

33RD IPMA WORLD CONGRESS



Responding to the transformational challenge facing the banking sector: A Nedbank case study

Cape Town
28 November 2024



see money differently

NEDBANK

SOCIO-ECONOMIC CONTEXTUAL QUOTES



“We need to **build self-reliant, sustainable communities**. That can only come from a shift in thinking”

“**Social justice is one of the key challenges of our times**, like climate change” - Prof Thuli Madonsela

“The only way we will achieve a fundamental shift in our growth trajectory is by **transforming the structure of the economy**” - David Masondo (BDay Live Feb22)



Daron Acemoglu
Massachusetts Institute of
Technology, USA



Simon Johnson
Massachusetts Institute of
Technology, USA



James A. Robinson
University of Chicago,
IL, USA

“**colonisers responded by setting up “extractive” systems protecting the interests of a small elite**” – Noble Prize in Economics winners 2024 (FT October 2024)



For studies of how institutions are formed and affect prosperity

The laureates' research showed how European colonisation had dramatic but divergent impacts across the world, depending on whether the coloniser focused on extraction of resources or the setting up of long-term institutions for the benefit of European migrants

■ We come from a society where*:

- Youth unemployment is the highest in the world at 59% (15-24 year-olds)
- Total unemployment is >30%
- Our household income Gini is also the highest in the world at 0.67
- Our corporate income Gini is even more concentrated at 0.84
- 63% of citizens fall below the upper-middle income poverty line
- Nearly 25% below the extreme poverty line
- More than a quarter (27%) of children under five are stunted
- 61% of children are iron-deficient

* World Bank data



**Crucially, these metrics remain disparate by both race & geography, the legacy of our past...
In the words of Brene Brown: "What is the story we tell ourselves that this is okay?"**

REPORT 1: COMPETITION COMMISSION



Measuring the concentration and participation in the SA economy

- Competition Commission report highlighted critical challenges with our current economic system
- **Dominance of traditional banks hampered growth and access to capital**

KEY FINDINGS

- SA's **Corporate Income Gini** very high at **0.837**
- SMEs account for 95% of tax paying firms but only 25% of turnover (OECD average 50%-60%)
- Top 10% of firms earn 86% of all firm income - bottom 50% only 1.6%
- **System “designed” to create difficulties for small black-owned businesses to access markets & capital**

** Published November 2021 - MEASURING CONCENTRATION AND PARTICIPATION IN THE SOUTH AFRICAN ECONOMY: LEVELS AND TRENDS

<https://www.compcom.co.za/wp-content/uploads/2021/12/Concentration-Tracker-Summary-Report-1.pdf>

REPORT 2: GROWTH THROUGH INCLUSION



- Report took 2 years to compile and is an exhaustive study involving multiple stakeholders
 - National Treasury, Policymakers & other Government departments
 - Private sector entities
 - Regulators & Journalists
- Deteriorating social indicators & declining levels of public satisfaction
 - **Low growth** - SA underperforming peers before Polokwane, underperformance worse after

FIGURE 1.2: REAL GDP PER CAPITA - OBSERVED AND FORECASTS
Panel A: South Africa

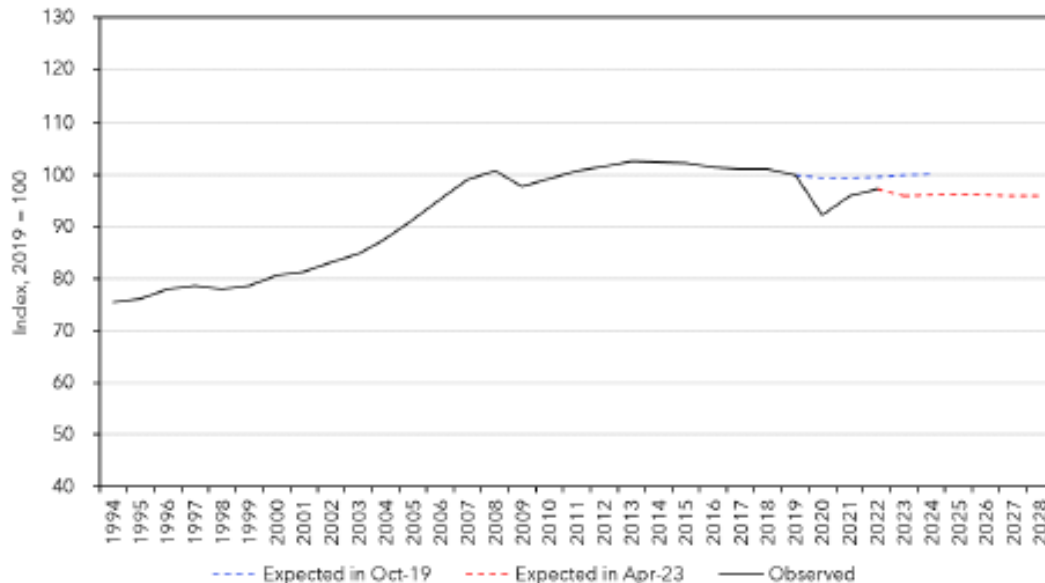
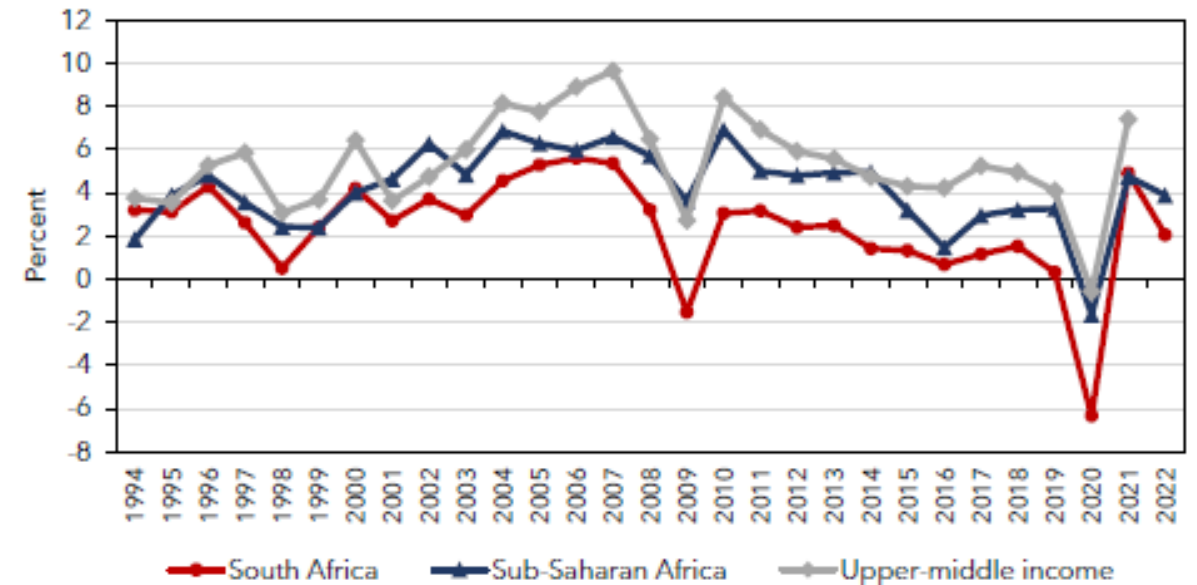


