

GRASSROOTS BUSINESS FUND

2014
ANNUAL
REPORT





Farmer – Pwani Feeds – Kenya. Pwani Feeds processes and sells animal feeds to poultry farmers, purchases eggs produced by the farmers and sells the eggs using a wholesale distribution system. GBF provided working capital to help Pwani Feeds purchase trucks to increase its supply chain.

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Cover Image: Artisan- NOVICA- Global. Mayra is part of a group called Women United for Artisan Development. The group is made up of almost 400 women who carry on the weaving tradition of their mothers and grandmothers.



GRASSROOTS BUSINESS FUND

Dear Friends,

The Grassroots Business Fund (GBF) is pleased to present its Annual Report for the fiscal year ending June 30, 2014. This report summarizes another year of operations guided by our values of *business rigor, learning to improve, respecting diversity and making a difference*. These values have helped us achieve a healthy return on investment, along with measurable, significant impact.

GBF has just completed its third year managing a \$49 million private investment fund and its sixth year operating as an independent organization. Our team is well-established and focused on GBF's mission of growing viable businesses that generate sustainable earnings or savings for people with low incomes in Africa, Asia and Latin America.

Our mission is not an easy one. We invest in difficult deals that face serious challenges but have potential for large social impact and a reasonable financial return. Our resources are limited, so we are working to deploy them where they are most needed and can achieve the greatest impact.

Since establishing its investment fund, GBF has provided 23 portfolio companies with its distinctive blend of patient investment capital and Business Advisory Services (BAS). This past year, GBF continued generating a solid return on investment — a 7.3% cash yield and a near perfect rate of all due payments received. BAS is helping our portfolio companies strengthen their management and planning, so they can achieve sustainable growth and create substantial social impact for low income groups.

In fiscal year 2014¹, GBF disbursed \$7.6 million of investment capital and committed \$11 million. Our committed portfolio is now \$29.9 million. In the past year, our investees generated \$48.2 million of incremental economic value for smallholder farmers, artisans, workers and consumers. To date, GBF's investees support roughly 75,000 individuals through direct income; and separately generate savings for over 1.8 million people. The majority of our clients' beneficiary families are living on less than \$1 per day per person.

Beyond positive performance metrics, we have also established a strong team, expanded our field operations and continued our efforts to improve our work, aimed at adding value to our portfolio and helping our investees achieve sound growth and big social impact. More than two-thirds of GBF staff is based in Peru, Kenya, India and Indonesia. Our field presence is key to looking after our investment portfolio and strengthening our investees' operations. Importantly, GBF's leadership increasingly comes from the field. The management team receives many of its ideas, and a large amount of its strategic guidance from Regional and Country Managers. We are also establishing *Portfolio Managers* in each regional office to oversee the region's portfolio performance and add value wherever possible, another step in our continuing efforts to strengthen our portfolio supervision and capacity building.

GBF's blend of patient capital coupled with BAS is showing great promise and some strong early results. But it is a blend that takes time to get right. We are continuing our quest to learn, adapt and refine our operations to improve our effectiveness. We have implemented significant improvements in our staff, structure and processes, which should lead to more effective localized decision-making, better business results and ultimately, greater social impact.

We are grateful for the trust and support of our stakeholders who join us on this challenging journey with investments, donations and guidance. We hope you enjoy this report and as always, we welcome your questions, comments and feedback.

Sincerely,

Harold Rosen, CEO & Founder

Andrew Adelson, Chairman of the Board

September, 2014

About GBF

GBF: A BRIEF HISTORY

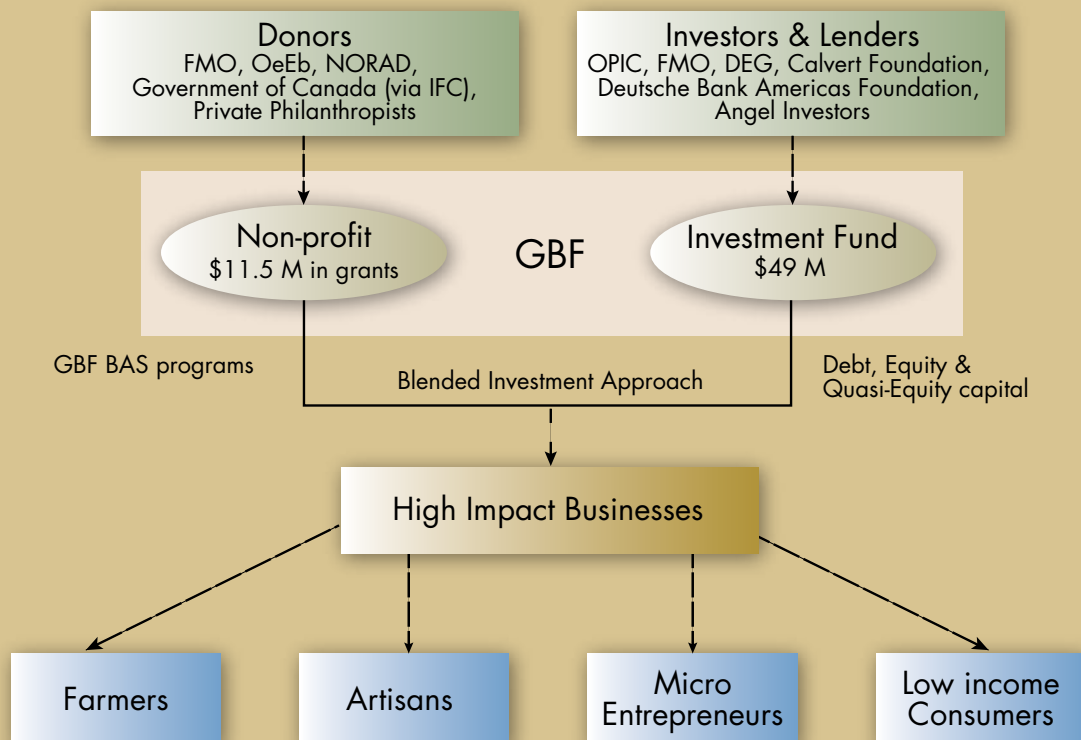
2004: GBF began as an initiative of the International Finance Corporation (the private sector arm of the World Bank Group). From 2004 to 2007 Grassroots Business Initiative executed over 40 social investments and technical assistance projects that impacted the lives of over 3.4 million people.

2008: GBF became an independent non-profit with seed funding from the Calvert Foundation, FMO, IFC, OeEB-Development Bank of Austria, Omidyar Network and others (see complete list of investors on pg. 23), to continue investing in — and assisting with the capacity building of — businesses that generate economic and social impact for low income communities.

