Grassroots Business Fund

2012 ANNUAL REPORT
Dear friends,

The Grassroots Business Fund (GBF) is pleased to present its Annual Report for Fiscal Year 2012, which chronicles another very active year of operations.

With support from over a dozen governments, foundations and private individuals, we are closing a $47,000,000 private investment fund and have raised an additional $12,000,000.

This positions us well to pursue our mission to build and support High Impact Businesses, while also generating a profit that provides sustainable economic opportunities to millions of people at the Base of the Economic Pyramid.

While still young, our fund’s new portfolio is performing well and generating a significant social impact.

As this report goes to print, GBF has made 6 new investments through the fund, which brings the total number of clients in the fund portfolio to 16, including some investments transferred from the nonprofit.

With each of our clients, GBF provides expertise and management, operations and supply chain, strategic planning, governance, and environmental and social considerations.

Over the past several months, we have worked to fully integrate our business advisory services with the new fund, applying the same business rigor to these services as is applied in the investment processes.

Our team continues to make strides in improving how we plan, allocate, implement, and evaluate our business advisory services.

And these services are proving important in helping our clients scale and succeed.

2012 was an important year and we learned a lot. Addressing a scarcity of human capital, and requires rigor. There is a scarcity of human capital, and requires practical processes.

As our portfolio grows, we will continue applying lessons learned to create innovative approaches that improve GBF and strengthen the portfolio.

Going forward, we are excited by the opportunity to work together to achieve something special.

businesses in Africa, Asia, and Latin America, providing economic opportunities to more than 20,000,000 people at the Base of the Economic Pyramid.

We hope you enjoy this report, and would welcome your comments and suggestions.

Harold Rosen
Andrew Adelson

In the next few pages, we explain how we work with our clients...
A New Investment Fund...

GBF delivers a distinctive blend of investment capital and business advisory services through two main vehicles working together: a private investment fund and a non-profit organization.

Through the fund, GBF makes equity, mezzanine equity, mezzanine debt, and straight debt investments. These customized investment structures ensure that GBF’s investment performance aligns with the businesses’ performance. The fund delivers a form of capital suitable for long-term investment in businesses servicing the Base of the Economic Pyramid.

In tandem, the non-profit provides business advisory services to clients in the fund. GBF’s staff, expert consultants, and local service providers focus on enhancing financial and strategic planning, corporate governance, human resource management, marketing, supply chain management, and management information systems (MIS).

Early results have shown that this blended approach can successfully bring businesses to sustainability and scale, preparing them to engage with the private sector and access long-term commercial financing.

In its first four years of independent operations, GBF has delivered impressive results in challenging markets such as Kenya, Peru, India, and Indonesia.

Prior to the launch of the fund, GBF invested in over 32 High Impact Businesses. These companies directly impacted nearly 1,000,000 people living at the Base of the Economic Pyramid and delivered up to $50,000,000 in economic value.

GBF continues to operate as an integrated organization, building on its experiences and expanding its current activities.
“Over the last few years, GBF has achieved scale and developed a sound understanding of investing in emerging markets compelling. As a forerunner in impact investing, GBF constitutes an interesting investment partner for us.”

— Maurice Scheepens of FMO — the Netherlands Development Finance Company

$47,000,000
Committed to the Fund

$12,000,000
Committed to the Non-Profit

1,470,000
People have more affordable, quality goods, services and jobs

46,000
Artisans, farmers, employees, and entrepreneurs impacted

16 clients
In the fund

[1] countries
With GBF investment

Agrícola Viñasol S.A. (AVSA) purchases top quality agricultural products from small-scale farmers in Peru. AVSA provides its farmers with assistance from agronomists throughout the harvest season and partners with an NGO to enhance production techniques.
Investing in High Impact Businesses...

1. Identifying Leads
GBF partners with local funds, banks, industry associations, and other partners to identify growth stage companies that have the highest potential to succeed commercially while also generating a positive social impact.

The majority of businesses that GBF targets are mature, rather than early stage. They have several years of track record and a demonstrable competitive advantage.

2. Conducting Due Diligence
Assessing Needs
GBF’s due diligence process is comprised of three main components: (1) Business Due Diligence, (2) Legal Structure Analysis, and (3) Financial Review. Project teams also work and Business Advisory Services Team.

Simultaneous to the investment due diligence, GBF develops a business advisory services plan with the client’s management team.

3. Assessing Needs
Simultaneous to the investment due diligence, GBF develops a business advisory services plan with the client’s management team.

4. Closing the Deal
If findings from the due diligence process are positive, the investment team proceeds to present the opportunity to our Investment Committee. When an investment is approved and agreements are signed, GBF disburses the investment capital and begins its supervision process in conjunction with its support services.