FIGURE 1.1: REAL GDP GROWTH - SOUTH AFRICA VS. PEERS

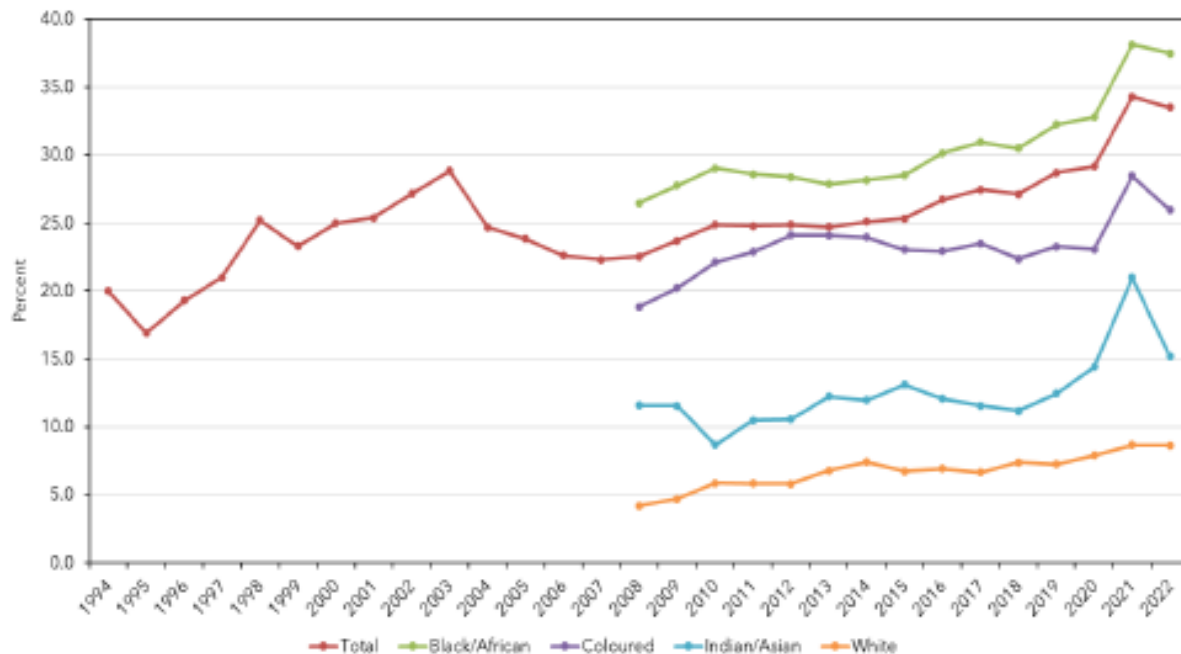


Source: Own elaboration based on World Economic Outlook (April 2023) for South Africa and Sub-Saharan Africa and World Development Indicators for Upper-Middle-Income Countries.

Key point: Our systemic exclusion impairs our growth potential

High unemployment - The world's highest at more than 33% (42.6% including those too discouraged to look)

