



GRASSROOTS
BUSINESS FUND

18 YEARS

of Blended Finance
Impact and Lessons Learned



Table of Contents

Letter from GBF's Management Team	3
Introduction	4
The Challenge	5
Evolution of GBF	6
Some Notable GBF Accomplishments	7
About GBP	8
Grassroots Business Investors Fund I LP (GBI-I)	9
Investments	10
Fund-level Results	10
GBI-I Investee Results	11
Technical Assistance	12
Results of Technical Assistance	12
Social Impact	13
Lessons Learned	15
Building on GBP+GBI-I	18

ACRONYMS

BOP	Base of the Pyramid
EBITDA	Earnings Before Income, Tax, Depreciation and Amortization
ESG	Environmental, Social and Governance
GBF	Grassroots Business Fund
GBI	Grassroots Business Initiative
GBI-I	Grassroots Business Investors Fund I L.P.
GBP	Grassroots Business Partners
GDP	Gross Domestic Product
HIB	High-impact Business
IFC	International Finance Corporation
NGO	Non-Governmental Organization
LP	Limited Partner
SDG	Sustainable Development Goal
SME	Small and Medium-sized Enterprise
TA	Technical Assistance

LIST OF ANNEXES AVAILABLE UPON REQUEST

Annex 1	Evolution of GBF
Annex 2	Third Party Advisory Work
Annex 3	2008–2011 Technical Assistance Projects
Annex 4	List of Studies/Reviews
Annex 5	GBI-I Results
Annex 6	GBI-I Exits
Annex 7	Social Impact Methodology and Gender Story
Annex 8	Technical Assistance Process

Letter from GBF's Management Team



Harold Rosen



Jaime Ramirez



Lilian Mramba



Natasha Barantseva

Greetings to all. We hope you find this review interesting. This report looks back at what GBF has achieved and what we have learned in the process. We believe as strongly as ever in GBF's mission: that building good pro-poor businesses can sustainably engage large numbers of the poor in a productive and equitable market economy.

With the help of many funders of various types, GBF has achieved a great deal. We serve as a case study for the blended approach, which, as the paper notes, is vital if a business is to stretch into underserved segments.

We greatly appreciate the support and enthusiasm of all those who have made this work possible. And, as always, we welcome questions and comments.

Harold Rosen

CEO

Jaime Ramirez

CIO/COO

Lilian Mramba

Africa Regional
Director

Natasha Barantseva

LATAM Regional
Director (Former)

Introduction

The Grassroots Business Fund (“GBF”) facilitates economic empowerment and improved lives for lower-income populations, especially in lesser-developed countries and regions. GBF pursues this by working with impactful small and medium-sized enterprises (SMEs) in low-income communities.

Grassroots Business Investors Fund I LP (GBI-I), GBF’s private investment vehicle, ended its initial 10-year term in late 2021. This report is mainly a review of GBI-I’s results and achievements to date. It sets out results and learnings in social impact, technical assistance and investment. The paper also touches on certain areas in the pre-GBI-I phase in which some important results and learnings were recorded, and describes the creation of GBI-I and other activities going forward.

GBF’S MISSION AND VALUES



GBF’s **mission** is to grow **viable businesses** that generate **sustainable earnings** or **cost savings** for people with low incomes in Africa, Asia and Latin America.

GBF’s **core values** are:



Business Rigor



Learning and Improving



Making a Difference



Respecting Diversity



The Challenge

SMEs are a critical part of the development process. They create income and sustainable models that can improve the lives of the poor. SMEs can also convey self-worth, fairness and dignity — thus offering true empowerment and self-respect to people living at the base of the economic pyramid.

Some SMEs can be particularly impactful, generating sustainable economic benefits for large numbers of poor people. They connect the poor to the market economy via complex business models and large supply chains. However, they are often underdeveloped in terms of management, operations, planning and finances. Furthermore, they are typically family-owned and founder-operated and slow to bring in additional management, partners and “professionalized” business approaches.

Consequently, such SMEs often have limited access to good, appropriately structured, risk-sharing capital. This creates a serious gap in rural supply chains — much to the detriment of smallholder farmers, low-skilled workers and consumers with low incomes.

