

2016 ANNUAL REPORT



GRASSROOTS
BUSINESS FUND



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GRASSROOTS BUSINESS FUND

Dear Friends,

We are pleased to present GBF's Annual Report for Financial Year 2016, ending June 30, 2016.

Having begun in November 2011, this winter marks the 5 year anniversary of GBF, GBF's first investment fund. In celebrating this milestone, we look back upon the past half-decade and observe our successes, our failures, and how we have evolved along the way.

Five years ago GBF was a predominantly United States-based operation that prided itself on effective market-based solutions to poverty across the globe. We approached these problems a bit differently than others in the field. Now, having evolved in key areas, we are a seasoned company of impact investment professionals with local offices and staff on the ground in our target markets, still approaching issues with youthful energy and creativity.

GBF has invested in more than 50 companies, the vast majority of which have succeeded or are succeeding. After working with us these companies have received follow-on investments from more traditional forms of financing, including banks and Development Finance Institutions. Our Business Advisory Services (BAS), sometimes provided even before investment has been recognized by portfolio companies' leaders as invaluable toward their businesses' growth.

We have advanced significantly in this decentralization—including the budget, processes, people and resources. Our local offices in the field are now leading on key parts of our business. We have narrowed our geographic focus, tightening from working in Latin America, Africa, India and Indonesia to only Africa and Latin America's Andean region. We have focused on mostly agribusiness companies, finding that they are consistently some of our most successful companies in both financial and social returns. We have incorporated the minds of seasoned local consultants and business people in our investment and supervision process. Lastly, we have been on the forefront of innovations in utilizing blended capital to invest in traditionally under-financed businesses.

We are immensely proud of the steps we have taken and the progress achieved. We are excited to continue to grow in our mission to generate sustainable earnings and savings for people in emerging markets.

