Ruma
Rekan Usaha Mikro Anda

PT Rekan Usaha Mikro Anda (PT Ruma):

A Social Enterprise with an Explicit Double Bottom Line

Introduction

PT Rekan Usaha Mikro Anda (Ruma), which translates to mean "Your Microbusiness Partner," is an Indonesian social enterprise founded to demonstrate that microfranchising can be an effective tool for poverty alleviation. Because the founders of Ruma are committed to consciously pursuing both financial and social bottom lines, Ruma targets those living on less than $2.50 per day with pre-packaged businesses—operating mobile phones, for which they currently sell airtime. Ruma's "business in a box" model of microfranchising includes working capital loans, a standard mobile phone for selling airtime, an established brand with associated marketing materials, training on business operations, and mentoring services to ensure that clients are able to successfully launch and sustain their microenterprises.

Two Indonesian social entrepreneurs, Aldi Haryopratomo and Budiman Wikarsa, incorporated Ruma in July 2009, with a vision to empower the poor and help them to create profitable businesses. They wanted to utilize the skills they had gained in obtaining their MBA degrees as well as their experience at world-class companies including McKinsey & Co., Boston Consulting Group, Ernst & Young and Kiva — to build a creative new organization in Indonesia that could be the gold standard for social enterprise.

Social Enterprise – an organization or venture that advances its primary social or environmental mission using business methods and focusing on sustainability.

Social Business – a non-loss, non-dividend company designed to address a social objective. Profits are reinvested in expanding the product or customer base.

Microfranchise – microenterprises that can be easily replicated by following proven operational concepts with the goal of alleviating poverty, enhancing individual self-reliance, and stimulating economic development.

Grameen Foundation and Qualcomm, through its Wireless Reach™ initiative, incubated Ruma to support the growing network of micro entrepreneurs in the Village Phone microfranchise program. Grameen Foundation has also provided Ruma with technical assistance and early stage investment funds. The technical assistance helped Ruma to build its human capital, technology systems, and operational framework, while the investments came from a program-related investment and the Pioneer Fund, a Grameen Foundation investment vehicle designed to provide financing to new organizations with social goals, such as reaching remote areas or using innovative products to meet the needs of the poor.

One of the truly unique aspects of Ruma's business model is how the founders incorporated their commitment to double bottom line outcomes into their company's bylaws. Ruma's founding articles state that its social mission will be met if Ruma clients have at least an 80 percent likelihood of being poor (defined as living on less than $2.50 a day) and at least a 15 percent likelihood of being very poor (living on less than $1.25 a day) when entering the portfolio. Ruma's leadership wanted to ensure they would focus on the poor. The bylaws also state that no shareholder will receive a dividend, should there be any profits from the business, unless the company meets its social targets.

Setting such ambitious quantitative targets also requires a reliable, quantitative tool that allows Ruma to measure its progress toward those goals. After considering all of their options, the founders of Ruma selected the Progress out of Poverty Index® (PPI®) as their tool of-choice.

Advantages for Ruma

Integrating the PPI into Ruma's operations resulted in several advantages:

- **Ruma's commitment to its social mission can be quantified** to prove the social impact of the micro-franchising business model.
- **Ruma can segment clients by income** and develop targeted solutions for clients at three distinct levels of poverty.
- **Ruma can improve product design** based on the data in the Grameen Foundation-designed reports, which have permitted the development of tailored interventions to decrease the likelihood of client drop-out for the very poor.

Why the PPI?

Ruma's primary goals as a social enterprise include identifying, recruiting, training, supporting, and retaining the poor as microentrepreneurs in order to improve their clients' economic livelihoods. Therefore, Ruma's ability to determine whether it is actually reaching the poor is central to its mission. Ruma's founders selected the PPI from among competing poverty assessment tools for these concrete reasons:

#1 First and foremost the **country specific** nature of the tool appealed to this Indonesia-based business. Grameen Foundation created the PPI for Indonesia using the data set from the 2007 Indonesia National Social Economic Survey, meaning the data is locally relevant and relatively recent.

