

Targeting the missing middle – impact investment as a tool to finance basic needs services

Social Equity Fund

The missing model for the missing middle

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1. Background & Reasoning SEF

Why special attention on Entrepreneurship?

The Need & Opportunity: SMEs as catalyst for change

“Only by letting millions of entrepreneurs try new ideas, to innovate, to create businesses that put those ideas to work in a competitive and open way, only by doing those things are we going to be able to tackle the world’s big problems”

- Angel Cabrera, Chair, World Economic Forum Council on Entrepreneurship

Potential: SMEs have a greater social impact

Value addition SMEs

- SMEs are key drivers of economic growth in developing countries
- Create more jobs compared to microenterprises and better paid
 - In Africa, over 90% of employment comes from SMEs
 - In Asia, over 2/3 of employment comes from SMEs and over 60% of GDP
- Strong effect on value chain development, improving prosperity for:
 - *Employees and suppliers*: direct/indirect job creation, innovation and new products, income stability and income growth
 - *Customers*: effective provision of essential services such as water, sanitation, waste, agri, energy and health
- High social impact with compelling effect on the Base of the Pyramid

If there is one bit of finance where people agree on the need for more innovation, it is in lending to small business. Policymakers are desperate to get more credit flowing to this vital engine of economic growth.

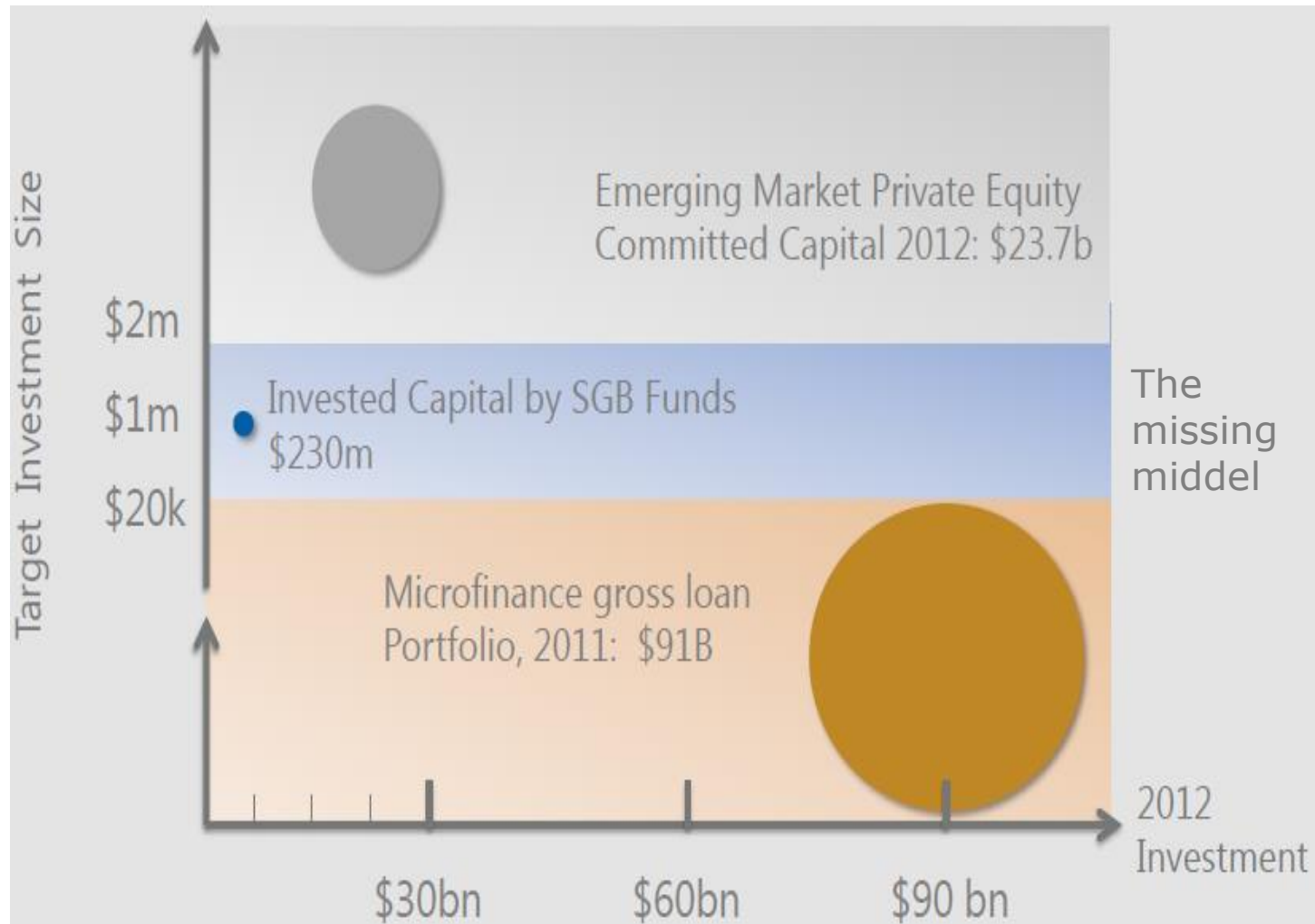
*The Economist Special Report on Financial Innovation
Print Edition, February 25th, 2012*

