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The International Finance Corporation's Grassroots Business Initiative

March 6, 2008 was an eventful day for Harold Rosen, director of the Grassroots Business Initiative (GBI) and his small team of managers. They had received approval from the IFC's Board of Directors to take GBI independent and to create a non-profit, the Grassroots Business Fund (GBF). Not only had the Board authorized the restructuring that day, but it had also approved a $15 million grant contribution towards the new fund.

Following the support of the Board, Rosen felt a sense of urgency with regard to the shape of GBF's strategy going forward. Even though GBF would be set up as an independent non-profit, it would also manage a blended pool of capital (BPC) that ranged from "equity" to "loans." GBF would continue to provide grants and patient capital investments to build the capacity of the grassroots organizations. Not only would he and his team need to come up with a clear message to solicit potential funders, they would also need to have a clear sense of the profile of grassroots business organizations (GBOs) that would become part of the new portfolio.

The History of the Grassroots Business Initiative

Harold Rosen had joined the World Bank Group in 1978 and had served in many managerial positions at IFC. His most recent stint before GBI was as Director of IFC's Small and Medium Enterprise Department. He had set up the department in 2000 and led it until 2003. When he left the SME department its annual budget already exceeded $40 million.

The World Bank Group was formed in December 1945 following the ratification of the Bretton Woods Agreements. Initially started as the International Bank of Reconstruction and Development (IBRD), the mission of the organization was to finance postwar reconstruction following World War II. By 2007 the World Bank Group was comprised of five international organizations, each playing a "distinct role in the mission to fight poverty and improve living standards in the developing world." The five organizations that made up the World Bank Group were the IBRD, International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

Professor V. Kasturi Rangan and Research Associate Katharine Lee prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The mission of IFC was to promote sustainable private sector development in developing countries. IFC provided financial assistance through the provision of loans, equity, structured finance and risk management products, and advisory services. So as to ensure the participation of investors and lenders from the private sector, IFC had set a number of rules and limits. These included providing up to 25% of total estimated costs for a project, holding a maximum 35% stake in a project, and not being the largest shareholder in a project. Additionally, IFC focused on investments that were profitable for investors, benefited the economy of the host country, and complied with the World Bank's social and environmental guidelines.

In FY 2007, IFC had an operating income of $2.6 billion and had loan and equity investments (net) totaling $15.8 billion. (See **Table 1** for key financial indicators.)

Table 1 FY2007 IFC Key Financial Indicators

Indicator	USD
Operating income	$2.6 billion
Net income	$2.6 billion
Liquid assets (net of associated derivatives)	$13.3 billion
Loan and equity investments, net	$15.8 billion
Borrowings withdrawn and outstanding	$15.9 billion
Total capital	$14.1 billion
Return on average assets	6.6%
Return on average net worth	21.2%
Cash and liquid investments as a percentage of next 3 years estimated net cash requirements	85%
Debt-to-equity ratio	1.3:1
Capital adequacy ratio	57%
Total reserve against losses on loans to total disbursed loan portfolio	6.5%

Note: Operating income is income after expenditures for advisory services and for performance-based grants.

Source: Compiled from company documents.

The Small and Medium Enterprise Initiative

IFC's portfolio was traditionally comprised of large corporations, assuming that their ability to stimulate the economy and create jobs would have a "trickle-down" effect, spreading the wealth to the poor. Thus, small and medium enterprises (SMEs) were largely excluded from this approach, even though they represented a large portion of the economy. Starting in 1997, Rosen worked tirelessly with the World Bank and IFC to establish the Small and Medium Enterprise Department. The SME department initially established technical assistance facilities. It then worked to strengthen and expand these regional facilities, build partnerships, develop best practices, and conduct pilots. Key activities for the IFC's SME department included providing SMEs with access to finance, linking SMEs to investments, and improving the business-enabling environment.

"We have definitely learned a lot," Chris Richards, SME Advisor, noted, reflecting back on the origins for the SME department. "In 2002, I was basically given a plane ticket, a bank account with lots of money in it, and World Bank paper saying work needed to be done with SMEs in Bali. When I got there, the tourist business was devastated because of the bombings.[1] Hotels were at less than 10% occupancy, and shops and restaurants were basically empty. It was clear that we needed to provide

[1] On October 12, 2002 three bombs were detonated on the Indonesian island of Bali. Two of the bombs went off near popular nightclubs in the tourist district of Kuta, and the third detonated outside of the US Consulate. The bombs killed 202 people, 164 of whom were foreign nationals, and injured 209 people. Members of the group Jemaah Islamiya were convicted of the bombings.

assistance to SMEs that were outside of the tourist industry. One of the things we did was to work with the handicraft industry to produce higher quality products, and artifacts that would be of interest to people outside of the country. We helped to set up intermediaries and assisted in the development of a handicraft export promotion program. After the tsunami in 2004 we applied much of what we had learned in Bali to Aceh. We started to invest in small, family-owned businesses like 'laundries,' and we ran a business plan contest with the idea to reward the winners with financial assistance."

Richards added: "SMEs do not function in the same manner as larger, more established corporations. One of the lessons learned was the advantage of working with middle-men. Intermediaries were able to support large numbers of smaller organizations and individual producers, consumers and micro-entrepreneurs; thus by building and working with sustainable intermediaries, more people could be reached."

In a 2007 report entitled "Creating Opportunities for Small Business," Michael Klein, Vice President, Financial and Private Sector Development and Chief Economist, outlined the role small SMEs play in an economy: "In market economies, formal and informal, SMEs account for more than 90 percent of all enterprises. Typically, well over half the working population, especially poorer people, rely on SMEs for employment and income. In addition, SMEs play a major role in serving the $5 trillion market for goods and services for the four billion people at the base of the economic pyramid." **Table 2** provides an overview of the role of SMEs in selected countries.

