

Sustainability Banking in Africa



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Foreword

The principles of sustainability are becoming increasingly important in our globally networked world where the welfare of people, civil society organisations, companies, countries and supra-national organizations are closely intertwined. Sustainability stands for the precept of giving equal consideration to economic, ecological, and social aspects in all of our actions in order to achieve the goal of passing on a healthy environment, good business conditions and a socially just basis for life to coming generations.

The African continent is facing major challenges, and it is here where the strong effects business, ecology and social conditions have on each other are particularly apparent. African states are striving to achieve stable political, economic and social structures while preserving their natural surroundings and Africa's fascinating wildlife. Africa wants to become accepted as an equal player in the world of global business.

The UNEP (United Nations Environment Programme) and its members want to help African nations succeed in this enormous task. This applies especially to the African Task Force (ATF) established by the UNEP Financial Initiative (FI). Financial markets are deeply concerned with sustainability-related activities because of the pertinent advice and counselling involved in the actions of companies, institutions, transactions and project finance deals. The ATF views itself as a partner in projects, a guide wherever help is needed, and as an initiator of networks to facilitate the transfer of experience and ideas.

Deutsche Bank has been a partner of UNEP for years and has played an active role in a global network of companies, organisations and institutions that have set themselves the goal of implementing the principles of sustainability. We support projects in Africa through the Deutsche Bank Africa Foundation, which was founded within the framework of the World Summit on Sustainable Development (WSSD) in 2002, unofficially known as the Johannesburg Summit. The Foundation primarily supports educational projects, economic infrastructure programmes such as helping people to set up small businesses, or projects to fight HIV and AIDS. Beyond these efforts we also support the Peace Parks Initiative in South Africa, Zimbabwe and Mozambique as well as the Southern African Wildlife College. Peace Parks combine the preservation of wildlife and the environment with the creation of jobs thereby making an important contribution towards the political and social stability of the region.

Thinking and acting in accordance with the principles of sustainability is of major importance for Deutsche Bank within the bank itself and in fulfilling our responsibilities as a corporate citizen within the international community.



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Christina Wood

Christina Wood has over 10 years' experience in sustainability and environmental management. She has managed and undertaken numerous environmental impact assessments and audits in southern Africa and has also developed and delivered training programmes in environmental management to the private and public sector. She has worked extensively with the financial sector, and the infrastructure and mining sectors. Since 2001, she has been a consultant to the Environment and Social Development Department of the International Finance Corporation (the private sector arm of the World Bank Group). She has worked mainly with IFC financial intermediary clients, and has delivered Competitive Business Advantage training to this sector on behalf of IFC. Christina is an associate member of the UNEP FI African Task Force and is currently Programme Manager for AICC's Centre for Sustainability Investing. She lives in Johannesburg with her husband and son, and is passionate about art and travel. c-wood@mweb.co.za

Executive Summary

This report looks at the role of the financial sector in Africa in promoting sustainability. Sustainability is about ensuring long term business success, while contributing towards economic and social development, a healthy environment and a stable society. There are three broad components of sustainability, sometimes referred to as 'people, planet and prosperity', or the 'social, environmental and economic' dimensions. The need for businesses to address all three has been encapsulated in the concept of the 'triple bottom line'. The report identifies a number of innovations demonstrating sustainability banking in different countries in Africa. Together, these provide a clear indication of change in the financial sector from the more traditional defensive and narrow risk management approach, to being more proactive, and promoting competitive sustainability advantage.

The aim of the report is several fold:

- To examine sustainability banking in an African context;
- To analyse the role of the finance sector in promoting sustainability - highlighting the challenges and opportunities that exist;
- To create a basis for discussion and action upon which sustainability banking issues can be addressed;
- To initiate a dialogue around the London Principles, with the intention perhaps of generating an African version of the principles, that can then support the goals of NEPAD or be adapted to suit individual country requirements;
- To highlight a series of current product, process and market innovations that demonstrate the increasingly integrated nature of sustainability practice on the continent;

- To use these examples to develop lessons for developing future innovative tools and approaches relevant to the African context, and;
- To provide a platform for the AICC Centre for Sustainability Investing, UNEP Finance Initiative (FI) African Task Force (ATF) and other relevant organisations to develop mechanisms to ensure that sustainability banking is taken forward in Africa.

The report itself is not expected to represent a definitive account of all finance sector sustainability practices in Africa, but rather to provide a comprehensive initial assessment with ideas for future action. The audience for the report comprises finance sector institutions and policy makers who are working to improve the nature of the financial system in Africa. It will also provide a framework for organisations and stakeholders who are looking to engage the finance sector in Africa around sustainability related issues. In addition, it is expected that the report will have a broader international audience who are interested in the challenges and distinct opportunities that investing into Africa can bring.

In undertaking the research for 'Sustainability Banking in Africa', five countries were chosen as focal case studies: South Africa, Nigeria, Senegal, Botswana and Kenya. Over fifty financial institutions were interviewed, and a number of others consulted. From these interviews, nineteen detailed case studies were developed reflecting a range of product and process specific innovations. A number of these are significant in their use of partnerships to attain the goals of sustainability banking. Some of these partnerships are

Summary of current practices demonstrating sustainability banking identified in this report

Pricing Assets and Exercising Ownership	Providing New Finance	Risk Management	Savings and Transactions
<ul style="list-style-type: none"> • Financial Sector Charter • Nedbank Green Trust • JSE SRI Index • Community Property Fund • Earth Equity Fund • Development Fund of Funds • IDEAS Fund • Women's Initiative Fund • Carbon trading 	<ul style="list-style-type: none"> • Financial Sector Charter • Finmark Trust • PPPs • Khula Mentorship Scheme • Futuregrowth's Development Funds • ACEP • CIF forum • SME Partnership SMIEIS • Oil Services Local Control Credit Scheme • DrumNet • WEEC • EAIF 	<ul style="list-style-type: none"> • Financial Sector Charter • CCMR • MicroSave-Africa • CETZAM 	<ul style="list-style-type: none"> • Financial Sector Charter • Standard Bank's E Plan • Teba Bank • Inter-Bank Task Group • ATM Solutions • Equity Building Society • ASCAs • K-Rep • Botswana Savings Bank • Malswitch • Celpay • Epack

Unique to the African situation and offer lessons to the continent and other emerging markets. Discussions with practitioners identified possible future innovations for sustainability banking, and these are highlighted. Though the focus of the report is to look at specific finance sector mechanisms that could be developed to promote sustainability; these mechanisms need to be supported within a broader climate for change. New forms of governance, sustainability clusters and partnerships, involving a range of players are needed to ensure that these practices are embedded and of value to society as a whole.

The key drivers and challenges for sustainability banking in Africa are discussed, for as Cas Coovadia, of the Banking Council of South Africa, and Chair of UNEP FI African Task Force observes, “the challenges of sustainable development must be seen within the African context. We need to be careful that we don't impose values of developed countries as far as sustainable development is concerned.”

The evidence from the report points to the emergence of a dynamic business case for sustainability banking in sub-Saharan Africa. This development is linked to improved risk analysis, better corporate governance standards, increased potential to access international funds, enhanced ability to enter or create new markets and improved stakeholder relations.

The report highlights an impressive range of financial innovations supporting sustainability in Africa. One of the report's aims is to raise awareness of the achievements of these financial institutions, thus encouraging adoption of similar innovations elsewhere on the continent.

The London Principles

In 2002, the Corporation of London and individual finance sector institutions developed the 'London Principles' to “propose conditions for a financial system, and the role of institutions within that system, that will enhance the financing of sustainable development” and to improve the performance of financial institutions in promoting economic prosperity in line with sustainable development priorities.

It is proposed that the London Principles offer a sound base for departure in the African context. This report hopes to initiate a dialogue around these principles to look at generating an African version of the principles that can

then be embedded into NEPAD or adapted to suit individual country requirements. The South African Financial Sector Charter would also provide a foundation for developing principles encouraging social development and upliftment across the continent.

In adopting these African Principles, signatories would agree, where relevant to the product and geographical scope of their business, to:

Economic Prosperity

- Principle 1 Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets.
- Principle 2 Promote transparency and high standards of corporate governance in themselves and in the activities being financed.
- Principle 3 Recognise the importance of the provision of financial services to all socio-economic sectors of the population.
- Principle 4 Provide access to technical and business support to both borrowers (especially SMEs) and lenders focusing on this sector (microfinance or SME lending institutions) to ensure their long term commercial viability and sustainability.

Environmental Protection

- Principle 5 Reflect the cost of environmental and social risks in the pricing of financial and risk management products.
- Principle 6 Exercise equity ownership to promote efficient and sustainable asset use and risk management.
- Principle 7 Provide access to finance for the development of environmentally beneficial technologies.

Social Development

- Principle 8 Exercise equity ownership to promote high standards of corporate social responsibility in the activities being financed.
- Principle 9 Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies.
- Principle 10 Promote the use of effective partnerships between government, private sector and NGOs in order to offer innovative sustainability banking products and services to all sectors of the population.

Challenges for Africa

The role of banks as intermediaries in Africa will be particularly important when it comes to development of infrastructure on the continent, including transport and communication links, as well as essential services such as water, electricity and health care. As intermediaries, finance sector institutions play a key role in signalling price fluctuations, influencing regulatory changes, determining the nature of the special purpose investment vehicles to include social and environmental concerns, as well as having a significant influence in their capacity as shareholders on corporate governance and project implementation issues. There is also a need for increased focus on broad based domestic resource mobilisation and reversing the declining trends in the levels of savings that occur in many African countries. Contrary to developed economies, in Africa, this is identified as a major component of what is described as sustainability banking. Even though much work has been done on the role of micro-credit in bringing about positive changes to poorer

peoples' lives, there has been less analysis of the role of transactions and savings as a means of improving livelihoods and making markets work for the poor. This is particularly the case in relation to the traditional banking sector and in looking at the role of the state in providing universal banking services.

Increasingly important, will be the need for stakeholder engagement and the creation of viable partnerships as engines of sustainable growth. How the finance sector chooses to deal with this in Africa will have a substantial bearing on the sustainable economic development of individual countries allowing for provision of more jobs and enhanced prospects for a more socially cohesive society.

How individual institutions deal with their own internal changes in adopting a sustainability business approach and develop appropriate company specific sustainability management systems and codes of practice will be equally important. The report identifies several examples of where this is happening and the unique journeys that those companies have embarked on.

Towards Sustainability Banking

1 *Financial Institutions beginning to develop a sustainability banking approach must:*

- Ensure commitment at top level management.
- Examine key business drivers, including principle areas of sustainability risk and opportunity.
- Examine organisational values of company in the context of sustainability.
- Define the roles and responsibilities of the management team, and choose specific limited sustainability interventions with clear objectives.
- Monitor and evaluate performance against specific criteria and objectives.

2 *Financial institutions wishing to move beyond a basic commitment to sustainability banking should:*

- Ensure commitment of staff and board involvement.
- Analyse sustainability risks and opportunities in detail, including the scope for innovation.
- Incorporate sustainability principles into a code of practice.
- Look to integrate a sustainability framework across the bank including an overall strategy.
- Train and build awareness of all staff.
- Communicate the sustainability strategy internally and externally.
- Undertake reporting of sustainability risk management and opportunities.
- Develop a knowledge management and learning framework.

3 *Financial Institutions aiming to achieve competitive sustainability advantage should:*

- Move to inspire the whole organisational network including suppliers and key partners.
- Use professional benchmarking and diagnostic tools to evaluate company performance on sustainability banking and inform strategy development linking directly to core business competencies.
- Apply external standards and consider external auditing to enhance credibility.
- Undertake progressive stakeholder engagement process.
- Integrate sustainability issues into key internal management systems.
- Undertake externally audited sustainability reporting process.
- Ongoing review and analysis of performance against measured targets.

At the same time there are opportunities to ensure that existing country specific initiatives align and influence developments in sustainability banking and investing more widely on the continent. For example, could South Africa's Finance Sector Charter be merged with broader sustainability ideals to offer a continent-wide guide? There exists the opportunity for countries or regions in Africa to launch and enforce culturally and contextually relevant versions of international sustainability banking codes, such as the London Principles.

The way forward

It is proposed that this report be distributed widely to financial institutions operating in Africa, through national and regional banking councils and life assurance bodies. Champions should be identified within these organisations to co-ordinate regional roundtable events bringing public and private sector financial bodies, as well as relevant

NGOs and other stakeholders together. These roundtables would allow the finance sector to investigate the relevance to Africa of the Western / developed countries' understanding of Sustainability Banking and to identify ways of customising a regional African or continent wide concept of Sustainability Banking. In addition, they would afford the opportunity for the finance sector to share current good practice in this regard, and gauge international trends. In South Africa, the finance sector could look at sustainability issues in the light of developments subsequent to the launch of the finance sector charter. Overall, these discussion fora could initiate the potential development of voluntary sustainability principles that accord with the interests of the finance community while keeping in line with international norms, fostering partnerships between government, the private sector and other relevant stakeholders to embrace the notion of sustainability banking across the continent.

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Abbreviations and Acronyms

ADEPME	Association de Developpement des Petites et Moyennes Entreprises <i>Association for the Development of Small and Medium Enterprises (Senegal)</i>
AICC	African Institute of Corporate Citizenship
ALSI	All Share Index
ASCA	Accumulating Savings and Credit Association
AML	Anti Money Laundering
BCEAO	Banque Centrale des Etats del'Afrique de l'Ouest <i>West African Central Bank</i>
BEE	Black Economic Empowerment
BOT	Build-Operate-Transfer
CCMR	Corporate Citizenship Management Rating
CGAP	Consultative Group to assist the Poor
CGT	Capital Gains Tax
CHOGM	Commonwealth Heads of Government Meeting
CSI	Centre for Sustainability Investing <i>One of AICC's programme areas</i>
CSR	Corporate Social Responsibility
DBSA	Development Bank of South Africa
DFI	Development Finance Institution
DfID	Department for International Development (United Kingdom)
DTI	Department of Trade and Industry (South Africa)
EAIF	Emerging Africa Infrastructure Fund
ECOWAS	Economic Community of West African States
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FICA	Financial Intelligence Centre Act
FPE	Fonds de Promotion Économique <i>Part of the Ministry of Finance (Senegal)</i>
GDP	Gross Domestic Product
IFC	International Finance Corporation
INAFI	International Network of Alternative Financial Institutions
JSE	Johannesburg Securities Exchange
NEDLAC	National Economic Development and Labour Council (South Africa)
NEPAD	New Economic Partnership for African Development
OECD	Organisation for Economic Development
POEC	Organisation of the Petroleum Exporting Countries
PARMEC	Projet d'Appui à la Reglementation sur les Mutuelles d'Epargne et de Crédit <i>Support project for regulations on savings and credit mutuals (Senegal)</i>
PEEPA	Public Enterprises Evaluation and Privatisation Agency (Botswana)
POS	Point of Sale
PPP	Public Private Partnership
SACCO	Savings and Credit Co-operative Societies
SADC	Southern African Development Community
SMI	Small and Medium Industries
SMIEIS	Small and Medium Industries Equity Investment Scheme (Nigeria)
SMME	Small Medium and Micro Enterprises
SRI	Socially Responsible Investing
UEMOA	Union économique et monétaire ouest-africaine <i>West African Economic and Monetary Union</i>
VC	Venture Capital
WB	World Bank

Sustainability Banking - An agenda for change

1. Sustainability Banking - An agenda for change

Sustainability is about ensuring long term business success, while contributing to society's present and future social, environmental and economic needs. This approach requires ethical, environmental, social and economic considerations to be integrated into all aspects of the business, reflecting the principles of sustainable development.

While many businesses, particularly those in the extractive industries, are well aware of the need to incorporate environmental and social issues into their policies and procedures and to consider the sustainability of their operations, the banking sector has been slow to respond to the new challenges that sustainability presents. This is because the banking sector generally considers itself to be a relatively environmentally- and society- friendly industry.

This perception is now altering worldwide, however, as a result of a number of driving forces including:

- Regulatory developments, which are seeing bankers being held liable for the environmental pollution caused by their clients (CERCLA¹, USA).
- The growing profile of finance sector partnerships such as the United Nations Environment Programme Finance Initiative (see Box 1), which aims to identify, promote and realise the adoption of best sustainability practice in all levels of financial institution operations.
- The setting of high environmental, social, and governance standards by multilateral development banks.
- The adoption of similar high standards by private sector banks, as seen with the adoption of the Equator Principles (see Box 2) by twenty three leading international banks; and the launching of the London Principles in the UK (see Box 3) by the British Prime Minister at the World Summit in 2002.
- Increased stakeholder pressure and associated reputational risks e.g. more than a hundred civil society / NGO groups have signed the Collevocchio Declaration², which offers a roadmap for the financial sector, emphasising commitments to sustainability, transparency, and harm avoidance amongst other issues. These civil society groups will be increasingly active in holding institutions to account for their activities.

Box 1: UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI) was launched in 1992 as a global partnership between UNEP and the private financial sector. UNEP FI works closely with over two hundred financial institutions to develop and promote linkages between the environment, sustainability and financial performance. Through task forces, working groups, training programmes and research, UNEP FI aims to address the opportunities and challenges that sustainable development poses to the financial sector, and society as a whole. Today, there are two hundred and thirty six signatories to the UNEP FI Statement on the Environment and Sustainable Development reflecting a growing awareness in the sector of sustainability.

The UNEP FI African Task Force (ATF) was launched in 2002 with the primary aim of promoting best sustainability practice across all financial sectors within a specific African context. The task force comprises fifteen members from the financial sector, assisted by a smaller group of non-financial associates to meet the challenges of the agreed work programme. UNEP FI view the ATF as a valuable mechanism to promote an 'African renaissance', recognising that the finance sector is pivotal to the advancement of this renewal.

"As financiers we:

- ...regard the financial services sector as an important contributor towards sustainable development, in association with other economic sectors.
- ...recognise that identifying and quantifying environmental risks should be part of the normal process of risk assessment and management, both in domestic and international operations. With regard to customers, we regard compliance with applicable environmental regulations, and the use of sound environmental practices as important factors in demonstrating effective corporate management.
- ...encourage the financial services sector to develop products and services which will promote environmental protection." Extracts from UNEP FI Statement on the Environment and Sustainable Development as revised May 1997.

1 Comprehensive Environmental Response, Compensation and Liability Act of 1980 (USA).

2 The Collevocchio Declaration (www.financeadvocacy.org) was released by civil society groups in 2003.

- Governance failure in some financial institutions contributed to the loss of public trust that, between 2001 and 2003, impacted global capital markets and destroyed corporate value in a wave of scandals.
- The realisation that environmental and social issues pose risks that affect the bottom line across all sectors of banking.
- The concurrent realisation that the consideration of environmental and social issues in product development offers the potential to reach new sectors of the market, and to realise competitive advantage over peers in the financial sector.
- The growing understanding of, and commitment to, addressing the interconnectedness of environment, society and economy i.e. the triple bottom line.

Sustainability is about ensuring long term business success, while contributing towards economic and social development, a healthy environment and a stable society. There are three broad components of sustainability. They are sometimes referred to as 'people, planet and prosperity', or the 'social, environmental and economic' dimensions. The need for businesses to address all three has been encapsulated in the concept of the 'triple bottom line'³.

Box 2: The Equator Principles

In June 2003, ten of the world's leading international banks announced the adoption of the 'Equator Principles', a comprehensive set of environmental and social guidelines for the financing of projects over US\$50 million. These principles are based on the environmental and social safeguard policies and guidelines of the International Finance Corporation (IFC). The banks apply the principles globally to projects in all industry sectors. With rapid speed, these principles have become the new banking industry standard on environmental and social issues for project finance. As of May 2004, there are twenty three financial institutions that have adopted the Equator Principles.

In doing so, a bank undertakes to provide loans only to those projects whose sponsors demonstrate, to the satisfaction of the bank, their ability and willingness to comply with policies and guidelines aimed at ensuring that the projects are developed in a socially responsible manner, and according to sound environmental practices. The adoption of the Equator Principles confirms that the role of the global financial institutions is changing. More than ever, people at the local level know that the environmental and social aspects of an investment can have profound consequences on their lives and communities - particularly in emerging markets where regulatory regimes are often weak. "If financial institutions want to operate in these markets, there is a bottom line value in having clear, understandable and responsible standards for investing," says Jean Philippe Prosper, Manager of Financial Markets for Sub-Saharan Africa, IFC. www.equator-principles.com

Figure 1: Towards Sustainability Banking



³ SustainAbility, IFC and Ethos Institute (2002) *Developing Value: The business case for sustainability in emerging markets*, SustainAbility.

Sustainability Banking - An agenda for change

The various approaches adopted by banks worldwide towards sustainability have been analysed and modelled⁴. Four stages of recognition of, and response to sustainability issues can be identified (Figure 1). Banks can be classified according to their stage of awareness, and most will pass through the four phases on their journey towards 'Sustainability Finance'. They will move from;

- (i) a *defensive* state of basic environmental risk management, where broader sustainability issues are overlooked or ignored, through to
- (ii) a *protective* or reactive phase where there is more systematic management of environmental and social risk, to

- (iii) a more proactive or *offensive* phase, where there is strategic management of environmental and social risk, and even, limited environmental and social value added, to

- (iv) the ultimate *sustainability* banking phase, where the triple bottom line approach (people, planet and prosperity) is integrated into the bank's core business strategy, and is no longer limited to risk avoidance, but is now seen as a potential part of every type of financial risk management and decision making process. Sustainability related issues are recognised as drivers for developing new products and services, generating additional revenue and increasing market share, and the organisation becomes environmental value driven.

Box 3: The London Principles

The 'Financing the Future' Project was commissioned by the Corporation of London on behalf of the Department for Environment Food and Rural Affairs (DEFRA), as one of the sector initiatives that the British Prime Minister, Tony Blair, took to the World Summit on Sustainable Development (WSSD), in Johannesburg in 2002. The project was carried out by Forum for the Future's Centre for Sustainable Investment. The output of the project was a set of principles defining the role of the UK financial services in sustainable development, known as the London Principles⁵.

Signatories agree, where relevant to the product and geographical scope of their business to:

Economic Prosperity

- Principle 1 Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets
- Principle 2 Promote transparency and high standards of corporate governance in themselves and in the activities being financed

Environmental Protection

- Principle 3 Reflect the cost of environmental and social risks in the pricing of financial and risk management products
- Principle 4 Exercise equity ownership to promote efficient and sustainable asset use and risk management
- Principle 5 Provide access to finance for the development of environmentally beneficial technologies

Social Development

- Principle 6 Exercise equity ownership to promote high standards of corporate social responsibility by the activities being financed
- Principle 7 Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies

www.forumforthefuture.org.uk

⁴ Jeucken, Bouma & Klinkers (2001) Sustainable Banking: The Greening of Finance, Deloitte and Touche.

⁵ Corporation of London, 2002, Financing the Future (The London Principles). www.forumforthefuture.org.uk.

2. Making Sustainability Banking count in Africa - Overview of this report

This report looks at the role of the finance sector in Africa in promoting sustainable development. Following the completion of the 'Financing the Future' project and the development of the London Principles in 2002, it was felt that similar research focusing on Africa would be of enormous value in understanding, guiding and shaping sustainability banking on the continent. The authors believe that the London Principles offer a sound base for departure in the African context.

This 'Sustainability Banking in Africa' report was undertaken in association with UNEP FI, and supported by the IFC, FinMark Trust, People's Bank and Deutsche Bank. The project was directed by Christina Wood and Sean de Cleene at the African Institute of Corporate Citizenship's Centre for Sustainability Investment (CSI).

The aim of the report is several fold:

- To define sustainability banking in an African context;
- To analyse the role of the finance sector in promoting sustainability in Africa - highlighting the challenges and opportunities that exist;
- To create a basis for discussion and action upon which sustainability banking issues in Africa can be addressed;
- To initiate a dialogue around the London Principles, with the intention perhaps of generating an African version of the principles, that can then support the goals of NEPAD or be adapted to suit individual country requirements;
- To highlight a series of current product, process and market innovations that demonstrate the increasingly integrated nature of sustainability practice in the African finance sector;
- To use these examples to develop lessons for developing future innovative tools and approaches relevant to the African context, and;
- To provide a platform for the AICC Centre for Sustainability Investing, UNEP Finance Initiative (FI) African Task Force (ATF) and other relevant organisations to develop mechanisms to ensure that sustainable banking is taken forward in Africa.

The audience for the report comprises finance sector institutions and policy makers who are working to improve the nature of the financial system in Africa. It will also provide a framework for organisations and stakeholders who are looking to engage the finance sector in Africa

around sustainability related issues. In addition, it is expected that the report will have a broader international audience who are interested in the challenges and distinct opportunities that investing into Africa can bring.

2.1 Methodology

At a series of planning workshops involving AICC, funders, consultants and representatives of the UNEP FI ATF, it was agreed that the report methodology should build on existing international work on sustainability banking, rather than devising a unique methodology. This existing work should be adapted to suit the African context.

Having examined a variety of approaches, and following discussions with representatives of the Forum for the Future in the UK, it was felt that the methodology and structure used to deliver the London Principles offered the most applicable and appropriate model. This report, therefore, draws heavily on the 'Financing the Future' document (see Box 3).

In undertaking the research for 'Sustainability Banking in Africa', over fifty financial institutions were interviewed, and a number of others consulted, about their role in promoting sustainability in Africa. From these interviews, nineteen detailed case studies were developed reflecting a range of product and process specific innovations. A number of potential future innovations were also developed. The report itself is not expected to represent a definitive account of all finance sector sustainability practices in Africa, but rather to provide a comprehensive initial assessment. Five countries were chosen as focal case studies: South Africa, Nigeria, Senegal, Botswana and Kenya (see Table 1). The country cases were chosen for the following reasons:

- To ensure coverage of southern, eastern and western Africa. North African countries were specifically excluded from this study due to differing practices of Islamic banking. Future studies could investigate any unique attributes offered by these countries;
- To include one francophone country;
- To acknowledge that South Africa is the leader on the continent, and not necessarily representative of southern African banking practices; and,
- To identify particular regional or national variations in sustainability banking practices, but also to highlight common values, practices and challenges.

Making Sustainability Banking count in Africa

In order to fully understand the potential for the financial sector to impact on the natural and social environments, and also to positively influence sustainable development; the functions and business areas of the sector must be defined. Again, the Financing the Future Report offered a useful framework for investigating the impacts and innovations of the finance sector's various business areas. A fourth category (savings and transactions) was added to the original three-tier model, thus making it much more relevant to sustainability banking in the African context (see Box 4).

Each of the country case studies examines finance and sustainability in those countries under these four business areas. Current innovations are highlighted, and future innovations are discussed briefly in Section 6, again under the four functions.

Although members of the UNEP FI ATF have contributed significantly to its development, responsibility for the accuracy of the report lies with the AIACC Centre for Sustainability Investing. It is expected that the report will allow the UNEP FI ATF and other organisations a vehicle for taking forward the sustainability banking agenda in Africa.

Box 4: The Financial Sector's broad functions and business areas

Functions	Business Area
Pricing assets & exercising ownership	Asset management <ul style="list-style-type: none"> - stock selection - corporate governance - investment banking - research - trading
Providing new finance	Commercial banking <ul style="list-style-type: none"> - credit - leasing Investment banking <ul style="list-style-type: none"> - project finance - new issues - private equity
Risk Management	Insurance <ul style="list-style-type: none"> - reinsurance - non life Investment banking <ul style="list-style-type: none"> - derivatives
Savings & Transactions	Savings Transactions <ul style="list-style-type: none"> - withdrawals & deposits - transfers - payment methods

Adapted from the London Principles; Forum for the Future's Centre for Sustainable Investment (CSI), 2002.

Table 1: Overview data⁶ on the case study countries

	South Africa	Nigeria	Senegal	Botswana	Kenya
Population (m)	45.3	132.8 ^d	10.28 ^b	1.79 ^a	31.98 ^b
% population growth	0.5	2.1 ^d	2.6 ^b	1.1 ^a	2.0 ^b
GDP / head (US\$)	2.549 ^e	360 ^e	616 ^b	4.652 ^a	413 ^b
Currency	Rand	Naira	CFA Franc	Pula	Kenya Shilling
Exchange rate : US\$ (ave 2003)	7.57	129.8	581.2	4.95	75.94
Key industries	Mining, Manufacturing	Petroleum products	Fish and shellfish phosphate products, groundnuts	Diamond mining, meat products	Tea, coffee, horticulture, tourism
No of banks	36	90	11	12	43
Interest rate (%; ave)	13	20.6	14.5 ^b	15.75 ^a	13.5 ^b
Consumer Price Inflation (%; ave)	4.8	13.6	0.8 ^c	5.8 ^c	9.8 ^b
Corruption Perception ^f : Rank (out of 103) Score ^e	48 4.4	122 1.9	76 3.2	30 5.7	132 1.4

a 2003 actual (EIU)

b 2003 estimate (EIU)

c 2004 forecast (EIU)

d World Bank, 2002

e EIU 2002

f Transparency International Corruption Perceptions Index 2004

g where 10 is highly clean and 1 is highly corrupt

⁶ Drawn mainly from Economist Intelligence Unit work.

2.2 Structure of the report

The study identified a wide range of financial innovations emanating from across the continent. These include process innovations (such as K-Rep's mobile banking units in Kenya); product innovations (such as Capital Alliance's SME Fund in Nigeria); market innovations (such as the Financial Sector Charter in South Africa) and innovations in savings and transactions (such as Standard Bank's 'E Plan'). Taken as a whole, these innovative financial products have the potential to shape the development of a continent-wide approach to sustainable finance.

The report examines the five case study countries, briefly describing the financial sector and practices contributing to sustainability banking. Country specific challenges and opportunities are identified, and existing innovations discussed. Section 5 highlights particular company innovations in greater detail to emphasize lessons that could be applied elsewhere and by other institutions. All are products or processes seeking commercial returns or the commercialisation of the business they are financing. Thus, these examples indicate how the financial sector contributes to sustainable development in Africa. The range of case studies covered is not conclusive, and there are likely to be numerous other examples of such innovation. However, the cases demonstrate the spread of current practice with regard to sustainability banking on the continent, and lay the framework for future innovations.

Section 6 discusses how the role of the financial services in sustainability banking could be improved through innovation by the public or private sector. These ideas originated in discussions with practitioners in each of the countries, and while some may already be in existence in some parts of Africa, they provide useful models for innovation elsewhere.

In the conclusion, the authors outline the way forward for sustainability banking in Africa. Key challenges are highlighted and several clear possibilities for future action are identified. Details of practitioners consulted as part of this project are included in Annex 1.

3. Sustainability Banking - an African context

The financial services sector plays a very different role to other industry sectors in contributing to sustainable development and has responded far more slowly to the challenges and opportunities that sustainability presents.

Private sector financial institutions are particularly behind in this respect. One of the key reasons for this has been the fact that the finance sector *itself* does not have a significant social or environmental 'footprint'. It is only recently - as the spotlight has turned to the financial sector in regard to its position as an intermediary, and the pivotal role it therefore plays in assessing and potentially mitigating risk, including social and environmental risk - that a change in approach is beginning to emerge.