#2 Another advantage of the PPI is its **ease of implementation**. The data for the PPI is collected using a ten-question survey of readily identifiable indicators, such as the number of children in the household attending school, the material of the floor and roof, and whether the client's household owns a refrigerator.

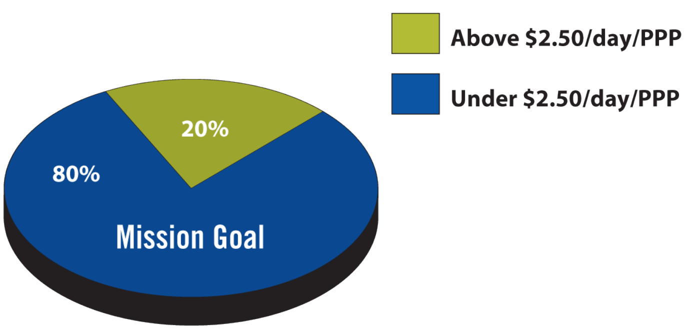
#3 This ease of implementation means that it **does not place an undue burden on the field officers** who are responsible for gathering this data for each client as part of the intake process.

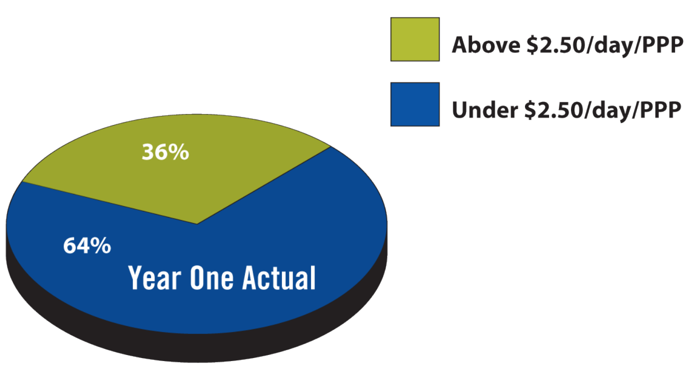
#4 Finally, Ruma staff conducts the PPI survey process annually with each of their clients, thereby building a baseline poverty score as well as a means of **tracking their progress out of poverty.**

The Problem: How to Target the Poor and Very Poor?

The data collected during its first year of operation revealed that 64 percent of clients recruited by Ruma were classified as poor, with 10 percent of those categorized as very poor. Ruma is still in an early stage and did not generate profits in its first year, however it plans to be financially self-sufficient within its first 2.5 years of operation. Even if the company had generated profits, because its first-year data revealed that it had not met its target to reach 80 percent poor clients, established by its bylaws, no payout to shareholders would have been permitted.

PT RUMA Goal vs. Year One Actual Client Poverty Distribution





The Solution, Part 1: Better Segmentation of RUMA's Clients Using the PPI

In addition to collecting PPI data on its clients to evaluate its progress toward its mission, a second source of information comes from the clients' businesses themselves. Ruma is a data-rich institution, as its network of microentrepreneurs transacts using mobile phones that communicate with its backend server. As such, Ruma has a record of every transaction conducted on the network. The mobile phones are an important source of information on both the clients' businesses and the company's revenues.

However, despite its large and complete data sets, Ruma had not been able to fully manipulate and analyze this data to best advantage. Again Grameen Foundation acted as an important strategic partner for this social enterprise, conducting interviews and designing analyses and reports that met the data needs of each level of Ruma staff. This information has allowed the company to segment its clients and target them with appropriate products and support. Without the PPI data or the phone transaction data, Ruma would not have the necessary information on its clients' income levels or on what their poverty levels predict about their success in starting and sustaining their microbusinesses —an important question for this social business.

Robust data analysis around such questions enabled Ruma to develop customized products to address particular client characteristics based on poverty level, including: preferential rates for payments made at banks instead of collected by loan officers, varying sizes for working capital loans, and more frequent collections. Any one of these interventions would not be cost effective or relevant if applied across the portfolio, but since the right types of support and intervention can be offered to specific clients based on their PPI scores, the cost-effectiveness for Ruma to recruit and retain the poor and very poor into its portfolio on an ongoing basis is greatly enhanced. These interventions have also increased the poorest clients' success rates in maintaining their microfranchises, especially during the critical start-up phase.