Table 2 Micro, Small, and Medium Enterprises (MSMEs) in Selected Countries

Country	Date	GNI per Capita (US Dollars) (Atlas Method)	# of MSMEs	MSMEs per 1,000 people	MSME employment (% total)
Argentina	1999	7,570	894,169	24.5	80.6
Brazil	2002	2,790	4,903,268	27.4	67.0
Chile	2004	5,220	700,000	43.9	95.0
China	2000	930	8,000,000	6.3	78.0
Egypt	1998	1,240	1,649,794	26.8	73.5
United Kingdom	2004	33,630	4,415,260	73.8	39.6
Ghana	2004	380	25,679	1.2	66.0
Guatemala	1999	1,720	173,699	15.7	32.3
India	1998	420	295,098	0.3	66.9
Kenya	2002	400	2,800,000	89.3	74.2
Mexico	2004	6,790	2,891,300	27.9	71.9
Malawi	2000	150	747,396	72.5	38.0
Nepal	2001	230	3,040	0.1	57.9
Panama	1999	3,620	39,636	13.7	54.0
Peru	2004	2,360	658,837	23.9	92.8
Russian Federation	2005	4,460	6,891,300	48.8	50.5
Thailand	2002	1,970	842,360	13.7	69.0
Uruguay	2000	6,150	143,035	42.8	68.5
United States	2004	41,440	5,868,737	20.0	50.9
South Africa	1997	3,680	900,683	22.0	39.0

Note: The Atlas Method uses a three-year average of exchange rate fluctuations so as to smooth effects of short-term fluctuations in exchange rates.

Source: Compiled from The World Bank. "Micro, Small, and Medium Enterprises: A Collection of Published Data," The World Bank website, http://rru.worldbank.org/Documents/other/MSMEdatabase/msme_database.htm, accessed November 1, 2007. The statistics for each country have been drawn from a different source and as such the database uses different cut-offs for what goes in the MSME classification. The website cited above provides details and clarifications.

The Grassroots Business Initiative is created

Although pleased with the work of the SME department, Rosen noted that there was a layer of social enterprises that were not being touched because of their often unconventional structures (e.g. NGOs, cooperatives, etc.) and because they didn't fit the definition of an SME. These organizations, which he called GBOs, were traditionally seen as charitable organizations, but Rosen thought that with technical assistance and capacity building GBOs could be strengthened, grown and made more sustainable, and could bring economic access to large numbers of poor people. Rosen approached the IFC and World Bank with the idea of expanding activities to include a focus on GBOs. In 2004 Rosen stepped down from his position as Director of the SME department and took on responsibilities for a new thrust focused on GBOs - the Grassroots Business Initiative.

Rosen defined GBOs as socially driven ventures, whether for profit or not-for profit, that worked to empower and engage those at the bottom of the economic and social pyramid as entrepreneurs, suppliers, consumers, and employees. Rosen also understood GBOs to be complex in nature:

> GBOs' operational models tend to reflect their origins in the charitable and donor worlds. As such, they often lack basic knowledge about how to access capital, enhance their business operations, and how to develop sustainable business models. They typically suffer from narrow, short-term planning horizons due to the way they have been funded in the past. They also tend to have unconventional business structures and models that discourage and confuse traditional partners and funders, especially those in the private sector.

GBI provided GBOs with a package of funding and technical assistance, and allowed them to expand their impact at the grassroots level, eventually leading to scaling-up and replication of activities. Additionally, GBI built upon the IFC approach of supporting (and sometimes developing) intermediaries that served multiple GBOs.

Over the first three and a half years of its operation, GBI worked with 62 projects and developed 105 key partnerships. During this time GBI estimated that it had a substantial impact on more than 2.3 million lives and created more than 73,000 jobs. GBI's cumulative commitments totaled $8.9 million, and its cumulative disbursements were $6.7 million. (See **Exhibit 1** for key indicators).

Grassroots Business Initiative: Approach and Operations

Agnes Dasewicz, program manager at GBI, outlined the rationale for establishing GBI and working with GBOs:

> The fight against poverty requires bringing economic access to poor, hard-to-reach and disadvantaged populations that typically operate on the margins of society. A comprehensive approach to economic empowerment is required, going well beyond job creation to providing the disadvantaged with an integrated package of assistance. This needs to include capital, knowledge, and other tools that the poor need to better their own lives as well as the lives of their families, and their communities. By strengthening and scaling up NGOs, non-profits, and cooperative institutions that have traditionally served the needs of the poor, large numbers of people can be economically empowered – as producers of income-generating commodities and products, consumers of affordable goods and services; or independent entrepreneurs. Investing in the development of such GBOs can bring the poor access to the business world, thus providing opportunities to create wealth, expand social equity, and contribute to political stability. This also helps engage the poor as stakeholders in a peaceful, democratic, market-based society.

In order to be eligible to receive funding from GBI, organizations had to meet two core requirements: 1) activities had to generate substantial economic benefits at the grassroots level in a developing country, involving poor and marginalized people as partners, suppliers, consumers, employees and/or beneficiaries, and 2) the activity had to support a business opportunity, defined as the sale of products or services; GBOs could be either not-for-profit, or for-profit. The role of the poor in these activities was primarily as providers of "inputs" into the value-added process; consumers of low cost quality goods and services; and as entrepreneurs. GBI decided not to focus on specific sectors, but rather, to focus on activities which met these core criteria. Nonetheless over the years, GBI's projects generally fell into four types of activities:

- Building larger, wholesale-level agribusiness and handicrafts organizations/partnerships
- Developing youth and informal enterprise
- Developing a network of GBOs
- Devising models which could efficiently deliver suitable financing for GBOs

GBI initially worked with organizations at the "retail" level, i.e. individual businesses. After its first two years however, GBI began to adopt a "wholesale" approach. While both approaches include "blending" of grant-funded capacity building with commercial funding, wholesale did so at the level of distributive, higher-level organizations. On the other hand, retail activities dealt directly with the individual GBO, providing the GBO with a loan or a grant, whereas the wholesale approach was focused on building the capacity of intermediary organizations and global partners, which could in turn deliver business and financial assistance to a much larger number of GBOs and the many micro-entrepreneurs and producers they support. A comparison of GBI's work with two GBOs, Gone Rural and the Business Angel Club Indonesia, further illustrate the difference between these two approaches.

