and their impact. As an ex-post evaluation the analysis was limited by a lack of baseline data prior to GBI's intervention and the absence of standard reporting metrics in the social investment space. However, every effort has been made to use data-driven analysis to arrive at meaningful conclusions. There are a few themes that we believe are useful to highlight to inform the interpretation of these results:

- **GBI has targeted an underserved investment class in challenging operating environments.** GBI's portfolio is differentiated from comparable social investment initiatives through its inclusion of for-profit enterprises with a social mission and non profit organizations engaged in revenue-generating activities. 82% of GBI investment takes places in frontier countries vs. 25% of IFC total investment.
- **GBI provides a unique offering with ambitious goals.** The international social investment sector is still nascent without proven best practices and benchmarks. GBI's offering of patient capital coupled with intensive technical assistance is innovative and pioneering. Attempting to bring about the "change in the organization's DNA" from that of a socially-oriented organization to a commercially viable enterprise is an ambitious endeavor.

Though a number of new entrants are making their way into the social investment space, we believe that there is still considerable opportunity, and need for, GBI to continue supporting social entrepreneurs in challenging environments. We recognize that this is a critical time for GBI as various options are under consideration for GBI's evolution. We hope that the analysis and implications from this report will help to inform these discussions. We are available to discuss the findings or implications as needed and welcome any feedback or suggestions.

We would also like to acknowledge the contributions of the many people who made this evaluation possible. The GBI staff provided our team with extensive information and support throughout the process. GBI leaders welcomed our evaluation teams and provided candid and constructive feedback; external stakeholders provided valuable perspectives and the grassroots level beneficiaries provided insights into the challenges they face and how they are working to overcome them.

Sincerely,



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## TABLE OF CONTENTS

1	Executive Summary .....	3
2	Context And Background .....	8
3	Summary Of The Evaluation Process .....	10
4	Key Finding: GBOs Demonstrate Create Social “Value Add” Through Formalization Effects, Capacity Building And Wage/Working Condition Premiums .....	12
5	Key Finding: GBOs Face Trade Offs Between The Intensity Of Their Social Impact And Realizing Financial Sustainability .....	14
6	Key Finding: GBI Has Been Effective In Supporting GBOs To Increase The Scale Of Their Social Impact .....	16
7	Key Finding: GBI Has Demonstrated The Ability To Increase The Sustainability Of Retail GBOs However Results With Wholesale Investments Are Less Clear .....	17
8	Key Finding: GBI’s Offering Of Financial Assistance Coupled With Intensive Technical Assistance Is Relatively Unique In The Social Investment Space .....	21
9	Key Finding: GBI Investments In GBOs Have Positive Multiplier Effects After 5 – 10 Years Of Sustained Improvements.....	23
10	Key Finding: Evaluation Of GBI’s Support Of GBOs Reveals Strengths In Providing Financing And Strategic Advice But Less Attention To Key Operational Issues.....	28
11	Lessons Learned And Implications.....	34
12	Appendix: Summary Of Social Impact Indicator Benchmarking.....	39
13	Appendix: Detailed Summary Of Social Impact Analysis .....	40
14	In Depth Evaluation: UCT .....	46
15	In Depth Evaluation: Prodem .....	62
16	In Depth Evaluation: KYBT.....	84
17	In Depth Evaluation: Honeycare .....	104
18	In Depth Evaluation: Hagar Catering.....	113
19	In Depth Evaluation: Drishtee Development And Communication Ltd .....	122
20	In Depth Evaluation: SEWA.....	131
21	In Depth Evaluation: Craftnetwork Indonesia .....	141

## 1 Executive summary

### **Summary of key findings**

The IFC's Grassroots Business Initiative (GBI) was established as a pilot program to drive social impact at the grassroots level through investing in social enterprises, or Grassroots Business Organizations (GBOs). The evaluation of the GBI portfolio revealed that GBOs were able to convert efficiencies and revenues to social impact and that with GBI's assistance they were able to increase the scale of their impact. GBOs were found to have innovative business models that realize both social and financial goals, but most face trade-offs between the intensity of their social impact and their ability to become self sustaining. GBI demonstrated the ability to drive increases in financial sustainability of retail GBOs, the majority of which were in frontier countries. The efforts toward improving the financial sustainability of wholesale GBOs is less clear as this was not always a focus of the intervention. GBI's key strengths are providing capital and high level strategic guidance. However GBOs continue to face key operational issues that were not addressed by GBI's support. GBI's investments in GBOs can break even within a 5 – 10 year timeframe, but only if sufficient internal capacity is built within the GBO to sustain higher levels of efficiency and growth. This underscores the importance of providing intensive technical assistance to build the capacity of the social entrepreneurs and their staff. Wholesale models were found to be a cost effective and relevant way of providing intensive capacity building and operational technical assistance. Migrating towards a wholesale model will enable GBI to realize greater efficiencies and improve the relevance of the assistance. The challenge to this strategy is identifying suitable partners in all of the areas where GBI operates and ensuring alignment of goals with these partners and the quality of services provided.

### **Context**

#### **The Grassroots business initiative (GBI) was launched as an innovative pilot program targeting an underserved investment class of social entrepreneurs in developing countries**

The Grassroots Business Initiative (GBI) was launched in 2004 as an innovative pilot venture within IFC. GBI's aims were to drive social impact at the grassroots level through strengthening business organizations that create economic opportunities for people at the bottom of the pyramid. At the time of its launch, GBI was a relatively uniquely positioned provider of capital and intensive technical assistance to an underserved investment class of social entrepreneurs in developing countries, or Grassroots Business Organization (GBOs). As a result of their pursuit of both social and financial missions, the organizations are often underserved by local and international capital markets and have unique capacity building needs.

To date, GBI has disbursed \$6.7M through 61 different projects in 18 different countries. The average investment size is \$150,000 though the actual amounts range from \$1.2M to \$30,000. The investments are mostly in the form of grants, though there are a few patient capital loans. The funds disbursed are used primarily for capacity building initiatives, but also to cover the costs of growth or market development initiatives and working capital needs. In addition to the grants, GBI provides their investees with intensive technical assistance and networking opportunities through GBI staff and local affiliates. GBI's investees serve 87,000 direct beneficiaries, and 391,000 indirect beneficiaries. The majority of GBI's investments (82%) have been in frontier countries vs. IFC's total portfolio at 25%

#### **The evaluation considers GBI's inputs (technical assistance, finance), outputs (indicators of GBO sustainability) and outcomes (social impact at the grassroots level)**

This evaluation was initiated in the fall of 2007 on behalf of the International Finance Corporation's SME M&E Department following several years of GBI investment activity. The evaluation examined the inputs provided by GBI (e.g., finance and technical assistance), outputs (indicators of GBO operational and financial sustainability) and outcomes (social impact at the beneficiary level). The scope of the evaluation included (i) a portfolio-wide review of all GBOs that have been assisted by GBI, (ii) a survey sent to all GBOs, (iii) an in-depth evaluation of a representative set of 10 projects that included site visits, (iv) an internal review of GBI operations and (v) an external review through stakeholder interviews. Over 270 interviews were conducted, mostly at the GBO and beneficiary level.

**Within the GBI portfolio, there are three main types of GBOs, each of which has a distinct way of delivering social impact**

Retail GBOs engage people at the grassroots level as employees or suppliers in the production of goods and services. Because they target marginalized or underserved populations, they generate social impact through creating employment, increasing incomes and providing additional “social value add” services. Wholesale (Micro) GBOs create opportunities for grassroots entrepreneurs to access finance and business development services. They create social impact through enabling the grassroots entrepreneurs to increase their incomes and build their business and management skills. Wholesale (SME) GBOs serve as intermediaries and provide business development support and finance to social entrepreneurs in the local markets. They create social impact through the organizations they support.

**Key findings on outcomes (Social impact at the beneficiary level):**

**An in-depth evaluation of 10 representative GBOs revealed that they were able to convert efficiencies and revenues to social impact in three main ways:**

- **Formalization effects:** At the majority of GBO’s, more than 80% of grassroots level beneficiaries surveyed did not have prior access to the economic opportunities provided by the GBOs (e.g., employment, markets, entrepreneurship). Most were previously unemployed or engaged in informal economic activities.
- **Wage and working condition premium:** The majority of GBOs either paid a wage premium (ranging from 20 – 80%) and/or offered better working conditions than comparable local standards.
- **Capacity building and beneficiary empowerment:** The majority of GBOs offered capacity building and empowerment programs, however wholesale (micro) organizations tended to offer more intensive programs focused on more transferable skills.

**Through providing capital injections and strategic technical assistance, GBI enabled the majority of GBOs in their portfolio to increase the scale of their social impact** (i.e., number of direct and indirect beneficiaries). GBI had a more limited effect on the quality or magnitude of the social impact (i.e., wages paid to beneficiaries or quality of training programs offered).

**Key findings on outputs (progress towards GBO sustainability):**

**While many GBOs did create innovative business models that realize both social and financial goals, they face trade-offs between the intensity of their social impact and their ability to become financially self sustaining.** As a result of their pursuit of social objectives, GBOs cited trade-offs that include less efficient production methods, higher costs of inputs and more complex supply chains and tension between providing beneficiaries with steady incomes and maintaining profit margins on goods sold, especially handicraft items.

**GBI demonstrated the ability to drive increases in sustainability of retail GBOs, the majority of which were in frontier countries**

GBI’s objectives with their retail clients was to help them to increase scale, organizational capacity and sustainability. To measure sustainability, GBI has developed a new indicator for GBO sustainability that examines the share of costs that can be funded through an organization’s revenue rather than through donor income. Looking at the average of the sustainability index over time reveals a positive relationship between the duration of the partnership with GBI and the organization’s financial sustainability. The average sustainability index in year one for GBOs is 70% and the average for those GBOs that have been with GBI for three years is 89%. While this data does not imply causation per se, findings from the GBO survey and qualitative interviews confirm that GBI has had a positive influence on the sustainability of retail GBOs. However magnitude of these sustainability gains was also very closely linked to the degree of alignment between GBI and the GBOs on the importance of realizing sustainability goals.

**The results for wholesale organizations is less clear due to a lack of consistent criteria for sustainability for these organizations**

GBI worked with a variety of wholesale GBOs. In some cases wholesale GBOs were used primarily as an intermediary to focus efforts on capacity building at the entrepreneur level. In other cases, the wholesale GBO was the primary focus of the capacity building efforts. Overall, however financial sustainability of the

wholesale GBO itself was not a main focus of their efforts. This deprioritization is reflected in the lack of consistent indicators of sustainability for the wholesale GBOs. Two potential indicators of sustainability are “Resources Mobilized” that is what incremental funds the GBO was able to secure as a result of GBI’s donation. Another indicator that would be useful to examine is the financial sustainability of the clients supported by the wholesale GBOs. For both of these indicators, there was a lack of consistent data across the portfolio to generate meaningful conclusions.

### **Key findings on inputs (GBI technical assistance and financing):**

#### **GBI investments in GBOs have positive multiplier effects, assuming sufficient internal capacity is built within the GBO that they can sustain their improvements for 5 – 10 years**

GBI’s investments are intended to help GBOs to increase their scale and/or their social impact over time. Using GBO revenues as a proxy for their growth one can estimate a “multiplier” effect that would indicate the incremental GBO revenues that result from a given level investment in a GBO. This metric can serve as an indicator of the relative efficiency of the GBI investment. Since there was insufficient historical data from prior to the GBI intervention, counterfactual scenarios were generated using quantitative and qualitative analysis. Running this analysis for 6 of the GBOs that were studied in depth with relevant data indicates that:

- GBI investments will generate positive multiplier effects in terms of GBO revenues within 5 – 10 years of the investment.
- However achieving projected returns predicates long-term (+5 years) capture of revenue growth derived from GBI’s intervention highlighting the need for internal management capacity building.
- Multiplier effects at the grassroots level are lower than overall GBO revenue multipliers and rely upon the diligence with which GBOs focus on driving social impact to the grassroots level.
- Technical assistance costs defer break even points over time, so it is critical that the TA be focused on adding value rather than being overly focused on reporting or program administration.
- Sources of financing are important and thus the priority placed on finding patient capital (with a lower discount) rate is appropriate.

#### **Evaluation of GBI’s support of GBOs reveals strengths in providing financing and strategic advice but less attention to key operational issues**

Although GBI was a “minority” donor in 77% of transactions, its financing is credited with impact stemming from the criticality of funding timing, the strategic focus of funding use, and the branding of the funding source. GBI’s unique position as both a provider of intensive TA and capital has made it successful in increasing GBOs scale especially through driving high level strategic changes. As GBI moves forward it should look to improve in each phase of the investment lifecycle:

- **Adopt a more rigorous screening process.** While GBI’s selection process has been opportunistic rather than strategic, the resulting portfolio is a suitable mix of GBOs.
- **Improve the relevance of interventions through consistent implementation of client-driven needs assessment process** GBI interventions were of mixed relevance to GBO strategic goals because of inconsistent implementation of needs assessments and lack of alignment around project goals and objectives.
- **Support GBO operational needs through local intermediaries.** GBOs cited operational and technical challenges that were beyond the scope of GBI support but that are critical to resolve in order for the GBO to reach financial and/or operational sustainability. The top areas for operational assistance include improving the quality of the good or service (E.g., product design, market research), efficiency of production and operational processes, internal processes such as IT, and Enterprise Resource Planning systems.
- **Improve the timeliness of funding disbursements** GBOs noted significant delays in obtaining their disbursements.
- **Strengthen the global initiatives.** GBI’s global initiatives have not yet been fully developed due to a lack of dedicated resources and under-developed internal knowledge management systems.
- **Streamline M&E requirements and ensuring more consistent collection of baseline data.** While GBI M&E requirements have had important benefits in terms of strengthening GBO M&E

capabilities, they are often perceived as disproportionately burdensome. Furthermore baseline data was not consistently gathered at the outset of interventions.

