

SuSanA – Financial Paradigm Shift for Success?

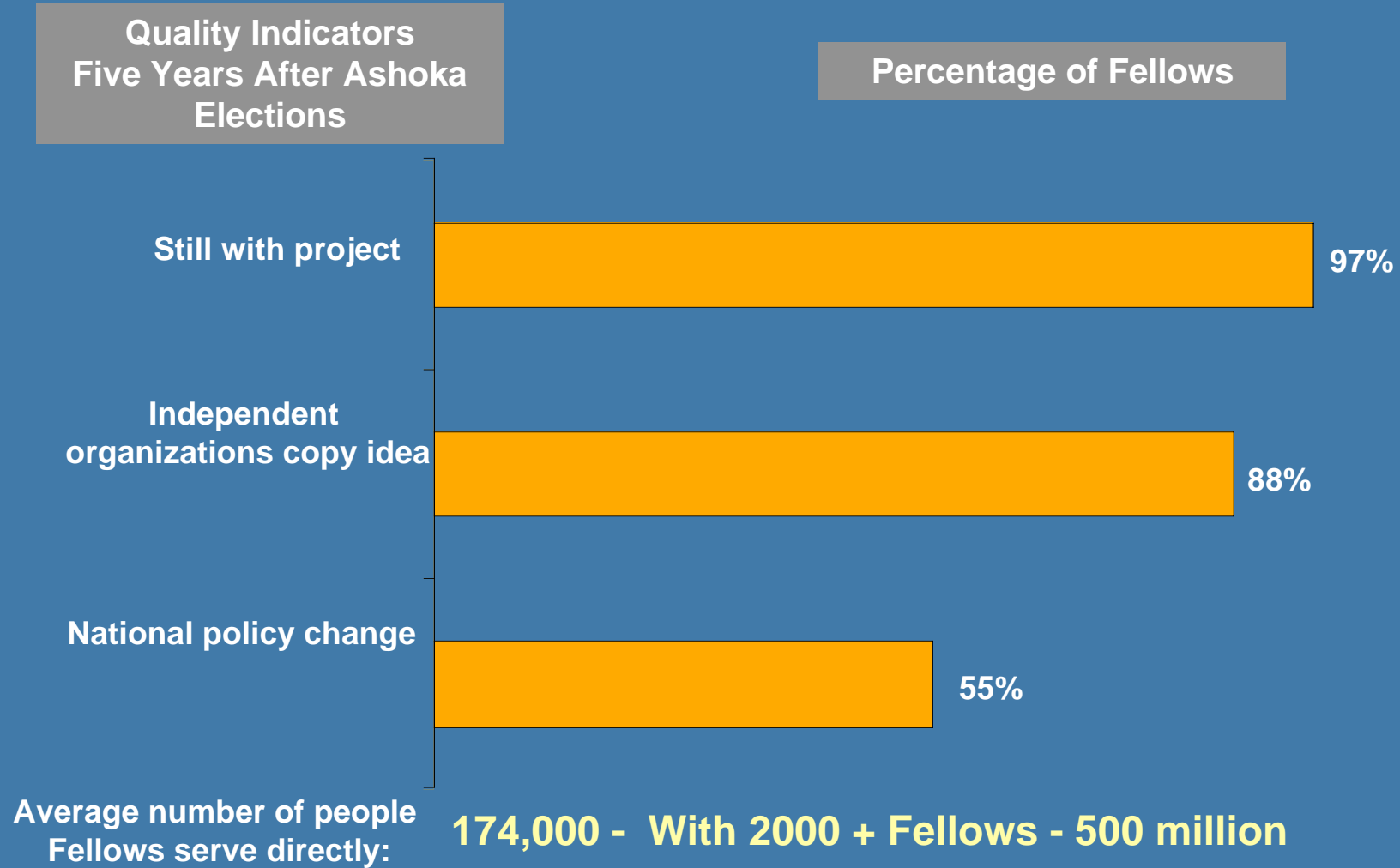


ASHOKA INNOVATORS FOR THE PUBLIC

Arthur Wood

awood@ashoka.org

ASHOKA - THE DISCIPLINED USE OF JUDGMENTWORKS:



