



Sustainable finance for development

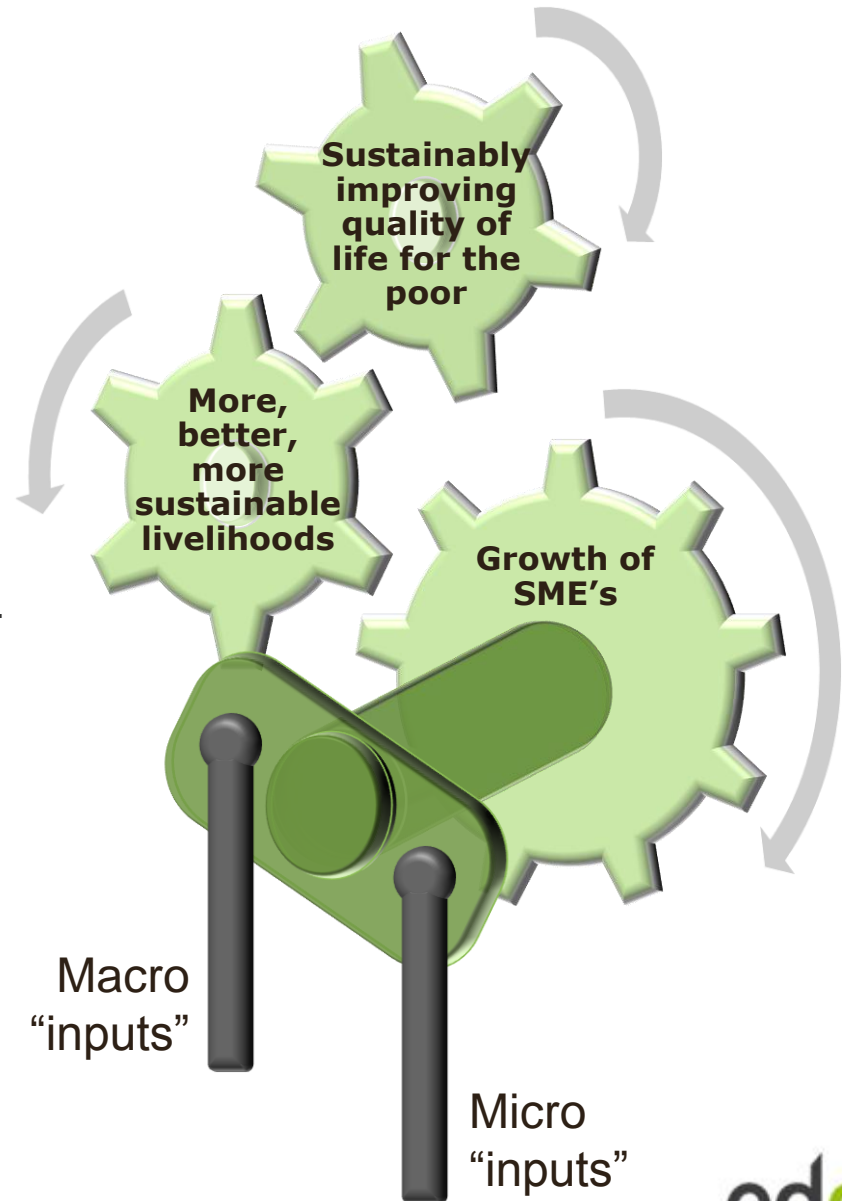
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and UN Finance for Development Business Sector
Steering Committee

2nd International Business Forum on Financing for
Development in Doha, Qatar, 28th Nov'08

Jason Goldberg

First principles: what is “finance for sustainable development”?

- Development is ...
- ...Which happens through creating...
- ...Which happens through facilitating...
- ...Which requires influencing...
- ...And...



Progress to date

Dominant approach: MMW4P – Making markets work for the poor

- Business linkages / Value chain integration / Inclusive business **ala Anglo Zimele**
- Bottom of the Pyramid strategies, products, and business models **ala Grameen Bank and Hindustan Lever**
- Micro-finance revolution, estimated \$20Bn global supply of microfinance **ala Grameen Bank, AfriCap, Accion, etc**
- “Missing Middle” funds, e.g. **SEAF, Business Partners, Grofin**
- Etc...

Plus pioneering R&D

- Integrated, sustainable community development strategies **ala Millennium village project**

Great start...But not enough

Reality check for South Africa: clearly current efforts to halve unemployment by 2015, are insufficient



- To halve unemployment by 2014, SA needs to create ~700,000 jobs p.a.*
- Currently achieving 30%: ~240,000 jobs p.a (average, 2001-2006)



Source: Oxfam, 2007

Oxfam (2007). What is pro-poor growth? What are some of the things that hinder its achievement in South Africa? In Pro-Poor Economic Growth Models for South Africa. Author C Meth. Oxfam, GB.