- **Establish clear portfolio exit strategies at the outset of interventions.** There were inconsistent considerations given to exit strategies at the outset of interventions.

### **Lessons learned and implications for GBI strategy**

Implications are highlighted throughout the analysis with a detailed summary section at the end of the document. Additionally, appropriate recommendations are presented for consideration as the IFC moves toward launch of the Grassroots Business Fund (GBF).

#### Migrate towards a wholesale model

GBI leverages strengths with a move toward “wholesale” investments. As demonstrated by the NPV analysis, realizing positive returns on retail investments requires sustained operational capacity building over time, where GBI has limited capacity. Wholesale GBOs also have greater capacity to conduct the needs assessments, improve the relevancy of the TA offered and provide more cost-effective support to GBOs with M&E and reporting requirements.

Issues observed in the evaluation compel tactical recommendations across the investment process:

#### Implications for screening

- Develop a clear investment screening process for each of the proposed future business lines that is aligned with the investment objectives
- Use a multi-step process to rationalize amount of staff time spent on investment
- Include an assessment of:
  - GBO management’s “readiness, willingness and ability to change”
  - Potential for social impact (E.g., social value add)
- Look for opportunities to rationalize the current GBI portfolio and only continue to work with GBOs that have financial and social impact objectives that are in line with GBI

#### Implication for needs assessment

- Conduct baseline survey and client-driven strategic review of the GBO to verify the investment design and to enable better tracking of results going forward
- Use results of baseline survey and strategic review to develop a plan of aligned goals and objectives for the GBO and GBF investment

#### Implications for technical assistance

- For overall technical assistance:
  - Partner with intermediaries on the ground to deliver operational technical assistance
  - Control overhead costs by shifting more of the TL and TA staff to the field in order to avoid costly frequent travel to and from GBOs
- For the role of GBI staff in technical assistance:
  - Define role of GBI staff as experts providing value added services to GBOs
  - Limit logistical communications with GBOs to specific times each month
- For technical assistance for global programs:
  - Create systems to capture and share global knowledge
  - Link global strategic plans with county-based ones and develop global-level oversight to harmonize country specific strategies

#### Implications for investment

- Shift the investment portfolio towards more high performing “investments” in wholesale organizations and raise their bar with respect to the level of financial or social dividends of investments

- Support the expansion of the range of financial products appropriate to investment in retail GBOs and micro-entrepreneurs with a social mission
- Streamline the process for grant and financing disbursement

#### Implications for GBI M&E

- Conduct social impact baseline studies, including both participating and control groups, prior to each new investment and use the results to shape program design
- Require benchmarking of social impact to local standards (E.g., wages, employment, etc.)
- Develop/refine standard social impact metrics that can be used across the portfolio
  - Scale (e.g., number of beneficiaries reached)
  - Output: Social “value add”
  - Outcome: Poverty alleviation (e.g., number of people who realize increases in income that surpass poverty indices)
- Develop a robust M&E database (moving away from standalone spreadsheets)

#### Implication for exit

- Define a clear exit strategy specifying what donor funding and / or profitability levels make GBOs “sufficiently sustainable.”

### **Implications for a Grassroots Business Fund**

#### Mobilizing patient capital

As GBF looks to further develop the financial viability of GBOs it should focus on increasing access to alternative forms of finance that meet the needs of small and medium sized enterprises. Well understood by the GBI leadership, the major contribution of a Grassroots Business Fund is addressing the insufficient supply of capital for this asset class of small-medium sized social enterprises. The most effective financing interventions integrate grants to fund core operational improvement technical assistance with working capital to finance growth and new initiatives.

#### Implications for additional areas that GBF could address:

As GBF establishes itself as a change-agent in the sector, broader areas of focus continue to include driving access to markets for their goods and services, addressing insufficient supply of quality business development support services, and supporting training capacity (i.e., SEWA Managers’ School) to address the “missing middle” tier of management in GBOs.

#### Implications for GBF operating model and structure

To move forward GBF would presumably implement recommendations and current plans to (i) move toward a strategy of mobilizing patient capital for Wholesale SME & Micro; (ii) leverage local capacity and grant financing to support operational technical assistance; and, (iii) streamline processes around disbursement, reporting, and monitoring & evaluation. This implementation would a different operating model and structure than currently deployed in GBI. Adopting a “fund” DNA rather than a technical assistance provider implies a substantially lower percentage of management costs to deployed capital. That lower percentage is achieved by (i) leveraging local providers of technical assistance; (ii) re-efforting GBF staff toward mobilizing capital, portfolio origination and screening, needs assessment, and driving returns through scale and operational initiatives. This re-efforting requires developing more complex investment professional skills with a more leveraged management structure while maintaining a social returns culture. In the near term, that likely implies infusing a middle level of managers with a few number of high-performing junior staff in the headquarters and in the field.

## 2 Context and background

GBI was launched in 2004 as a pilot venture within IFC to engage with social enterprises with little exposure to business oriented technical assistance and rarely served by commercial investors. As might be expected, the results of GBI interventions reflect the difficult environment in which GBOs operate and the pioneering nature of GBI's involvement in the GBO investment class. The first years of GBI were intended as a "learning lab" to understand the potential to help grassroots businesses scale and become more self-sufficient.

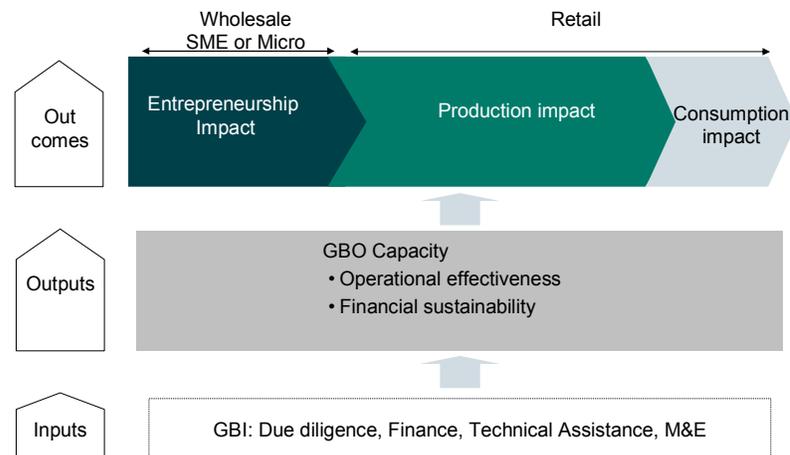
### 2.1 Challenges exist evaluating GBI's interventions

This evaluation was initiated in the fall of 2007 on behalf of the International Finance Corporation's SME M&E Department following several years of GBI investment activity. While several insights draw from the assessment, it is important to note the challenges faced in this type of analysis:

- Ex post evaluation of a very innovative program
- Absence of accurate GBO historical data prior to GBI involvement
- Attribution issues due to presence of other investors
- Benefits of capacity building occur over time
- Diversity of GBI's portfolio

### 2.2 Driving impact through a grassroots business

Grassroots businesses can be defined as a business or organizations that aims to benefit people at the grassroots level through offering opportunities for employment, entrepreneurship or business skills training. GBI's theory of change is that through investing in GBOs, they can become more effective and financial sustainable which in turn will enable them to deliver greater economic and social impact.



### 2.3 Varying types of GBOs within the GBI portfolio

Currently, GBI identifies GBOs as either being retail—directly supporting grassroots beneficiaries through employment or products—or wholesale—supporting retail GBOs and their social entrepreneurs or grassroots entrepreneurs. For the evaluation, it is useful to separate wholesale into wholesale (SME) and wholesale (micro) to distinguish the support to social entrepreneurs launching retail GBOs and grassroots entrepreneurs.

#### Retail GBOs

- Target investees: GBOs that employ people at the grassroots level as employees or as individual external producers. GBI works closely with the management of the GBO.

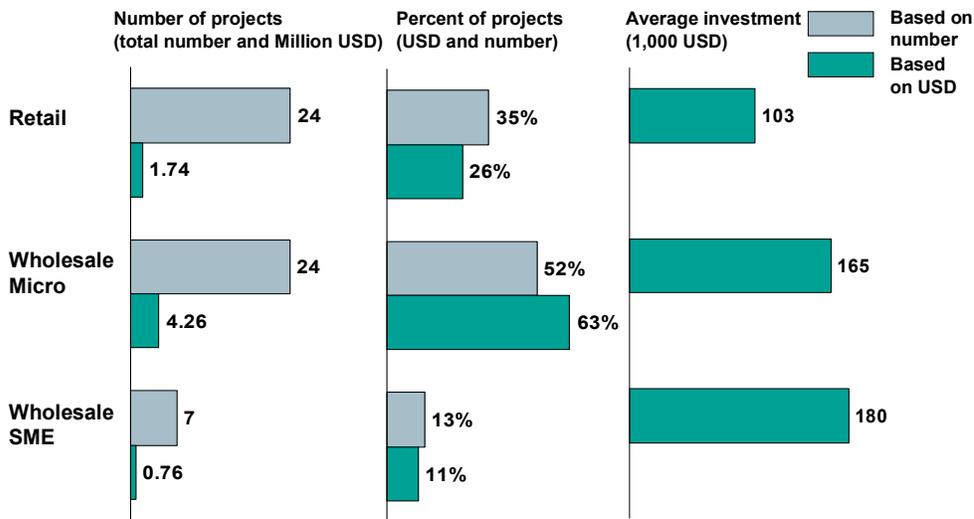
- Primary beneficiaries
  - i. Grassroots employees or external producers that benefit from employment and incremental income.
  - ii. Some employees and producers also benefit from gaining skills and participation in the formal economy.

Wholesale (Micro)

- Target investees: GBOs that support entrepreneurs at the grassroots level to launch micro enterprises. GBI works closely with the management of the GBO.
- Primary beneficiaries
  - i. Grassroots entrepreneurs that benefit from skills training, financing and on-going support with their businesses.

Wholesale (SME)

- Target investees:
  - i. Organizations that provide services and financing to Small and Medium Enterprises that employ people at the grassroots level as employees or external producers that is retail or wholesale (micro) GBOs. GBI works to build the capacity of the staff of the wholesale GBO to improve their capability to deliver quality services.
- Primary beneficiaries
  - i. Grassroots employees and producers for the SME's who benefit from employment, income generation and in some cases skills training

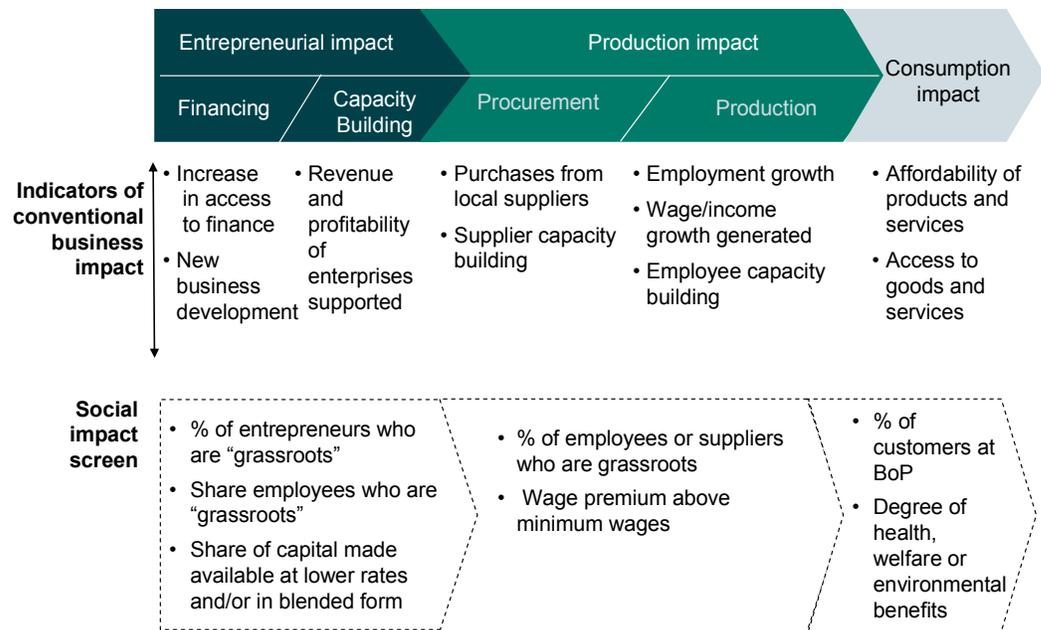


Note: The total number of projects, 55, does not include 7 projects which are in a second phase of work with GBI. In terms of dollars disbursed, the 7 projects are included

Source: GBI project scorecards

**2.4 Disaggregating the social impact from the conventional impact of a business**

One of the key questions existing within the world of social entrepreneurship is what distinguishes a social enterprise from a conventional enterprise that operates within an environment with a high poverty rate. For the purpose of this study, we are defining social enterprises as those that deliberately seek to create value (social and economic) for people at the grassroots level. That is, these enterprises alter their business models, production methods and cost structures to reach social as well as financial objectives.



As a result of this disaggregation, conceptualizing the trade-offs faced by grassroots business organizations leads to insights around the translation of profits and efficiency into social impact. GBI's interventions are focused on (i) driving scale which increases the magnitude of the social impact; (ii) driving business efficiency which better converts income into social "value-add"; and (iii) and financial independence which ensures the sustainability of the social impact. The costs associated with these alterations to the business model can be referred to as the GBO's social costs. These social costs however generate social value such as increased incomes and well being for people at the grassroots level that are not captured within a conventional financial analysis. The existence of this social impact – above and beyond the financial impact of the enterprises' activities is the main rationale for providing social enterprises with lower-cost capital and/or grants.