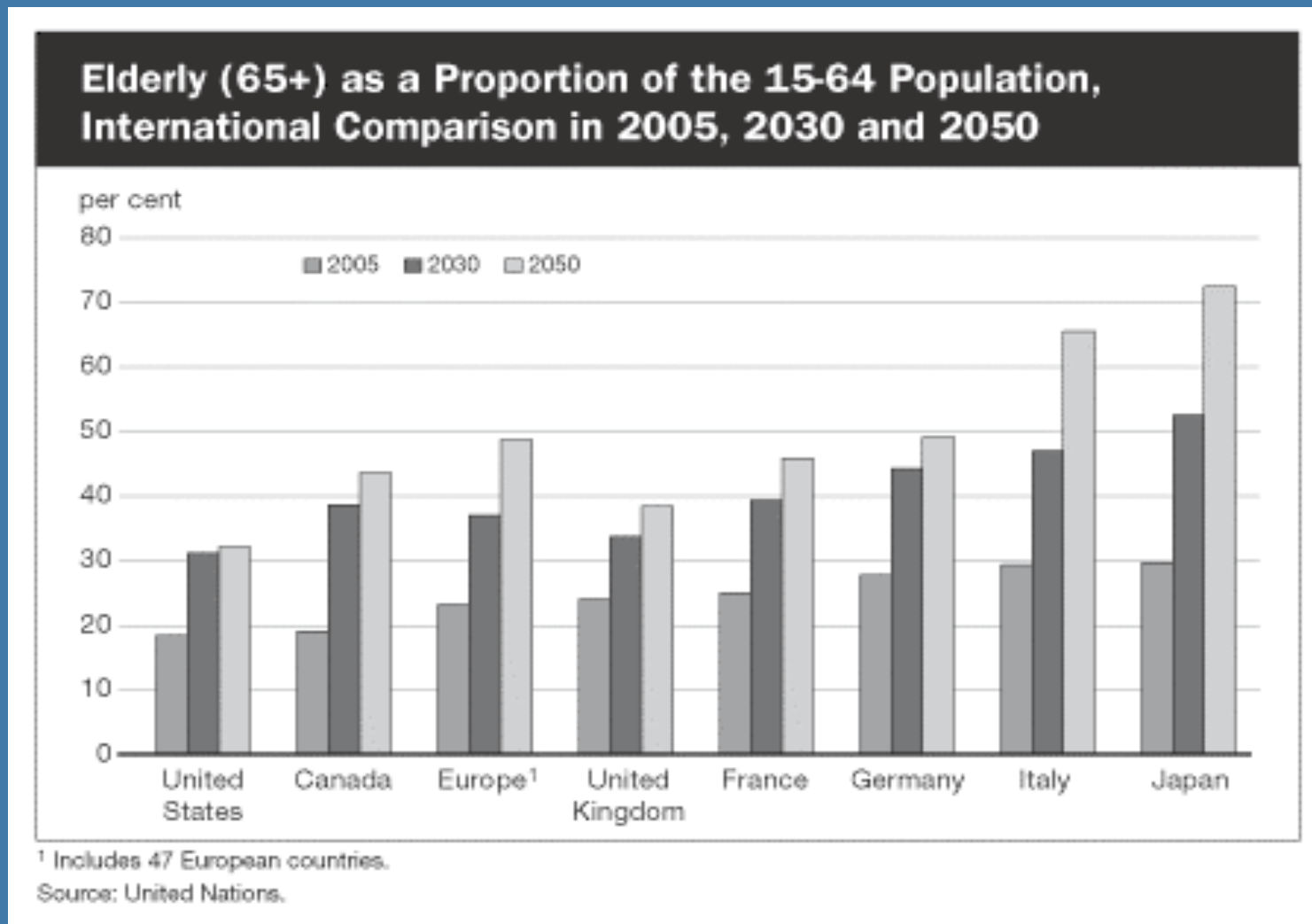
Source: Ashoka's "Measuring Effectiveness" studies. (Average results over two years)