2011: GBF evolved further with the establishment of a \$49 million for-profit private investment fund to work in tandem with the donor-funded non-profit. The non-profit acts as the fund manager and a capacity building partner for the fund and its investees. The fund's performance is visible to all stakeholders and investors, who expect to be repaid with a return.

Thanks to grants to the non-profit and investments in the fund, GBF has been able to become a leader in the impact investment field. GBF's distinctive, hybrid approach includes patient capital which is mostly in the form of debt with equity-like features, or preferred equity. By using preferred equity or investments that behave like equity and are tied to company results, GBF can achieve an exit through company cash flows. This approach allows GBF to partner with investees under a structure that allows sponsors to keep substantial ownership, while still providing returns linked to the company's success, and addressing investees' liquidity concerns.

Figure 1: Structure of GBF





Artisan – NOVICA – Global. Nyoman Lentong is an artisan who sells traditional Balinese flutes through NOVICA's e-commerce platform. GBF and NOVICA have had a long standing relationship since 2009. GBF invested in NOVICA to help launch their Guatemalan office.

GBF's VALUES IN ACTION

Business Rigor Drives Quality Capacity Building

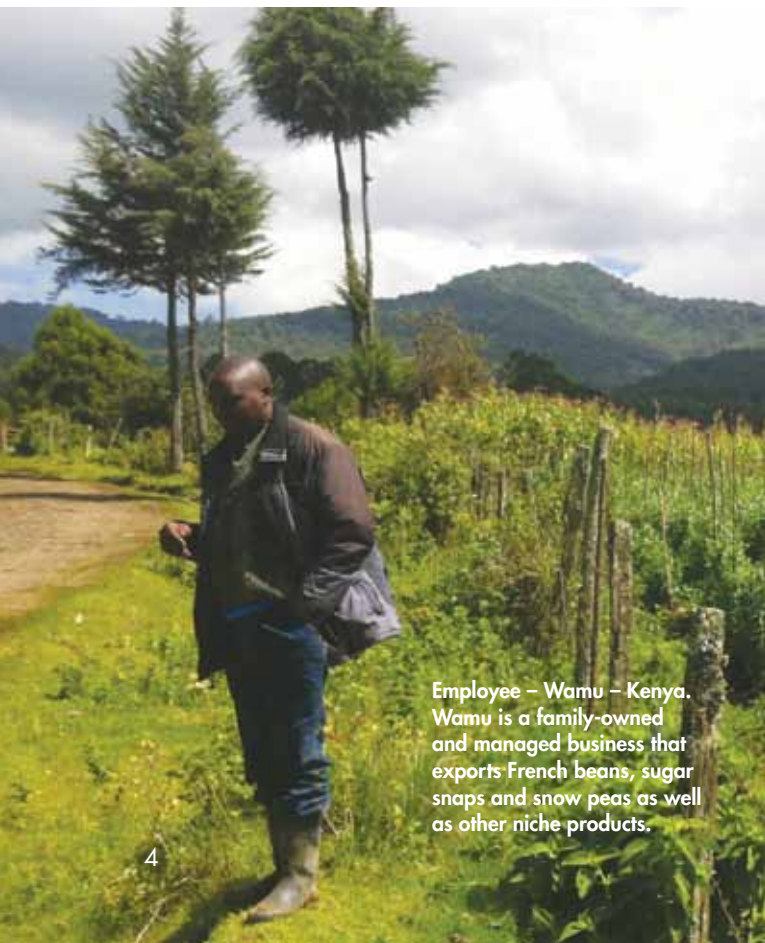
Providing Business Advisory Services (BAS) is one of GBF's most important features. BAS programs with investees focus on areas including financial planning and management, basic corporate governance, and environmental and social impact. GBF tracks its BAS projects to measure success, prioritize resource allocation and make the adjustments frequently required. Our transparency helps us distill and share our lessons learned, and continue to improve our processes – and hopefully our clients' business results and social impact.

Respecting Diversity via Decentralization

GBF's field-based staff is central to its model. GBF now has more than two-thirds of staff based in the field. This number will increase as GBF continues strengthening its field presence, decentralizing functions and responsibilities from Washington, DC. GBF's field-based staff has taken the lead in investment supervision and management, managing much of business development, BAS and social impact tracking. Regional Managers have become integral to GBF's management team, organizational strategy and global leadership.



Employee – Squeeze – Indonesia. GBF's first investee in Indonesia, Squeeze sources fruits from more than 750 smallholder farmers. GBF's support is helping Squeeze scale and grow its social impact.



Employee – Wamu – Kenya. Wamu is a family-owned and managed business that exports French beans, sugar snaps and snow peas as well as other niche products.

Learning to Improve with a Network of Experts

GBF is determined to keep evolving through continuous improvement. GBF benefits from a strong and well-functioning Board, Investment Committee, BAS Steering Committee, and other local business advisors and experts. We have made a concentrated effort this past year to integrate more of these experts into our investees' — and GBF's own — work plans. Some of GBF's investors spend a significant amount of time mentoring our team and reviewing our portfolio and operations. This has helped build GBF's reputation as a knowledgeable, no-nonsense investor — but one with a big heart!

Making a Difference by Confirming Impact

Our dedication to creating social and economic impact means that we also invest significantly in measuring how GBF's investee companies impact their suppliers, employees and consumers. In partnership with investees, GBF tracks the incremental economic value delivered to beneficiaries, their families and society in general; trying to estimate the "all-in" economic return on capital. Recently, GBF issued its first Impact Reportⁱⁱ, which is an attempt to assess the business impact, BAS impact and social impact of GBF and its investees.

These values are deeply-rooted and inform the approaches GBF uses to achieve its mission.

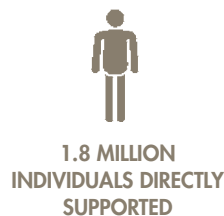
GBF's Mission

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

RESULTS & FUND PERFORMANCE

1. GBF BAS and Social Impact Results

GBF performed well financially and achieved significant social and economic impact in 2014. This performance was achieved by building a high quality portfolio with \$29.9 million committed to 23 portfolio companies; of which \$11 million was committed to 9 investments in fiscal year 2014. If GBF maintains its current fund performance, we expect to repay investors with a decent return and deliver meaningful social and economic impact to those who need it most. For fiscal year 2014, some indicators of GBF's resultsⁱⁱⁱ include:



Continuous Learning builds stronger BAS

Since the fund's inception three years ago, GBF supported 30 BAS engagements. To manage BAS, GBF has put in place an internally developed system of BAS Ability Scores and Success Factors. These workflow management and results measurement tools help us understand each investee's strengths and weaknesses. More specifically, these tools help us prioritize our work and make adjustments to continue providing the most effective BAS programs targeted to the main challenges facing each company. Read more about GBF's BAS Ability Scores and Success Factors in the BAS and Impact sections on pg. 14 (and in the aforementioned Impact Report).