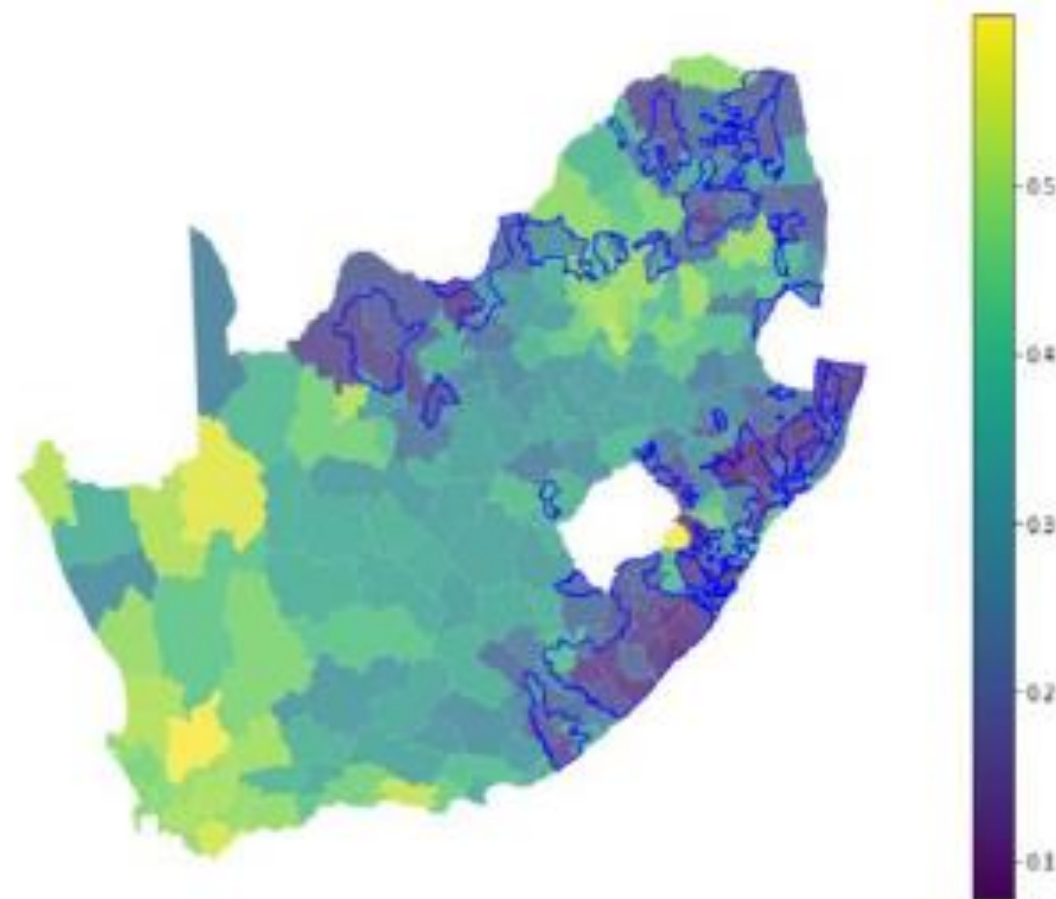
FIGURE 1.5: UNEMPLOYMENT RATE, TOTAL AND BY POPULATION GROUP



Source: Own elaboration based on SARB and StatsSA.

Gap between black and white unemployment rates continues to widen

FIGURE 1.6: EMPLOYMENT RATES BY MUNICIPALITY



The persistent exclusion of former homelands

FINDINGS CONT.



Structural inequality - 50% of adults in SA households have an income of R1,166 pm or less



EXPLAINING THE WHY



- **Two key root causes identified**

1. Collapse of state capacity
2. Apartheid legacy of “Spatial exclusion”

1. COLLAPSE OF STATE CAPACITY

- The report cites **four** reasons:
 - Gridlock within ANC
 - Ideological issues, excluding society from “state-reserved” activities
 - Overburdening state entities beyond core mission & capability
 - Political patronage

2. SPACIAL EXCLUSION

- Spatial exclusion entrenched through well-intentioned post-apartheid housing policies
- System of “housing grants” must be overhauled - providing subsidies to people to “buy or rent houses of their choosing” near job opportunities
- Grants merely compensate people for their exclusion, rather than include them