- 37% of companies reviewed during due diligence are based in Asia
- 38% of companies reviewed during due diligence are based in Africa
- X% of companies reviewed during due diligence are based in Latin America

((Statistics for companies reviewed during due diligence based on regional distribution. X% indicates the percentage not specified or further detailed in the chart.))
GBF is a significant player in impact investing. Their work is helping create sustainable social and economic impact, while also offering a financial return on investment. OPIC sees great promise to supporting its development.”

Overseas Private Investment Corporation
Providing Advisory Services to Clients...

During due diligence, GBF will assess the business's weaknesses and risks, as well as review opportunities for growth.

Each client is measured against our core focus areas and given an ability score for each. This score is then used to help determine the strategy for each client.

Businesses in emerging markets face big challenges expanding social impact. Oftentimes, investment alone is not enough to help a business improve, scale, and succeed.

GBF works closely with clients to provide them with the business expertise they need to grow and scale. This value addition by GBF is based on client needs, and supported by rigorous objectives, deliverables, and success factors per assignment.

These services are closely monitored, and our headquarters in Washington, DC, and in each of business advisory service partners, GBF provides expertise on a range of business challenges including and social aspects.

GBF allocates funding for business advisory services according to thematic areas (see diagram at left).

1. Assessing Client Development Needs
2. Project Planning and Allocation

At this stage, alignment of objectives with the client is critical. GBF’s team and client senior management meet to brainstorm and prioritize potential projects.

The team uses the information gathered during the assessment phase and the outcomes of discussions with the client to determine top priorities and main objectives. Based on these objectives, actual business advisory services are programmed with subsequent success indicators.
GBF staff, expert consultants, and local service providers implement business advisory services. The particular mechanism is determined by the qualifications and timing required on a case by case basis. Once the program is underway, there are monthly phone calls between the Business Advisory Services team and regional offices to ensure that progress is made towards stated objectives, and to identify any possible interim changes required for the success of the program.

Jaipur Rugs Company has now grown to be one of the best known and respected social enterprises working with over 10,000 weavers through a decentralized rug production system. Looms are placed both in individual homes and community based production centers where artisans are provided with training, materials and designs.

4. Evaluation

business advisory services led to positive changes in the company. When applicable, GBF also involves who provide direct assistance and external consultants are evaluated based on personal performance, and to determine if objectives and deliverables were met in a manner.
CHIEF EXECUTIVE’S OVERVIEW

GBF’s fund has invested in companies reaching over 1,500,000 farmers, artisans, entrepreneurs, consumers, and employees. These businesses have created $74,000,000 of value by:

— Generating $60,000,000 of sustainable income for 11,000 farmers and 33,000 artisans,
— Enabling more than 200 small business entrepreneurs to purchase $14,000,000 of new assets for their businesses,
— Providing more affordable mobile banking, clean energy lighting, cookstoves, and other services to nearly 1,500,000 Base of the Pyramid consumers.

1. Data: Financial, Operational, and Social Metrics

GBF contributed performance data for analysis in the first report released by the Impact Reporting and Investment Standards (IRIS) initiative of the Global Impact Investing Network. IRIS provides a common language for defining, tracking, and reporting the social, environmental, and financial performance of an organization. This reporting mechanism enables GBF with the ability to compare financial, operational, social, and environmental metrics across the impact investing industry.

2. Tools

GBF uses different tools to help its clients determine their financial, social, and environmental progress over the engagement period with GBF. A primary tool GBF helps its client develop is a dashboard, an information system that enables management to obtain information about the most important aspects of a business, allowing for better informed decision-making and professionalizing the way the company is run. Additional tools include Client Feedback Surveys, Social Impact Verification, and Progress Out of Poverty Surveys.

3. Analysis

GBF works with its clients to improve their ability to analyze the data they collect. To build this capacity, GBF has monthly calls with each client to provide analysis and feedback on client reports.

Over time, GBF’s clients enhance their ability to make decisions that
Driving Social & Economic Impact...

CHIEF EXECUTIVE’S OVERVIEW

Much of rural India relies on kerosene stoves for cooking. However, kerosene’s health risks and use of energy is a danger to its users and communities at large. Serval is a social enterprise engaged in the manufacture of clean, efficient, and affordable burners and stoves used for cooking. The energy-saving technology is also cost-saving and enhances the quality of life of the 300,000+ consumers Serval has reached to date.

Corredor Agro (CAL) is an agribusiness company operating in Mozambique, whose primary business objective is to add value in the agricultural supply chain by linking small scale has now commenced its third season of operations and plans to farm approximately 1,000 hectares and market over consumers Serval has reached to date.