GBF's Business Rigor in Action:

- Principal and interest payments of \$5.2M since fund inception, with \$2.4M received in FY2014.
- In FY2014, GBF staff vetted \$178.4M of investment opportunities.
- In FY2014, investees generated \$12.6M in savings, plus another \$35.6M in earnings to low income beneficiaries.

2. GBF Investment Fund Performance

GBF focuses on for-profit companies that have potential to achieve very significant social impact. Business performance and social impact must be central to all investees' missions and operations.

Long-Term Risk-Sharing Commitment to Agribusinesses

GBF's portfolio demonstrates a growing concentration in agriculture, which comprises over half of the existing investments (See Figure 4). Agribusinesses are especially challenging and risky investments as they are susceptible to climate and market volatility, supply chain bottlenecks and other hurdles. However, they create unrivaled opportunities for lasting wealth-creation that can lift large numbers of people out of poverty. As such, GBF has not avoided the challenge and is developing a strong capability and expertise in agribusiness.

Overall, GBF’s portfolio made good progress in 2014, investees are improving their management and planning, and growing fast. GBF’s aim is to build on its achievements, maintain a strong portfolio, and put in place the best possible foundation for the future with each company.

GBF’s Key Performance Indicators:

The current 23 investee companies are generating a 7.3% annual “cash-on-cash”^{iv} return on investments. To date, GBF’s portfolio has collected over \$5 million in cumulative repayments, redemptions, interest, dividends, and fees.

Figure 2: Key Figures of GBF’s Investment Fund (GBI-I)

Since GBI-I first closing on November 21, 2011	Actuals June 30, 2014
Active Commitments	\$29.9M
% of Committed Portfolio Disbursed	72%
Disbursed Portfolio Book Value	\$21.3M
Number of Active Investees	23
Cumulative Principal Repayments	\$3.2M
Cumulative Int., Div., and Fees	\$2.0M
Current Yield ^v	7.3% ^v

GBF’s portfolio commitments extend throughout Africa, Asia and Latin America. This wide geographic spread comes at a cost but allows us to diversify our portfolio and remain selective. Our investments encompass artisanal and service sectors, as well as the previously noted growing concentration in agribusinesses.

Figure 3: GBF’s Committed Capital by Region

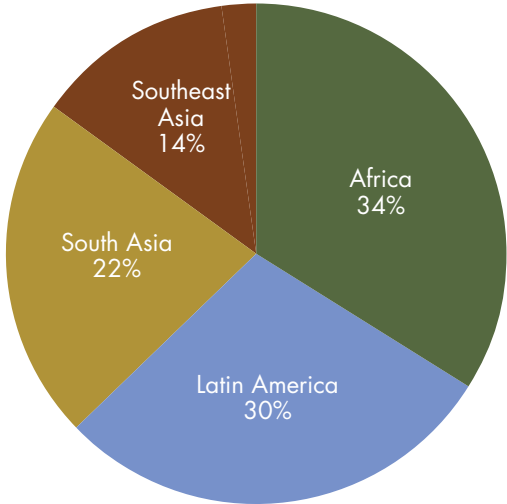
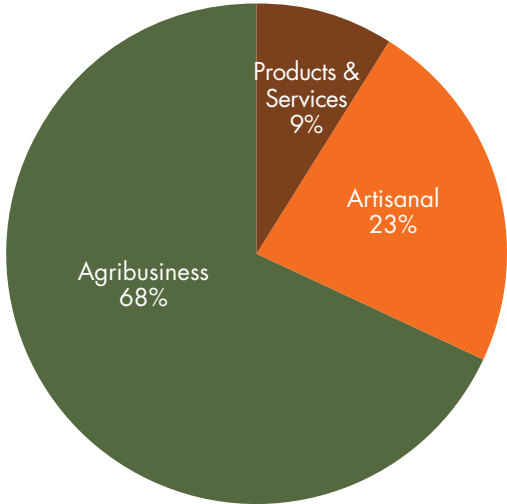


Figure 4: GBF’s Committed Capital by Sector



Entrepreneur – Pwani Feeds – Kenya. Pwani Feeds' entrepreneur, Faith, is spearheading the success of Pwani's operations. Given the inaccessibility of financing, high costs of inputs and limitations of usable land, innovative models like the one Pwani Feeds employs are critical in providing additional resources for farmers to generate income.



AFRICA

In Africa, GBF's portfolio has grown to 7 active investments with \$10.2 million committed. In fiscal year 2014, GBF disbursed \$1.2 million to high-impact enterprises. GBF's Africa investees had an average 6% revenue growth generating for GBF a 7.1% cash yield. GBF's growing concentration in agribusiness is most evident in Africa where 89% of the Africa portfolio is in agriculture.

In the past year, GBF's Africa investees have shown considerable resilience working through challenging circumstances, including unfavorable weather conditions, erratic imposition of new taxes, politically-charged unrest, and even terrorism.

GBF's Africa team worked closely with each investee to help them address these challenges. While attribution is difficult, we believe (as do most investees) that GBF's business experience and high-touch engagement played an important role in strengthening company operations, installing financial planning tools, which ultimately assisted in tackling these challenges.

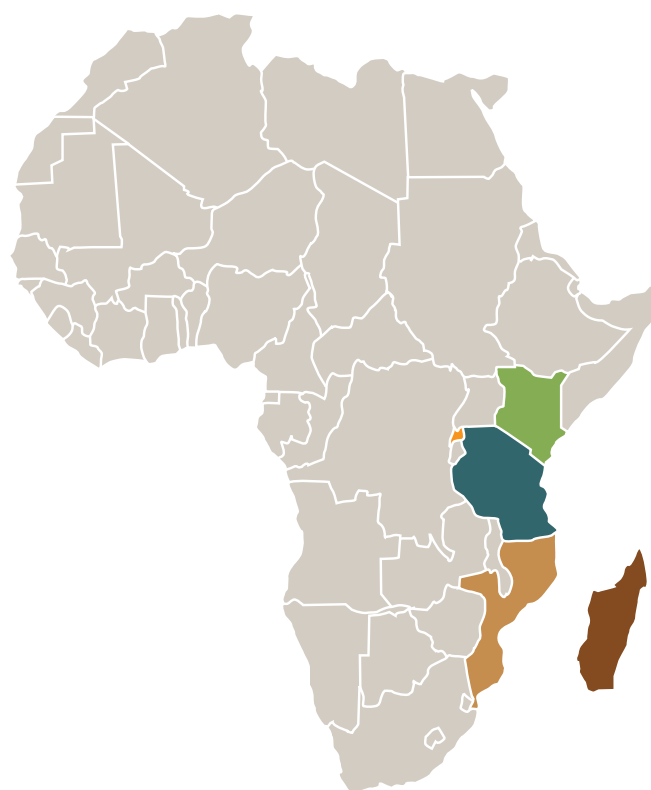
Figure 5: Africa in FY2014

Amount Committed:	\$3.3M
Amount Disbursed:	\$1.2M
Average EBITDA:	\$51,000
Cash Yield:	7.1%
Revenue Growth:	6%

IMPACT:

296,461 people	\$9.8M In incremental social value
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Figure 6: Map of Committed Capital in Africa



Rwanda	15%
Kenya	29%
Tanzania	24%
Mozambique	22%
Madagascar	10%

Figure 7: Africa Committed Capital by Sector





Tea farmers – Ikanga Tea Company – Tanzania. With GBF's support, Ikanga Tea Company is reviving the Lupembe region's tea cultivation along with local employment.