It is important to consider the key drivers and challenges for sustainable banking in Africa. It must be noted that drivers, challenges and opportunities vary from country to

Box 5: African signatories to UNEP FI Statement on the Environment and Sustainable Development

Of the more than two hundred signatories to the UNEP FI Statement on the Environment and Sustainable Development, the following operate in Africa. Thus, a commitment to sustainable banking practices, or at least, environmental protection, is already in evidence in certain lending activities on the continent. However, of these thirty four banks, only eight are African Banks (highlighted below), as opposed to international / global banks transacting or operating on the continent:

- Arab Bank, Plc
- Banco Portuges do Atlantico SA
- Banco Africano de Investimentos
- **Banco Nacional de Angola**
- **Banky Fampanandroanany Varotra, Madagascar**
- Barclays Group Plc
- Bayerische Hypo- und Vereinsbank AG
- **BMCE Bank, Morocco**
- Black Emerald Group
- Citigroup, USA
- Commerzbank AG
- Credit Suisse Group
- DEG German Investment & Development Company
- **Development Bank of South Africa (DBSA)**
- Deutsche Bank AG
- DZ Bank, Germany
- Dresdner Bank AG
- **Export Bank of Africa Ltd, Kenya**
- Export Development Corporation, Canada
- FMO, Netherlands
- **FSB, Nigeria**
- HSBC Holdings Plc
- **Kenya Commercial Bank Group**
- KfW (Germany)
- National Bank of Kuwait
- **Nedbank, South Africa**
- Prudential Plc
- Rabobank
- Royal Bank of Scotland
- Bank of Nova Scotia
- Société Général
- Standard Chartered Bank
- UBS AG
- West LB (Germany)

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country and region to region, and therefore require quite different responses. Equally, it has become clear that 'northern hemisphere' standards are not necessarily appropriate as global norms, and forcing such standards onto Africa without proper opportunities for debate could provide an even greater obstacle to sustainability banking than currently exists. "The challenges of sustainable development must be seen within the African context. We need to be careful that we don't impose values of developed countries as far as sustainable development is concerned," says Cas Coovadia, of the Banking Council of South Africa, and Chair of UNEP FI African Task Force. A number of the innovations reviewed later in the report are significant in their use of partnerships to attain these goals. Some of these partnerships are unique to the African situation and offer a number of lessons to the continent and other emerging markets.

3.1 Drivers for Sustainability Banking in Africa

i) Regulatory developments

In some African countries, regulatory pressure is exerted on all sectors of society and government in recognition of the need to responsibly manage environmental impacts. Under the South African Constitution, the State is obliged to take 'reasonable legislative and other measures' to ensure environmental protection, equitable access to land, access to housing, health care, food, water and social security and to address previous imbalances in society. Legislative reforms must therefore be anticipated (and have already begun) to ensure that civil society and the private sector assist in reaching these national constitutional goals. The Finance Sector Charter⁷ was initiated by private sector banks to pre-empt such legislative reforms and set targets through extensive consultation and agreement within the sector.

Under the South African National Environmental Management Act (NEMA), financiers may potentially be found liable for environmental pollution and other risks of a social nature⁸. Although no case precedents exist yet, it is only a matter of time before a case of 'lender liability' comes before the courts.

ii) Expansion of Corporate Governance Codes

In 1993, the Institute of Directors in Southern Africa established the King Committee on Corporate Governance, which published the first edition of the King Report on Corporate Governance in 1994 ("King I"). King I transcended the financial and regulatory aspects of

corporate governance, and advocated an integrated approach to good governance in the interest of a wide range of stakeholders. It institutionalised the concept of corporate governance in South Africa, successfully formalising the need for companies to recognise that they no longer act independently from the societies and the environment in which they operate.

The evolving global environment, together with recent South African legislative developments, made a review and update of the King Report imperative. The Enron scandal in late 2001, brought global media attention to the issue of corporate governance, and particularly the role of auditors. Against this backdrop, South Africa was able to demonstrate a significant awareness of the need for good corporate governance, as the updated King II Report on Corporate Governance had already been widely exposed for public comment, adopted by many large corporations and accepted by the Johannesburg Securities Exchange (JSE), which has now implemented an index for measuring corporate governance compliance amongst other sustainability measures. King II, published in 2002, advocates *inter alia* that there is a shift from the single to the triple bottom line, embracing the economic, environmental and social aspects of a company's activities. The core values of corporate governance promoted by King II are: transparency, corporate discipline, independence, accountability, responsibility, fairness and social responsibility.

King II is a non-legislated code that is applicable to companies listed on the JSE, corporations falling in the SA Financial Services Sector, and enterprises that perform public functions. Compliance with King II is a listing requirement on the JSE. It sets out a code of corporate practices and conducts for corporations in South Africa on a wide range of issues including: Boards and directors; risk management; internal audit; integrated sustainability reporting; accounting and auditing; relations with shareholders; and communications to stakeholders. Integrated sustainability reporting has become a mainstream practice for most JSE-listed companies, while King II is providing a model for corporate governance elsewhere in Africa.

iii) Globalisation and competitive advantage

The effect of globalisation has been that investors worldwide can choose where they want to trade. As a result, Africa needs to compete for every investment dollar. To do that, its financial and business policies must be

⁷ See Section 5, case study 8.

⁸ NEMA; S 28, the Duty of care and remediation of environmental damage.

transparent and internationally credible. The introduction of world class tools, such as King II and the recently launched FTSE/JSE 'Socially Responsible Investment Index' (both from South Africa) are steps towards meeting this external pressure for transparency and credibility.

International private banks with high standards of environmentally and socially responsible investment (SRI) are already investing and transacting in Africa, and alerting the market to new products and approaches to investment. Although no African banks have adopted the Equator Principles yet (see Box 2), "any bank joining a loan syndication by an Equator bank will be buying into the due diligence done according to the principles⁹." Beyond the motivation of risk reduction, a handful of forward looking banks, insurers and investors are also starting to gain significant competitive advantage by the systematic application of corporate environmentalism and, more

generally, by exploring how to address sustainable development in their day to day business¹⁰.

iv) Stakeholder pressure and reputational risks

Several financial institutions have received negative publicity and a great deal of pressure from various stakeholders in regard to loans, investment and underwriting decisions. For example, the routing of the Chad Cameroon pipeline was scrutinised by environmental NGOs, due to its proximity to sensitive environments. Not only the developers and governments received criticism, but also the financiers found themselves under scrutiny.

The banking sector must accept the existence of new drivers of the debate outside of the traditional set of regulators, clients and capital supplying markets. Dealing with the expectations of society is very different and a more demanding challenge, because it requires the sector to

Box 6: The New Economic Partnership for Africa's Development (NEPAD)

"There is an implicit assumption within NEPAD that sustainability financing is a fundamental component of Africa's growth and development. By establishing that responsibility, transparency and good corporate governance need to be core components of those finance institutions operating in Africa, this will help to ensure that public private partnerships and infrastructure upgrading schemes, initiated under NEPAD, service the needs of all Africans in an appropriate manner. At the same time, such an emphasis provides a solid base from which to manage risk more effectively and position the continent competitively on the global stage in order to attract investment that has a sustainability under-pinning." (Dr Mohammed Jahed, Chief Economist - NEPAD).

NEPAD is an all-encompassing strategy conceived and designed by African leaders to take the African continent out of its predicament of economic, environmental and social decay and underdevelopment. Typical international concerns with regards to investing in Africa include: weak regulatory and legislative setting as well as enforcement capacity; relatively volatile trade and investment environment; small market sizes and lack of strong regional integration; lack of a strong focus on corporate governance in many countries; perceived weakness in managing social, environmental and political risk; corruption, poor leadership and bad governance; political instability and conflicts; low investment returns and high transaction costs; and weak infrastructure. The NEPAD framework is designed to counter impediments to trade through initiatives in the following priority areas: peace, security, democracy and political governance, economic and corporate governance, infrastructure, agriculture environment, culture, science and technology, capital flows, and market access. NEPAD aims to change the political, economic, social and environmental landscape of the continent. This is due to the new political will of African leaders, who are committed to developing effective means of collaboration and accountability between African governments through mechanisms such as the African Peer Review Mechanism. Governments; commitment to peer review will, if implemented, have a demon-strative effect on private sector transparency. NEPAD propounds what Africa and Africans could do for themselves and not just what the West could do for it.

The private sector as a whole, and the banking sector in particular should explore ways in which they can take advantage of the NEPAD initiative and contribute to its overall goals. According to Trevor Manuel, South Africa's Finance Minister, the key tasks for the African financial sector in the context of NEPAD are clear: there should be unwavering commitment to domestic resource mobilisation. A concerted effort must be made to reverse the declining trends in the levels of savings and investment in the majority of African countries. In addition, there is a need to create the enabling environment to develop a competitive regional market and ensure Africa's stake in the global market. Over the longer term, improved governance together with progress and partnerships in sectors like infrastructure, education and health will cut the costs of doing business in Africa, and more importantly, cut the investors' risk.

⁹ Richard Burrett, head of project finance at ABN AMRO.
¹⁰ Carlos Joly, Chair of UNEP Insurance Industry Initiative.

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step outside of its historic role of looking narrowly at the financial merits of an investment, and to learn to assess and address the sustainable development side of lending¹¹. It must be recognised that governance, transparency and disclosure will be significant drivers of future sustainability-oriented asset management both globally and under the auspices of NEPAD. Thus, financiers in Africa must ensure they can respond to these drivers.

v) Credit risk

Banks, insurance companies and investors started becoming serious about the environment when environmental liability became a financial liability. Recently, a similar trend has emerged in relation to social risk. Ignoring these risks would be financially irresponsible¹².

vi) Social pressures

HIV/AIDS, black economic empowerment, and the need for job creation can affect the financial viability and hence the sustainability of projects in Africa. There is a growing recognition of the need to address these issues at the financial modelling phase.

HIV/ AIDS poses the biggest threat to the economies of sub-Saharan Africa. At the beginning of 2000, it was estimated that 23,3 million people in sub-Saharan Africa have HIV or AIDS. Clem Sunter¹³ has highlighted the true cost of the HIV/AIDS epidemic to business as incorporating:

- direct costs (benefits package, recruitment, training, HIV/AIDS programmes);
- indirect costs (absenteeism, morbidity on the job, management resources) and
- systemic costs (loss of workplace cohesion, reduction in workforce performance and experience).

The financial sector must evaluate these costs and their implications not only to projects, but also to its customer base and staff on the continent, and innovative approaches to project structuring and loan repayments must be explored.

The need to address the previous imbalances of society and to offer business opportunities to previously disadvantaged people is a key issue in South Africa. The National Economic Development and Labour Council recently proposed a target of at least 35% effective black participation in the South African economy by 2014. Thus, the financial sector can expect to feel the influence of these empowerment targets, as it will be required to meet

similar targets as a sector¹⁴, and will have to contribute to the financing of empowerment in other industry sectors.

The issue of access to financial services is by no means a new one in Africa. The shift in emphasis noted in this report is how access issues are being dovetailed with emerging issues of *sustainability* and *pro-poor market creation*. Financial 'exclusion' is being seen as an acute issue of concern in Africa - not simply a matter of inconvenience, but potentially as a denial of a basic right. As more people in Africa come 'on grid' - accessing electricity, water, fixed line or mobile phone connections and acquiring mailing addresses - the greater the demand for financial access will become.

3.2 Challenges for Sustainability Banking in Africa

Whilst the motivation for sustainable banking may be growing on the continent, there are still a number of hurdles to be overcome. The challenges to sustainable banking in Africa are markedly different to those in the rest of the world. At the time of the Earth Summit in Rio de Janeiro in 1992 public financial flows to developing countries were markedly greater than private flows. By 1996, however, private flows were more than five times larger than public flows - an astonishing change in only four years. Interestingly, some 80% of private financial flows in the first half of the 1990s were captured by only twelve emerging market countries, none of which was in Africa. This would lead to the conclusion that fundamental hurdles must be overcome to encourage investment and the supply of finance to projects in Africa. The continent cannot afford to wait for outside help. What challenges must be addressed to facilitate the movement of banks from defensive to sustainable practices?

i) Political risk

The financial sector (and many project sponsors) are unwilling to commit to long term financing / development of projects in countries where political upheaval may significantly alter a project's playing field, and ability to repay loans. Thus there exists in many banks a short-term approach to lending and investment, and a "quick return" mentality. This is to the detriment of any potential long term benefits in the social / environmental arenas and precludes any notions of sustainability.

ii) Capacity at a government level

Capacity to enforce regulations and laws, and to monitor performance is weak in many African countries. In reality,

11 Iris Gold, Citigroup.

12 Carlos Joly, Chair of UNEP Insurance Industry Initiative.

13 Sunter & Whiteside (2000) AIDS: The Challenge for South Africa.

14 The Finance Sector Charter envisages that companies in the sector will be 25% black owned by 2010. A minimum of 10% of that must be direct ownership. Each financial institution will have a target of 33% black people on the board of directors and a minimum of 25% black people at executive level by 2008.

Box 7: Control of Money Laundering

The South African Development Community (SADC) region has witnessed a significant law reform programme with regard to anti money laundering (AML) measures in the past five years. Factors behind this include the September 11, 2001 attacks on the United States, which sparked renewed interest in money laundering and terrorist financing around the globe. This is in addition to the ratification of the Financial Action Task Force's (FATF) 40 recommendations by the Eastern and Southern Africa Anti-Money laundering Group (ESAAMLG) and the subsequent subscription to ESAAMLG's memorandum of understanding by a significant number of eastern and southern African countries.

The new AML control regimen has presented banks in the region with several challenges, particularly with regards to enlarging the landscape of access to banking services. This is largely due to the fact that the substantive AML framework was designed with developed countries in mind. For instance, the South African Financial Intelligence Centre Act 2001 (FICA) provides that banks are duty-bound to take extra measures to establish, verify and authenticate the identity of prospective customers, including verifying their addresses using documentary evidence from third parties e.g. tax invoices and utility bills etc. This is problematic considering that the unbanked residing in townships or rural areas do not have street addresses, tax invoices or utility bills. A number of banking practitioners believe that this legislation will hinder innovations designed to provide access to the mass market as well as pushing back attempts by banks to roll out accounts to people outside of the banking environment, especially the informal market. The pilot study shows that while other countries in the region may afford to have AML measures on paper only, South Africa faces a major challenge. Whilst the country contends with compliance as per international standards, at the same time its empowerment charter for the financial sector pledges to extend financial services to the 80% of the unbanked population.

The result of this dilemma has been that banks in the region have rather chosen to overlook many of their AML duties in order to extend their services to the poor. FinMark Trust's CEO David Porteous sums up the current impasse: "This due-diligence verification is being ignored in violation of a law which is unworkable...."

this means that African projects may be riskier to finance, as little or no enforcement of the law makes evaluation of risk more difficult. Environmental and social risks are particularly difficult to quantify, due to the lack of enforcement of regulations. Moreover, the lack of public awareness of rights, and the consequent absence of civic action in many countries, further reduces the impetus to consider social and environmental aspects of projects. Government will need to more actively work with NGOs and other civil society groups to monitor compliance around social and environmental laws and regulations affecting the private sector.

iii) Regulatory Environment

Inadequate or restrictive financial regulatory frameworks in many African countries can hinder the development of new products and services, thus impeding the goals of sustainability banking. This has particularly been the case in terms of access to banking services to the poor (see Box 7). Governments need to revisit these policies to ensure that they do not restrict banking activities, but allow innovative product development to service *all sectors of the society*.

iv) Capacity in the Financial Sector

The African banking sector's understanding and recognition of the need for, and potential of, sustainability banking is currently limited. Not only is understanding of social and environmental risk limited in the financial sector, but there is little recognition of the potential offered, for example, in creating new products to service the market. The extent to which the concept of sustainability banking can be introduced and married with current financial practices will determine its success on the continent. Awareness building is key, and is one of the aims of this report.

v) Absence of environmental management from current best practice

Few banks in Africa currently subscribe to environmental / social management standards such as the ISO14000 series, or effectively include environmental / social risk evaluation criteria in their lending policies. The annual SA Banking Survey (PWC) which rates and ranks banks' performance does not include these factors in evaluating best practice. Given the significant impact that issues relating to social and environmental risk have on an investment, best practice should be redefined to include environmentally and socially responsible investment.

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vi) Corporate governance

Corruption is high; and levels of transparency, reporting and accountability vary markedly across the continent. Financial sector governance - i.e., regulation and supervision, transparency, and contract enforcement - will also require sustained attention if sustainability banking is to become a reality in Africa. The emphasis on sustainability reporting in South Africa's King II report is a strong indication of future direction in relation to the business case around sustainability issues. The ongoing development of codes, similar to King II Code on corporate governance, across Africa through frameworks, such as the African Union Convention against Corruption will be essential in this regard. However, the Convention still awaits fifteen ratifications before entering into force. It promises to strengthen laws on corruption by listing offences that should be punishable by domestic legislation and outlines measures to enable the detection and investigation of corruption offences. The Convention also determines the jurisdiction of state parties; organises mutual assistance in relation to corruption and related offences, encourages the education and promotion of public awareness on the evils of corruption; and establishes a framework for the monitoring and supervision of enforcement of the Convention¹⁵.

Financial institutions can clearly play a vital role in promoting sustainability. Analysis of the business case in Africa shows a clear initial trend towards Sustainability Banking practices through the growing focus on developing products for the SME sector. Building capacity and sustainability in this sector will create the middle class of tomorrow and ensure sustainable economies. Though the focus of the report is to look at specific finance sector mechanisms that could be developed to promote sustainability; these mechanisms still need to be supported within a broader climate for change. New forms of governance and sustainability clusters and partnerships, involving a range of players are needed to ensure that these practices are embedded and of value to society as a whole. The report highlights a number of current innovations on the continent that have successfully used partnerships to develop sustainability banking products and opportunities.

The following sections highlight current sustainability banking practices in the five case study countries, as well as presenting additional, more detailed, company case studies. It is hoped that these practical examples will provide inspiration for additional innovative ideas for organisations operating not only in Africa but also in other developing countries.

¹⁵ Transparency International (2004) Global Corruption Report.

4. Country Case Studies in Sustainability Banking

4.1 Finance and Sustainability in South Africa

The financial sector in South Africa

The South African financial sector is generally recognised as world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as its conducive operating, regulatory and supervisory environment. South African banks are considered to be global leaders, and many internationally used and appreciated innovations originated in the country¹⁶:

- SA was the first country in the world to offer interoperability of ATM cards through SA Switch;
- SA was the first developing country to introduce credit cards in the late 1950s;
- SA was the first African country to introduce ATMs;
- SA was the first country in the world to introduce biometrics on cards for payment of pensions; and
- SA was one of the first countries in the world to use satellite communications for branch operations.

Euromoney (August 2003) ranks the major South African banks in the top one hundred emerging market banks by size (shareholder equity). It also recognises South African banks in its annual deal awards (see below). In the latest World Competitiveness Report (IMD 2003), South Africa is ranked as the eighteenth most competitive country in the world (for countries with populations of over twenty million people). South Africa's banking sector is considered to be the eighth most developed among these countries, ahead of all emerging markets, with the exception of Brazil, and also ahead of some of the developed countries such as France and Japan.

“Since the early 1990s, South Africa has had a modern and efficient National Payment System¹⁷ (NPS). The efficiency of the system is proven by the fact that South Africa was, and still remains, one of the few countries in the world where clients receive immediate value on deposits made at tellers. For the South African consumer, this means that they earn interest immediately on transactions processed by cash or cheque, while their counterparts elsewhere in the world (including the UK and the USA) only get value several days after transacting. In 1998, a real time electronic settlement system was implemented, enabling real time settlement of payments. This allowed high value transfers between banks to be

settled individually and immediately in central bank funds, thereby eliminating the risk of non settlement by a bank. Currently, more than 90% of all payments are settled immediately in real time, with the remaining 10% settled overnight. From a systemic risk¹⁸ perspective, this makes South Africa one of the lowest risk countries in the world¹⁹.

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There has been a rise in disposable per capita income among South Africans over the last three years. This has been partly due to relatively large fiscal transfers (both in the form of tax breaks and social welfare payments) mainly to the lower and middle income households²⁰. However, in 2002, household savings as a percentage of disposable income was a mere 0.4 %. While many people believe the lack of household savings in South Africa is due to poor after-tax returns on fixed deposits, it is perhaps this narrow focus on fixed deposits that provides some insight into reasons for the country's savings constraint. Low disposable income and unemployment also go a long way in explaining the lack of savings in South Africa.

In most economies, the financial sector plays a central role in enhancing growth and development. However, in South Africa, the financial sector is confronted by a number of challenges²¹ including the fact that:

- It is characterised by the presence of a few very large institutions. Many of the smaller and foreign institutions have left the market in recent years. Four major banking groups (The Big Four) dominate the SA banking sector: ABSA, First National, Nedcor and Standard Bank. The Big Four banks now account for over 95% of the country's retail accounts (25.7 million accounts)²², with a 15% growth in retail customers expected over the next three years²³. The combined market capitalisation of the listed financial groups in South Africa is R200 billion²⁴ (US\$30 billion).
- There are low levels of black participation, and particularly participation of black women in meaningful ownership, control and management, and in high level skilled positions in the sector.
- There has been a limited response by the sector to the increasing demand for access²⁵ to financial services.
- The sector has not yet effectively provided credit to entrepreneurs, particularly black businesses.
- The level of savings and investment is inadequate to support sustained economic growth and individual

16 Paul Harris, CEO First Rand Banking Group, 2002.

17 The National Payment System is the centralised clearing system through which financial institutions settle claims against one another on a daily basis. The NPS is controlled and administered by the Reserve Bank.

18 Systemic risk is defined as that which affects an entire financial market or system, and not just specific participants. It is not possible to avoid systemic risk through diversification. In other words, even an investor holding a well diversified portfolio will be exposed to this type of risk. South Africa is regarded as having a low risk financial sector.

19 Bowes and Pennington (2003) South Africa - *More Good News*.

20 Iraj Abedian, Group Economist, Standard Bank Group.

21 Adapted from 'The Charter made simple', Standard Bank leaflet, December 2003.

22 PriceWaterhouseCoopers, 2003.

23 The Big Four banks currently have 15.9 million retail customers, expected to increase by 15% to 18.4 million by 2006. (PWC, 2003).

24 West, 2003.

25 According to the Financial Sector Charter, effective access to financial services means: being within a distance of 20km to the nearest service point at which basic financial services can be undertaken, and includes ATMS OR, being within a distance of 20km to the nearest device at which an electronic (other than ATM) service can be undertaken (e.g. POS for a purchase, telephone for call centre fulfilment).

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financial security.

- There is insufficient investment of the savings pool under the control of the sector into targeted investments of national priority, such as infrastructure.
- A large pool of funds circulates outside the formal financial system, including but not limited to funds held by 'stokvels'²⁶ and informal traders, and in other forms of short term savings.
- To date, there has been limited support for new black firms in the financial sector by government and the private sector.

The recently launched Financial Sector Charter aims to address these imbalances and is discussed in more depth in the detailed case study 8 in section 5 of this report.

Case studies in innovation today

In this section we examine what innovations in financial processes, products or markets have taken place in South Africa. The overview is organised around the innovations that have helped to improve pricing assets and exercising ownership; providing new finance, risk management, and savings and transactions. Under each of the four business areas, innovations are highlighted with specific company examples listed below.

a) Pricing assets and exercising ownership

Financial institutions have collaborated nationally to develop a **Financial Sector Charter** to encourage black economic empowerment (BEE) and invest in previously disadvantaged sectors of society. The Charter was developed voluntarily by the financial sector, for the financial sector and establishes targets and responsibilities allowing the sector to track and evaluate BEE progress. The growth and development of black business will contribute to the social and economic development of the sector and the country as a whole. More information on the targets and scorecard for measuring performance are included in Case Study 8 in section 5.

Several banks offer **products to support environmental protection** and conservation. Nedbank established its Green Trust in 1990 with seed funding of R5million (US\$770,000) over an initial period of five years. Administered by WWF-SA, the local branch of the World Wide Fund for Nature, the Trust funds a broad range of projects with a significant focus on community based conservation aimed at alleviating conflict between people

and the environment. Since its inception, the Green Trust has raised over R47 million (US\$7.2 million) and supported over one hundred and twenty projects in South Africa.

A number of retirement funds have extended their corporate governance activities to include **engagement on environmental and social performance**. Some use **collective savings to address BEE** and development challenges, as highlighted below. The funds mentioned here range from the traditional SRI screened fund to more positive asset allocation type funds:

- According to the Alexander Forbes Targeted Development Investment Survey, released in June 2003, there are about twenty one socially responsible investment funds in South Africa, with a total of R9.3 billion (US\$1.4 billion) under management. Of these, eight are unit trust funds open to individual investors, while the rest are institutional funds - that is, funds tailored to meet the needs of an institutional investor such as a pension fund or provident fund.
- Futuregrowth Asset Management's development team has devised a number of detailed screening mechanisms to assess potential projects to be funded under their two Development Funds. The due diligence process incorporates environmental, social and economic assessments where all potential risks are priced into the project evaluation. Unlike many so-called ethical investment funds who use only negative screening criteria (e.g. not investing in gambling or tobacco), Futuregrowth evaluates the potential for a project to make a positive social impact while minimising the cost to the environment. The Funds' impact analyst assesses the projects' potential impacts by evaluating information supplied by the project sponsor, but more importantly, checking this by an unannounced site visit, as well as through external verification.
- Frater Asset Management manages the Earth Equity Fund which seeks to increase its investments' value by actively engaging with management to improve corporate citizenship. This is not a screened fund as Frater invests all types of shares. However, it uses its influence as a large shareholder to urge companies to improve their corporate governance and performance on social and environmental issues. If Frater believes that a company is not being socially responsible, it will raise this at shareholder meetings and use its voting power to influence corporate policy²⁷.
- Sanlam's²⁸ Development Fund of Funds is designed so

26 Rotating Savings and Credit Associations.

27 Theresa Smith, Personal Finance, 2002.

28 South African Life Office.

that retirement funds can access so-called development projects. The fund aims to raise capital to finance black empowerment specifically, to enable employee groups to buy significant equity stakes in large companies and parastatals. It will also provide capital for infrastructure, private equity and venture capital funds that are managed by black investment managers. Thus, the fund is based on positive asset allocation rather than negative screens as used by more typical SRI funds. Of the three thousand one hundred pension funds under Sanlam's administration, about half are from black owned companies.

- Old Mutual²⁹ believes that pension fund trustees should strive for a win-win situation by looking for high returns for pensioners while simultaneously investing in development initiatives. Old Mutual's Infrastructural and Development Assets (Ideas) Fund focuses on bulk infrastructure (supporting the sectors of air, rail, road, sea, electricity, communications and water), social infrastructure (including hospitals, prisons and government buildings), retail property and finance development. "There is a notion that development investments are equal to poor returns, but this is not necessarily the case" says Peter Moyo, deputy director of Old Mutual. The Ideas Fund has returned more than 20% a year since its inception in 1999³⁰.
- Futuregrowth's Albaraka Equity Fund was launched in 1992 to satisfy the muslim investors' religious beliefs. The fund is shari'ah compliant and therefore avoids shares in gambling, alcohol, tobacco products, non-Halaal meats and interest bearing instruments. The fund is listed in the South African domestic general equity sector and has recently been awarded three Raging Bull Awards for 'Top Performance', 'Most Consistent Performance' and 'Sortino Risk Adjusted Performance' for the three year period ending 31st December 2003 with an annualised return of 33.63%.
- The Community Growth Fund, managed by Unity Incorporated and Old Mutual Asset Managers (refer detailed case study 13, in section 5) was launched in 1992 and was the first fund in South Africa to offer retirement funds and individual investors the opportunity to invest in companies that met certain standards of social responsibility. The background to this fund was the labour unions' fight for basic rights for their members in the late 1980s. The unions felt that creation of well-paying jobs is the greatest need in the South African economy. Economic growth drives job creation, but the unions wanted their investments to support company expansion, not just the generation of profits. Companies

with these priorities and positive industrial relations that recognise worker rights became targets for their investment. Worker related issues represent more than 75% of the screening criteria which include: job creation, affirmative action, training and skills development, black economic empowerment, good conditions of employment, sound environmental practices, high health and safety standards and open and effective corporate governance. Political considerations and social spending are considered the least important. Independent researchers investigate the extent to which companies meet these criteria by interviewing staff, management, and shop stewards. The information is then translated into a score. Community Growth does not invest in companies scoring below 50%, while those scoring between 50 and 60 % are conditionally approved and reassessed if the fund managers express a need to invest in them.

- The Women's Initiative Fund is managed by African Harvest³¹ and was launched in 1999. The SRI aspect comes in after the returns are made from investing in women's initiatives. The fund manager donates 60% of the initial management fee, and 30% of the annual management fee to organisations working to prevent violence against women and children. Investors also have the option of contributing their six monthly income distributions to a community organisation of their choice. Returns of 14.4% were realised in the period since inception (December 1999) to March 2002.

One South African bank has embarked on **international trade in carbon credits**. Standard Bank recently announced a joint venture agreement with UK based EcoSecurities, one of the world's foremost carbon credits advisory groups. This should see the partnership paving the way to eventual trade in carbon credits, a market worth "between US\$10 and US\$30 billion per annum by 2008" according to EcoSecurities London MD Pedro Moura Costa. Standard Bank hopes to realise opportunities to finance carbon efficiency projects in South Africa and the region, as well as trading in carbon credits. South Africa is signatory to the 1997 Kyoto Protocol on Climate Change, which, once ratified, will see local industry an active player in the reduction of CO2 emissions.

The JSE Securities Exchange has launched a **Socially Responsible Investing (SRI) index**. Based on the FTSE4Good index currently used by the London Stock Exchange, the JSE's SRI index will act as a guide to investors, without being actively traded. To be included,

29 South African Life Office.

30 Jeremy Thomas, Sunday Times, 2002.

31 African Harvest Ltd incorporates 3 underlying companies; African Harvest Fund Managers (institutional asset management company); Harvest Life (life insurance company); and African Alternative Investments (hedge-funds company).

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firms must show “a good record on human rights, environmental protection and stakeholder relationships”. Measures addressing the economic inequalities created by the apartheid era are assessed as part of the index ranking process, as is action to address the impact on the company of HIV/AIDS. The index was launched in late 2003 and targets the top one hundred and sixty shares out of the four hundred plus companies listed on the JSE, representing 99% of the exchange's market capitalisation (see case study 3 in section 5).

b) Providing new finance

The establishment of the FinMark Trust has been instrumental in **raising the profile of the unbanked sector** in South Africa. The FinMark Trust was created in 2002 by the Banking Council of South Africa, with initial funding from the UK's Department for International Development (DFID). Its mission and activities are concerned with “making financial markets work for the poor”. In pursuit of this objective, it aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under- banked of southern Africa. Retail financial service markets in developing countries often do not work well for the poor, and seem only to focus on the needs of the relatively wealthy customer. Part of the work of the FinMark Trust is to develop a detailed understanding of the workings of the various retail financial markets in practice. Research to effectively map out and understand the landscape of financial access has been undertaken for South Africa as well as other SADC countries.

There is an urgent need for low cost housing as many South Africans are employed, but do not qualify for housing finance through mainstream finance institutions. The National Housing Finance Corporation aims to bridge the credit gap by **underwriting and funding private retail lenders with housing finance** and alternative tenure programmes. This gives low to moderate income home seekers who earn between R1,500 (US\$230) and R7,500 (US\$1,153) the chance to access affordable housing finance to either buy, rent or improve an existing home.