Gone Rural, a social enterprise in Swaziland, employed 700 women in 2007 to plait high quality homeware products from locally grown lutindzi grass. Gone Rural's products were sold to and through high-end stores in Europe and the United States. GBI provided Gone Rural with $216,000, inclusive of technical assistance. The grant and the technical assistance provided by GBI enabled Gone Rural to strengthen their management and production capacity, facilitate market linkages and expand their extension services. Gone Rural is part of GBI's retail portfolio. GBI's work with the Business Angel Club Indonesia, on the other hand, falls within its wholesale portfolio. The Club provided young entrepreneurs with advice, mentoring, technical assistance, and potentially funding. For GBI, the Club serves as an intermediary, and GBI has helped build its secretariat management function. That is, rather than provide funding and technical assistance to many individual GBOs, GBI provided funding and technical assistance to the Club. The Club, in turn, used the funding, and the technical assistance provided by GBI, to interface directly with the entrepreneurs, thus allowing a much greater number of individuals to be supported than would have been possible through direct support from GBI.

Table 3 Overview of GBI's Activities FY05-FY06 (US Dollars)

	Commitments by GBI	# of wholesale projects	# of retail projects
Africa	$3,258,000	6	10
East Asia	$1,375,000	7	6
Latin America	$1,345,000	5	2
Middle East and North Africa	$237,000	1	0
South Asia	$2,289,000	7	4

Source: Compiled from company documents.

The difference between the wholesale and retail approaches, and the advantages and disadvantages of these approaches was a topic of discussion at a workshop GBI held in April 2007 that was attended by its clients, partners and supporters. At the heart of the discussion was whether or not GBI should continue to move towards a wholesale approach. One of the main disadvantages of the retail approach as compared to the wholesale approach was its reach. GBI had worked with retail organizations to enhance business skills and knowledge; however, participants pointed out that a wholesaler could scale capacity building over many retail organizations. It was also noted that wholesalers had the ability to attract funding from a wide variety of donors, and leverage more resources than retail organizations. At the close of the workshop, the general consensus was that GBI should continue to move towards a wholesale approach. Attendees pointed out that in pursuing this approach GBI needed to provide wholesalers with patient capital; patient capital defined as investments akin to equity rather than a loan, and in amounts typically larger than a retail grant or investment.

In August of 2007, GBI's commitments were $5.4 million in wholesale activities, and close to $3.5 million in retail activities. Financial support for activities, both wholesale and retail, was provided in the form of grants and patient capital. Patient capital, as defined by GBI, was long-term capital appropriately structured debit-like/quasi-equity instruments for either working capital or capital investment purposes. "We work very closely with our clients," said Belen Barbeito, a Program Analyst at GBI. "We don't just hand over the money, we don't really even have a set disbursement schedule. We work with each of our clients and provide financial assistance and capacity building tailored to the individual needs of each of our clients. Our monitoring and evaluation tools have helped us, and helped our clients, in tracking the money from GBI as well as measuring the impact of the activities we help to support." The monitoring and evaluation tools used by GBI included log frames,[2] scorecards, and individual project evaluations. These tools were used to measure both social and economic indicators. By working with GBOs on metrics, GBI's objective was to help GBOs demonstrate impact while also helping the GBOs better identify their own objectives and to implement stronger planning and management practices.

Barbeito provided the following perspectives on the measurement tools:

> The [measurement] tools have really benefited our clients. Take the scorecard for example. Every quarter we create a scorecard for our clients. The scorecard pulls together information that they have sent and creates a snapshot of where they are, currently. It also provides historical data and is used as a trigger point for discussion for next steps. The scorecards include financial indicators, impact indicators, outcomes, and use of funds. It gives clients a picture of their business; something some clients have never seen before. The sustainability index is calculated as revenues divided by commercial expenses. This indicator helps us, and our clients, get an idea as to how close they are to becoming a sustainable business. Right now the combined sustainability index of the GBOs we work with is 83%. Considering where our clients started, we are pleased with this.

Case Profiles of GBI's Activities

To provide the reader with a more detailed picture of GBI's activities, we have chosen to profile four projects.

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[2] A "log frame", or logical framework, is a tool used in project design, monitoring, and evaluation. It incorporates project objectives, indicators, critical assumptions, and resources necessary for carrying out the project.

PlayPumps International

PlayPumps International was registered in 2000 as an NGO in both the United States and South Africa. The objective of the organization was to improve the lives of African children and their families by providing easy access to clean drinking water, enhancing public health, and providing children with a place to play. The organization manufactured and patented the PlayPump system -a water pump powered by children playing on a merry-go-round. The pump was installed directly above boreholes at schools and villages, and by playing on the merry-go-round children were able to mechanically pump up to 1,400 gallons of clean drinking water per hour. The PlayPump system pumped water into low-maintenance storage wells at a faster, more reliable rate than most hand-driven pumps. From there the water was fed by gravity to residences and other public access points within reach of the tank (see **Exhibit 2** for a photo of the PlayPump system).

The pumps were installed by locally owned micro entrepreneurs at an average cost of $10,000 each. They were an effective solution to one of rural Africa's most pressing needs, access to clean water. The PlayPumps International business model recovered the cost of maintenance through commercial advertising sales from firms such as Unilever, Colgate, Palmolive, Telcom, and Sasko. In addition to providing a place for advertisements, the storage containers also provided a place for education. Public service messages such as HIV/AIDS awareness and hygiene education were posted on the storage containers. In 2007 more than 900 PlayPumps had been installed in South Africa, Mozambique, Swaziland, and Zambia.