Mission-driven crafts companies provide economic opportunities to artisans in developing countries by connecting them with global consumer markets. Gone Rural facilitates the production of unique handicrafts using traditional Swazi skills and locally sustainable, natural materials. It maintains educational and social initiatives that focus on increasing the life expectancy of women, who are the primary victims of HIV/AIDS in the region.

Villa Andina is a Peruvian Company which sells dehydrated organic aguaymanto and mango in local and export markets. It works with over 300 small scale farming families in the Cajamarca region in Northern Peru, providing technical assistance in organic and sustainable crop management and seeds to the farmers. In 2012, GBF invested in Villa Andina to help increase the company’s production capacity.
GBF’s footprint in Africa is a diverse portfolio of High Impact Businesses, recognized for its field presence in Kenya, and a strong network of business advisory service partners. Over the past three years, GBF’s Nairobi office has provided a key advantage in client relationship building and business development. In this next stage of growth, GBF Africa will capitalize on these local networks and partnerships, as well as seek out new relationships with larger businesses to scale high impact initiatives.
Spotlight on KZ Noir

KZ Noir purchases raw coffee cherries & semi-processed parchment from smallholder farmers and cooperatives for processing. Processed coffee is then exported to international buyers. The company buys through its three subsidiaries: Socor, Caferwa, and Karengera.

KZ Noir’s Approach

KZ Noir is improving the Rwandan coffee industry by engaging with several rural coffee enterprises and bringing a strong management team, improved governance, shared services, and enhanced processes and planning. This approach increases the probability of business success for coffee washing stations that would otherwise have no access to such value-add expertise. It ultimately provides greater economic opportunities to the 6,000 farmers from whom it sources.

Partnership with GBF

In 2012, GBF invested $1,500,000 in KZ Noir, allowing the company to purchase cherries and parchment for export, and funding coffee processing expenses to meet purchase orders.

KZ Noir’s Impact

In 2011, Socor and Caferwa each bought coffee from over 6,000 smallholder farmers. As Karengera scales, it has the capacity to buy from several thousand more farmers in 2012. In 2011, KZ Noir employed over 800 staff members, 90% of whom are women.
GBF’s work in Asia focuses on strengthening and scaling High Impact Businesses that create new economic opportunities for the poor in India and Indonesia. GBF has focused on deepening its field presence with the recent launch of a formal field office in India, while also solidifying operations in Indonesia.

Looking ahead, GBF will look to expand its network of influential business leaders in the region, and work through local networks that can strengthen GBF’s ability to customize its approach to meet the unique needs of the Indian and Indonesian markets.
TARA Machines is a value-creating social enterprise that develops and drives green technology-based business solutions for aspiring entrepreneurs. The company offers a wide variety of green building technologies for entrepreneurs to purchase and use in their rural construction businesses.

After decades of research on the rural housing sector, TARA Machines was created out of the market opportunity for affordable, high-quality building materials to service small-scale home renovations. With technology innovation of Development Alternatives, a non-profit development organization, TARA Machines offers various lines of machines for local production of green building materials. These lines are sold to local entrepreneurs who hire and train people from the community. The TARA clay brick technology and TARA fly ash brick making machines manufacture products that are over 30% more energy efficient than traditional bricks.

GBF's investment will be used for capital expense needs of new branch offices and some R&D to further refine the existing product offering. GBF's business advisory services will be used to continue strengthening TARA Machines' management team and enhance the company's strategic planning and financial skills over time.

TARA Machines offers an alternative source of income to the traditional agricultural work available in rural communities. TARA Machines estimates that in doing business with 200 entrepreneurs in multiple states, it has given 3,000 individuals access to training and new sources of income. In coming years, TARA Machines looks forward to expanding its consulting services. These services offer training to both the entrepreneurs and local employees in business and machine operations.

1 clients in the Fund

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1,120,000 People Impacted

By Country:

- Indonesia, 10%
- Artisanal, 61%

By Sector:

- India, 90%
- Indonesia, 10%
- Artisanal, 61%
- BoP Services, 39%

$3,900,000 Committed Capital

$1,120,000 People Impacted

$2,000 People Impacted

Partnership with GBF

services will be used to continue strengthening TARA Machines’ management team.
Over the past 4 years, the Latin America team has built solid expertise in structuring and managing investments and in a wide variety of business advisory services. The team has built a strong network and recognition in Peru and Bolivia, further strengthened by the recent opening of a regional office in Lima. This new office anchors GBF in one of the most dynamic and growing regions of Latin America.

