

# upsides

Mobile money transfer services in Kenya  
Economic growth through entrepreneurship  
Supporting Armenian SMEs  
Award-winning Grassroots Business Fund

‘Financial  
inclusion  
must be  
pursued  
responsibly’

*HRH Princess Máxima  
of the Netherlands and  
UN Secretary-General's  
Special Advocate for Inclusive  
Finance for Development*



# AWARD-WINNING APPROACH TO COMBATING POVERTY

THE GRASSROOTS BUSINESS FUND (GBF) WAS chosen as one of the winners of the G-20 SME Finance Challenge. A great honour for a great organisation. 'GBF's aim is to try and improve the economic lot of the poor at the base of the pyramid.'

By Gary Rudland

**G**BF provides loans and investments to companies and SMEs in parts of the world where other financial institutions do not operate. In this way, it has improved the lives of literally millions of people. What makes GBF so special is that it is not a traditional microfinance institution, but goes out looking for relatively large-scale entrepreneurs. In addition to providing loans and investments, GBF also supplies technical assistance to farmers and other groups. It identifies candidates at the ground level, such as milk and grain producers who are

not yet commercially viable and do not qualify for bank loans, but are too large for microfinance. GBF brings these producers up to a commercial level, making them viable candidates for private investment.

'GBF's aim is to try to improve economic opportunities for the poor at the base of the pyramid,' says executive director, Harold Rosen. 'We do this by helping existing businesses to generate additional income and create greater social impact. This in turn gives people access to the resources necessary to get out of poverty sustainably. We don't do start-ups but we do get involved in the early stages of business expansion and pilot businesses.'

This unique approach has recently gained international recognition with GBF being named as one of only 14 winners of the G20 SME Finance Challenge. This first competition ever launched by the G20 attracted more than 350 contenders from around the world. It aimed to find the best and most innovative models for public-private partnerships that catalyse finance for small and medium enterprises (SMEs).



Kenyan women shelling cocoa

### Broad scope

Rosen: 'We stick to the poorer countries where poverty is most prevalent – such as sub-Saharan Africa (Kenya, Tanzania, Zambia, Ghana), Asia (Cambodia, India, Indonesia) and Latin America (Bolivia, Peru). We bring investments to more challenging, but developmentally more important frontiers than other organisations, employing a combination of loans and investments on a case-by-case basis. Most are somewhere in between: subordinated loans with income features or redeemable preference shares with a percentage of the profits. GBF also provides grant funding for capacity building, as well as human resources to provide technical support, helping to build companies in terms of management and planning. We provide a full range of services and support to help improve businesses.'

### Identifying potential candidates

'We tend to go out looking for SMEs in which to invest, ferreting out those with potential or those that are already making a social impact,' Rosen continues. 'We now have staff on the ground in many of our target regions; Nairobi, Ghana, India, Bangkok and soon

### GBF IN BRIEF

GBF's roots date back to 2000, when Harold Rosen founded the Small and Medium Enterprise (SME) department; a joint-initiative of the International Finance Corporation (IFC) and the World Bank. In 2004, this became the Grassroots Business Initiatives (GBI) department, which aimed to build sustainable, non-financial intermediaries that would empower large numbers of high-impact businesses, individual producers, consumers and entrepreneurs. In 2008, GBI became independent as the Grassroots Business Fund (GBF) and has

since invested more than US\$7m in 29 businesses across 12 developing countries, reaching more than 5.3 million people at the base of the economic pyramid. GBF targets investments between US\$250k and US\$1m and has an average investment horizon of 7-8 years. GBF can also provide short-term working capital loans (US\$40k to US\$150k) to export-orientated businesses through its SME Export Facility. GBF's capacity-building programmes are a combination of technical assistance, funded through grants, and hands-on management support from GBF staff and its partners.

Capacity-building programmes include improvements to governance, general management, reporting, Management Information Systems and business/financial planning. This blended approach is based on best practices from both the private and non-profit sectors.



LATCO is a purchaser, processor and exporter of sesame seeds

in Peru. Referrals also come from organisations with which we are affiliated, such as FMO and IFC, along with other interested partners. GBF is now in its third year of existence and we're becoming better known as an organisation, so SMEs are starting to come to us directly. In addition, we have a working capital facility – which is provided against orders on a short-term basis – and we use this as a foot in the door to develop a long-term investment plan, to which we would also contribute.'

#### Practical examples

LATCO, in Bolivia, is a purchaser, processor and exporter of sesame seeds. It purchases the seeds from around 1,500 farmers, and processes and exports them to nine countries in total, though mainly to Japan. GBF provided LATCO with around US\$800k in investment capital, along with a US\$150-200k grant. 'The investment capital is being used to build an improved processing plant, while the grant is helping to develop LATCO's growing supplier network into ten farmers' cooperatives,' Rosen explains. 'This strengthens the supply chain and helps

### 'THE AWARD IS A BIG BOOST, GIVING GBF CREDIBILITY AND PRESTIGE'

the farmers to get a better price for their crops. In addition, we provided LATCO with technical assistance to develop a governing environment and a board of directors.'

Another relatively recent investment by GBF was in Kenyan company Pwani Feeds, which delivers animal feed to around 3,000 farmers in the Mombasa region, purchases eggs produced by the farmers and sells the eggs to retailers using a wholesale distribution system. 'GBF is again providing around US\$800k in investment capital, to fund the acquisition of an egg storage facility and a maize milling plant, as well as to employ a plant manager to run it,' says Rosen. 'We're also providing technical assistance in the form of a multi-pronged management, education and expansion programme.'

'GBF supports companies that deal with large numbers of small producers,

in parts of the world that other organisations don't want to go,' adds Emile Groot, a financial sector specialist at FMO who has had close dealings with GBF over the past few years. 'By providing financial and technical support to these wholesalers, GBF helps to improve their organisation which, in turn, improves the lives of people at the base of the pyramid. GBF improves existing organisations, not only financially, but with helpful business suggestions and advice. This approach is quite unique and innovative.'

#### Measuring success

'GBF carries out extensive monitoring of all its investments, from beginning to end,' Rosen resumes. 'This includes best-practice reporting procedures, along with financial, operational and social metrics, as part of an overall Impact Planning, Assessment and Learning (iPAL) framework. We also help companies to track their own social impact, as well as providing assistance with facilitation and matchmaking within the international financial community. We help companies to find longer-term partners and other sources of financing.'

'GBF has only been in existence for two and a half years and since the average term of our investments is seven to eight years, it's too early to accurately assess returns. However, we're currently looking at roughly a 6% cash yield on our portfolio, which could grow to around 10% in the long term.'

#### International recognition

'It is a huge honour for GBF's work to be recognised by the G20 SME Finance Challenge committee,' Rosen concludes. 'It is very energising and comes at exactly the right time, since we are now ready to raise our public profile, secure the next stage of funding and grow. To be chosen at such a relatively early stage of GBF's development is a big boost and gives us credibility and prestige. It also shows that the governments involved are serious about supporting us in providing real and sustainable assistance and opportunities to some of the world's poorest people.'