Banks in South Africa are **increasingly disclosing sustainability and governance performance**. The 2003 KPMG survey on Integrated Sustainability Reporting in South Africa indicates that 85% of the top one hundred companies provided annual disclosure on sustainability related issues, with 35% of stand-alone reporting in the

top one hundred companies coming from the financial services sector. Employment equity initiatives, social investment prioritisation and health and safety are the most frequently disclosed areas.

Public Private Partnerships³² (PPPs) are increasingly being used to finance government infrastructure and ensure more sustainable ventures. Although PPPs are not a new concept worldwide, South Africa has successfully initiated a number of PPPs in the last five years for financing the development and upgrading of key infrastructure. A number of innovations have ensured that these deals have more widely sustainable impacts than would be normally expected. For example: Government announced its Integrated Strategic Rural Development Programme (ISRDP) and Urban Renewal Programme (URP) in February 2001. One of these URP's was Khayelitsha Township, 25km from Cape Town, where now, two and a half years later, the largest Public Private Partnership (PPP) development of its kind is being initiated.

The first phase includes a retail centre, service station, bus and taxi rank, multi-purpose centre, municipal offices, sports facilities and one thousand five hundred residential units. This all amounts to R300 million (US\$46 million) of which R250 million (US\$38 million) will be funded by the private sector and the balance by the public sector.

The project is a joint venture between the City of Cape Town, companies within the FirstRand group, namely Futuregrowth Asset Management and Rand Merchant Bank; and the Khayelitsha Community. A unique empowerment framework has been designed for this project. A trust has been formed called the Khayelitsha Community Trust. The beneficiaries of the trust are the residents of Khayelitsha and will be represented by ward councillors from the City of Cape Town and business. Once the financial obligations have been paid off by the trust, the ownership of all the components in the project will vest within the Khayelitsha Community Trust. This is envisioned to happen in about ten years time and will see the people of Khayelitsha owning the entire project.

The Department of Trade and Industry (DTI) was one of the first government departments to initiate a PPP solution to its real estate needs, and this accommodation project won Euromoney's African PPP Deal of the Year for 2003. Arranged by Standard Bank of South Africa, and sponsored by the Rainprop Consortium, the project has the highest amount of empowerment equity in any PPP deal to date.

32 A PPP is a partnership where the public sector contracts a consortium of private sector companies to design, finance, build and operate particular public infrastructure such as hospitals, prisons, roads etc.

The majority shareholding in Rainprop (55%) comprises companies controlled by historically disadvantaged enterprises, and the deal incorporates an innovative equity solution to fund this investment in Rainprop by the empowerment shareholders. Under the concession agreement, Rainprop will design, construct, operate and manage the main 48,000 metre square building under a twenty five year PPP. The campus includes seven new buildings, in addition to renovation of existing buildings. Total bulk development is about 52,000 metres square, with an underground garage for one thousand two hundred cars.

Khula Enterprise Finance's **mentorship scheme for SMMEs** recognises the importance of developing business skills in this sector. To support its small business development drive, the Department of Trade and Industry (DTI) has set up a number of institutions to support the small business sector. Khula Enterprise Finance is a wholesale agency that provides financial support in the form of loans, a national credit guarantee scheme and grants to small businesses. Khula does not finance individual entrepreneurs directly, but through various institutions such as commercial banks, financial intermediaries and micro credit outlets. Khula was quick to recognise that the success of the SMME sector does not depend solely on the availability of finance, but that managerial capacity and mentorship are of crucial importance to small business development. One of the challenges that Khula has faced since its inception is changing the mindset of entrepreneurs. "There is a common myth that once finance is available, everything goes smoothly. Our experience has been that looking for finance should be one of the last steps in starting a business," says Khula spokesperson Moeketsi Mofokeng³³. Khula has established a mentorship programme to ensure that entrepreneurs are given guidance both at the business planning stage, as well as after they get the finance.

c) Risk management

There has been a growing realisation that environmental and social issues pose risks, which affect the bottom line across all sectors of banking. Under the South African National Environmental Management Act (NEMA), financiers may potentially be found liable for environmental pollution and other risks of a social nature³⁴. Although no case precedents exist as yet, it is only a matter of time before financiers are included in the net of responsibility for environmental damage.

All of The Big Four banks in South Africa have produced **sustainability reports**, and all investigate and manage environmental / social risk to some degree. Standard Bank has established an Environmental Steering Committee which is guided by the group's environmental risk policy. A set of credit guidelines for environmental assessment in lending has been developed and is currently being tested³⁵ as a follow up to the audits completed by various business units.

The **King Report on Corporate Governance** for South Africa (King II), published in 2002, advocates *inter alia* a shift from the single to the triple bottom line, embracing the economic, environmental and social aspects of a company's activities. King II is a listing requirement on the JSE; and applies to corporations falling in the South African Financial Services Sector; and enterprises that perform public functions. It sets out a code of corporate practices and conducts for corporations in South Africa on a wide range of issues including: Boards and directors; risk management; internal audit; integrated sustainability reporting; accounting and auditing; relations with shareowners; and communications to stakeholders. King II has played a significant role in widening the definition of risk to include sustainability aspects, and encouraging the financial sector to assess, manage and report on such risks.

The adoption of the **Equator Principles**³⁶ by twenty three leading international financial institutions confirms that the role of the global financial institutions is changing. More than ever, people at the local level know that the environmental and social aspects of an investment can have profound consequences on their lives and communities. The challenges and advantages of adopting the Equator Principles have been debated in each of The Big Four banks in South Africa. It remains to be seen whether and when one of them will come forward to be the first African bank to embrace the principles.

Most of the five million people infected with **HIV/AIDS** in South Africa are in the prime of their working lives. The effects of the epidemic are momentous - not just on the workers and their families, but on companies and the national economy. According to a study by Old Mutual Health, the insurance arm of the financial services group, treating workers with HIV/AIDS is cheaper for a company than bearing the costs of leaving them untreated. As workers become ill, they produce less and claim more health benefits. When they die companies often have to

33 Moneyweb Digest, 21 November 2003.

34 NEMA; S 28, the Duty of care and remediation of environmental damage.

35 Standard Bank Group Sustainability Report, 2002.

36 See Box 2.

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pay death benefits to their families, as well as finding replacements³⁷. "Treatment is now being regarded as a cost effective option" says Stephen Kramer, head of HIV/AIDS research unit at Metropolitan Life. "Even with a high degree of failure, you still save money." Still, HIV/AIDS remains a challenge for the insurance industry and an issue for government, which wants to expand services without bankrupting employers or insurance companies. According to Metropolitan's HIV/AIDS unit, the cost of employee benefits (life, health, disability and funeral plans) will double from 2000 to 2005³⁸.

d) Savings and transactions

A partnership between The Big Four banks and the government (the Inter-Bank Task Group - IBTG) was initiated in 2003 to develop a **low cost transaction account**, enabling the banks to cover at least 70% of the unbanked market in a relatively short time. Targeted at people who earn less than R2,000 (US\$307) a month, this is expected to be used for services such as the payment of social grants, as suggested by National Treasury official Lesetja Kganyago as a basis of extending banking services to the unemployed. The 2003 Finscope survey into financial access in South Africa³⁹ found that 78% of the population earns less than R3,000 (US\$461) a month. Government will provide a small subsidy to cover the cost of a very basic generic bank account that all the big retail banks would make available. The account will be structured as a "first order saving solution" offering only limited deposits and withdrawals per month, with no additional transactions. The identical product would be offered by individual banks, charging the same fees, even though each bank would offer the account under its own brand. In addition, inter-operability between the banks would be designed, allowing customers to transact at any bank, thereby increasing access. The account is expected to be launched in the first half of 2004.

A further proposal of the IBTG is aimed both at individuals, especially those without bank accounts; and government agencies. It will allow the **point to point transmission of funds** without the need for a bank account, or formal banking relationship. The transfer would be possible across the banking network, including any bank branches, post office branches or other financial institutions such as Teba Bank and Ithala. Government and / or Lotto pay points may also be included in the ultimate distribution network. The product should be able to pay for itself, with a "pay for use" principle being applied, where the sender of money

would pay for the service, and the receiver pays a nominal amount⁴⁰.

A non-bank company in South Africa is working to improve real **access to cash** by installing ATMs countrywide. Before ATM Solutions started in 1999, banks owned and operated all the ATM machines in the country leaving gaps in the market. Now, of the four thousand non-bank branch ATMs in the country, ATM Solutions operates about 30% of those machines. The company is able to install ATMs at a lower cost on retailers' premises where there is a need for cash. Because it deploys and operate machines at a lower cost, it does not need to rack up the same number of daily transactions as a bank machine to justify its cost. The company has a large rural coverage and is intent on installing ATMs in areas traditionally inaccessible to banks. It has signed deals with numerous retailers, and as their networks expand, so ATM Solutions will be at the forefront of deploying machines in their stores. ATM Solutions was announced one of twenty finalists in the 2003 SA Non-Listed Company Awards. These awards, now in their 18th year, have earned a reputation for showcasing the country's top non-listed companies and recognising their innovation and entrepreneurial skills, not to mention their contribution to the country's economy.

The significant growth in **mobile phone technology** has become an important additional channel for banks. Two banks in South Africa already provide a free SMS⁴¹ service to customers. This allows a reduction in customer enquiries on balances as well as enhancing internal security. One of the banks already has over three hundred thousand customers who receive notification of over three million transactions taking place per month. This innovation has been recognised by the Council of Financial Competition as one of five key banking product developments in the world.

FNB has introduced a mini ATM; a small electronic terminal which allows withdrawals and balance enquiries and is cheaper to operate than a normal ATM. A conventional ATM costs about R300,000 (US\$46,000) and needs six thousand five hundred transactions per month to be considered financially feasible. A mini ATM costs less than R10,000 (US\$1,500) and needs only five hundred transactions per month. In addition, it can be operated on a twelve volt power supply. GPS communications technology has also recently been applied which increases the range of the mini ATM, making it operational in locations where there is no power or telecomms infrastructure. More than six hundred and fifty have been

37 Dr Sarah Meyers, World Markets Research Centre, 2001.

38 New York Times, December 19, 2003.

39 See www.finscope.co.za for the Finscope study into financial access and behaviour of the South African population, 2003. This research will be annually updated.

40 Genesis, 2003.

41 Text messages via mobile phone. Banks are able to submit current balance statements, as well as records of transactions, via mobile phone text messages.

installed in many under serviced rural locations and fifty more are being installed every month. They are installed in shops and retailer outlets and, instead of issuing cash, a receipt is dispensed which is then cashed in the store.

These mini case studies represent some of the innovative sustainability banking practices being implemented in South Africa. This is by no means a complete list of innovations, but serves to generate discussion, and highlight examples potentially replicable elsewhere in Africa.

4.2 Finance and Sustainability in Nigeria

The financial sector in Nigeria

Nigeria has one of the largest banking sectors in Africa with about ninety banks currently in operation. The sector is one of the most competitive among emerging market countries and is known for its innovation and resilience. Nigerian banks make up five of the top twenty banks in sub-Saharan Africa by capital⁴². However, while several banks stand up to measure on broad international banking standards, the majority remain weak and under-capitalised. According to the Central Bank of Nigeria, only ten of the ninety banks account for over half of the sector's total assets and deposits⁴³. Another distinguishing feature of the sector is the level of ownership by the private sector, directly or through the capital market, when compared with the level of State ownership seen in the sector in other African countries. Many of the leading Nigerian banks are listed on the Nigeria Stock Exchange and are the most widely traded shares in the market. Further, a large number of these banks are locally owned and managed, and the sector boasts a number of highly skilled and experienced bankers.

In addition to the ninety banks, the sector also comprises a range of non-bank financial institutions, including over one thousand community banks established to mobilize rural savings, and over seventy primary mortgage institutions licensed to engage in retail finance.

The Central Bank has increasingly exercised its power as a regulator in line with internationally accepted norms, and has implemented a series of tough supervisory measures. In 2000, the number of distressed banks fell to zero, from twenty two in 1998 following a series of liquidations, license revokings and recapitalisations. While this number has since increased again, the regulatory authorities

continue to take action on distressed banks. In 2003, the forex trading rights of seventeen banks were suspended for a year, for continued procedural irregularities.

The Central Bank has also driven through certain influential programmes, such as the Small & Medium Industry Equity Investment Scheme⁴⁴, aimed to boost equity investment into SMEs. In addition, an Agricultural Credit Guarantee Scheme has been implemented, issuing guaranteed cover to qualifying banks, who themselves provide loans to the agricultural sector where there is a 25% realisable collateral in place.

In 2003, a government committee was formed to investigate and initiate a series of capital market reforms while concurrently, a code of good corporate governance was also launched. Building on this, the Nigerian Securities and Exchange Commission has made it clear that it aims to develop its own comprehensive corporate governance code over the coming year. According to Nigerian Finance Minister, Ngozi Okonjo-Iweala, the need for transparency in financing the oil sector has recently emerged as a key issue⁴⁵. The President, Olusegun Obasanjo, has committed Nigeria to the Extractive Industries Transparency Initiative (EITI)⁴⁶ as part of a wider campaign against corruption and for increased transparency. If implemented, it is expected that this would radically change the nature of the finance industry in Nigeria⁴⁷.

Finance and Sustainability in Nigeria

To date, the focus of the Nigerian financial sector on environmental and social sustainability issues has been limited. More recently, as with the finance sector globally, there is growing awareness of business-related social and environmental risk, and the necessity for these risks to be actively managed. As yet, however, very few banks have committed to this awareness in a tangible way, either by building internal capacity or management guidelines, or by adapting international frameworks and making them relevant to the Nigerian context.

Many of those interviewed felt that it should be the government, through the Central Bank, that drives sustainability banking as a means to minimize both *perceived*, as well as *real* social and environmental risk in a manner that is relevant to the Nigerian situation. However, the interviewees did concede that the finance sector has a definite role to play in promoting sustainability investing and banking, but they were unsure how to develop this

42 African Banks ranking: the top 100 Sub-Saharan Banks in *African Business*, October 2003. The Nigerian banks in the top 20 are Union Bank of Nigeria (6th), First Bank of Nigeria (11th), United Bank for Africa (14th), Zenith International Bank (15th), and Citibank Nigeria (19th).

43 Economist Intelligence Unit, 2004.

44 See section 5, case study 4.

45 *The Banker*, 06 October 2003.

46 The Extractive Industries Transparency Initiative was initially launched by Tony Blair at the World Summit for Sustainable Development and has gained significant international and finance sector support.

47 *The Banker*, 06 October 2003.

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role. They also thought that the oil sector, as a bloc, could have a distinct impact in this area and highlighted the Shell / Diamond Bank / IFC 'oil services local contractor credit scheme'⁴⁸ as an example of just such an innovation.

The interviewees supported the potential development of a London Principles style initiative⁴⁹ that could guide the financial sector towards integrating sustainability and improved practice. It was felt that such principles could benchmark financial sector institutions against international standards, whilst taking account of particular Nigerian issues, such as access to finance for SMEs, transparency issues in the oil sector, combatting corruption, and access to financial services for a wider group of the population. Enforcement would pose a key challenge, as would ensuring credibility and substance to the principles.

Despite upcoming issues such as a government-agreed virtual elimination of gas flaring by 2008, there has been no development of alternative 'green funds', as has been the case in other emerging markets internationally - such as Hong Kong, Korea, India and South Africa. Many interviewees spoke of needing to understand more fully the implications of other initiatives such as the Equator Principles⁵⁰ and the impact these could have on the Nigerian finance sector in terms of the lending practices of local banks. They alluded to the strong emphasis on sustainability issues at the recent Commonwealth Business Council meeting, which preceded the Commonwealth Heads of Government Meeting (CHOGM), held in Abuja in December 2003, as being a clear indication of a shift in international concerns in this regard. There had also been interest from a number of local banks in the fact that an emerging major local bank, FSB Nigeria, had recently signed up to the UNEP Finance Initiative⁵¹ and that environmental decisions had played a key role in the design of FSB's new headquarters building.

A primary challenge for the finance sector is restoring confidence in the banking system, and overcoming the widespread public perceptions that corruption is pervasive through the sector. Interviewees suggested that this could be achieved by the development of strong corporate governance measures specific to the finance sector, which address not only traditional finance risk, but also environmental / social risk and opportunity aspects. The experience of the South African financial sector in applying the King II corporate governance code and the development of the Financial Sector Charter⁵² could provide a potential starting point.

Another key challenge for the sector will be to create the right regulatory environment for emerging issues such as sustainability banking to develop in line with international trends. A key approach would be to develop a business rationale for sustainability banking in a Nigerian context complemented by appropriate sustainability risk management guidelines. Focal areas could include, for example, improved access to financial markets for the poor, and development of appropriate legislation to promote sustainability investing and overcome the perception that this is an expensive exercise. It was recognised that the finance sector itself needs to be proactive in this regard, and to develop the necessary internal capacity rather than relying on the State to drive the agenda. There may also be room for growth in low and medium mortgage lending, and for formalization and scaling up of the emerging microfinance industry.

All of these issues notwithstanding, Nigeria is viewed as a leader in Africa in many areas of finance sector technology, having been among the first to pioneer internet banking services, mobile phone banking and widespread installations of cash machines. There is a distinct opportunity to link developments in smart card and mobile phone technologies, to revolutionise access to banking services in Nigeria. In addition, the ongoing privatisation of a number of State industries offers substantial opportunity to ensure that a robust corporate citizenship framework is developed that is equally relevant to the lending practices of the financing institutions, as it is to the companies being privatized.

Case Studies in Innovation today

As with the previous country cases, this section examines current innovations in financial processes, products or markets in Nigeria. Again, these are organised around the innovations that have helped improve pricing assets and exercising ownership; providing new finance; risk management and savings and transactions.

a) Pricing assets and exercising ownership

At present there is no use by private sector investors of their equity positions to promote sustainability financing.

There is definite potential to bring in funds through the **Islamic development funds**⁵³ that have a broader developmental objective. This is a resource that has been underutilised in Nigeria.

48 See section 5, case study 16.

49 The London Principles are a set of industry wide sustainability investing and banking principles developed by the Corporation of London and endorsed by the UK Treasury. See section 2.

50 See section 1.

51 See section 1.

52 See section 5, case study 8.

53 Excluding the OPEC Fund, which is not available to OPEC countries, like Nigeria.

There is also potential, according to SME Partnership⁵⁴, to **link a sustainability requirement** to the Central Bank Small Medium Industry Equity Investment Scheme as has been done in the IFC / Shell / Diamond Bank lending scheme. This is a US\$30 million facility to encourage development of indigenous SMEs delivering services to Shell. SMEs are bound to comply with IFC's exclusion list⁵⁵ (i.e. not engage in activities included therein), as well as avoiding Category A⁵⁶ type projects, which are those that have significant adverse environmental impacts.

According to Sec Trust and Capital Alliance, there is also the potential to **link pension funds to equity with a focus on sustainability investing issues**, as has been tried in other countries, like South Africa. Pension funds in Nigeria are traditionally under-funded with investments often only allowed in government bonds. Several interviewees expressed interest in tapping into international sustainability funds as the focus of these funds shifted towards investing in emerging markets. Sec Trust is currently investigating the development of an Ethical Investment Fund for private clients, who have expressed an interest in these kinds of investments. Should this Fund go ahead, it would be among the first investments of its kind in Nigeria. The Fund's potential screening methodology was still being discussed at the time this report was being researched.

First Bank (one of the largest banks in Nigeria) stressed there was a **need to overcome the perception of sustainability investing as being expensive**. One way to address this could be for banks to treat it as a loss leader in the short term, in order to build up competencies, and then assume a sustainability competitive advantage as the market grew in the long term. They did acknowledge that they could have underestimated the potential for sustainability funds to perform comparably with other funds.

FSB, amongst others, agreed that there is **potential to invest in green companies** focusing on developing products promoting reductions in greenhouse gas emissions or promoting alternative energy sources. This could encourage investments into other companies with a strong sustainability track record.

FSB had also found that having a **board member who championed sustainability** issues had allowed them to develop a strong focus in this regard, and a greater understanding of the wider business case as relates to

sustainability. FSB is the first Nigerian bank to sign up to the UNEP Finance Initiative and, in light of board recommendations, it significantly adjusted architectural plans for its new headquarters for improved eco-efficiency in the building's design.

b) Access to finance

One of the most interesting developments in Nigeria has been the Shell / IFC / Diamond Bank partnership to create the **'Oil Services Local Contractor Credit Facility Scheme'**⁵⁷. This partnership was initiated in 2003 to facilitate development of the local SME sector along the Shell supply chain. It is supported by a parallel capacity building and technical assistance programme, and the recipients cannot be engaged in activities on IFC's exclusion list. The scheme has aroused competitive interest among other banks, but also concerns among others that their traditional markets are being developed and shaped by players outside the financial sector, in this case Shell. There is the possibility to emulate the scheme in other areas, but interestingly in this case no banks were initially prepared to participate unless Shell put up the risk capital. To date, the uptake by local entrepreneurs has been lower than expected, but the mechanisms of the scheme are being re-evaluated in order to encourage broader uptake.

Most interviewees agreed that initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Equator Principles, as well as the corporate governance framework being developed by the Securities Exchange Commission, all have the potential to reshape lending practices in Nigeria.

A further challenge to the development of sustainable lending practices in the country is posed by **bureaucracy**. At present, it is estimated that to fully secure a loan adds 40-45% of the overall loan cost, which has a significant impact on lending to SMEs.

Developing the **capacity of civil society** to identify entrepreneurs, and then enabling them to effectively seek financing is another key opportunity. An example of an NGO that has been successful in this regard is the Fate Foundation⁵⁸ which was founded in 2000 by Fola Adeola, managing director of Guaranty Trust Bank Plc. Mr Adeola worked with local business leaders and the Ford Foundation to offer new support programs to those who wanted to start their own businesses. The programme for

⁵⁴ See section 5, case study 5.

⁵⁵ IFC's exclusion list (i.e. projects that it does not finance) includes: production or activities involving harmful or exploitative forms of forced or child labour, production or trade in any product or activity deemed illegal, production or trade in weapons, munitions, alcoholic beverages, tobacco, wildlife, PCBs, radioactive materials, unbonded asbestos, pesticides / herbicides, ozone depleting substances or pharmaceuticals subject to international phase outs. Activities such as drift net fishing, commercial logging in primary moist tropical forest or casinos / gambling and equivalent enterprises are also part of the list. See www.ifc.org.

⁵⁶ Category A projects are defined as those having significant adverse environmental impacts that are sensitive, diverse or unprecedented, such as large dams; major oil and gas developments including large pipelines; and large port and harbour developments etc. See www.ifc.org.

⁵⁷ See section 5, case study 16.

⁵⁸ www.fatefoundation.org.

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aspiring entrepreneurs included affordably priced training, as well as a business incubator and a small loan fund. More than two hundred entrepreneurs have participated in these programmes. A number of individuals interviewed as part of this report mentioned that by scaling up initiatives like the Fate Foundation, and encouraging partnerships between government, the finance sector and NGOs, more widespread lending to SMEs could be promoted. Several interviewees added that the finance sector needed to be more proactive and mentioned that an equivalent of the South African Finance Sector Charter, addressing key Nigerian finance sector challenges, could offer a potential way forward.

c) Savings and transactions

Given the size of the market in Nigeria, there is **still much room for growth**, particularly in terms of providing savings facilities to poorer community members. As in South Africa, crime is a particular concern to most Nigerians, and carrying cash is viewed as a high risk. The development of appropriate technology solutions such as cash cards, mobile phone banking, and fingerprinting are necessary, if access to financial markets for the poor is to be improved. Several banks have already made a determined effort to roll out the use of automatic cash machines beyond key regional centres.

Several interviewees identified the need for an **independent finance sector intermediary**, similar to the Southern African FinMark Trust, to act as a facilitator between the state, private sector institutions and NGOs. Like FinMark, this intermediary would look at how best to 'make financial markets work for the poor'⁵⁹.

Again, recent **money laundering regulations** were identified as possibly hindering access to the banking sector. The adoption by banks of 'know your customer' policies would see the tightening of regulations as to who could open a bank account, thus making it difficult for individuals to enter the formal banking sector as first time clients. However, given Nigeria's reputation, such existence and enforcement of such regulations are vital.

4.3 Finance and Sustainability in Senegal

The financial sector in Senegal

Senegal's financial sector is among the better developed of the West African Economic and Monetary Union (UEMOA).

It comprises of eleven banks operating in Senegal, some five insurance companies and more than forty registered microfinance institutions. International banks are dominated by French institutions, with the exception of Citibank, Banque Senegalo-Tunisienne (BST, a local bank), and the regional Ecobank. Diversification of the finance sector has not really taken place, with no substantial development of leasing institutions, housing finance institutions, hire purchase and retail credit companies. The longer-term end of the market is also under developed with weak contractual savings institutions and a nascent stock exchange. As a result, there are few intermediaries in the form of dealers, brokers, discount houses or merchant banks. There are, however, a range of other semi-formal and informal financial institutions, including a number of micro credit institutions, two or three of which are quite extensive in their scope, and till now have focused primarily on mobilising urban and peri urban savings, and lending, with some increasing attention to rural areas.

Being a commodity economy, the Senegalese financial market is dominated by short term trading finance (as opposed to longer term structured finance), often provided on a revolving basis, where loans are renewed once the produce has been sold at market. Much of the project finance that does exist, is linked to state projects or large state-dominated industries, such as the groundnut industry. As the corporate market is fairly small, the competition in this sector is tight. Retail banking is particularly under developed in Senegal. The stock market is in the early stages of development with only twenty companies registered on the regional eight country index. Senegal is part of the West African Economic and Monetary Union (UEMOA), with the West African Central Bank (BCEAO) supervising the banking institutions in its member countries⁶⁰.

Senegalese banks are generally perceived to be over-liquid. This is due to the limited lending market and, in the case of a few banks, as a direct result of the high volume of international money transfers from members of the Senegalese diaspora sending money home⁶¹. This liquidity means that banks do not have to rely predominantly on international capital, which may bring broader social and environmental constraints, and so have not been exposed to the same developments as other African countries. Interviewees felt that the French owned banks had contributed to this, by not fostering an atmosphere promoting development in the area of sustainability banking and retail banking.

59 FinMark Trust's by line.

60 Member countries of the West African Economic and Monetary Union (UEMOA) include Senegal, Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger and Togo.

61 Interviewees felt that if both formal channels and informal channels of sending money from abroad back to Senegal were combined this could represent up to 30% of the GDP of the country.

Finance and Sustainability in Senegal

The Senegalese financial sector has very limited awareness of environmental and social sustainability issues. When these are considered, it is mostly due to IFC or other international investors' requirements, and the focus tends to be on environmental issues arising in the large state owned export companies; such as the use of accepted chemicals on crops destined for European or other international markets. Several of the large state companies that produce for export are ISO 14001 accredited. Issues such as malaria and HIV/AIDS, which may potentially have significant economic impact on certain companies or sectors, or reputational risk issues such as child labour, are hardly accounted for in project assessment criteria.

The shared opinion of the interviewees is that sustainability banking is a luxury that only richer countries can afford. They generally felt that the responsibility for improving social and environmental practice lies with the government and that regulatory reform is the only tool likely to change their practice. There is little awareness of the role that the private sector can play in fostering an improved enabling environment either through collective action, partnership or endorsement of codes and standards. Likewise, there is little understanding of the business case relating to sustainability issues. Rarely are any opportunities recognised for sustainability added value in the Senegalese context.

Challenges to sustainability banking in Senegal include the following:

- about 90% of the economy is informal (includes most SMEs and microenterprises);
- the unwillingness of small enterprises to be considered part of the formal economy, in terms of having to pay taxes, is given as a key reason for why the finance sector struggles to reach a broader market;
- only about 5% of the population has access to banking services;
- there is very little industry subjected to supply chain pressures, reputational risk, etc. (70% of the labour force is in agriculture, which only provides 19% of the GDP). Mr. Arfang Daffe (CEO of the Caisse Nationale du Credit Agricole) estimated that approximately half the population directly or indirectly depends on the production of groundnuts (the buying and processing company is state-owned);
- efforts to boost growth and reduce poverty will need to

pay particular attention to reducing the rural / urban divide, improving private sector access to bank financing, enhancing productivity and reducing labour market rigidities⁶².

Notwithstanding these particular challenges, there are a number of opportunities for sustainability banking in Senegal:

- technologies being used in other parts of Africa, such as smartcard technology, mobile phone banking technology and biometrics (fingerprinting) could enhance access to banking services. Abdoul Mbaye (CEO of the Banque Senegalo-Tunisienne) felt that the introduction of such technology measures would potentially facilitate a revolution in banking access to the poor, but was unaware that this kind of technology had been recently introduced in Malawi and South Africa.
- the potential exists for banks to pool resources to enhance broader business opportunities related to sustainability banking. Examples might include the development of appropriate sector wide risk management standards (e.g. based on Senegal's key exports: fish and shellfish, groundnuts and phosphate products), or a common platform to facilitate access to credit for SMEs;
- there is definite room for growth of the microfinance market and the range of products offered. It is anticipated that the current government / AFD⁶³ scheme to link SMEs to the finance sector will help to promote development in this sector, by affording flexibility and facilitating access to finance for SMEs. New microfinance products should also be investigated;
- a more integrated microfinance system (linking formal and semi-formal finance institutions) might also allow for more flexible financing of SMEs (regulatory reform is necessary to achieve this);
- the Central Bank covers eight West African countries under the same policy and currency⁶⁴: the right regulatory changes would have a great regional impact, as best practice could be shared quickly among the different countries. If successful, the recently announced Regional Solidarity Bank, which will focus on microfinancing within the eight countries, would be such an example;
- Interviewees felt that there is opportunity to capture the significant influx of immigrant money and use this more productively, as part of development funds or projects, noting that this has worked very successfully in Tunisia;
- Interviewees felt that there was a need for innovative

62 IMF Executive Board Assessment concluding Article IV consultation with Senegal, June 2003.

63 French Development Agency. See section b) Access to Finance, for a detailed explanation.

64 Senegal is part of the West African Economic and Monetary Union (UEMOA). These countries each have a central bank that serves a common regional bank, as well as a common currency, the CFA Franc.

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financing in the housing area. The CEO of the Housing Bank, Banque de l'Habitat du Senegal (BHS) believes that this is a potentially large growth area for banks, but that it would require development of alternative risk assessment tools and mechanisms, for example linking mortgages to life insurance products.

Case Studies in Innovation Today

In this section we examine what innovations in financial processes, products or markets have taken place in Senegal. As with the previous country case studies, the overview is organised around the innovations that have helped improve pricing assets and exercising ownership; providing new finance; risk management and savings and transactions.

a) Pricing assets and exercising ownership

At the moment there is virtually no use of equity to promote sustainability financing, which is not surprising given the limited scope of the capital market in Senegal. However, changing the access conditions on the stock exchange to allow broader SME entry is a possible area of innovation. A more direct option could be to improve private equity flows going to SMEs, as has been done in Nigeria⁶⁵.

There is definite scope for increased equity investment into microfinance institutions. At the moment, most of the microfinance institutions are set up as cooperatives or mutuals, and are not necessarily structured in such a way that would open them up to the introduction of external investment.