78%

OF EMPLOYMENT IN LOW-
INCOME COUNTRIES
COMES FROM SMEs



Evolution of GBF

To address these challenges, early on GBF adopted a blended approach — combining different types of capital (investment and grants) to meet the investment and technical assistance needs of SMEs.

GBF was initially fully grant-funded (2008–2011) and thus able to take high risks, explore different dimensions and gather valuable experience with early-stage social enterprises. Among the learnings from this phase was that many of the ventures were unlikely to provide a full commercial return. So, as GBF evolved to a predominantly commercial funding base, it shifted its focus to for-profit enterprises, which were generally larger and somewhat more developed than those addressed previously.

GBF's investee companies were better consolidated than those previously supported by GBF. But they still had enterprise development needs, in areas like supply chain development, governance, and environmental, social and financial management. GBF's technical assistance services helped build stronger and more impactful businesses; but delivering these services efficiently was also a challenge, as explained in subsequent sections.

2004



2008



2011

Grassroots Business Initiative (GBI)

Originally created as a department within the International Finance Corporation (IFC)

- Founded by Harold Rosen, who pioneered IFC's SME and microfinance activities in search of stronger social impact
- Provided loans and grants to not-for-profits
- Harvard Business School case study, other external reviews

Grassroots Business Partners Inc. (GBP)

Spun out from IFC to begin making financial investments in for-profit companies

- With 100% grant funding, GBP executed investments and delivered TA via its own staff and external consultants
- \$7.7 M invested in more than 35+ companies from 2004 to 2011

GBP + Grassroots Business Investors Fund I LP (GBI-I)

GBP launched a private 10-year limited-life fund (GBI-I)

- Raised \$41 M in investor and lender commitments with fund management and \$8M in TA grants delivered through the not-for-profit
- Established formal regional offices in Nairobi, Lima and New Delhi
- \$41 M deployed to 33 companies, thus far realizing 18 exits, 2 losses; 488 TA programs managed to date.

Some Notable GBF Accomplishments



FULLY DECENTRALIZED
FROM WASHINGTON DC

SUCCESSFUL SPIN-OFF OF THE
LATAM OPERATION IN 2020



About GBP

GBP was established in 2008 as a not-for-profit organization, in order to execute the original spin-off from IFC. Its main function was to receive and manage donor funds. Its grants came from foundations, agencies and individuals.

GBP RESULTS PRE-2011

While GBP was fully grant-funded, it was able to experiment and learn across a wide range of enterprises and transaction types. As much as possible, we tried to ensure that GBF clients benefited from its transparent, high-quality investment process, which is grounded in business acumen and substance. Investees/grantees included NGOs, foundations and socially significant businesses. Sectors included agriculture and artisanal manufacturing, micro and youth enterprise initiatives.

Some of GBP's main accomplishments in 2008–2011 included:

\$7.7 M

INVESTED

\$5.8 M

IN TECHNICAL ASSISTANCE

35+

HIGH-IMPACT COMPANIES
AND NGOS

Some key investment highlights for this period were:

58%

OF PORTFOLIO IN
AFRICA

47%

OF PORTFOLIO IN
AGRIBUSINESS

Besides raising and managing donor funds, GBP also tracks social impact, establishes and oversees field offices, administers them, and implements technical assistance. GBP also manages stakeholder relations and communications. Since 2011, GBP's predominant focus in all these functions has been on managing GBI-I. In the last few years, GBP has also evolved into doing paid advisory work, innovation and new partnership development. These latter activities have been a good channel for sharing GBF's knowledge and have also made a useful contribution to GBP's budget and management retention (see Final Section).