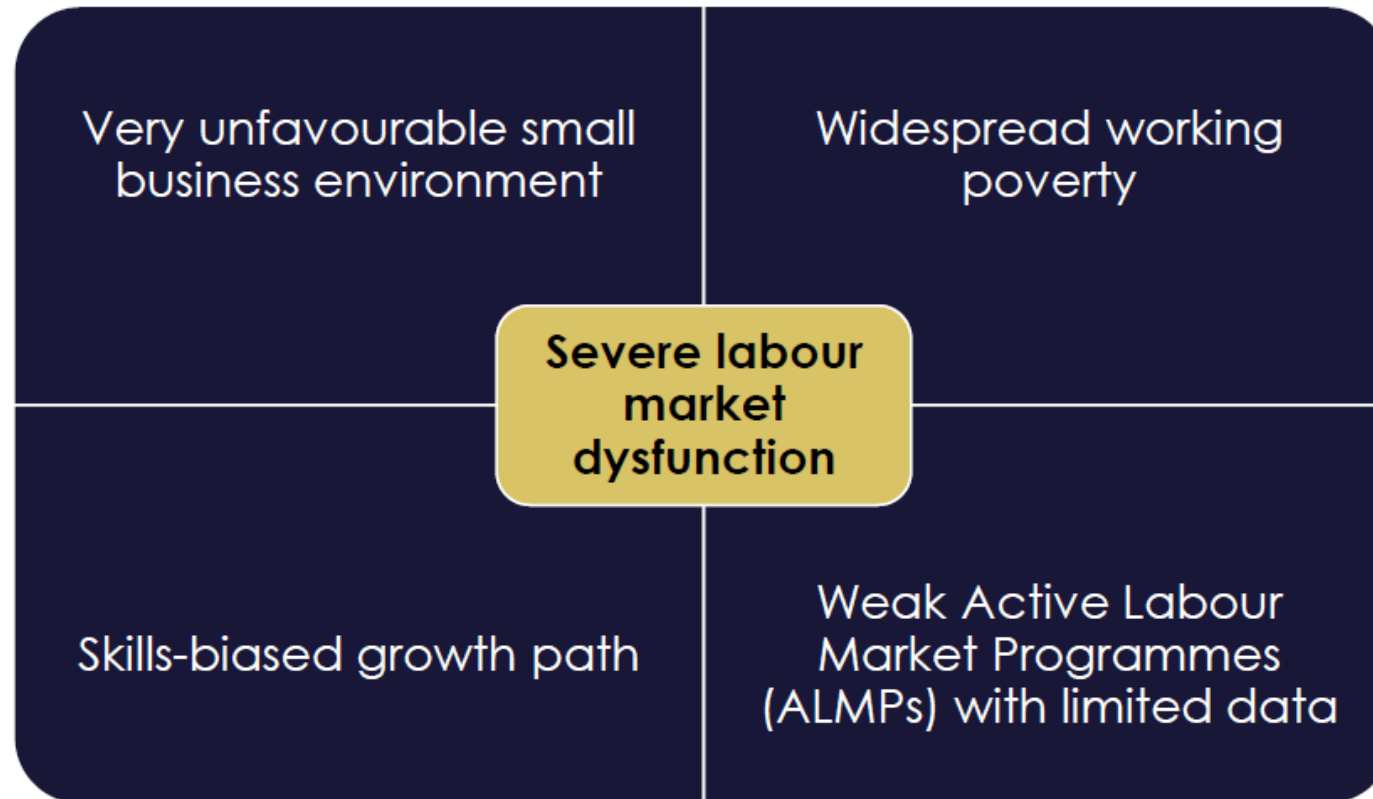
Collapse of state capacity

- Key sectoral challenges
 - ***Energy***
 - ***Water***
 - ***Waste***
 - Security
 - Infrastructure

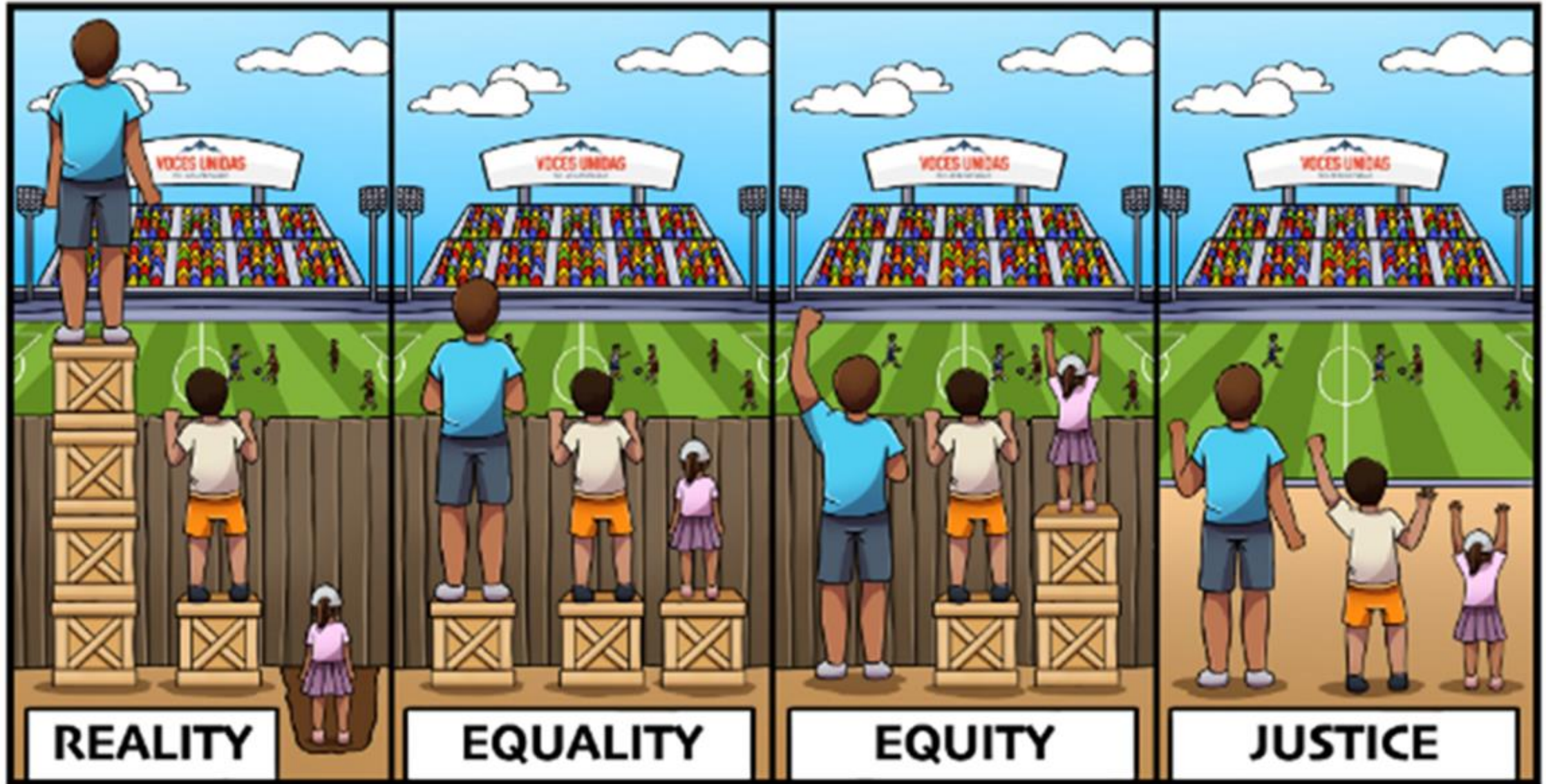


intellidex[®]

