IFC Grassroots Business Initiative
Summary of Program Evaluation: Findings and Recommendations

Executive Summary

There is growing interest in the entrepreneurs within developing countries who have the potential to drive social impact at the grassroots level via revenue-generating business models. The Grassroots Business Initiative (GBI) was launched in 2004 as an innovative pilot venture within the International Finance Corporation (IFC) to address this underserved investment class of social entrepreneurs. GBI aims to drive social impact at the grassroots level by strengthening grassroots business organizations (GBOs) that create economic opportunities for the poor. To date, GBI has invested USD $6.7 million, of which 82% has targeted entrepreneurs in frontier countries.

An evaluation of GBI's activities revealed that GBOs create economic and social impact primarily in the form of jobs created and wages paid. For example, most of the retail GBOs paid a wage premium of 20% to 80% and/or provided working conditions superior to local standards. GBI's investments have helped its portfolio of GBOs increase average sustainability (measured by revenue as a percentage of operating costs) from 70% to 90%, thereby increasing the scale of social impacts. GBI investments in GBOs have positive multiplier effects, assuming sufficient internal capacity is built within the GBOs so that they can sustain their improvements for 5 to 10 years. The evaluation also found that although many GBOs realized greater financial sustainability, they were often constrained by core operational challenges and a lack of access to suitable financing products.

Based on this evaluation, GBI can realize greater return on investment by migrating towards an improved wholesale model to support intermediaries with an expanded breadth of financing opportunities and targeted and relevant delivery of technical assistance.

Overview of GBI Operations

The IFC's Grassroots Business Initiative is a uniquely positioned provider of capital and intensive technical assistance to an underserved investment class of social entrepreneurs in developing countries, or Grassroots Business Organization (GBOs). As of September 2007, GBI had invested USD $6.7 million in 61 different projects in 18 different countries. The average investment size was $150,000, though the actual amounts range from $1.2M to $30,000. These investments have been mostly in the form of grants, though there were a few patient capital loans used primarily for capacity building initiatives, and to cover the costs of growth or market development initiatives and working capital needs. In addition to grants, GBI provides investees with intensive technical assistance and networking opportunities through GBI staff and local affiliates. GBI's investees serve 87,000 direct beneficiaries and 391,000 indirect beneficiaries. More than three-quarters of GBI's investments (82%) have been in frontier countries, significantly higher than the fraction in IFC's total portfolio (25%).

GBI has pursued three unique investment strategies to help support GBOs deliver social impact:

- ***Retail (26% of total USD invested)***: Investing directly in small or medium-sized enterprises that engage people at the grassroots level as employees or suppliers in the production of goods and services. Because they target marginalized or underserved populations, these enterprises generate social impact by creating employment, increasing incomes and providing additional "social value add" services such as capacity building and empowerment.

- ***Wholesale – Micro (63% of total USD invested)***: Investing in intermediary organizations that support entrepreneurship for people at the grassroots level. These GBOs create social impact through enabling the grassroots entrepreneurs to increase their incomes and build their business and management skills.

- ***Wholesale – SME (11% of total USD invested)***: Investing in intermediary organizations that support social entrepreneurs who operate small and medium sized businesses that benefit people at the grassroots level. These intermediaries create social impact through the organizations they support.

Background on Evaluation

In Fall 2007, IFC contracted Dalberg Global Development Advisors to evaluate the first three years of GBI's investment activity across all three investment strategies. The scope of the evaluation included (i) a portfolio-wide review of all GBOs that have been assisted by GBI; (ii) a survey sent to all GBOs; (iii) an in-depth evaluation of 10 projects that included site visits across three continents; (iv) an internal review of GBI operations; and (v) stakeholder interviews. More than 270 interviews were conducted, mostly at the GBO and beneficiary level. The 10 projects reviewed in-depth were selected to be representative of the overall portfolio in terms of geography, type (retail and wholesale), perceived performance (high and low) and duration of the partnership with GBI.

The evaluation examined GBI performance and impact at three levels:

- ***Outcomes*** – social impact at the beneficiary level;
- ***Outputs*** – indicators of GBO operational and financial sustainability; and,
- ***Inputs*** – attribution and return on investment of finance/technical assistance provided by GBI.