Investee Spotlight: Ikanga Tea Company

Country: Tanzania – Sector: Agribusiness

Founded in 2012, Ikanga Tea Company sources, processes and markets black tea grown in the Lupembe region of Southern Tanzania. Ikanga Tea Company is the only company in the region that exclusively sources green leaves from smallholder tea growers and then processes and exports the tea to Europe, North Africa and Asia. The Lupembe region includes 17 villages with over 4,000 farmers cultivating tea on 4,900 separate smallholder farms. Ikanga Tea Company's operation has revived the region's tea cultivation that had been previously neglected and abandoned for over a decade.

GBF's investment will enable Ikanga Tea Company to expand its processing capacity with the installation of a second processing line and an expanded collection area, and the purchase of new, more efficient tractors. For capacity building, BAS will help the company gather data to improve its supply chain management. It is also expected that part of BAS will help strengthen Ikanga's relationship with its tea farmers to manage the quality of green leaf supply.

FY 2014 PERFORMANCE & IMPACT

- 
\$2.4M
 GBF Funds Committed
- 
25%
 Gross Margin
- 
\$854,713
 Income to Farmers
- 
4,000
 Farmers Impacted

ASIA

GBF's field office in New Delhi is managing a portfolio of \$6.3 million committed to 6 high-impact businesses. In fiscal year 2014, GBF disbursed \$1.4 million to portfolio companies in India. GBF's India investees grew their revenues by an average of 36% with a 4.6% cash yield. GBF believes that impact investing will be critical to India's growth, and so far BAS has made a strong contribution to improve several of our investees.

Expanding its reach in Asia, GBF has a small but dynamic team based in Jakarta, Indonesia that is focused on finding new investment opportunities and providing BAS to GBF's first two Indonesian investees: Squeeze and Alamanda. GBF's Indonesia operations kicked off with \$3.5 million committed and over \$1.3 million already disbursed. GBF's Indonesia team has several other clients in the pipeline and good prospects for future investment opportunities.

Figure 8: Asia (India & Indonesia) in FY2014

Amount Committed:	\$3.5M
Amount Disbursed:	\$2.7M
Average EBITDA:	\$2.5M
Cash Yield:	4.6%
Revenue Growth:	28%

IMPACT:

1,527,814 people	\$25M In incremental social value
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Figure 9: Asia Committed Capital by Sector



Figure 10: Map of Committed Capital in India by State

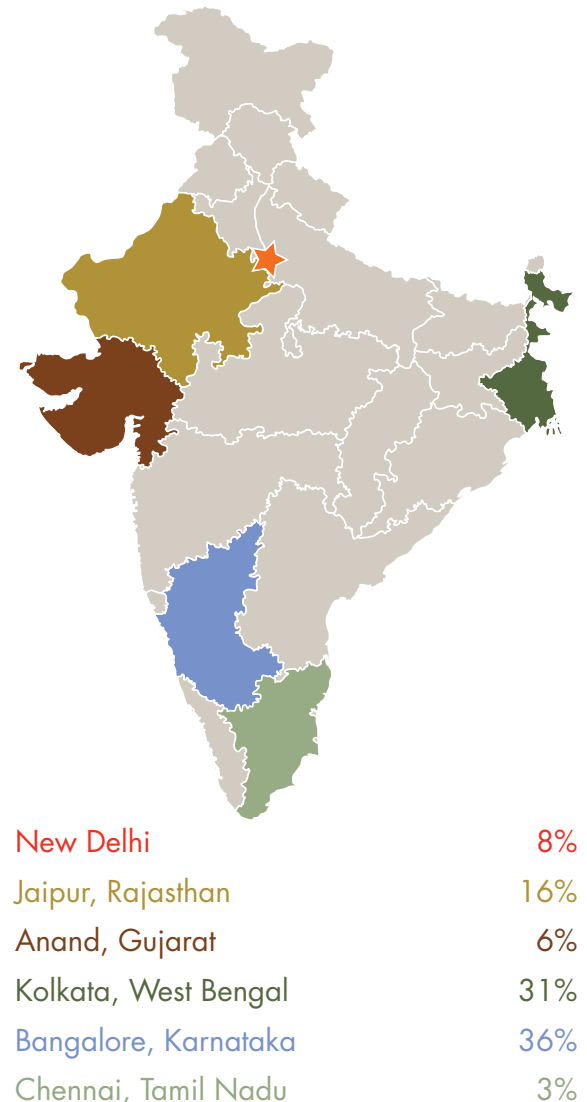
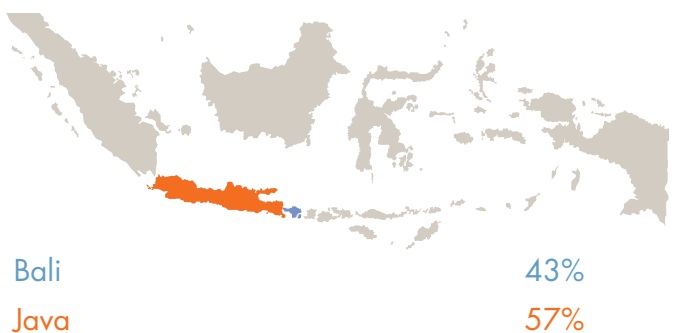


Figure 11: Map of Committed Capital in Indonesia by Island





Artisan – IndusTree Crafts - India. GBF's investment has enabled IndusTree to obtain key certifications and permits, in order to increase its international reach.

Investee Spotlight: IndusTree Crafts

Country: **India** – Sector: **Artisanal**

IndusTree Crafts incubates and trains groups of artisans into producer Self Help Groups (SHGs) that produce artisanal products made of natural fibers, textile and wood. The products are branded as “Mother Earth” and sold in IndusTree’s retail stores, as well as multi-brand retail outlets, some of them owned by its majority shareholder, The Futures Group. GBF’s investment supported the development and training of IndusTree’s SHGs. GBF’s BAS programs have focused on developing IndusTree’s Environmental & Social (E&S) management, SHG-based supply chain and measuring social impact. IndusTree now has health and safety standards, and it regularly collects SHG data to measure impact in low income communities. GBF’s BAS helped to develop and implement an Environmental Management plan, which includes obtaining “green” environmental certifications and applicable permits such as the SA 8000 certification, an international standard for improving working conditions.

