

# Economic Empowerment through Enterprise

*Innovations Case Narrative:*  
Gone Rural

In Swaziland, one of the most desperately impoverished nations in Africa, a small grass-weaving company has emerged as a ray of hope for the women it works with. This alone would be a worthwhile endeavor, but what is even more fascinating is that this company has the potential to become a model for demonstrating tangible ways to lift millions of the world's poorest citizens out of poverty.

The global development community is understandably interested in this kind of company, but why would anyone from the international investment community pay attention to a small handicrafts company with the unassuming name of Gone Rural? After all, a company whose production relies on several hundred women in tiny Swazi villages is an improbable profit-making success story.

Gone Rural is located in the heart of a small southern African nation that ranks 123<sup>rd</sup> out of 169 on the Human Development Index.<sup>1</sup> HIV/AIDS has reached epidemic proportions in Swaziland, leaving thousands of children orphaned and causing the United Nations Development Program to state that if the current infection rate continues unabated, the “longer term existence of Swaziland as a country will be seriously threatened.”<sup>2</sup>

On the economic front, Swaziland fares little better. The economy is based primarily on subsistence farming, which employs nearly 80 percent of the population but only represents a little over 8 percent of GDP.<sup>3</sup> Given those numbers, it is not surprising that close to 60 percent of the population lives on less than the equivalent of US\$1.25 per day.<sup>4</sup>

The 2008 global economic crisis took a large toll on Swaziland's fledgling economy, and the country is dependent on South Africa for its economic well-being.<sup>5</sup> Since 2008, demand for Swaziland's largest exports—mostly textiles, sugar, and wood pulp—has decreased. The resulting decline in revenue has pushed the country into a fiscal crisis. Indeed, “with an estimated 40% unemployment rate,

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## Defining High-Impact Business

High-impact businesses are enterprises that have a direct economic impact on large numbers of people (customers, employees) at the bottom of the economic pyramid. While they need growth capital, these companies cannot absorb large investments of \$1-\$2 million without substantial capacity-building efforts in areas like financial management and accounting. The human resources required to address these shortcomings are costly and often fall well beyond the mission and capacity of traditional growth investors.

Swaziland's need to increase the number and size of small and medium enterprises and attract foreign direct investment is acute.”<sup>6</sup>

### HIGH-IMPACT BUSINESSES AND THE “MISSING MIDDLE”

Although Swaziland's problems are acute and Gone Rural's promising results are tangible, few investors are willing to take the risk of funding small and midsize enterprises (SMEs) like Gone Rural because of the unique challenges they face. SMEs frequently lack the necessary management skills, tools, governance, and financial expertise to develop well-managed, financially sustainable business operations. Moreover, SMEs need more than the short-term loans provided by micro-finance and most other lenders, but they have trouble sourcing longer term, risk-sharing capital.

Harold Rosen felt Gone Rural's pain. As an employee of the International Finance Corporation (IFC), Harold played a major role in developing IFC's micro-finance and SME investment practices, which are now important elements of both the IFC and the Grassroots Business Fund (GBF). In 2004, Rosen started the Grassroots Business Initiative (GBI) at the IFC, which aimed to build and support high-impact businesses in lower-income developing countries that provide sustainable economic opportunities to farmers, artisans, and microentrepreneurs, or offer affordable basic services to people at the bottom of the economic pyramid. GBI worked with these companies to strengthen their business performance, scale-up their operations, and improve their sustainability.

Aware of the specific challenges high-impact businesses face in securing investment funding, GBI set out to become a nontraditional investor. GBI was essentially founded on the assumption that if an investor agreed to forego financial returns in the short term, entrepreneurs would have the time and money to scale and replicate the business without the return expectations and time horizons of traditional capital.

In short, GBI's hypothesis was that if patient capital is blended with business-development services (through grant-funded technical assistance), companies can improve and scale-up their operations, achieve sustainability, and eventually attract private-sector investors. In a sense, GBI sought to fill the “missing middle” between philanthropic and commercial capital.

In 2007, GBI gave a small grant to a small company with great potential: Gone Rural.

That was how I ended up in Swaziland.

My work in Swaziland marked a distinct and somewhat surprising career turn. After ten years of working in Latin America, I declined a banking job offer in London to go to Swaziland, a country that most of my friends at the time could not find on a map. Back then, you were about as likely to find a Colombian with a business degree in Swaziland as you would be to find a multinational corporation headquartered there. It is simply not the first place many people would think to go to make use of an MBA. Still, I had a gut feeling I should be in Swaziland. As clichéd as it may sound, I wanted to use my skills to work toward a better world. I believed then, as I do now, that to effectively address poverty and its implications, people who are excluded from the market economy need opportunities to access markets and generate value.