### 3 Summary of the evaluation process

As part of the evaluation, Dalberg completed three phases of activities:

	Desk Research	GBO Survey	GBO Field Visits
<u>Scope</u>	All GBI projects (61) <ul style="list-style-type: none"> <li>Active</li> <li>Closing</li> <li>Closed</li> <li>Pipeline</li> </ul>	All GBO's (47)	Select GBO's (10)
<u>Contents</u>	Use existing data for: <ul style="list-style-type: none"> <li>Financial assessment</li> <li>Social impact assessment</li> </ul>	Poll GBO's on: <ul style="list-style-type: none"> <li>How GBI impact has helped to strengthen capacity and social impact</li> <li>Quality, satisfaction of GBI support</li> </ul>	Interviews to conduct: <ul style="list-style-type: none"> <li>Detailed assessment of GBI impact on organization, financial, operational capacity</li> <li>GBO impact analysis (business and social) including beneficiary interviews</li> <li>Detailed quality, satisfaction with GBI support</li> </ul>

## **Phase I: Desk Research**

The desk review completed 4 activities: 1) analysis of GBI's portfolio; 2) development of criteria for selection of projects for in depth study; 3) selection of projects for in-depth study; 4) external research on social enterprise monitoring and evaluation

During the desk review, the team analyzed all available data for the GBI portfolio and segmented the portfolio by region, investment size, investment time, existence of M&E data and relative performance. The analysis of GBI's portfolio illustrated that the projects are segmented in the following way:

Next, selection criteria for in-depth study review were developed. The criteria included:

- **Geography:** Proportionate to current spread of projects and commitments
- **Performance:** Mix of successful and less successful projects based on initial screen with GBI
- **Type:** Mix of wholesale SME/wholesale micro and retail projects
- **Quality of M&E data:** Existence of some kind of pre-project survey data and/or high quality M&E data currently available

Based on the criteria above, the following projects were selected:

### **Africa (5 projects):**

- Honey Care Africa, Kenya
- KYBT, Youth/Informal Economy Initiative, Kenya
- UCT, South Africa
  - StreetWires, South Africa
  - Gone Rural, Swaziland

### **East Asia (2 projects):**

- Hagar NGO, Cambodia
- CraftNetwork, Indonesia

### **Latin America (1 project):**

- Prodem Social Enterprise Fund, Bolivia

### **South Asia (2 projects):**

- Drishtee.com, India
- SEWA Barefoot Managers' School, India

Finally, the desk research reviewed a number of existing methodologies for assessment of social impact and synthesized the existing approaches for social impact assessment:

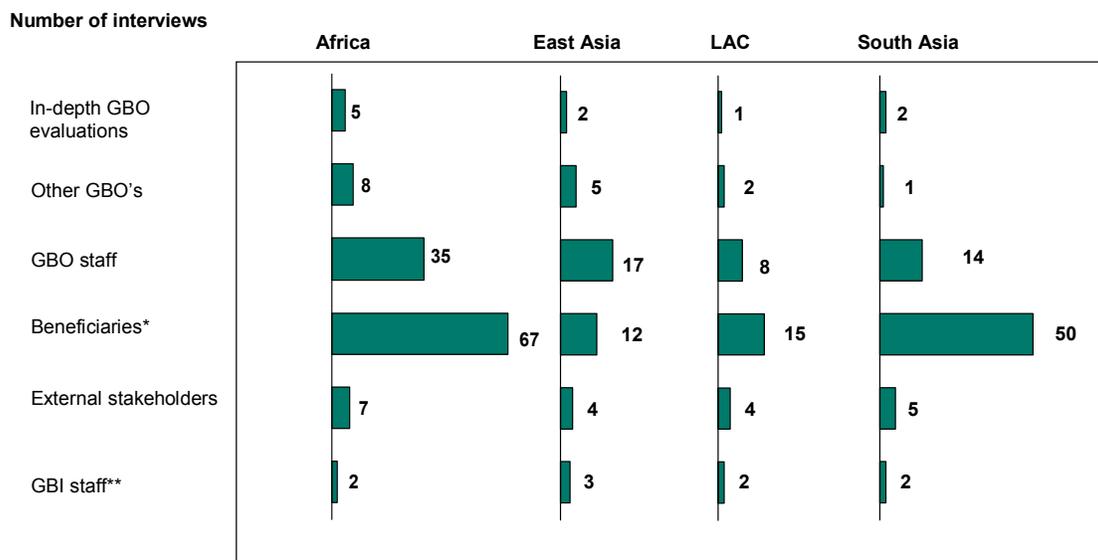
### **Phase 2:**

During phase 2, the team developed a "client satisfaction survey" and launched it to 47 organizations.

### **Phase 3:**

Four Dalberg teams conducted over 270 interviewed with diverse stakeholders

## The evaluation is highly representative with over 270 interviews conducted with six categories of stakeholders



Source: Dalberg Analysis

### 4 Key finding: GBOs demonstrate create social “value add” through formalization effects, capacity building and wage/working condition premiums

#### A framework for assessing the social impact of GBOs

GBOs can be distinguished from standard businesses by the extent to which they prioritize the delivery of incremental social, economic or welfare benefits to their grassroots level producers or employees. The most common forms of these benefits include:

- Formalization: opportunities for grassroots level individuals to participate in the formal economy (i.e., formal employment, bank accounts, access to capital).
- Capacity building: acquiring skills and knowledge that can raise the individual’s productivity and increase their ability to pursue further opportunities.
- Wage/working condition premium: GBOs often drive a greater share of their profits to delivering “fair” wages to employees and by creating work environments that exceed local standards. They also employ innovative business models that permit individuals to work from home, which particularly for women with children, offers considerable benefit to their families. Some of the agricultural and handicraft related GBOs have business models in which the GBOs absorb the costs of transporting the goods to and from the producer’s domicile which helps to reduce the personal and financial burden of accessing markets.
- Degree of empowerment: Some GBOs seek to empower people from formerly disadvantaged backgrounds by equipping them with the skills and access to resources that they need in order to become self sufficient.
- Availability of social programs: Some GBOs provide additional health, social and financial savings programs for their employees and suppliers.

#### Strong evidence of formalization effects

Based on examination of existing M&E reports as well as with beneficiaries themselves, at each of the 10 GBOs studied in-depth, the majority of the beneficiaries were individuals who would not otherwise have opportunities to participate in the formal economy. That is, the majority of employees and external

producers indicated that they were unemployed or engaged in informal labour prior to working with the GBOs. The majority of entrepreneurs interviewed were unable to secure capital or the types of business development services from sources other than the GBO. This is a credit to GBI's effectiveness at identifying organizations that are truly targeting under-served populations.

### **Most GBOs have significant capacity building components, wholesale (micro) GBOs tend to have more transferable offerings**

All of the GBOs profiled had some kind of "Capacity building" element in their mission and business model. However there was a notable difference between retail and wholesale (micro) organizations. The retail organizations profiled engaged grassroots individuals in handicraft production (e.g., Streetwires, Gone Rural), services (e.g., Hagar) and agriculture (e.g., Honeycare). Each of these organizations is highly committed to skill building of their beneficiaries, however the nature of the training tends to be task-specific (e.g., craft making, bee keeping) and part of the broader production process rather than a standalone program. While these skills improve the individuals' chance of future success in that sector or within that company they are less transferable to other economic pursuits.

On the other hand, training programs offered by wholesale (micro) organizations, by definition, were focused on equipping the grassroots individuals with financial and management skills that increased that individual's chances of success with their business and prospects for future employment or entrepreneurial pursuits. For example training sessions offered by KYBT, CraftNetwork Indonesia, and SEWA Barefoot manager school includes financial literacy and management skills. Even if the grassroots entrepreneurs' ventures were not to succeed, the skills, knowledge and sense of personal empowerment that they gain from the training and mentoring programs will better equip them for their future endeavors. Some of the mentoring relationships established through programs such as KYBT were observed to last beyond the participant's involvement with KYBT itself.

Some of the challenges that face GBOs in offering capacity building are:

- On the whole, neither retail nor wholesale GBOs had a good way of measuring the quality of the training that they were providing.
- Wholesale (micro) training programs are almost completely donor dependent and are not self-funding in their current form

### **Evidence of wage and working condition premiums, especially among retail clients that have secured "fair trade" certification**

Most of the profiled organizations were found to provide some premium to their employees or suppliers beyond what local labor market conditions would demand in terms of wages, working conditions or both. The three major drivers of these premiums were the level of commitment of the GBO management, innovations in the business model and the level of operational efficiency of the GBO. For example, Gone Rural's leadership has made the goal of doubling their producer's incomes one of their number one strategic goals. Other GBOs such as CraftNetwork are looking to develop innovative internet platforms that would help to increase handicraft producer's incomes. Additionally other GBOs such as Hagar catering developed very efficient businesses that could both generate profits and drive a share of those to their beneficiary employees.

GBI's most significant contribution to increasing the grassroots income levels is through their facilitation of "Fair Trade" and "organic" certification for handicraft and agricultural producers. As a result of this process, GBOs are able to increase their own abilities to set "fair wages" using such tools as the World of Good Fair Wage Calculator, as well as to access new markets as a result of their certification. For example, as a result of Streetwires' certification process they are now paying much more attention to their artists' earnings and are undertaking a number of initiatives to increase wages, particularly for the female "beaders".

### **Implications for GBI**

- GBI should include an assessment of "social impact value add" into any future due diligence processes
- This assessment should include interviews with the beneficiaries themselves

- GBOs should be held accountable for increasing the wages that they pay to their beneficiaries either through growing or through realizing improved efficiencies in their operations. To support GBOs towards this end, GBI technical assistance should include a greater emphasis on operational efficiency improvements as an important lever for improving grassroots beneficiaries' incomes
- GBI M&E should require benchmarks of local wage and working conditions to better analyze the premiums that GBOs are offering
- GBI can help to increase the quality of GBO capacity building programs by:
  - Contributing their M&E expertise to help their GBOs to develop more effective Quality Assurance and impact assessments of their training programs
  - Assisting GBOs to identify funding opportunities for training programs
- For handicraft producers in particular, GBI should continue their support of GBO market development activities, especially through higher margin fair-trade retail channels

## **5 Key finding: GBOs face trade offs between the intensity of their social impact and realizing financial sustainability**

GBOs are selected because of their pursuit of social as well as financial goals. Many of them have innovated business models that enable them to pursue these goals jointly, however with a few exceptions, GBOs face very real trade offs between maximizing their social and financial objectives.

### **Some GBOs face trade offs between profit margins and beneficiary wages**

Some GBOs have found it difficult to balance the need to retain profit margins on their goods with the need to drive sufficient sales volumes to provide a steady income for their beneficiaries. Handicraft producers in particular described instances where they agreed to sell products at or below cost in order to ensure a steady income for their beneficiary producers.

### **GBOs with a greater empowerment focus tended to operate more like social programs vs. sustainable enterprises**

While all GBOs include rhetoric about “empowerment” of grassroots level individuals in their aims and objectives, some GBOs have higher impact models of achieving this. The two types of GBOs that were found to have the greatest “empowerment” effect are those that promote entrepreneurship at the grassroots level wholesale (micro) and those retail organizations that situate their income-generation activities as an extension of a more comprehensive social upliftment model. The trade off appears to be that those organizations that focus most on beneficiary empowerment tend to not be financially sustainable themselves and reliant on donor income. They tend to be more socially oriented vs. profit oriented and tend to operate more as an NGO rather than as an enterprise. These organizations are not likely to yield financial dividends because as non profit or NGO-like organizations they are not likely to be able to service significant debts or make generous payouts to equity holders. However they can yield significant social dividends in the form of a greater number of grassroots individuals having self sustainable businesses of their own.

### **Some GBOs offered ancillary social services, though most are constrained by finances**

Several of the GBOs provided ancillary social and well being programs to their beneficiaries. Notably, organizations such as Hagar and Wola Nani situated their business activities within a broader suite of social and wellbeing programs. While almost all GBOs expressed a desire to provide more of these benefits, they were limited by financial means as well as the other strategic priorities of their businesses.

### **GBI strategies of separating social costs and helping GBOs to launch non-profit vehicles for fund raising / program has had mixed results to date**

GBI has helped some organizations quantify the social costs that they are incurring in their business models as a result of their social mission. For example GBI helped Digital Data Divide (DDD) to separate out their social costs from their main profit and loss statement. This greatly assisted DDD in demonstrating a much more competitive financial position which in turn has enabled it to generate additional funding.

GBI has helped some of the GBOs to establish affiliated non profit organizations to serve as vehicles for mobilizing funds and delivering social programs. For example, GBI has helped Honeycare, Gone Rural and Streetwires to establish such organizations. The results to date have been mixed. Honeycare launched a foundation but did not add any commensurate staff to manage it, so it effectively resulted in a transfer of some revenues and costs from one set of statements to another but as yet has not delivered incremental benefit in the form of improved service delivery to farmers. Honeycare's management is now re-focusing on this element of the company and has secured a number of new donations for the foundation. At the time of writing of this report these donations had only recently been received and so it was too early to assess their impact.