Ashoka Sanitation Fellows

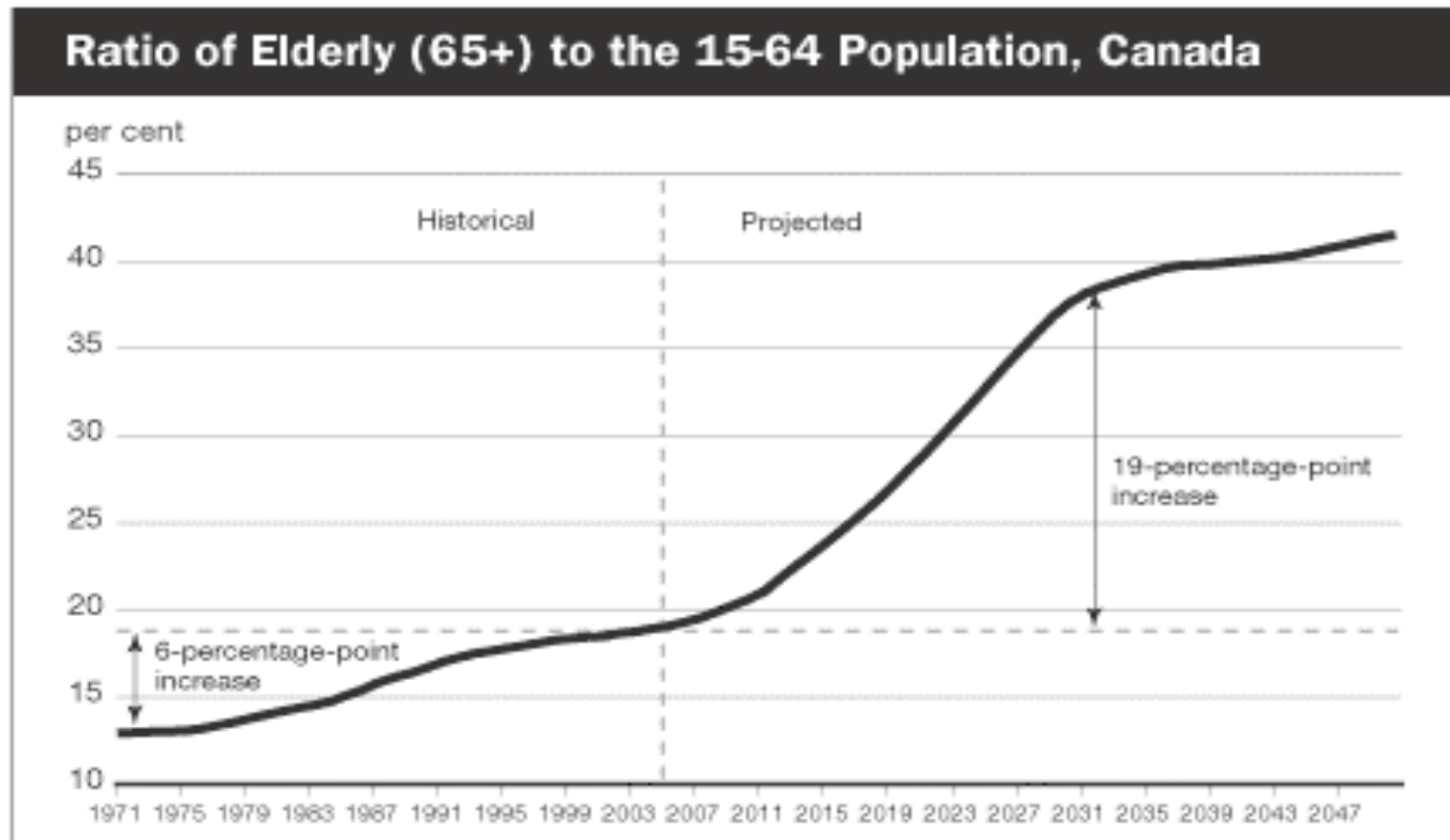
- ASHOKA FELLOWS ADVISORY BOARD (selected from 40 Fellows)