Sincerely,

Harold Rosen
Chief Executive Officer

Andrew Adelson
Chairman of the Board

About Us

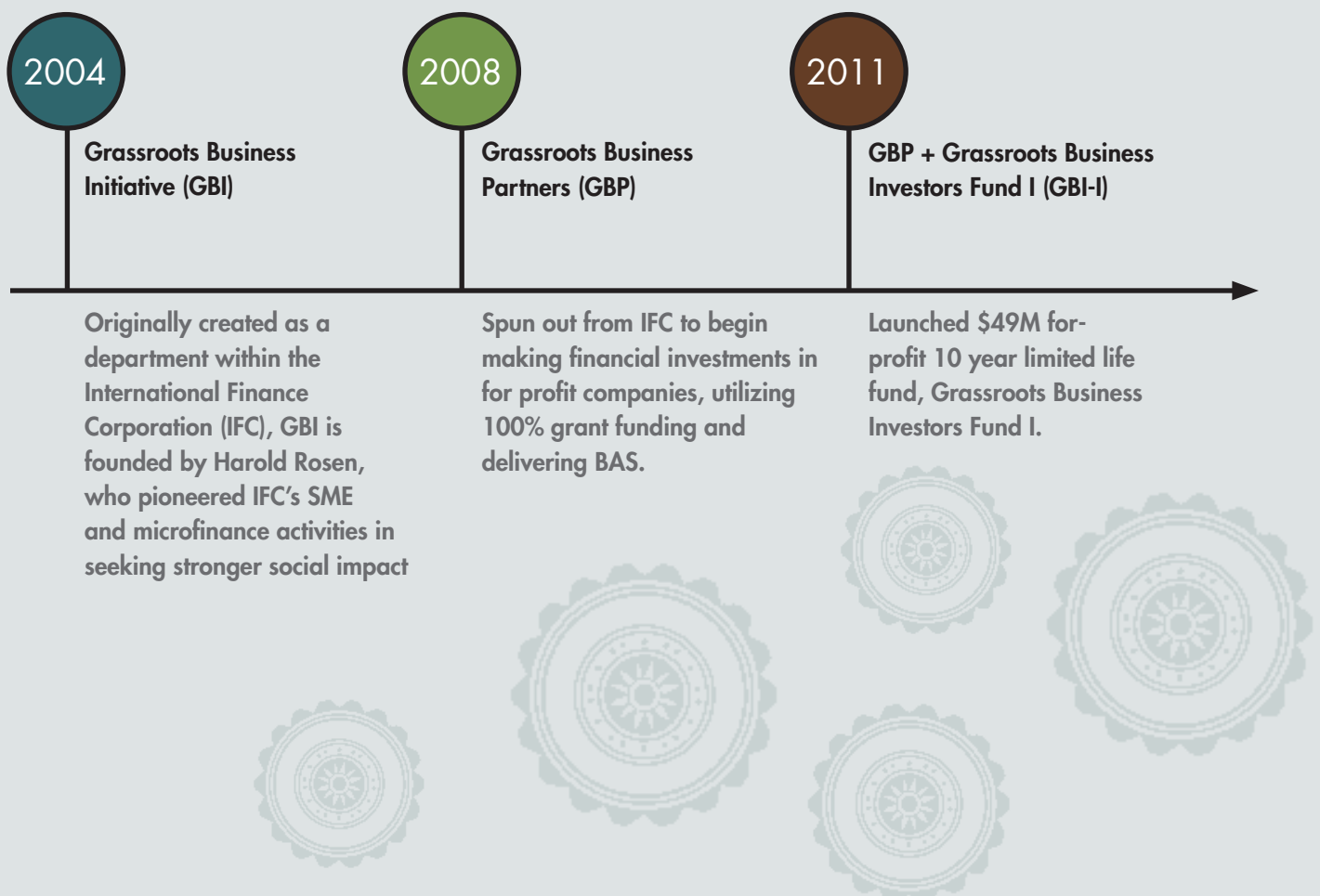
The Grassroots Business Fund (GBF) aims to reduce poverty by building companies which provide sustainable incomes and cost-savings for poor populations in lower-income countries. GBF's market-based approach to poverty alleviation focuses on building "High Impact Businesses" (HIBs)—sustainable and inclusive firms which benefit large numbers of people in our target communities by generating income or offering affordable, quality products and services. Through a network of mostly field based investment and business professionals, GBF grows HIBs in two ways:

- 1) By providing tailored investment capital using a high-touch approach that itself helps build companies' business fundamentals, and
- 2) Providing investees with "Business Advisory Services" (BAS), which connect companies to local industry experts.

GBF's experienced staff has built and refined this model for over a decade, based on direct, on-the-ground experience, investing in over 40 businesses in Africa, Asia, and Latin America.

Our History:

Following four years of incubation in the World Bank's International Finance Corporation, GBF became an independent non-profit organization in 2008.



5 Years of GBI-I – A Retrospective

Since its inception in 2011, GBI-I has committed \$38.9M worth of investments to 30 High Impact Businesses. The fund has deployed \$31.5M of primary capital and \$7.4M of reinvested capital to these business through 51 transactions to date, 33 of which are still active in the portfolio as of June 30, 2016. There are currently 17 companies in GBF's portfolio, compared to 12 companies in 2011. GBI-I has received \$13.3M in repayments from its portfolio companies, which continue to repay every quarter.

GBF has realized a total of 10 exits for \$5M over the life of the fund. A number of these exits were produced from GBI-I's earliest investments, involving smaller transaction sizes. 7 exits involved full repayment of loans, 2 exits involved loan buyouts from other financial institutions, and 1 exit was generated by a share buy back. Additionally, 2 write offs were realized for a total of \$4M. The first was due to a company's internal issues involving an ongoing merger, and the second was the result of a company's strategic pivot away from programs that GBI-I was supporting.