Story of Impact — Developing Skills in Safe Working Conditions in India

Heena, Anisha and Sathish work with IndusTree in Bangalore. All three received training through an IndusTree-founded SHG and play a key role within the company, supervising artisans. Sathish says the regular training he received has helped him learn valuable tricks of the trade that have helped shape his career at IndusTree, and which give him higher value in the job market.

“Other production units in the area do not offer such a great work atmosphere. Workers’ rights here are respected, the production planning is excellent, so there is never too much work pressure and the payments are considerably better than what other local companies would offer,” explains Sathish. GBF’s involvement with IndusTree helped it develop the model that benefits Sathish and his fellow artisans in IndusTree’s SHGs.

FY 2014 PERFORMANCE & IMPACT

 **\$2.3M**
GBF Funds
Committed

 **44%**
Gross
Margin

 **\$202,055**
Income to
Artisans

 **380**
Artisans
Impacted



LATIN AMERICA

In Latin America (LatAm), GBF's portfolio has grown to 8 active investments with \$9.9 million committed. In fiscal year 2014, GBF disbursed \$3.7 million to high-impact LatAm enterprises. This past year, GBF's LatAm investees had an average 59% annual revenue growth with an 8.6% cash yield.

GBF's regional office in Lima, Peru has a team of five professionals who foster investees' sustainable growth through effective investment supervision and high-touch BAS. The team also looks for new pipeline to grow and diversify the LatAm portfolio.

This year, GBF expanded its footprint with a first investment in Paraguay, Alquimia S.A. (see Investee Spotlight on page 13). This addition is growing GBF LatAm's specialization in agricultural export businesses.

Figure 14: Map of Committed Capital in LatAm



Guatemala	1%
Colombia	8%
Ecuador	25%
Peru	18%
Bolivia	7%
Paraguay	25%
Global ^{vi}	16%

Figure 12: LatAm in FY2014⁴ⁱ

Amount Committed:	\$4.3M
Amount Disbursed:	\$3.7M
Average EBITDA:	\$1.9M
Cash Yield:	8.6%
Revenue Growth:	59%

IMPACT:

23,682 people	\$13.5M In incremental social value
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Figure 13: LatAm Committed Capital by Sector



RICA

Farmer – Alquimia – Paraguay. GBF's support allows Alquimia to provide its farmers with advance payment so that they can increase production, maintain quality and fulfill orders.

Investee Spotlight: **Alquimia S.A**

Country: **Paraguay** – Sector: **Agribusiness**

Alquimia is a supplier of grains such as chia, sesame seeds, amaranth and quinoa. Alquimia has a network of more than 800 smallholder farmers that receive technical assistance to achieve organic certification for their produce. Of the 815 Alquimia farmers, 508 have already been certified organic with the remainder working towards accreditation. Alquimia has two processing facilities and conducts R&D of new agricultural products in its own fields of 500 hectares.

GBF's investment will allow Alquimia to provide monetary advances to its farmers, in order to increase production and fulfill client orders. BAS will support Alquimia on programs to train farmers on the best production practices for chia and sesame seeds.

FY 2014

PERFORMANCE & IMPACT

 **\$2.5M**
GBF Funds
Committed

 **33%**
Gross Margin

 **\$3.5M**
Income to
Farmers/Workers

 **1,115**
Farmers/
Workers
Impacted

BUSINESS ADVISORY SERVICES (BAS)

As noted earlier, providing BAS is core to GBF’s model. GBF provides effective BAS that is adapted to each investee’s needs, which requires BAS programs to keep evolving and improving. This distinct feature—constant re-evaluation and adjustment—is at the core of GBF’s advisory projects.

Together with investees, GBF designs BAS projects based on an initial analysis during due diligence. The majority of BAS occurs in the first two years of investment and is mainly focused on strengthening investees’ corporate governance and human capacity, strategy, operations, legal, financial management, and environmental and social (E&S) aspects.

GBF has learned that collaborating with investees on project design and sharing the cost of BAS provides ownership, aligns incentives and increases the likelihood of adding tangible, lasting value to each investee. GBF’s BAS is closely integrated with investment supervision and involves locally-sourced consultancies complemented by the “direct” BAS provided by GBF’s own staff. GBF client surveys show that longer-term BAS programs tend to be more effective than short-term intensive assignments. GBF’s ability to provide BAS through its staff is therefore a critical asset for long-term engagement.

BAS ABILITY SCORES & SUCCESS FACTORS

GBF’s BAS Ability Score assessment tool allows GBF to measure progress in its portfolio companies and maintain transparency while making necessary adjustments for improvement. This year, GBF’s portfolio achieved a 4.5% increase in Ability Scores. From the Ability Score questionnaires, GBF has been able to determine that as of June 30, 2014:

- **94%** of investees have implemented **financial dashboards**;
- **92%** have regular **Board and Advisory group meetings**;
- **89%** have **environmental management** procedures in place.

Figure 15: **BAS Ability Scores**

BAS Impact Results July 2013–June 2014	Africa	South Asia	LatAm
%Success Factors Achieved (Target=80%)	78%	80%	72%
Average Increase in Ability Scores	▲ 3%	▲ 7%	▲ 4%
Financial Management	▲ 3%	▲ 7%	▲ 4%
Operations	▲ 4%	▲ 7%	▲ 6%
Strategy	▲ 2%	▲ 5%	▲ 5%
Human Capacity & Corporate Governance	▲ 1%	▲ 8%	▲ 4%
Legal & Regulatory	— 0%	▲ 3%	▲ 2%
Environmental & Social	▲ 10%	▲ 11%	▲ 5%

Note: Individual results available upon request


Employees – KZ Noir – Rwanda. KZ Noir is a coffee collection and processing company. The company purchases raw cherries and semi-processed parchment from over 6,000 smallholder farmers. GBF provided working capital to help KZ Noir restructure its debt and buy more raw coffee for processing.



BAS Operational Spotlight: Portfolio CFO & Senior Advisor

Region: Africa

In December 2013, GBF recruited its second regional “Portfolio CFO” (a rotating, embedded senior-level financial manager) after an initial pilot in India. Within three months of being embedded full-time in a Rwandan investee, the Portfolio CFO manager helped improve reporting accuracy, develop essential management tools to keep records and manage cash flow, and train staff located throughout the country. As some staff left the company, the Portfolio CFO helped bridge the gap until a replacement could be found. The Portfolio CFO also had an impact beyond financial management, advising the CEO on overall strategy, operations and company culture. The assignment was so successful that the investee, who shares the Portfolio CFO’s cost, requested a part-time extension through December 2014. Based on the success in Rwanda, the Portfolio CFO will now transition to Mozambique and Tanzania, as well as other countries in GBF’s portfolio.