Distinctive features Small & Growing Businesses (SGBs)

Small and growing businesses (SGBs) are commercially viable businesses, typically from 5 to 250 employees, that have strong potential for **growth** -- and thus for creating economic, social and environmental benefits

Problem: SGB sector lacks access to finance

Despite huge potential and contribution to economic growth



Source: EMPEA, Mix Market, ImpactBase, ANDE Analysis

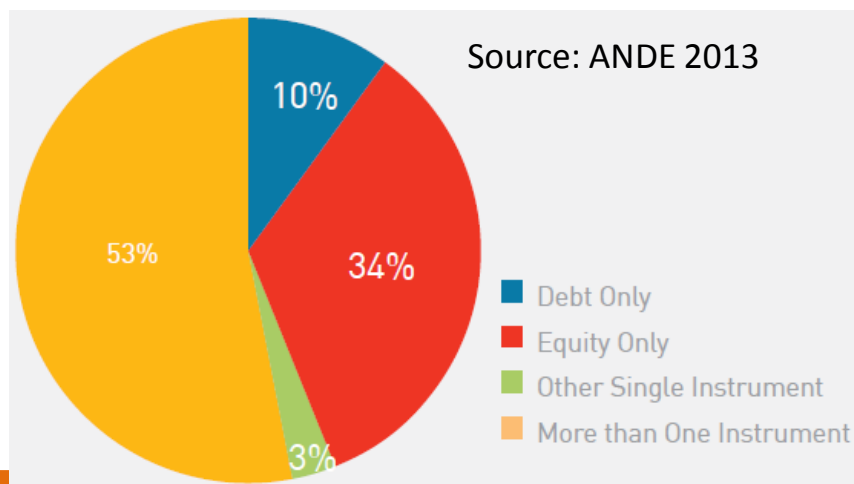
Demand & Supply gap of SGB Market:

Demand:

- The credit gap for formal SMEs exceeds \$700 billion (IFC and McKinsey, 2012)

Supply:

- Pace of new programs is growing and so is the level of philanthropic and return-seeking capital flowing to the sector
- Fund managers in the SGB sector manage \$5 billion in committed capital (2013)
- Over 400 investment vehicles cover the SGB sector and in 2013, fewer new funds were launched but more capital was raised overall
- Most popular sectors for SGB funds are ICT, agriculture and health
- Sub-Saharan Africa has been the most popular geographic region for SGB funds, however this trend has been shifting toward multi-region funds
- Over half the funds provide a variety of financing tools to the SGBs, only a third are equity only



2. SEF's Vision & Mission

SEF's Vision & Mission

VISION

A world where entrepreneurs with Small and Growing Businesses (SGBs) build sustainable local economies and are engaged with the world around them, in balance with social and environmental aspects.

These SGBs contribute to the sustainability of the supply chain and offers value-added products & services, solutions and facilities to low-income communities wanting to impact their livelihoods in a tangible way.