Outcomes – key findings on social impact created at the beneficiary level

A key question within the world of social entrepreneurship is what distinguishes a social enterprise from a conventional enterprise that operates within a high-poverty environment. For the purposes of this evaluation, a social enterprise is defined as an organization that deliberately seeks to create social and economic value for people at the grassroots level. These enterprises alter their business models, production methods, and cost structures to achieve both social and financial objectives.

GBI's interventions are focused on: (i) driving scale, which increases the magnitude of social impact; (ii) driving business efficiency which better converts income into social "value-add"; and (iii) supporting financial independence which ensures the sustainability of social impact. Costs associated with this type of business model can be referred to as the GBO's social costs. These social costs generate social value, such as increased incomes and well-being for people at the grassroots level that are not captured within a conventional business. The existence of this social value—above and beyond the financial impact of the enterprises' activities—is the primary rationale for providing social enterprises with lower-cost capital and/or grants.

An in-depth evaluation of 10 representative GBOs revealed there they deliver their additional social impact in three ways:

- ***Creating economic opportunities***: More than 80% of the grassroots-level beneficiaries surveyed did not have prior access to the economic opportunities provided by the GBOs (e.g., employment, markets, entrepreneurship). Most were previously unemployed or engaged in informal economic activities. GBI has effectively identified and supported organizations that are truly targeting under-served populations.

- ***Wage and working condition premium***: Most retail GBOs paid a wage premium (ranging from 20 – 80%) and/or offered qualitatively better working conditions than comparable local standards. The three major drivers of these premiums were: (i) the level of commitment of the GBO management, (ii) innovations in the business model and (iii) the level of operational efficiency of the GBO. For example, the leadership at one of GBI's investee's (Gone Rural) has made doubling their producer's incomes one of their priority strategic goals. Other GBOs (e.g., CraftNetwork) are looking to develop innovative internet platforms that would help to increase handicraft producers' incomes. Additionally, some GBOs (like Hagar Catering, for example) have developed efficient businesses that can generate profits and share them with employees.

- ***Capacity building and beneficiary empowerment***: The majority of GBOs offered capacity building and empowerment programs; nevertheless, wholesale organizations supporting micro-entrepreneurs tended to offer more intensive programs focused on more transferable skills. For example, retail organizations who engaged grassroots individuals in handicraft production (e.g., Streetwires, Gone Rural), services (Hagar Catering) and agriculture (Honeycare) are highly committed to building the skills of their beneficiaries. However, the training tends to be task-specific (e.g., craft making, bee keeping) and part of the broader production process rather than standalone. In contrast, training programs offered by wholesale–micro organizations, by definition, were focused on equipping grassroots individuals with financial and management skills that increased that individual's chances of success with their business and their prospects for future employment or entrepreneurial pursuits. For example, training sessions offered by GBO's (such as KYBT, CraftNetwork Indonesia, and SEWA Barefoot Manager School) emphasized financial literacy and management skills.

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

Outputs – key findings on progress towards GBO sustainability

GBI increased the sustainability of retail GBOs, the majority of which were in frontier countries. To measure sustainability, GBI developed a new indicator for GBO sustainability that examines the share of costs that can be funded through an organization's revenue rather than through donor income. Looking at the average of the sustainability index over time reveals a positive relationship between the duration of partnership with GBI and organizations' financial sustainability. The average sustainability index in year one for GBOs was 70% and the average for those GBOs that have been with GBI for three years is 89%. While this data does not imply causation per se, findings from the GBO survey and qualitative interviews validate that GBI has had a positive influence on the sustainability of retail GBOs. The magnitude of these sustainability gains was also very closely linked to the degree of alignment between GBI and the GBOs on the importance of realizing sustainability goals. There was a lack of consistent indicators of sustainability for the wholesale GBOs, as they tend to not have a revenue stream outside of donor income. Going forward, GBI will need to develop more appropriate and consistent indicators for their wholesale GBO investees.