A number of interviewees felt that **money repatriated by the Senegalese diaspora** could possibly be used to develop sustainability funds, e.g. through providing sustainability venture capital, private equity schemes or by acting as social development funds. Senegalese people living abroad are interested in supporting national development, but feel that management relating to such funds, both by the banks and the people implementing the projects on the ground, is not always professional. Thus, they often prefer to invest directly into their home communities or villages through informal channels. To change this perception, the interviewees saw a type of effective public-private partnership, as a means to accessing this money for sustainability.

b) Access to finance

Government and government supported organisations, such as the Ministry of SMEs, Female entrepreneurship and Microfinance; the Ministry for Trade and Commerce; FPE⁶⁶; ADEPME⁶⁷; and the French Development Agency (AFD) are working together to **facilitate development of the SME sector**, using a three-tiered model. This model aims firstly, to improve the competitiveness and technical capacity of SMEs through skills upgrading and introduction to technical appropriate partners. Secondly, the model assists with clustering SMEs to improve efficiency in accessing finance through market development, and to ensure the necessary documentation is in place prior to seeking finance. Finally, the model seeks to provide support and incentives to the finance sector, to provide different products favoring SMEs. There was also discussion about the potential to develop an intermediary facility, which would facilitate dialogue and action between government and the finance sector, in developing the necessary policy reform to encourage more widespread SME financing. A similar model has been successful in South Africa in the establishment of the FinMark Trust to promote access to financial markets for the poor.

The **regulatory framework in West Africa known as the PARMEC⁶⁸ law** is very supportive of mutual and cooperative based microfinance organisations. To date, however, mutuals and cooperatives in Senegal have found it difficult to access finance to allow them to sufficiently upscale. In addition, their structures do not always allow them to take advantage of funds that would provide equity support in order to promote such growth.

At a regional level, the government-sponsored Bank of Solidarity has recently been established to provide microfinance and credit lines for SMEs. There is some debate among bankers as to whether this will undermine existing successful microfinance institutions in the eight countries involved.

Another successful regional initiative is the **Centre Innovation Financière (CIF), a learning forum** that links together a number of microfinance institutions across the eight countries in the West African Finance Union. The CIF allows for specific products to be field tested in one country, to minimize cost, and then - if successful - to be replicated in the others. A recent example of how this was used was an assessment of the widespread use of 'flash credit' as a microfinance product. Flash Credit allows loans

65 See section 5, case study 4.

66 Fonds de Promotion Économique, part of the Ministry of Finance.

67 Association de Développement des Petites et Moyennes Entreprises (Association for the Development of Small and Medium Enterprises).

68 PARMEC - Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit (Support project for regulations on savings and credit mutuals).

to be made available immediately to certain individual traders, mostly women, allowing them to maximize specific trading opportunities as they arise, particularly where an immediate and opportunistic sale has a significant bearing on their ability to return a profit. This technology was piloted in one country, reviewed, and is now being adopted by other countries among the eight, with minor adjustments to cater for specific local conditions and the operating norms of the different institutions involved. This kind of inter-country product development learning platform is relatively uncommon in Africa and shows the potential of using the UEMOA to promote innovations in sustainability banking.

c) Savings and transactions

Expansion of retail banking services is a **potentially untapped market** in Senegal, with only a few banks having investigated this area to a limited degree. Interviewees mentioned a number of reasons for this, including: lack of motivation on behalf of the international banks to develop this area of banking; high rates of illiteracy in the country; distance from potential customers; limited returns; lack of effective government enabling environment, and lack of appropriate technology to make this affordable and efficient. A number of banks acknowledged that there was potentially a market in Senegal for this type of expansion, but it would require traditional models to be rethought if it is to be successful. This might require a partnership between banks and government, as well as semi-formal finance sector providers.

The success of microfinance institutions such as Pamecas and ACEP⁶⁹ in this regard disproves the notion that this option is not a commercially viable area of mainstream banking.

At present, up to 25% of the economy is derived from money returning to the country from the **Senegalese diaspora**. A substantial amount of this money is not linked into the formal finance sector, but is channelled through informal Islamic finance channels. This is an extensive money transfer system built on trust, where funds are deposited through an intermediary in one country and delivered, often within twenty-four hours, through another intermediary in a second country.

Several interviewees also mentioned that recent **money laundering regulations** could well have the effect of

further limiting access to the finance sector. The adoption by banks of 'know your customer' policies would see the tightening up of regulations as to who could open a bank account, potentially making it more difficult for individuals to enter the formal banking sector as first time clients.

Several people emphasized the need for the **development of appropriate technology solutions** such as smartcards, innovative use of alternative cashcards, and mobile phone banking and fingerprinting, if access to financial markets for the poor is to be developed, particularly given the high rates of illiteracy in Senegal⁷⁰.

A number of interviewees saw the need for government to promote an enabling environment through legislative intervention, facilitation and partnership of a second tier of formalised banking that developed a strong emphasis on savings as being key to growth of the overall savings base of the country.

4.4 Finance and Sustainability in Botswana

The Financial Sector in Botswana

At the time of independence in 1966, Botswana was among the twenty five poorest and under-developed countries in the world. Its agriculturally based economy was heavily dependent on cattle farming, earnings from its migrant labourers working in the gold mines in South Africa and foreign aid. Over the last thirty years, however, real per capita GDP growth has averaged more than 7% per year, allowing Botswana to move from one of the poorest countries in the world, to a position as a middle-income country today⁷¹. Its economic success is attributable to a number of factors, including, mineral wealth (large diamond deposits), political stability, sound macroeconomic policies and close proximity to South Africa.

Botswana's financial sector is relatively small, reflecting the small size of the market and perhaps, the rigorous approach to licensing and supervision⁷². The financial sector's regulatory environment is one of the most progressive on the continent. It is highly market-orientated and non-interventionist. In February 1999, Botswana finally abolished all exchange controls after a progressive liberalization over a number of years. The financial sector is dominated by a handful of commercial banks, all of which are highly profitable. There are five commercial banking institutions⁷³, two investment banks, two state-owned

69 See section 5, case study 11.

70 See Teba Bank and Malswitch case studies (section 5, case studies 9 and 10) for examples of these developments.

71 IMF Public Information Notice no 02/126.

72 Magdeline Gabaraane, 2003.

73 Two are UK based (Barclays and Standard Chartered), two are South African (First National Bank of Botswana and Standard Bank Investment Corporation Stanbic). The Bank of Baroda is Indian.

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development finance organizations, one building society and the Reserve Bank. All of these institutions have been profitable within a small, elite end of the market, and there has been little incentive to extend their into new market segments. Nevertheless, the number of accounts provided by the banks has risen faster than population growth over the last few years, indicating that an increasing proportion of the population has access to banking services. In addition, public pressure in early 2003 forced some banks to make reductions in certain types of bank charges. This development occurred despite the lack of government pressure to expand coverage to SMEs and lower income households.

The Botswana Stock Exchange (BSE) was established in 1989. It has performed remarkably well during its first decade, in terms of the level of capitalization, the value of shares and returns on shares. However, the Bank of Botswana⁷⁴ has observed that the growth in the value of shares and returns has recently decreased⁷⁵. An interesting recent development in the stock market has been the existence of a number of dual listed stocks (typically listed in either South Africa or the UK, in addition to Botswana) that have come about as a result of exchange control liberalization. Another recent development is the emergence of an embryonic bond market⁷⁶. Between 1990 and 2000 there has been a significant growth in pension and life insurance funds. By law, 30% of these assets must be invested in Botswana, contributing to growth on the local stock market. However, there is little investment opportunity for pension funds and the rapidly growing insurance industry, which in turn has reduced the potential return on invested funds⁷⁷. For example, Botswana Insurance Fund Managers (BIFM), one of the largest fund managers in the country⁷⁸, owns between 8% and 10% of every listed company on the Botswana Stock Exchange, which to some extent has aided the low liquidity levels on the exchange⁷⁹.

Population is one of the key determinants of the size of a country's economy and the most important economic building block. With a population of only 1.5 million people, and one that is declining due to HIV/AIDS - Botswana has the smallest population in Southern Africa and which poses a major issue in terms of economic diversification. The government is tackling the problem of HIV/AIDS aggressively through the establishment of a national AIDS coordinating agency that focuses on preventing further spread of the infection, alleviating suffering and treating all patients with advanced medication.

Finance and Sustainability in Botswana

Botswana financial institutions have remained solvent, liquid and profitable, which to a large extent, can be attributed to the central bank's supervisory role as well as the overall stable macroeconomic environment. This excess liquidity means that banks do not have to seek out foreign currency lines, that might have social and environmental criteria attached. This means that any drivers for sustainability banking will have to be initiated internally or from regional institutions with offices in Botswana.

HIV/AIDS is Botswana's foremost economic and social challenge. The government is responding aggressively to the problem through prevention programmes, and intends to provide advanced drug therapies to all those in need. Health spending was increased by 50% in the 2002/03 budget, but the long term cost implications of HIV/AIDS are unclear⁸⁰.

Well managed inflation and a stable political environment make Botswana an logical country for possible innovations in terms of sustainability investing, and offer it the potential to become a regional leader in this area. Economic stability allows for innovative use of securitisation to create sustainability related investment and loan products that promote responsible growth and development.

Co-operation between the government and the private sector, as is the case in the South African Finance Sector Charter, could significantly enhance access to financial services in Botswana. NGOs could also play a much greater role in building partnerships that improved access to a wider array of financial services, particularly for business and housing purposes to rural poor communities⁸¹.

Case Studies in Innovation today

In this section we examine what innovations in financial processes, products or markets have taken place in Botswana. As with the previous country case studies, the overview is organised around the innovations that have helped improve pricing assets and exercising ownership; providing new finance; risk management and savings and transactions.

a) Pricing assets and exercising ownership

Botswana is one of the best managed economies in Africa, which is reflected in an investment grade sovereign credit

74 FinMark Trust Botswana Report Executive Summary see www.finmark.org.za.

75 Sixteen companies were listed in the first eleven years and the market capitalization grew at an impressive 30.5 %per annum. As at 2000, market capitalization stood at P5.2 billion (US\$1 billion).

76 Botswana Telecommunications Corporation and Botswana Development Corporation (both parastatals) jointly floated bonds with total nominal value of P100 million (US\$20 million). Investec (South African Investment bank) issued short term paper with a value of P182 million (US\$36.7 million). Botswana Building Society floated a P50 million (US\$10 million) bond in 2000.

77 Economist Intelligence Unit, 2003.

78 With over P1.4billion (US\$300 million) worth of assets under management on behalf of 80 pension funds.

79 Economist Intelligence Unit, 2003.

80 IMF Public Information Notice no 2/126.

81 FinMark Trust (2003) Access to Financial Services in Botswana. See www.finmark.org.za.

rating⁸². This situation puts Botswana in a strong position, when compared to any other country in sub-Saharan Africa (with the exception of South Africa), to raise funds for investment in infrastructure and non traditional industries that will see the economy develop beyond its core reliance on diamonds. Banks could play an important role in helping realise this goal, which is at the core of economic sustainability for the country. The Botswana Public Enterprises Evaluation and Privatisation Agency (PEEPA) has recognised this potential and has prepared a Privatisation Master Plan which is a blue print for some thirty state enterprises to be sold. The plan comes as a sequel to the privatisation policy of 2000 which set in motion various economic reforms aimed at making institutions more efficient. PEEPA is attempting to sell the idea to government, civil society and the general public, and recently joined forces with the SADC Banking Council to introduce the concept of **public private partnerships** (PPPs) into the country. The recent successes in such partnerships in South Africa serve as excellent examples (see case study 4.1 on South Africa).

A more flexible and diversified system of allocating credit and providing equity could be developed to support the emergence of Botswana owned small and medium sized enterprises. The development of **improved access conditions for SMEs** wanting to list on the Botswana Stock Exchange, that could include a regional focus might also be a possibility. Furthermore, it is within the power of the banks to develop strategies that will ensure citizen empowerment, and strengthening of the participation of citizen owned companies in the supply chain network of the economy.

b) Access to finance

Despite a relatively healthy and growing banking sector the proportion of private sector loans going to business, in contrast to households, has declined from 70% in 1990 to 45% in 2001⁸³. This indicates a shift of resources from productive investment to consumption and corresponds to the failure of the country to diversify the economy and to develop a strong supply chain network of small and medium sized locally owned enterprises. There was concern by a number of interviewees that the banking sector was unable to adequately service the possibility of SME growth and that government initiatives such as Citizen's Entrepreneurial Development Agency (CEDA) set up in 2001, had significantly improved efficiency. Other interviewees felt that such government initiatives were

having the effect of crowding out the private sector as funding was provided under this scheme at nearly one third of the commercial rate, making it impossible for the private sector to compete. One of the challenges relating to the growing microfinance sector is that it is not explicitly regulated by the government and no Usury Act exists. As a result, very little is known about the industry as a whole and limited assessment has been done of the possible opportunities for consolidation and growth. Abuse of borrowers is also more likely in this kind of environment.

c) Risk management

The quality of banking supervision in Botswana is felt to be adequate⁸⁴, and a review of the non-bank financial sector is imminent in view of the recent rapid growth in this area. However, the banks in Botswana are not yet looking beyond conventional financial risks. Social and environmental considerations are not yet on the banking agenda, despite the impact of issues such as HIV/AIDS, and developments in sustainability risk management in neighbouring South Africa. Although some major international institutions such as Barclays, are beginning to seriously incorporate sustainability considerations into their global risk management strategies, the localisation of these sustainability concerns has to be realised in Botswana.

d) Savings and transactions

Botswana's current levels of access to financial services is low, though it is still higher than that of most other Southern African countries. In 2001, 39% of the economically active population used a savings account, 45% used time and call deposits and 26% had access to current accounts⁸⁵. Savings plans are the bedrock of a successful pension and insurance sector which, as indicated above, have both experienced admirable growth over the last few years.

Botswana's are - historically and culturally - a very frugal people. One would therefore expect high savings rate amongst the people of Botswana. Unfortunately that is not the case. Many interviewees felt that banks themselves (especially foreign commercial banks) are contributing - through their banking policies - towards an emergence and entrenchment of a new culture of unsustainable consumerism and related consumer debt. While Botswana's per capita income is that of a middle income country, 40% of the population still lives in abject poverty.

82 Africa Monitor, Southern Africa, June 2004.

83 FinMark Trust (2003) Access to Financial Services in Botswana. See www.finmark.org.za.

84 IMF Public Information Notice 2/126.

85 Ibid.

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4.5 Finance and Sustainability in Kenya

The financial sector in Kenya

Currently there are forty three registered commercial banks in Kenya, including thirteen multinational banks⁸⁶, six banks that have government participation⁸⁷ and twelve banks that are locally owned. In addition, there are two non-bank financial institutions, two mortgage finance companies, four building societies, and forty seven foreign-exchange bureaux.

Seven banks⁸⁸ control approximately 70% of the market share. The banking sector is emerging from severe financial and reputational damage resulting from corruption (insider lending), expansionist monetary policies, economic recession and government debt in the late 1980's and early 1990's, when banks and other financial institutions stopped lending to the private sector due to the risk of non-performing loans. The lack of corporate governance as well as political interference in the banking sector contributed to this situation. The new government (as of 2003) has placed an anti-corruption strategy at the top of its agenda, and has embarked on a major strengthening of its governance and anti-corruption institutions and apparatus, including the tabling of key governance legislation. The Central Bank of Kenya has promoted the enforcement of statutory requirements, more stringent supervision and increasing capital requirements. However, Kenya's financial sector is suffering from excessive short-term liquidity, caused in part by weak absorptive capacity of the private sector.

In January 2001 the Capital Markets Authority (Stock Exchange) issued new corporate governance guidelines⁸⁹. These set out requirements for corporate governance for public listed companies and issuers of securities in Kenya. They are both prescriptive (principles) and non-prescriptive (best practices). Every public limited company must include in its annual report, a statement by its Directors as to whether the company is complying with these guidelines on Corporate Governance with effect from the financial year ending during 2002⁹⁰.

In the past five years, the Central Bank of Kenya has moved steadily towards a risk-based approach to bank supervision under the Basel II Accord. The new government installed in 2003 has brought new energy into the banking sector. The potential privatisation of parastatal banks such as the Kenya Commercial Bank, the tightening of the

Banking Act, the anti-corruption strategy, and the return of donor funds to boost key sectors of the economy, such as construction, are contributing to increased confidence in the banking sector⁹¹.

The level of bad debts or non-performing loans in Kenya averages 28.1%⁹² with some banks reaching levels of 48%⁹³. In 2003, six state institutions were responsible for 58% of all bad debts⁹⁴. These non-performing loans have resulted from politically motivated loans, poor risk management, the depressed state of the economy in general and problems facing particular sectors (such as coffee production), ineffective administration of justice, or pressure from dominant shareholders. In addition to non-performing loans, some banks have invested in unproductive assets such as real estate. Poor market conditions and the lack of proper use of investment criteria made real estate a risk for banks. This high level of non-performing loans contributes to the high lending rates of banks. Although there are recent signs of a pick up in bank lending to the private sector as confidence builds, margins remain high, and banks continue to be risk averse. The Ministry of Finance has directed the Central Bank to examine the feasibility of establishing a Non-Performing Loans Agency to help rectify banks' balance sheets and to consider using a tribunal with judicial powers to deal with loans⁹⁵. The Ministry has realized that a lack of intervention will prevent the banking sector from recovering from this endemic problem.

Finance and Sustainability in Kenya

It is no surprise that incorporating the principles of sustainability into the banking sector has not received much emphasis or innovation. A banking sector that is emerging from two decades of poor governance, corruption and a failing economy is in itself not sustainable. The current challenge is to change the international and local image of banking from corrupt and nepotistic; reduce the non-performing loan portfolio; improve senior management abilities and deliver value to the customer and the shareholder. The most important challenge for banks at this stage, is basic corporate governance throughout all branches and networks. Without this in place, social and environmental sustainability cannot be addressed. Having said this, however, there are opportunities to instil sustainability into the banking sector as the entire system is being overhauled.

The majority of Kenyan banks do not consider

86 This figure includes those banks which are foreign-owned and not locally incorporated, and foreign-owned but locally incorporated (partly owned by locals).

87 These banks are Kenya Commercial Bank Ltd, Housing Finance Company of Kenya Ltd, Savings and Loans Kenya Ltd, Industrial Development Bank Ltd, National Bank of Kenya Ltd, and Consolidated Bank of Kenya Ltd.

88 These banks include: Barclays Bank Ltd, Kenya Commercial Bank, Standard Chartered Bank, Citibank, Co-operative Bank of Kenya, National Industrial Credit, National Bank of Kenya.

89 Bank Supervision Annual Report 2001.

90 Kibby Karathi, Chief Executive, Nairobi Stock Exchange, presentation to Institute of Certified Public Accountants of Kenya , 21 May 2003.

91 The Banker, December 2002.

92 Economist Intelligence Unit, 2003.

93 Central Bank of Kenya Monthly Economic Survey. 2002.

94 Economist Intelligence Unit, 2003.

95 Republic of Kenya, Budget Speech, Fiscal Year 2003/2004, Hon. David Mwiraria, M.P Minister of Finance.

environmental or social issues a concern when providing credit. Environmental degradation in Kenya has continued despite regulatory mechanisms being in place. The Government made a serious commitment in the 2003 Budget Speech⁹⁶ to enforce the National Environmental Management Act (NEMA) and ensure that Environmental Impact Assessments are carried out prior to authorization of new projects. To date, NEMA has not had significant influence or enforcement. The larger multinational banks, such as Barclays and CitiGroup, and the local Commercial Bank of Africa do have some lending criteria (mainly around assessment of environmental impacts of potential investments) which have been passed down from their corporate headquarters; however, these have not yet been fully institutionalized into some of their regional operations.

The low level of savings in Kenya⁹⁷ is due in part to the large difference between the depositor's rate and lending rate, as well as the unauthorized escalation of bank charges. The high cost of loans has made it prohibitive for the poor to access funds from commercial banks. However, a significant portion of Kenya's savings is within the cooperative sector, held through Savings and Credit Cooperative Societies (SACCOS). Low transaction charges, flexible procedures, and easy accessibility have resulted in SACCOS and micro-finance institutions capturing a large portion of the country's savings, although governance challenges in these institutions may undermine their long term sustainability. There are about thirty registered microfinance institutions in the country, but only ten are active. These have managed to reach a clientele of only three thousand⁹⁸. To remedy the situation the Government prepared a Draft Micro-Finance Bill in 2003⁹⁹, which proposes to confer authority to the Central Bank to license, regulate and supervise the micro-finance credit providers, especially those authorized to take deposits from the public. No attempt will be made to convert these institutions into formal financial institutions.

Despite this range of challenges, the future of sustainability in the Kenyan banking sector is optimistic. The Kenyan Bankers Association, a membership organisation of forty three banks, suggests that in ten years time Kenya might only have half the number of banks largely as a result of improved governance mechanisms¹⁰⁰. The surviving banks will be those that manage to raise sufficient capital and implement sound governance procedures, which may preclude small and / or family-owned banks. The sector, it is hoped, will be vibrant, socially aware and contributing to a healthier society. The IMF's most recent Article IV

Consultation with Kenya suggested that the authorities' concerns about the wider spreads between bank lending and deposit rates should be addressed by tackling the underlying structural problems in the system, including a clear plan to deal with the large non-performing loans portfolio. In addition, the government was urged to divest itself from the ownership of banks which tends to complicate "the prudential supervision of the sector"¹⁰¹. Another positive factor for financial markets is that the Nairobi Stock Exchange has begun to include corporate governance as listing criteria for companies. Shareholders are starting to become more vocal and in 2003 a shareholders' association was launched by the Capital Markets Authority to create a forum for activism. Awards have also been given for financial excellence in financial reporting and discussions are underway to extend this to social and environmental reporting¹⁰².

Case Studies in innovation today

As with the previous country cases, current innovations in addressing sustainability in the financial sector are highlighted here. Again, innovations are grouped according to business areas of pricing assets and exercising ownership; providing new finance; risk management and savings and transactions.

a) Pricing assets and exercising ownership

The new government's apparent dedication to structural reforms has bolstered interest in the stock market because of the potential cut in business costs - stemming from increased public sector efficiency and the removal of infrastructural constraints to growth. Much of the interest in the stock market is attributable to demand for high yields, as government paper used to yield 14+%, while in the last year it has only been at the 2% level. To date, there has been no use by private sector investors of their equity positions to promote sustainability financing.

B) Providing new finance

With two million Kenyans unemployed, and more than fourteen million (almost half the country's population) living below the poverty line, the informal sector plays a vital role in creating jobs. Last year, the informal sector generated thousands of new jobs, while employment in the formal sector declined. This situation offers huge potential for microfinance initiatives. Mr Moses Banda, Chief Manager of Credit and Microfinance operations at K-Rep Bank,

96 Ibid.

97 80% of adults do not have access to financial services.

98 According to Chief Manager of Credit and microfinance operations at K-Rep Bank.

99 Like the Privatisation Bill, this has yet to be presented to Parliament.

100 John Wanyela, Executive Director, Kenya Bankers Association.

101 IMF, Public Information Notice, June 2003.

102 Donald Ouma, interview, Head of Research, Nairobi Stock Exchange.

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points out that there are more than 1.3 million people in the country who own small scale businesses but who have no access to banks. A new breed of financial institution is designing specifically targeted products to bring SMEs into the mainstream (e.g. see DrumNet below).

Non-performing loans are sometimes the result of lack of knowledge about business reality. In order to minimize their number, it is advisable to offer SMEs business support and development services, in addition to credit. Officers in charge of lending to SMEs have to know their customers, the market and the financial counterparts involved. Financing has to be adapted to regional customs, laws and regulations. Support services are not meant to be entirely free, but can be part of a package deal alongside the credit. In some cases **mentor schemes** take such an active role in new businesses, that they can act as guarantors to banks.

Pride Africa is a microfinance network providing credit access to more than eighty thousand African SMEs in Kenya and other countries in the region. Building on research previously carried out on information needs through its microfinance network, Pride Africa developed the '**DrumNet**' concept, an innovative means of **information exchange**. Inspired by the efficacy of the traditional African drum in spreading information within and among villages, DrumNet leverages its strengths in microfinance, together with modern Information and Communication Technologies (ICT), to provide a one-stop service point for commercial information, market making and bank linkage services. It combines the Internet and web-technology with its knowledge of local markets, co-operative societies, microfinance organizations and the private sector. The overall objective of the program is to provide poor farmers with improved access to new agricultural technology, financial and non-financial information, and a bridge to the formal financial system. This will enable them to grow and diversify their businesses, generate more income and employment, as well as creating forward and backward linkages. The model is being developed in a generic '*plug and play*' fashion so that it can be widely and rapidly replicated through any participating cooperative society, microfinance institution or bank. With the rapid and widespread use of mobile phones in Kenya, text messaging services (SMS), are also being adapted for low cost data transfer and capture.

Despite research evidence that small farmers do save and are able and willing to pay market interest rates on credit

facilities, weak linkages between small farm households and financial service providers remain a key constraint in improving the productivity and livelihood of small-scale farmers. DrumNet aims to provide the missing link between its farmer members and formal financial institutions, by acting as a facilitator or financial intermediary whose main role is to cluster and coach groups of farmers, facilitate information flow between farmers and banks, help in appraisal and recovery of loans and mobilize savings linked with participating financial institutions. DrumNet acts purely as a service provider; taking care of many interactions between farmers and banks, and building trust and confidence between the parties. However, it is neither directly involved in financial transactions nor in providing direct financial services. Banks pay performance-based fees to DrumNet factored into the interest rates to cover its operational costs. The fees payable are based on loans granted and fully recovered. The upside of this arrangement is that financial institutions, which do not have the structures or appropriate staff (trained agricultural credit officers) to handle rural finance, could still do business with smallholders through the virtual bridge provided by DrumNet. This arrangement will provide banks with opportunity for growth without crowding their banking halls with the type of clients they are not equipped to handle. The DrumNet linkage service will increase outreach and loan volumes, improve recovery rates and mobilize additional savings all at reduced transaction costs to the banks.

Although DrumNet is a project of Pride Africa, a non profit organisation, it has been designed to be self-sustaining both in financial and operational terms. Enough revenue must be generated to cover costs and retained earnings, which shall be re-invested to upgrade existing Information Kiosks and open new ones so as to rapidly reach scale. Most of DrumNet's income derives from a percentage of each transaction successfully completed between seller and buyer. Therefore, building the client financial relationship and credit rating is to be the main initial activity to establish a transaction basis. Key to DrumNet's long term success will be the frequency of transactions and the quality of its database.

Since August 1999, the Women's Economic Empowerment Consortium (WEEC) has been providing **financial services to Masai women**, who traditionally are nomadic herders. Loans are typically made in the form of cattle to help borrowers restock their herds, following drought periods. WEEC negotiates bulk purchases of cattle and passes the

savings on to its clients. The programme links with a public agency that provides training in management practices and recommends cattle breeds that are better adapted to pasture scarcity and yield more milk. The loans are repaid by the borrowers mostly from the sale of milk or excess animals. WEEC has grown to serve more than two thousand one hundred families and has a zero delinquency record. The programme is recipient of CGAP's¹⁰³ pro-poor innovation challenge award.

c) Risk management

Contrary to most microfinance institutions, which are reluctant to discuss HIV/AIDS, MicroSave-Africa has recognised that **HIV/AIDS is more than just a health crisis**, and could have serious economic repercussions for their loan portfolio. Reports estimate that at the current rate, the number of HIV/AIDS infected people in Kenya could rise to 2.5million by the year 2005¹⁰⁴. The Central Bureau of Statistics reports that AIDS has lowered life expectancy in Kenya to forty five.

The care of family members with AIDS has tremendous financial repercussions, not only in terms of medical costs, but because of lost business income, as most care givers reduce their income earning activities and draw from the business capital to meet expenses. Although crises not related to HIV/AIDS happen more frequently, they typically come in isolation. HIV/AIDS on the other hand, triggers a series of crises that require an entire arsenal of coping mechanisms. In 2001, MicroSave-Africa commissioned a study in Kenya and Uganda on 'HIV/AIDS, the Silent Economic Crisis', aiming to identify general trends in microfinance clients' economic coping strategies, and patterns in their use of microfinance services. The intention was to understand the role of microfinance services in meeting the needs of their clients, and so develop rational strategies to respond to the pandemic, including identification of new services or products to strengthen their clients' economic coping strategies. The research identified a very clear sequence of asset liquidation in order to cope with the impact of HIV/AIDS. AIDS affected families liquidate savings and protective assets first, and sell productive assets only when they run out of other options. The sequence is as follows: (i) savings; (ii) business income; (iii) household assets; (iv) productive assets; and (v) land. In the words of one client, "loans are only good if there are no problems. When there are serious problems, the loan becomes a burden." The study highlighted the need for product or service development

and refinement to capitalise on clients' abilities to plan for future crisis (anticipate the need for lump sums of cash); improve and maintain income flows; avoid selling productive assets which would undermine future income earning capacity and; retain access to financial services, particularly post-crises. Specific innovations include¹⁰⁵:

- Fluctuating loan sizes and terms to coincide with the ebb and flow of business cycles;
- Allowing clients to miss savings group meetings as long as they send in payments (many care givers reported being dismissed from savings groups for non attendance at meetings, unavoidable when sick family members require care);
- Allowing clients the option of not taking back-to-back loans - i.e, allowing for a 'resting' period, while still retaining current client status;
- Allowing clients to take out smaller loans without subsequent penalties;
- Encouragement of informal, group based coping strategies to reduce financial pressure;
- Using a 'credit with education' approach to provide HIV/AIDS education through microfinance institution staff.

d) Savings and transactions

In Kenya's Central Province, a number of local organisations have developed a microfinance model in which they provide **management services to group based savings schemes**, known formally as Accumulating Savings and Credit Associations (ASCAs). These organisations operate profitably, without donor funding, and are expanding rapidly. The organisations providing services to the ASCAs are known as ACSA Management Agencies (AMAs). The majority of AMA groups comprise only women; there are very few men's groups. The AMA assists women to form a group and, from the first meeting, members make a minimum monthly contribution. From the initial meeting, savings are converted into loans to members of the group, and may be either short or long term loans with different interest rates. The role of the AMA is the mobilisation of the groups, and a field officer facilitates the monthly meeting. She may also assist the group to develop its constitution and bye-laws and register with the Ministry of Culture and Social Services. AMA field officers keep accounts of group transactions, of which the group secretary also keeps a copy. Finally, the AMA plays a key role in arbitration of disputes and default management, which members greatly appreciate, as it avoids the social

103 The Consultative Group to Assist the Poor (CGAP), is a consortium of 28 public and private development agencies working together to expand access to microfinance. www.cgap.org.

104 Kenya National AIDS Control Council, 2000.

105 For the full report see *HIV/AIDS - Responding to a silent economic crisis among microfinance clients in Kenya and Uganda*, MicroSave-Africa 2001. Available through ITDG Publishing. www.itdg.org.

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friction that may be caused by following up on defaulters themselves. The group pays the AMA a service fee of 1% of the value of the fund up to a maximum of KShs2,500 (US\$33) per month. Whilst the clientele of the AMAs includes micro and small entrepreneurs, their members are also drawn from other socio-economic strata including salaried workers such as nurses, teachers and civil servants, as well as subsistence and semi-commercial farmers. Hence their reach into rural areas is much greater than that of formal microfinance institutions.