Employees – TARA Machines – India. TARA Machines manufactures green construction materials for environmentally-friendly buildings. GBF's support has helped TARA expand its R&D to further refine its green products offering. GBF BAS is also supporting TARA's efforts in completing an annual E&S review.

Environmental and Social Management

GBF's Environmental and Social (E&S) management system helps investees comply with host country laws and regulations related to environmental, social, health, safety and labor matters. GBF's first goal in this area is to ensure each investee meets minimum local regulations. Over time, GBF strives to help investees go beyond local requirements to international good practices, especially ones that could improve business returns and increase social impact while preserving the environment.

If investees are not compliant, GBF establishes a plan for them to reach compliance in an agreed timeframe. GBF approaches each investment with a long-term commitment, and GBF staff tries to remain diligent throughout the life of each investment, using periodic E&S reviews and compliance checks to identify and mitigate risks.

Over the past year, GBF strengthened its skills using BAS to improve investees' E&S policies, compliance and long-term viability. Through BAS, GBF has engaged independent, mainly local, experts in national and international E&S standards that help investees improve on E&S compliance, and assist them in developing and implementing action plans.

To date, a number of GBF investees have improved their efficiency with a better use of natural resources, created safer workplaces, and are implementing policies that encourage good relations between workers, the company and the environment.

Snapshot on Regional Environmental Reviews

In Kenya, GBF's local E&S consultant completed reviews that found that investees' water management is well within the local regulations, which are modeled after the World Health Organization's standards.

In India, E&S reviews found that GBF investees are compliant with the country's environmental protection measures and the Water Act and Air Act.

In Peru, GBF partners with an expert in local environmental and resource management to ensure each investee's compliance with local regulations.

E&S Spotlight: Obtaining Carbon Neutral and Rainforest Alliance Certifications in Ecuador

Region: **Latin America** – Sector: **Agribusiness**

Natural Habitats is a business committed to the sustainable production of organic and fairly traded products. Production units are in Ecuador and Sierra Leone, with an office in the Netherlands. Natural Habitats works with smallholder farmers to produce, collect, and export fair-trade (Fair For Life) organic palm oil.

In parallel with its investment, GBF is supporting Natural Habitats in its effort to codify its responsible farming practices, mainly by obtaining Carbon Neutral and Rainforest Alliance Certifications. GBF's BAS is aimed at training the company's staff and farmers in best practices in order to maintain certification standards. Receiving these certifications is an important step for Natural Habitats to achieve sustainable revenue growth, as consumers become increasingly interested in reducing any potential negative environmental or social footprint of agriculture production.



Employees – Natural Habitats – Peru. Natural Habitats' supply chain impacts more than 1,900 beneficiaries, GBF is helping Natural Habitats obtain environmental certifications so it can increase its return and social impact.

Social Impact of GBF

In May 2014, GBF presented its first Impact Report. The report measures GBF’s progress against its overall mission to build sustainable businesses that in turn bring significant, lasting economic improvements to large numbers of low income people. See Key Impact Figures below.

GBF’s portfolio includes many types of beneficiaries and projects spread throughout poor, rural areas in developing countries. This complicates even further the well-known challenges to measuring impact. Consequently, GBF’s impact assessment methodology is humble and continues evolving to capture simple, more effective metrics that can help strengthen GBF’s, and its investees’, operations. Eventually, GBF hopes to develop a proven Impact Assessment methodology that elevates the field of impact investing.

GBF’s impact assessment focuses on measuring incremental income or savings generated for people with low incomes. Yet GBF’s own beneficiary level surveys administered in India, Kenya and Rwanda suggest that businesses generate impact in several other ways, such as supply chain distribution that connects small-scale producers with more lucrative markets, etc. Many of GBF’s investees provide smallholder farmers with training, higher quality agricultural inputs and even financing, all of which can spark secondary purchases, community development multipliers, related business opportunities, and expanded wealth creation. To remain conservative, none of these secondary or indirect benefits are counted in the economic and social benefits below.

The average GBF portfolio company is a growth-stage enterprise that typically works with supplier networks averaging close to 4,000 micro-suppliers (farmers or artisans) and 380 workers. GBF’s investees have a particular pattern of impact that reaches well beyond their direct employees. Rather, their social and economic benefits occur primarily among large networks of suppliers or consumers in low income communities. In total, GBF’s portfolio companies are producing over \$48 million per annum of economic incremental value. See details below.

If GBF’s investees can achieve the level of scale per projections, GBF’s portfolio has potential to create close to \$1 billion of incremental income and economic value over the next decade.

Figure 16: Key Impact Figures

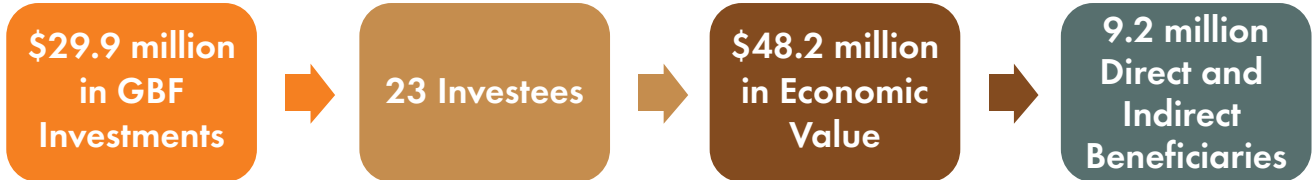


Figure 17: Economic and Social Aggregates of GBF’s Active Investments

Impact by Sector	No. of Investees	No. of People Reached	Economic Impact* (Income & Cost Savings)
Agribusiness	13	32,048	\$25M
Artisanal	4	40,936	\$9.3M
Employment Generators	2	2,591	\$1.3M
Products & Services	4	1,772,381	\$12.6M
TOTAL	23	1,847,956	\$48.2M

*Estimated economic value delivered to low income beneficiaries during last year



Beans – Wamu – Kenya.
At a time when the industry is turning its back on Kenyan farmers, GBF's support is allowing Wamu to maintain and increase its out-grower scheme that supports thousands of smallholder farmers.

Spotlight on Investee Impact: Wamu Investments Ltd.