Overall, the labour market is broken due to these four major factors



THE REALITY OF THE SOUTH AFRICAN ECONOMIC SYSTEM





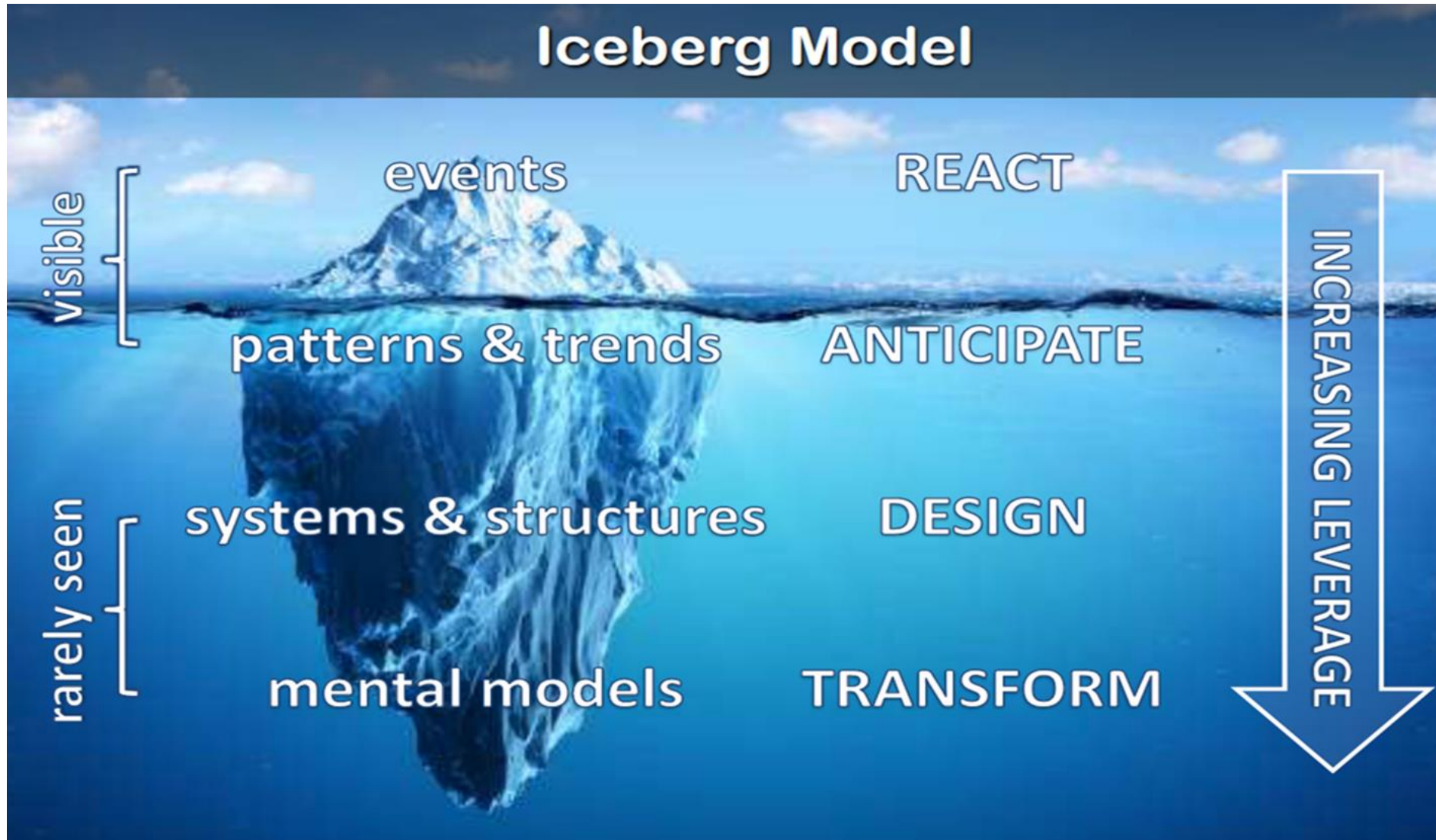
CONTEXTUAL PREMISE

- To achieve “**social justice**”, South Africa **requires** a **transformation** of the **current economic system**
 - **Climate change** and **rising inequality** are some of the themes that illustrate this
- **Social Justice** is **defined** as “**everyone deserves equal economic, political and social rights and opportunities**”
 - This does not exist in South Africa currently
- The current economic system is a legacy of our colonial & apartheid past. The imperative to shift our economic system is clear:
 - From: **EXTRACTIVE, EXPLOITATIVE, EXCLUSIVE & EXCESSIVE**
 - To: **REGENERATIVE, RECIPRICAL, REPRESENTATIVE & RESTRAINED** (acknowledgement to Dr Gary Kendall)
- To transform a system you must change the mental models on which the system was created (acknowledgement to Dr D Meadows)

HYPOTHESIS

- The most systemically impactful way of deploying philanthropic & CSI funding is:
 - 1) **Invest in creating the new (leadership) paradigms that are required to achieve SOCIAL JUSTICE**
 - 2) **Use CS Investments as a catalyst to change the existing paradigms around the commercial potential of a more “SOCIALLY REPRESENTATIVE, FINANCIALLY INCLUSIVE AND ECOLOGICALLY SUSTAINABLE” economic system**

PARADIGMS KEY TO TRANSFORMING SYSTEMS



**THE MOST
EFFECTIVE
WAY TO
TRANSFORM
A SYSTEM IS
TO CHANGE
THE MENTAL
MODELS
THAT
CREATED IT**

**Donnella Meadows*

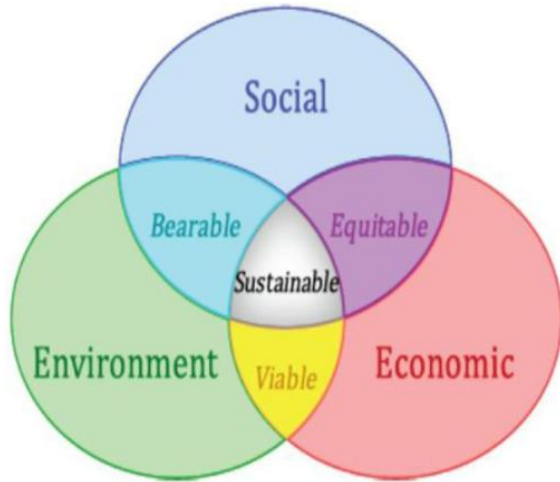
"The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking"