The average revenue for companies that have been in GBI-I's portfolio for 3-4 years is \$8M, a 60% increase from average pre-engagement revenue. GBF's blended capital approach has led to improvements in financial management and strategic planning, which in turn lead to better financial performance, especially after a few years in the portfolio. Furthermore, GBF's support of expansion programs that are aimed at sustainably increasing revenues of companies in the long term has ensured that revenues and EBITDA for GBI-I's portfolio have remained robust and have increased over the life of the fund.

GBF has continued to improve its social impact since 2011, both in scope and in methodology of assessing impact. There are three primary ways in which GBF's portfolio companies have impacted the end beneficiaries:

1 By driving increased incomes by providing steady employment and purchases of smallholder products:

from inception of the fund to FYE 2016, GBI-I's current portfolio investees have provided \$140M in incremental income to suppliers as well as \$66M in cost savings to customers. Villa Andina in Peru provides higher income to small-scale farmers, buying and dehydrating natural products in its processing plant, then selling them in local and international markets. In doing so, Villa Andina connects families to more lucrative markets and trains producers to grow higher value goods.

2 By improving market access for micro-entrepreneurs, such as artisans and small-scale farmers:

Industree is an inclusive business based in India that builds an eco-system to improve market linkages for women and youth micro-entrepreneurs, enabling them in design and enterprise incubation and acceleration, triggered by access to markets and capital.

3 By offering cost savings by providing inexpensive, high-quality goods and services that offer social and/or economic benefit to individuals:

BrazAfric, based in Kenya, imports and distributes agricultural and energy conservation equipment to farmers in East Africa. Through its affordable equipment, BrazAfric increases cooperatives' processing functions, saving their customers time and money and closing a gap in financing available to East African farmers, leading to more efficient and productive growing capabilities.



5 Years of GBI-I – Company Spotlight

1. Pwani Feeds:

Based in Kenya, Pwani Feeds sells animal feeds and purchases eggs from small-scale farmers at a single transaction point, saving farmers time and money on transportation. GBF began working with Pwani in 2009, when the company had great potential but lacked understanding on cash flow needs and had underdeveloped business plans and projections. This prevented Pwani from receiving investment from more traditional sources

a. GBI-I invested in Pwani, allowing the company to acquire high-quality raw materials in bulk, upgrade and increase its fleets of trucks, and expand its plant capacity. Alongside investment, GBF provided intensive BAS to improve the business' underdeveloped financial management, as well as structure corporate governance and plan for growth and expansion.

b. GBF engaged with the company to prepare a growth-focused business plan. Due to GBF's multi-pronged investment and BAS support, Pwani was able to turn around their situation and attain a regional bank investment to further their growth plan. GBI-I recovered its investment and generated an 11% return on disbursed capital to the company.



2. Natural Habitats

a. Natural Habitats (NH) is a vertically integrated business that collects, processes, and trades organic, fair trade and sustainable palm oil. NH operates in Ecuador, Sierra Leone, and Ghana where the company sources certified palm fruit from over 2,530 smallholder farmers; who additionally employ over 5,340 agricultural workers. NH processes the organic palm fruit and produces palm oil in extracting mills, refines and manufactures it, and sells it to natural food manufacturers and distribution customers in the EU and US.

b. Started with simultaneous investment and BAS work in 2013 to acquire new machinery in Ecuador. GBF's BAS program has helped expand NH's network of suppliers in Ecuador and develop a smallholder farmer chain in Sierra Leone, as well as undergo a health and safety system assessment for its plant in Ecuador.

c. The company has expanded its revenue base by 250% since investment to \$12M USD in 2015. Natural Habitats recently supported 1,390 smallholder farmers in Sierra Leone and 1,010 smallholder farmers in Ghana with technical assistance and trainings to achieve certifications; they are now further broadening NH's supply base. Farmers and workers in Ecuador, Sierra Leone and Ghana receive, in average, over \$7.2M in payments annually through NH.

5 Years of GBI – What We Have Learned

Only 2 out of the 30 companies that GBI invested in have failed, even with 12 having gone into workouts (GBF's system for closely monitoring companies in trouble).