Country: **Kenya** — Sector: **Agribusiness**

Wamu exports French beans, sugar snaps, snow peas, passion fruit and chilies to the European market. The EU has increased pesticide testing of Kenyan produce which has caused horticulture exporters to abandon smallholder Kenyan farmers. Wamu is one of the few companies that is maintaining, and even growing, its network of farmers. In doing so, Wamu directly works with over 400 farmers. Seasonally, Wamu employs 150 pack house (a building used for grading, cleaning and packing produce) staff; most of whom are women. Wamu provides its farmers with input financing (seeds on credit), trainings that lead to Good Agricultural Practices (GAP) certification, and near farm-gate collection which allows farmers to save on transportation costs and reduce post-harvest spoilage. This year, Wamu generated an estimated \$886,749 of economic value to low income workers and farmers.

FY 2014 PERFORMANCE & IMPACT

 **\$700,000**
GBF Funds
Committed

 **26%**
Gross Margin

 **574**
Farmers/Workers
Impacted

 **2,296**
Dependents
Supported
(Indirectly)

Grassroots Business Fund Team*

GBF would not be successful without its dedicated staff, Board, advisors, investors, donors, partners and many other supporters. We would like to thank these and the many others who have helped GBF grow over the past few years.

Washington, DC

Harold Rosen, Chief Executive Officer

Jaime Ramirez, Chief Investment Officer

Alycia Kellman, Vice President of Legal & Compliance

Rebekah McKnight, Vice President of Finance & Administration

Eric Meissner, Risk and Advisory Manager

Rose Galamgam, Finance Officer

Zoya Aleem, Global Portfolio Analyst

Beth Raymond, Operations Officer

Kathryn DeSutter, Program Analyst

Neil Christy, Communications & Executive Assistant

Lima, Peru

Natasha Barantseva, Latin America Regional Manager

Julio Ayca, Latin America Portfolio Manager

Miguel Tamayo, Investment Officer

Mayra Ramirez, Office Manager & BAS Coordinator

Olga Egorova, Investment Analyst

Jakarta, Indonesia

Malavika Kumar, Indonesia Country Manager

Elma Tumewu, Senior Investment Analyst

Courtney Morris, Investment Analyst

Nairobi, Kenya

Lilian Mramba, Africa Regional Manager

Ezra Musoke, Africa Portfolio Manager and Senior Advisor

Alisa Roskach, Senior Investment Analyst

Dennis Onyango, Investment Analyst

Noel Wadaki, Office Manager & BAS Coordinator

New Delhi, India

Vikram Raman, India Country Manager

Vijay Chandrashekar, Investment Officer

Saurabh Lahoti, Investment Officer

Sahiba Chauhan, Portfolio Analyst

Karan Sawhney, Investment Analyst

*Staff as of August 2014



Employees – Alamanda – Indonesia. Alamanda sources raw produce from farmers in Java and Sumatra. GBF's BAS supports Alamanda's efforts in refining its financial management, and streamlining its supply chain to generate more social impact for its smallholder farmers and employees.

Grassroots Business Fund

GBF Advisors

Board of Directors: The Board is responsible for the overall direction and performance of GBF. This group approves GBF's strategic plan and monitors its implementation.

- **Compliance & Internal Audit Committee:** The Compliance & Internal Audit Committee is a committee of the Board that reviews GBF's audit and financial reports, oversees GBF's compliance with its own rules and procedures, and reviews GBF's client compliance.
- **HR Committee:** The HR Committee is a committee of the Board that meets semi-annually to discuss matters such as talent, incentive plans and compensation.
- **Social Impact Committee:** The Social Impact Committee examines GBF's impact and impact assessment methodologies in depth.

Fund Advisory Committee (FAC): The FAC is comprised of one representative from FMO, DEG, and the individual investors. OPIC is a permanent observer. The FAC meets at least semi-annually and confers with the General Partner regarding the progress of GBF. It reviews and/or approves changes to key areas such as valuation methodology, investments that exceed Limited Partnership Agreement restrictions, investment criteria, among other key issues related to the Fund.

Investment Committee (IC): The IC provides independent, objective, and business-savvy advice to GBF's staff. It recommends and validates appropriate investment strategy, as well as monitors the performance of GBF's portfolio. The IC approves all investments made by the private fund.

Internal Investment Committee (IIC): The IIC is comprised of GBF's Senior Management Team. The group is an early screening for new investment opportunities and acts as a sounding board for staff to present early-stage investment opportunities.

Business Advisory Services Steering Committee (BASSC): The BASSC provides strategic advice to assist us in developing, implementing, and monitoring GBF's BAS, and approves BAS programs.

Portfolio Advisory Committee (PAC): GBF utilizes a network of experts for deal and general portfolio advice. These include sector-specific advisors to assist transaction teams with investment due diligence and supervision, and a more formal group of portfolio advisors known as the Portfolio Advisory Committee (PAC). PAC members periodically review and provide feedback on a range of issues such as portfolio performance, deal pipeline, partnership development, and deal specific mentoring.

Governing Board & Advisors*

Board

Andrew Adelson, *Chairman, Former Chief Investment Officer, Alliance Bernstein*

Stephen Brenninkmeijer, *Willows Investments*

Mary Houghton, *Co-Founder, Shorebank Corporation*

Mwaghazi Mwachofi, *General Manager, Aga Khan Agency for Microfinance (AKAM)*

Harold Rosen, *Chief Executive Officer, Grassroots Business Fund*

Holly Wise, *Wise Solutions LLC*

GBF Advisors

Andrew Adelson, *Investment Committee, GBF Advisor*

Max Aitken, *GBF Advisor*

Percy Barnevik, *GBF Advisor*

Michael Barth, *GBF Advisor*

Stephen Brenninkmeijer, *Fund Advisory Committee*

Agnes Dasewicz, *BAS Steering Committee*

Aaltje De Roos, *BAS Steering Committee*

Kristin Duchâteau, *BAS Steering Committee*

Anniken Esbensen, *BAS Steering Committee*

Committee

Eliot Kalter, *GBF Advisor*

Thomas Klein, *Fund Advisory Committee*

Charly and Lisa Kleissner, *GBF Advisors*

Serge Kremer, *Investment Committee, GBF Advisor*

Sari Miller, *GBF Advisor*

Iqbal Paroo, *GBF Advisor*

Alan Patricof, *GBF Advisor*

Helmut Paul, *Investment Committee*

Kash Rangan, *GBF Advisor*

Harold Rosen, *Investment Committee*

Lilian Saade-Hazin, *BAS Steering Committee*

Puck Hegeman, *Fund Advisory Committee*

Sir David Scholey, *GBF Advisor*

Jo Schwenke, *GBF Advisor*

Richard Stern, *GBF Advisor*

Ed Tobin, *GBF Advisor*

Holly Wise, *BAS Steering Committee*

Jim and Elaine Wolfensohn, *GBF Advisors*

CP Zeitinger, *GBF Advisor*

Governing Board & Advisors as of August 31, 2014



Employee – BrazAfrica – Africa. BrazAfrica's supply chain of agricultural machinery creates substantial incremental cost-savings for 69,000 low income farmers throughout East Africa.