Albert Einstein

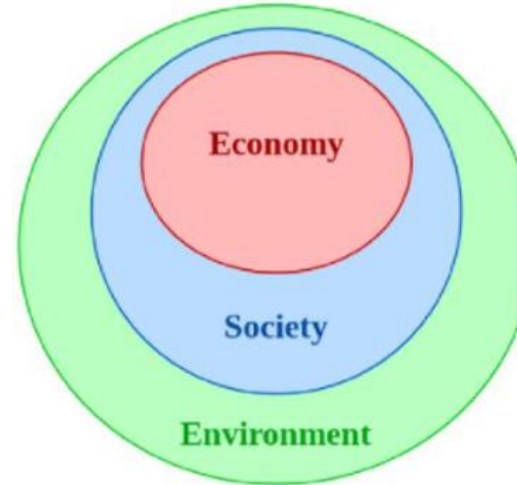
CREATING NEW PARADIGMS



CURRENT PARADIGM



RIGHTS OF NATURE MODEL



“Yes, I am very business minded but I have so much empathy for people and how business can actually be in that space and (*where*) profit not being a driver but coming as a consequence of actually doing good in the community” – Thato Kgathanye, Rethaka Trading

Shareholder Value

Financial returns are all that matters: companies privatize gains and externalise losses

Shared Value

Business comes first: negative impacts are not sufficiently internalised, or are justified by 'doing good' elsewhere

System Value

Business addresses societal needs in a holistic way, while not hindering progress toward a flourishing future



Under the Rights of Nature & Systems Value models, business addresses societal needs in a holistic manner

FROM PHILANTHROPY, TO TRADITIONAL CSI TO TRANSFORMATIONAL CSI



- **Philanthropy = Giving people fish**
 - **Paradigm:** Wealth redistribution through the benevolence of the wealthy (i.e. the deserving giving to the less deserving)
- **Traditional CSI/R = Teaching people how to fish (maintain status quo)**
 - **Paradigm:** Providing people with the skills to get jobs in the existing economic system
 - Benefits accrue disproportionately to owners of capital relative to providers of labour – reflected by rising income and wealth inequality globally
- **Transformational CSI/R = Providing ACCESS TO & CO-CREATING NEW sustainable fishing ecosystems**
 - **Paradigm:** Achieving economic “Social Justice” by providing the “capital” to unlock access to existing & also co-creating new sustainable fishing ecosystems
 - Ecosystem needs assessment - end-to-end across the value chain for the economically marginalised to fish successfully commercially and ecologically sustainably – this could include:
 - A fishing rod & other equipment (tackle & potentially a boat)
 - Fishing lessons (where appropriate)
 - A fishing permit/license (where needed)
 - Access to fish markets (including logistics)

CREATING SUSTAINABLE LIVELIHOODS BY BUILDING NEW ECOSYSTEMS OF ECONOMIC DEVELOPMENT



GOAL:

Proving the commercial potential of co-creating a socially just economic system through the strategic application of CS Investments...

EXAM QUESTION:

Can Nedbank's "transformational" CSI strategy be the catalyst to change the existing paradigms around the commercial potential of a systemic transformation agenda?

DESIRED OUTCOME:

Growing our business as a consequence of our positive societal impact!

CIRCULAR GREEN ECONOMY CSI STRATEGY OVERVIEW



CSI STRATEGY Our WHY: To achieving social & economic justice, we must transform the current economic system

ANCHOR: Make Green the heart of our economy

1. Impact Vision:

Make the circular Green Economy the catalyst for sustainable economic development in rural & semi-urban communities
- with a focus on women, youth and people with disabilities

2. Impact Ambitions:

Creating sustainable livelihoods through building new ecosystems of scalable economic development

3. Focus Areas:

Water & Sanitation

Renewable Energy

Waste & Recycling

Regenerative Agriculture

4. Levers:

Education

Skills Development

Entrepreneurship

5. Key Outcomes: (Success measures)

new GE enterprises

new employees in GE enterprises

Sustainability & Scalability of new enterprises in GE

6. Implementation Principles:

Build on current initiatives

Replicate innovative
models

Invest in priority areas

Partnerships & Co-design

Brand Tagline: **Green is the New Gold**

OUR REASON FOR BEING

Purpose: To use our financial expertise to do good for individuals, families, businesses and society

EXPLAINING THE SELECTION OF OUR 4 CORE FOCUS AREAS



Illustrating the societal need and the commercial opportunity

Agric

80% of agricultural output is produced by 10% of the farmers

250 000 small-scale farmers with 2.5 million categorised as micro and subsistence

Majority of production remains conventional – monocropping, chemicals, etc.