Looking ahead, the Latin America team will focus on three areas: (1) expanding the portfolio through new partnerships and investments in existing and new clients, (2) delivering results on the existing portfolio through effective investment supervision and hands-on business advisory services, and (3) deepening field presence.
Novica

Novica is a mission-driven crafts company founded in 1999. It seeks to re-invent the handicraft sector supply chain by connecting artisans in developing nations with global consumer markets using an innovative international infrastructure.

Novica’s Approach

Through regional offices in Brazil, Peru, Mexico, Ghana, Indonesia, Thailand, India, and Guatemala, as well as a fully integrated e-commerce platform, Novica provides artisans with access to the market. By eliminating the intermediaries, Novica enables the artisans to sell their products at a premium and protect their margins.

Novica’s Partnership with GBF

GBF has already provided Novica with investment capital and business advisory services to expand its global network of artisans to Guatemala, and to provide training to the new artisans entering the supply chain. Recently, GBF approved a follow-on investment of $1,800,000 to strengthen the operations of its regional offices, which is key to the company’s long-term growth plan. This investment will help its offices lower operating costs, improve product quality, and scale-up operations, among other things.

Novica’s Impact

Novica’s business strengthens the crafts-export sector in the regions where it operates. Novica’s biggest contribution to artisans is the direct link that it provides to international customers and their preferences. Specifically, Novica designers work with artisans to help them improve quality and adapt their products to fit new market trends, producing a dramatic difference in the artisans’ ability to sell and grow. Novica’s e-commerce website is located at www.NOVICA.com.

Spotlight on Novica

Meet the Entrepreneur: Roberto Milk

Spotlight on Novica

By Country:
- Peru, 63%
- Bolivia, 35%
- Guatemala, 2%

By Sector:
- Artisanal, 16%
- Innovations in Finance, 9%

People Impacted

17,000

Committed Capital

$1.8 million

By Country:

By Sector:

Clients

In the Fund and one exit

People Impacted

1,800,000
LESSONS LEARNED

GBF seeks to develop replicable tools, financing models, and partnership platforms. These will allow GBF to address common challenges, reliably measure social and financial returns, replicate what has worked and abandon what has not.

As the portfolio grows, GBF will continue applying lessons learned that can be used across GBF's portfolio and the impact investing field.
LESSONS LEARNED

1

Addressing the gaps that High Impact Businesses face is difficult because GBF and its clients operate in resource constrained environments. There is a scarcity of human capital, governance, financing, and best practices. A hands-on and patient approach to both investment and business advisory services is required to achieve GBF’s targets.

GBF is meeting this challenge to both investment and business advisory services, grounded in a growing field presence and practical processes.

2

Business advisory services is complicated but critical, which is why GBF is focused on implementing a systematic, thoughtful approach.

GBF is now focused on taking the development, supervision, and monitoring of such support to the next level with process enhancements and innovative models. These will ensure that GBF musters its best resources to help its clients scale sustainably and expand their impact.

Institutionalizing and integrating solid performance monitoring systems is critical and requires a practical approach suited to the local environment.

GBF helps clients develop and implement basic management dashboards rather than overly complex or sophisticated systems. These dashboards highlight key metrics to enhance decision making and performance. GBF also uses such management dashboards internally to enhance its own decision making in investments, business advisory services, social impact, and operations.

3
members of the board of directors include experienced leaders from the finance and development sectors. they are active participants in GBF’s planning and development. As GBF grows and its needs change, management will continue to make adjustments to the membership and mandate of these governance bodies to maximize value added.

Andrew Adelson, Chairman
Former Chief Investment Officer, Alliance Bernstein

Stephen Brenninkmeijer
Willows Investments

Harold Rosen
CEO, GBF

Holly Wise
Wise Solutions LLC

Managing Partner of Paroo and Associates
Former President and CEO of Omidyar Network

Iqbal Paroo
Managing Partner of Paroo and Associates
Former President and CEO of Omidyar Network

Helmut Paul
Former IFC Director for Latin America

Kash Rangan
Initiative

Michael Barth
Former Chief Executive Officer of FMO — The Netherlands Development Finance Company

Sari Miller
Investor

Alan Patricof
Founder and Managing Director, Greycroft LLC

Jo Schwenke
Former Managing Director of Business Partners International

Sir David Scholey
Senior Adviser to UBS AG and to the UK Financial Services Authority

Jim and Elaine Wolfensohn
Former President of World Bank Group; Vice President of the Botwinick - Wolfensohn Foundation

CP Zeitinger
Chairman, Supervisory Board, ProCredit Holding
Founder, International Projekt Consult (IPC)
Investors, Lenders & Donors