GBI worked with PlayPumps International from FY04 though FY06. During this period, GBI provided the organization with $90,000 in grant funding and $125,000 in patient capital. The patient capital was provided to PlayPumps International at a rate of 4% and a term of nine years, including a one year grace period. The grant funds were used for project expansion into Mozambique and Swaziland, and the patient capital was used for capacity building, and the installation of up to 300 pumps. During this period, funding was also provided by the Lemelson Foundation ($151,098), and FMO ($120,000). These funds were used for the purchase and installation of 71 pumps.

In 2006 First Lady Laura Bush announced that a public-private partnership consisting of the US Agency for International Development, the US Office of the Global AIDS Coordinator, the Case Foundation, and the MCJ Foundation, would invest $16.4 million in PlayPumps International over a period of three years. The investment came with the objective of installing 4,000 PlayPumps systems, and therefore providing clean water to as many as 10 million people.

See **Exhibit 3** for PlayPumps International's project scorecard.

Hagar International

Hagar International was a Swiss NGO that was founded in 1994 and offered prevention, rehabilitation, and reintegration programs to Cambodian woman and children who were victims of violence, sexual abuse, abandonment and poverty. The provision of income generating activities was central to Hagar's programs. Initially these efforts were placed within the NGO; however Hagar determined that the income generating activities could be run more effectively as independent commercial enterprises. In addition to operating efficiency, Hagar also saw the potential of using the commercial enterprises to generate jobs and training for the rehabilitated women, and income for the organization's social activities. In 1998 Hagar therefore spun off their commercial enterprises and registered each of them as limited liability companies, each with its own management team and governing boards. The companies created were Hagar Soya Limited, Hagar Design Limited (HDL), and Hagar Catering and Facilities Management (HCFM).

The primary goal of HCFM was to provide good quality and affordable food to local communities, and to employ disadvantaged women from Hagar's development and integration projects. HCFM worked towards this goal by functioning as an operational catering service providing meals at staff canteens in major hotels, factories, and other organizations in Phnom Penh. In FY07 HCFM employed 135 people, 59 percent of whom were women. Fifty-seven women who went who had gone through Hagar's prevention and rehabilitation programs were employees. In addition to providing employment for graduates of Hagar's programs, HCFM provided Hagar with funding for the organization's social activities. In 2006 HCFM sales totaled $493,712 and its net income was $69,977.

GBI began working with HCFM in 2004, providing the organization with a grant for $37,000. The funds were used for working capital. Additionally, GBI assisted HCFM with preparing a business plan and developing operational standards. During this period, the US State Department provided HCFM with a grant for $41,700 for capital investments and working capital, and the Omidyar Network provided HCFM with a grant of $10,000 for working capital. (In both cases, these small grants were part of larger packages that included components for other parts of Hagar; see following sections.)

HDL produced a wide range of woven silk handbags, home fashion items and accessories both for the high-end domestic market and for international export. GBI began working with HDL in 2004 and provided the organization with $50,000 in grant funding and $50,000 in patient capital. The repayment terms for the patient capital were at an interest rate of 3% over a period of seven years. The grants funds were used for working capital for inventory and for improving financial management skills, and production processes. The patient capital was used for payment of salaries, and to enable HDL to repay loans it owed to Hagar International. In FY04 the Omidyar Network provided HDL with a grant of $32,000 for working capital, and in FY06 the US State Department provided HDL with a grant of $35,000 to upgrade the production equipment.

Hagar Soya was Cambodia's first and only large-scale soya milk producer. When it was founded it had a capacity to produce 500 liters per day. In 2002 the organization received $1.3 million from IFC and multiple donors, and technical assistance from the Mekong Private Sector Development Facility, a multi-donor initiative of IFC. These funds enabled Hagar Soya to build a new factory which expanded production to 12,000 liters per day. In June of 2007 more than one third of Hagar Soya's 88 workers were former residents of Hagar's "shelter" or "other" programs.

GBI began working with Hagar Soya in 2004, providing grant funding and technical assistance, building on the support provided previously by MPDF and IFC. Specifically, GBI provided Hagar Soya with management training and advice on production, cost and financial accounting. GBI also provided assistance for Hagar Soya in making a development plan and recruiting a General Manager and a Brand Manger; GBI further provided funds to repair production equipment and utilities. From FY02 to FY08 a total of more than $1.9 million in grants was committed to Hagar Soya from other agencies including IFC, DEZA (a Swiss Government agency), and Hagar. These funds were used mainly for capitalization and working capital.

Talmage Payne, CEO of Hagar Cambodia, summed up the impact of his organization's relationship with GBI:

> The financial support from IFC was essential to the start-up of Hagar's enterprises, but possibly more important has been the infusion of a commercial culture from IFC. Without the involvement of key personnel from IFC/GBI in the board room or factory floor, the financial investment may not have led to a sustainable business.

See **Exhibit 4** for project scorecards for HCFM and HDL.

Drishtee

Drishtee Development & Communications Ltd (Drishtee), a Delhi, India-based for profit organization, was established in 2000. The mission of the organization was to "create a sustainable and scaleable platform for rural entrepreneurship that enable[ed] the development of local economies by providing information and services to communities at a nominal cost." Drishtee operated through a tiered franchise and partnership model. That is local entrepreneurs purchased and operated kiosks in rural communities. The kiosks provided the communities with access to e-governance, commodity pricing information, computer and spoken English education, e-commerce, and insurance services. The model Drishtee used for the kiosk operation was based on a fixed revenue sharing model with the kiosk owners and a variable revenue sharing model with the service providers. In August 2007 Drishtee operated over 1,600 kiosks.