Energy

11% of South African households don't have access to electricity

The grid is mostly (c80%) powered by fossil fuels (coal)

A small percentage of middle to upper class have installed back-up systems at their homes

Water

South Africa is a water scarce country

6 million South Africans don't have access to clean drinking water

45% of school and 35% of clinics don't have access to clean water

Water quality and availability is becoming a big concern (similar to electricity loadshedding) due to infrastructure collapse

Waste

112 million tonnes of waste is generated every year in South Africa, with only 10% recycled

Single-use packaging is still common

Waste still considered a dirty industry

5 COMPONENTS OF THE IMPLEMENTATION PLAN



Our aim is Transformational change / System level impact



THINK SYSTEMS & ECOSYSTEMS IN 4 FOCUS AREAS



SELECT **PRIORITY PROJECTS**, BUILDING ON EXISTING INITIATIVES



PRIORITISE **REPLICABLE INNOVATIVE MODELS**



PARTNERSHIP APPROACH IS CRITICAL - **CO-DESIGN**, BE AGILE, ADAPT AND EVOLVE



FOCUS ON **SOCIAL IMPACT & COMMERCIAL KPIS**

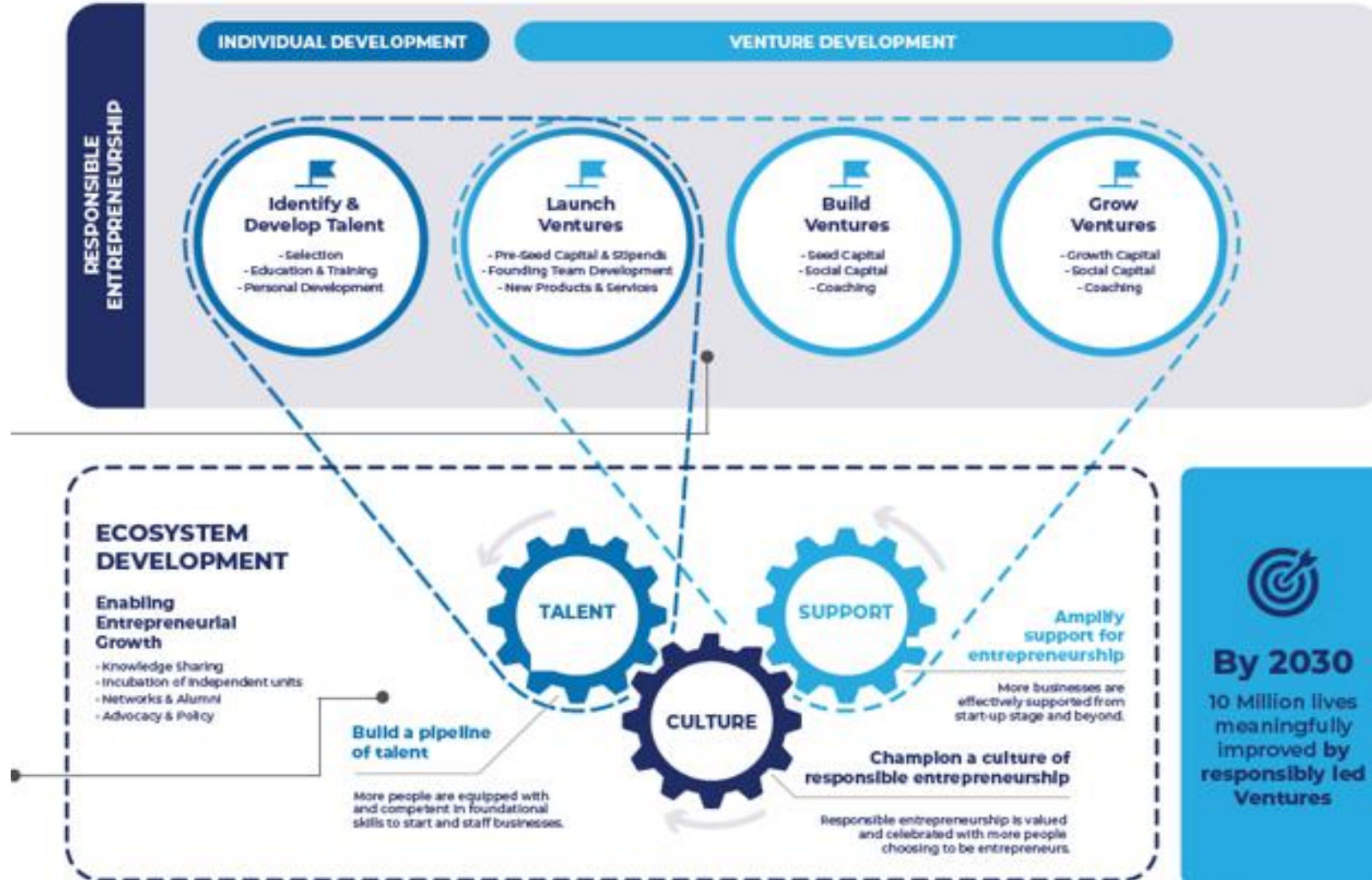
What is NOVEL?

Our focus shifts from a “No Poverty & Zero Hunger” lens (UN SDGs 1 & 2) to ...

“Unlocking wealth creation opportunities for the economically marginalised”