### AN MBA WITHOUT BORDERS

Thus, on July 19, 2007, I arrived in Swaziland. I drove immediately to Gone Rural's main office and workshop, which are situated in a beautiful valley planted with pineapple and sugar cane. Gone Rural makes home accessories that combine traditional Swazi grass-weaving skills with high-end design. Its products are hand woven from sustainable, local natural fibers by more than 750 rural Swazi women, who gather the indigenous *lutindzi* grass that grows in the Swazi mountains. Gone Rural then purchases the grass from the women, dyes it in its workshop, and distributes it back to the women as needed so they can weave baskets, bowls, and other home products for upcoming "e-commerce" or export orders to retail distributors, such as TJ Maxx, Bridge for Africa, or Shopping for a Change. Some communities are over two hours' drive away from Gone Rural headquarters and can only be reached by dirt roads, but this is in line with Gone Rural's social mission: to generate a home-based income for rural women and their communities.

At the office, I met with Gone Rural's managing director, Philippa Thorne, to discuss my work plan. As an MBAs without Borders consultant,<sup>7</sup> my assignment was to assist Gone Rural in building its sales and optimizing its business by creating production forecast and monitoring tools. But the underlying challenge was to help foster a financially sustainable business that could maintain its social mission of supporting rural women.

Running a double bottom line business—that is, focusing on both financial and social return—in a developing country like Swaziland presents unique challenges. Gone Rural faces constant pressure from retailers who push it to lower its prices. At the same time, as Gone Rural strives to meet its annual social targets, it hopes to increase artisans' income annually. This requires the business either to operate at a lower gross profit or to create products that demand higher price points. Thus, some of Gone Rural's most important activities relate to new product development and market positioning.



I set about my task aware of the challenges that face many businesses: change is difficult, and human capital resources are often scarce. I spent the majority of my time listening, observing, and tailoring solutions to Gone Rural's specific context and mission. I worked closely with the company's management to develop milestones that were tracked regularly and adjusted as necessary.

Gone Rural's management and staff were incredibly hardworking and open to outside recommendations. Together, we implemented many critical systems that helped Gone Rural grow as a business. We worked to create spreadsheets that mined data from the accounting system and tracked historical data, product trends, and sales performance in a usable way. Similar work was done with color and design trends, product units, and material needs. We also worked to manage inventory and production, set larger sales targets, and achieve those targets in a timely manner.

Over several weeks, I worked with their marketing team to develop a long-term strategy that included launching a website, improving sales tactics, and defining the markets Gone Rural hoped to target. I wholeheartedly believed in Gone Rural's potential to change the social conditions for the women and communities it worked with. To do that, Gone Rural's management was determined to become a financially sustainable enterprise, operating efficiently according to global business best practices.

I worked with Gone Rural for eight months. Despite Swaziland's economic, social, and health circumstances that have proved crippling for many, Gone Rural has been able to maintain consistent revenues and build a foundation for sales

growth and export market expansion. Due to the staff's commitment and hard work, the company increased its sales 66 percent from 2006 to 2009 and decreased its operating expenses by 17 percent. Today, Gone Rural is a full-fledged crafts design and export company. In most cases, Gone Rural provides the only source of income for its 750 female artisans who have, on average, eight dependents. The company is currently one of Swaziland's top five producers of handmade products and is considered among the country's most successful handicraft businesses.

#### BUILDING SOCIAL ENTERPRISES FROM THE GROUND UP

High-impact businesses like Gone Rural have great potential to create job growth around the world but can also generate economic opportunities that go beyond creating jobs.<sup>8</sup> These businesses frequently are a catalyst for sustainable economic development and the production of affordable goods and services in both developed and developing countries.

Indeed, SMEs provide over 30 percent of total employment and generate 16 percent of GDP in low-income countries. In middle-income countries, SMEs capture an even larger share at 57 percent and 39 percent, respectively.<sup>9</sup> However, they are often considered too risky for commercial investment and need much more investment capital than can be provided through microfinance. In Swaziland, SMEs provide 33 percent of manufacturing and 56 percent of commerce.<sup>10</sup> As a group, they are the largest employer of semiskilled and unskilled labor, particularly women and youth.

High-impact businesses can stimulate economic growth and innovation and, with the right support, they have the potential to scale and generate economic opportunities for millions living at the base of the economic pyramid. Despite these figures, Philippa's business was too small and too risky to attract commercial bank or investor interest, and too large to benefit from microfinance products. Like many SMEs around the world, Gone Rural was falling through the cracks, stuck in the missing middle.