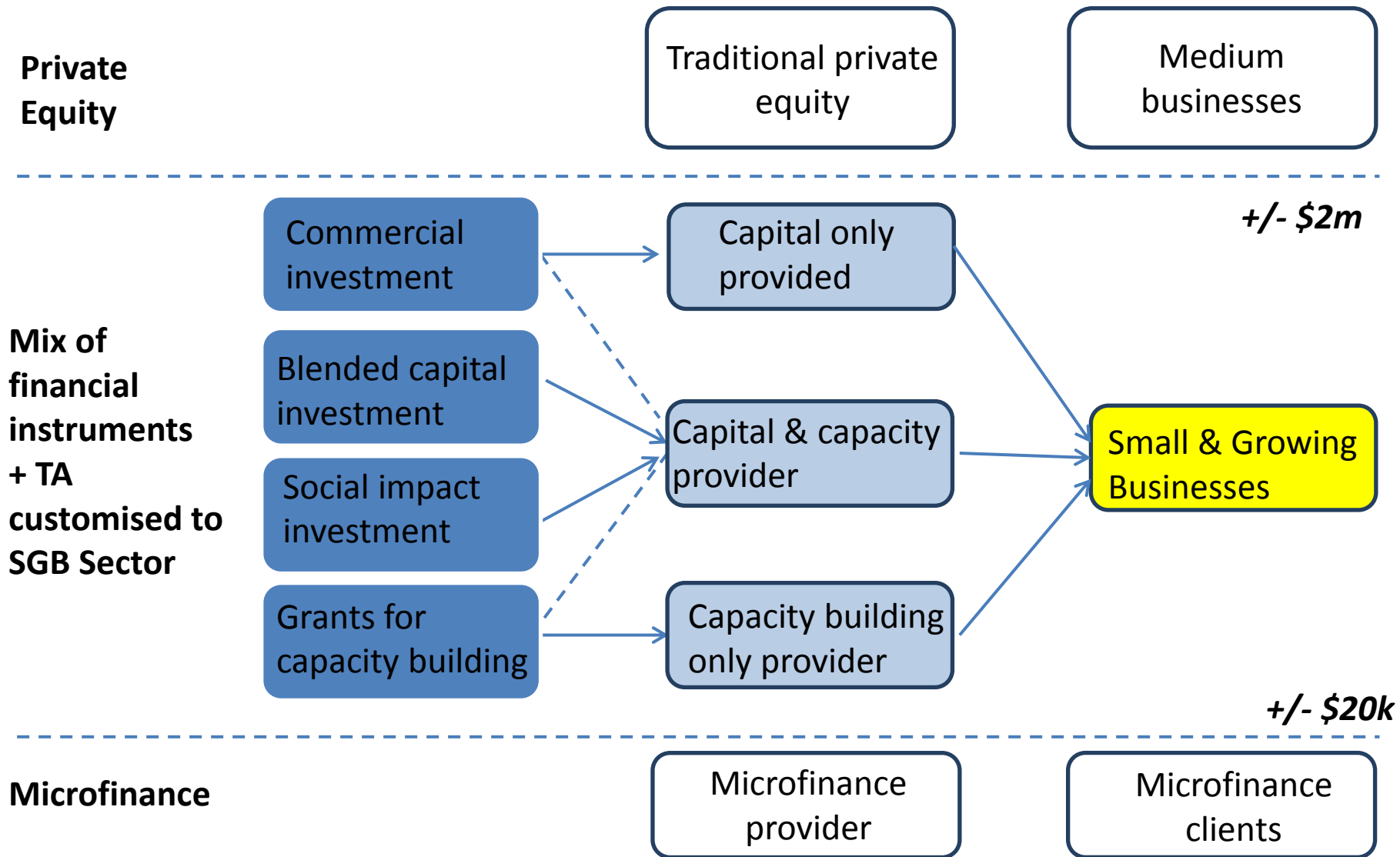
MISSION

To channel investments and to support SGBs - through SEF's unique and proven methodology - in transforming at their own pace into quality businesses with transparent and respectful relationships with their stakeholders.

A partnership approach, strong local responsibility and openness to innovation are key in our work as well as an integrated social, environmental and financial return on investments ('community dividend').