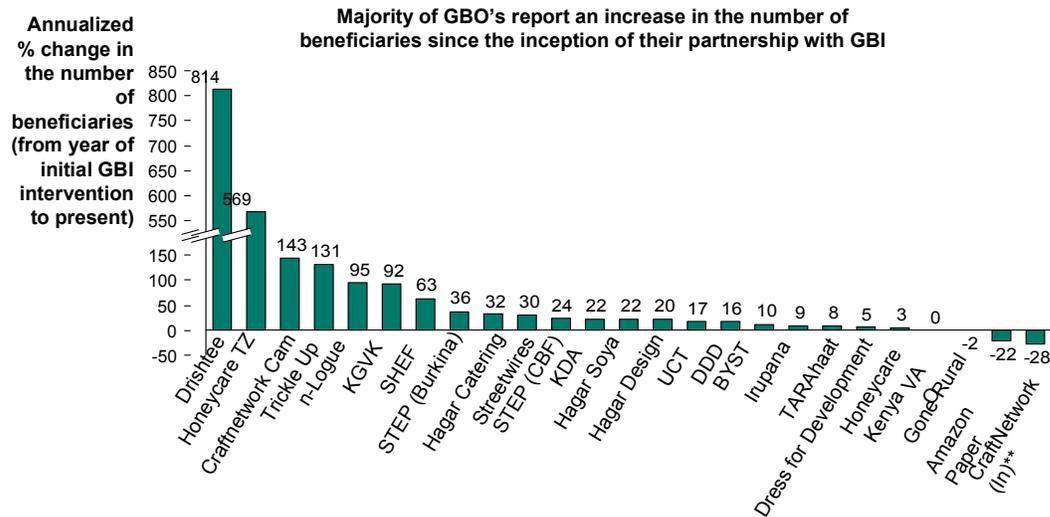
GBI funded the establishment of the Gone Rural Bomake Foundation, an organization that will focus on providing additional support programs to Gone Rural's women producers. GBI funded the executive director's salary for a year and also provided seed capital and strategic direction, access to networks for fundraising and sponsored trips for the executive director to meet with donors. The major lessons learned from this experience is that setting up one of these foundations can take considerable time. The executive director stated that she spent the majority of the first year conducting needs assessments, developing plans with local partners and conducting fund raising. To date, ZAR 25,000 has been dispersed to pay for orphan's school fees and a number of donors have expressed strong interest in some of the foundation's initiatives that are in the planning phases at the time of writing this report.

Other GBOs that have pursued a similar strategy of establishing stand-alone foundations have found that they bring both opportunities and challenges. Having a non-profit foundation enables them to access funds that are reserved for non-profit entities only. However the trade off that some interviewees noted is that they no longer qualify for funding from some sources that value "self sustainable" and innovative forms of programs that a more integrated social enterprise can offer. Some business also pointed to instances where donors were more reluctant to support a for-profit business once the more socially-oriented programs were allocated to another entity (E.g., a parallel foundation).

#### **Implications for GBI:**

- As GBI looks to create a "Blended pool" of capital, it will have to define more precise sustainability outcomes for these socially-oriented investments that are grant-driven vs. revenue-based operating models.
- Socially-oriented "programs" (vs. enterprises) should only remain in the GBI portfolio if they can generate sufficient social dividends through empowering large numbers of grassroots individuals.
- GBOs should only be encouraged to develop stand-alone non profit organizations if they will be in a position to fund the additional human resources necessary to operate it

**6 Key finding: GBI has been effective in supporting GBOs to increase the scale of their social impact**



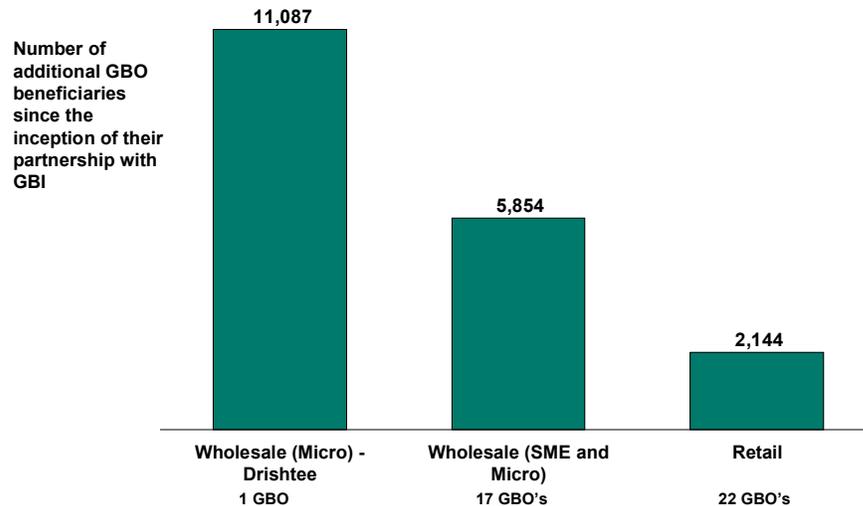
Source: GBI project scorecards

GBI has been very effective in helping GBOs to identify opportunities for growth, particularly in ways that expand the scale of the GBO's social impact. GBI helped GBOs to identify opportunities for growth through:

- Strategic guidance, in particular from GBI leadership and the transaction leaders
- Facilitating introductions to partners both among GBOs as well as with other related organization
- Facilitating a number of trips where GBO leaders could meet with potential funders and partner organizations
- Providing financing for growth initiatives
- Funding technical assistance, such as local short term consultants, to assist with growth initiatives
- Achieving certification such as Fair Trade that opens doors to greater market access and retailer channels

This success in supporting the increases in scale is notable due to the challenging environments in which many of these GBOs operate.

**GBI has achieved greater growth in the magnitude of social impact through its wholesale (micro) and wholesale (SME) GBOs**



Note, totals include only those GBO's with sufficient reporting data

Source: GBI Project scorecards

Through interviews with several of the wholesale organizations it became apparent that GBI's funds and resources were used more often to fund institutional capacity and support services for entrepreneurs rather than capitalizing funds for the entrepreneurs themselves.

In several instances the organizations were able to capitalize their funds through other sources such as national entrepreneurship support programs or local donors. For example, funding for Kenya Women's Finance Trust (KWFT) was re-purposed from capitalizing a lending fund for female grassroots entrepreneurs to cover the costs of training programs for them. This was as a result of the KWFT's receipt of major financing through a new national entrepreneurship initiative. In other cases, such as UCT, the type of funding made available to GBOs (i.e., a patient capital loan facility) has not been utilized due to the lack of demand from the GBOs who have opted to find alternative ways of financing growth other than debt. Some GBOs expressed concern about taking on patient capital debt for fear that they would not have the ability to generate sufficient income to service the debt.

Many of the wholesale organizations rely upon donor support for their program expenses as well as operating and administrative costs. In the case of KYBT and UCT, GBI funding was used primarily to cover these costs. Prodem also used GBI funding to cover the costs of its programs that are not yet financially viable.

**Implications for GBI:**

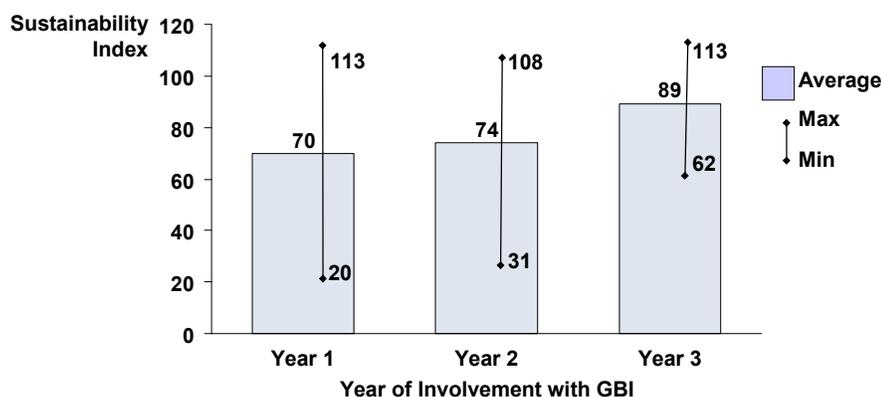
- As GBI continues to migrate towards more wholesale organization there will be a continued need for grant funding which could be administered through a refined version of GBI's current "Performance based" grant making.

**7 Key Finding: GBI has demonstrated the ability to increase the sustainability of retail GBOs however results with wholesale investments are less clear**

***7.1 GBI has been able to drive sustainability increase in retail investments***

GBI's objectives with their retail clients was to help them to increase scale, organizational capacity and sustainability. To measure sustainability, GBI has developed a new indicator for GBO sustainability that examines the share of costs that can be funded through an organization's revenue rather than through

donor income. It is a way of disaggregating the social enterprises' business performance from its ability as a fundraiser. This ratio also removes the social costs from the total costs. Social costs are those costs that are incurred by the business in pursuit of their social mission that they wouldn't otherwise spend if they were a regular business. For example, training programs, modifications to the supply chain and higher wages or improved working conditions are all examples of incremental costs that are incurred by the social enterprises as part of their social mission. The chart below shows that GBI entered into partnerships with a broad spectrum of GBOs at widely varying levels of sustainability. The sustainability index is only available for 10 out of the 22 retail organizations that GBI has partnered with. There is also sustainability index data for four of the Wholesale (micro) organizations that have their own revenue stream (Drishtee, N Logue, SEWA TFC, and Tarahaat).



Source: GBI project scorecards

As the table above illustrates, the average of the sustainability index increases the longer the projects continue their involvement with GBI. The bias that is inherent in this data is that only those organizations that remained with GBI for multiple years are included. However this data does show that GBI has been particularly effective at helping to drive sustainability indices for organizations at the lower range of the index. These organizations tend to be in start up mode and GBI provides valuable strategic guidance and funding to enable them to reach scale and stabilize their operating models. Of the projects included in this analysis, all but two of them occurred in "frontier" countries where realizing sustainability is can be challenging even for mainstream private sector development.

### **7.2 The focus of GBI's efforts with wholesale GBOs have been on promoting the sustainability of their beneficiaries rather than the GBOs themselves**

The wholesale GBOs within GBI's portfolio can be subdivided into two types:

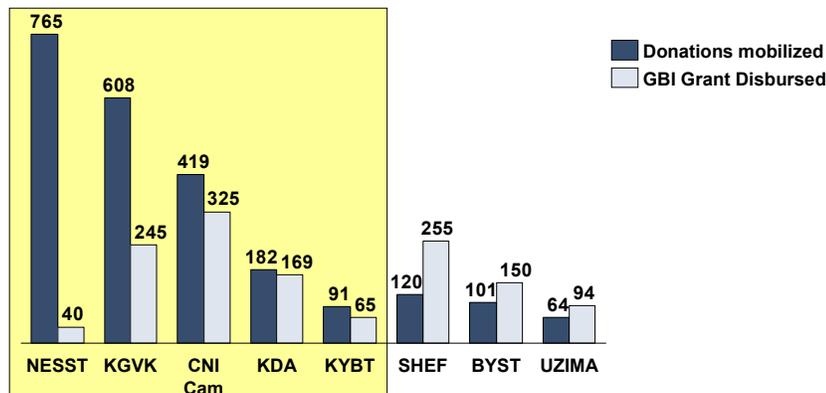
Wholesale (SME) GBOs are intermediaries that provide business development services and capital to entrepreneurs. While some of these intermediaries generate revenue from their investments in SME's, most are dependent on donors to subsidize their costs

Wholesale (Micro) GBOs are NGOs or social enterprises that promote micro entrepreneurship through providing loans and support services to entrepreneurs. While some of these organizations generate income from interest payments or franchisee licenses, many of them are dependent on donors to cover their operating and administrative expenses.

GBI's objectives with wholesale organizations were to increase scale, and improve the GBOs ability to support their entrepreneurs. In some cases, GBI worked with the GBOs to improve their ability to cover their costs through earned income, however financial sustainability of the wholesale GBO itself was not a main focus of their efforts. This is reflected in the lack of consistent indicators of sustainability for the wholesale GBOs. As they do not have a revenue stream outside of donor income, the sustainability index does not

apply. One indicator that can be used as a proxy of financial sustainability is the confidence that other donors have expressed in the wholesale GBO as indicated by the donations.

Donor funds mobilized by Select Wholesale GBOs  
(2005/6 to present)



Source: GBI project scorecards

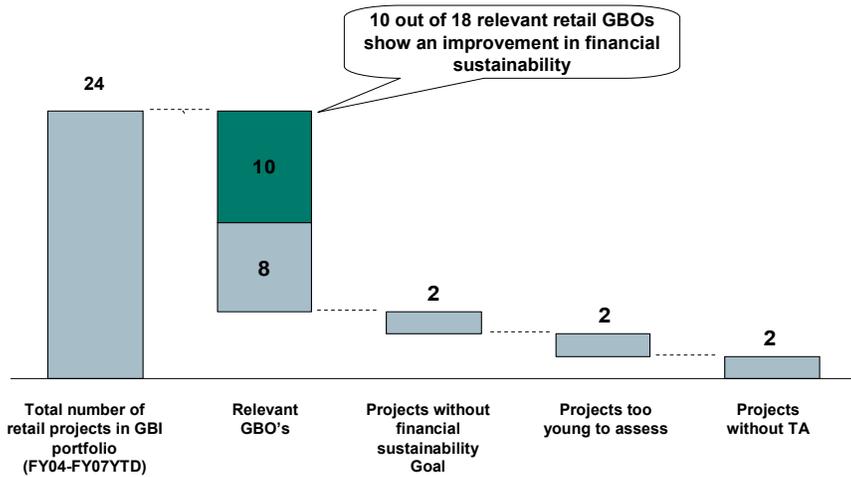
The shortcoming to this approach is that it was not a target that was actively worked towards in all cases with GBI as a result, there is relevant data for only a subset of wholesale GBOs. Furthermore, there are attribution issues as not every subsequent grant that the organization receives is necessarily a function of GBI's intervention.

Another indicator that would be useful to examine would be to examine the financial sustainability of the clients supported by the wholesale GBOs. However there was insufficient data for this analysis to be run across the GBI portfolio. While some wholesale GBOs were tracking their clients' revenues, few were systematically tracking profitability. The lack of profitability data for the SMEs or grassroots entrepreneurs supported by wholesalers is due mainly to difficulties in obtaining reliable profit data from entrepreneurs, many of whom do not have accurate records themselves to keep track of it.

**7.3 However, there are limits to GBI's pursuit of financial sustainability as it is not necessarily an appropriate goal for the various organizations within GBI's portfolio, especially among current wholesale (micro) organizations**

While some GBOs reported to have a mission of improving overall business profitability by increasing sales for grass roots producers, many other GBOs reported that financial sustainability is not their goal. For example, Hagar views its catering business as an extension to its social mission of integrating vulnerable women into society. As shown in the table below, pursuing financial sustainability is only a relevant goal for 18 out of 24 retail GBOs and 11 out of 24 Wholesale (micro) organizations.