Grassroots Business Investors Fund I LP (GBI-I)

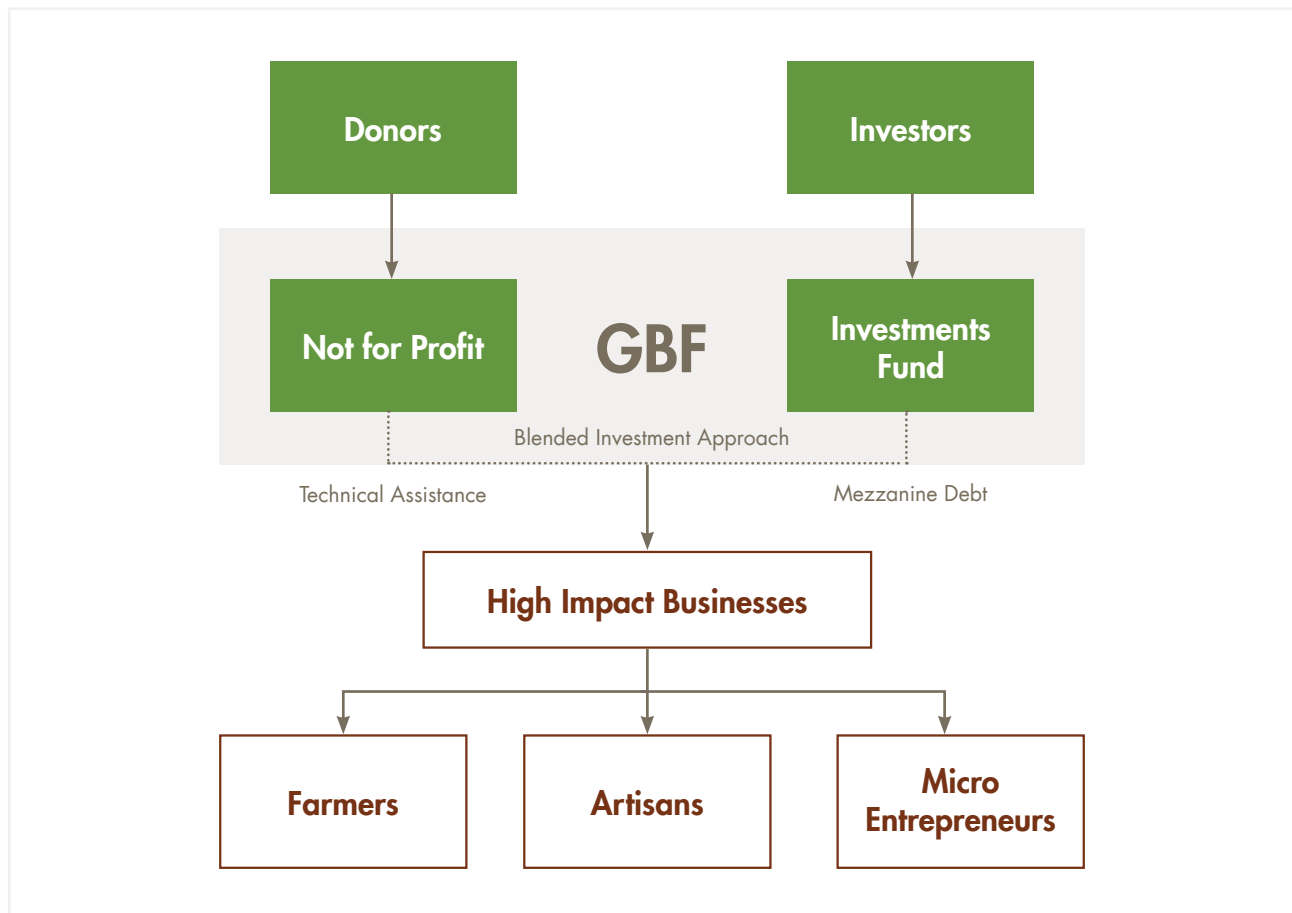
From its experience in earlier activities GBF learned that TA is important and often needs to come alongside “patient” investment capital. And while part of these capital needs could be financed commercially, the investment capital should be “blended” with softer tranches in order to meet the full needs of both the investors and businesses.