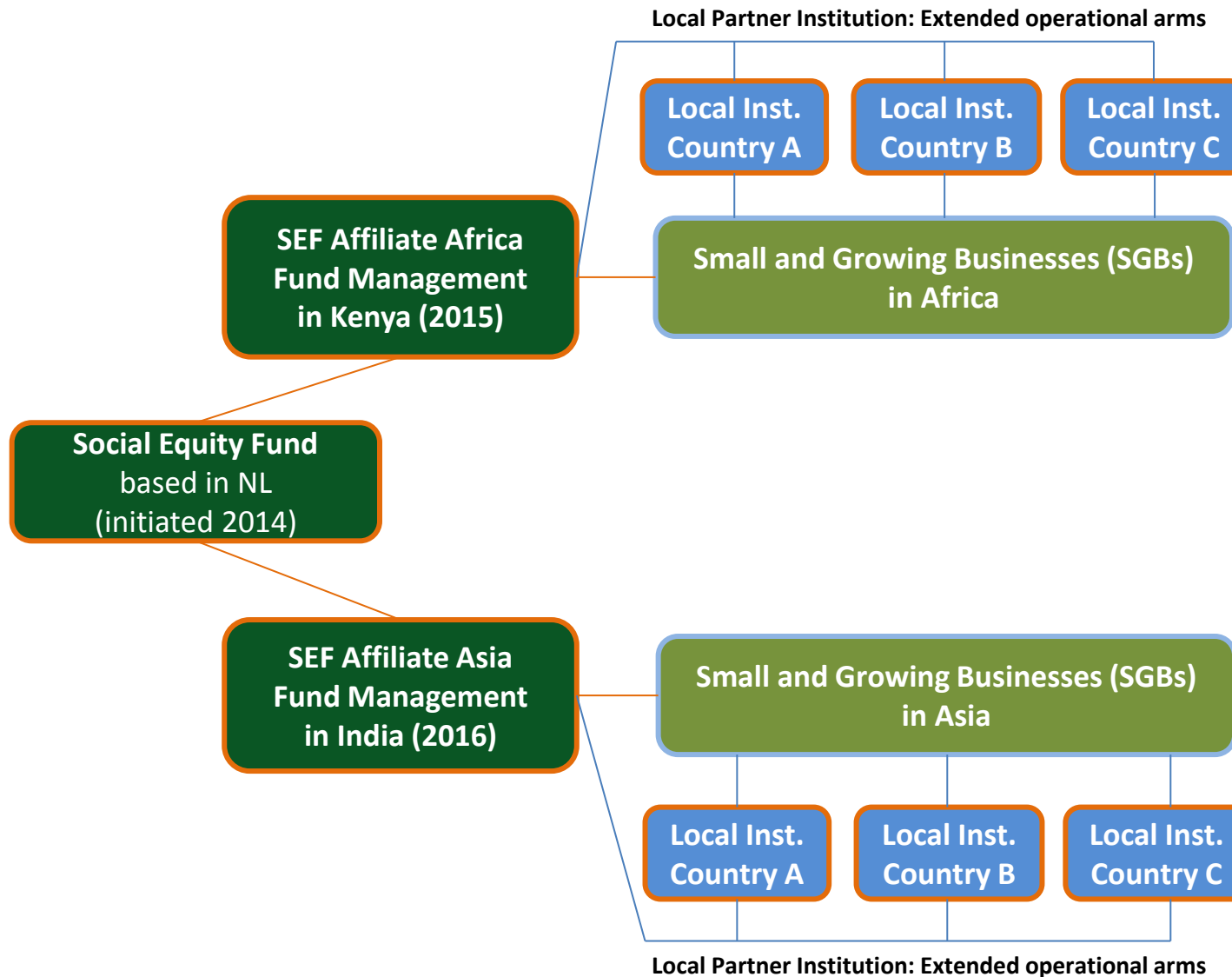
3. SEF's Scope & Approach

Capital and capacity building provider



4. SEF's specific methodology

Organisational structure SEF: Partnership Model



Local Partner Institutions

- Supports SEF in identification, selection and Due Diligence of SGBs based on agreed methodology. Entire process is steered by and under the responsibility of the Regional Fund Manager;
- Development of Social Contract with SGBs indicating the areas for support and governance (legal, social and environmental) in collaboration with SGB and the Regional Funds;
- Development Term Sheet specifying the terms and conditions for the mix of financial resources being proposed for investments;
- Local Institutions receive a lump sum for each approved Due Diligence of the selected SGB (*USD 2.500,-**) and *1.5% ** of portfolio approved and disbursed in their country/region.