GBI's goal was to address this missing middle. Over the course of its own organizational history, GBI had implemented over 40 technical assistance projects and

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investments, impacting the lives of more than 3.4 million people at the bottom of the pyramid.<sup>11</sup>

However, like the companies it was investing in, GBI soon began to experience growing pains. It realized that to be most effective, it needed to scale and expand to outside investors in order to attract other partners. By doing so, it could become more flexible and effective while serving the needs of high-impact businesses worldwide. Its goal was clear cut: to create an organization that supports businesses that are helping create a world in which economic opportunity can reach everyone.

When my contract with Gone Rural ended, I moved to Washington, D.C., to join a team that would move GBI to its next phase: an independent nonprofit called the Grassroots Business Fund.

### HYBRID MODELS FOR DEVELOPMENT

As Gone Rural became more efficient and able to effectively provide incomes to women in Swaziland, it became even more committed to addressing the obvious needs of the communities where its artisans worked. In 2006, Gone Rural founded Gone Rural boMake, a nonprofit organization that would assist rural women and their communities in the areas of health and education. Gone Rural supports Gone Rural boMake by providing 95 percent of the nonprofit's administrative costs and is working to contribute even more in the future. Gone Rural donates a minimum of 20 percent of its profits to Gone Rural boMake on a regular basis. This innovative hybrid structure has helped the company achieve its financial mission and successfully fulfill its social objectives.

Learning from the innovation of one of its clients and from its experience during its three-year pilot period, GBF developed its own hybrid structure: it provides high-impact businesses with investment capital through a for-profit investment fund, and offers them support in areas such as financial management, corporate governance, and access to markets through a nonprofit, grant-funded entity. GBF's fund delivers appropriate long-term, risk-sharing financing (that is, equity and quasi-equity) to help businesses expand their assets and scale their long-term sustainability. Complementing that capital investment, the nonprofit entity manages the fund and supports fund portfolio companies with grant-funded technical assistance programs that enable them to scale-up and improve business operations.

Gone Rural is one example of how GBF's blended investment approach can help bring High Impact Businesses to scale and sustainability, thereby enabling them to attain private-sector financing while creating economic opportunities and improving social conditions for large numbers of people living at the bottom of the pyramid.

In its first two years of operating independently from IFC, GBF produced impressive results in challenging markets such as Kenya, Tanzania, Bolivia, Cambodia, and Indonesia. Estimates are that GBF's high-impact businesses have

delivered a total of more than \$25 million in value<sup>12</sup> to approximately 7.8 million people<sup>13</sup> living at the bottom of the pyramid. Moreover, 98 percent of the people who benefit from GBF's \$8.5 million investment portfolio are linked to businesses operating in countries with a gross per-capita income of less than \$1,200. About 50 percent of this portfolio is invested in the agribusiness sector, and roughly half of that in sub-Saharan Africa.<sup>14</sup>

GBF has helped move its businesses markedly toward sustainability and scale while preserving their social missions. GBF's model is hands-on, with intensive staff engagement. Much like my approach with Gone Rural, GBF takes a rigorous, business-minded approach to improving management, developing business capacities, and expanding the social mission of high-impact businesses.

### IMPACT INVESTING

As a complement to its work with high-impact businesses, GBF is working aggressively with other socially oriented investors to encourage learning and sharing across the impact investing ecosystem. When I joined GBF after my experience with Gone Rural, I quickly realized that I was not just helping to create a new non-profit, I was helping to build the emerging new field that we now call impact investing. Impact investing differs from socially responsible investing, which uses a screen to avoid investing in certain sectors, such as alcohol, weapons, or tobacco. In contrast, impact investing seeks out businesses that provide socially beneficial products or services but cannot access traditional forms of finance, due to obstacles such as size, stage of development, geographic location, or lack of collateral.

These days, the field of impact investing is receiving an increasing amount of attention. With aid budgets strapped and foreign companies recovering only gradually, a greater emphasis is being placed on encouraging local businesses to become engines of economic activity.

While the importance of this work is much more accepted these days, the tools and modalities for developing it are far less evident. The impact investing field is still in the nascent stage within the economic development sphere, and even its very definition is still under discussion. Impact investments encompass a wide range of sectors and business types, in contrast to microfinance, which is more or less a single model of giving small unsecured loans to individuals.