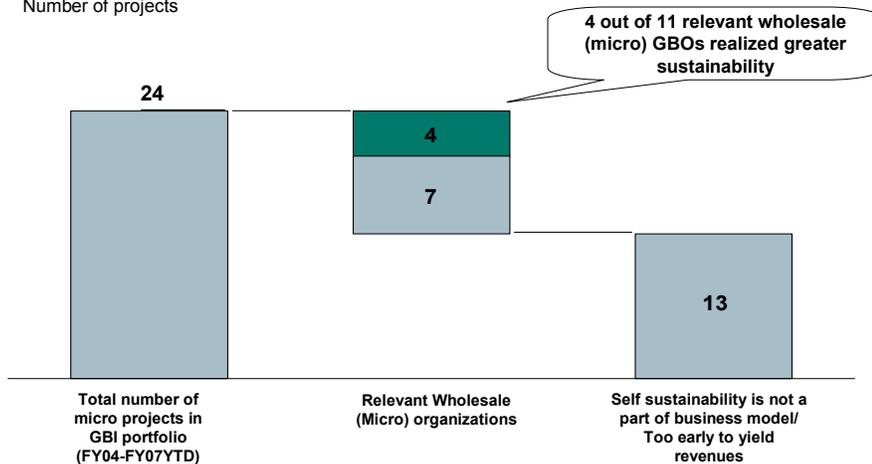
**Project Sustainability Status – Retail Projects**  
Number of projects



Source: GBI Project Scorecards

While GBO demonstrated increases in the majority of relevant retail organizations and 4 of the 11 wholesale (micro) organizations, GBI should screen much more rigorously for commitment and ability to realize improvements in financial sustainability.

**Project Sustainability Status of Wholesale (micro)**  
Number of projects



Source: GBI Project Scorecards

**Implications for GBI:**

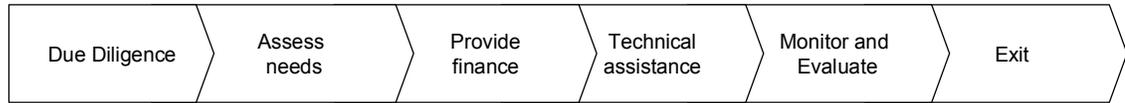
- GBI will need to determine if its strategic focus with wholesale GBOs will be on strengthening the GBOs themselves through technical assistance and capacity building, or if they are intended to be used as a vehicle through which to strengthen retail GBOs.
- If the strategy is the former, then GBI should look for local-affiliates that it can engage to support operational capacity building of the wholesale GBOs

- If the strategy is rather to focus on the retail clients of GBOs, then GBI should look to find “best in class” wholesale providers only and work with them to develop more appropriate financial offerings for their clients and to drive sustainability at the retail client level.
- If GBI continues to fund training and mentoring programs for entrepreneurs, GBI should hold their wholesale GBOS accountable not only for their activities but also for their impact: that is tracking entrepreneur success rates, profitability and wages paid.
- GBI should consider providing additional funding and/or identifying local partners on the ground to assist wholesale GBOs with this tracking and analyzing this data.

**8 Key Finding: GBI’s offering of financial assistance coupled with intensive technical assistance is relatively unique in the social investment space**

**8.1 *GBI offers a spectrum of support that includes both financial and technical assistance***

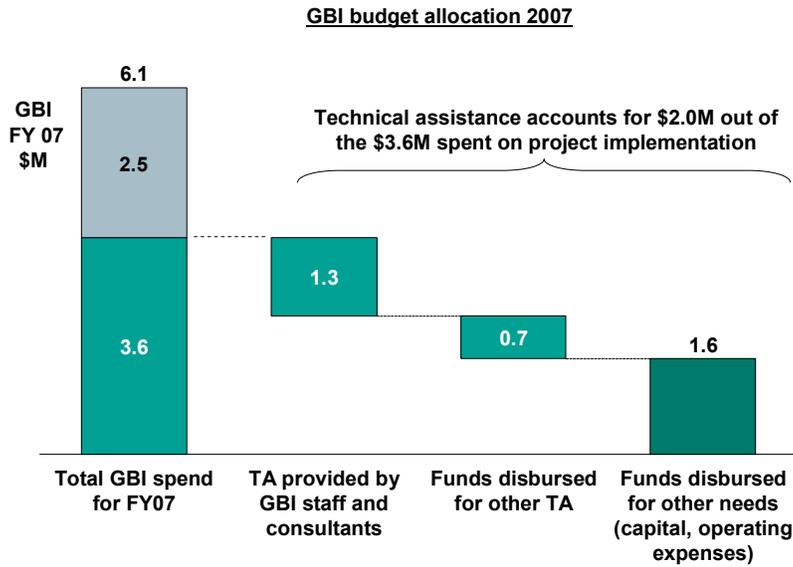
In support of their mission to help GBOs to develop, GBI provides a comprehensive system of support that includes both technical assistance and financing.



- |   |   |  |  |   |  |
|---|---|--|--|---|--|
| <ul style="list-style-type: none"> <li>• Leveraging networks to develop a diverse, global pipeline of innovative GBO's</li> </ul> | <ul style="list-style-type: none"> <li>• Diagnosing needs of GBOs at the onset of GBI intervention</li> </ul> | <ul style="list-style-type: none"> <li>• Injecting capital into GBO's that are unable to access traditional means of finance</li> <li>• Catalyzing additional access to funds for GBO's</li> </ul> | <ul style="list-style-type: none"> <li>• Offering spectrum of technical assistance offerings (e.g., direct help from GBI, external consultants, training, staff salary supplements)</li> <li>• Promoting greater commitment and ability to achieve financial sustainability among GBO's</li> </ul> | <ul style="list-style-type: none"> <li>• Increasing awareness and ability of GBO's to track social and economic impact</li> </ul> | <ul style="list-style-type: none"> <li>• Ensuring GBOs have sufficient external funding or internal capability to generate revenues</li> </ul> |
|---|---|--|--|---|--|

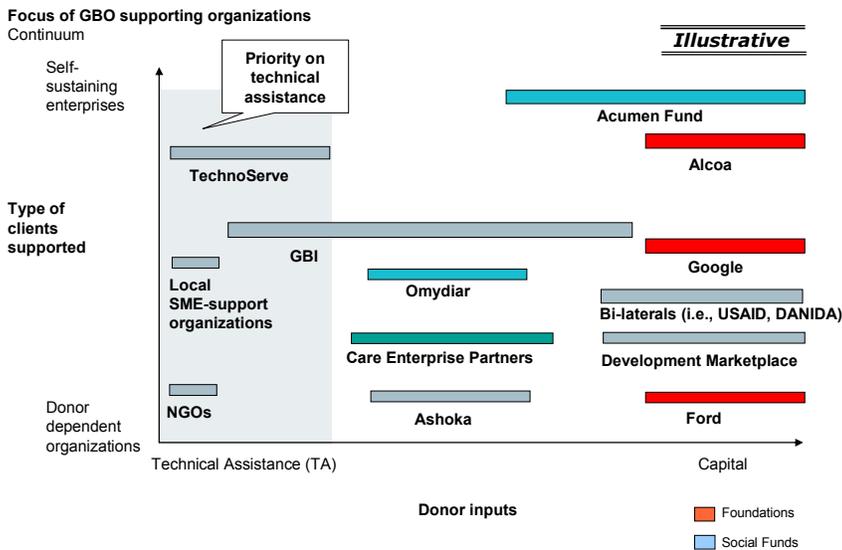
### 8.2 Technical assistance comprises the majority of GBI investment in GBOs

As indicated by its budget allocation, GBI dedicates the majority of its resources towards providing technical assistance. Of the \$3.6M that is spent directly on projects, \$2.0M of it is spent on various forms of technical assistance that include direct support from GBI staff and short term consultancies that are paid for on behalf of GBOs.



Source: GBI Financial Reports

### 8.3 GBI is relatively uniquely positioned as a provider of intensive technical assistance and capital to less sustainable enterprises



Source: Dalberg analysis

9 **Key finding: GBI investments in GBOs have positive multiplier effects after 5 – 10 years of sustained improvements**

9.1 **Determining the causal impact of GBI's investment**

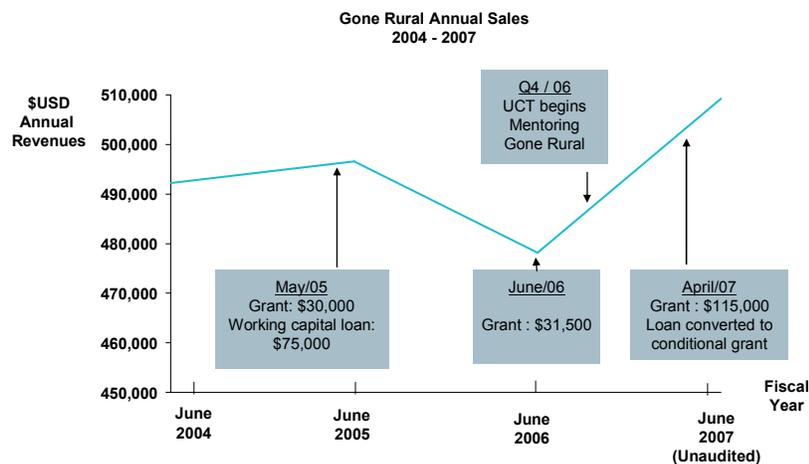
**Determining how much value GBI can claim**

In the previous sections we have described the impact that GBI has had on the GBO's as determined by a "before and after" analysis of financial and operational indicators. However it is important also to distill what GBI's actual impact on the GBO's growth and social impact and to determine if the incremental value created by GBI is commensurate with the costs of the investment. Revenue growth is used as a proxy for the GBO growth. As an indicator of social impact, total wages paid to/earned by grassroots level individuals was used. GBOs can grow this number through increasing the number of grassroots individuals, increasing the earnings per person, or both. For retail organizations, the amounts that they paid to employees or external producers was used, for wholesale micro GBOs the average earnings of entrepreneurs multiplied by the total number of entrepreneurs was used.

Causal impact is usually determined by comparing the actual outcomes with what might have happened in the absence of the intervention. As an ex post evaluation we faced the challenges of inconsistent and baseline data, and a lack of data in particular for control groups. As a result we had to find a way to derive a meaningful estimate of GBI's "value add" using a methodology that combined existing quantitative information with qualitative information gathered through interviews. To illustrate this methodology, we have used Gone Rural as an example.

**Illustrative example: Gone Rural**

Gone Rural offers a useful illustration of the multiplier methodology. As the figure shows below, GBI has intervened at several points in the past three years.



NOTE: chart above based on annual data (2004 – 2007)

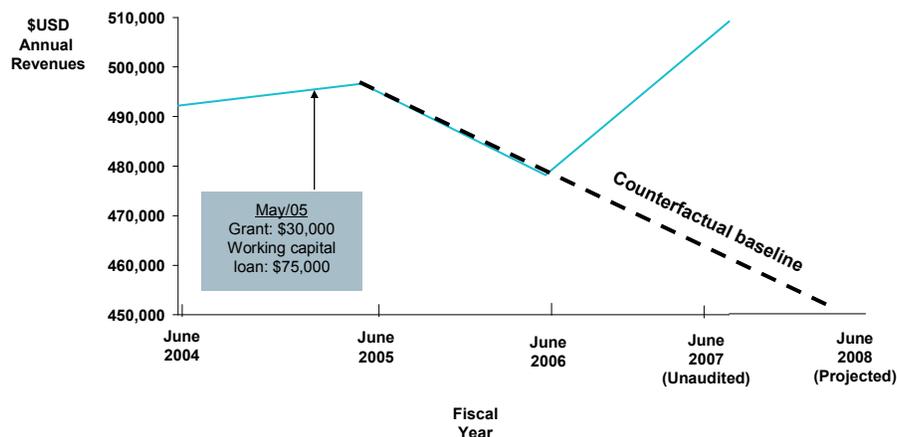
Source: Gone Rural project scorecards

GBI first became involved with Gone Rural in May of 2005 after they had won a grant from the World Bank's Development Marketplace. The initial grant was a \$30,000 grant for operating costs and capital investments. An additional \$75,000 in patient capital was loaned to Gone Rural to serve as working capital. In 2005 – 2006 the company's sales began to decline. Gone Rural's management cite a lack of a proactive sales strategy at the time led to the loss of a number of customers. By October of 2006, the company was technically insolvent and was continuing to lose sales. The turnaround of the company was credited to a strategic planning process that was facilitated by an external consultant who helped Gone Rural staff to develop a dramatically improved sales and marketing approach. GBI's investment covered the cost of this consulting engagement. The

strategic plan also called for level of financial and management expertise that was beyond the capabilities of the Gone Rural leadership team at the time. To help remedy this, in late 2006, GBI arranged for Mike Herrington of UCT to become a mentor to Gone Rural. GBI also facilitated further capacity building initiatives such as a team of MBA students from MIT that developed a product costing tool and an MBA's Without Borders intern who has helped to substantially improve Gone Rural's financial management capabilities.