**Both lump sum and % still to be agreed upon with the Regional Fund Manager and the Regional Board*

The SEF Methodology



- **Effective way of SGB deal sourcing, due diligence, capacity building and monitoring via *local Partner Institutions*** in the countries where SEF works
- **Clear eligibility criteria for SGB investments**, ensuring high standards of governance, transparency and responsible business (ESG criteria)
- A **Social Metric Tool (SMT)** is deployed to the **SGBs** to assess their scoring on social and environmental objectives and to identify customised measures to solve weaknesses and facilitate sustainable growth

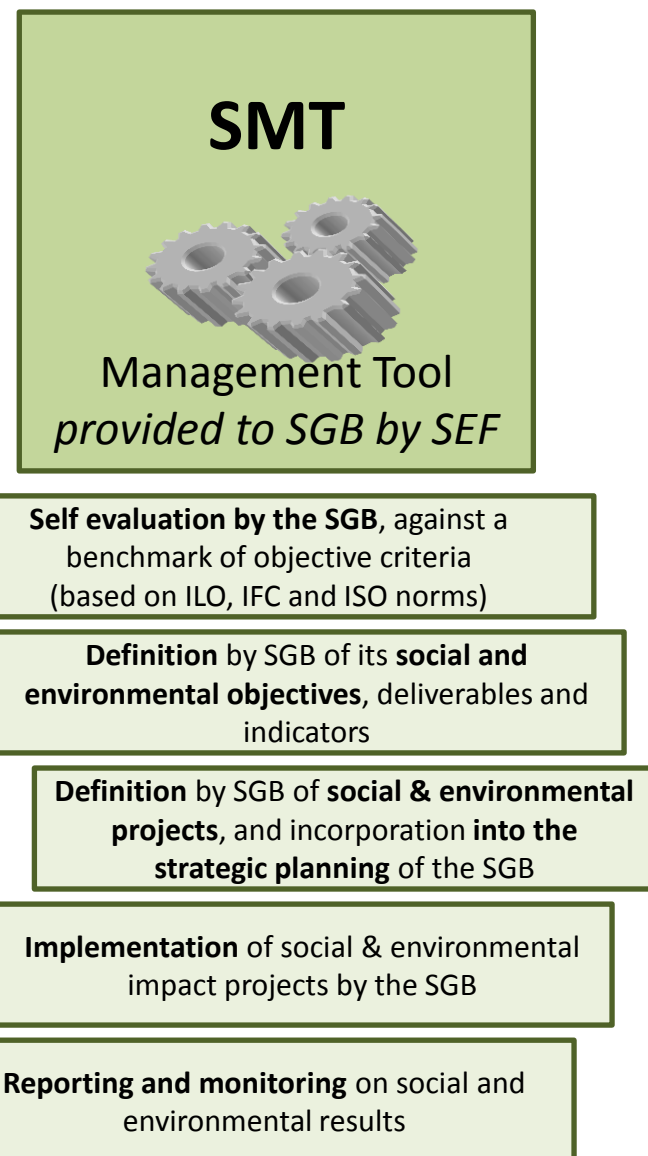
SEF's Eligibility Criteria for SGBs:

- Integrated value chain with small producers or local consumers
- Building on these experiences to replicate the concept in Africa, Asia and later Latin America
 - Africa (2015): Kenya, Uganda, Tanzania, Rwanda (and later Burundi, Ethiopia, Malawi, Zambia and Ghana)
 - Asia (2016): India, Nepal, Sri Lanka, Indonesia, Vietnam, Philippines...(TBD)
- In sectors:
 - spread in products & services relevant for low income communities
 - Agriculture & agri-processing; water, sanitation & transformation of waste; renewable energy and health
- Responsible Social, Environmental and Business ethics

4. SEF's unique and proven approach

The Social Metric Tool (SMT)