However, while many GBOs did create innovative business models that realize both social and financial goals, they face trade-offs between the intensity of their social impact and their ability to become financially self sustaining. Because they pursue social objectives, GBOs cited trade-offs on financial sustainability that included: (i) less efficient production methods, (ii) higher costs of inputs and more complex supply chains, and (iii) tension between providing beneficiaries with steady incomes and maintaining profit margins on goods sold, especially handicraft items. Indeed many GBOs reported that their social missions were of a greater focus than financial sustainability per se. Pursuing financial sustainability is only a relevant goal for 18 out of 24 retail GBOs and 11 out of 24 wholesale (micro) organizations. For example, Hagar views its catering business as an extension to its social mission of integrating vulnerable women into society.

Inputs – key findings on GBI technical assistance and financing

GBI investments in GBOs have positive multiplier effects, assuming sufficient internal capacity is built within the GBO so that they can sustain their improvements for 5 – 10 years. To determine GBI's relative efficiency or 'return on investment' required estimating GBO growth and the scale of social impact attributable to GBI; these analyses were completed for the six GBOs where sufficient data was available. Findings indicate that GBI investments will generate positive net present value "multiplier effects" in terms of GBO revenues within 5 – 10 years of the investment. However, achieving projected returns predicates long-term (in all cases, beyond 5 years) generation of revenue growth derived from GBI's intervention. The length of time required—from the inception of GBI intervention until the emergence of positive returns—highlight the need for internal management capacity-building to support long-term sustainability, as well as the use of patient capital (with lower and longer-return expectations).

GBI has been most effective providing financing and strategic advice, but will need to improve operational support for GBOs to achieve long-term sustainability and positive returns on investment. Although GBI was a “minority” donor in 77% of transactions, its financing is credited with impact stemming from (i) the critical timing of funding, (ii) the strategic focus of funding use, and (iii) the branding of the funding source. Almost three-quarters of GBOs (73%) reported that GBI has helped them to access additional funds amounting to over $10 M. GBI’s unique position as both a provider of intensive TA and capital has made it successful in increasing GBO’s scale, especially through driving high level strategic changes. However, GBOs cited operational and technical challenges that were beyond the scope of GBI support but that are critical for a GBO to reach financial and / or operational sustainability. The top areas for operational assistance include: (i) efficiency of production and operational processes (47% of GBO’s); (ii) human resources and talent development (43% of GBO’s) and (iii) improving the quality of the good or service vis-à-vis product design and market research (33% of GBO’s).

Implication for GBI going forward based on evaluation findings

Based on the evaluation, the Grassroots Business Initiative is delivering social impact by increasing the sustainability of GBOs through strategic financial and technical support. To build on this success, three improvement areas were identified.

1. Strategic: Migrate towards model of ‘patient capital’ investing in wholesale organizations. GBI leverages strengths with a move toward wholesale investments. As demonstrated by the “multiplier” analysis above, realizing positive returns on retail investments requires sustained operational capacity-building over time, where GBI currently has limited capacity. Wholesale GBOs have greater capacity to: (i) conduct the needs assessments, (ii) improve the relevancy of the TA offered and (iii) provide more cost-effective support to GBOs with M&E and reporting requirements. In addition, GBI should explore more effective patient capital financing interventions that integrate (i) grants to fund core operational-improvement technical assistance with (ii) working capital to finance growth and new initiatives.

2. Operational: Improve the investment process by building upon GBI’s core strengths as an investor, and look to leverage local intermediaries for core investment cycle activities. GBI is most effective when it delivers strategic and financial support consistent with its role as an investor. This process could be made more formal and replicable by: (i) adding a clear investment screening process; (ii) developing an upfront GBO needs-assessment tool; (iii) partnering with intermediaries on the ground to deliver operational technical assistance; (iv) clarifying the investment process and support provided, particularly toward wholesale organizations; and (v) defining a clear exit strategy.

3. Organizational: Get the team right. The strategic and operational improvements identified above require adopting the DNA and mindset of a “Fund” rather than a provider of advisory services, which suggests a substantially lower percentage of management costs to deployed capital. This cost structure could be achieved by: (i) leveraging local providers of technical assistance; (ii) redirecting GBF staff toward mobilizing capital, portfolio origination and screening, needs assessment, and driving returns via scale and operational initiatives.