*Note: 1,000,000 to address "underemployment" in addition)

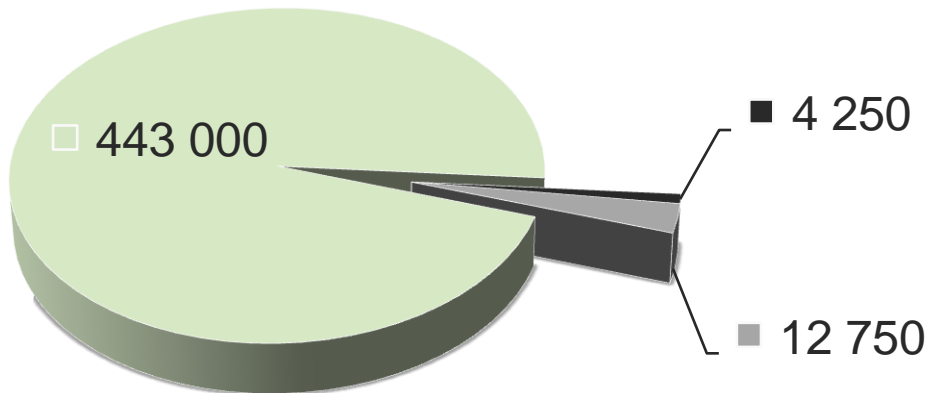
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Insufficient scale: Prvt sector ED at current best practice levels addresses 4% of job creation “gap”

Jobs created by SA Prvt sector ED p.a (% of “gap”)



- Current
- Potential at best practice levels
- Gap

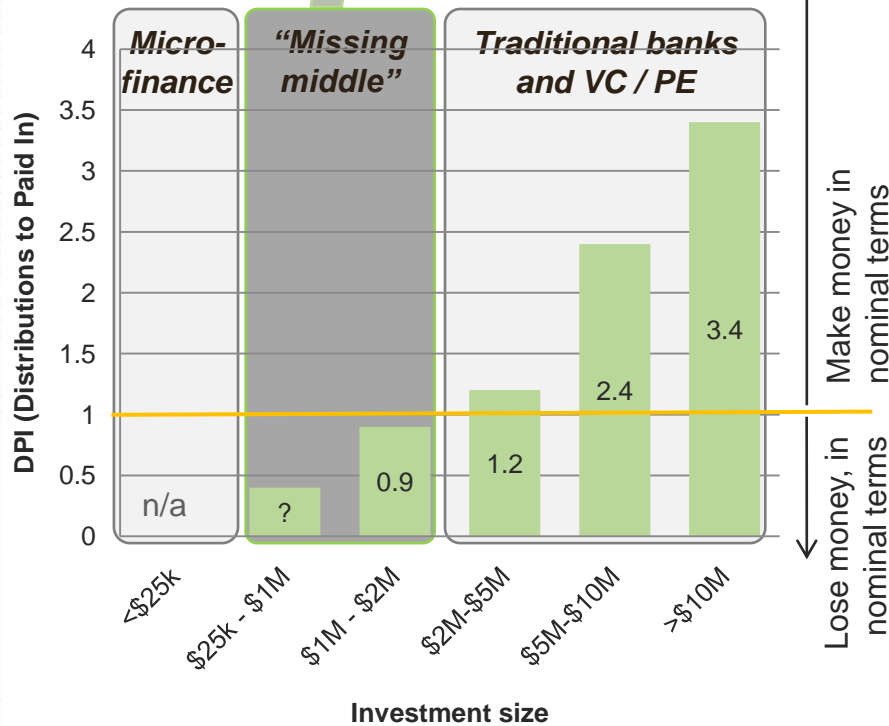
- To halve unemployment by 2014, SA needs to create ~700,000 jobs p.a
- Current shortfall, ~460,000 jobs p.a. (versus average, last 6 years)
- Anglo Zimele (best practice) creates ~750 jobs p.a
- ***If entire SA private sector was ramped up to Anglo Zimele level, would create ~17,000 jobs p.a, i.e. close 4% of job creation gap***

**Voluntary private sector participation is good...
...but not enough**



Insufficient breadth: finance is missing the sector most crucial to long term development

IFC Private Equity investment experience in emerging market economies (1)



70-90% of SA's unemployment challenge will only be addressed by creating jobs in the "missing middle" (2)

Sources:

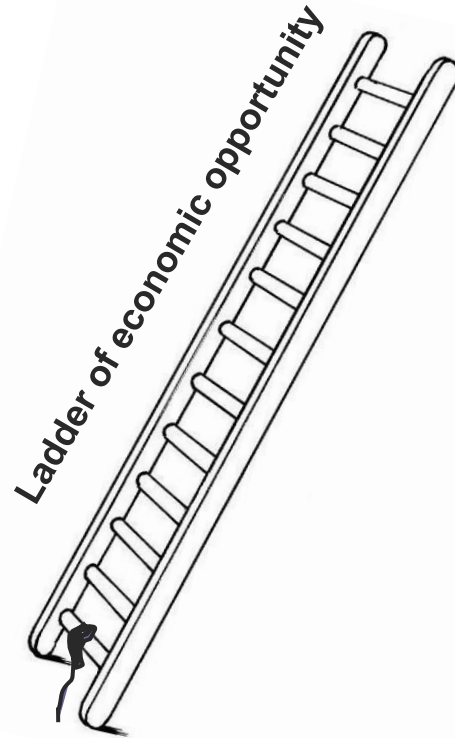
- (1) IFC, presentation to AfriCap, 2007
- (2) The GEM Report (2006). The GEM Report, South Africa 2006. Gideon Maas & Mike Herrington; Oxfam (2007) What is pro-poor growth? What are some of the things that hinder its achievement in South Africa? In Pro-Poor Economic Growth Models for South Africa. Author C Meth. Oxfam, GB. The Business Day (2008). Entrepreneurs not the answer to poverty. 28 July 2008. Edge analysis and research