### **Counterfactual scenarios**

To evaluate GBI's "value add" we need to determine how much better off Gone Rural – and its beneficiaries - are as compared to how well off they would otherwise have been in the absence of this intervention. In order to determine the answer to this question, one must generate a "counterfactual" scenario, that is determine what would have occurred had GBI not invested in Gone Rural. In order to generate a counterfactual scenario, a baseline of historical trend data is normally used. However this baseline historical data was not available for Gone Rural, nor for many of the other case study GBOs. Therefore we used evidence collected from quantitative analysis and qualitative interviews, to generate counterfactual baseline growth. For example, we posed questions to the GBO leadership themselves, other partners who had worked with them over the years, employees, and related parties that work within a similar sector as the GBO in order to get a sense of sector-wide trends. Based on these inputs, the most likely counterfactual scenario is that Gone Rural would have likely experienced a decline in revenues had it not been for GBI's intervention. By October 2006, GR was technically insolvent and was continuing to incur losses. In interviews, the Gone Rural leadership team stated that they lacked the financial and administrative expertise at the time to turn the company around. This baseline counterfactual scenario is illustrated below:

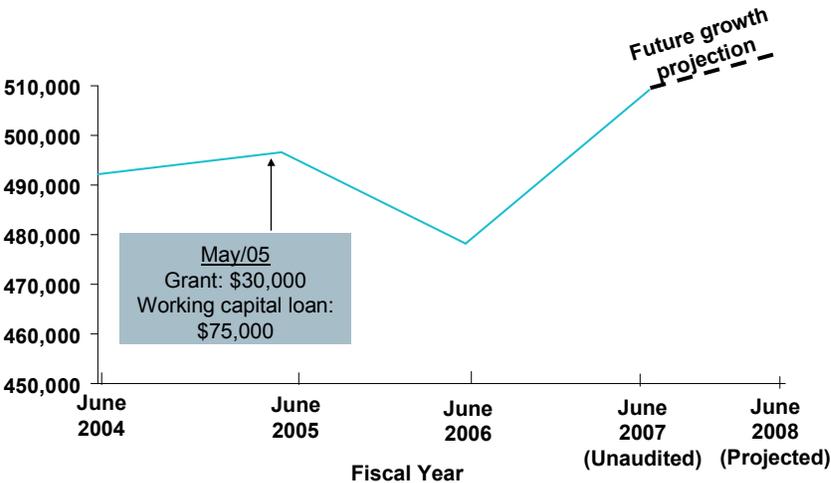


Source: Gone Rural project scorecards and Dalberg analysis

### **Observed data and predictions for future growth**

GBI's main focus of their interventions is to build the capacity of the GBO through both technical assistance as well as targeted grants to support growth initiatives. Therefore, to assess the impact that GBI has had on the GBO, one must not only take into account how much the GBO has improved to date, but how well they are likely able to continue performing at a higher level into the future. The benefits of the investment will likely accrue over several years, indeed if the capacity building is particularly effective could affect the GBOs lifetime trajectory. Since the benefits will be accruing over multiple years in the future, one must make informed projections about the future growth rates of the GBO. Again, based on the analysis conducted in the field visits, various scenarios of possible growth patterns were generated. Projections about Gone Rural's growth trajectory are also based on analysis of the extent to which GBI's intervention has enabled them to grow at a faster rate. Based on the quantitative and qualitative data that was gathered, it was determined that Gone Rural has achieved significant operational improvements and sales growth; however they are approaching

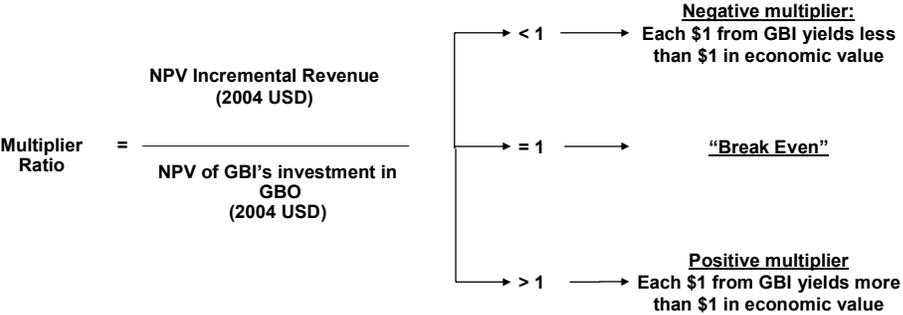
saturation of their current marketing channels. To achieve additional growth, further investment would be required to achieve the quality and quantity levels that larger clients in the US and EU require. Therefore they are projected to continue growing, but at a modest rate.



Source: Gone Rural project scorecards and Dalberg analysis

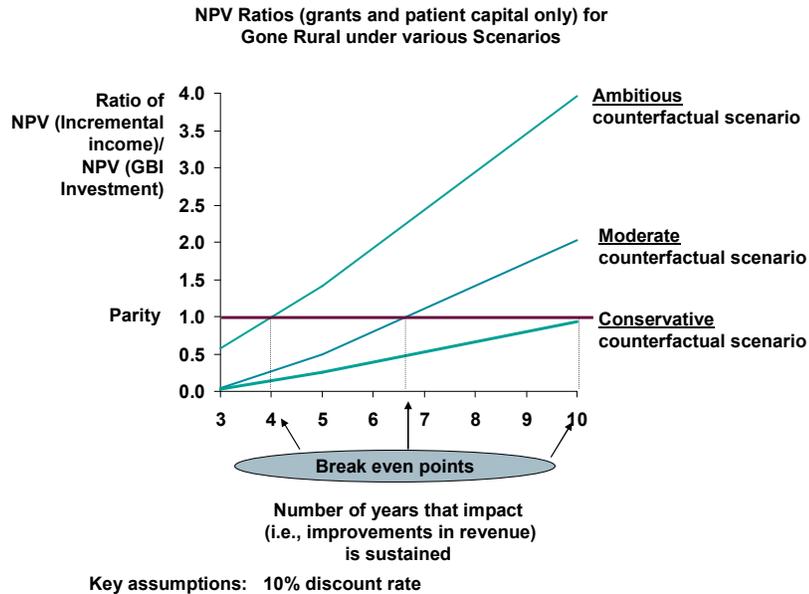
Combining the estimated counterfactual baseline with the projected growth patterns permits one to generate an estimate of how much incremental value GBI has generated. The challenge to evaluating the efficiency of GBI investments is that while the costs are mostly incurred up front (i.e. the GBI disbursement of funds), the benefits in terms of increased GBO capacity and social impact occur over a period of several years into the future. This is complicated by the fact that GBI investments themselves have occurred over multiple years. To address these challenges, we have estimated the Net Present Value of the incremental benefits. A discount rate of 10% was used in the calculations.

The multiplier effect that is the social and economic value generated by each one dollar invested in a GBO can be generated through the following ratio:



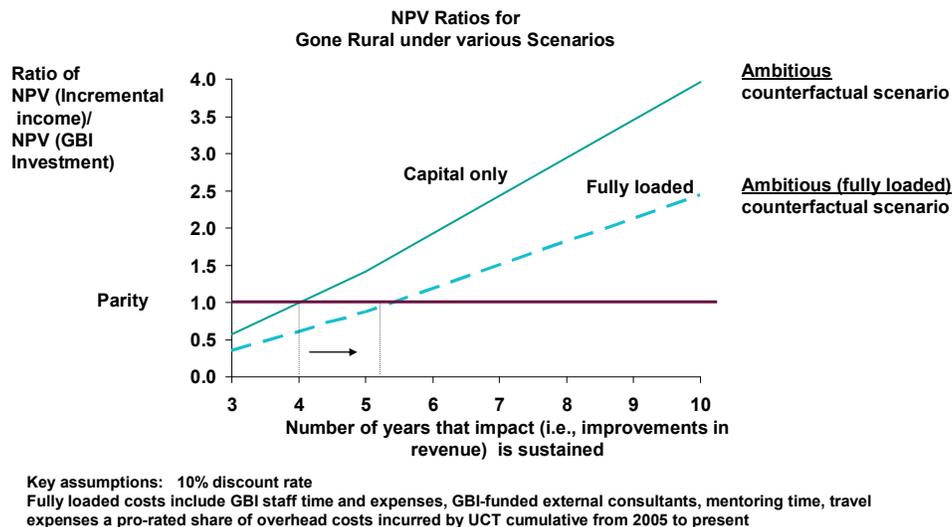
Note that the multipliers change over time, that is, the longer the time frame considered, the greater the benefits will be accrued and therefore the higher the multiplier. By plotting the multiplier value at each year in the lifecycle of the investment, one can determine at what point the investment breaks even, and what one would have to believe in order for a positive multiplier to be realized. As illustrated in the figure below, revenue multiplier for GBI's investment in Gone Rural reaches parity in

4 – 10 years depending on the level of ambition of the assumptions that are made about GBI's impact. If one believes that GBI can be credited with avoiding further deterioration of Gone Rural's revenues, and interviews seem to confirm that, then the break even period is 4 – 7 years.



Source: Gone Rural project scorecards and Dalberg analysis

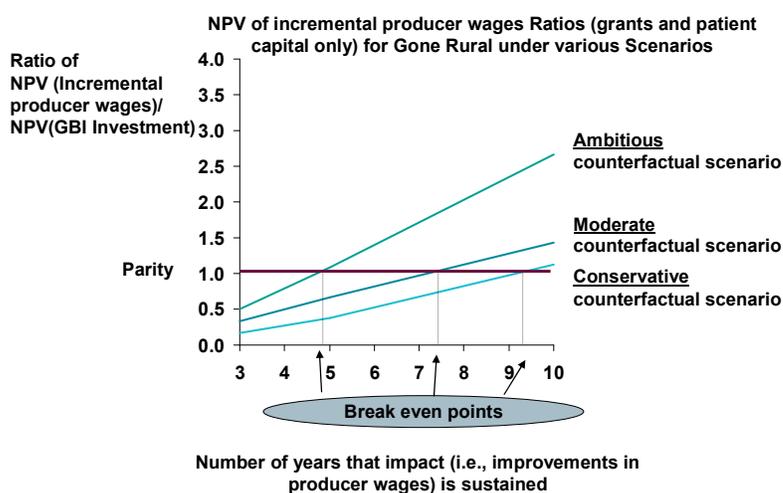
However, once the total cost of GBI investments are taken into account, that is including GBI's staff costs, travel expenses, and costs of having UCT mentor Gone Rural, the break even point is delayed by approximately 12 – 14 months. This analysis shows the importance of managing GBI staff and overhead costs as they can result in a significant "drag" on the economic yields of the grants.



Source: Gone Rural project scorecards and Dalberg analysis

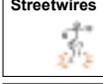
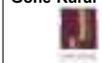
Applying the same methodology to producer wages, reveals that GBI intervention will likely start to have positive multiplier effects on grassroots level income within same time frame as revenue because of the focus that Gone Rural has placed on driving improvements in producer wages. Gone Rural has made it a

strategic objective to double the income of their rural women producers. They are doing this through shifting their product mix to higher margin products and also through growing their sales through higher-margin “Fair Trade” export channels. As a result the total wages paid to women is actually growing at a much faster rate than the revenues themselves. This highlights the importance of selecting organizations that are making a concerted effort to generate increases in the income of their beneficiaries. If Gone Rural’s wages were to grow at the same rate of their revenues, then the GBI investment would not likely break even in terms of the economic benefits that reach the grassroots level.



Source: Gone Rural project scorecards and Dalberg analysis

The tables below contain the results from the other GBOs that were evaluated in depth:

GBO	Assessment of GBI impact on GBO's growth and development		GBI's share of donor funding	Scale of GBO impact	GBI investment multiplier		Additional social value generated
					GBO Revenue	Grassroots level income	
 KYBT	Funding	TA	14%	41 entrepreneurs ~700 youth trained	5 yrs: 1.8 <sup>(1)</sup> 10 yrs: 3.9	5 yrs: 0.6 10 yrs: 7.9	<ul style="list-style-type: none"> <li>Significant empowerment effect</li> <li>All borrowers unable to access financing from existing sources</li> </ul>
 Honeycare Kenya	Funding	TA	51%	1472 active beekeepers 3987 farmers receiving extension services	5 yrs: 0.4 <sup>(2)</sup> 10 yrs: n/a <sup>(2)</sup>	5 yrs: n/a <sup>(3)</sup> 10 yrs: n/a	<ul style="list-style-type: none"> <li>Enables women to participate in honey making</li> <li>Isolated rural farmers have access to markets</li> </ul>
 Streetwires	Funding	TA	22%	108 art producers	5 yrs: 17.3 10 yrs: 43.5	5 yrs: 1.82 10 yrs: 3.94	<ul style="list-style-type: none"> <li>Wages are ~50% above minimum wages</li> <li>Training and empowerment of young people</li> </ul>
 Gone Rural	Funding	TA	94%	650 rural women producers	5 yrs: 1.4 10 yrs: 3.6	5 yrs: 1.1 10 yrs: 2.8	<ul style="list-style-type: none"> <li>Gone Rural Bomake Foundation provides additional health and social services for women</li> </ul>

(1) GBI investment effect on KYBT fundraising levels; (2) Assumes that GBI does not make any further major interventions to help restructure Honeycare; Honeycare Kenya is not expected to be continuing operating in its current form, therefore 10 year forecasts are not likely to be meaningful (3) Data not available at the time of writing the report, however it is expected it will be ready by Dec 10

Source: GBI project scorecards and Dalberg analysis

GBO	Assessment of GBI impact on GBO's growth and development		GBI's share of donor funding	Scale of GBO impact	GBI investment multiplier		Additional social value generated
					GBO Revenue	Grassroots level income	
 UCT	Funding TA ● ○	○ ●	100%	7 SME's employing 871 grassroots producers	5 yrs: n/a <sup>(1)</sup> 10 yrs: n/a	5 yrs: n/a 10 yrs: n/a	• Business skills training clinics to SME employees
Hagar Catering	Funding TA ○ ○	○ ○	33%	135 employees	5 yrs: 0 10 yrs: 0	5 yrs: 0 10 yrs: 0	• Skills training and empowerment for women who have survived human trafficking
 Craft network Indonesia	Funding TA ● ○	○ ●	19%	4395 GBO beneficiaries	5 yrs: n/a <sup>(2)</sup> 10 yrs: n/a	5 yrs: n/a 10 yrs: n/a	• Management and production skills capacity building • Ethical production standards
Prodem	Funding TA ● ○	○ ●	3%	6 SME's employing 3552 producers	5 yrs: 1.4 10 yrs: 3.6	5 yrs: 1.1 10 yrs: 2.8	• Capacity building through Supplier Development PRogram
 Drishtee	Funding TA ● ●	● ●	4%	1564 Kiosks 5,122 Employees	5 yrs: 7.3 10 yrs: 19.2	5 yrs: 41.3 10 yrs: 93.8	• Empowerment effects
 SEWA	Funding TA ● ●	● ●	100%	11087 women trained	5 yrs: n/a 10 yrs: n/a	5 yrs: n/a 10 yrs: n/a	• Training for improving business and management

(1) Insufficient financial information available for a sufficient number of SME's to run accurate projections ( For 4 out of the 12 SME's supported by UCT, 13 months of sales data is available; all others have fewer than 13 months) (2) NPV could not be calculated due to lack of data

Source: GBI project scorecards and Dalberg analysis

## 10 Key finding: Evaluation of GBI's support of GBOs reveals strengths in providing financing and strategic advice but less attention to key operational issues

### 10.1 While GBI's selection process has been opportunistic rather than strategic, the resulting portfolio is a suitable mix of GBOs

GBI's portfolio projects are successfully meeting partnership goals. Overall, 89% of GBI's portfolio has met or is on track to meet the partnership goals. However, project selection was often ad hoc without a rigorous screening process. Interviews with GBI staff and external stakeholders revealed sourcing of transactions has been ad hoc, based on mostly informal networking with colleagues within the IFC. The small size of investments, averaging \$120,000 limited the extent to which due diligence was feasible. Also, baseline data was inconsistently recorded at the outset of the investment. Some organizations reported that during the investment selection process, they had limited clarity about the objectives of the partnership with GBI, especially related to financial sustainability. This lack of clarity at the outset of interventions contributed to a lack of alignment of strategies and goals with some of the GBOs.