Name	Country	Organization
A.H.Md. Maqsood Sinha		Bangladesh Waste Concern
Anil Chitrakar		Nepal Environmental Camps for Conservation Awareness
Eugenio Scanavino		Brazil Projeto Saúde e Alegria
Francisco Arroyo		Mexico CEDICAR, Programa de Producción Urbana de Alimentos del Cent
Iftekhar Enayetullah		Bangladesh Waste Concern
Isaac Durojaiye		Nigeria Mobile Toilets
Jack Sim		Singapore World Toilet Organization
Juan Carlos Calizaya Luna		Peru CENCA -Instituto de Desarrollo Urbano
Marianne Knuth		Zimbabwe [Kufunda Village]
Prema Gopalan		India Swayam Shikshan Prayog
Ravindranath		India Rural Volunteers Center
Trevor Mulaudzi		South Africa The Clean Shop

“Population aging is a worldwide phenomenon that will affect all G-7 countries”



“Population aging will be a key challenge facing the G7 economies over the coming decades”



Sources: Historical values from Statistics Canada; projections from the 21st Actuarial Report on the Canada Pension Plan.

How Bad is the Financing Structure?

- Only Three Products – State and Market:
- State Model – Picking winners in development
 - Developing world \$2 trillion allocated 1955 - 2004 (in 2004 Dollars) adding at \$100bn
 - 50% of All African Govt Expenditure. Sub Saharan Africa - 80% of All Capital allocations > Capital Flight in 1 year
 - Top Down “Donor” Model – Government knows best
Bretton Woods 1944
 - We Must Empower the Society at the roots

So 20-80% of the Capital does not even arrive

Market System Any Better ?

- System invented by Carnegie and Rockefeller – Fragmented Merchant banking model
- Social Capital Market \$1 trillion + in US – \$300bn funding gap (same as Sanitation – It's a Market !)

BUT Even in the World's Most Sophisticated Market

- In US only 3.8% of C.O/NGO have revenues greater than \$10 million
- Only 0.1% of Entities Founded since 1973 have achieved \$50m + in Revs - Of which Foundations / Individuals account for 8% of the 0.1% in sustainable funding.

(McKinsey / Stanford)

Market System Any Better ? (ctd)

- Everybody Negotiates Bilaterally – no aggregation systems. No Economies of Scale
- Competitive Advantage in such a Capital market is about Innovation NOT Innovation in Scale nor collaborative
- The process results in further Fragmentation
- Small band aid solutions or Large Foundation take up to 2 years + to do due diligence