**Market-based approaches to development (in the current financial paradigm) are good...
....but not enough**

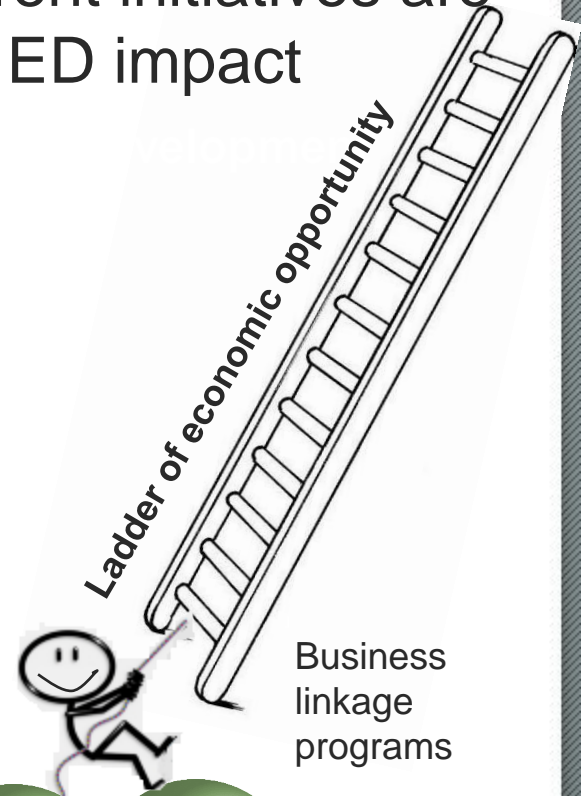
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Insufficient intensity: Most current initiatives are inadequate, and hence diminish ED impact

“Low-touch” approaches that enable greater outreach are good, but not enough



Business linkage programs



Business linkage programs

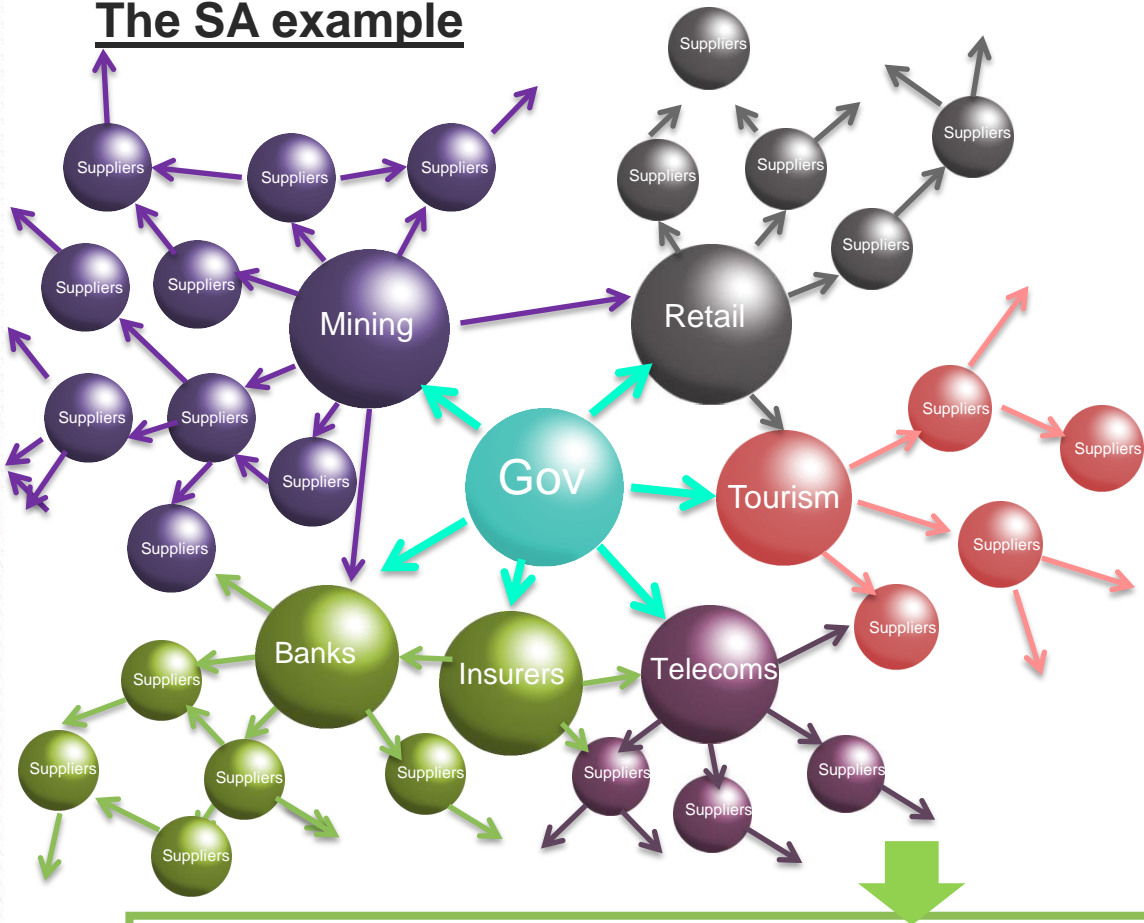


What's needed if we're to get serious about the MDG's?