GBI-I was set up in 2011, as GBF’s first for-profit financing vehicle. The aim was to have the blended structure enable GBF’s mandate: reaching impactful but challenging SMEs, with mezzanine-type financing managed by GBF, which would in turn also support the investees with technical assistance for the early years. Funds raised for GBI-I were as follows:

GBI-I FUNDING RAISED	
Debt	\$15 M
Equity	\$20 M
Founders’ Equity	\$6 M
Total GBI-I Funding	\$41 M
Grants for Technical Assistance	\$8 M

Thus, GBF raised about \$41 million in three classes of investment in GBI-I and \$8 million in grant funding for technical assistance. The founders’ equity included some of GBF’s investments from the previous phase.

This resulted in the following organizational structure:



Investments

FUND-LEVEL RESULTS

GBI-I's capital was invested in 33 companies in 2012–2017. The following subsections deal with a) fund-level, and b) investee-level results. The main fund-level results were as follows:¹

33 NUMBER OF COMPANIES INVESTED IN	15 COMPANIES IN EXIT PROCESS	\$41 M INVESTED CAPITAL
\$32.9 M REALIZED PROCEEDS	18 TOTAL EXITS	3X MOBILIZATION RATE POST GBF INVESTMENT

Some of the main challenges facing GBI-I's financial results were:

- 1. High management costs:** GBF's costs were significant. Management fees were based on a percentage of committed capital. This meant a high management fee relative to outstanding capital, especially in the early years, reducing the fund's returns.
- 2. Impact of COVID on portfolio:** COVID-19 had a serious impact on more than half of GBI-I investees. The pandemic negatively affected investees' operations and reduced the liquidity available to them to support operations as well as exits.
- 3. Instability in Peru:** Home to GBF's largest country portfolio, Peru held some of our most promising positions. The 2021 elections and related political uncertainties negatively impacted the performance of a number of companies and their ability to raise funds to support operations.
- 4. Leverage effect on equity returns:** GBF has a blended capital structure that includes debt and equity (LP interest). While our debt was paid off in full with interest, the equity in effect absorbed losses.
- 5. Learning curve:** GBF learned a lot during the 10-year period of GBI-I. Our financial performance improved as time moved on.

¹ As of publishing of this report, after payment of fund expenses, and reinvestment of proceeds, GBI-I had distributed \$15.2M to its funders (lenders and LPs) of the \$32.8M drawn down from them.

GBI-I INVESTEE RESULTS

The 33 investees under GBI-I had a total combined annual revenue of \$189 M at the point of investment, which later grew to \$266 M with a compounded annual growth rate of 12% on the US dollar. Of GBI-I investees, 73% were in agriculture, 21% were artisanal manufacturing, and 6% were in the affordable goods and services sectors. 70% of investment was committed to investors as mezzanine debt, with the rest divided between debt and equity. By region, 51% of the fund was invested in Latin America, 26% in Asia and 23% in Africa.

The fund has achieved exits on 18 (54%) of its investments, for amounts totaling \$32.9 million. Around 80% of the investees from the entire 10-year period continue operating today — a notable record, given the challenges inherent in GBF's target markets, the failure rates of such businesses worldwide and global economic conditions in recent years. Of the 33 investees, 6 closed operations due to different factors including poor governance, failed acquisitions and weak business plans.

The companies that GBF invested in via GBI-I were usually high-risk and previously had little access to other sources of funds. Upon GBF's investment, the companies were able to mobilize additional external funds in amounts several times greater than GBI-I provided. This improved mobilization was due to several factors, including GBF's credibility and the management improvements established with GBF's help.

58%

OF INVESTEES ARE
LOCALLY OWNED
BUSINESSES

33%

OF INVESTEES ARE
WOMEN-LED/
OWNED

The 33 investees under GBI-I had a total combined revenue of **\$189 M** at the point of investment. This grew to **\$266 M**, with a compounded annual growth rate of **12%** on the dollar.



Technical Assistance

Technical assistance has been a critical component of GBF's investments in impactful businesses. As noted, our investees have complex business models, distributed supply chains and often have underdeveloped management upon GBF's entry. The nature of these challenges requires iterative capacity building assignments with frequent adjustments, often including the 2–3 years after GBF's investment.