In 2006, Drishtee established Quiver Infoservices Ltd. (Quiver). Quiver was established as a subsidiary which focused on development and marketing of applications and services.

GBI began working with Drishtee in 2005. GBI provided Drishtee with a grant of $50,000. These funds were used to establish 50 new kiosks. In 2006 GBI provided Drishtee with another grant, this one for $100,000. These funds were used for capacity building and community sensitization. In 2007 GBI agreed to provide Drishtee with a repayable grant of $350,000 to support kiosk expansion. The expectation was that the grant would be repaid as a percentage of revenue.

In addition to funding provided by GBI, Drishtee also received a total of close to $2.1 million in funds from the Acumen Fund, Standard Chartered, Nike Foundation, and the University of Manchester. These funds were a combination of grants, loans, credit, and equity.

See **Exhibit 5** for Drishtee's project scorecard.

Irupana

Irupana was a Bolivian social enterprise founded in 1987 as a family run business. By 2007 Irupana was manufacturing 80 certified organic food products that were for sale in domestic and international markets, and was distributing its products to 12 Irupana stores and 300 outlets in Bolivia. Irupana worked with over 1,700 farmers, building their capacity in organic farming, and then purchasing the produce from the farmers at a fair price. Irupana's work involved providing technical assistance to the farmers as well. While Irupana was a for-profit, a main objective was to build, in a sustainable manner, the livelihoods of the farmers.

GBI began working with Irupana in 2005 and provided the organization with both grant funding and patient capital. GBI provided Irupana with a $35,000 grant to strengthen its MIS (management and information systems). It also provided a $22,500 supplemental grant to enable the organization to obtain ISO2200 certification, and to conduct a socio-economic study of quinoa farmers. GBI provided $200,000 in patient capital at an interest rate of 4% and with a term of seven and half years. These funds were used for working capital.

Between January 2005 and August 2007 an additional almost $1.5 million was injected into the organization in the form of grants and loans. This included a grant for $350,000 from the Inter-American Foundation to support Irupana's suppliers, and a Commercial bank loan for $420,000 to purchase new land and to build a new facility.

See **Exhibit 6** for Irupana's project scorecard.

What next?

As Harold Rosen gathered the materials he had been reviewing in the conference room, he pondered GBI's future. Working with IFC had afforded him and GBI many opportunities; yet, given the nature of the type of organizations with which GBI worked, Rosen thought operating independently of IFC (albeit with some links to it) might enable it to better work with GBOs. However, after 29 years of working with the IFC, Rosen knew that becoming independent would be challenging for him, and for GBI.

GBI needed to pursue a shift into wholesale, and also more engagement of private capital, commercial investors and other commercial elements. Regarding the continued shift to wholesale, Rosen worried that going too high up the wholesale chain, would make GBI "fluffy, short on traction." Rosen wanted to avoid that, if at all possible – just giving funds to an intermediary does not ensure the micro-job of assisting the people and organizations who need help it is getting done. There would have to be a shift towards patient capital/investment, and less on just subsidizing the capacity building.

Creating a Non-profit - The Grassroots Business Fund

Close to 87% of GBIs core funding came from IFC and the World Bank; from May 2004 through December 2006, IFC had contributed $8.4 million and the World Bank had contributed $2.4 million. The entire amount was funded through a grant. IFC did not expect any return. According to Rosen: "The startup grants were strategic in nature; IFC considered them a prelude to mainline investing in SMEs, and a way of learning about frontier markets with a high degree of need and potential for 'bottom-of-the-pyramid' development." For Rosen, this funding from IFC was a blessing, but also posed challenges. Although it allowed him to focus his efforts on substantive areas rather than fundraising, the money, and the relationship with IFC in general, came with a number of stipulations. Many of IFC's internal operations were not well-aligned with the requirements of working with GBOs– e.g., their unconventional business structures and extraordinary capacity-building need; and their need to blend patient capital with grant funds in order to build capacity. He felt he would be able to carry out GBI's activities more efficiently and effectively, and to bring them to scale, if he could operate with an authorizing environment designed specifically for the challenges of helping GBOs. Rosen wanted to offer more tailored assistance, more of a focus on capacity building, including both non-grant and grant funding; and he wanted to attract new partners and design and apply new types of funding. Rosen also perceived that GBI's restructuring into GBF would have major advantages for IFC – allowing IFC to continue and expand its support for this important new field, one closely aligned with its mission and objectives, without unduly straining IFC's structure and activities, which were geared to very different kinds of businesses.

The Grassroots Business Fund (GBF), the tentative name for the new organization, would be a US-based non-profit. GBF's ultimate objectives and strategy would be similar to GBI: to reduce poverty and support organizations that provide sustainable economic services and business assistance to the poor as producers, consumers and entrepreneurs.

Rosen developed a rough budget for GBF, and outlined what he envisioned to be the sources of funding for GBF (see **Table 4**).

Table 4 GBF's Sources of Funding in Millions (US Dollars)

	1 yr (2009)	2 yrs (2010-2011)
IFC	5.0	10.0
Core mobilization	3.0	9.0
Repayment (interest and principal)	0.2	1.5
Total	8.2	20.5

Note: Of the total sources of funding, approximately a third would be allocated to project implementation, evaluation and management support.

Source: Company documents.

Senior Management View

Declan Duff, Vice President at IFC, to whom GBI ultimately reported, reflected on GBI becoming an independent organization albeit with continued IFC support:

> We here at IFC try and maximize development through investments; we try to get the biggest bang for the buck. In general we haven't been able to do this at the lower levels, the levels where GBI works. But that means a large segment is not directly addressed. Getting involved with GBI has been generally outside of the corporate mainstream – but slowly we have been able to build strengths on the ground level, and have lowered costs, and are now attempting to develop intermediaries that can do this job more efficiently.