Stay Local. Local staff in the field can closely supervise and support investees as well as managing the use of small, highly-tailored pieces of local consulting, rather than generic programs with expensive, often foreign consulting firms. GBF has over time decentralized much of its operations, moving from a DC-heavy operation to one more focused on responsibilities for its local, on the ground international staff. In 2009, GBF had all 19 of its employees in its DC office, now headquarters houses only 7 out of 21 total employees, with the remaining 14 in the field.

Geographic strategy. GBF originally spread across multiple regions to diversify risk; the company found it important to cast a wide net, a basic principle which it still employs. GBF will continue selectivity and adhere to investment criteria while remaining diverse in two regions, no longer booking new assets in Asia.

Focus on agribusiness. Our experience with companies in the agribusiness sector has proven to be successful as well as socially impactful. The agribusiness companies that experience the most success are those that process and export agricultural products.

More intensive client interaction. GBF also increased the frequency of interaction with clients as part of standardized procedures, participation in Steering Committees. This includes support to investees in financial plans and fundraising efforts.

Stay Simple. Efforts are more likely to succeed and build traction with clients if they are practical, easily implemented, and require only a modest part of the client's management time to implement or maintain.

Emphasize patience in Patient Capital. Organizational change in our clients takes time and sustained engagement

Balance social impact with business rigor. Investors must balance our target for an acceptable return against social goal to create lasting business impact for clients and social and economic impact for their beneficiaries.



GBI Performance in FY16

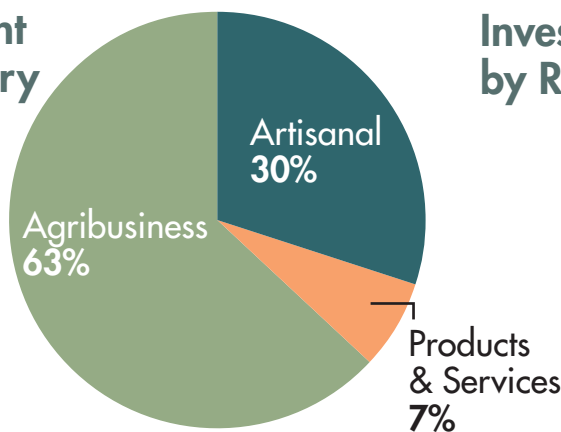
GBF Investment Fund Performance¹

Key Performance Indicator	Actuals (as of June 30, 2016)
Active Commitments	\$38.9M
Realized Proceeds	\$13.3M
Disbursed Portfolio Fair Value	30
Active Portfolio Valuation	\$23.7M
Number of Active Investees	18