Cost of Capital - Social Sector is Ten times at 20-50%

vs. 2-5% in the Commercial Sector

Irony for Donors – 50 cents on the Dollar

The Need for a Paradigm Shift

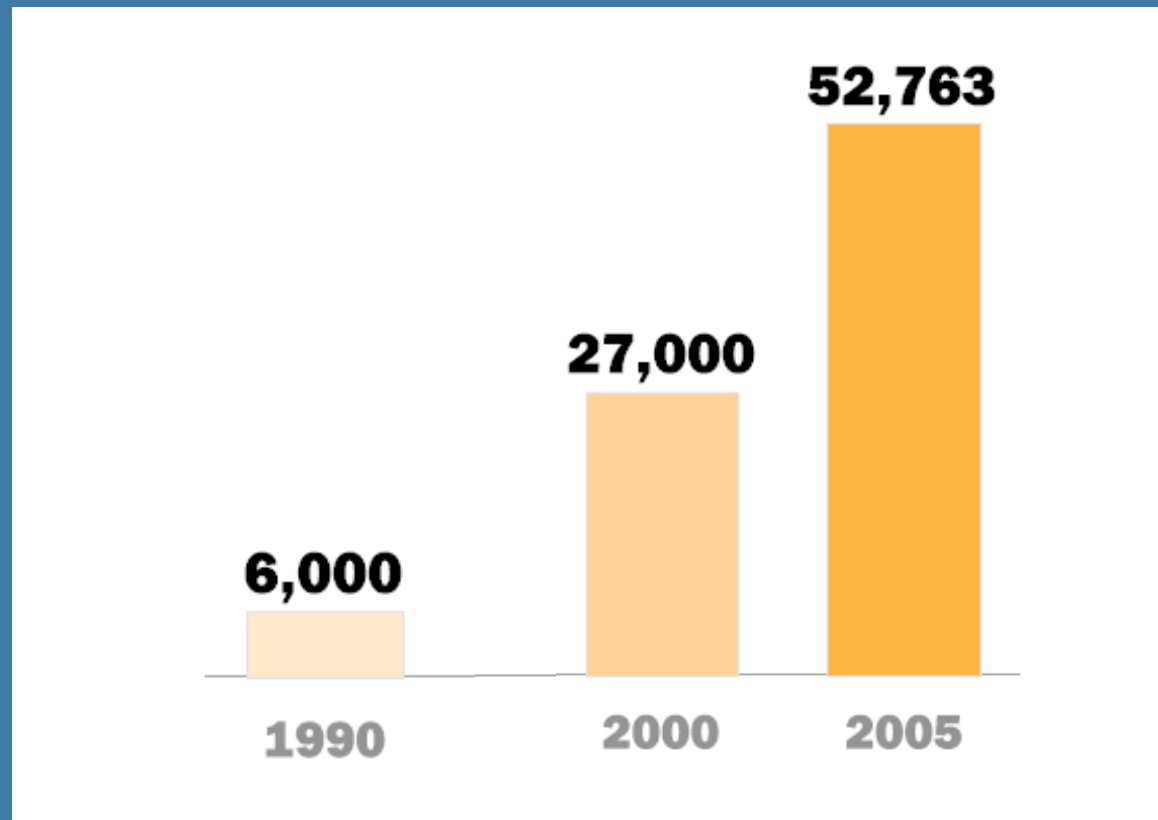
- Current allocation systems are taking 20%-50% + off before usage
- Indeed how efficient is the allocation system even after it arrives – with a huge number of small entities with limited Economies of Scale
- Or on the Governmental side driving top down through the existing status quo. Post 1980 is this how we now drive change ?

BUT Grounds for Optimism

- **Largest ever transfer of Human wealth** - \$41 Trillion in US alone with 1% transferring 60% of this wealth – the Gates effect >> Private Banks
- **Growth of Philanthropy – Values, Globalization – I.T.**
- **The Third Pillar - Growth of Market Allocation**
 - **Social Entrepreneurship – 500m people impacted**
 - **Venture Philanthropy - \$400 m**
 - **Investment / Asset Mgmt / Banking Engagement - \$6.5bn**
 - **Microfinance – Yunus – Estimated Market 3bn users**
- **Growth of Citizens Organization and Entrepreneurship**