K-Rep Bank is a **savings and loans bank for the poor** established in 2000. K-Rep was initially an NGO, which realized that accessing grants was not sustainable, and subsequently secured a banking licence. The NGO subsequently became K-Rep Development Agency, although it remains an NGO funded from K-Rep profits and other grants. The transition from an NGO to a commercial bank has been hailed as highly innovative and one of the most successful microfinance schemes in Africa. As other commercial banks have closed branches in rural areas and subsequently blamed government for not addressing poverty, K-Rep has managed to tap into the rural market through its branches. K-Rep has enabled the servicing of a huge part of the unbanked population in Kenya. With twenty five outlets country wide, the bank has managed to reach some forty thousand borrowers, 52% of which are women.

Equity Building Society has a unique portfolio of savings and loans directed at the poor. With two hundred and fifty two thousand depositors and sixty thousand borrowers Equity is the largest single microfinance institution in Kenya. Equity has developed a network of thirty two **mobile village banking units** to offer services to rural areas that have no banking facilities. The mobile units (all terrain four wheel drive vehicles) serve each area once or twice a week, providing their customers in the remote areas with the financial services they would receive from a branch, such as bank cheques, remittance processing, loan applications and many more. The customers pay the same rates for their transactions, and are charged a modest fee for the mobile access, which is less than a one-way bus fare to the nearest branch.

The mobile banks use solar power to run the computerised systems, the printers and the scanners that are used to check the ID documents for account holders, or process new accounts. The vehicles visit areas where mainstream banks have discontinued the use of mobile banks, or where rural branches have closed, as well as new remote rural areas, which have never had access to banking services.

5. Case Studies in Innovation Today

This section highlights individual innovations in sustainability banking across Africa. Some are market innovations initiated by the financial sector or by government, whilst others are product or process innovations developed by individual financial institutions. Again, this is by no means a conclusive list, but serves to demonstrate the range of sustainability banking practices already found in Africa.

Case Study 1:

Emerging Africa Infrastructure Fund

Public Private Partnership, Africa

Financial innovation

The Emerging Africa Infrastructure Fund (EAIF), a US\$305 million facility, provides long-term debt to finance commercially viable and developmentally sound private sector infrastructure services in sub-Saharan Africa. EAIF is a Public Private Partnership (PPP) between Development Finance Institutions (DFIs), donors and commercial banks, where each group takes a different risk profile.

The rationale for EAIF is to facilitate economic development in Africa in order to address poverty and better the living standards of the people of the region by creating long term debt financing that mobilises private sector resources for infrastructure projects in mainly power, telecommunications and water / sanitation projects for privatisation, or for concessions for 'greenfield' developments.

The mandate allows it to invest in any country in sub-Saharan Africa, with the exception of Mauritius and South Africa, which have sufficiently developed capital markets. A number of regional funds focus on mobilising long term investment capital for the continent's infrastructure needs, but these still fall far short of the estimated US\$30 billion needed to bring Africa's infrastructure to an acceptable level of delivery.

Impact on sustainable development

Going beyond short-term trade finance, EAIF is expected to have a number of positive development impacts. Firstly, by drawing in commercial banks, some US\$120 million of long-term commercial debt is raised, which otherwise would not be available for infrastructure projects. Secondly,

the financing of such projects creates business opportunities by allowing local participation in priority projects, such as in water and sanitation. Thirdly, through co-financing with local banks and assisting them with project finance deal structuring, the EAIF contributes to capacity building in the region's financial institutions. Equity provided by the UK government's Department for International Development (DfID) leverages additional funds to address a constraint to deliver infrastructure projects in Africa.

A wide variety of borrowers can be considered, including 'green field' developments, privatisations, refurbishments, upgrades and expansions, with particular emphasis on the following sectors:

- Power generation, transmission and distribution;
- Telecommunications;
- Transportation (roads, railways, ports, airports, gas / water pipelines etc); and,
- Water (supply, distribution, treatment / purification etc).

All projects to which the EAIF commits will be required as a standard loan term to comply with World Bank / IFC environmental, social and health and safety safeguard policies and guidelines.

Key success factors and challenges

Poor infrastructure and institutional weaknesses in the management of key utilities are hampering sustained investment and growth on the continent. Strengthening infrastructure is a priority to attract new investment and industries. Africa's infrastructure is characterised by inefficiencies and under-capacity. Ports, rail networks and telecommunications services remain unreliable in supply, and infrastructure services such as safe water, sanitation and electricity are inadequate to meet demand.

Opportunities for private sector participation arise from privatisation of state-owned utilities and new concessions being granted to build, operate and transfer (BOT) infrastructure services in SADC countries and elsewhere on the continent. About fourteen countries have sufficiently progressed with economic and policy reforms to attract private sector participation in delivery of infrastructure services, but the actual lending opportunities unfolding will be determined by the pace of privatisation and concessioning.

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Political risk and the need for institutional capacity to implement PPPs remain real challenges to progress. Although EAIF faces a number of risks, most can be mitigated against through either insurance or deal structuring. At the same time, the EAIF provides a unique opportunity to mobilise PPP financial resources that can lead to exploiting opportunities in the region.

Profile

The EAIF provides a significant source of long-term finance / debt for private sector participation in infrastructure service delivery in sub-Saharan Africa through a PPP between the development agencies of the United Kingdom (DfID), the Netherlands (FMO), Germany (DEG) and South Africa (DBSA) and commercial banks Standard Bank of South Africa and Barclays. The Fund is managed as a joint venture between the Standard Bank Group, Emerging Market Partnership (EMP) and FMO; and is housed in London. The management company provides back office support, including due diligence, negotiating deal terms and legal documentation, as well as, monitoring the loan portfolio. Monitoring compliance with World Bank / IFC environmental, social and health and safety safeguard policies and guidelines is delegated to FMO. www.emergingafricafund.com

Case Study 2:

The Nedbank Green Trust

Value-added banking products, South Africa

Financial innovation

In 1990, together with the World Wildlife Fund of South Africa (WWF-SA, a conservation organisation), Nedbank founded The Green Trust, which aims to protect the unique biological diversity of southern Africa and to counter the adverse effects of unsustainable development. Funded solely by Nedbank and its clients, it is hailed internationally as a mutual benefit marketing success story. Through the trust, clients are provided the means to contribute to the social capital of the nation by using a range of parity, value-added 'affinity' banking products (cheque books, credit cards, ATM cards and junior and adult savings accounts). This has created a win-win situation in which Nedbank makes an invaluable contribution towards increasing the amount of funding available for the various trust projects.

Nedbank Green Affinity clients do not pay a premium for enabling donations to The Green Trust, and service fees for Nedbank Green Affinity accounts are the same as those for normal Nedbank banking accounts. Rather, Nedbank Green Affinity donates money on behalf of its clients, based on clients' financial activity.

Use of Nedbank Green Affinity banking products funds The Green Trust in three ways:

- A percentage of purchases on credit cards is donated to the trust, at no cost to clients. The more clients spend, the more the trust benefits.
- Clients are charged a small donation for every cheque-book issued, which is paid directly to the trust by Nedbank.
- An amount is donated by Nedbank Green Affinity on the client's behalf for every new savings account opened and Nedbank Green Affinity donates a percentage of the average daily credit balance to the trust - at no cost to the client.

Impact on sustainable development

Since inception in 1990, the trust has raised almost R50 million (US\$7.7 million) for conservation and supported over one hundred and twenty five projects. These projects have covered a significant range and diversity of environmental interventions with a focus on community-based conservation.

The Green Trust aims to:

- Help save the environment;
- Undertake rehabilitation where damage has occurred;
- Protect natural systems, ecology and biological diversity;
- Focus on community-based education and nature conservation;
- Protect endangered species; and
- Conserve South Africa's forests and water resources.

Funding is allocated to the following areas: Sustainable Use, Urban Greening, Species Conservation, Pollution Prevention, Protected Areas, Legislation, Alien Control and Conservation Awareness. Funds are spread throughout the country, and through other parts of Southern Africa, and cover conservation of all types of ecological zones in the sub-continent.



Examples of Green Trust-funded projects range from environmental education through tree planting and food gardening in poorer urban environments, to working with subsistence-level farmers in South Africa's Eastern Cape province to achieve higher levels of environmentally sustainable agricultural productivity, to ensuring that communities around South Africa's Greater St Lucia Wetland Park are able to derive socio-economic benefits from the park and thus contribute to its protection and long-term sustainability. Current species-based projects include work with cheetah, wild dog, blue swallow, ground hornbills and southern right whales, among others.

In addition, Green Trust Awards are presented annually by Nedbank, with the aim of raising awareness of, and lauding the environmental achievements of individuals, communities, NGOs and companies who have made significant contributions to wildlife and environmental conservation. Entries are judged on what the projects have achieved, relative to the resources at their disposal. This allows schools, communities, individuals, and small organisations to compete against others with more capacity.

Key success factors and challenges

Moving forward, the Green Trust aims to continue to expand the reach of its projects, in line with developments in conservation strategies locally and internationally. Key challenges such as achieving poverty eradication, shifting to sustainable consumption and production, and maintaining and restoring the integrity of ecosystems, will be faced in partnership with Nedbank, as the Green Trust continues to play a vital role in balancing the interests of man and the environment.

Company profile

Nedbank is one of the largest and most well diversified banks in South Africa offering a wide range of services in retail, private banking and corporate banking. Nedbank forms part of the Nedcor group which is one of South Africa's leading financial organisations with assets in excess of R250 billion (US\$38 billion). Its holding company, Nedcor Limited, is listed on the JSE and holds four banking licenses (three local and one international). Nedcor has an international presence through outlets in London, Isle of Man, Singapore, Hong Kong, Beijing and sub-Saharan Africa. www.nedcor.co.za

Case Study 3:

The Johannesburg Securities Exchange Socially Responsible Investment Index

Sustainability Research and Intelligence (Pty) (Ltd), South Africa

Financial innovation

In South Africa, the King Code on Corporate Governance (King Code)¹⁰⁶ has shifted company behaviour in that business is now required, to a far greater extent than ever before, to account for and report on its non-financial risks and social / environmental impacts. Indeed, given the socio-economic imperatives of South Africa, local companies have already made significant strides in the corporate social responsibility (CSR) arena and deserve more recognition for their efforts. South African companies are also acknowledging that this is becoming a fundamental part of doing business. It was against this background that the Johannesburg Securities Exchange (JSE) decided to launch an SRI index for ± 160 South African listed companies¹⁰⁷.

The JSE's Socially Responsible Investment (SRI) Index aims to promote and enhance good corporate sustainability practices in South Africa. The Index intends initially to include companies in the SADC region, but ultimately is expected to spread into the rest of Africa. The Index will assist substantially in raising capacity in both the corporate sector and in civil society, and in increasing awareness of the importance of sustainability.

Launched in May 2004, the Index reflects widely accepted sustainability practices and ranks those listed companies relative to their sustainability practices. In order to qualify

¹⁰⁶ See section c Risk Management, included in the South African case study (section 4.1).

¹⁰⁷ The companies that comprise the ALSI - The All Share Index.

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for the Index, companies need to demonstrate that they meet the requisite criteria designed to recognise the integration of principles of sustainability into core business function. The Index will thus facilitate investment in companies that pursue and practice the principles of sustainability.

The Index is partly based upon elements of the UK's 'FTSE4Good' Philosophy and Criteria. Simultaneously, the Index reflects the complex nature of sustainability in South Africa. It also considers the corporate governance aspect (as opposed only to the triple bottom line) and how companies are integrating its imperatives.

Impact on sustainable development

The key impact on sustainable development arising from the establishment of the JSE SRI Index will be the mainstreaming of sustainability issues in company practices. In addition, the index will achieve the following:

- A reduction in the degree of negative social and environmental impacts over time;
- An increase in the receptiveness and responsiveness of companies to growing shareholder and stakeholder needs and concerns;
- Increased competitiveness in addressing sustainability among companies, and therefore an overall improvement in performance across sectors or industries;
- For the financial sector in South Africa, a means to demonstrate how obligations of the Financial Charter are being met and to trumpet good performance and high scores;
- Development of a means of tracking performance and progress over time in meeting sustainability targets; and
- Further facilitate investment into South African equities by investors seeking companies with credible sustainability practices.

Key success factors and challenges

Critical to the success of the Index is a credible research organisation that can investigate and quantify company sustainability performance. Given the youth of the South African SRI sector, there is no such established data provider in South Africa. The JSE has appointed independent consulting organisation Sustainability Research and Intelligence Ltd (SR&I), to fulfil this role.

The JSE is optimistic that the Index will contribute materially to the mainstreaming of company sustainable business, which will facilitate the development of SRI as an asset class in South Africa, thereby increasing incentives for better business risk management. The Index is in part comprised of company response to and attitude toward South Africa's 'transformation' agenda. The issues that comprise this - broad-based economic empowerment, affirmative procurement and prioritising health-related issues - are incorporated in the Index Criteria and thus affect the ranking of companies on the Index. Companies who are playing a role in reducing poverty through sustainable business practices will consequently be identified and incentivised through the positive impact of their Index ranking.

Consequently, the Index will enhance the contribution that the financial sector can make to the reduction of poverty via the following:

- Improving transparency and accountability within the private sector;
- Enhancing the prominence of triple bottom line reporting;
- Making sustainability a key criterion of the valuation process of stock market analysts;
- Making sustainability performance an accepted component of the risk management process employed by asset managers and pension fund trustees;
- Increasing shareholder awareness of corporate behaviour and in so doing, catalysing greater stakeholder activism;
- Encouraging companies to devote more resources to their small business support programmes and empowerment considerations in their procurement activities; and
- Identifying those companies who are making positive contributions to the overall development of South Africa and thus strengthening their business case.

By creating an incentive for companies to quantify their social, economic and environmental impacts, the Index will result in a more realistic and transparent assessment of the role that companies play in contributing towards sustainable development. Based on the experience of more mature financial markets, inherent benefits arise from a more accessible and transparent financial system, including community upliftment, job creation and poverty alleviation. Although it will not directly lead to the development of specific services for poorer people, women or minority groups, it will result in awareness generation

and capacity building amongst a wider range of stakeholders whose function is aimed at reducing poverty and increasing the level of participation of poorer people, women and minority groups in the economy.

At the time of going to press, the index comprised fifty one companies out of the top one hundred and sixty on the exchange. A total of sixty nine companies volunteered to participate in the index assessment process, and these included five companies with listed subsidiaries. Thirty one of the top forty companies are represented, along with seventeen of the mid-cap companies, and three small cap companies. Some companies who were expected to participate did not volunteer for the index, or failed to qualify, including nine of the top forty. The participating companies are not yet ranked according to overall performance, or performance by sector or area (e.g. corporate governance, environment, society etc). It is expected that some form of ranking on the Index will be undertaken in subsequent rounds.

The main risks to the initiative are as follows:

- That the initial launch will not be followed up with an adequate ranking mechanism allowing fund managers to use it as a legitimate tracking device for their investments.
- Sustainability investment remains a fringe asset class. However, the experience of more mature economies is that while SRI remains a small component of assets under management, growth of this sector remains positive.

Company profile

SR&I is the data provider to the JSE SRI Index. It is an independent research institution, whose mandate is to supply the financial services sector with non-financial research. Although SR&I is newly constituted, the company's partners are all leaders in their fields, having provided expertise to clients from a range of different sectors. www.sr-i.za.com, info@sr-i.za.com

Case Study 4:

Small and Medium Industries Equity Investment Scheme

Nigerian process to drive SME equity investment

Financial innovation

The Small and Medium Industries Equity Investment Scheme (SMIEIS) was part of a Central Bank directive to all Nigerian based banks requiring them to set aside¹⁰⁸ 10% of their pre-tax profits for investment in Small and Medium Industries (SMIs), excluding trading companies, that qualify under the scheme. Investments are to be separated from other assets on the balance sheet, with the investment exit after a minimum of three years. Funds are to be invested as equity, either as a cash injection, and / or conversion of existing debts owed to participating banks. Additional funds could be provided by banks by way of loans. In addition, the following tax reforms and incentives have been proposed:

- Tax rate of SMIs reduced to 10%;
- Banks contribution to enjoy a 100% investment allowance;
- Five year tax holidays to SMIs under SMIEIS; and
- Funds divested under SMIEIS exempt from Capital Gains Tax.

Divested funds shall be invested back into shareholders' funds and shall not be subjected to tax. Annual reserves must be invested within twelve months or else the Bankers' Committee will apply sanctions. The Bankers' Committee will review the scheme within five years.

Impact on sustainable development

When properly supported, small and medium sized enterprises (SMEs) foster a culture of entrepreneurship. SME growth is important for economic and social development. One of the most powerful forces for the reduction of poverty is through the diversification and strengthening of the economic base. Public and private policy support of SMEs is also most effective when SMEs are part of the formal sector and a key objective of the scheme is to encourage the migration of SMEs into the formal sector.

SMEs in Nigeria have also traditionally struggled to access appropriate financing, as what little finance is available is

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often short-term in nature. It also tends to be in the form of debt rather than equity, requiring a significant degree of upfront collateral as well as imposing onerous interest repayment regimes on the SMEs in the early stages of growth.

Key success factors and challenges

To be successful, the scheme will have to be complemented by the development of an effective enabling environment at both the macro and micro level. The identification and development of appropriate support services for capacity building and technical upgrading are key. Professional management of the funds with due cognisance of equity issues as they relate to SMEs is also important for success. An important challenge is for the fund to be regarded as a professional private sector fund, rather than as a government SME support programme that might lead to increased defaulting of the equity arrangements.

Case Study 5:

SME Partnership

Nigerian venture capital fund for SMEs

Financial innovation

SME Partnership was established in September 2001 to make equity and equity-related investments in the small and medium sized enterprises (SME) sector of the Nigerian economy. SME Partnership is targeted at funds available from local banks for the Small and Medium Industries Equity Investment Scheme (SMIEIS). The SME Partnership fund is designed to only fund equity investments in SMEs that qualify for funding under SMIEIS. Typical equity ownership is 25-50% with minimum investment returns of 30% IIR. Investor profile includes eleven Nigerian based banks and SME Manager Ltd. Total funds under management are US\$25 - 30 million dollars, of which US\$7 million has currently been disbursed.

Impact on sustainable development

The business culture in Nigeria is highly entrepreneurial and individualistic and, therefore, a key role of the fund is to act as a knowledge broker. The fund builds capacity in the SMEs significantly, by facilitating access to appropriate local or international expertise, or by arranging an equity partnership - often in the form of a franchising

arrangement or a technical support partner. As such, the fund encourages the financing of SMEs through venture capital, and could easily be refocused to target those companies with significant sustainable development benefits. This is currently being considered by SME Partnership through formal ties to the IFC and Aureos Capital, a UK based development finance institution. Other impacts of the fund are similar to those outlined in the SMIEIS case study above.

Key success factors and challenges

The success of the Fund is exemplified by the fact that eleven local banks have put their SMIEIS allocation in the hands of an organisation renowned for their equity financing rather than debt financing. This is important in Nigeria where there has been little focus on equity financing of SMEs amongst commercial banks, and so the impact of a pooled resource allows for a more targeted impact. There are a number of challenges if the Fund is to be successful in the long-term. Firstly, a strong enabling environment must exist, starting with appropriate legislative reform by government to support the SMIEIS initiative. SME Partnership has been active in lobbying government on SME issues and in setting up the Venture Capital Association of Nigeria.

A second challenge is getting SME management to understand the competitive drivers operating at a regional and international level, and therefore, the importance of securing the technical support to achieve the necessary return on investment. Other challenges are similar to any venture capital fund, and include issues such as defining the SME's value and having a clear exit strategy. The final challenge for SME Partnership will be to move from traditional venture capital, with its fringe sustainable development impacts as outlined above, towards sustainability venture capital, thus offering viable opportunities for international sustainability investors.

Company profile

SME Manager Limited ("SML") is a private equity investment firm established in August 2001. An initiative of African Capital Alliance it is an offshore affiliation of SME Manager Ltd, SME Fund Advisors Limited, manages a private equity fund, SME Partnership. With target aggregate capital commitment of over N3 billion, SME Partnership seeks to make equity-related investments in the SME sector of the Nigerian economy. SML's approach is to

partner with exceptional management teams, with significant equity stakes, in order to build the long-term value of businesses well-positioned in high potential industries or market niches. www.sme-aca.com.ng

Case Study 6:

Keeping it Simple: Standard Bank's E Plan Accounts

Transactions and savings innovations, South Africa

Financial innovation

Providing banking services to low income clients is difficult to do profitably, because of the low balances kept on deposit. Even if moderate balances are maintained, the clients may withdraw small amounts frequently, thus driving up the costs of operating bank branches. Even with very low deposit interest rates, these clients usually generate losses. To try and tackle these problems, Standard Bank of South Africa created an affiliate, E Bank, in 1994 to deliver basic banking services to the poor in South Africa. E Bank successfully addressed the common preconceptions about banking the poor, by developing a high volume - low cost product and service offering to meet the customer need for access and convenience.

In early 1996, E Bank was merged into Standard Bank in an attempt to keep overheads down and the business at break-even point, if not profitable. More importantly, however, Standard Bank had realised that, in a new South Africa, there was a need to de-racialise low-income banking. There was also a realisation that customers should have an equitable claim on the resources of the bank, and should be treated with the same dignity as any other Standard Bank client. "We were, and are not trying to be a niche bank," says Lincoln Mali, Director, Convenience Banking, Retail Bank. "We are a universal bank and we recognise that there is more holding the people of South Africa together than keeping us apart." E Bank clients thus became Standard Bank clients who could be served through specialist AutoBank E outlets (rebranded E Bank outlets) and normal full-service bank branches.

Standard Bank now has one hundred and forty six AutoBank E outlets in areas where its low-income customers need them, offering high levels of assistance and advice in an informal atmosphere. The outlets provide no telling function - the emphasis is on electronic account opening and instant card issue, and assisted ATM banking. Through the AutoBank E's and traditional branches the

bank serves over three million low-income customers, and opens more than fifty thousand new accounts each month. "Four years ago the mass market operation was running at a cost-to-income ratio of 80% but the bank has cut this to acceptable levels and the operation now makes money," says Peter Wharton Hood, Standard Bank's head of retail banking. Since there is no back office and little paperwork in the AutoBank E's, the bank's costs are nearly 30% lower than at traditional branches.

Impact on sustainable development

The central promise of the mass-market offering is that of convenience. Bringing low income people into the formal banking system allows customers to receive funds, access funds, move funds, save and grow funds, protect themselves and their families and qualify for credit.

The core Standard Bank low-income offering is E Plan, which was specifically designed to meet the day-to-day transactions and basic savings needs of low-income customers. E Plan offers full ATM functionality (deposits, withdrawals, third party payments, electronic funds transfers, automatic cheque issuing), an embedded but separate 'savings purse', and an embedded death benefit. There are approximately 2.8 million active E Plan accounts at present, with more than six million cash withdrawals on average each month. E Plan technology won an award for innovation from the Smithsonian Institution in Washington DC, in 1997.

Each E Plan account has two "purses": transactions and savings. Money in the cash purse can be drawn at an ATM on demand, while the savings purse is more secure and almost replicates a passbook savings account, where the depositor must be identified prior to withdrawal. With a fully automated system, E Plan can monitor accounts and reward savings performance. Customers with R250 (US\$38) or more in their savings purse earn a 2% p.a. interest premium and an additional 0.5% bonus if they maintain that threshold for six consecutive months. In addition, these clients become eligible for draws and prizes.

Funeral expenses are a significant burden for families in South Africa, increasingly so because of the spread of HIV/AIDS. As an incentive to use E Plan, customers under the age of sixty one who maintain a minimum balance of R250 (US\$38), or who do a minimum of three withdrawals per month, and therefore generate transaction fees,

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automatically qualify for a death benefit payment of up to R2,700 (US\$415) to their next of kin. This covers at least 50% of basic funeral costs.

Key success factors and challenges

One key to making the electronic banking approach viable was getting enough transactions per machine or outlet to achieve economies of scale and lower costs per transaction. AutoBank E outlets are located in high traffic areas and operate a minimum of eight hours a day. In addition, assistance to customers at the ATM's speeds transactions significantly and allows for intensive use of each outlet. It takes about eight thousand five hundred transactions per month to break even on the ATM machines, and the average for AutoBank E machines is now comfortably above this. The ATMs are conveniently located and Standard Bank is making a renewed effort to site AutoBank E outlets and AutoBanks in unserved areas, where they can offer a lifeline to cash.

E Plan clients can withdraw cash at any bank ATM countrywide (a network of two thousand six hundred machines) and E Plan ATM cards can also be used as point of sale cards (POS) at all retail stores that display the Maestro sign. To overcome resistance to card-based accounts, the AutoBank E outlets are conveniently located and designed to be warm and inviting. Whilst most bank branches in South Africa are built to maximise security with bars, guards and bullet-proof glass, AutoBank E's, in contrast are open to the sidewalk. As all the cash is located in the ATMs and assistants are constantly on hand, there is no need for tight security.

Each AutoBank E kiosk has a minimum of three staff members, selected for their outgoing personalities and ability to speak several local languages to help guide any unsophisticated user of the ATMs. The help is intended to be quick but pleasant, and the assistants provide a friendly face to banking services. New clients can use their account facility immediately. The application process is automated, and it takes less than ten minutes to open an account and receive an ATM card, thus leaving adequate time for consultants to explain the basics of banking and key features and benefits of the account. In addition, the client is given a Stop Card that freezes the account when inserted into any ATM to protect the account in case the ATM card is lost or stolen.

In addition to E Plan, Standard Bank low income

customers can also purchase FuneralPlan, which provides a minimum R10,000 (US\$1,538) lump sum payout for themselves and their families, and a monthly income of R1,200 (US\$184) for 5 months, all at an affordable R48 (US\$7) monthly premium. The bank also offers a micro loan to customers who meet certain affordability criteria, and a special education-intensive bond called DreamStart to first time homeowners who qualify for a government housing subsidy.

Another key opportunity is offered by Standard Bank's recognition of the lifetime value of the customer. The key is to recognise the growth and changing situations of each client. "Some of our E Plan customers have been with us for close to ten years, and we need to track and recognise this loyalty, as well as expand the range of services to customers with broader needs. Certain customers may be in the low income bracket, but that does not mean that they cannot save, or are financially illiterate", says Standard Bank's Lincoln Mali.

Company profile

The Standard Bank Group is a major regional bank with over thirty seven thousand employees in its banking and insurance operations. Based in South Africa, it has a substantial retail and SME presence in seventeen other African countries, as well as niche investment and offshore banking operations in twenty one countries outside Africa. It was the first South African banking institution to be rated by IBCA, the leading international bank credit rating agency. [www. Standardbank.co.za](http://www.Standardbank.co.za)

Case Study 7:

The Community Property Fund and the Infrastructure Bond Fund

Development Funds: Futuregrowth Asset Management, South Africa

Financial innovation

Since its inception in June 1996, the Community Property Fund has focused on the provision of finance for the development of retail shopping centres catering to the needs of under-served communities throughout South Africa. The fund has invested in the development of fourteen shopping centres located in semi-rural and township areas countrywide. These centres are located in eight of the nine provinces, providing retail service and

products to a primary target market of approximately 6.5 million people.

The centres cater for a niche market of low to middle income groups. They range in size between 5,000m² and 11,000m² and are typically anchored by supermarket, clothing, banking and furniture retailers. The national content within the centres averages 70%, providing a stable and secure rental income. A minimum of 30% of the lettable area is dedicated to local retailers, who trade either as small operators or as franchise operations. This provides a strong element of community participation and forms a strong basis for economic development.

The Fund's objectives are listed as:

- to meet and exceed an average annual real rate of return greater than that of the money market and to remain 4% above inflation.
- to dominate the black emerging market in respect of retail property growth through:
 - the development of skills, and
 - maximising the economies of scale.
- to strive for community upliftment through the provision of services and the creation of job opportunities for previously disadvantaged communities by:
 - ensuring community support and involvement in projects; and
 - facilitating community participation by encouraging local entrepreneurial initiatives with the provision of physical infrastructure.

The performance of the fund, given its regional diversity, locality and lower end retailing has achieved these objectives in both the financial property performance and the social impact on the communities it services.

The *Futuregrowth Infrastructure Bond Fund* is the largest infrastructure bond fund (R3.2 billion) in South Africa. The Fund is actively managed by Futuregrowth's Fixed Interest team, and focuses on the provision of infrastructure and services to disadvantaged communities. The Fund's benchmark is the BEASSA All Bond Index. Funding is provided to intermediaries, companies and projects that target infrastructure development. It differs from traditional bond fund management as it also invests in project finance and structured deals. These investments are generally complex in nature and therefore require specialist skills to assess, price, monitor and manage.

The Futuregrowth Infrastructure Bond Fund is a well-diversified risk-adjusted portfolio with approximately three hundred and twenty four instruments. Two of the investments are detailed as case studies in the boxes.

Urbanisation

Grace Bible Church

Established in Soweto in 1983, Grace Bible Church was started with twenty people with a dream to one day have its own building. In 2001, the Church's visionary leadership, disciplined savings and perseverance finally placed them in a position to finally start construction.

Futuregrowth assisted in financing the deal by structuring a mortgage loan based on the Church's proven savings ability, cash flows from tithes and management skills. The deal was accepted on the dual merits of economic returns and infrastructure development.

The multi-purpose centre, which can accommodate five thousand people, is one of the largest private sector community centres in Soweto. The centre runs adult basic education and training courses, a computer school, sewing classes and AIDS awareness classes through its Itirelung Development Programmes.

Tourism

Cape Point Concession: Thebe Tourism Group (TTG)

Futuregrowth provided debt funding for the empowerment company, Thebe Tourism Group (Pty) Ltd (TTG), to acquire 50.1% of the equity in the Cape Point Concession (CPC) from Concor Holdings (Pty) Ltd. The CPC manages and markets the tourist facilities at this high profile tourist attraction inside the pristine Cape Point Nature Reserve.

CPC's facilities currently consist of the funicular tram, retail outlets and a restaurant. By assisting TTG in acquiring the equity, the transaction supports both empowerment and the development of tourism infrastructure.

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Futuregrowth Community Property Fund: Economic Impact			Futuregrowth Community Property Fund: Social Impact
Term	Fund Return	CPI + 4%	<ul style="list-style-type: none"> • Development of 93,889m² of retail gross lettable area in rural areas, secondary towns and traditional townships • Retail services to 6.55 million (15.23%) people • Direct employment - 3,250 people • 16,250 people indirectly benefited • Development of local entrepreneurs
1 year	15.95%	04.30%	
3 year	15.28%	09.65%	
5 year	09.92%	09.23%	
Since inception (31/07/1996)	12.98%	10.13%	
Futuregrowth Infrastructure Bond Fund: Economic Impact			Futuregrowth Infrastructure Bond Fund: Social Impact
Term	Fund Return	CPI + 4%	<ul style="list-style-type: none"> • Facilitated the development and construction of over 200,000 houses • Developed and maintains 9,200km of road network • Facilitated the creation of over 10,000 jobs in various development sectors • Provides access to health services for 13 million South Africans • Is currently invested in R225 million (US\$34 million) of water and sanitation infrastructure
1 year	18.54%	18.07%	
3 year	17.46%	17.29%	
5 year	20.17%	19.92%	
Since inception (31/01/1997)	19.19%	18.61%	

Impact on sustainable development

Both Development Funds have proven track records of providing social impact with sound economic returns in excess of their hurdle rates or benchmarks. All performance figures shown are as at December 2003 and quoted gross of fees.