Implementing Government ED tax / incentives can stimulate a 10X growth in private sector ED

The SA example



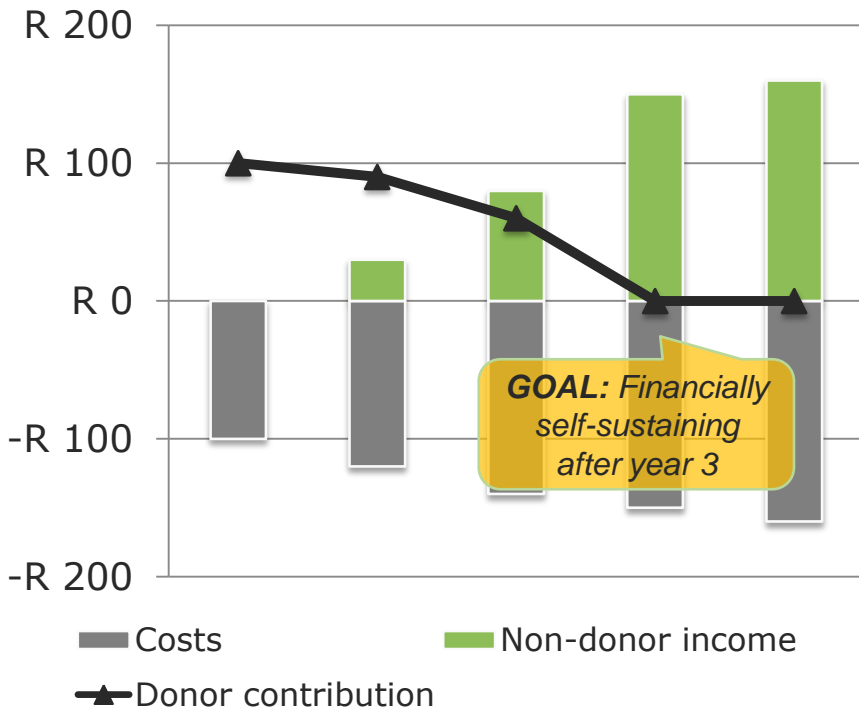
- Targets for private sector investment in small business growth, preferably in the supply chain (ED “tax” = 3% of profit)
- Government, largest customer in country, only purchases from compliant firms, and firms who buy from compliant firms, creating ripple effect of compliance pressure
- “Taxes” spent directly on ED, managed and implemented by private sector

■ Potential to grow private sector ED investment & engagement by at least 10X (from 0.1% - 0.3% of net profit, to 3% of net profit, p.a)
 ■ Potential to double rate of job creation (based on benchmark job creation efficiency of ED investments)

We must shake off the shackles of “financial sustainability” criteria and shift to socio-economically sustainable investment criteria

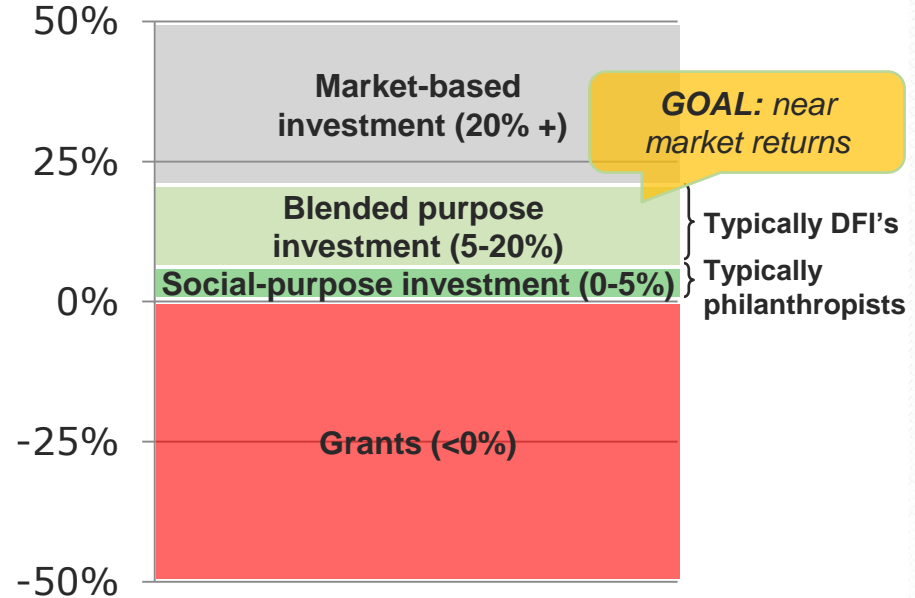
Social services

Value (thousands)