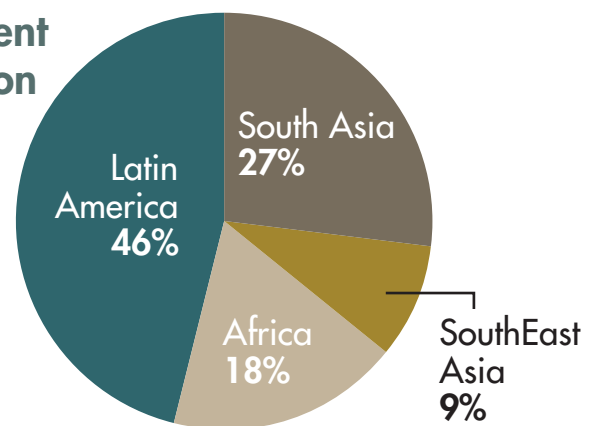
88% average company revenue growth*

74% average EBIDTA growth*

Investment by Industry



Investment by Region



GBP Performance in FY16

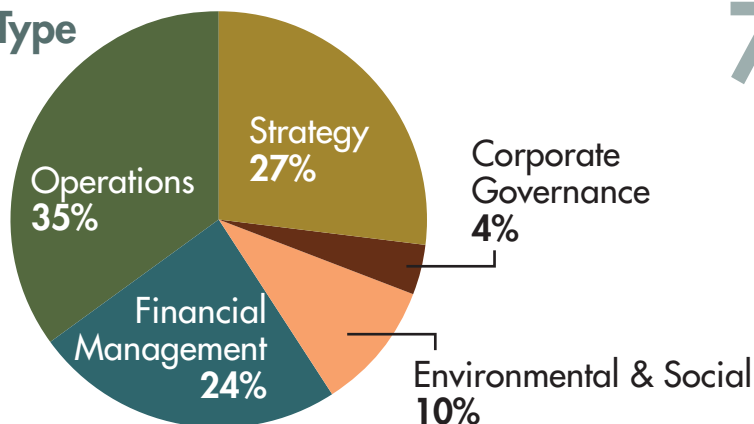
GBF's BAS program provides advisory services to portfolio companies (or far along pipeline companies) of GBF's investment fund GBI in order to support their growth and sustainability- improving business skills. The assistance offered by BAS serves to enhance capital provided by GBF.

BAS Figures²

\$5M spent on BAS activities

77 HIBs supported

BAS by Type



¹ See page 11 for GBF's financial statements for the fiscal year ending 6/30/16

² Cumulative since 2011

* Average over last 3 years



Social Impact

In an attempt to quantify the economic impact of its investees, GBF measures two key indicators for its companies: economic value generated as income or cost-savings, and the number of people affected. GBF considers only a portion of payments to producers as income, to account for net benefit, after deducting beneficiaries’ production costs and/or economic alternatives. Accounting for economic realities, we try to capture both income and cost-savings incrementally—expressing the additional benefits that GBF investees offer local communities compared to existing opportunities. From March 31, 2015 to March 31, 2016, GBF provided over \$33M in incremental income and \$16M in cost savings to over 5 million individuals and dependents:.

GBF also calculates an Economic Rate of Return for each investee, projecting economic flows to key stakeholders long-term. When feasible, social impact surveys help GBF adjust assumptions and better understand its beneficiary groups, as well as to estimate the social and economic conditions via periodic reviews.

As a responsible business partner, GBF also helps companies promote sustainable, responsible practices. Environmental and Social Management (E&S) Programs for each investment screen out companies with unsuitable practices or in potentially harmful industries, while each investee receives assistance developing and executing action plans to limit any adverse environmental impact and promote social responsibility. As part of our BAS programs, GBF helps clients fund E&S programs and sets realistic, measurable targets.

Investment Type	Individuals Directly Supported	Net Income to Farmers and Workers from GBF Investee
Agribusiness	27,289	\$16.5M
Artisanal	48,175	\$14.3M
Products & Services	1,237,583	\$19M
Active Fund Total	1,878,312	\$49.8M

GBF Team

Washington, DC

Harold Rosen, Chief Executive Officer
Jaime Ramirez, Chief Investment Officer
Rose Galamgam, Finance Officer
Daniel Kolender, Operations Assistant & Communications
Daniel Shemesh, Fundraising & Executive Assistant

Lima, Peru

Natasha Barantseva, Latin America Regional Director
Julio Ayca, Latin America Portfolio Manager
Miguel Tamayo, Investment Officer
Mayra Ramirez, Operations Manager & BAS Coordinator
Olga Egorova, Investment Analyst

Nairobi, Kenya

Lilian Mramba, Africa Regional Director
Amos Gichinga, Senior Investment Officer
Noel Wadaki, Operations Manager & BAS Coordinator
Laila Kassam, Global Portfolio Assistant
Karan Sawhney, Senior Investment Analyst

New Delhi, India

Vijay Chandrashekar, India Portfolio Manager
Sahiba Chauhan, Senior Investment Analyst



Governing Board and Advisors

Board:

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

Stephen Brenninkmeijer, *Willows Investments*

Zoë Dean-Smith, *Senior Director of Global Programs, Vital Voices*

Guillermo Ferreyros, *Chief Executive Office, President, and Executive Director, Maple Energy PLC*