...AND THEIR GLOBAL REACH IS EXPANDING EVEN FASTER

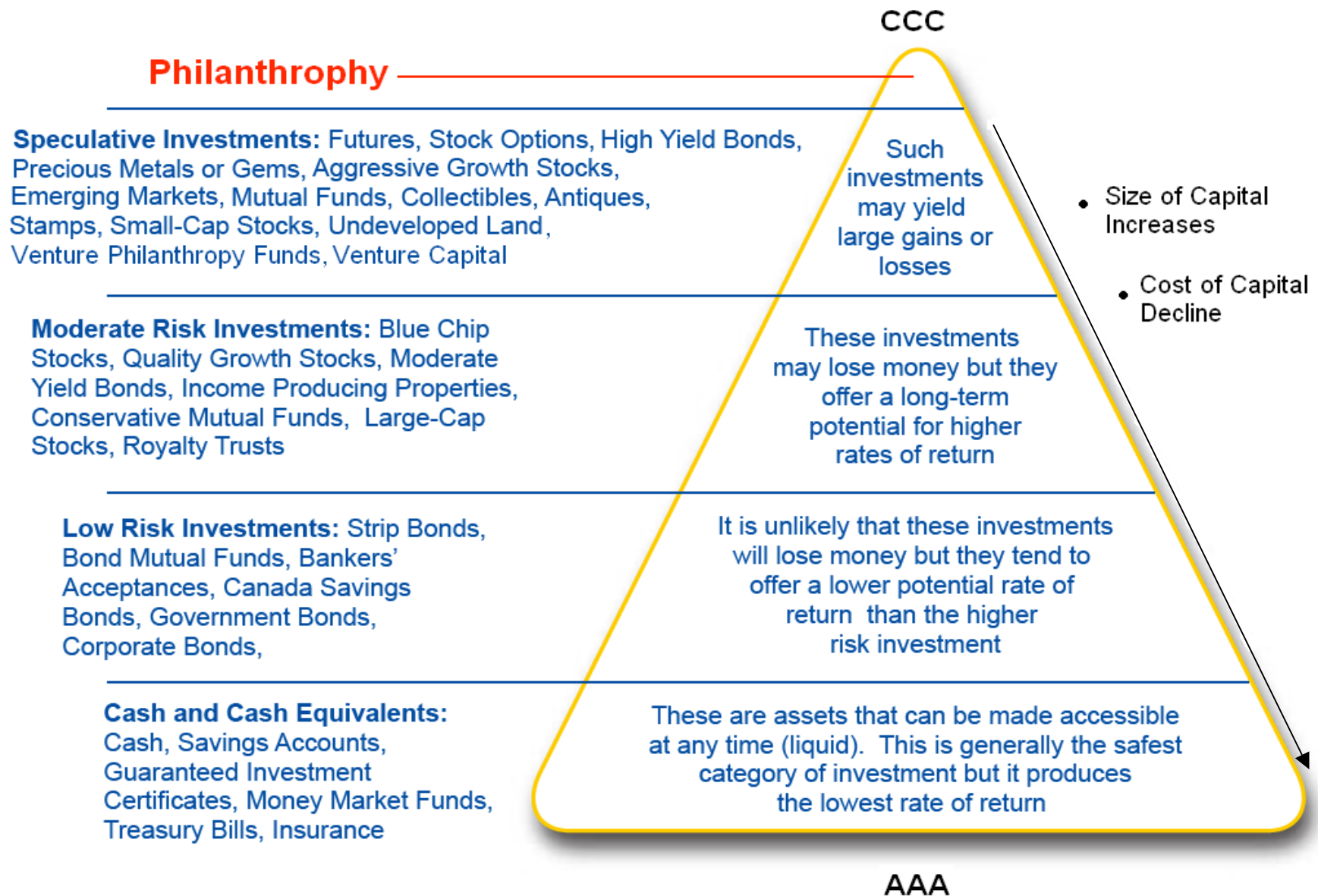
Number of International Citizen Groups



“Providing capital to Sanitation at LIBOR or below”

- Currently Investors in the Social Sector primarily offered only two options – Negative 100% IRR or Plus 5% IRR
- But conceptually Best Practice / Metrics / Investors in reality between these two Points
- Reallocation of existing subsidies. A Capital market where two players already accept -100% - UHNW's & Supra-nationals
- The tools of 2008 not 1888 - Leverage Structured Risk Return / Derivative products

Asset Allocation Categories



Type of Investment Vehicles >> TO BRING PRIVATE CAPITAL AND IDEAS IN SCALE INTO THE MARKET

>> **REDUCE RISK** - Credit structure – CCC>>AA
[Micro Finance >> Eye Fund >>Sanitation?]