Impact investing is often compared to microfinance, as both are innovative approaches to promoting economic growth in the developing world. However, the "ecosystem" of good practices, players, pools of capital, and support organizations is far less advanced in the impact investing sphere. While some pieces of infrastructure are being developed (definitions, metrics, and some industry groupings), the field remains far less advanced than microfinance, which early on developed a robust set of players, practices, and principles. The impact investing field will need to do the same if it is to achieve the same scale and absorb the kind of resources being identified. GBF hopes to help strengthen the impact investing field by incorporating key lessons from the microfinance industry.

There clearly is a need for subsidies to support entrepreneurs who are building businesses that provide social benefits, especially in tougher sectors such as agribusiness and in less developed countries. Yet, as in the early stages of microfinance, there are debates about the appropriate use of subsidies, the modalities of blending grants with investment capital, and the proper sharing of risks and rewards. Transparency is increasingly important to ensure proper use of public and charitable funds. It was more than 30 years after Muhammad Yunus made his first microfinance loan that he accepted the Nobel Peace Prize (in 2006), and it took the larger microfinance community even longer to get the industry to a place where microfinance institutions agreed on general principles, lending practices, metrics of social impact, etc., by making significant efforts to share lessons learned and partner with likeminded organizations.

#### CLOSING REFLECTIONS ON GONE RURAL'S PLACE IN THE DIVERSIFYING IMPACT INVESTMENT ARENA

Five years ago, Gone Rural's management had not institutionalized best business practices within its organization and it had limited sales and operational capabilities. Today, Gone Rural works with 750 women from 13 different communities throughout Swaziland. Their social initiatives support HIV/AIDS treatment, primary education, food security, clean water, literacy, youth entrepreneurship, and more.

Similarly, a little more than five years ago the Grassroots Business Fund was simply an idea in the mind of its founder. Today, GBF has invested \$8.5 million in 32 businesses across 12 countries, and its activities have improved the lives of over 5.6 million people at the bottom of the pyramid.<sup>15</sup>

The people who benefit from GBF's unique blend of investment capital and technical assistance are women like Fikile Buthelezi from Gone Rural's Ngwavuma group. Fikile used her earnings from Gone Rural to start her own business. With the money she saved from making baskets each month, she bought a car battery, an electric converter, and two solar panels. She then created her own device for charging cell phones in one of Swaziland's most rural areas. Cell phones are the only communication available in such areas, where phone lines and electricity do not exist. Fikile charges a small fee for each cell phone charged. In this manner, she is able to supplement her Gone Rural income and support her entire family.

Hybrids such as Grassroots Business Fund and Gone Rural are leading innovators in the impact investing field, and they are creating promising models that prove private gain and public benefit are not mutually exclusive. Both organizations hope to spur innovation by others, like Fikile, and create a new generation of social entrepreneurs across the globe.

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2. "Country Programme Outline for Swaziland, 2006-2010," United Nations Development Program.

3. Technoserve, Swaziland. Available at <http://www.technoserve.org>. Retrieved March 15, 2011, from



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- <http://www.technoserve.org/work-impact/locations/swaziland.html#moreabout>.
4. "UNDP: Human Development Indices—Table 3: Human and Income Poverty (Population living below national poverty line, 2000-2007)." United Nations Development Program, November 28, 2008.
  5. The Swazi economy is very closely linked to the South African economy, from which it receives over 90 percent of its imports and to which it sends about 70 percent of its exports. <http://en.wikipedia.org/wiki/Swaziland#Economy>.
  6. "CIA World Factbook: Swaziland," Central Intelligence Agency. Retrieved March 27, 2011.
  7. See <http://mbaswithoutborders.org/>.
  8. See <http://finance.fortune.cnn.com/2011/04/20/in-developing-economies-equity-beats-microfinance/>.
  9. "The SME Banking Knowledge Guide," IFC, 2009. Available at [http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/SMEBankingGuidebook/\\$FILE/SMEBankingGuide2009.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/SMEBankingGuidebook/$FILE/SMEBankingGuide2009.pdf).
  10. See <http://www.africaneconomicoutlook.org/en/countries/southern-africa/swaziland/>.
  11. See [www.gbfund.org](http://www.gbfund.org).
  12. Value creation is the sum of direct payments to artisans and farmers, direct cost savings from bottom of the pyramid products/services, capital made available for productive assets to small entrepreneurs, and wages paid directly to employees of clients.
  13. Includes both direct beneficiaries and their dependent family members.
  14. See [www.gbfund.org](http://www.gbfund.org).
  15. See [www.gbfund.org](http://www.gbfund.org).