GBF's technical assistance includes cost-sharing arrangements with the client, in order to improve the chances that the objectives are achieved, and the financial burden shared. Cost-sharing has generally included the client paying up to 50% of the costs. GBF's contributions with a particular investee were spread over 2–3 years and limited to 10% of the investment amount.

Among the challenges of matching the needs of the enterprises with the grant funding, were the procedures and rules governing the use of these funds. Still, GBF was generally able to make good use of these funds to help enterprises improve their operating and financial management, strengthen supply chains and improve on environmental and social issues.

RESULTS OF TECHNICAL ASSISTANCE

The impact of technical assistance is difficult to quantify, as investee-specific aspects must be considered. However, it is clear that GBF's TA was essential in a number of cases, and produced a larger and much stronger company. The most common areas included cash flow management, environmental and social compliance and capacity building for low-income groups. Some results of the investee-level technical assistance are as follows (results as of 2018 when the technical assistance funding was fully utilized).

488 assignments in **83** companies since 2008²
26% of the assignments were focusing on financial management,
26% on environmental and social, **24%** on operations, **19%** on strategy and **5%** on governance and structure.

Some key improvements noticed on a sample of 21 companies from the portfolio included:



Most of the technical assistance assignments have been small, with each investee receiving several individual assignments, as well as adjustments along the way to take into account experience and actual developments during implementation (see p.16). The majority of GBF's investee companies showed marked improvement in management, planning and general openness to professionalized practices and personnel.

By sector, more than half of TA expenditure went to agribusiness companies (55%). By type of assistance, financial management and environmental and social compliance both accounted for 26%, followed by operational management at 24%. By region, Asia had the largest share, with 36%, followed by Latin America with 33% and Africa with 31%.

² Pre-investment technical assistance

Social Impact

GBF has a system for tracking social impact. We monitor the number of people from low-income communities for whom a job, income or cost saving result from participating in the investee's value chain, and estimate the economic value (salaries, incomes or cost savings) to these groups of the investees' operations. Over the life of GBF, the fund's investees have generated a very high cumulative social impact for large numbers of lower-income people. Annex 7 gives more detail on GBF's social impact system and results. A few of the main indicators are as follows:

SOCIAL IMPACT INDICATORS	
Net Economic Value Created (incomes + cost savings)	\$396.3 M
% of benefits to below-the-poverty-line	90%
Economic Value Created per \$1 invested	\$9.7
Total employees	11,130
Farmers, artisans, consumers supported	3,473,523
Family members supported	13,921,375

The bulk of the economic benefits deriving from GBF's investees went to the agricultural out-growers, artisans and consumers of goods and services that participate in their value chains. Driving many of these social benefits is the fact that strong, viable and growing businesses can keep producing such economic benefits for the poor for many years, lifting large numbers of people out of poverty in a sustainable way. Taken together with community benefits, such SMEs with extensive supply chains can have a major and broad impact that accrues over many years, with minimal new investment or subsidies. This constitutes a strong argument for including SME development as a central part of overall development strategy.



Natural Habitats was at an early stage, GBF was the only one who **appreciated what we were doing** and was the only one willing to **take a risk** with us. **GBF was flexible**, open to matching what we needed along the way and helping us **professionalize**. That was quite unique. Their technical assistance ensured social impact."

ALFONS VAN DER AA - Principal owner and CEO of Natural Habitats

a company dedicated to the sustainable production of organic and fairly traded products, including organic palm oil, cultivated by independent farmers in Ecuador and Sierra Leone in a fully traceable supply chain.



Worker at Natural Habitats processing palm oil fruit bunch. Through its TA, GBF helped the company to provide technical assistance to approximately 1500 farmers, including necessary training on organic farming practices to achieve certifications. The company purchases the fruit of palm from the farmers, processes it and sells organic ingredients to food, personal care and animal nutrition manufacturers. Natural Habitats developed a Palm Done Right approach to lead positive change in the palm oil industry and prove that palm can be grown organically, with regenerative agricultural practices to preserve the environment while creating sustainable livelihoods for farmers.

Lessons Learned

GBF's 18-year history has included a great deal of learning. Some notable lessons follow, grouped into a few main categories.