- SMT is NOT a certification but a dynamic **management tool for SGBs** and **risk management tool for investors**
- SMT is used by the SGBs to measure and to improve the Environmental, Social and Governance performances of SGBs
- In addition the outputs of the SMT can be used by SEF to monitor the social and environmental impact
- SMT builds on universally accepted criteria (e.g. UN Charters and Institutions)



5.
SEF Africa:
Examples of potential investees

Example of potential investees in agribusiness

SGB	Product	Suppliers	Consumers
EA Fruits Company, (Tanzania)	<p>FRESH FRUIT PROCESSING -cultivation, aggregation, and distribution of fruits & vegetables Through cold storage chain logistics and value added processing & distribution</p>	>50 small scale farmers assisted with modern farming techniques	<ul style="list-style-type: none"> - Fruit processing companies - Wholesalers reselling at local marketplaces - Hotels & tourism businesses - Domestic households - Overseas companies
Aspen orchards & dairies - whole sale and retail manufacturer	Organic yogurt in different flavours	Own 40 dairy cattle and they purchase an additional milk from local farmers	Supply their produce to Naivas Tusokies and other smaller retail stores that have a wide branch network.



Example: EA Fruits Company (Tanzania) elaborated

- From...

Post harvest losses due to lack of storage mechanism and poor harvesting, handling and transportation



- To...

The first company to introduce Cold Chain Logistics in Tanzania, extending the life span of fruits & vegetables



- In 3 years time (2011- Q1 2014)

- partnering with over 50 small scale farmers
- revenue growth from \$4,000 to \$200,000

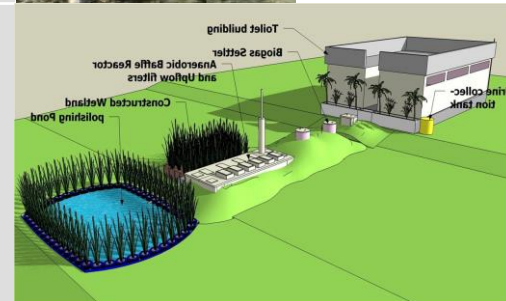
- With the use of:

- modern farming techniques (fertilizers, irrigation systems and greenhouses)
- cold storage chain logistics (refrigerated trucks and cold storage facilities)
- value added processing (cleaning, sorting packaging, branding, distribution)



Examples of investees in Water & Sanitation

SGB	Product	Suppliers	Buyers
ESCEP-B (Burundi)	Tanks (4,000 l.) and jars (1,000) for rain water recycling - Constructed from less expensive natural resources - Molded, prefabricated segments - Easy to clean - Life time ± 40 years	Cheap local natural resources such as cement	- Companies, (in particular agribusiness) - Families and households (esp. in rural areas) - Local communities, public and private schools, hospitals, prisons, etc
FINISH (India and Kenya)	Safe sanitation systems - 30-50% lower cost through designed manufacturing and aggregation - support of consumers with sanitation loan to procure the system	FINISH project providing: - community demand generation and financial inclusion - one-stop shop for construction ('aggregator')	Families and households -schools - Local communities, public and private schools, etc
Skylink Innovators	- Biogas and wastewater treatment installations - Solar water heaters, solar lighting systems - Consultancy services on biogas and training of rural technicians in Biogas installation	Households/Farmers, institutions, public toilets	- Households, - Institutions (schools, prisons, hospitals/health posts,...)



Example: FINISH: Financial Inclusion Improves Sanitation and Health (Kenya) elaborated