Key success factors and challenges

Futuregrowth Asset Management's development team has devised a number of detailed screening mechanisms to assess potential projects to be funded under the two Development Funds. The due diligence process incorporates environmental, social and economic assessments where all potential risks are priced into the project evaluation. Unlike many so-called ethical investment funds who use only negative screening criteria (e.g. not investing in gambling or tobacco), Futuregrowth evaluates the potential for a project to make a positive social impact while minimising the cost to the environment. The project must have a strong social impact, offer broad based empowerment, as well as delivering market related returns to investors. The Funds' impact analyst assesses the projects' potential impacts by evaluating information supplied by the project sponsor, in addition to checking this by site visits, through external verification and ongoing involvement with the projects.

Company profile

Futuregrowth, a specialist asset management company, was launched in January 2000 as an empowerment initiative of the FirstRand group.

The company structure changed significantly on 1 January 2002. Wipcapital, the financial services subsidiary of women's empowerment group WIPHOLD, bought a 40% equity stake in Futuregrowth. A further 20% of Futuregrowth has been transferred to an Employee Share Ownership Plan (ESOP). With every staff member a shareholder in the business, the share option plan serves as an incentive to both management and staff.

The remaining 40% of Futuregrowth is owned by FirstRand which is listed on the JSE Securities Exchange of South Africa (JSE) and the Namibian Stock Exchange.

With approximately R28 billion (US\$4 billion) under management, Futuregrowth has positioned itself as a leader in quantitative equity investments, specialist fixed interest funds, alternative products and socially responsible investments (development investments) in South Africa.
www.futuregrowth.co.za

Case Study 8:

Financial Sector Charter in South Africa

Financial innovation

In August 2002, at the NEDLAC¹⁰⁹ Financial Sector Summit, the financial sector committed itself to the development of a Black Economic Empowerment (BEE) charter for the sector. BEE is a mechanism aimed at addressing economic inequalities arising from the apartheid history of South Africa. Whilst the government is fully supportive of the initiative being taken by the Financial Sector, it has not been imposed or driven by government. “There is no imposition from government, so this is very different to charters in other industries, and it would be surprising if the targets were not achievable... they will not be an easy task, but nor will they create unbearable pressures,” says Jacko Maree, Standard Bank CE and past chair of the Banking Council of SA.

In establishing the Financial Sector Charter, emphasis will be on broad-based black empowerment, through support for black-owned businesses and financial institutions through procurement and access to appropriate financial services and products for all South Africans. The issue of ownership transfer will be carefully handled to ensure that genuine and, where possible, broad-based empowerment occurs and existing shareholder rights and value are not threatened. However, the Charter also allows for direct ownership by black individuals and groups. The charter is expected to have far reaching implications on how banks do business. It will affect who they lend to, the type of business they do, internal skills development and ownership. A number of focal areas have been prioritised and form the criteria for an industry scorecard. The banks' contribution in these areas will be weighted to form a final, annually-calculated score measuring empowerment. The charter envisages that up to R75 billion (US\$11.5 billion) will be spent on financing empowerment in the sector, with about two thirds of this specifically targeted towards investments in low income housing, transformational infrastructure, agriculture, and the development of small and medium sized black-owned business.

Impact on sustainable development

In the long term, the implementation of the Charter goals is expected to contribute significantly to national economic growth and wealth creation among historically

The scorecard:

Element	Impact	Points
Human Resource Development:		20
• Employment Equity	Affirmative action and skills development will attract points	15
• Skills Development		05
Procurement and Enterprise Development:	Purchasing from empowered providers will earn banks points	15
Access to Financial Services:	Purchasing from empowered providers will earn banks points	18
Empowerment Financing:		22
• Targeted Investments	Financing black SME development, public infrastructure, agricultural development or low income housing will earn banks points.	17
• BEE Transaction Financing	Financing of BEE transactions such as joint venture, debt financing etc	05
Ownership and Control:		22
• Ownership	Banks will be able to score by transferring some of their ownership into empowerment hands and by having black directors and black control at boardroom level	14
• Control		08
• Board		03
• Executive		5

disadvantaged groups. There will be strong long term positive effects if the charter helps to increase the size of the black middle class, if there is more investment in infrastructure and an increase in black management skills, if new businesses are developed via SME funding, and if it provides affordable housing¹¹⁰. Investments in these areas also have the potential to create significant numbers of jobs. Obviously, the establishment of a framework in which the financial sector can make a meaningful and sustainable contribution to the employment of the historically disadvantaged is clearly in the interests of all

109 National Economic Development and Labour Council.

110 Khetso Gordhan, Rand Merchant Bank Executive Director, in Business Day July 15, 2003.

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South Africans. Legislation affecting the prudential investment requirements of insurance and pension fund savings will be revised to enable more investment in black empowerment, whilst still adhering to proper prudential investment requirements. On the procurement front, not only are the financial institutions urged to use SMEs, but they are tasked with developing capacity in them.

Key success factors and challenges

Equity ownership is likely to be prove challenging for South Africa's largest banks, where meaningful empowerment deals will involve very large sums of money. In addition, there are a number of regulatory issues. Banking regulators will not allow bank-controlling shareholders who are not financially strong enough to stand behind the banks they control; and the viability of even those shareholders with more than 10% of a bank's equity is carefully watched. Regulators have to approve any major changes of shareholding or influence¹¹¹. Whilst financial institutions will be increasingly obliged to finance black SMEs, the Charter's definition of an SME caters more for the medium-sized than the small enterprise¹¹². Another challenge still to be addressed by the Charter is the setting of targets for development and delivery of life assurance products to the poor.

On the upside, however, the establishment of the Charter offers distinct benefits to the banking industry:

- The establishment of a policy framework will prevent different government departments from imposing contradictory demands on the banks as seen in the lack of correlation in 2002 between the demands of the Registrar for the maintenance of international standards of prudential regulation, and the demands of the Department of Housing for community reinvestment in housing¹¹³.
- The framework will serve as a positive signal for international investors that government and the private sector can work together in a constructive way, while maintaining best banking practice and contributing to development needs.

Company profile

Industry fora for banking, life assurance and short term insurance submitted proposals that were consolidated into a single set of charter proposals for the industry as a

whole. The Board of the Banking Council established a Transformation Committee, made up of the CEOs of the five major banks and the Chairman of the Foreign Bankers' Association as well as a representative from the smaller SA banks. The committee met once a week for the duration of the Charter drafting process (just over a year) and continues to meet weekly to direct industry issues related to implementing the commitments made in the Charter. The Charter was launched in October 2003, while the targets apply from 01 January 2004 to 31 December 2008. A mid term review will assess the efficacy of the process, and will determine targets for 2014. The principles of the Charter will be relevant beyond 2015 after a final review has occurred.

www.banking.org.za/public/industry_issues.cfm?iss=2

Case Study 9:

Speaking our language: Teba Bank

Banking the low income sector in South Africa

Financial innovation

Teba Bank is different from other South African banks in several respects. It is owned by a trust, representatives of whom are from the National Union of Mineworkers and mine employees. This makes it the only South African bank that grew out of a savings scheme with a trade union shareholder primarily to protect the interests of the depositors. Also, despite the claims of some of the major commercial banks about how difficult it is to make profits out of banking for the low income market, Teba Bank last year showed a 26% increase in profit to R53.6 million (US\$8.2 million). Its return on equity, a measure of a bank's sustainable profitability, is just more than 13%, well ahead of its peers in the commercial banking sector.

Nearly two thirds of its five hundred and twenty thousand customers had never had a bank account before, suggesting a huge untapped market of people eager to move into the formal banking system. "We want to get a serious percentage of the unbanked market. Ideally we'd like to aim at 20% of that market, and we're working on putting infrastructure in place to do that," says Teba Bank Managing Director, Jenny Hoffman.

Teba has developed a savings account targeted at low-income, predominantly un-banked and under-banked residents in rural South Africa. The 'Grow with Us' account is open to anyone, regardless of employment status. The

111 Hilary Joffe, Business Day, July 15, 2003.

112 An SME is defined as having a minimum annual turnover of R500,000 (US\$ 77,000) and a maximum of R20 million (US\$ 3 million).

113 The Banking Council, 4th Quarter Update 2002.

account is book based, and the interest is paid from the smallest balance with no fees, apart from a small withdrawal fee well below the over-the-counter fees of other banks. The key features of the 'Grow with Us' Savings Account include:

- Low minimum balance (R40, i.e. US\$6);
- Deposits are free and there are no monthly fees;
- Assistance with filling in withdrawal and deposit forms;
- Savings books are provided with the additional option of an ATM card - the customer chooses;
- No withdrawal limits subject to minimum balance;
- Cash and cheque deposits and / or withdrawals;
- The interest payable is comparable to other financial institutions and calculated on daily balance and capitalised monthly;
- No formal employment required (customers are not required to provide salary slips); and
- Low transaction fees.

To further encourage saving, the bank also offers fixed deposits and group based savings accounts, which take into account the traditional savings structures such as 'stokvels'¹¹⁴.

Impact on sustainable development

Increasing financial literacy in rural communities and especially, developing and encouraging a culture of savings are key impacts attributable to Teba Bank's services. "The Bank sees savings as important to strengthen not only the person who saves, but ultimately the broader South African economy" says Teba's Jenny Hoffman.

Key success factors and challenges

Teba Bank is in the process of developing a customer education programme to encourage savings through understanding how to budget, plan financially, avoid debt and make use of basic banking products. It aims to educate customers about basic financial services, and stresses the need for customers to save before they use credit facilities. Independent research has shown that Teba Bank is favoured by its customers because it speaks the customers' languages, it has products suited to the needs of the poor, and its staff have a strong ability to communicate well. Previously, radio has been used to deliver the main body of the campaign, supported by direct education provided by branch staff. However, the bank has learnt from its customers that face-to-face education is far

preferred and is designing a programme along these lines. 'Road shows' and competitions for staff are also held to ensure that staff are primed to assist customers with basic budgeting and savings advice. Key assistance is provided to illiterate customers to enable them to complete forms.

"Our clients demonstrate a high level of loyalty to us and new clients say they are attracted to us because we speak their language - in our front office, our posters and advertising," says Jenny Hoffman. Even the main body of Teba Bank's annual report is translated into four local languages.

Teba Bank has been recognised for its innovation and solid performance, and was announced one of twenty finalists in the 2003 SA Non Listed Company Award. The total value of the 'Grow with Us' account increased from R27 million (just over US\$4 million) at the end of the previous year, to R63 million (US\$9.7 million) at the end of the 2003 financial period. Teba Bank's overall growth focus is on the 'Grow with Us' savings account and they hope to achieve over one hundred thousand accounts with a value of R89 million (US\$13.7 million).

Company profile

The foundations of Teba Bank have been in place since the 1970s, when it began acting as the pay agent for the gold and platinum sector by providing savings accounts for mineworkers. Granted a bank licence in 2000, Teba now focuses on providing banking services to more than four hundred thousand low income customers, mostly drawn from the mines. It offers savings accounts, fixed deposits, microlending and housing loans secured by consumers' pensions. www.tebabank.co.za

Case Study 10:

Smartcards backed by biometrics

Malswitch, Malawi

Financial innovation

Malswitch, a Malawian initiative, is pioneering the development of new banking services in Malawi using smartcards¹¹⁵ backed by biometrics technology, which allows card users to authorise their transactions by scanning their fingerprints, as an alternative to (less secure) verification by PIN or signature. Malawi is the second country in Africa (after South Africa) to use such technology, and Malswitch was recognised as Most

¹¹⁴ 'Stokvels' are rotating savings and credit associations.

¹¹⁵ Regarded by many as the payment mechanism of the future, the smartcard can operate as either a debit card, a credit card, or both.

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Innovative Implementation of the Year using this technology, by Net1's southern African Advanced Cards Award in 2002.

Impact on sustainable development

The potential for secure smartcards to spur economic and social development in a still largely cash-based society, is enormous, and the following benefits are already being realised:

Access to banking sector - The majority of Malawi's population is "unbanked", as opening an account requires identification documents and a high minimum deposit. The smartcard offers them a secure and portable repository for cash, with no identification required apart from fingerprints. Cash can be withdrawn from ATMs, or purchases made electronically in large stores. Moreover, for the employees of a growing number of companies and government departments, salaries can also be paid direct to the card.

Economic efficiency - More money stored on smartcards translates into a larger pool of funds for banks to invest, giving borrowers access to more capital. Cardholders also benefit from ready access to their money and from time saved banking wages each month. At the same time, employers and retailers save time withdrawing cash for salaries and banking their takings.

Reduction in fraud and crime - Smartcards backed by biometric technology are beginning to reduce crime through:

- Prevention of duplicate payments to "ghost employees" on company payrolls;
- Fewer muggings of employees making their way home on pay day;
- Smaller cash holdings both in shops and households to attract thieves;
- Better identification of people withdrawing money from banks; and
- Reduction in card fraud, as fingerprint identification means only one person can use the card.

Key success factors and challenges

Malswitch has identified an extensive range of future applications, including:

- Electronic payment of utility bills to further reduce cash

transactions;

- Creation of a national identity card system, based on the biometric smartcard, as a more secure and accessible alternative to paper documents;
- Tracking of non-financial details, e.g. health providers monitoring whether purchases of medicines are in line with prescriptions given; and
- Issue of micro-credit grants on smartcards rather than in cash, to reduce the risk of loss / theft.

Risks associated with the new technology are few, and uptake of cards has been relatively quick in cities and towns. However, significant infrastructure development is needed before the benefits can be realised in rural areas. In addition, there is a cultural barrier to overcome: "signing" with the thumb is regarded as a mark of illiteracy and most current users verify their transactions with a PIN, rather than utilising the additional security of fingerprint identification.

Company profile

Malswitch was established in 1999 as an initiative of The Reserve Bank of Malawi. Consultations with commercial banks, companies, government and the public had concluded that there was not a sufficient business case for private companies to make the investment required (c\$10m), but the benefits were seen as sufficient to warrant public funding. The Bank intends to privatise Malswitch in the medium term.
www.rbm.malawi.net/Gov/Malswitch.htm

Case Study 11:

ACEP, Alliance du Crédit et de l'Épargne pour la Production

Scaling up microfinance in Senegal

Financial innovation

In 1993, ACEP - originally founded as a donor-funded credit union - moved to become a self-sustaining organisation. It rapidly expanded, becoming one of the most successful credit unions in the West African SME / microfinance sector. ACEP benefits from the business environment in Senegal, where large numbers of SMEs (or micro enterprises) do not wish to become too much a part of the formal (i.e. tax paying) economy. It also attracts clients by offering less stringent guarantee requirements and controls than its commercial counterparts.

Approachability and sensitivity to its clients, including the social contexts in which those clients operate their businesses, make ACEP particularly suited to work with informal businesses and those making the transition to the formal economy. With smaller loans, ACEP can take on higher risks as well as group credits (especially with women), which are less labour intensive than individual loan processing.

ACEP's strategy to attain sustainability has included geographical expansion, the streamlining of their operations, conservative budgeting and incentive-based remuneration. Agents are required to have a minimum of a 95% loan repayment ratio before subsequent loans are released. Perhaps most importantly, ACEP developed a powerful electronic information system suitable to the needs of their small-scale operations.

Impact on sustainable development

"Development of self-sustaining and widespread systems for financial intermediation is one of the greatest challenges for equitable [and sustainable] development today¹¹⁶". In Senegal, access to formal banking facilities is limited to about 5% of the population, which reflects the urgent need for a range of savings and credit facilities to be made available to the poorest urban dwellers and virtually all rural communities.

ACEP, though traditionally less focused on rural areas, often reaches whole supply chains in the informal market and contributes substantially to job creation and poverty alleviation in the country. "ACEP uses its most dependable clients as informal credit retailers to small and poor borrowers, who would not otherwise qualify for ACEP's programmes, and as proto-credit reference bureau capable (within a village) of distinguishing good clients with poor collateral from solid-looking clients of bad character¹¹⁷".

ACEP is also part of a wider network of microfinance institutions, the INAFI (International Network of Alternative Financial Institutions). The common mission of INAFI members is to contribute to the eradication of causes of poverty, through granting efficient credit, savings and training services to the most depressed human groups, especially women, as part of a support process for sustainable development. Network members intend to encourage the most needy sectors to take control of their own lives by improving their economic and social conditions¹¹⁸.

Key success factors and challenges

ACEP's successful technology platform has caught the attention of various microfinance institutions in sub-Saharan Africa and has been sold to organizations in Madagascar and Cameroon in the form of technical assistance. Other key success factors include the quality of the portfolio (<300 clients per agent to maintain high quality); strict budget controls; training of agents fresh out of university who have not yet been formally inducted in traditional banking techniques; group credits for more cost-efficient processing; several levels of internal controls and centralized decision taking as well as continuous improvement of the electronic systems. ACEP is flexible and targets all Senegalese with a legal, revenue-generating activity. Other success factors from lessons of experience are: "know your borrower, do not supervise loans, take loans to clients, provide appropriate credit, charge commercial rates of interest, be tough on defaulters¹¹⁹". ACEP thrives on high repayment rates and use of the least costly enforcement mechanisms. Peer pressure and social stigmatisation are often effective, as lenders and customers typically live in the same small community.

The one key challenge for ACEP today seems to be its lack of access to stable funding as savings are not sufficient. Availability of funding from Senegalese banks has so far been limited because banks are reluctant to deal with MFIs without a risk-mitigating mechanism (a guarantee facility would allow ACEP to raise additional funding to meet the growing credit demand of its clients and to develop commercial relationships with local banks in view of its medium-term growth strategy). Other funds - such as the IFC-backed AFRICAP - will not invest in mutuals. Other challenges include constrained interest rates that do not cover full cost of providing the service. The most frequent source of this constraint is a legally-imposed ceiling or usury rate, which affects programs such as ACEP and most credit union programs in West Africa. The effective annual interest rate is 20%, though recent interpretation of a 1995 credit union legislation is imposing a ceiling, currently 15%, which is the same as for banks and causing it some financial difficulties. Finally, improving loan recovery and increasing outreach to poorer entrepreneurs always remains an important challenge. Looking forward, ACEP sees its continuing success in the diversification of its activities and products. One example of a new product offered is a credit insurance releasing heirs from debt burden. Currently, most credits are trade loans, which are often related to agricultural activities prone to instability

116 Eric R. Nelson (1999) *Financial Intermediation for the Poor Survey of the State of the Art*, African Economic Policy Discussion Paper Number 10, funded by USAID.

117 Ibid.

118 <http://www.thagaval.net/inafi/about.htm>.

119 Eric R. Nelson. Ibid.

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(volume of trade finance has been steadily increasing between 1997 and 2001, up to 71%, whereas manufacture keeps declining reaching 4% in 2001).

Company profile

ACEP is one of the leading microfinance institutions in West Africa. It is a credit union with twenty six local service centres serving more than forty thousand individual credit clients. ACEP started operations in 1985 as a USAID funded project and transformed into a self-sustained and successful credit union in 1993. Today it is considered a nation-wide enterprise with an important urban and peri urban focus. ACEP's clientele is upper-end micro entrepreneurs who are expanding their business and generally lack access to formal financial institutions. Some of their clients "crossover" enterprises, with some connections to the formal financial sector. Between 1993 and 2001 credit volume grew from CFA2,109 million (US\$3.6 million) to CFA11,846 million (US\$20.3 million) (with frequent annual growth rates of around 20%). Its mission statement is to "offer savings and credit services to Senegalese entrepreneurs with the goal to support their growth in the context of Senegal's economic and social development"¹²⁰. Its collateral and reporting requirements make it one of the most rigorous of small credit programmes. acep@telecom_plus.sn

Case Study 12:

K-Rep Bank, Kenya

Providing New Finance for the Poor

Financial innovation

The high level of interest shown by the Kenyan government and donors for microfinance provision has provided the opportunity for innovation. The microfinance sector in Kenya has traditionally been dominated by NGOs providing loans directly to individuals or groups or to micro-finance institutions¹²¹. It has been heavily donor driven and the lack of ownership, lack of capacity and restrictive legislation have had negative constraints on the sector.

Established in 2000, K-Rep Bank is a savings and loans bank¹²² for the poor. K-Rep was initially founded as an NGO, but later realised that accessing grants was not sustainable, and opted to secure a banking license. The NGO subsequently became K-Rep Development Agency: it remains an NGO, funded from K-Rep Bank's profits and

K-Rep Statistics

Non-Performing Loans - <5%
High-risk loans - up to 30% interest
Low risk loans - up to 18% interest
Capital / Asset Ratio - 36%
Debt / Equity Ratio - 1.7
Deposits to Loan - 38%
Deposits - 4% - 8.5%
Average loan balance per borrower - US\$373
8,230 Voluntary Savers
Average savings balance per saver - US\$721

other grants. The transition from an NGO to a commercial bank has been hailed as highly innovative and one of the most successful microfinance schemes in Africa. As other commercial banks have closed branches in rural areas, and subsequently blamed government for not addressing poverty, K-Rep has managed to tap into the rural market through its branches.

Keeping within the tradition of the NGO style development agency K-Rep prides itself on operating at the "grassroots" with low-income people. K-Rep has managed to develop systems which enable interaction with social and cultural groups.

"We find these social and cultural groups much more trustworthy than some registered entities, which exist on paper and not in reality," says Kimanthi Mutua, K-Rep's Managing Director.

Impact on sustainable development

K-Rep has enabled the servicing of a huge part of the unbanked population in Kenya. With twenty five outlets country wide, the bank has managed to reach some forty thousand borrowers, 52% of which are women.

Recognising that HIV/AIDS poses a significant threat to the sustainability of the bank, K-Rep has realised that education and awareness raising are necessary to mitigate the impact. Future innovation lies in providing credit schemes to HIV/AIDS infected and affected people to develop small businesses.

Key success factors and challenges

A potential risk for K-Rep Bank is the high interest rate gap

¹²⁰ ACEP Annual Report 2001.

¹²¹ Examples include: Jitegemee Trust which provides loans to seven micro-finance institutions. Faulu Kenya provides emergency financial relief, business capital, educational loan, and finances groups of individuals.

¹²² In addition to K-Rep, there are other commercial entities providing finance - The Co-operative Bank of Kenya, KCB, Post Bank. The Co-operative Bank of Kenya has received substantial donor support from UK DFID and USAID.

between deposits and loans. The sustainability of the bank rests on its own customers growing their asset base and taking on more loans. With high interest rates on loans, however, the ability to save at the same time makes it virtually impossible to grow an asset base. Other than mandatory savings it is an ongoing challenge for K-Rep to provide attractive savings products.

Although the bank has not explicitly linked social and environmental risk to their credit, it does recognize the opportunities. Two examples below provide illustration:

Example 1: The bank started to investigate the value addition of waste material in the low income, high-density residential areas and has provided some opportunities for woodworkers.

Example 2: With clients selling food and managing beauty salons, the bank has provided training in wastewater management, composting, and hygiene. Overall customer satisfaction has improved and the businesses improve their turnover.

A further area of innovation being explored by K-Rep Bank is linking Small, Medium and Micro Enterprise (SMME) debt financing to sustainable development issues. The opportunity is that in low-income areas, services such as water, education (under licence from the government) health, and waste management could be undertaken by SMMEs where the state is unable to provide such services. It is suggested that the condition of the loan be linked to the standard of services and use of local suppliers.

Company profile

K-Rep Shareholders include the African Development Bank, the IFC, Netherlands Development Financing Company, Shore Bank, and Triodos Bank, as well as K-Rep Bank Limited and the K-Rep Group staff association. www.k-repbank.com

Case Study 13:

Unity Incorporated and Old Mutual Asset Managers (SA) Community Growth Fund

Socially Responsible Investment Vehicle in South Africa

Financial innovation

In 1992, Unity Incorporation and Nedcor (then Syfrets

Managed Assets) established the Community Growth Management Company (CGMC). In the same year, CGMC launched the first socially responsible investment vehicle in South Africa - the Community Growth Fund (CGF). The philosophy of the Fund is to achieve sustainable long-term growth by investing in socially responsible companies.

The Portfolio Manager selects a share or a bond, based upon fundamental financial criteria. The request is then made by Unity to an independent research house (Labour Research Services) employed specifically to investigate the company in question against a set of social responsibility criteria.

The original criteria set in 1992 covered seventeen key points. Today, these criteria have been streamlined to eight, all of which hold equal weightings. Any company that scores below 50% on the scorecard is rejected. Companies that earn more than 60% are approved, while those that earn above 70% are highlighted for special praise. The current criteria are:

- Job creation through innovation and growth;
- Equity through affirmative action in the workplace;
- Training and skills development;
- Economic and social empowerment;
- Good conditions of employment;
- High health and safety standards;
- Sound environmental practices; and
- Open and effective corporate governance.

Impact on sustainable development

CGF was the first fund to enable retirement funds and ordinary savers to invest solely in companies that meet the basic standards of social responsibility. The Fund has been acclaimed both locally and abroad for its role in the transformation of industrial relations in South Africa. By implementing a stringent set of social responsibility criteria, which are substantially biased towards genuine and meaningful employer / employee relations, South African companies are encouraged to be far more transparent in order to attract investment by the funds.

In 1992, only twenty companies qualified for inclusion in the CGF universe. Today, the universe stands at ninety five companies. CGF continues to reject companies that fail to score 60% of the criteria if the company in question does not improve after being engaged by the CGF.

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Key success factors and challenges

Categorised as a general equity unit trust, the CGF now boasts a ten-year track record of above-average returns, while at the same time playing a crucial role in achieving fundamental change in the way South African companies pursue relationships with their workforce.

The constraints of the fund are that it has a limited purchase universe due to the social responsibility criteria applied, though the universe has expanded over time, as mentioned above, from only twenty companies in 1992 to ninety five companies in 2004. Further constraints are the reluctance of companies to be subjected to the screening process and the lack of transparency still surrounding many companies.

It is expected that the new SRI (Socially Responsible Investment) Index on the JSE (see Case Study 3), will help to bring SRI onto the radar screen of investors, particularly pension funds, persuading companies to embrace this theme of investing.

Company profile

Unity Incorporation (Unity) is a non-profit company, which was formed in 1992 to actively participate in the South African economy by various transparent means. Unity is representative of six trade unions affiliated to COSATU and NACTU:

- National Union of Mineworkers (NUM);
- Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union (CEPPWAWU);
- South African Transport and Allied Workers Union (SATAWU);
- Construction and Allied Workers Union (CAWU);
- Metal and Electrical Workers' Union of South Africa (MEWUSA); and
- South African Commercial, Catering and Allied Workers' Union (SACCAWU).

Old Mutual Asset Managers (OMAM) (SA), which in 2003 bought Nedcor's 50% shareholding in CGMC, has been operating as a fully contained and independent global asset management company since June 1997. OMAM is a wholly owned subsidiary of the Old Mutual Group. The South African OMAM operation is based in Cape Town and has some R247 billion (US\$38 billion) in assets under management as of December 31st, 2002, making it South

Africa's largest institutional asset manager. OMAM (SA) provides both domestic and international investment management services to institutional and retail investors in Southern Africa.

Case Study 14:

CETZAM & Opportunity International

Lightening the Load: micro-insurance in Zambia

Financial innovation

Opportunity International (OI), a British charity specialising in microfinance, is pioneering new work in the area of micro-insurance. In Africa the immediate goal, is to develop products that assist clients affected by the HIV/AIDS pandemic. These products can assist directly, by providing coverage for the cost of funerals, which can severely affect the viability of a family-run business; or indirectly, by ensuring that those clients taking group loans do not exclude HIV positive participants, through the provision of credit life insurance. Programmes are also in place providing insurance for clients' personal belongings, for losses arising from theft, fire and natural disaster. Micro-insurance clients are defined as poor micro-entrepreneurs, who are unable to be accessed or serviced economically by commercial insurance companies. The death of a family member can be a huge financial blow, as well as an emotional loss. Firstly, the funeral must be paid for and secondly, the family must attempt to replace the lost income earned by the deceased. The scale of the problem was demonstrated by a survey in August 2003 carried out by OI's partner in Zambia, CETZAM (The Christian Enterprise Trust of Zambia), in which 41% of the clients questioned, had suffered a death in the family in the past year.

Ntula (meaning 'lightening the load') is a funeral benefit insurance product administered by CETZAM in Zambia. The scheme is operated with CETZAM acting as an agent on behalf of a local insurance company. Weekly premiums cost just US\$0.30, and cover the client plus six named family dependants for death arising from any cause, including HIV/AIDS. Claims are processed within ten days, with fixed payments of US\$125 for the death of an adult and US\$63 for a child. The payout exceeds the average cost of a funeral in Zambia, and any excess is intended for the purchase of stock or capital items to assist the family during the period following the bereavement.

Impact on sustainable development

Credit alone is insufficient to lift poor people out of poverty. Although credit enables clients to generate income, it still leaves them exposed to risks such as the loss of income when there is a death in the family, illness or natural disasters. These events often force clients to sell key items to cover costs, thereby reducing the viability of their enterprise and reducing their standard of living.

Ntula is a rare example of insurance cover available anywhere that provides cover for death following AIDS. Its success also contributes to CETZAM's own bottom line as CETZAM receives a small commission for each client on the scheme. In addition, anecdotal evidence suggests that the scheme has helped reduce the potential for client default, by making funds available in times of distress. Clients tend to experience increased satisfaction with the institution, which reduces client drop out rate and enables the partner to increase financial sustainability.

The programme offered by CETZAM in Zambia indicates that micro-insurance can provide a major contribution to sustainable development. There is little doubt that micro-insurance can provide poor people with protection against a range of risks that could be disastrous for families and communities.

Key success factors and challenges

"The *Ntula* that I got after my father passed away helped me to pay the debts that befell me after the bereavement. I also managed to pay some old debts. The remaining amount went to finish constructing a house and also buy cement," says one of CETZAM's clients, Mary Muwowo, who is a member of the Shipiksha Trust Bank in Kamatipa Compound - Kitwe, Zambia.

The key to the *Ntula* product is that it has been developed in response to an identified client need. Clients made it clear to CETZAM that they needed help with the rising cost and frequency of the funerals and CETZAM developed a product in consultation with the clients. However, CETZAM also employed the services of trained insurance professionals from within the OI network to balance clients' needs with the requirement to develop products that were financially sustainable for the institution, meet regulatory requirements and subscribed to industry best practice.

A continued ability to listen to clients and respond by

altering product features to meet changing needs has also meant that the product has remained popular. A survey of one thousand clients in August 2003 demonstrated that 81% of CETZAM's clients were positive about the *Ntula* product. The product is intentionally simple and thus, clients and staff alike are able to understand it.

Ntula is the first formal funeral product aimed at the low-income market. In Zambia, funeral insurance is available for higher income households but the premiums associated with these high value policies are out of reach for OI's clients. In addition, informal burial societies do exist in local communities, but these are unregulated and far less common than in, say, South Africa.

