

# New report: Social Impact Bonds could boost development and job creation in SA

Issued by [UCT Graduate School of Business](#)

7 Apr 2014

Social Impact Bonds (SIBs) hold tremendous potential for government to increase effective support for struggling entrepreneurs in South Africa, according to a new report presented to the National Treasury, the Jobs Fund, and the dti.

The report, a policy paper entitled *Exploration of Social Impact Bonds for SME Development*, was put together by the Bertha Centre for Social Innovation and Entrepreneurship (located at the University of Cape Town Graduate School of Business), Genesis Analytics and Social Finance (the UK organisation that developed the SIB model).

"SIBs are innovative financing instruments that are designed to help governments explore and expand effective social programmes among a pre-defined target group," says Jane Newman, International Director at Social Finance. "They bring rigour, innovation and flexibility to social programmes by focusing on agreed outcomes, testing new innovations and building responsive programmes that are managed to deliver the best results."

Following a grant by the Flanders International Cooperation Agency (FICA) and the South African National Treasury in September 2013, the research group explored the applicability of SIBs as a financing instrument in South Africa. In particular, the scoping study sought to assess issues relating to the design of, and gauge the interest of key stakeholders in, a SIB providing business development services (BDS) to SMEs so as to stimulate economic development and job creation.

In South Africa, a study conducted in 2010 by Abor and Quartey estimated that 91% of formal business entities in the country are SMEs and that these enterprises account for approximately 55% of GDP and 61% of employment. Yet, the 2012 Global Entrepreneurship Monitor (GEM) report estimates that only 2% of South Africans own businesses that have been established for over three and a half years, indicating a high failure rate among SA start-ups.

One aim of BDS is to address the obstacles faced by businesses so as to decrease the chances of business failure. As such, the facilitation of BDS focused specifically on catalysing economic and employment growth is a high priority area.

Ryan Short, a partner at Genesis Analytics says, "Although there is no shortage of BDS providers in South Africa, there is limited evidence on what interventions are effective. SIBs could play a significant role in addressing this limited understanding of what works and what doesn't, driving future funding to the most effective players."

A SIB focuses on specific, pre-agreed, social outcome(s) and clear metrics for measuring success. Investors provide the upfront funding of a programme, which is designed to achieve the target outcomes. An outcomes funder - usually government - repays investors if (and only if) independently verified evidence shows that the programme has been successful.

"We believe SIBs are an exciting opportunity to shape private and public capital in South Africa," says Aunnie Patton who leads the Innovative Financing Initiative at the Bertha Centre. "Throughout the research stakeholders were engaged and enthusiastic about potential of SIBs in South Africa. As the global and local momentum has grown substantially, we believe the timing is ripe for South Africa to lead the African continent in designing, commissioning and implementing SIBs."

The report recommended that the interested outcome funders (including the National Treasury, corporations and foundations) consider creating an Innovation Fund that would commission simplified, tariff based Social Impact Bonds for business development services. It also recommended that Outcomes Funders explore SIBs in other social areas such as early childhood development, education and health.

In order to catalyse the impact and scope of these products, the report encourages the National Treasury to release directives acknowledging that SIBs could be a funding mechanism for national, provincial and local governments to explore more effective, partnership-based approaches to the delivery of social services. Additionally to signal that Enterprise Development spend could also be channelled through a SIB, allowing for immediate benefits for impact investors willing to back innovation at the base of the pyramid.

"Finally, we ask that National Treasury explore tax relief for social investors interested in putting capital into social investment vehicles such as SIBs. In the 2014 UK budget, a 30% tax relief for social investment was announced. This tax relief is expected to generate £480 million in social investment over the next five years. Similar legislation could be catalytic in its effect around social investment in South Africa," says Patton.

For more information please contact Aunnie Patton (Aunnie.patton@gsb.uct.ac.za) or Ryan Short (ryans@genesis-analytics.com).

## About:

**Bertha Centre for Social Innovation and Entrepreneurship** was established as the first academic centre in Africa dedicated to social innovation. Its focus is on research, teaching, dialogue and the support of innovators and novel initiatives towards social impact. The Bertha Centre is located at the UCT Graduate School of Business and was established in partnership with the Bertha Foundation.

<http://www.gsb.uct.ac.za/berthacentre>

**Social Finance** is a not-for-profit organisation that partners with government, the social sector and the financial community to find better ways of tackling social and development issues. Founded in 2007, Social Finance has raised over £20m in social investment and is the originator of the Social Impact Bond. [www.socialfinance.org.uk](http://www.socialfinance.org.uk)

**Genesis Analytics** is a Johannesburg-based economics consulting firm that advises governments and the private sector on economic development policy and using business for development. Genesis has advised governments and blue chip companies throughout Africa and India. Genesis is lead advisor to the National Treasury on the R9bn Jobs Fund and has advised the R1trn GEPP on a developmental investment strategy.

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