While Duff saw IFC's trying to address the lower levels as positive for its development goals and consistent with IFC's mandate, he agreed with Rosen that IFC might not have been the best "home" for GBI.

Geeta Batra, Principal Operations Officer of IFC, had also supported the idea of GBF becoming independent, but she did have some questions. She wondered: "How can one evaluate the linkages established through GBI's approach? Or the social impact? And how can we determine what level of sustainability can and should be achieved?" Perhaps becoming independent from IFC would enable the activities to evolve, and perhaps indicators and outcomes would become clearer. Batra's concern, however, was that the activities may become more muddled.

Peer Profile - Acumen Fund

The Acumen Fund[3] was the closest analogy to GBI and to GBF. Incorporated in 2001, the Acumen Fund was established with the mission of using entrepreneurial approaches to solving the problems of global poverty.

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[3] The Acumen Fund was incorporated in 2001 with the mission of using entrepreneurial approaches to solving the problems of global poverty. Started with seed money from the Rockefeller Foundation, Cisco Systems Foundation, and three individual philanthropists, the Acumen Fund's community of investors had grown and included organizations such as ExxonMobil, the Bill and Melinda Gates Foundation, Goldman Sachs, and Google.org.

In 2001 Acumen Fund made its first investments, providing $400,000 in grants to support three early-stage innovations. By the end of 2006, five years after it was established, the Acumen Fund brought in more than $20 million in new capital to underserved markets in the form of equity and loans. The shift in funding strategy, from grants to equity and loans, was based on metrics established by McKinsey & Co. The four criteria established to assess the overall portfolio performance were: financial sustainability, social impact, scale, and cost effectiveness. For the Acumen Fund, evaluating investments based on cost effectiveness meant comparing the investment made to "what else [they] might have done to address the problem, allowing [them] to understand the opportunity cost of [their] charitable capital." Additionally, the results of the investment portfolio were measured by output, impact, and systems change. The metrics highlighted the fact that the Acumen Fund's management assistance and support in structuring financial products would help to attract more capital. The Acumen Fund made investments in three areas: health care, water and housing.

Although Acumen Fund was the closest analogy to GBI and to GBF there were differences as well. According to Rosen, "Acumen works closer to the commercial end of the continuum [than GBI]... The Acumen Fund is working with organizations that I'd characterize as at least 80% sustainable whereas GBF would be working with organizations that are more like 40% to 80% sustainable on entry and need substantial capacity building. This is our niche; building pipeline for Acumen and other social investors. What we'd like to do is to get organizations to about 80% sustainable and let organizations such as Acumen take over and bring them to full sustainability."

One organization with which both GBI and the Acumen worked is Drishtee. Rosen suggested that the approach taken by GBI is different than that of Acumen Fund: "GBI is set up to work hard up front and along the way in our relationship, to build our investees' sustainability. We'd like to think the clients are gaining a lot from GBI's up front effort. We are putting in more elbow grease, so the fast-growing field of social investing has enough good quality investees."

The Acumen Fund had funded Drishtee's expansion, but through loans and equity funding rather than through grant funding. In September of 2006 it announced that it would provide Drishtee with an additional $1.6 million. The first $1 million was used to give the Acumen Fund an equity stake and to increase the kiosk base and to launch Quiver, an R&D and content affiliate. The remaining funds were provided in loan form.[4]

Rosen acknowledged that Acumen was operating in an important segment as well, but he felt that without organizations like GBF, there would continue to be a shortage of good quality organizations to invest in and to support the field of social enterprise. Still it would be important to develop GBF in a nuanced way; with clear "special value added", and also relate constructively to Acumen and many of the other actors engaging in this field.

The Plan Moving Forward

As with GBI, GBF's approach would be to develop innovative, scaleable business-related models and institutions that could help bring economic access and empowerment to large numbers of the poor. GBF would continue GBI's evolution towards wholesale initiatives and partnerships. Looking back at what had driven him to start the SME department, and then to create GBI, Rosen developed the following objectives for GBF:

- To build intermediaries who could bring economic access to the rural and hard to reach poor.
- To develop a body of knowledge, models and partnerships that could bring this work to scale, develop quality intermediaries and help define good practice and joint approaches in the field of social enterprise.

Yet the biggest change would be in how the initiative would approach its investment strategy and instruments.

Blended Pool of Capital

Beyond GBF's own investment in its clients, it would also be important whether and how GBF raised funds from various sources, and used these in providing non-grant funding. As a non-profit, GBF would typically be expected to operate through grants. However, GBI was already seeing a

[4] "Acumen Investment Gives Fund Stake in Growing Technology Platform Transforming Rural India," Acumen Fund press release (New York, New York, September 19, 2006).

number of its successful clients, partly as a result of GBI's intervention, now able to take more commercial mix of funding. Rosen felt the need to build separate investment vehicles, such as Special Purpose Vehicles (SPVs). These could bring in private investors as well, and allow GBF to also raise and spend non-grant funding, without turning GBF itself into a financial institution/intermediary, which could endanger either its development mission or its non-profit status.

Investors could specify which of the three tranches they would like to invest in, either directly in GBF's clients or via one of its SPVs as shown in **Table 5**. Rosen anticipated that by having such a blended pool of GBF investments, projects could involve larger, more equity-type investments, and relatively smaller grants; but larger total funding and fewer transactions than under GBI. Rosen estimated that the average GBF investment size would be in the range of $500,000 to $1 million (approximately three to four times larger than the size of GBI's investments). While investments would also include a larger proportion of patient capital versus grant funds, realistically most deals would require a certain amount of grant funding to finance capacity building.

Table 5 Special Purpose Vehicles

Form of GBF Investment	Returns	Potential Other Funders
Equity/grant with royalty payment attached at pilot phase	Dividends if profitable; royalty payment	Development agencies, Governments, GBF
Patient Capital	Lower interest rate over longer terms, with the rights to convert to an ownership or equity interest. Junior to the senior loans.	Foundations, Social Investors
Senior loans at later stage	Interest rate at close to commercial terms, but relatively long maturities. Senior to patient capital. First claim of debt in the event of bankruptcy.	IFC, Bilaterals, Financial Institutions

Source: Company documents.