Social investment

Annual rate of return (financial only)



The measure of “sustainability” applied by SME investors is most often limited to financial sustainability

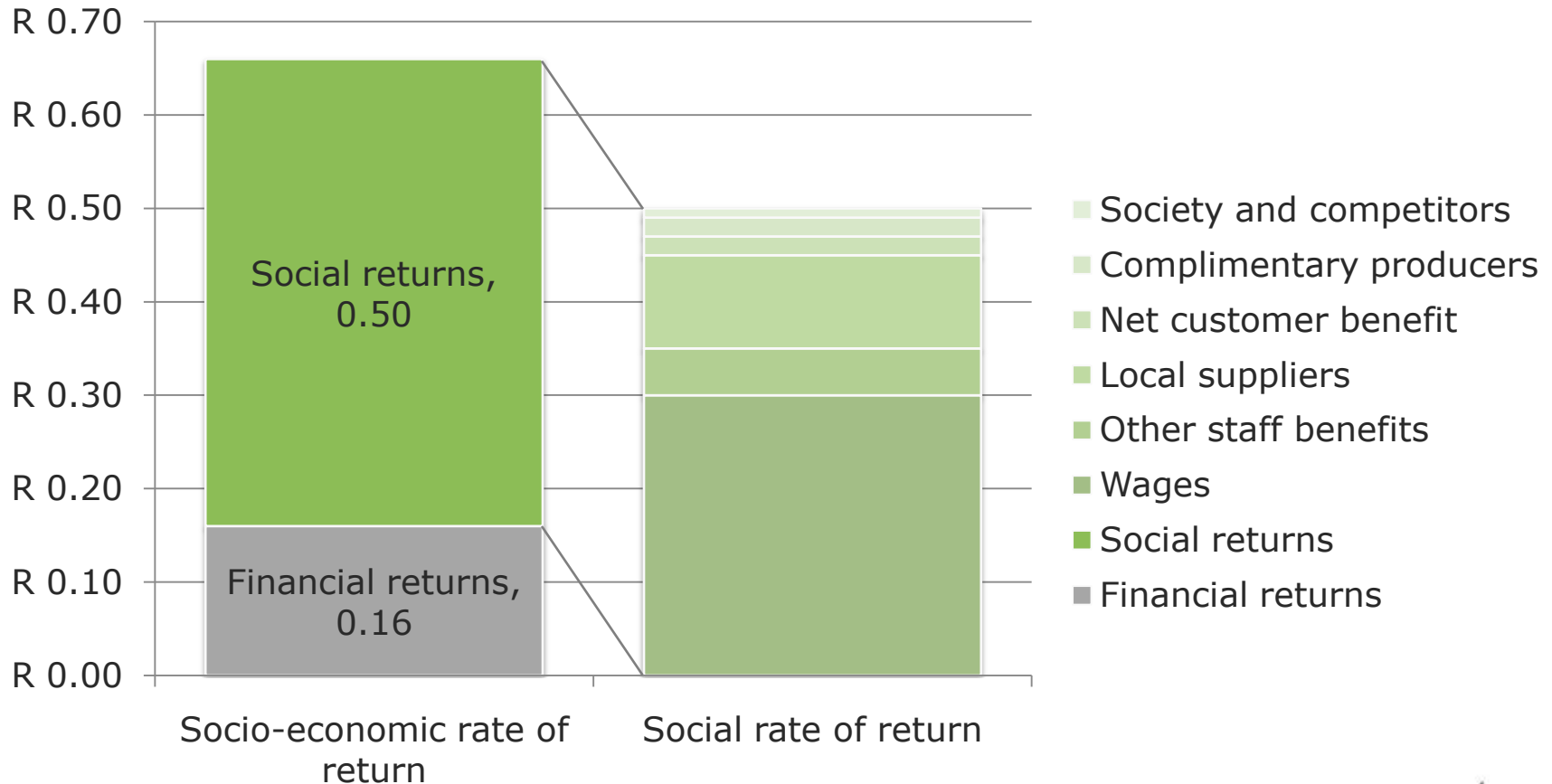


Socio-economic sustainability:

Because a significant portion of ED benefits are “social” / environmental benefits, not accruing to the supported enterprise

Socio-economic returns (measurable only)

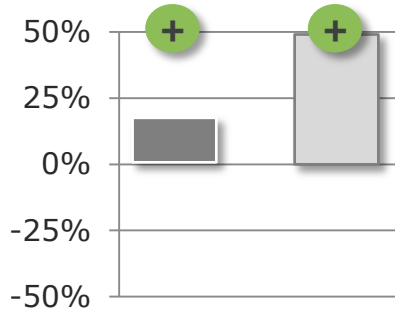
Rands benefit per year, per Rand invested



Note: the same principle applies to “green” projects

Non-financially sustainable SME investments can be socio-economically sustainable (generate positive value)