The Solution, Part 2: Better Targeting of the Poorest Using the PPI

With a tool in place to measure client poverty levels, Ruma also needed to be able to effectively recruit poor and very poor clients. By adding several new questions to the PPI, Ruma found that the PPI could become an even more effective screening tool to help them select individual poor clients. Examples of questions that were added include: "Owns a boat" to capture a major asset owned by many Indonesians who live near the sea, or "Not living with family" to capture young people living in shelter houses or orphanages. This enhanced PPI survey was also combined with other techniques in order to create a more effective screening process for Ruma's prospective clients. Word-of-mouth referral by current clients of potential clients with a similar socio-economic level has proved most successful in recruiting clients, proving the importance of engaging with people closest to the community. Ruma also partners with local poverty-focused NGOs for client referrals. These techniques for identifying poor and very poor clients are currently being pursued simultaneously to ensure recruitment of appropriate target clients for Ruma's services.

Lessons Learned

The consistent integration of the PPI into Ruma's operations keeps the institution's focus on serving the poor, resulting in several institutional benefits and important lessons for the industry as a whole:

- Microfranchising can be a successful means of assisting the poor and very poor to reach the first rung of the economic ladder and prepare them to benefit from further microfinance services.

- The poverty level of the microentrepreneur does not determine the ultimate success of the microfranchise; however, it does affect the drop-out rates for the very poor microentrepreneurs, who had dramatically higher drop-out rates in the first week than those who were less poor. Of those very poor clients who stayed with Ruma past the first week of their business' operation, success levels of their businesses were comparable to those of other clients across all the poverty levels in the portfolio.

- Ruma's social enterprise model has not hindered its ability to raise investment funds to fuel its growth and development. Ruma successfully leveraged its commitment to its social bottom line to raise initial funds. Qualcomm, through its Wireless Reach™ initiative, worked with Grameen Foundation to incubate Ruma and has supported efforts to build and test mobile services specifically designed for poor people.

Ruma's commitment to serving the poor is absolutely core to its existence as a social enterprise, and the results of the PPI are key to establishing the credibility of Ruma's social enterprise model and measuring the company's social impact. ■

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Lessons from a Social Enterprise in Using the PPI

TOPIC	HYPOTHESIS	REALITY	LESSON LEARNED
Utility of microfranchise business model for working with the poor and very poor	The poor can be successful implementing microfranchise businesses.	Cell phone-enabled microfranchises have been a successful entrée into microfinance for thousands of poor people in Indonesia.	Microfranchise can be a successful means of helping the poor and very poor reach the first rung of the economic ladder and prepare them to benefit from further microfinance services.
How poverty level affects success of microbusinesses, especially microfranchises	The poorest clients would be less successful with their microbusinesses than less poor clients.	Very poor clients had dramatically higher drop-out rates in the early stage than less poor clients. After the start-up phase, all clients, regardless of poverty level, had comparable success rates for their businesses.	The very poor can operate successful microfranchises, but they do need additional support to access capital and launch the business.
Social enterprises' ability to access social investment capital	Social investors would be interested in Ruma's double bottom line mission, but would require a return on their investment in order to commit funds.	Initially, Grameen Foundation invested $150,000 in Ruma. Qualcomm, through its Wireless Reach™ initiative, also helped to incubate Ruma. Additionally, a group of social investors will contribute $400,000 to support Ruma's operations.	Ruma's social enterprise model has not hindered its ability to raise commercial funds to fuel its growth and development.
Using the PPI to demonstrate the social bottom line	Integrating the PPI into operations would help Ruma to demonstrate its success in achieving its social mission.	Ruma's commitment to serving the poor is at the core of its existence as a social enterprise, but its results in Year 1 did not meet its targets for reaching poor clients.	The results of the PPI have been key to establishing the credibility of Ruma's social enterprise model and measuring the company's social impact.

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This case study demonstrates one program's innovative use of the PPI as a tool to advance its social mission, offering valuable lessons for pro-poor organizations.

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