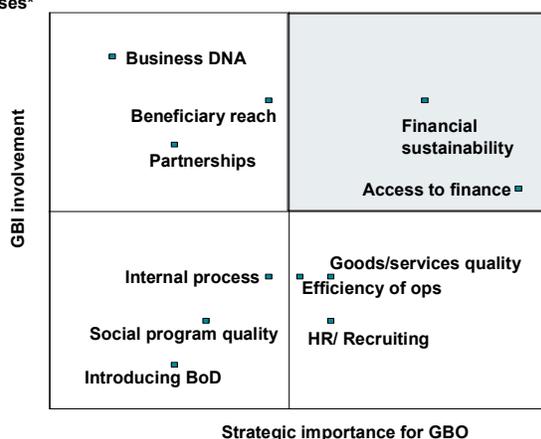
The overall GBI portfolio is very heterogeneous which has resulted in spreading of limited GBI resources over a wide array of industries, countries, and GBO types. While this may have been appropriate for a pilot program that is seeking to identify promising GBO models, as it moves forward, GBI should look for opportunities to rationalize its portfolio composition to allow for greater specialization and depth of services offered to the GBOs.

### Implications for GBI:

- Pursue deliberate and strategic sourcing for transactions
- Rationalize the composition of the portfolio to enable more specialized support and depth of support
- Design cost appropriate (relative to grant size) rigorous due diligence approach
- Document baseline data collected during due diligence
- Use baseline data survey results to further refine the intervention approach and program design
- Screen for GBOs readiness and ability to change

### **10.2 GBI interventions were of mixed relevance to GBO strategic goals because of inconsistent implementation of needs assessments and lack of alignment around project goals and objectives**

Role of GBI and importance to GBO  
Number of responses\*



Source: GBO survey, 2007

**GBI has been most relevant to GBOs on financial issues, while less relevant on operational needs.** 73% of GBOs report to have access to finance as a top priority which has been supported by GBI. However, other key areas of priority were not necessarily supported by GBI. For example, 43% of GBOs report that their top priorities are human resource development (recruiting, training and retaining talented staff). 33% - improving the quality of their goods and services, and 47% - improving the efficiency of their operations (creating appropriate systems for supply chain reviews, inventory management etc). However, on average only 27% of GBO report to have received help with these operational priorities.

**The relevance of GBI interventions could be improved through a more consistent and rigorous needs assessment process at the outset of each project.** Although GBI has developed a needs assessment framework, it does not follow it consistently. As a result, some GBOs reported difficulty in understanding GBI's intentions for the intervention. For example, while many GBOs pledged that they were interested in becoming more financial sustainable they did not anticipate the difficult decisions that they would be forced to encounter in pursuit of this goal. The needs assessments and strategic plans that were driven by the GBO leadership tended to have a higher impact than those conducted in a more "top-down" manner. In some instances, outside consultants were engaged to write business plans for the GBOs with little or no input from the GBOs themselves until very late in the process. The GBOs did not find these business plans to be very relevant or effective. The most successful GBI partnerships often involved a highly engaged GBO leadership team that was ready and eager to take ownership of the process and the objectives. Facilitating a more client-focused needs assessment would help GBI to build greater trust, transparency and buy in with their GBO partners. There are also opportunities to increase the relevance of GBI interventions by better empowering field staff, who have closer "on the ground" knowledge to make decisions, particularly in the implementation phases of GBI support. Some GBOs reported a strong preference to receiving support from someone who is local to their

surroundings, familiar with the specific challenges of their operating environment and connected to local networks that can be leveraged in order to provide additional assistance to the GBOs.

**Interviews with GBOs reveal that the relevance and effectiveness of GBI technical assistance has improved over time, especially after a needs assessment is completed.** GBI has learned that completing needs assessments can be a valuable tool for creating alignment with their GBO partners. GBOs described significantly increased satisfaction rates with GBI technical assistance once a transparent plan was drawn up and they were empowered to shape the agenda as a partner rather than as a recipient. Indeed one GBO leader described the importance of having to find the “courage” to “stand up” to GBI and make their demands known. She said that once this occurred that the partnership improved dramatically. Interviews with various GBOs reveal that GBI is becoming more aware of this and is working to improve its approach.

#### **Implications for GBI:**

- Conduct client driven rigorous needs assessments at the onset of interventions
- Use a consistent and structured approach for needs assessments
- Develop facilitative roadmap with GBOs to address gaps

#### ***10.3 Although GBI was a “minority” donor in 77% of transactions, its financing is credited with impact stemming from the criticality of funding timing, the strategic focus of funding use, and the branding of the funding source***

**GBI funding was successful in helping organizations increase their service levels and catalyze at least \$10M in additional funds.** The amount of GBI funding as percent of other investments in GBOs range widely from 1% to 100% with an average of 49%. In over three quarters of the known cases, GBI has been a minority donor. Despite the size of GBI funds, GBOs report that the timing of GBI investments often came at the point of critical liquidity constraints and was often used against investments that changed their revenue trajectory. Furthermore, IFC-branded investments provided confidence to subsequent investors. At least \$10M was catalyzed after GBI’s investments and was attributed to GBI.

**However, there is concern about the short term funding commitments, the types of funding, and the delays in funding disbursements:** The average GBI grant is for 1.5 years and GBOs expressed interest in more sustained sources of income, especially in their early stages of development. Furthermore, GBOs, especially those in the handicraft production business, were interested in receiving additional types of financing such as working capital lines of credit, export finance, foreign currency financing, etc. Finally, GBOs expressed preference for more timely disbursements, especially those relying on GBI for working capital needs.

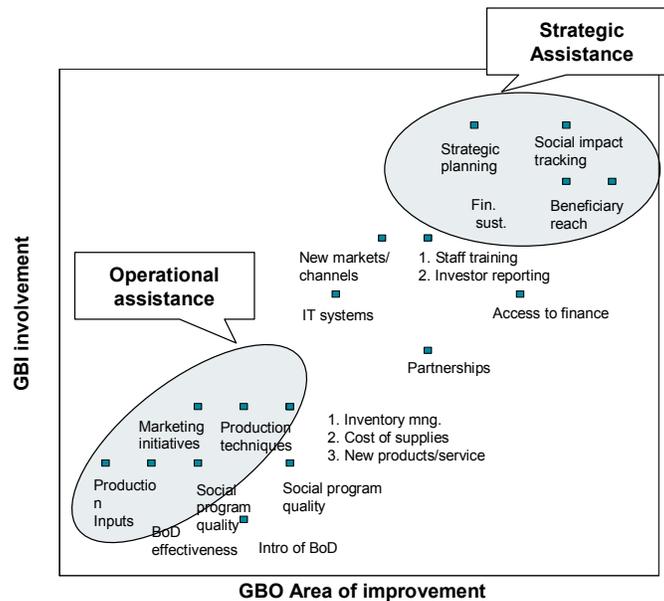
#### **Implications for GBI:**

- Collaborate with intermediaries to expand length of engagement and type of financial products offered
- Make larger investments in fewer organizations to reduce the cost of capital
- Develop more streamlined process for grant disbursement
- Consider creating a “rolling” fund for clients to enable “on demand” financing for investees

#### ***10.4 GBI’s unique position as both a provider of intensive TA and capital has been an effective way of helping GBOs to increase scale. Opportunities exist in further clarifying the approaches for driving operational impact and further developing global initiatives***

**The focus of GBI’s technical assistance has been on assisting GBOs in meeting high level strategic and social objectives.** GBI strategic advice has helped GBOs increase their social impact and develop strategic plans. However, GBOs face operational and implementation issues beyond the scope of GBI staff expertise and geographic location. GBOs expressed a strong preference for receiving TA from individuals with commensurate levels of direct SME operating experience.

**Improvements of GBOs and role of GBI**  
Number of responses



Source: GBO survey

**GBOs reported improvements in their overall organizational indicators.** Over the lifecycle of their work with GBI, 43% of GBOs have improved their ability to hire talented staff, 24% to appoint and/or receive valuable guidance from Board of Directors and 24% to offer better social programs.

**GBOs reported great need for improvements in their internal operations.** Over the lifecycle of the interaction with GBI, 52% of surveyed GBOs reported to have increased their need for improvements in their operational efficiency (for example, supply chain and inventory), 57% - in their product/service quality, 43% - in setting up internal systems (for example financial platform).

**However, GBI staff currently lacks operational experience and the roles of field and HQ staff need to be further clarified to drive greater impact in GBOs**

- **Field staff were most effective when they had the commensurate level of experience as well as sincere approach to partnering with GBOs in supporting their social mission:** GBOs who had positive experiences with field staff expressed their appreciation for the level of experience, particularly in business or finance, that they can bring to their organization. Partnerships also worked best when field staff showed a genuine respect for the entrepreneur’s social mission and viewed the relationship as a collaborative partnership rather than delivery of assistance.
- **Disproportionate amounts of field staff time consumed by program administration, rather than providing value-adding services to GBOs:** Technical assistance of field staff is primarily focused on administration and mediating between HQ and the GBOs. GBOs highly value the data collection support of GBI field staff and their role as mediators between HQ and their GBOs. In some locations, where GBI field staff has experience in business management, GBOs valued their suggestions for operational improvements and business planning. However, given the size of GBI project portfolio and GBI’s organizational structure, field staff has limited capacity for continued operational-level support. Furthermore, the current organizational structure of GBI limits the role and responsibilities of the field staff. Primary ownership of the relationship with the GBO often

resides with HQ staff or indeed with GBI leadership directly. GBI has an opportunity to improve the relevancy of their interventions and their relationships with GBOs by better empowering the field staff and holding them accountable for meaningful improvements in GBO performance.

- **HQ staff focuses on program supervision and reporting and are not incented against success of portfolio projects.** HQ GBI staff is primarily focused on administration – that is measurement, effectiveness and reporting. On average, transaction leaders (TL) spend 50% of their work on project supervision and reporting. While GBOs reported to be in frequent contact with their TL, (80% reported to have weekly contact) interviews revealed that GBOs perceive that most of the contact is in relation to GBI related requests rather than more client-focused issues. In some instances Transaction Leaders have provided value-added services such as referrals to funding or market opportunities, serving as thought partner on key business issues and arranging for logistics for initiatives such as conferences, meetings with donors, etc. In order to improve the relevance and effectiveness of their partnerships, GBI should look for ways to develop a more client-focused organization in which more of the TL time is spent providing value-added services and less time on filing reports. Some GBOs expressed concern that the cost of having GBI HQ staff repeatedly travel to visit them relative to the size of the grants themselves.
- **Strategic technical assistance has had the most impact on business enterprises that were seeking to improve their financial sustainability. There has been mixed success in assisting NGOs to commercialize and / or to become sustainable.** Business enterprise GBOs have a mission to attain financial sustainability while assisting their beneficiaries. In contrast, NGOs do not always seek to be financially sustainable. In fact, many view their commercial mission as an extension to their social mission. Therefore, NGO GBOs expressed their resistance to follow GBI's technical assistance aimed at commercialization. Furthermore, some NGOs expressed concern about GBI's ability to properly assess the timing of commercializing. For example, one GBO had fixed fee contracts and its GBI-led commercialization increased its cost structure by 30% while maintaining its revenues at a steady level.
- **Opportunities for technical assistance for global initiatives have not been fully unleashed due to lack of knowledge management systems, baseline data, and fully dedicated leaders for each initiative.** The GBI staff have exhibited a deep expertise in supporting social enterprises as well as some of the broader macro trends. Given that the sector of grassroots business support is so nascent, there is a valuable opportunity to capture the knowledge that resides within the GBI TL and leadership teams and to share it in meaningful ways with the broader field of social enterprise and micro finance. However, currently there is no centralized knowledge management system to enable knowledge sharing among global initiatives. Additionally, baseline *trend data* has not been collected to enable appropriate evaluation of the impact of the global initiatives. Finally, the global initiatives lack full time managers dedicated to directing their overall strategy. Globally, GBOs value the help they have received with fair trade certification, access to networks of potential donors and buyers. There are still mixed opinions about global e-commerce platforms as most GBOs display product catalogues on websites and risk upset trading partners when aggregator platforms have negotiated lower prices. GBOs need to preserve their margins

#### **Implications for GBI:**

- **For overall technical assistance:**
  - Focus on *strategic technical assistance* where GBI has demonstrated impact
  - Partner with intermediaries on the ground to deliver *operational* technical assistance
  - Control overhead costs by shifting more of the TL and TA staff to the field in order to avoid costly frequent travel to and from GBOs
- **For the role of GBI staff in technical assistance:**
  - Define role of GBI staff as expert technical assistants to GBOs or administrative supporters
  - Limit logistical communications with GBOs to specific times each month
- **For technical assistance for global programs:**

- Create systems to capture and share global knowledge
- Collect baseline data as a means to test regional differences in GBI interventions
- Link global strategic plans with county-based ones and develop global-level oversight to harmonize country specific strategies

### **10.5 Although intensive, M&E requirements are benefiting GBOs and have improved over time**

**M&E requirements are benefiting GBOs as they are helping organizations to better understand the drivers of profitability and impact.** GBOs reported to have benefited internally from the M&E data collected as a result of GBI requirements and some have adopted GBI's scorecard as internal data collection tool.