The challenges for CETZAM have been significant and diverse. At one end, CETZAM has struggled to ensure that its staff and clients have received sufficient training in the basics of insurance, in order to appreciate the *Ntula* product. At the other end the product nearly failed in Livingstone because potential clients associated *Ntula*, which covered six people for death, with a concurrent increase in incidents of black magic and refused to accept it. Only after extensive publicity and marketing efforts (including street actors) was the product finally accepted by the population.

As the *Ntula* product covers death from any cause (i.e. including AIDS) it has not suffered from any stigma issues. CETZAM have recognised that an insurance product that does not cover AIDS in Zambia will not meet clients needs - hence they have worked to obtain a product that does offer coverage.

Company profile

CETZAM (The Christian Enterprise Trust of Zambia) was set up in 1995 as an association of local business people committed to empower potential or existing business people in small and medium sized businesses through the provision of small capital loans for business start up or expansion, training in business skills and sound business counsel in the planning and operation of a business. CETZAM is now a major financial institution in Zambia and has branches stretching from the Copperbelt in the North to Livingstone in the South. It is the local partner of Opportunity International.

Opportunity International UK (OI UK) is a major British charity specialising solely in microfinance for the

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developing world. Launched in 1992, OI UK forms part of an international network, whose mission is to provide opportunities for people living in poverty to transform their lives by giving them access to financial services. OI UK has partner organisations in Malawi (Opportunity International Bank of Malawi); Ghana (Opportunity International - Sinapi Aba Savings and Loan Company); Zambia (CETZAM); Zimbabwe (Zambuko Trust); Uganda (UGAFODE - is preparing to move into the formal sector). Apart from Zambia, OI UK has experience with existing micro-insurance products in the Philippines, India, Mexico and Malawi with work currently underway on potential products in Ghana, Zimbabwe and Uganda.
www.opportunity.org/international

Case Study 15:

Cellphone Banking

Your phone is your new wallet - Celpay Zambia

Financial innovation

Cellphone operators across the world are rolling out services to allow consumers to electronically purchase physical goods using their handsets. Over one year ago, Celpay (a subsidiary of the Amsterdam based Celtel, formerly known as MSI Cellular Investments) rolled out a system in Zambia, allowing users to exchange money using their cellphones. To use the system, one of the two parties involved in the transaction sends the details via text message to Celpay. Celpay then relays a text message to the payer's cellphone asking him to enter a personal identification number to confirm the transaction. Once that is done, Celpay transfers the money between the participants' bank accounts. The system already has over two thousand users in Zambia, each making several transactions per month. The recipient typically pays Celpay between 1% and 2% of the value of the transaction in commission. Celpay Holdings of the Netherlands was Runner-up (in the Finance Sector), in the 2003 *Wall Street Journal European Innovation Awards*.

Impact on sustainable development

The product allows a subscriber to use their cellphone to pay bills, an important innovation in a country where few people have credit or debit cards, and carrying cash can be dangerous.

PIN verification ensures the system is secure, and both

payer and payee receive confirmation of the transaction with a unique reference number and full details of all transactions are available online. The product is simple to use and can be used by anyone who knows how to send an SMS on their phone. A registered Celpay user has to deposit money into a Celpay account, and once this is done, spending via cellphone can commence. The minimum deposit is an affordable K40,000 (US\$8.50); thereafter, the amount deposited depends on the subscriber's usage. Balances of cash can be checked by cellphone - including what is available, as well new balances following a pending transaction. Subscribers can also buy more cellphone airtime using Celpay.

There is a growing enthusiasm for the service, and Multichoice Zambia's Managing Director was quoted as saying that in Africa where people don't always have a home address, and the postal service is sluggish, payments over the phone are a quantum leap forward¹²³.

Key success factors and challenges

Cellphone operators have been developing and testing mobile commerce since the late 1990s, but are now gearing up for widespread use. One reason is that handsets with screens good enough to display pictures of products are now widely available. More importantly, operators have installed software systems making it possible for consumers to purchase goods with just a few taps of a keypad, rather than keying in sixteen digit credit card numbers, expiry dates and so on. Having registered for Celpay, the consumer receives a special secure SIM card that installs a new menu onto the cellphone.

Celpay runs independently from cellular operators, as well as providing technology services and marketing assistance to banks wishing to use Celpay as a solution for consumer and business clients.

Challenges are still posed by the cellphone coverage or remaining gaps in the Zambian, and indeed, the African market. The continent has a population of about eighty million people, with just about 23.5 million cellphone users, or about one phone for every thirty four people. So increasing cellphone coverage and usage is crucial to increasing access to payment mechanisms such as Celpay.

Company profile

Celtel is a mobile telephone group based in the

Netherlands but operating in a dozen African countries. Formerly called MSI Cellular Investments, the group has changed its name to reinforce its Celtel operating brand. The group is seeking to rival the international expansion of the two leading South African cellphone operators MTN and Vodacom, and already claims the leading market positions in ten of the twelve African countries in which it operates. Celpay in Zambia is being offered with the participation of the African Banking Corporation (ABC) for retail customers, and Citibank for corporate customers.

Case Study 16:

Oil Services Local Contractor Credit Scheme

Nigerian facility to encourage the development of indigenous SMEs delivering services to Shell

Financial innovation

The Oil Services Local Contractor Credit Scheme is a revolving U\$30 million facility established by Diamond Bank, in conjunction with the IFC and Delta Development Limited, a subsidiary of Shell International. The facility aims to encourage the development of indigenous small and medium contractors providing services to Shell Nigeria. Loans shall range from US\$50,000 to US\$1.5 million, with a duration of three to five years. While the loans are provided by Diamond Bank, IFC and Delta Development jointly offer a parallel facility, which is a capacity building and technical assistance programme to support contractors in developing and professionalising their businesses.

Successful applicants to the scheme must meet Diamond Bank's lending criteria, and may not engage in activities on IFC's Exclusion List or in activities that would be classified as IFC Category A Projects. Excluded activities include for example: use of harmful or exploitative forms of labour; trade in products that contravene local or international regulations or conventions; production and trade in hard spirits, tobacco, radioactive materials, unbonded asbestos and products containing PCBs; gambling; commercial logging or drift netting¹²⁴. IFC Category A transactions are those likely to have significant adverse environmental impacts and may include for example: large dams or reservoirs, large scale forestry projects, large scale industrial plants and large ferrous and non-ferrous metal operations¹²⁵.

Impact on sustainable development

The Credit Scheme enables qualified contractors to access competitively priced medium term US\$ loans for capital investments and working capital requirements. In addition, it facilitates management and development training through the parallel capacity building and skills development programme. Thus the long term sustainability and viability of these indigenous contractors and businesses is dramatically improved. Developing a robust local SME sector that has access to finance is critical for growth and development in Nigeria and encourages the formalisation of local companies while also promoting national employment.

By insisting that companies not engage in IFC Excluded Activities or Category A transactions, an understanding and awareness of sustainability business practice as well as social and environmental risk management is promoted. Thus local contractors can compete more effectively with foreign contractors therefore building locally based industry.

A critical aspect to the development of SMEs in Nigeria is understanding the value added component to a business that comes through technical support from competent technical providers or international expertise, both of which are favoured through the scheme.

Key success factors and challenges

The scheme has aroused concern among some banks that their traditional markets are being developed and shaped by players outside the financial sector, in this case Shell and the oil industry. However, this development offers an opportunity for the Nigerian financial sector to learn from this example and possibly to develop similar schemes in different sectors. One of the strengths of the scheme is that by focusing on one sector and in this case to companies supplying services to one company it allows for expertise in risk management to be focused on that area.

One of the challenges in Nigeria is for SMEs to realize the value added of securing appropriate technical support and capacity building to achieve the necessary transition to international competitiveness and to be able to cost this in as part of business development costs.

The scheme has also been working with stakeholders to ensure that the enabling and learning environment needed to support such an initiative is not restricted to the oil

124 For the full exclusion list see www.ifc.org/enviro.

125 For a full list see www.ifc.org/enviro.

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sector and in this case to the supply chain of one company, but that the lessons learnt are transferable. Ensuring that this knowledge and skills transfer process is given wider applicability is critical to the long-term success of such a scheme.

It will also be interesting to note whether involvement in such a scheme has a significant effect on Diamond Bank in becoming a local leader in sustainability banking issues.

Company profile

Diamond Bank Limited formally opened for business on March 21, 1991. The Bank currently has a branch network of thirty eight, total assets of over N50 billion and shareholders' funds of N5.2 billion, which position it among the strongest banks in Nigeria today.
www.diamondbank.co.za

Case Study 17:

Measuring the effectiveness of sustainability management

Corporate Citizenship Management Rating, Trialogue and AICC, South Africa

Innovation

In 2002, Trialogue, a South African based consulting and publications company, and the not-for-profit African Institute of Corporate Citizenship (AICC) jointly developed the Corporate Citizenship Management Rating (CCMR) to measure the state of corporate citizenship management within South African companies, including a number of those in the financial sector. The model is currently being adapted for broader applicability in Africa. The focus of the CCMR process falls on management of corporate citizenship, as opposed to 'output based' measures of social or environmental impact. The model has four dimensions which are applied across fifteen elements of corporate citizenship. The dimensions consider:

- *Practices* - current corporate citizenship activities within the company;
- *Formalisation* - the extent to which those practices have been formalised;
- *Embedment* - the way those practices are being embedded across the organisation; and
- *Integration* - how all corporate citizenship elements are integrated under one banner.

To facilitate comparison between the underlying corporate citizenship elements, a quantitative scoring system is used. Indicators have been compiled taking into consideration local and international codes, guidelines and standards. The composite rating for each corporate citizenship element and dimension enables a plot of corporate citizenship 'management performance' for the company. This plot, or 'footprint', can be used in a number of ways:

- Areas of under performance can be easily identified and an action plan developed;
- The performance of the company can be tracked over time; and
- The overall rating of the company can be used to demonstrate responsible corporate citizenship behaviour and planning, both internally and externally.

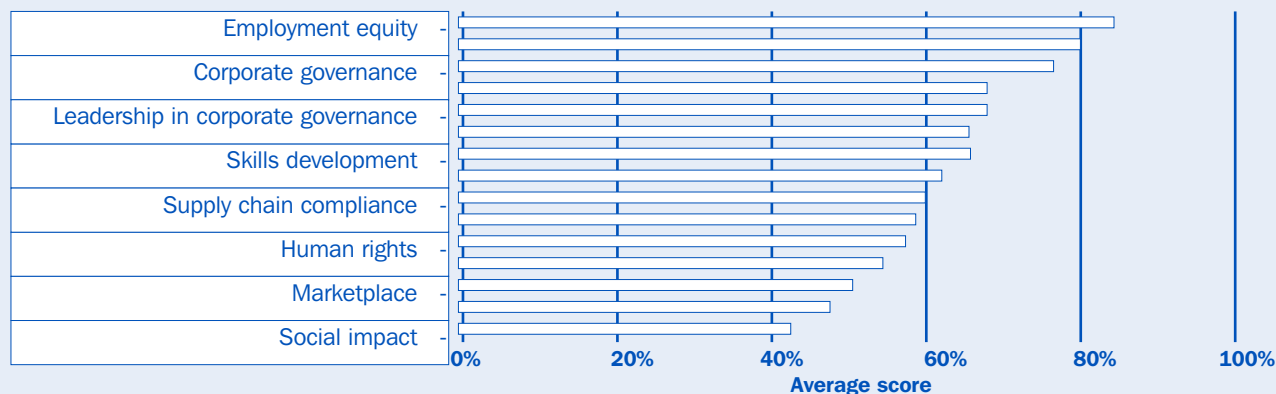
Impact on sustainable development

Average scores across a number of the elements, which make up the model, are shown in the accompanying chart highlighting the relative differences in the way citizenship is being managed within companies. Traditional elements such as employee relations and employment equity (a key issue in South Africa) tend to be more comprehensively managed than less familiar elements such as human rights and the social impact of operations.

The distinct benefit of the CCMR is the clarity that it gives companies on how to optimise sustainability performance. It also strongly builds the business case ensuring sustainability is built into the core business practice rather than being seen as an add on. It has proved particularly beneficial for finance sector institutions, whose social and environmental footprint is not always apparent, as it highlights their core sustainability competencies allowing them to better manage risk, while also identifying opportunities for product and market development in line with company and stakeholder interests.

Increased use of the CCMR will contribute to the development of an enabling environment through its promotion of company practices that are socially responsible and have a positive poverty impact. AICC and Trialogue are optimistic that the CCMR will contribute materially to the mainstreaming of company sustainability development practices. This will facilitate the development of these companies, and improve their attractiveness to investors, thus further incentivising such practice.

Corporate citizenship management rating scores averaged across a sample of South African companies¹²⁶



Key success factors and challenges

- One of the key outputs of the CCMR was the development of a well received two hundred and thirty page report on corporate citizenship in South Africa, released in March 2004 by Trialogue in association with AICC, called *The Good Corporate Citizen*. The report uses the CCMR framework to structure the content and develop the business case. It is hoped that similar reports will be developed in other African countries.
- At the moment the CCMR has focused on South African companies; to extend its utility it needs to be adapted to suit companies operating in different countries in Africa.
- The rating has been used successfully as the basis for an audit of companies providing services to donor organisations. A further strength of the rating is the number of financial companies that have been involved and the potential to begin to benchmark within the sector.
- A key aspect of the rating is to allow companies to understand the value of managing corporate citizenship effectively and in a holistic manner, rather than simply looking at it as a series of separate outputs.
- It is expected that the rating could also be developed into a more formal mechanism that will influence investor analysis relative to a company's performance.
- The CCMR needs to be developed into an online self - help tool to allow for broader participation.
- At the moment about ten companies have undertaken the CCMR but a wider number of companies need to be involved to provide accurate benchmarking particularly across a given sector.

Organisational profile

Triologue is a South African based consulting and publications company. Annual industry handbooks include: *The e-Business Handbook*, *The CSI Handbook*, and the inaugural *The Good Corporate Citizen*. The company also generates content and publish customised reports for a number of corporate clients. www.trialogue.co.za

AICC is a leading not-for-profit organisation whose mission is to promote responsible growth and development in Africa. The institute has four core function areas: The Centre for Sustainability Investing, ReportCom, The African Corporate Citizenship Forum and Responsible Competitiveness and Innovation. www.aiccafrica.org

Case Study 18:

Commercially Targeting the Poor for Microfinance
Equity Building Society, Kenya

Equity Statistics

Non-performing Loans - 7.7% (industry average 28%)
 Capital / Asset Ratio - 0.12 (12%)
 Deposits to Loan - 2.09 (209%)
 Average loan balance per borrower - US\$313
 Voluntary Savers - 252,000
 Average savings balance per saver - US\$175

126 Trialogue, in association with AICC (2004) *The Good Corporate Citizen*.

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Financial innovation

Equity Building Society has a unique portfolio of savings and loans directed at the poor. With 252,000 depositors and 67,000 borrowers Equity is the largest single microfinance institution in Kenya¹²⁷. Opening an account requires a minimum deposit of only US\$5 and there are no ledger or maintenance fees. Equity offers competitive interest rates on savings accounts and affordable borrowing rates for loans as low as US\$6. Loan products include those covering farm inputs and crop advances for agricultural workers, small and micro business products; and, medical and education loans. The latter are subsidised products run on a small margin as part of Equity's commitment to social responsibility. Such loans can be used to alleviate the cost of medical bills associated with HIV/AIDS, or help pay for school fees.

Savings account products include the 'Jijenge ("build yourself") Saving Account' with preferential interest rates for fixed deposits, a 'Business Savings Account' and the 'Super Junior Investment Scheme'.



The Building Society incorporates environmental concerns into its core investment principles, demonstrated by one of its products, the 'Sunpower Loan' which supports environmental improvements such as installing solar power.

"It doesn't make sense to pollute the environment when you are trying to build and develop the country," says James Mwangi, Equity's Finance Director.

Impact on sustainable development

Equity has developed a network of thirty two mobile village

banking units to offer services to unbanked rural areas. The mobile units serve each area once or twice a week, providing their customers in the remote areas with the financial services they would receive from a branch, such as bank cheques, remittance processing, loan applications and many more. The customers pay the same rates for their transactions, and are charged a modest fee for the mobile access, which is far less than a one-way bus fare to the nearest branch.



Each mobile bank consists of an all terrain four wheel drive vehicle, manned by two or three bank employees, as well as hired security forces. The team meet the customers at the designated market places on the bank days. Once there, they remove the vault, their paperwork, and their laptops and serve the customers from the makeshift offices that are rented out at the market places. The mobile banks use solar power to run the computerised systems, printers and scanners used to check ID documents for account holders, or to process new accounts. The mobile banks are in constant communication with the branches via GPS and VHF radio.

The vehicles visit areas where mainstream banks have discontinued the use of mobile banks, or where internet service banking has failed due to poor infrastructure, or where rural branches have shut down, as well as new remote rural areas which have never had access to banking services.

Equity has also recognised that partnering with development organisations may expand the products and services offered to this sector of the market. It has joined forces with a number of international organisations in order to access donor investment for capacity building and customer use, as well as to build an international reputation and confidence in Equity. Organisations include the UK Department for International Development (DfID), the United Nations Development Programme, European

127 Correct as of 31st December 2003.

Union, the Swiss Foundation for Development and the IFC via funds such as the Financial Deepening Challenge Fund, MicroSaveAfrica, the Microfinance Enterprise Support Programme, Swisscontact and the Global Environment Facility. Projects include investment in the mobile banking network, building IT capacity within Equity, training for staff and one thousand Equity clients and developing the use of solar power. Equity's interest in micro-finance, support for the rural poor, entrepreneurs and the environment fits with many development agencies' goals even though Equity is itself not an NGO.

Key success factors and challenges

The success of Equity Building Society over the last twenty years has been due to a combination of strong market focus, customer service and loyalty, together with internal leadership and staff training¹²⁸. The vision of Equity is to be 'the leading and preferred microfinance services provider'.

Equity actively targets economically active and salaried individuals on low and middle incomes and in rural areas - consumers that are often ignored by mainstream banks. The company has achieved a growth rate of between 50-70% per year over the last eight years despite Kenya's difficult economic climate.

Competition in Kenya for microfinance products from the Savings and Credit Co-operative Societies (SACCOs) and other banks is also strong, encouraging Equity to regularly review the products that the microfinance market needs. Its mobile banking programme, 'taking banking services to the people' is one example of a creative and sustainable response to the market's needs.

Company Profile

Equity is owned by two thousand four hundred and sixty nine Kenyan shareholders (84%) and by AfriCap (16%) (a consortium of investors including the International Finance Corporation and the European Investment Bank). Equity has a Board of nine Directors, three hundred and fifty eight staff, eighteen branches and thirty two mobile banking units. www.ebsafrica.com

Case Study 19:

Equity investments in Ghana through Epack *Databank, Ghana*

Financial innovation

The Ghana Stock Exchange, which was established in 1990, was initially viewed as a market for a few privileged investors, and not a market relevant to the average Ghanaian. Epack was introduced by Databank in 1996, to facilitate the average person's accessibility to, and interest in, the Ghana Stock Exchange, and to encourage a savings and investment culture. Epack was the first mutual equity fund in Ghana. Prior to the introduction of Epack, Ghana had only one recognized collective scheme known as the HFC Unit Trust, which was linked to mortgages for the middle class.

Epack began with five shareholders with a total contribution of ₵250,000 (US\$25). Seven years later, Epack had over eight thousand shareholders each paying in an average minimum monthly contribution of ₵50,000 (US\$5). The fund is now valued at over ₵89 billion (US\$9 million) with returns of 70% and 137% in 2002 and 2003 respectively (and a cumulative return of 2811% since 1996).

Impact on sustainable development

Epack's shareholders range from business executives to teachers, domestic workers to drivers, and market women to newly employed young adults. Prior to the establishment of Epack, most of these people would not have been in a position to participate in the opportunities offered by the Ghana Stock Exchange.

Epack offers the following advantages:

- Being an equity fund, investors enjoy the possibility of the high returns in the long term;
- The minimum monthly contributions of ₵50,000 (US\$5) or a minimum lump sum start-up of ₵500,000 (US\$50) is affordable to a large part of the Ghanaian population;
- Investors can buy more shares at any given time since it is an open-ended fund;
- Ease of exit when money is needed urgently i.e. maximum of three working days;
- Diversified risk, as the fund has a mixed portfolio of assets; and,
- Access to a qualified fund manager who monitors the performance of the fund on a daily basis.

128 For further information see Coetzee, G. et al. 'Understanding the Re-birth of Equity Building Society in Kenya', MicroSave-Africa, August 2002.

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Key success factors and challenges

The performance of Epack over the past seven years has revealed a latent desire for Ghanaians at all levels to invest for the future. The basic principles of saving 'little by little', security of the principal amount, easy accessibility to invested capital, and respect for local customs are fundamental aspects of the growing savings and investment culture in the country.

Once investors understand the implications of non-guaranteed return; and once the concept of 'shareholding' with the underlying risks are well articulated, the market becomes a mass market. The challenge at Databank is now to establish a robust distribution network to reach the uninvested / unbanked Ghanaian.

Due to the success of the Epack Mutual Fund, which is really for medium to long-term investments, Databank has developed a Money Market Fund. The Money Market Fund is intended to reach the unbanked Ghanaians who have been disenfranchised by the high minimum balance

imposed by the banks. The Money Market Fund will be linked to a cheque book and, in addition, is expected to pay much higher interest than the banks are paying for their savings and checking accounts.

Company profile

Databank Financial Services Group was established in April 1990, and currently has fifty one employees. Its core business is in the provision of Stock Brokerage Services, Corporate Finance, Fund / Asset Management and Equity Research Services.

Headquartered in Accra, Databank has successfully expanded its presence on the Ghanaian financial market and continues to provide leadership with groundbreaking financial solutions. Currently, the focus of the firm, is to extend its excellent track record into the West African sub-region and thereby promote the emergence of Ghana as a centre for financial excellence in West Africa. Databank is now committed to expanding the concept of savings through investment instruments such as Mutual Funds in the sub-region.

6. Practitioners' Ideas for Innovation Tomorrow

Our discussions with over fifty financial institutions raised a number of ideas about how to improve the role of the financial sector as a driver for sustainable development on the continent. This section briefly identifies a selection of these ideas for future innovation. The explicit focus is on how African financial market mechanisms could be used to generate sustainable development benefits. While financial institutions do, quite rightly, seek profitable opportunities, they must operate within broader regulatory frameworks, as well as within generally accepted sets of business ethics and corporate governance.

6.1 Pricing assets and exercising ownership

Idea 1:

Investigate the feasibility of an African Climate Exchange to administer the continent's first multi-national and multi-sector marketplace for reducing and trading greenhouse gas emissions.

Why?

Rapid increase in the concentration of greenhouse gases is introducing the risk of fundamental and costly changes in the earth's climate system and significant impact on Africa. The risks include more severe drought / precipitation cycles; longer and more extreme heat waves; damage to vegetation and agricultural systems; and threats to coastlines and property due to higher sea levels and storm surges. The UN Framework Convention on Climate Change, and, more recently, the Kyoto Protocol arose from increasing international concern about the implications of climate change; and a recognition that no one country can solve this global environmental problem alone. The ultimate objective is to achieve stabilisation of greenhouse gas concentrations in the atmosphere, at a level that will prevent dangerous human-induced interference with the climate system. Individuals and companies in Africa should be thinking strategically about the effect of carbon constraints on their businesses, so that they can optimise opportunities and minimise potential exposures. Farmers, for instance should be aware that carbon sinks, which meet Kyoto Protocol requirements, could become a valuable environmental and financial resource in the future, and should plan accordingly. A continent-wide exchange could create a platform for determining the most effective way to buy and sell reduction credits and practically reduce emissions. It would also allow for the development of alternative industries and investment vehicles related to

the reduction in greenhouse gas emission on the continent.

Idea 2:

Stock analysts should compute the value of pollution and the levels of emissions by African companies to see what this is worth in terms of carbon credits traded to developed countries, and to assess lender liability.

Why?

Companies that are 'carbon intensive' should have this impact revealed in their share prices or as a risk in terms of lending criteria. This would assist in the development of national and international trading schemes, as well as assisting with broadening risk management processes to take greater account of environmental and social issues.

Idea 3:

Investors should collaborate nationally and internationally to engage on specific sustainability issues relevant to the African context.

Why?

There is limited comparative advantage in a bank doing this alone, but there are several examples where the successful collaboration of a number of banks and investors has resulted in a set of business risk related guidelines (e.g. lending criteria or SRI engagement principles) that have influenced company behaviour and effectively mitigated risk, whether actual or perceived. The Financial Sector Charter recently launched in South Africa is one such example, while the Equator Principles¹³⁰ offer an international model.

Idea 4:

Increase trustee education around Socially Responsible Investments (SRIs) and the merits of investing in such assets.

Why?

The more informed trustees of institutional funds are, the better decisions they will be able to make with regard to investments. The majority of South African trustees are still under the misconception that economic returns must be compromised when investing in SRIs. The long-term track record of successful SRIs locally and internationally¹³¹ must be highlighted to these trustees, as well as the added value of social impact returns. This would make a significant difference to the attitude of the trustees to these type of investments.

¹²⁹ See section 5, case study 8.

¹³⁰ A number of leading international banks have adopted the Equator Principles, a new comprehensive set of mandatory environmental and social guidelines for the financing of projects over US\$50 million. These principles are based on the policies and guidelines of the IFC. See section 1.

¹³¹ Lipper Analytical Services has consistently rated SRI funds higher than non-screened funds. In 2000, 88% of all SRI funds over US\$100 million earned top marks from Lipper, compared with only 32.5% for all funds. The Domini Social Index (DSI 400), an index of 400 primarily large-capital US corporations selected based on a wide range of social and environmental criteria, has consistently outperformed its peer, the S&P 500, sometimes by as much as 180 basis points. (Enterprising Solutions Global Consulting, 2003).

Practitioners' Ideas for Innovation Tomorrow

Idea 5:

Multi-managers should consider constructing portfolios with a selection of Socially Responsible Investment Funds to present to Institutional Investors.

Why?

The multi-manager approach combines a range of specialist portfolios managed by leading fund managers. In such a Socially Responsible Investment Portfolio, a combination of SRI funds would offer the Institutional Investor strong economic returns as well as social impact in a diversified manner. The sustainability in returns will be due to the SRI funds and the social impact will offer added value to the investor in various sectors. It is important to note that SRI funds *do not* compromise on economic returns, but have in retrospect in many instances outperformed their counterparts internationally as well as on the African continent.

Idea 6:

International value-based investors or specialist SRI funds with a fiduciary duty could significantly increase their investment in Africa by using innovative risk management techniques.

Why?

There is little investment in listed equities in African economies by developed country investors. Many value-based investors or SRI funds have shifted the focus of SRI in developed country capital markets towards being an accepted mainstream issue and could take a similar leadership role in shifting investment flows to include emerging capital markets in Africa. The developed countries' SRI funds would find welcome diversification in the South African SRI market, as the focus is very different to that of the international SRI mandates, assuming of course that the risk adjusted returns are acceptable. In South Africa, the main imperatives are to invest in infrastructure, black economic empowerment and to alleviate the plight of the poor. The environment, corporate governance and stakeholder engagement, although important and vital, are not the most important issues on the South African agenda for SRI funds.

One mechanism that could be investigated is the establishment of a high level international committee to examine the possibility of channelling SRI funds into Africa. Organisation of Economic Development (OECD) based pension funds will need to diversify geographically in the coming years to maintain the growth rates necessary to

cope with the increasing number of pensioners. UNEP FI is looking to establish a working group on SRI in emerging markets and this could feed into a high level international committee set up to review this.

Idea 7:

Mainstream international financial market skills could contribute to developing innovative sustainability financing products and services suitable for African markets.

Why?

Currently most of the people looking at sustainability banking issues in Africa are those who have a genuine interest in this area. However, if the sophisticated thinking which has seen the development of derivatives, hedge funds, exotic futures markets, and other risk diluting products were applied with full force to African sustainability challenges, what results could be achieved to create new capital to serve sustainable development? Has the creative financial thinking to support sustainability been undertaken? Many of the foreign banks operating in Africa such as Barclays and Standard Chartered ensure that environmental / sustainability training is implemented for the regional African field offices. Could such training be offered more broadly to, say, government or banking council counterparts?

Idea 8:

An Africa-wide sustainability index could be created, based on the Johannesburg Securities Exchange (JSE) SRI model¹³².

Why?

The JSE has developed the necessary infrastructure and data capture and analysis capacity to drive a regional or Africa-wide model. This would create a framework for potentially increasing SRI investment flows.

6.2 Providing New Finance

Idea 9:

Encourage increased government participation in the provision of low income housing.

Why?

Although specialised housing finance vehicles have been unsuccessfully attempted in several countries in Africa, the development of properly structured entities could attract significant funding from local and foreign banks, as well as developed country socially-minded pension funds and

132 See section 5, case study 3.

donors. These entities could manage low-income housing finance, and monitor arrears levels centrally and manage these carefully. Government participation would serve to mitigate some of the risk if the default rate went above a specified percentage. By developing a common regional approach, learning and efficiencies could be shared across countries.

Alternatively, the involvement of government need not necessarily be via a specialised financing vehicle. Banks should be primarily responsible for originating housing loans, with finance from banks, pension funds, life insurers and other financial institutions. The role of government should be that of sharing risk where possible default is higher than commercially acceptable levels. Government should also mitigate non-commercial risk and address regulatory impediments to sustainable lending. This type of partnership between government and banks could be implemented via different funding structures and public private partnerships (PPPs). The reason government needs to be involved is that there are severe affordability constraints in certain segments of the low income housing market. There are also risks that cannot be dealt with on a commercial basis, but can be addressed if government mitigates these. The more efficient use of the government capital subsidy is also an essential element of this equation.

Idea 10:

Capacity building in the SME sector by banks to ensure sound long term business planning and management.

Why?

Banks are not unwilling to finance the SME sector, but opportunities to fund credible business people with credible business plans and the necessary skills to implement them are in short supply. The issue is often not access to capital *per se*, but rather access to skills in approaching banks for capital, and in managing the long term sustainability of the enterprise. Many financial institutions offer assistance with the development of business plans to access start up capital, but very few focus on the development of more fundamental business skills to ensure long term success. 'Skilling up' entrepreneurs in resource management, monthly budgeting and accounting, and management of the long term growth of their businesses is vital.

Idea 11:

Capacity building within the informal financial sector should be one of the targets of the formal financial sector.

Why?

Some of the finance sector funding from commercial banks should be allocated towards strengthening the capacity of burial societies, savings and credit co-operatives and microfinance institutions so that they run their affairs efficiently and forge effective links between the formal and informal sectors. Banks can also use these and other alternative institutions to deliver financial services to the unbanked in a sustainable way.

Idea 12:

Legislation pertaining to the microfinance sector should encourage rather than hinder development of this field.

Why?

This would provide the opportunity for new entrants into the microfinance field where previous regulatory constraints made this an unprofitable sector. For example, the South African Reserve Bank is working on legislation to enable different tiers of financial institutions to serve different markets with focused products. In Kenya, the Co-operative Bank, in conjunction with DfID, is investigating the opportunity for provision of wholesale finance to organisations on the ground. These initiatives should be used as case studies by other African countries.

Idea 13:

Develop capacity building programs to enable microfinance practitioners to "bundle" or securitise their loan books and take them to mainstream capital markets or investors.