Market-based

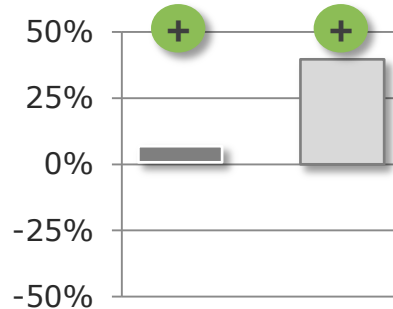


■ Financial IRR
 □ Socio-economic IRR**

Creates high financial & socio-economic value

- ▶ Income exceeds costs
- ▶ FINANCIAL and SOCIO-ECONOMIC returns, over time, exceed value of investments
- ▶ Market-related returns

Financially sustainable

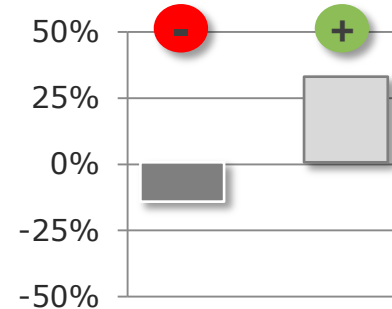


■ Financial IRR
 □ Socio-economic IRR**

Creates high socio-economic value

- ▶ Income exceeds costs
- ▶ FINANCIAL and SOCIO-ECONOMIC returns, over time, exceed value of investments
- ▶ Financial returns below market-rates

Socio-economically sustainable**

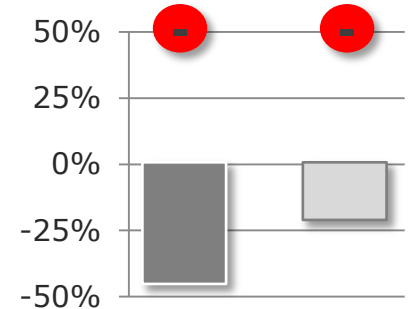


■ Financial IRR
 □ Socio-economic IRR**

Creates socio-economic value

- ▶ Income may marginally exceed costs, or costs exceed income
- ▶ Value of investments, over time, exceed FINANCIAL returns
- ▶ SOCIO-ECONOMIC returns, over time, exceed value of investments

Unsustainable**



■ Financial IRR
 □ Socio-economic IRR**

Destroys value **

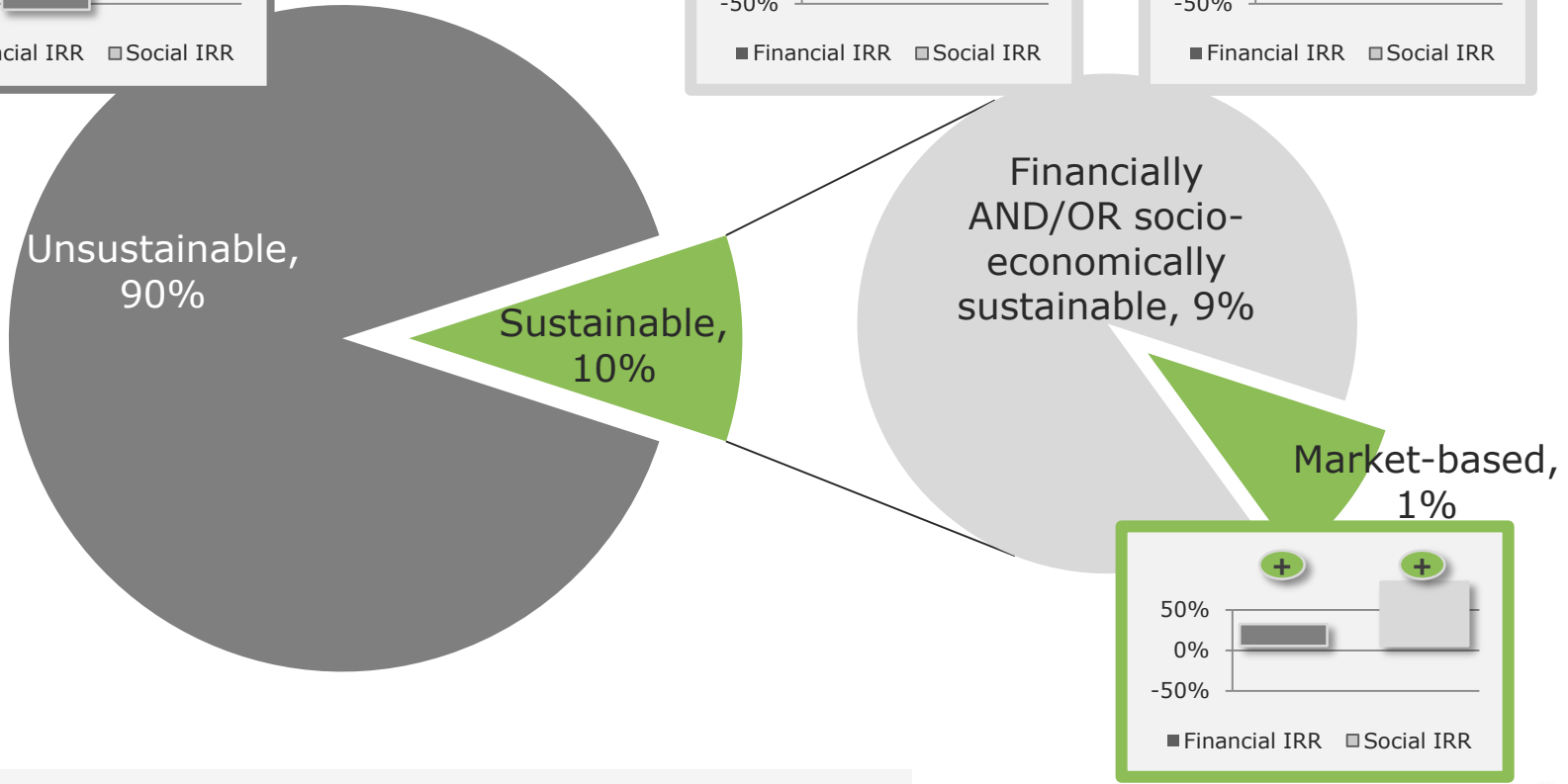
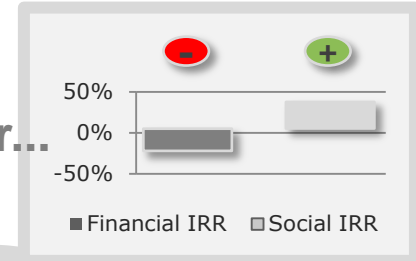
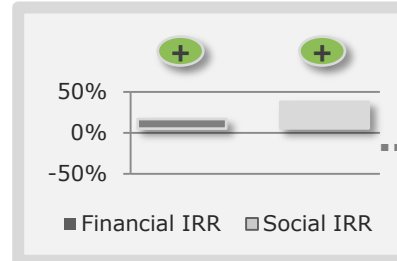
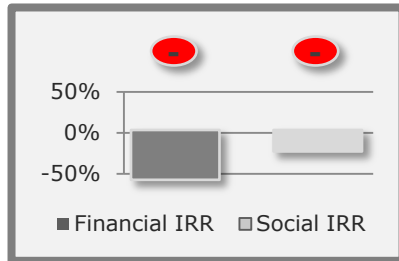
- ▶ Perpetual donor contributions required
- ▶ Value of investments, over time, exceed FINANCIAL returns and SOCIO-ECONOMIC returns