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 member, BAS Steering Committee member*

Annette Berendsen, *Fund Advisory Committee member*

Stephen Brenninkmeijer, *Fund Advisory Committee member*

Rafael Guillermo Ferreyros Cannock, *Investment Committee member, GBF Advisor*

Kristin Duchâteau, *BAS Steering Committee member*

Rupin Rajani, *Investment Committee member*

Pradeep Kapse, *GBF Advisor*

Thomas Klein, *Fund Advisory Committee member*

Serge Kremer, *Investment Committee member*

Elise Lufting, *Fund Advisory Committee member*

Pramod Gothi, *GBF Advisor*

Sari Miller, *GBF Advisor*

Deborah Moronese, *Fund Advisory Committee member*

Alan Patricof, *GBF Advisor*

Helmut Paul, *Investment Committee member*

K.K. Rathi, *GBF Advisor*

Sir David Scholey, *GBF Advisor*

Joachim Schwenke, *GBF Advisor*

Roel Vriezen, *BAS Steering Committee member*

Holly Wise, *BAS Steering Committee member*

Jim Wolfensohn, *GBF Advisor*

Elaine Wolfensohn, *GBF Advisor*

Claus-Peter Zeiting, *GBF Advisor*



Donors to the Nonprofit

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

Government of Canada (funding managed by IFC)

NORAD- The Norwegian Agency for Development Cooperation

OeEB- Development Bank of Austria

Omidyar Network

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 Americans 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 Jhavar

Marty Kahn

Chary and Lisa Kleissner (KL Felicitas Foundation)

Serge Kremer

Luxembourg Ministry of Finance

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

Audited Statement of Financial Position - GBP and Subsidiaries

Year ending as of June 30

2016

ASSETS*

Mission Related Investments (GBI-I) *	\$23,687,394
Mission Related Loans (GBP)	6,250
Cash and Cash Equivalents	6,026,134
Short Term Investments ¹	1,399,245
Donor Contributions Receivable	496,489
Fixed Assets	50,051
Other Assets ²	439,042

TOTAL ASSETS **\$32,104,605**

LIABILITIES AND NET ASSETS

Short-Term Liabilities ³	\$434,888
Notes Payable ⁴	9,000,000
Noncontrolling interest in GBI	19,905,382
Net Assets (Unrestricted)	676,318
Net Assets (Temporarily Restricted) ⁵	2,088,017

TOTAL LIABILITIES AND NET ASSETS **\$32,104,605**

SUPPORT AND REVENUE

Contributions	\$4,845
In-Kind Contributions	–
Investment Loss	(1,478,405)
Other Sources ⁶	1,953,024

TOTAL SUPPORT AND REVENUE **\$479,464**

EXPENSES

Program Expenses ⁷	\$2,438,401
Administrative and General Expenses ⁸	850,480
Fundraising Expenses	342,484

TOTAL EXPENSES **\$3,631,365**

Other items ⁹	(31,445)
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CHANGE IN NET ASSETS **\$(3,120,456)**

*In addition to investments and loans which are included in the statement above, GBF has committed about \$39.1 million to high impact businesses (through June 2016), however, the financial statements only include disbursements through June 2016. Disbursements of committed funds is contingent upon high impact businesses meeting certain conditions.

Notes to Financial Statements

- Investments of excess cash including Treasuries
- Includes interest receivable from mission investments and other assets
- Includes accounts payable, accrued expenses, accrued vacation and sick days
- Represents Lenders to GBI-I not GBP
- Includes all contributions from individuals, foundations, bilateral institutions, etc.
- Includes bank interest, mission related loan interest, and mission related loan activation fees, and exchange rate fluctuations
- 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-I activities
- Includes operational expenses, workshops, staff training, etc
- Loss attributable to noncontrolling interest in GBI



GRASSROOTS BUSINESS FUND

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Fax: 202-986-4729

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Miraflores
Lima, Peru

GBF New Delhi Office:

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India