Weaver – Jaipur Rugs – India. If GBF maintains its current fund performance, over the next decade GBF’s portfolio has the potential to create close to \$1 billion of economic value worldwide.

Donors to the Non-profit

The Dutch Ministry of Foreign Affairs
(funding managed by FMO)

Government of Canada (funding managed by IFC)

NORAD – The Norwegian Agency for Development Cooperation

OeEB- Development Bank of Austria
Arnold & Porter

Adelson Family Foundation

Stephen Brenninkmeijer

Charly & Lisa Kleissner (KL Felicitas Foundation)

Harold Rosen and Susan Wedlan

Investors in the Fund

Overseas Private Investment Corporation

Calvert Social Investment Foundation

Deutsche Bank Americas Foundation

DEG – German Development Bank

FMO (The Netherlands Development Finance Company)

Andrew Adelson (Adelson Family Foundation)

Judson Berkey

Suzanne Biegel and Daniel Maskit

Peter Braffman and Liz Wedlan

Stephen Brenninkmeijer

Maurizio Caio

Robert J. Caruso (The Kantian Foundation)

Ron and Marty Cordes (The Cordes Foundation)

David Dunn and Tamara Dunietz

Jane Eddy

Jim Hornthal (Hornthal Investment Partners)

Ken Inadomi and Melinda Wolfe

Prashant Jhawar

Marty Kahn

Charly and Lisa Kleissner (KL Felicitas Foundation)

Serge Kremer

Leah and Jeffrey Kronthal

Sudhir and Sangeeta Maheshwari (AIM to ZERO Foundation)

Joshua Mailman (Joshua Mailman Foundation)

Seth Meisel

T&J Meyer Family Foundation Ltd

Sari Miller (Trust)

Montpelier Foundation

Mwaghazi Mwachofi

Luisa and Laurence Newman

Dalip Pathak

Harold Rosen and Susan Wedlan

Sir David Scholey

Barend van der Vorm

Wolfensohn & Company, LLC

Anonymous Investors

Abbreviations

BAS:	Business Advisory Services
DEG:	German Investment and Development Corporation
E&S:	Environmental & Social
FAC:	Fund Advisory Committee
FMO:	Netherlands Development Finance Company
GAP:	Good Agricultural Practices
GBF:	Grassroots Business Fund
IC:	Investment Committee
IIC:	Internal Investment Committee
IFC:	International Finance Corporation
OeEB:	The Development Bank of Austria
OPIC:	Overseas Private Investment Corporation
PAC:	Portfolio Advisory Committee
SHG:	Self Help Group

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Endnotes

- i Fiscal year 2014 ends June 30, 2014.
- ii The complete report is also available on our website – www.gbfund.org.
- iii Figures from GBF's 2014 Impact Report are as of March 30, 2014; figures in this Annual Report are as of June 30, 2014, with 3-6 months of additional data, which explains any small differences between BAS scores and other data given in the two reports.
- iv The current yield reflects the average return on the outstanding portfolio from interest, dividend, and fee income paid in cash by portfolio companies to date. It does not include accrued interest, unrealized gains, or expected royalty payments and equity kickers.
- v Realized 12-month current yield including the period where assets were held in GBP, where applicable. Trailing 12-month current yield is calculated as follows, over the last 12 months: (Interest and Dividend Income + Fee Income) / (Average Net Investment Portfolio Outstanding Including Provisions).
- vi LatAm investee, NOVICA, has operations split across countries and accounts for 13% of GBF's LatAm Portfolio.

Statement of Financial Position - GBP and Subsidiaries

Year ending as of June 30

ASSETS*	2014	2013
Mission Related Investments	\$917,976	\$1,055,021
Mission Related Loans ¹	\$20,519,100	\$14,340,153
Cash and Cash Equivalents ²	\$6,597,010	\$4,121,660
Short Term Investments	\$1,748,875	\$2,999,159
Donor Contributions Receivable	\$2,523,328	\$2,470,014
Fixed Assets	\$54,932	\$83,943
Other Assets	\$397,380	\$276,974
TOTAL ASSETS	\$32,758,601	\$25,346,924
LIABILITIES AND NET ASSETS		
Short-Term Liabilities ³	\$617,771	\$719,682
Notes Payable ⁴	\$6,088,388	\$2,058,476
Noncontrolling interest in GBI	\$13,572,809	\$8,421,701
Net Assets (Unrestricted)	\$7,288,469	\$7,417,904
Net Assets (Temporarily Restricted) ⁵	\$5,191,164	\$6,729,161
TOTAL LIABILITIES AND NET ASSETS	\$32,758,601	\$25,346,924

Statement of Activities

Year ending as of June 30

SUPPORT AND REVENUE	2012	
Contributions	\$999,387	\$1,027,167
In-Kind Contributions	\$65,590	\$91,125
Investment Loss	(\$161,652)	(\$256,426)
Other Sources ⁶	\$1,475,405	\$950,658
TOTAL SUPPORT AND REVENUE	\$2,378,730	\$1,812,524
EXPENSES		
Program Expenses ⁷	\$3,561,190	\$3,810,712
Administrative and General Expenses ⁸	\$1,044,299	\$983,981
Fundraising Expenses	\$149,567	\$68,914
TOTAL EXPENSES	\$4,755,056	\$4,863,607

*In addition to investments and loans which are included in the statement above, GBF has committed about \$29 million to high impact businesses (through June 2014), however, the financial statements only include disbursements through June 2014 and June 2013 respectively. Disbursements of these funds are contingent upon high impact businesses meeting certain conditions.

Notes to financial Statements

1. Includes outstanding mission related loans both long term and short term
2. Includes all highly liquid assets and Certificates of Deposit
3. Includes accounts payable, accrued expenses, accrued vacation & sick days
4. Represents Lenders to GBI not GBP
5. Includes all contributions from individuals, foundations, bilateral institutions, etc.
6. Includes bank interest, mission related loan interest, and mission related loan activation fees, and exchange rate fluctuations
7. Includes mission related expenses such as technical assistance (direct and grants) and due diligence expenses, as well as internal programs such as monitoring and evaluation, and communications. This also includes losses/gains related to GBI activities
8. Includes operational expenses, workshops, staff training, as well as GBF field office start up costs



GRASSROOTS BUSINESS FUND

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Fax: 202-986-4729

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Westlands, Nairobi
Kenya

GBF Lima Office:

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Oficina 101
Miraflores
Lima, Peru

GBF New Delhi Office:

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Vasant Vihar
New Delhi - 100 057
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