Some Key Issues

GBF could make a big contribution, to initiate, invest in, execute and look after third party vehicles like the ones described above. Rosen was determined to avoid one of the main pitfalls he had seen elsewhere- i.e., cases in economic development space where players grew by setting up vehicles that were designed and funded to reach more challenging, but high outreach segments, but which gravitated towards the "easy" but less developmental part of the job. Rosen felt that GBF should distinguish itself by sticking to the high-outreach, big potential intermediaries, which would truly be breaking new ground, providing socially oriented businesses with longer-maturity, quasi-equity-like financing, delivered efficiently through partners, and accompanied by good technical and business assistance.

On the other hand, being too "soft" would not serve anyone's interest. GBF's proposed niche required business rigor, yet maintaining a strong social mission. Stakeholders would want to be convinced that it was well run, proactive and tough when necessary. As he thought of how this debate would play out, he received yet another phone call from a prominent investment bank. As part of their CSR program, this bank wished to give GBF a $1 million loan at 1% for four years. This was not the first call of this type. Rosen asked his small team assembled in his office, "Is the blended pool of capital the main way we should try to work with such funds, or should GBF accept such moneys as debt and allocate to its various clients according to their needs. GBF would then be the principal holder of the debt. How should we decide whether a particular deal should be funded by the blended pool of capital or directly by GBF?"

Harold Rosen wondered how he would pitch the plan to potential investors: the IFC, social entrepreneurs, foundations, grant-makers. He also wondered how the transition would affect GBF's role and standing with existing clients and how the portfolio would be handled. Moreover, he pondered what metrics GBF would have to construct to know if it was successful.

Exhibit 1: Key Indicators for GBI, August 2007 (US Dollars)

Financial Indicators	
Total Funding Approved	$11.5 million
Cumulative Commitments (FY05-FY06)	$8.9 million
Cumulative Disbursements (FY05-FY06)	$6.7 million
Average Annual Growth of GBOs (FY05-FY06)	21%
Sustainability Index of GBOs (FY06)	83%
Impact Indicators	
Total lives impacted	2,332,130
Direct beneficiaries (employees, suppliers, individuals trained/mentored/receiving loans)	89,131
Indirect beneficiaries (dependents of direct beneficiaries)	387,580
Individuals receiving basic social services	1,855,419
Total jobs created	73,701
Number of micro entrepreneurs who received access to finance	14,900
Number of micro entrepreneurs who received mentoring and training in business and job skills	70,000

Source: Company documents.

Exhibit 2: The PlayPumps System

Source: Company documents.

Exhibit 3 PlayPumps International Key Indicators (US Dollars)

	FY04	FY05
Financial Indicators		
Sales Revenue (inclusive of annual grants)	$684,333	$964,565
Cost of sales	$279,667	$173,138
Gross Profit	$404,667	$791,428
Other income	$649,667	$76,305
SG&A expenses	$700,667	$810,173
Net Income	$353,667	$57,560
Repair and maintenance costs		$179,563
PlayPumps Ad Revenue		$436,455
Operating and Socio-economic Indicators		
Number of PlayPump systems	425	710
Estimated number of children reached per day	340,000	
Estimated number of villagers reached per day	850,000	

Note: Repair and maintenance refers to costs associated with the physical pump. SG&A expenses refer to administrative costs.

Source: Company documents.

Exhibit 4a Hagar Catering and Facilities Management: Financial Statements FY04- FY07 (US Dollars)

	FY 04	FY 05	FY 06	FY 07
Income Statement				
Revenues	84,643	353,463	493,712	806,788
Revenue from meals served	78,582	341,822	485,029	733,909
Cleaning services	5,224	9,476	7,662	13,341
Special functions	837	2,165	1,021	59,538
Cost of Goods Sold	72,024	262,128	377,715	638,824
Gross Profit / Loss	126,19	91,335	115,997	167,964
Operating Expenses	22,119	65,535	113,590	160,153
Net Income (before grants/others)	-9,500	25,800	2,407	7,811
Other Income (Grants, interest etc)	1,987	10,000	60,570	12,415
Net Income / Loss	-7,513	35,800	62,977	14,462
Balance Sheet				
Assets	49,630	65,671	206,058	322,606
Cash	6,348	24,882	18,906	4,458
Accounts Receivable	12,025	24,675	85,014	160,057
Inventory	623	8,719	6,020	11,833
Net Fixed Assets	0	1,725	96,117	146,258
Liabilities and Equity			206,058	322,606
AP, Accrued Expense, Current Liabilities	712	72	7,775	105,472
Cash Flow				
Cash flow from operations (does not include grants)	-11,727	10,259	44,613	-10,322
Cash flow used in investing	-18,747	-1,725	-81,096	-8,364
GBI Loans/Grants	25,000	0	-	-
Other Loans/Grants/Financing	30,000	10,000	30,000	-
Cash Flow after Financing	24,526	18,534	-	-

Source: Company documents.

Exhibit 4b Hagar Catering and Facilities Management: Monitoring and Evaluation Indicators

	FY04	FY05	FY06	FY07
Direct employees	38	72	110	135
Female employees as percentage of workforce	61%	65%	56%	59%
Number of female employees from Hagar programs	20	41	48	57
Children as indirect beneficiaries	59	50	67	115
Average monthly income	$48.00	$79.00	$100.46	$100.53
Employees with monthly salaries between $50 and $79	N/A	76%	N/A	N/A
Employees with monthly salaries between $80 and $120	N/A	12%	N/A	N/A
Employees surveyed who said they received 3 meals/day	N/A	100%	N/A	N/A

Source: Compiled from company documents.