** Note: includes only measurable benefits
 The same principle applies to "green" projects



Target socio-economic returns

Shifting to socio-economically sustainable investment criteria unlocks ~90% of developmental “missing middle” ED opportunities

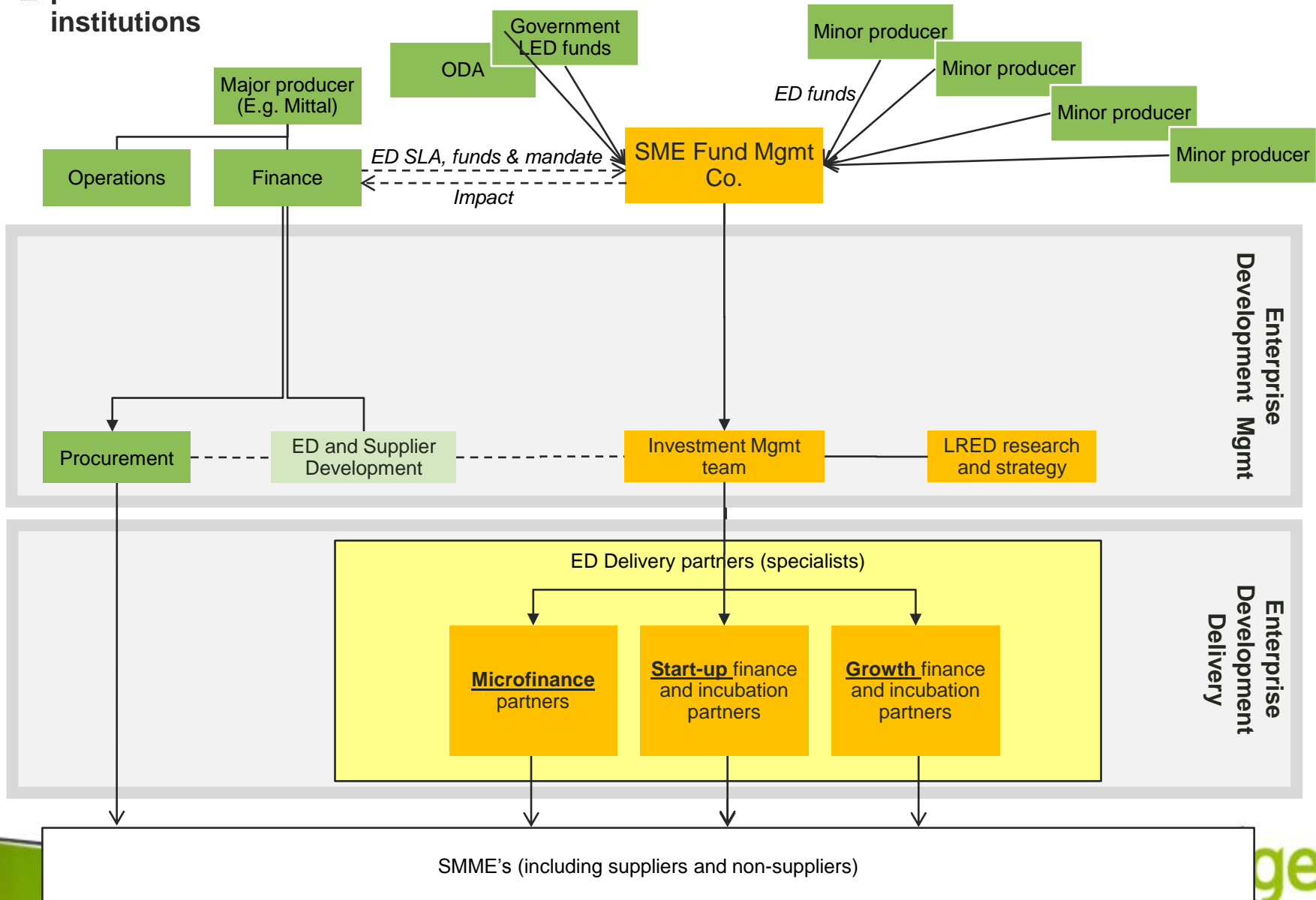


Note: Estimate based on Edge experience and on Venture Capital investment success rates, for SME investments