GENERAL

GBF's founding premise still holds: companies that engage large numbers of the poor can be a good way to improve the lives of underserved, hard-to-reach populations. Such companies can be an important element in sustainably bettering the lives of poor populations and helping more broadly with economic development efforts. They can also promote a sense of fairness, participation and support for a democratic, market-based system.

Blending is vital to several dimensions of this work. Combining patient investment capital with TA can make both more effective. Farmers can benefit from training and certification – all the more so if there is also a commercial company that can purchase, process, add value to and market their products at a fair price. Environmental issues must be addressed, but taking into account the nature of the investee in terms of budget, scale and willingness, among other factors. This ability to combine several elements of TA for a given SME is vital for the enterprises to succeed, but remains a work in progress in the development business.

Growing and strengthening these companies can be hard work, costly and take years to accomplish. Nevertheless, the effort can be well-justified, especially if strong social and economic benefits accrue for otherwise underserved people, and these benefits can be measured, demonstrated and sustained over a long period.

Local proximity to the client is important to maintain the close support needed for a "capital plus" approach with such enterprises. Local presence is challenging, can be expensive and takes time to consolidate but the effort can be well-justified by the value such companies may create and their needs for up-close support in efforts to improve management. The goal is to build an ecosystem of SME support and to improve overall SME viability.

The value of "experienced advisors". Involving experienced business people has proven to be of enormous value both to GBF and to the companies we support. In GBF's case, this has been done

through structured and ad-hoc engagement by the Board, Investment Committee and Advisory Boards. For our investees, such mentorship is best delivered by investment partners, friends and associates; in their absence, GBF itself can sometimes act as a temporary source and/or bridge to these types of business knowledge and connections. But such mentorship takes work and careful observation on all sides in order for it to take hold and realize its potential.

FINANCIAL

Mezzanine investment products can be very helpful for growth-stage SMEs, especially ones with limited access to traditional funding sources. Mezzanine finance is underprovided at present. The reasons for this – many of which also constrain other forms of financing – must be addressed: they concern a lack of fixed asset security, underdeveloped management and the uneven business environment in many emerging markets.

But it is hard to make mezzanine finance work fully for funders. The upside available on these investments is unlikely to fully cover the costs and risks involved in making such investments in challenging markets. This is one of the areas that will likely require blending. It could involve subsidizing the SMEs' attainment of specific goals, particularly those related to the ecosystem-type improvements at the level of low-income communities (i.e., training farmers to improve quality, yields, etc.), reaching challenging but priority population segments and geographic areas, and other development priorities.

Funders concerned with development should address some of the constraints limiting other forms of blending, such as expanded and affordable guarantees, secondary markets for risk-based investment, and better forms of TA funding (see below). It would help greatly if such new forms of blending could also incorporate mentorship and business advice in order to help investee enterprises strengthen, grow and deal with new business challenges.

Important considerations with such investing include the entrepreneur's character and willingness to grow and change as necessary; and the "DNA" of the enterprise (e.g., how commercial or charitable it is), in the awareness that it is hard if not impossible to

move an enterprise too far from its original DNA. The solution GBF and most other funds have adopted is to stay away from not-for-profits, coops and other types of organizations that prioritize social benefits over financial sustainability and growth, and focus instead on for-profit businesses that target profitability and growth while espousing a vision of social and environmental sustainability and generating economic value for low-income communities in a businesslike way as part of their operating model. While this makes sense as a commercial strategy, it limits the “scope” for reaching difficult but impactful segments. More and better blending solutions could be part of the answer here, for example by doing more work with these enterprises.

SOCIAL IMPACT

Huge social impact can be achieved by socially significant businesses like those addressed by GBF. The impacts may include direct employment or sale of products, but also enhanced family benefits and community welfare, where the social multiplier is high. It is the job of the development community to come up with ways to measure, target and add to the benefits for underserved segments, while preserving the viability of the enterprises generating them.

That said, measuring these benefits presents a number of challenges. Work must be done on the definition of social impact, attribution and the high cost of data collection. Until social impact measurement becomes more objective and standardized, it will remain ad-hoc and up to individual funds and investors to devise their own metrics.