Overseas Private Investment Corporation
DEG — German Development Bank
FMO — The Netherlands Development Finance Company
NORAD — The Norwegian Agency for Development Cooperation
OeEB — The Development Bank of Austria*
Calvert Foundation
Deutsche Bank, Americas Foundation
Government of Canada
Adelson Family Foundation
T&J Meyer Family Foundation
Cecilia Chan
Charly and Lisa Kleissner (KL Felicitas Foundation)
Dalip Pathak
Sir David Scholey
George Doty and Lee Spellman
George Rohr*
Geri and Mason Haupt
Harold Rosen and Susan Wedlan
International Finance Corporation (IFC)*

James Wolfensohn (Wolfensohn & Company)
Jim Hornthal (Hornthal Investment Partners)
Joshua Mailman (Joshua Mailman Foundation)
Judson Berkey
Ken Inadomi and Melinda Wolfe
Luxembourg Ministry of Finance*
Marc and Leigh Cohen Family Foundation*
Maurizio Caio
Omidyar Network*
Prashant Jhawar
Robert Caruso
Ron Cordes (Cordes Foundation)
Sari Miller (Sari Sue Miller Family Trust)
Serge Kremer
Seth Meisel
Stephen Brenninkmeijer
Sudhir Maheshwari (AIM to Zero Foundation)
Suzanne Biegel (Biegel Maskit 2002 Revocable Trust)
* Donors beginning from 2008

GBF’s office in Kenya provides greater on-the-ground support for clients and a more efficient approach to source and screen investment opportunities, conduct due diligence, build client relationships, and supervise existing portfolio companies.
“With the establishment of the fund, we’re excited to continue our work through a relevant hybrid model that enables us to bring High Impact Businesses to sustainability and scale. The potential to strengthen the impact investing sector more broadly.”

Building on its track record to date, GBF will focus on the following priorities in the next year:

— **Scale and build a first-class investment portfolio:** Achieve financial and impact targets through careful deal selection, investment structuring, investment supervision, and hands-on support for clients;

— **Lead the field in business advisory services:** Improve not only delivery of these services but also the monitoring and tracking of its results. This will lead to improved business outcomes and social impact;

— **Deliver practical and meaningful metrics:** GBF will continue to focus on innovative yet practical metrics collection and verification frameworks that benefit the company and add additional value to the Base of the Economic Pyramid;

— **Build a high-quality, sustainable organization:** GBF is targeting continuous improvement, financial sustainability, and scalability (both its own and that of its portfolio companies). The organization will remain focused on ensuring the appropriate mix of investment capital and grant funding pools available to accomplish its mission over the next 5 years. GBF is also focused on the career development of its staff to build upon its strong team of investment professionals.

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1. Includes outstanding mission related loans both long term and short term
2. Includes all highly liquid assets and Certificates of Deposit
3. Includes accounts payable, accrued expenses, accrued vacation & sick days
4. Represents Lenders to GBI-I not GBP
5. Includes all contributions from individuals, foundations, bilateral institutions, etc.
6. Includes bank interest, mission related loan interest, and mission related loan activation fees, and exchange rate fluctuations
7. Includes mission related expenses such as technical assistance (direct and grants) and due diligence expenses, as well as internal programs such as monitoring and evaluation, and communications

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PHOTO-CREDITS

JAIPUR: Page 9
NOVICA: Page 16, 17
TARA Machines: Page 14, 15
Financial Highlights

**Statement of Financial Position**

*Year ending as of June 30*

**ASSETS**

- Mission Related Investments $2,081,024
- Mission Related Loans $4,754,181
- Cash and Cash Equivalents $10,029,779
- Donor Contributions Receivable $4,820,843
- Fixed Assets $83,335
- Other Assets $192,501

**TOTAL ASSETS** $21,961,663

**LIABILITIES AND NET ASSETS**

- Notes Payable $2,000,000
- Noncontrolling interest in GBI $2,763,678
- Net Assets (Unrestricted) $7,428,032
- Net Assets (Temporarily Restricted) $9,033,758

**1111**

**Statement of Activities**

*Year ending as of June 30*

**SUPPORT AND REVENUE**

- Contributions $10,240,642
- Investment Loss ($435,404)
- Other Sources $729,765

**TOTAL SUPPORT AND REVENUE** $10,850,214

**EXPENSES**

- Program Expenses $4,241,851
- Administrative and General Expenses $786,377
- Fundraising Expenses $144,138

**TOTAL EXPENSES**

2012. Disbursements of these funds is contingent upon high impact businesses meeting certain conditions.