Exhibit 4c Hagar Design Limited: Financial Statements FY04-FY07 (US Dollars)

	FY 04	FY 05	FY06	FY07
Income Statement				
Revenues	113,347	157,042	199,506	284,130
Local sales	23,797	60,965	55,034	44,758
Export sales	89,544	95,506	143,110	239,110
Non sales income (shipping etc)	6	571	1,362	262
Cost of Goods Sold	91,284	126,589	128,418	162,260
Gross Profit / Loss	22,063	30,453	71,088	121,870
Operating Expenses	70,797	129,928	102,073	88,017
Net Income (before grants/others)	-48,734	-99,475	-30,984	33,853
Other Income (Grants, interest etc)	55,001	36,959	4,926	11,798
Net Income / Loss (after grants)	6,267	-62,516	-28,644	44,982
Balance Sheet				
Assets	124,315	95,019	86,738	191,458
Cash	34,049	8,297	3,555	24,861
Accounts Receivable	1,581	3,156	16,622	36,724
Inventory	27,226	39,173	39,983	29,534
Net Fixed Assets	31,066	25,203	26,579	100,339
Liabilities and Equity	124,315	95,019	86,735	191,458
Accounts Payable	11,374	17,517	14,389	28,057
Hagar Loan	33,606	35,685	17,732	105,458
GBI Loan	0	25,000	55,569	20,833
Equity	79,336	16,817	-954	37,109
Cash Flow				
Cash flow from operations (does not include grants)	-11,727	-50,682	-12,167	N/A
Cash flow used in investing	-18,747	-12,485	-2,255	N/A
GBI Loans/Grants	25,000	25,000	-	N/A
Other Loans/Grants/Financing	30,000	36,941	18,266	N/A
Cash Flow after Financing	24,526	-1,226	3,844	N/A

Source: Company documents.

Exhibit 4d Hagar Design Limited: Monitoring and Evaluation Indicators

	FY04	FY05	FY06	FY07
Direct employees	52	90	90	84
Female employees as percentage of workforce	71%	88%	90%	90%
Number of female employees from Hagar programs	30	43	45	34
Children as indirect beneficiaries	38	56	>52	N/A
Average monthly income	$51.00	$52.28	$53.00	$53.00
Employees with monthly salaries between $30 and $49	N/A	66%	N/A	N/A
Employees with monthly salaries between $80 and $129	N/A	5%	N/A	N/A
Employees surveyed who said they received 3 meals/day	N/A	100%	N/A	N/A

Source: Compiled from company documents.

Exhibit 5a Drishtee Financial Statements FY04-FY07 (US Dollars)

	FY 04	FY 05	FY 06	FY 07
Income Statement				
Revenues (inclusive of annual grants)	68,361	426,124	890,408	961,614
Operating revenues	46,132	141,242	662,315	448,614
Grant	22,229	284,882	228,093	513,000
Operating Expenses	207,002	441,986	831,662	857,104
Operating Income (Loss)	-138,641	-15,862	58,746	104,510
Net Income (Transfer to Capital Fund)	-84,301	-13,519	34,448	104,510
Balance Sheet				
Assets	144,518	365,587	2,137,576	1,738,358
Current Assets	50,176	267,339	1,757,391	1,248,950
Liabilities and Equity	144,518	365,587	2,137,576	1,738,358
Current Liabilities	58,464	239,999	683,174	316,639
Long Term Debt	88,068	55,249	0	0
Equity	-2,015	70,340	1,454,402	1,421,719
Cash Flow				
Cash Flow before Financing	28,111	-4,597	22,472	207,150
IFC Loans/Grants	0	0	50,000	75,000
Other Loans/Grants	0	0	0	0
Cash Flow after Financing	0	0	72,472	490,218

Source: Company documents.

Exhibit 5b Drishtee: Monitoring and Evaluation Indicators

	FY06
# of people benefiting from affordable ICT services	300,000
# of ICT kiosks	1,130
# of employees	131
% of female kiosk operators	26%
# of new jobs created	2,848
% of kiosk centers operating at/above break-even	65%

Source: Company documents.

Exhibit 6a Irupana Financial Statements FY04-FY06 (US Dollars)

	FY04	FY05	FY06
Income Statement			
Revenues	1,659,605	1,055,050	1,439,060
Export Sales	191,626	361,393	661,944
Cost of Goods Sold	1,170,447	756,109	1,097,221
Gross Profit	489,158	298,942	341,839
Operating Expenses	417,629	329,585	468,331
Depreciation & Amortization	N/A	N/A	43,733
Operating Profit (Loss)	N/A	N/A	-128,552
Net Income (Loss)	-6,681	-57,667	-136,294
EBITDA	N/A	N/A	-84,818
Balance Sheet			
Assets	1,306,954	1,379,601	1,409,920
Current Assets	598,741	572,255	694,661
Net Fixed Assets	708,213	807,346	715,259
Liabilities	335,158	449,034	704,237
Current Liabilities	94,672	128,966	171,932
Long Term Debt	73,273	208,260	282,197
Other long term liabilities	167,213	111,808	250,109
Equity (adjusted without revaluation of new plant)	971,250	930,567	705,683
Cash Flow			
Cash & Equity Ending	N/D	N/D	105,189
Grants received	0	0	10,000

Source: Company documents.

Exhibit 6b Irupana: Monitoring and Evaluation Indicators

	FY04	FY05	FY06
Total employees	113	104	134
Temporary	N/A	N/A	50
Permanent	N/A	N/A	84
Women as % of employees	N/A	N/A	49%
# suppliers of organic quinoa	54	93	156
# suppliers of conventional quinoa	272	299	145
US$ paid to supplier	$220,002	$169,453	$423,707
Average earnings per supplier	$675	$432	$1,408

Source: Compiled from company documents.