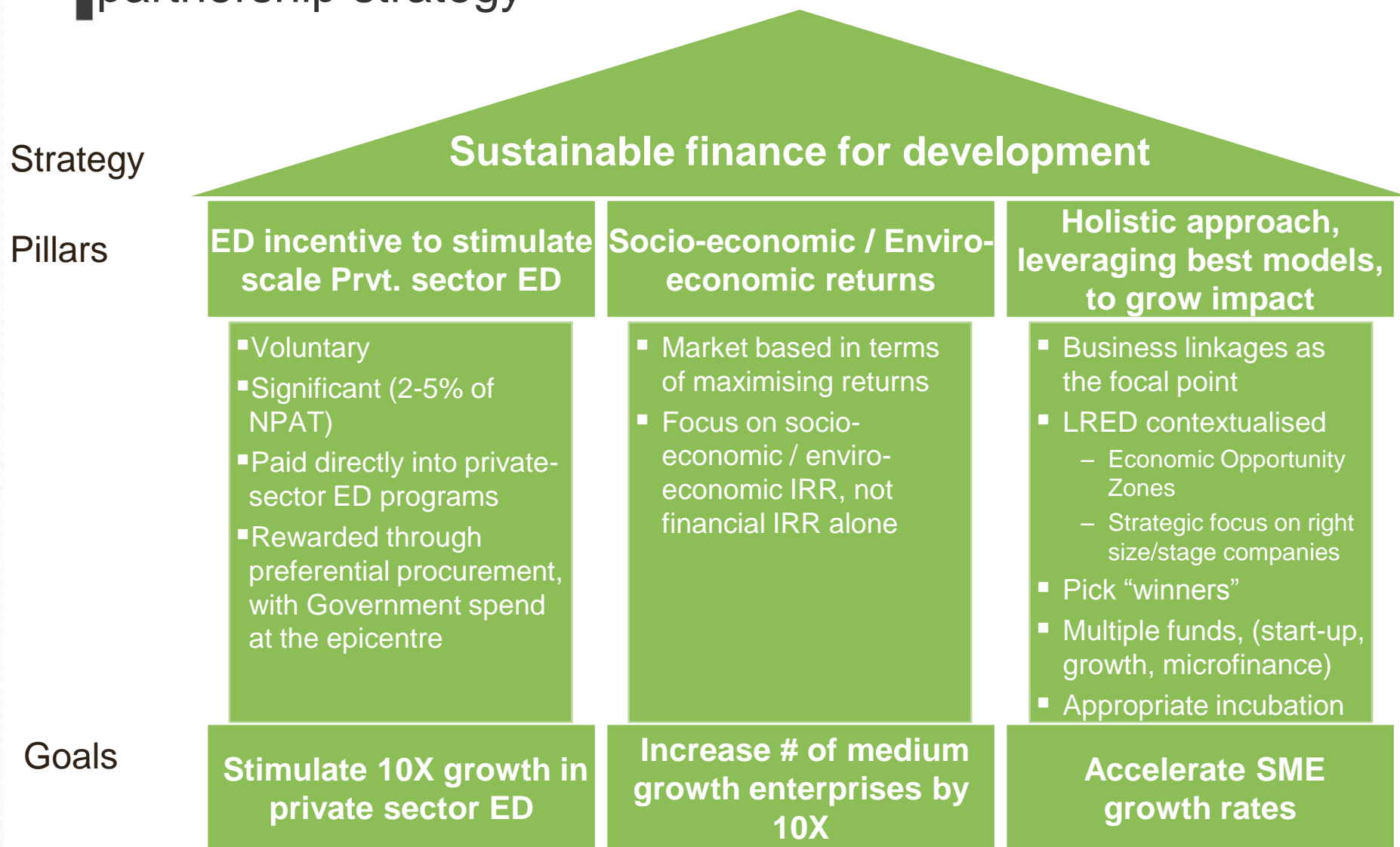


Leverage best practice institutions

Leveraging and broadening access to best practice private institutions ensures efficient management



Summary of proposal: 3 pronged public-private partnership strategy



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