<u>Media Release</u>

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A LOOK AT SOCIAL IMPACT BONDS IN SOUTH AFRICA ONE YEAR ON…

Social Impact Bonds are a relatively new financing structure in South Africa where socially motivated investors pay for social services upfront and are repaid by outcomes funders if pre-agreed outcomes targets are met.

Dipalesa Mpye, Social Investment Specialist at Tshikululu Social Investments, explains that a Social Impact Bond (SIB) involves an investor (or investors) who provides upfront working capital for the achievement of a specific social outcome, these funds are then channelled to service providers or a cohort of service providers (such as NGOs, non-profit social enterprises or for-profit organisations) through an intermediary that is responsible for overall management and administration of the SIB. When the service providers achieve the social outcomes, these are verified by an independent evaluator and only then does an outcomes payer (ideally government but this could also be a private donor) pay money back to the initial investor (either replacing capital or for a financial return).

At the recent Serious Social Investing (SSI) Conference, hosted by FirstRand, Tshikululu Social Investments and Anglo American in Johannesburg, specialists and key SIB thought leaders discussed Social Impact Bonds in the South African context. Panel members included Michelle Green, Investment Analyst as Futuregrowth Asset Management; Barry Panulo, Senior Analyst at Innovative Finance, Bertha Centre for Social Innovation and Entrepreneurship and Lerato Lehoko, Managing Director at Bonds4Jobs.

Last year saw the successful launch of an Early Child Development (ECD) SIB, a first for South Africa, and a great example of how a social impact bond with government and private funders as outcomes funders can work.

Here the outcomes payers included the Western Cape Department of Social Development and ApexHi Charitable Trust, a client of Tshikululu. Investors included Standard Bank Tutuwa Community Foundation, Futuregrowth Asset Managers and LGT Venture Philanthropy. The intermediary here is a partnership between Mothers to Mothers and Volta Capital.

This partnership aims to drive Early Childhood Development (ECD) targets in the Western Cape, more specifically to improve the cognitive and socio-emotional development outcomes of 2000 children in the communities of Atlantis and Delft in the Western Cape through home visiting programmes, implemented by the Western Cape Foundation for Community Work over a three year period.
This is an important area of focus but one that has been underserviced and fragmented making it an ideal fit for a pilot project of this nature. While still in its early stages, the progress by February this year was already very positive, with 1 424 children having been recruited and retained on the programme.

According to Michelle Green, an investment analyst at Futuregrowth Asset Management who is involved with this same impact bond in the Western Cape, impact bonds give donors, foundations, financial organisations and governments a way to introduce competitive efficiencies, normally associated with the private sector, into the public and non-profit realm, thereby ensuring social and environmental programmes deliver maximum impact.

“As government resources are finite, SIB’s are a way of crowding-in private sector funding to help Government implement critical social impact initiatives, which we at Futuregrowth believe to be critical to the development of the South African economy and social landscape,” says Green one of the speakers at the last Serious Social Investing (SSI) Conference.

2018 also saw the launch of the only SIB on the continent aimed at addressing youth unemployment. The SIB is currently being implemented as a four-year pilot aimed at transitioning 6 000 unemployed young people between the ages of 18 and 35 into high-quality entry level jobs. It also aims to enable a cohort of operators within the ecosystem and demonstrate a sustainable funding model for addressing youth unemployment at scale.

Mpye says that nearly a decade since the first SIB was launched in the UK, there is still a level of scepticism about whether they are indeed an effective mechanism for driving social impact while achieving financial returns for those that invest in them.

“With the attractive promise of rigor in delivery and measurement of social outcomes, as well as minimising risk associated with non-delivery and the potential for crowding in private capital with financial returns, it is no wonder that over 100 SIBs have been launched across the globe since they were first introduced,” Mpye says. “Despite their allure however, SIBs have been widely criticised as being overly complicated, too costly to set up, unclear on intellectual property and difficult to scale".

Tshikululu' s own learnings regarding potential challenges with impact bonds include that government procurement regulations can be a barrier, power dynamics between service providers and intermediaries add complexity, and any extended delays can ultimately lead to a complete breakdown of the entire structure.

Despite the various criticisms, Mpye says that SIBs continue to be considered an innovative financing model and conversations on impact investing are not complete without their mention.

With over 21 years' experience in social investment management, Tshikululu Social Investments brings together implementors, outcomes funders and investors in order to achieve sustainable and measurable social impact.

For more information go to http://tshikululu.org.za.