**The quality of the collected data and the approaches for its collection have improved over time.** GBOs reported that early on in their partnership with GBI, there was lack of consistency in data collection and frequent changes in reporting standards. However this has improved over time with a number of interviewed GBOs.

**However, M&E requirements do not reflect the size of GBO grants and there is a lack of transparency about the use of data collected.** Analysis of the overall portfolio reveals that M&E requirements are similar across GBOs of various size and investments of varying amounts. The rationale from GBI is that the smaller investments are often used as trial-runs for future larger grants, so the M&E requirements are drafted with a longer term relationship in mind. However there may be opportunities for GBI to develop more streamlined M&E requirements at the outset of an intervention that can be scaled up as the GBO itself increases its capacity for such data collection and analysis. As M&E requirements continue to evolve, while enabling more insightful analysis, the frequent changes impose a significant burden on GBOs. For example, one GBO hired an additional staff to do reporting for GBI. Furthermore, the lack of clarity and transparency about the purpose and use of the M&E reporting data revealed that GBO are not always motivated to report. Most problematic are the frequent "urgent" requests for various pieces of information that come from GBI HQ. GBOs report rarely seeing the value of continually providing the data. These requests cost GBI valuable "political capital" with GBOs so that when GBI does have truly important requests of the GBO related to more strategic issues, GBOs are sometimes less likely to listen because of the perception that they have already "done enough" for GBI. These feelings are exacerbated among organizations that received smaller grants (e.g., \$30,000 or less). Ensuring that the GBOs are always shown how their data has been used and also imposing greater discipline on the frequency and nature of M&E requests would help to improve the relationship GBI has with its GBOs.

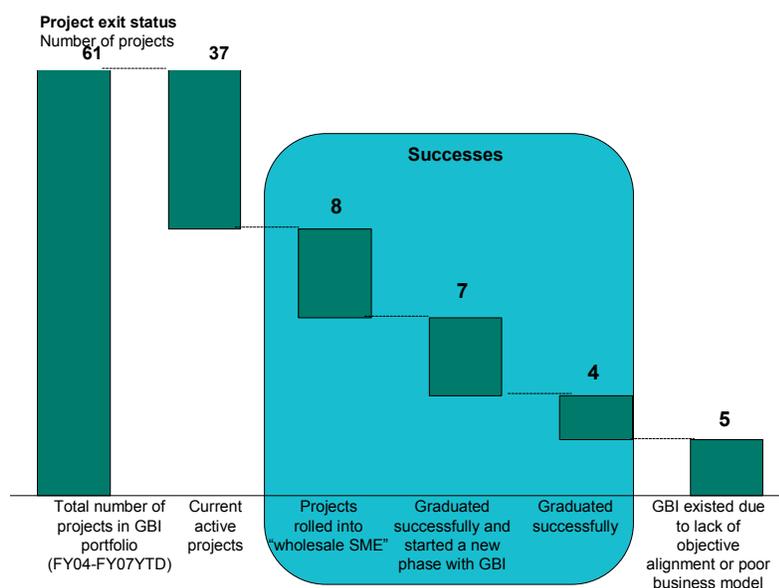
**A lack of consistent baseline surveys limits the potential for more rigorous social impact analysis.** While many GBOs did complete baseline studies, they were done somewhat inconsistently in terms of timing. Furthermore, these baselines tended to only sample participating beneficiaries (rather than identifying control groups). Hence there were limited opportunities to determine causal relationships of the social impact of GBOs on their beneficiaries. Going forward, GBI should conduct more consistent and comprehensive base line surveys that incorporate randomized sampling, where feasible.

#### **Implications for GBI:**

- Require that all GBOs provide trend baseline data (or make qualitative assessments regarding GBOs trajectory of growth prior to GBI's intervention) for both participating as well as non-participating comparable populations
- Streamline M&E and make requirements commensurate with the size of grants
- Hold M&E requirements constant, minimize ad hoc data requests
- Incorporate M&E more regularly into discussions with GBOs about how to improve their social impact
- Provide additional funding into each transaction to cover the significant M&E requirements that accompany them

**10.6 The successful project “exit” rate is approximately 30% but most interventions were made without a specific exit strategy.**

**GBI did not specify exit strategies at the outset of most of its interventions.** While the interventions were made for fixed durations in time, there was not a specific objective in terms of criteria for when GBI would consider the GBO ready for “exit” or graduation. In retrospect, GBI defines success for retail clients as realizing self-reliance on revenues and/or being able to secure funding from other donors or financial markets so that they no longer need GBI funding. The success for wholesale clients is also related to their ability to secure long term funding from other donors, however this is not necessarily relevant nor a specific objective of every wholesale project. Four of GBI’s projects (7% of the portfolio) have “graduated” beyond their need for GBI funding. Eight GBOs were transferred to be supported by GBI wholesale projects in the portfolio. Another seven projects were moved into a second phase of implementation after successfully completing the first one.



**Implications for GBI:**

- Define a clear exit strategy specifying what donor funding and/or profitability levels make GBOs “sufficiently sustainable”

**11 Lessons learned and Implications for GBI**

This section intends to summarize the implications highlighted throughout the analysis as well as offer appropriate recommendations as the IFC moves toward launch of the Grassroots Business Fund (GBF).

**11.1 Migrate towards a wholesale model**

GBI leverages strengths with a move toward “wholesale” investments. Retail investments bring core operational needs where GBI has little capacity. Additionally, the cost to serve retail GBOs is prohibitive relative to their impact and risk. GBI’s strengths emerge through: (i) Ability to mobilize patient capital, and (ii) High-level strategic guidance.

As GBI continues to migrate towards more wholesale organizations:

- There will be a continued need for grant funding which could be administered through a refined version of GBI’s current “Performance based” grant making.
- If GBI continues to fund training and mentoring programs for entrepreneurs, GBI should hold their wholesaler’s accountable not only for their activities but also for their impact: that is tracking entrepreneur success rates, profitability and wages paid

GBI should only partner with those wholesalers that show a demonstrated and sincere commitment to achieving greater financial sustainability of their programs. However the definition of financial sustainability

should be refined for the wholesale (micro) organizations to reflect the reality that they are likely to require some form of subsidy from donors to cover training and administrative expenses.

### **11.2 Replicate successful wholesale/intermediary models**

Pursue a mix of intermediaries that support SMEs and intermediaries that support micro entrepreneurs. Wholesale SME models to consider for replication include UCT and Prodem. With GBI, both structures have demonstrated efficiency in deploying capital to entrepreneurs.

Additionally, Drishtee is a model of Wholesale Micro where the micro-entrepreneur is supported through training, product deployment, initial financing, and continued marketing and product development. Drishtee models a franchising model of Wholesale Micro which may, in fact, be the preferred micro model given the reduction in risk in the micro portfolio as the model is continually tweaked and supported from a central organization. This micro model also creates compatible interface for investment and strategic advisory between GBI at the Drishtee corporate level.

### **11.3 Implications for investment process**

#### **11.3.1 Implications for screening**

The learning laboratory nature of the period of GBI's initial investment period required an opportunistic and ad hoc approach to portfolio selection. The experience of the GBI leadership and the use of the IFC network to source opportunities served as a strong filter against bad investments even while working in a new asset class. Going forward a more rigorous screening process is appropriate incorporating best practices and GBI's experience in GBO investments. The GBI team certainly brings experience in the design and use of rigorous investment screening processes. As such, establishing and utilizing a rigorous cost appropriate due diligence process going forward is likely fairly straightforward in implementation. Benefits, of course, include (i) alignment of GBO investment and exit expectations (i.e., readiness for change, commitment to beneficiary income); (ii) establishing baseline data; (iii) the ability to manage risk appropriately across the portfolio; and, (iv) development of GBO investment professionals.

#### **11.3.2 Implication for needs assessment**

During the screening process, selecting GBOs with a readiness for change should set up a very early rigorous needs assessment with the GBO. A strong needs assessment developed in a facilitative fashion with the GBO leadership enables modulation of the roadmap to client priorities, management capacity, and investment returns expectations. As part of the developing of a needs assessment, accountability should be designed in for GBOs to increase the wages that they pay to their beneficiaries either through growing or through realizing improved efficiencies in their operations

#### **11.3.3 Implications for investment**

GBI's portfolio includes a mix of more socially oriented programs requiring significant grant funding to remain sustainable, and enterprise focused GBOs. As GBI shifts its portfolio towards more high performing "investments" in wholesale organizations, they should raise their bar with respect to the level of financial or social dividends of investments. Socially-oriented "programs" (vs. enterprises) should only remain in the GBI portfolio if they can generate sufficient social dividends through empowering large numbers of grassroots individuals.

While GBI is focused on developing patient capital instruments, the intermediaries organization which they leverage also require support in expanding their range of financial products appropriate to investment in retail GBOs and micro-entrepreneurs with a social mission.

Naturally, larger investments in fewer organizations reduce transaction cost loading and required management and technical assistance capacity required. Streamlining process for grant and financing disbursement reduces inefficiencies.

#### **11.3.4 Implications for technical assistance**

Technical assistance has emphasized supporting strategic initiatives, developing business plans, financing, and support in monitoring and reporting. GBI technical assistance should include a greater emphasis on partnering with intermediaries on the ground to drive operational efficiency improvements as an important lever for improving grassroots beneficiaries' incomes. For handicraft producers in particular, GBI should continue their support of GBO market development activities, especially through higher margin fair-trade retail channels. GBI can help to increase the quality of the social impact of GBO training programs by contributing their M&E expertise to help their GBOs to develop more effective quality assurance and impact assessments of their training programs.

Defining the role of GBI staff as expert technical assistants to GBOs or administrative supporters ensures clarity in the relationship expectations as well as focus of conversations. Logistical communications around reporting might better be served by establishing a specific monthly cadence rather than through ad hoc interaction.

For global programs create systems to capture and share global knowledge across country programs. Link global strategic plans with county-based ones and develop global-level oversight to harmonize country specific strategies

#### **11.3.5 Implications for GBI M&E**

GBI should include an assessment of the "Formalization effect" into any future due diligence processes. On-going assessments should include interviews with the beneficiaries. Future M&E should track the share of beneficiaries who were previously under served or unemployed. For global programs, collect baseline data as a means to test regional differences in GBI interventions

GBI M&E should require benchmarks of local wage and working conditions to better analyze the premiums that GBOs are offering and require that all GBOs provide trend baseline data. Streamline M&E and make requirements commensurate with the size of grants and minimize ad hoc data requests.

#### **11.3.6 Implication for exit**

Define a clear exit strategy specifying what donor funding and / or profitability levels make GBOs "sufficiently sustainable."

### **11.4 Implications for GBF activities**

#### **11.4.1 As GBF looks to further develop the financial viability of GBOs it should focus on increasing access to alternative forms of finance that meet the needs of small and medium sized enterprises**

Well understood by the GBI leadership, the major contribution of a Grassroots Business Fund is addressing the insufficient supply of capital for this asset class of small-medium sized social enterprises. The most effective financing interventions integrate grants to fund core operational improvement technical assistance with working capital to finance growth and new initiatives. Combining the approaches provides capacity for operational technical assistance with the responsiveness and alignment of incentives associated with private equity investment. Given the growing export nature of many GBOs, helping enterprises achieve access to affordable financial products for small and medium sized exporters (e.g., letters of credit, forward financing, and export credits) increases the availability of lower cost working capital.

#### **11.4.2 Implications for additional areas that GBF could address:**

As GBF establishes itself as a change-agent in the sector, broader areas of focus continue to include:

- Driving access to markets for their goods and services
- Addressing insufficient supply of quality business development support services and financing to pay for those that are offered to help enterprises with issues such as:
  - Building internal systems and operational capacity
  - Product development capabilities (e.g., product design, customer research)

- Supporting training capacity (i.e., SEWA Managers' School) to address the “missing middle” tier of management – wide gaps in skills and capabilities between the entrepreneurs and their operational staff which leads to succession issues and challenges with organization-wide capacity building.

#### **11.4.3 Implications for GBF operating model and structure**

To move forward GBF would presumably implement recommendations and current plans to (i) move toward a strategy of mobilizing patient capital for Wholesale SME & Micro; (ii) leverage local capacity and grant financing to support operational technical assistance; and, (iii) streamline processes around disbursement, reporting, and monitoring & evaluation. This implementation would a different operating model and structure than currently deployed in GBI. Adopting a “fund” DNA rather than a technical assistance provider implies a substantially lower percentage of management costs to deployed capital. That lower percentage is achieved by (i) leveraging local providers of technical assistance; (ii) re-efforting GBF staff toward mobilizing capital, portfolio origination and screening, needs assessment, and driving returns through scale and operational initiatives. This re-efforting requires developing more complex investment professional skills with a more leveraged management structure while maintaining a social returns culture. In the near term, that likely implies infusing a middle level of managers with a small number of high-performing junior staff in the headquarters and in the field.