A great deal of progress has been made towards creating standards and best practices, and towards

developing standard metrics for sectors and impact themes. But while the market remains opaque, it is hard for investors to benchmark and compare their impact performance.

Additionally, tight management fee budgets limit managers’ ability to conduct meaningful impact measurement beyond measuring “outputs” – funding is needed for a more in-depth evaluation of actual price of purchase and quality of life impacts, and investors are rarely eager to pay for that. Blending and donor funding could help.

This will make comparison difficult and complicate the raising of subsidies to target specific development goals.

Humility is important in impact assessment. For many of the SMEs involved to appreciate the value of tracking social impact, time and convincing evidence will be needed. Donors can and should help with this, but it is vital that players are careful not to overshoot the appropriate level or complexity of social impact reporting. Ideally, social impact reporting can be limited to items that are of value to the enterprise and practical to collect, while still meeting funders’ needs.

Low-hanging social impact fruit still exist. There are great opportunities to increase social impact by building on extensive business supply chains, such as community health centers or gender empowerment initiatives. Some of our clients have made good progress here, but in many cases additional support from donors would be beneficial for social and empowerment programs, training and direct delivery of community services — all efficiently delivered using the platform provided by the company’s operations.



GBF was willing to take a risk and make the effort upfront to help us straighten ourselves out, in business terms. **GBF’s advice was critical in improving our financial, ESG and other issues we were facing.** It all made us bigger and stronger as a business and so **helped us spread enormous social impact** through our village-based supply chain”

ASHA CHAUDHARY- Jaipur Rugs CEO



Artisan/ weaver, Jaipur rugs, India

TECHNICAL ASSISTANCE

TA can be critical for helping develop management, governance, financial planning, ESG practices and the like. It does not suit every case, and even where needed, the TA effort will sometimes meet client reluctance, historically spotty availability of local service providers and high costs of international consultants. There is a need to be hands-on and up-close for proper management and oversight of enterprise-level TA.

Cost sharing by clients will be important, but realistically some level of subsidy will be required, at least in the early years of engagement with a particular company. There is still some way to go in adapting/channeling donor grant funds and matching them with the kind of TA required by the enterprise

Some good news is that local SME ecosystems have improved greatly in the last decade or so. For example, there is greater availability of competent,

affordable local experts better suited to the needs of most SMEs, as well as a higher number of business accelerators providing support services and mentorship to promising SMEs. There is also good scope for technology-based solutions and centralized efforts to address certain common needs faced by SMEs. Still, for the foreseeable future, technology will remain more a supplement than a replacement for individualized attention and in-person contact with the enterprise when delivering TA.

Delivering consultancies to third parties has become an effective way for GBF to offer its knowledge more broadly and supplement its own budget without taking management time from its investment management activities. GBF will need to continue focusing on external assignments with a clear link to GBF's own operations, expertise and objectives.

Building on GBP+GBI-I

GBF has garnered valuable experiences in its 14 years of operations. These experiences have allowed the organization to improve and develop a strong operating platform, which includes a world-class board and a strong management team that has grown together and is well-tested in advising and creating different financial vehicles to reach underserved SMEs. As such, since 2018, GBF has provided paid advisory work via GBP to independent, unrelated international and regional organizations. The advisory work initially centered on SME investment and technical assistance, but it has also included broader strategic advice and program design. In aggregate, as part of this work we have managed over \$9 million of loan capital on behalf of our partners and supported over 200 SMEs and 20,000 micro-businesses to gain access to capital and capacity building. This work has made an important contribution to GBF's sustainability. It has also proven a good way for GBF to build upon its experience and offer its own knowledge across the impact sector as it scales up its fund management operations.

In the next phase, GBF will provide a vast network and a strong market presence through its Nairobi office. By facilitating local and global engagement with regional businesses and the impact investing community at large, GBF provides the missing turn-key platform for investors and donors interested in pushing the boundaries of traditional financing for development.

\$9M

THIRD-PARTY CAPITAL
MANAGED

200

SMES SUPPORTED

21,541

MICROENTERPRISES
SUPPORTED