>> **INCREASE RETURN**

- Provide High Contingent Returns - Index
- Leverage Economic Output – Electricity, Bio gas, Fertiliser
- Carbon Trading – Twenty Times Current market

>> **RISK MGMT** – Insurance models, Franchising

Key Findings: Trends

The social sectors' access to capital markets is improving

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Funds	0	0	0	0	106.9	100	8.5
CDO's	0	0	0	176	0	339.1	*110
Bond Issuance	15	20	0	44	52	1100	4000
Equity	0	0	0	0	450	0	0
Total	15	20	-	220	609	1,539	*4,119
Total (2001-2007):		6,522					

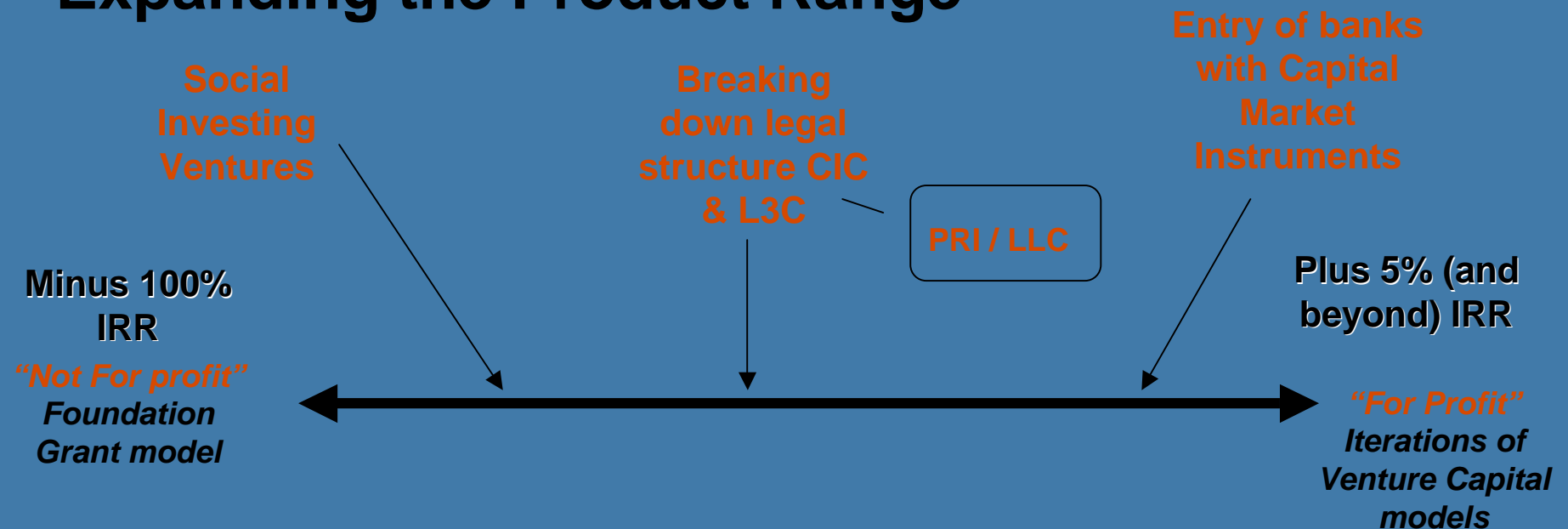
•Millions of USD

*Only \$1 billion of \$4 far billion issued thus

Why Sanitation?

- Political Will – Gordon Brown – End of Silo's
- Identify Community
- Clear Cost Benefit Analysis – WHO, DFID, WSP
- Not enough Money - \$500m vs. \$500bn
- Not going to be bailed out – GAVI
- Banks looking for Deals - \$6.5bn
- Potentially MDG Financing Structure

Expanding the Product Range



THE IMPORTANCE OF COLLABORATION AND CHANGE

To solve the problems on a systemic basis requires:

Collaboration from the Social sector / NGO's

Creation / Evolving of Intermediaries to create Collaborative behaviour

Foundations / Donors – Leverage Capital, Increase Innovation but look to HOW to draw in more Private capital

Governments to change legislation – Tax treatment and Legal structures

Banks to bring their skills to bear

Sanitation Investment Notes (one product example)