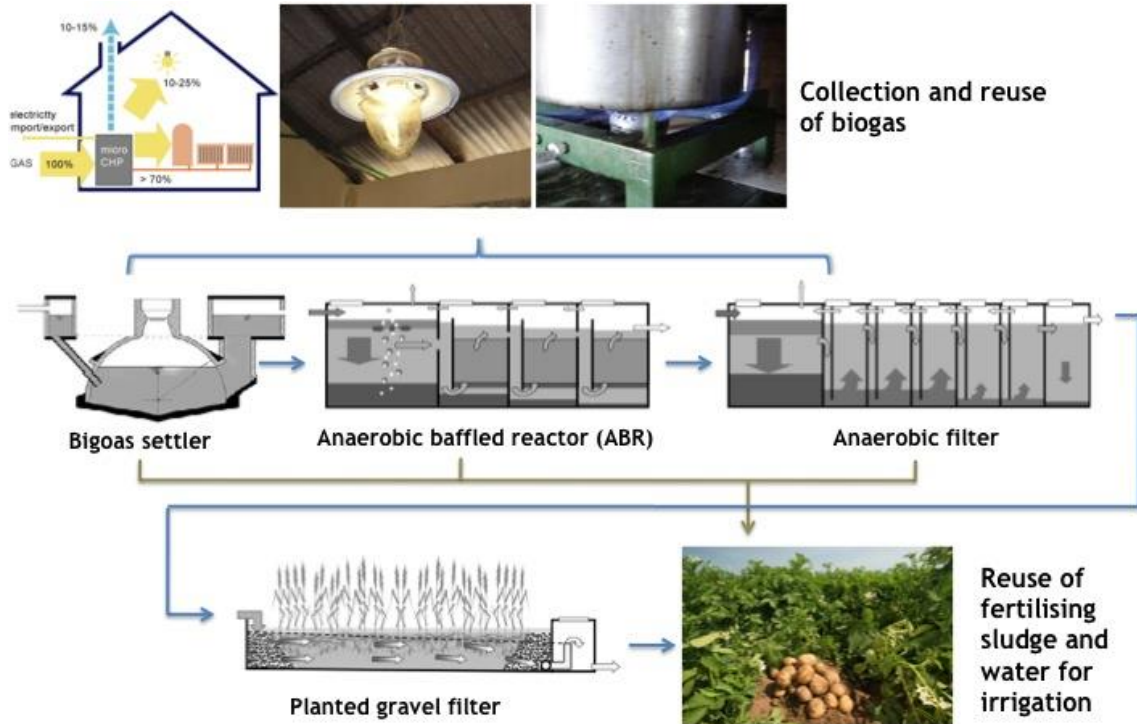
FINISH aims for sanitation for all through an integrated model that addresses both the demand and supply side of the sanitation challenge. The programme works with a multi-stakeholder approach which involves the entire value chain. SEF would invest in SGBs engaged in the supply chain of FINISH and in the FINISH Plc. itself.

- 1. Improving sanitation:** Raising awareness and installation sanitation systems that are designed for reuse, and decreasing costs same time
- 2. Closing the loop beyond sanitation:** Contributed to circular economy via re-use/up-cycling of organic waste for sustainable agriculture or bio-energy.
- 3. Health & wealth via Income Generating Activities, mitigate risks.** Social mobilization and enabling the emergence of the BoP whose health/livelihood is improved through safe sanitation, valorisation of waste.
- 4. Financial inclusion and financial achievements:** Leveraging grant funding, improved access of BoP to financial services, including credit and insurance for households.
- 5. Added value to SME and local business:** New businesses: building toilets, providing building materials, biological nutrients, bio-energy and supplies, servicing loans, providing financial services, promoting sanitation, sanitary napkins manufacturing and sales. Strengthened inclusive financing and insurance sector enterprises.
- 6. Added value to government:** Reliable, documented health improvements and services that help Government achieve its targets . Partner with government agencies in reaching the poor.
- 7. Reach and upscaling:** Started in Kenya 2013; Expansions under development: Uganda, Ghana, Nepal etc. The programme is replicated from FINISH in India that delivers improved sanitation systems so far for about 500,000 households in various Indian states and adding a new sanitation system every 3 minutes, 24/7.

Example: Sky Link Innovators (Kenya) elaborated

Products & Services for households and institutions like schools, hospitals, prisons,...

- Biogas and wastewater treatment installations
- Making biogas installation cheaper by establishing a small factory for soil bricks, plus manufacturing plant for tubular biogas systems hence more households can afford
- Solar water heaters, solar lighting systems
- Sells Biogas accessories (Appliances) for household and institutions (schools, prisons, hospitals,...)
- Consultancy services on biogas and training of rural technicians in Biogas installation



THANK YOU!

Feel free to contact us to explore further

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