Why?

One of the problems for many of the emerging microfinance institutions is that they are very successful on a limited scale but lack the capacity and financial skills to scale up into a larger more mainstream product that services a wider community. Securitisation can result in a cheaper cost of funds to the microfinance institutions, and ultimately to their borrowers.

Idea 14:

Establish public private partnerships (PPPs) to provide venture capital for sustainability start ups or business expansions in Africa that are based on a strategy of opportunity creation rather than risk mitigation.

Why?

The role of the public institution is to shoulder some of the political risk and to ensure that private investors can achieve necessary returns. Partnerships also help to ensure

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that the private sector is not excluded through donor or government interventions funding. Such partnerships can also add value in ensuring that the start up or expansion project identifies and maximizes all opportunities, rather than focusing solely on risk management. An example of a successful partnership is the Emerging Africa Infrastructure Fund (EAIF)¹³³.

Idea 15:

When depositing project finances into country based banks in Africa, donors and large international NGOs should apply a 'best in class' approach to select which banks to deal with.

Why?

International organisations depositing hard currency into locally based finance institutions potentially have significant leverage to effect a change in practice towards sustainability banking by adopting a best in class approach. This could work best if there is a partnership approach whereby international organisations require foreign financiers to work together with a local partner on their projects and 'mentor' this local partner regarding sustainability practices.

Idea 16:

Undertake a significant review of risk assessment tools being applied in African countries in order to improve the sustainability and risk-return profiles of portfolio investments to attract more investment flows.

Why?

Significant international investment opportunities are potentially being missed in Africa because current methods of assessing risks and opportunities are too narrowly defined. Existing assessment methodologies have traditionally focused on areas where high transaction volume is required and any opportunities not fitting this "mainstream profile" are often ignored at the outset.

Idea 17:

Investment banks should provide finance and capacity-building support to small-scale financial intermediaries supplying innovative sustainability finance such as micro credit and sustainability venture capital.

Why?

The SME sector in African countries will be one of the main engines for growth. Though a couple of banks provide this kind of support and expertise very few banks have worked

with local banks mixing their expertise with local knowledge to create innovative finance mechanisms. To demonstrate potential returns to these investment banks, some successful precedents will need to be highlighted.

Idea 18:

Country level financial associations should include a core module on sustainability banking in their professional training and examinations.

Why?

There is a critical need to look at the business case for sustainability and how this impacts on the finance sector. There is certainly a need for considerable capacity in assessing social and environmental risk and opportunity. Both the IFC and UNEP FI are in the process of developing courses that could be tailor made to suit specific country issues.

6.3 Savings and transactions

Idea 19:

Create appropriate and conducive policies and legislation to support the broadening of access to financial services for the poor.

Why?

Legislation should enable and encourage workers to have an effective say over their provident and pension funds through their trustees. The exemption from the Banks Act, or equivalent legal frameworks, for savings and credit co-operatives and other financial services co-operatives needs to be revisited, to allow these institutions to flourish and play appropriate roles. The control and regulation of loan predatory lenders is another priority across the continent to address the high indebtedness of the working class to these lenders. An alternative source of accessible and affordable micro-credit should be encouraged. In South Africa, the banking sector is developing a National Bank Account that will include a savings and money transfer facility¹³⁴. This is being done co-operatively by the banks and costs are being cut to ensure capital appreciation in savings. Requirements to open savings accounts will also be very simple. This could provide a useful model for the rest of the continent. The South African Financial Sector Charter also sets targets for improving access to financial services¹³⁵ and could offer some guidance to other African countries.

¹³³ See section 5, case study 1.

¹³⁴ See section 4.1.

¹³⁵ See section 5, case study 8.

Idea 20:

Post Banks, or universal banks, should be encouraged and built up in such a way as to be a viable source of financial services to the poor, but also to act as an effective stepping stone into mainstream commercial banking.

Why?

Although this is happening through most of the continent, post banks have not provided that stepping stone to access mainstream banking services. Regulations should be tailor-made to build capacity within the Post Banks, or universal banks, and to maximise inter country learning to encourage the sharing of best practice. These institutions would thus develop beyond their traditional roles as savings institutions into providing a wider range of financial services, as well as significantly increasing financial literacy. Interaction with the banking sector would also ensure the best use of capacity.

Idea 21:

Micro-leasing offers significant opportunities to promote the development of entrepreneurs and small enterprises.

Why?

Micro-leasing would enable entrepreneurs to access resources for business without the risk of capital expenditure. In the same way that large corporations lease photocopiers, for example, SMEs would lease particular equipment for their ventures, including the servicing and technical support. Experimental micro-leasing is currently being discussed in Kenya, with the leasing of bee hives to rural communities. Risk sharing schemes with suppliers of equipment should also be explored, for example, limited buy-back guarantees.

Idea 22:

The potential exists to couple savings with other forms of transactions such as paying insurance premiums on tools and equipment, and building deposits for first time home loans.

Why?

Institutions, which traditionally focus on savings, have not been able to provide other products and services that leverage off savings. The opportunity to provide overall financial literacy once clients have decided to save provides significant opportunities for banks to introduce new products.

Idea 23:

Investigate alternative means of delivering banking services to rural areas.

Why?

Access to cash is key to improving rural livelihoods and reducing the household transaction costs by travelling to cities and towns. In South Africa, the banking sector has committed to providing 80% of the population with a point where they can do banking within 20km of where they work or live¹³⁶. Innovative technology building on the already piloted mini ATMs, points in retail stores, cell phones and so on will be used to enable people to deposit and withdraw money.

Idea 24:

Savings products and services should take their cues from the societies and communities they hope to serve.

Why?

Most African societies are very community based, while most savings products and services offered by formal banks tend to be focused on the individual. More innovation is required to take these cultural aspects into account, and develop group savings schemes.

Idea 25:

Measure and assess how households banking outside the formal banking sector manage their savings deposits and look at the products that are needed at this local level.

Why?

Instead of offering inappropriate formal economy solutions, microfinance interventions need to be based on what works for people where they are. Most of the microfinance needs of the poor are about issues such as life cycle needs, emergencies, and cash flow management. This inevitably leads to a focus on what many would call 'consumption credit' that allows them to manage vulnerability shocks, such as a primary breadwinner getting sick, or be able to engage effectively in a often principally bartering based society. The misconception that micro credit should simply develop Western style capitalism is often missing the point of what is needed.

6.4 Risk management**Idea 26:**

National or regional guidelines and principles should be established for managing social and environmental risk.

136 Financial Sector Charter, 2003. See also section 5, case study 8.

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Why?

Responsible lending has become an international issue following the development of lender liability in the United States and the launch of the Equator Principles¹³⁷. By looking more closely at social and environmental issues, banks can improve risk management and assessments, decrease the possibility of default, and improve their reputations. Opportunities exist to develop more environmentally-based and socially aware lending practices, which fully account for sustainability issues in credit and project screening. This would promote good practice amongst banks without competitive disadvantage being perceived through more onerous due diligence requirements. It would also satisfy environmental legislation and impact assessment regulations in many African countries, as well as those of multi-lateral development banks.

Idea 27:

The Life Offices Association, or equivalent, should promote automatic mortgage insurance cover of an acceptable amount irrespective of HIV status.

Why?

Many AIDS orphans are deprived of roofs over their heads on the death of their parents, as a result of the absence of effective mortgage insurance cover. This is already in place in South Africa, and could be used as a model on the rest of the continent.

Idea 28:

Insurers should provide agricultural yield guarantee products appropriate to local African market conditions.

Why?

High discount rates (and consequent lower investment) in African economies are partly due to crop losses relating to extreme weather conditions. Banks at the local level have the ability to monitor and model social and environmental risk appropriately particularly in relation to cash crops but even for crops going to local markets. Micro insurance through micro lenders is also a possibility in this regard. This would allow good farmers to accelerate more quickly out of a poverty cycle as they could plan more long term.

Idea 29:

Insurance products should be tailored more closely to issues that have a significant impact on an industry at the local level.

Why?

HIV/AIDS and malaria are good examples in which company prevention programmes can have a direct impact on costs. Pricing of premiums allows a market based incentive for good practice to be created. This could be linked to industry codes of practice, similar to the social risk guidelines issued by the Association of British Insurers, to encourage a collective approach for in this instance being a front runner is not necessary an advantage. Genetic modification of crops could also be relevant here, and even wider climate change issues, since this has been identified internationally by the insurance industry as its single biggest risk.

137 See section 1.

7. Conclusion

7.1 An Agenda for Change - Making Sustainability Banking Count in Africa

The evidence from the report points to the emergence of a dynamic business case for sustainability banking in sub-Saharan Africa. This development is linked to improved risk analysis, better corporate governance standards, increased potential to access international funds, enhanced ability to enter or create new markets and improved stakeholder relations. The report highlights an impressive range of financial innovations supporting sustainability in Africa. One of the report's aims is to raise awareness of the achievements of these financial institutions, thus

encouraging adoption of similar innovations elsewhere on the continent.

The report demonstrates clearly that there is need for further innovation, and that considerable thought has been given by practitioners to potential areas of future innovation in sustainability finance. In analysing sustainability banking in an African context, and in individual meetings with practitioners, consideration was given to the best way to move forward in this regard. Doing so may be achieved internally through financial institution innovation, or externally through government regulatory innovation. Pressure from society at large, demanding more transparency and improved access to a range of traditional banking services, could provide a catalyst for change.

Table 2: Summary of current innovations identified in this report

	Pricing Assets and Exercising Ownership	Providing New Finance	Risk Management	Savings and Transactions
South Africa	<ul style="list-style-type: none"> • Finance Charter • Nedbank Green Trust • JSE SRI Index • Community Property Fund • Earth Equity Fund • Development Fund of Funds • IDEAS Fund • Women's Initiative Fund • Carbon trading 	<ul style="list-style-type: none"> • Finance Charter • Finmark Trust • PPPs • FNB smart account • Khula mentorship Scheme • Futuregrowth's Development Funds 	<ul style="list-style-type: none"> • Financial Charter • CCMR 	<ul style="list-style-type: none"> • Financial Charter • Standard Bank's E Plan • Teba Bank • Inter-bank Task Group • ATM Solutions
Senegal		<ul style="list-style-type: none"> • ACEP • CIF forum 		
Nigeria		<ul style="list-style-type: none"> • SME Partnership SMIEIS • Oil Service Local Contractor Credit Scheme 		
Kenya		<ul style="list-style-type: none"> • DrumNet • WEEC 	<ul style="list-style-type: none"> • MicroSave-Africa 	<ul style="list-style-type: none"> • Equity Building Society • ASCAs • K-Rep
Botswana				<ul style="list-style-type: none"> • Botswana Savings Bank
Other		<ul style="list-style-type: none"> • EAIF 	<ul style="list-style-type: none"> • CETZAM 	<ul style="list-style-type: none"> • Malswitch • Celpay • Epack

Several clear possibilities for future action emerged during discussions, and are highlighted below.

7.2 Strategies to encourage sustainability banking practices in Africa

Governments can adopt the following strategies to accelerate the move to sustainability banking:

Box 8: Opportunities through NEPAD

The New Economic Partnership for Africa's Development (NEPAD) offers an important opportunity to promote the goals of Sustainability Banking. For a start, many of the core objectives of NEPAD deal with promoting sustainable development and addressing the challenges to financing and investment on the continent, thereby, indirectly encouraging and facilitating the move from defensive to Sustainability Banking.

NEPAD sets high standards for political, economic and corporate governance. Whilst the methods for reviewing and monitoring these may still be under discussion, there is ample opportunity for the financial sector to contribute to these goals.

Financiers can play their part by imposing strict standards of probity in all the entities and transactions that they finance in Africa.

This is becoming a basic tenant of international banking conduct, with greater enforcement of anti money laundering legislation. All too often, lenders rely on political risk cover to shield them from the consequences of corruptly engineered deals.

A combination of ethical investment and lending, and the development and enforcement of prudential banking regulations should improve standards of corporate governance on the continent, and thus contribute to NEPAD's goals.

“There is no doubt as to the economic, social and political upside if NEPAD achieves its objectives... but it needs the power of private enterprise and the citizens of its most powerful nations to drive it. There is no downside. We cannot sit back and blame government if NEPAD fails, if we as business have failed in our duty to make our contribution.” (From Bowles and Pennington, South Africa, More Good News, 2003).

- Expansion of environmental / social liability legislation in ways that make more direct connection between certain major, well defined environmental and social risks and a concomitant financial risk to lenders, insurers and investors;
- Adoption of environmental / social reporting requirements for stock market listed companies and initial public offerings (IPOs);
- Adoption of generally accepted environmental and social reporting standards;
- Mainstreaming of environmental and social criteria for pension funds, life insurance funds and government controlled funds;
- Fostering of an enabling framework to encourage and incentivise sustainability banking practices, which would include universal banking and access to financial markets for the poor. Public policy needs to be pro-active and innovative in addressing sustainability banking issues, if opportunities are to be harnessed and the right enabling environment is to be put in place;
- Adoption of legislation to support capacity building and systemic approaches;
- Review of legislation that may hinder sustainability banking practice, such as modifying the substantive anti money laundering framework to suit the African context and prevent financial exclusion; and
- Adoption of regional strategies (e.g. through NEPAD) and partnerships to encourage the consideration of social / environmental / ethical and human rights issues by the financial sector in a coherent and uniform manner (see Box 8).

Internally, banks and other financial institutions could evolve from defensive to sustainability banking strategies by:

- Understanding the business case and the competitive advantage offered by sustainability banking. The triple bottom line approach (people, planet and prosperity) is integrated into the bank's core business strategy, and is no longer limited to risk avoidance, but is now seen as a part of every type of decision making process, particularly overall bank strategy development. Sustainability related issues are recognised as drivers for developing new products and services, generating additional revenue and increasing market share, and the organisation becomes environmental value driven;
- Developing a strong corporate social responsibility strategy that is integrated and embedded across the business practices of the organisation and supply chain;

- Signing up to and building on a range of internationally and locally recognised codes and standards;
- Developing policies and guidelines for integrating ethical, social and environmental dimensions into the investment strategy; e.g., reflecting the cost of environmental and social risks in the pricing of financial and risk management products;
- Promoting transparency and high standards of corporate governance in themselves and in the activities being financed. Social and environmental considerations must be firmly embedded into any emerging corporate governance architecture and review processes;
- Exercising shareholder voting power and an engagement orientated approach to encourage responsible behaviour;
- Reviewing portfolios for non-compliant stocks and excluding those whose performance is unacceptable;
- Providing access to market finance and risk management products to businesses and individuals in disadvantaged communities;
- Providing access to finance for the development of environmentally beneficial technologies, such as renewable energy projects or energy efficient products;
- Advocating the expansion of mainstream analysts' duties to include social and environmental criteria; and
- Affording greater consideration to sustainability and environmental risk issues in the emerging markets by rating agencies.

These steps are summarised in Box 9.

The financial sector as a whole can encourage the uptake of sustainability banking practices by:

- Establishing multi stakeholder partnerships to address sustainability finance in Africa. Such partnerships would enable governments, donors, civil society groups and public and private financial institutions to take coordinated action. This in turn would enable the mainstream private sector finance and insurance sectors to contribute to sustainable development in a manner that is appropriate to the African context. A number of the case studies reviewed in this report highlight the benefit of such partnerships and the potential for innovative outcomes from these.
- Facilitate understanding of sustainability banking practices through improved data collection and development of relevant case studies. There is a clear need for research and informed data in this area, particularly in the African context. Sustainability banking needs to be developed through informed approaches

Box 9: The path towards Sustainability Banking

This three tiered framework highlights the steps to be taken by financial institutions in moving towards sustainability banking.

- 1 *Financial Institutions beginning to develop a sustainability banking approach must:*
 - Ensure commitment at top level management.
 - Examine key business drivers, including principle areas of sustainability risk and opportunity.
 - Examine organisational values of company in the context of sustainability.
 - Define the roles and responsibilities of the management team, and choose specific limited sustainability interventions with clear objectives.
 - Monitor and evaluate performance against specific criteria and objectives.
- 2 *Financial institutions wishing to move beyond a basic commitment to sustainability banking should:*
 - Ensure commitment of staff and board involvement.
 - Analyse sustainability risks and opportunities in detail, including the scope for innovation.
 - Incorporate sustainability principles into a code of practice.
 - Look to integrate a sustainability framework across the bank including in overall strategy.
 - Train and build awareness of all staff.
 - Communicate the sustainability strategy internally and externally.
 - Undertake reporting of sustainability risk management and opportunities.
 - Develop a knowledge management and learning framework.
- 3 *Financial institutions aiming to achieve competitive sustainability advantage should:*
 - Move to inspire the whole organisational network including suppliers and key partners.
 - Use professional benchmarking and diagnostic tools to evaluate company performance on sustainability banking and inform strategy development linking directly to core business competencies.
 - Apply external standards and consider external auditing to enhance credibility.
 - Undertake progressive stakeholder engagement process.
 - Integrate sustainability issues into key internal management systems.
 - Undertake externally audited sustainability reporting process.
 - Ongoing review and analysis of performance against measured targets.

that are then translated to a broader audience. Bodies such as Banking Councils and the UNEP FI ATF should be supported in initiatives to disseminate good practice and develop standards for sustainability banking.

7.3 Principles of Sustainability Banking

In 2002, the Corporation of London and individual finance sector institutions developed the 'London Principles' to propose conditions for a financial system, and the role of institutions within that system, that will enhance the financing of sustainable development” and to improve the performance of financial institutions in promoting economic prosperity in line with sustainable development priorities.

It is proposed that the London Principles offer a sound base for departure in the African context. This report hopes to initiate a dialogue around these principles to look at

generating an African version of the principles, that can then be embedded into NEPAD or adapted to suit individual country requirements. The South African Financial Sector Charter would also provide a foundation for developing principles encouraging social development and upliftment across the continent.

Variations in legislation, government enforcement capability and operating environments between countries all provide difficulties for banks operating in more than one country in Africa. It is acknowledged that coming up with uniform sustainability banking targets across the continent may prove challenging. Equally it has become clear that northern standards do not necessarily represent global standards, and that forcing northern derived standards onto Africa without proper opportunities for debate could provide an even greater barrier to sustainability banking than currently exists.

Box 10: A Blueprint for the “Johannesburg Principles”?

The London principles define the role of the UK financial services in sustainable development. They could be used as a basis for the development of African principles to guide and encourage sustainability banking practices on the continent. In adopting these Principles, signatories agree, where relevant to the product and geographical scope of their business, to:

Economic Prosperity

- Principle 1 Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets
- Principle 2 Promote transparency and high standards of corporate governance in themselves and in the activities being financed
- Principle 3 Recognise the importance of the provision of financial services to all socio-economic sectors of the population
- Principle 4 Provide access to technical and business support to both borrowers (especially SMEs) and lenders focusing on this sector (microfinance or SME lending institutions) to ensure their long term commercial viability and sustainability

Environmental Protection

- Principle 5 Reflect the cost of environmental and social risks in the pricing of financial and risk management products
- Principle 6 Exercise equity ownership to promote efficient and sustainable asset use and risk management
- Principle 7 Provide access to finance for the development of environmentally beneficial technologies

Social Development

- Principle 8 Exercise equity ownership to promote high standards of corporate social responsibility in the activities being financed
- Principle 9 Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies
- Principle 10 Promote the use of effective partnerships between government, private sector and NGOs in order to offer innovative sustainability banking products and services to all sectors of the population

7.4 The way forward

It is proposed that this report be distributed widely to financial institutions operating in Africa, through national and regional banking councils and life assurance bodies. Champions should be identified within these organisations to co-ordinate regional roundtable events bringing public and private sector financial bodies, as well as relevant NGOs and other stakeholders together. These roundtables would allow the finance sector to investigate the relevance to Africa of the Western / developed countries' understanding of Sustainability Banking and to identify ways of customising a regional African or continent wide

concept of Sustainability Banking. In addition, they would afford the opportunity for the finance sector to share current good practice in this regard, and gauge international trends. In South Africa, the finance sector could look at sustainability issues in the light of developments subsequent to the launch of the finance sector charter. Overall, these discussion fora could initiate the potential development of a set of voluntary sustainability principles that accord with the interests of the finance community while keeping in line with international norms, and fostering partnerships between government, the private sector and other relevant stakeholders to embed the notion of sustainability banking across the continent.

Appendices

Appendix 1

Institutions and individuals consulted

ACEP

Mayoro Loum, Managing Director; Papa Ali Ndior, Assistant Managing Director

African Bank

Lydia du Plessis, Executive, Treasury & Investor Relations; Winnie Kunene, General Manager African Bank Foundation; Zanele Mavimbela, Sustainability Officer

Africa Project Development Facility (APDF)

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Luc Seupera, Director; Laetitia Habchi, Programme Manager

APDME Senegal

Mme Diedhiou, Managing Director

ATM Solutions

Rowan Swartz

Banco Europa

Filipe Coelho, Director

Bank of Botswana

O. Mabusa, Director Banking Supervision; Sholo Amos Matale, Principal Bank Examiner

Banking Council of South Africa

Cas Coovadia, Senior General Manager

Bannock Consulting

Cerstin Sander, manager, SME and micro-finance projects

Banque Centre des Etats de l'Afrique de l'Ouest

Modienne Guisse, Director for Dakar

Banque de l'Habitat du Senegal

Kader Sow, Managing Director

Banque Internationale pour le Commerce et l'Industrie du Senegal (BICIS)

Mouhamadou Ndiaye, Managing Director

Banque Islamique du Senegal

Azhar Khan, Managing Director

Banque Senagalo - Tunisienne

Abdoul Mbaye, Managing Director

Barclays

Amin Habib, Director Corporate Banking; Mike Klinck, Communications Manager

BEDIA

Shandukane Mpoloka, Director Investor Svcs

BIFM

Mothusi Lekalale, Head: Corporate Communications; Sanjeev Gupta, CEO

Botswana Power Corporation

Tlhamamiso M. Selato, PR Officer

Botswana Savings Bank

T. N. Phatshwane, Manager

Capital Alliance Nigeria

Paul Kokoricha

Capital Partners, Nigeria

Solape Oyinloye, Victor O. Aloafin

CDC Capital Partners

Sarah Glasson and Mark Goldsmith, Manager Financial Institutions and Business Principles Unit

Centre Point Merchant Bank, Nigeria

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Chartered Bank Nigeria

Emma Nwosu, Assistant General Manager

Citibank

Donna Nemer Oosthuysen, Vice President Strategic Affairs; Ann Mutahi, Corporate Banking Relationship Manager South Africa; Yemi Adeola, Executive Director, Desmond Ovbiagele, Assistant Manager Nigeria; Souleymane Diagne, Assistant Director Senegal

CGAP - The Consultative Group to Assist the Poor

Elizabeth L. Littlefield and Patricia Mwangi

Commercial Bank of Africa

Isaac Uwondo, Managing Director

Companie Bancaire de l'Afrique Occidental (CBAO) Senegal

Anta Diom, Assistant General Manager; Mamoudou Kane, Director of Public Relations

Counters Trust Securities Limited Nigeria

Wloe Famurewa

Co-operative Bank

Mr Zechariah Chianda, Chief Manager

Credit Agricole

Arfang Daffe, Managing Director, Senegal

Credit Lyonnaise

Jean Claude Dubois, Managing Director, Senegal

Databank Ghana

Ken Ofori-Atta, Executive Chairman

Debswana

Mark Moffett, Group Finance Manager

Development Bank of Southern Africa

Elsa Kruger-Cloete

Ecobank

Oladele Alabi, Assistant General Manager Nigeria; Chieck Travaly, Head of Institutional Banking Senegal

Egyptian Environmental Affairs Agency

Hoda Sabry, Environmental Protection Fund Manager

Faula Kenya

Mary Kishoian

FCMB Capital Markets Nigeria

Ndidi Adegbite and Debo Adesanya

FinMark Trust

David Porteous, CEO

First Bank of Nigeria

Dr Emmanuel M. Abolo, Assistant General Manager; Francis Odi, Relationship Manager

First Securities Discount House Limited

Hamda A. Amdah, General Manager

Fonds de Promotion Economique (FPE), Senegal

Demba Diop, Marketing Director

Forum for the Future

Brian Pearce, Director; Emma Hunt, Head of Sustainable Finance Education

FSB International Bank and Black Emerald

Anthony Storrow, Deputy Managing Director; John Lister, Managing Director; Sven Hansen, Managing General Partner

Futuregrowth Asset Management (Pty) Ltd

Lisa Christodoulou, Social Impact Analyst

IBTC Nigeria

Nnenna Agu, Project Finance, Yemisi Tayo-Aboaba, Head of Project Finance

International Finance Corporation (IFC)

Lakhdeep Babra, Sarah Ruck, Robin Sandenburgh, Dan Siddy and Todd Hanson of IFC's Environmental and Social Development Department; and, Andrew Alli, Saleem Karimjee, Jean Philippe Prosper and Marieme Travaly of IFC's Sub Saharan Africa Department; and Ann Pasco of IFC's Media and Marketing Department

Investec

Malcom Gray, Fund Manager

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K Rep Development Association

Aleke Eondo

Kenya Bankers Association

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Kenya Commercial Bank

Terry Davidson, Chief Executive

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Ministry of Finance & Planning
Stan Ngaine, Director Fiscal & Monetary Affairs

Ministry of SMEs and Commerce, Senegal
Ibrahima Diouf, Director

National Development Bank
B. Mojalemotho, PR & Communications

NBM Bank Nigeria
Wale Adeniranye, Senior Manager

Nedcor
Justin Smith, Senior Manager Corporate Governance and Sustainability

NEPAD Secretariat
Dr Mohammed Jahed, Chief Economist

Old Mutual
Paul Mwai, Fund Manager

Opportunity International
Andrew House and Richard Leftley, Africa Programme Manager and Insurance product manager

Pan African Corporate Governance Trust
Karagor Gatamah

Parmacas, Senegal
Samba Dia, Assistant Managing Director

Registrar General
Tom Store, Advisor to Registrar General

Sec Trust Nigeria
Funso Oke, Busola Solanke, Doji Adeagbo

SME Manager Nigeria
Rotimi Oyenkanmi, CEO

Societe Generale des Banques au Senegal
Bernards Labadens, Managing Director

SR&I
Dan Sonnenberg and Markus Reichardt

Standard Bank of South Africa
Greg Ansermino and Jonathan Wood, Directors, Project Finance; Lincoln Mali and Charles Chemel, Directors, Retail Bank; Sandra Ainley, Corporate Governance; Bridget Lamont, Retail Bank

Stanbic Bank, Botswana
Dennis Kennedy and Grant Marais, Director and Executive Director

Teba Bank
Thozama Doni, General Manager: Products, Fiona Bloxam, Marketing Manager and Chantelle Storbeck, Product Manager

Triologue
Nick Rockey

UNEP FI
Paul Clements-Hunt and Niamh O'Sullivan

UNDP
Nancy Ngengwenyane, Programme Officer

USAID
Yumiko Ikuta and Anthony Vodraska, Private Enterprise Officer and Supervisory Programme Officer

United Bank Nigeria
Nana Dawodu, Head International Capital Partners

Appendix 2

List of useful websites

<http://www.acia.sun.ac.za>

The Africa Centre for Investment Analysis (ACIA) is a research, educational and service institution.

<http://www.aiccafrica.org>

The African Institute of Corporate Citizenship (AICC) was established in 2000 as a non-governmental / non-profit organisation to strengthen African leadership in corporate citizenship through research, advocacy and network building. The Centre for Sustainability Investing is a programme area under AICC. The Centre strives to work with the financial sectors both in Africa and abroad to promote innovative development financing models and to develop risk management instruments appropriate to local conditions.

<http://www.alternative-finance.org.uk/en/intro.html>

The Alternative Finance Website is a forum for MFI practitioners and researchers to access otherwise unpublished documents and information on all aspects of alternative and microfinance.

<http://www.appropriate-economics.org/>

An internet library of materials on "appropriate economics", including a wide range of documents and materials on history, money, economics, religion, global economics, and how to implement appropriate economic systems.

<http://www.banking.org.za/>

The Banking Council South Africa is the industry body for the banking sector in South Africa.

http://www.cgap.org/about_cgap.html

CGAP is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor in developing countries.

<http://www.csfi.fsnet.co.uk/>

The CSFI is an independent think tank to stimulate research into the future of the financial services industry.

<http://www.dbsa.org.za/>

Established in 1983 by the government of the Republic of South Africa, the DBSA is one of five existing development finance institutions in South Africa and has a mandate to accelerate sustainable socio-economic development in the

region by funding physical, social and economic infrastructure.

<http://www.emissions.org>

The mission of the Emissions Marketing Association is to promote market-based trading solutions for environmental management and to serve its membership.

<http://www.environmental-finance.com/>

Environmental Finance is a monthly magazine covering the ever-increasing impact of environmental issues on the lending, insurance, investment and trading decisions affecting industry.

<http://www.equator-principles.com/>

The website for the "Equator Principles" - an industry approach for financial institutions in determining, assessing and managing environmental & social risk in project financing.

<http://www.finmarktrust.org.za/>

FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked of southern Africa.

<http://www.finscope.co.za/>

FinScope 2003, a FinMark Trust initiative, is the most comprehensive national household survey focussed on the financial services needs and usage across the entire South African population.

<http://www.forumforthefuture.org.uk/>

Forum for the Future is a UK-based charity founded in 1996 specialising in transformation processes towards sustainable development within the business and public sector.

<http://www.globalreporting.org/>

The Global Reporting Initiative is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

<http://www.ilo.org/public/english/employment/finance/index.htm>

The social finance programme at the International Labour Organization (ILO).

Appendices

[Http://www.itdgpublishing.org.uk/sed.htm](http://www.itdgpublishing.org.uk/sed.htm)

The Small Enterprise Development - an international journal of microfinance and business development.

<http://www.inaise.org/>

The International Association of Investors in the Social Economy (INAISE) is a global network of socially and environmentally oriented financial institutions.

<http://www.microfinancegateway.org/>

The Microfinance Gateway is a public forum where microfinance professionals can contribute thought pieces, post publications, publicize conferences and training workshops, debate current issues, and look for employment.

<http://www.sustainablebusiness.com/progressiveinvestor/index.cfm>


The Progressive Investor a sustainable business investor magazine.

<http://www.unepfi.net/>

The United Nations Environment Programme (UNEP) Finance Initiatives.

<http://www.worldbank.org/afr/>

The World Bank Group in Sub-Saharan Africa.



The African Institute of Corporate Citizenship (AICC) is a centre of excellence in corporate social responsibility, committed to strengthening responsible growth and competitiveness in Africa through research, advocacy and network building. Established in 2001, AICC has managed in a short time to become a leading NGO/NPO in Africa focusing on corporate citizenship.

AICC relates corporate citizenship not only to the private sector but also to a wide range of organisations that might have an economic, social or environmental impact on society. As a result, it works with a variety of organisations including businesses both small and large, government institutions and civil society organisations. Since its establishment AICC has grown steadily and today comprises of twelve dedicated people.

The core team at AICC has significant experience of working across a number of sectors, including corporate, government and civil society. A major strength of AICC is a wealth of international experience, and the number of links it has with key global multi-national organisations. This ensures that both local and international best practice is taken into account when addressing Africa's corporate citizenship challenges.