Acknowledgement to Lorenzo Davids

THEORY OF TRANSFORMATION* - Allan & Gill Grey Philanthropies Africa

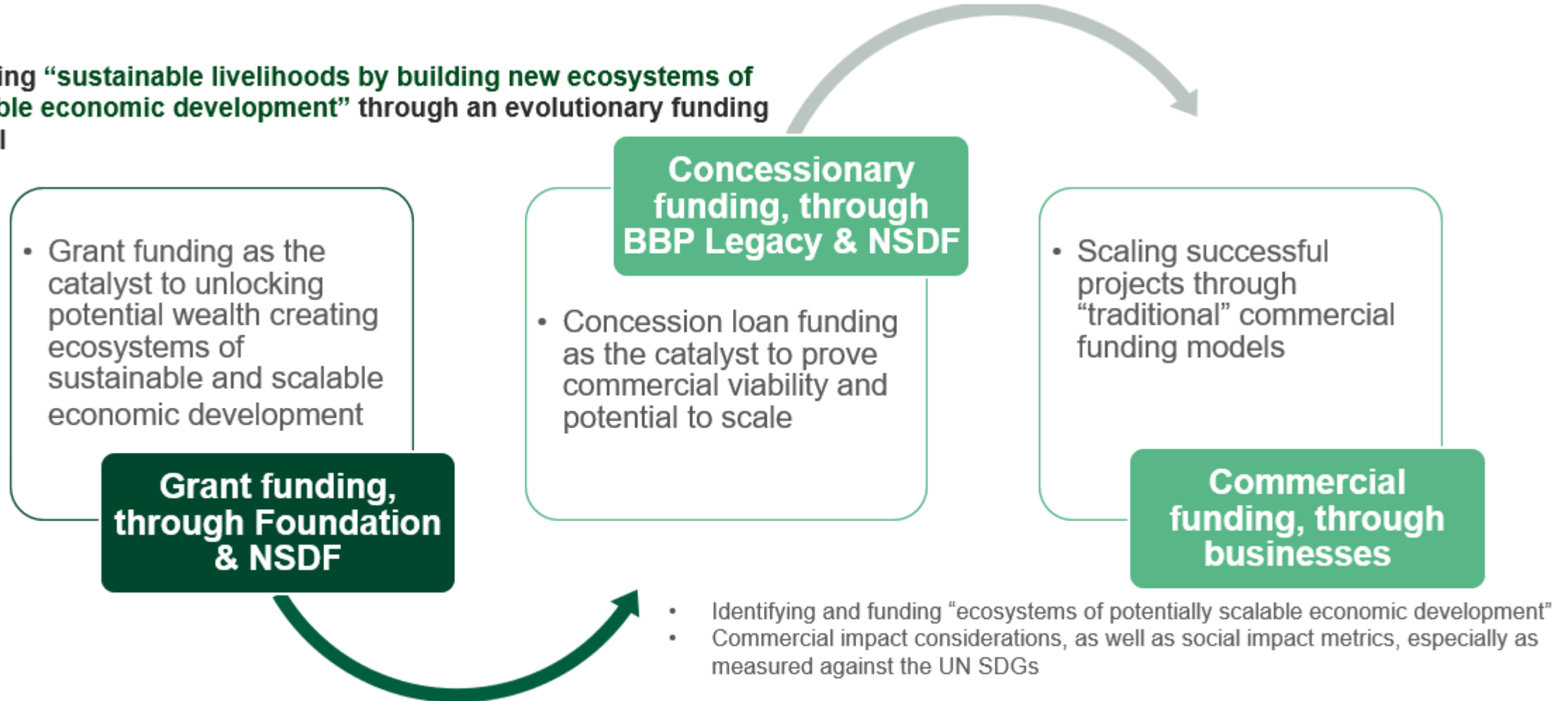


* Acknowledgement to Dr Phumlani Nkontwana – Founding Director Allan Grey Centre for Africa Entrepreneurship (AGCAE)

TRANSFORMATIONAL ECOSYSTEM FUNDING MODEL



Creating “sustainable livelihoods by building new ecosystems of scalable economic development” through an evolutionary funding model



CS Investments as the catalyst to change the existing mindsets around the commercial potential of creating a more socially representative, financially inclusive and ecologically sustainable economic system

SUPER-POWER OF BANKING



MANAGING MONEY THROUGH TIME EFFICIENTLY OFFERS THE JOINT ADVANTAGE OF ALLOWING US TO SHAPE THE FUTURE RATHER THAN REACT TO IT WHILE BUILDING A SUSTAINABLE COMPETITIVE ADVANTAGE IN A GROWING RATHER THAN A DECLINING MARKET

**Using Insights to
Manage Money Through Time
(Debt, Savings, Advisory)**

Shape the Future that we Design to
Achieve Optimal Client Outcomes



Build a Sustainable Competitive Advantage
in the Markets that we are deliberately
Growing

**Creating Insights from
Move Money Through Space
(Payments, Transactions)**

React to the Future that Market Forces
Dictate



A simple "Structure,
Conduct, Performance"
(Porters 5 Forces) Analysis
demonstrates that this is
an area whose ROIC will
decline rapidly &
imminently

Even if we win (which, based on simple
strategic heuristics is unlikely) we win a
losing game

LINKING THE STRATEGY TO BUSINESS GROWTH

- Banking, like no other sector, can create the economic system in 5, 10 & 20 years
- It is our responsibility
- The collective decisions on who we provide transactional access to and for what purposes defines our economic system
- Nedbank's incredible purpose statement
 - ***To use our financial expertise to do good for individual, families, businesses and society***
- Worded different...
 - our reason for existing is the deliberate application of our financial skills to have a positive impact on our society

"Banks sit at the centre of the climate transition and equitable growth" - Goldman Sachs ESG report (2022)

PHASED APPROACH TO IMPLEMENTATION



Phase 1:

- **No changes to the existing “rules of the game”**
 - Project selection based on clear and immediate commercial potential
 - Prove the hypothesis and transition to “commercial” for further funding and scaling

Phase 2:

- **No changes to the “rules of the game” BUT value is attributed to positive externalities**
 - Project selection includes value attribution to “positive externalities”
 - *i.e. Invasive species clearing, with downstream water benefits (positive externality)*
 - May consider funding support from other partners for “positive externalities”

Phase 3:

- **We advocate for changes to the “rules of the game”**
 - Projects not commercial based on the current “rules of the game”
 - *i.e. Water sanitation through engineered wetland*
 - Engage with multiple stakeholders to address existing “market failures” to ensure regulatory landscape factors in both “positive & negative” externalities



THUSO MOTAU'S MIGHTY HOUSE OF SOAP

- Thuso is from Ga-Rankuwa
- She has a BCom (Vista University) and is a qualified nurse
- But she could not find a job in the area...
- She decided to create “Mighty House of Soap” (MHS) - soap from used cooking oil
- Incubation grant of <R100k the catalyst
- In year 2:
 - MHS produced 9x grant value in revenue, 4x grant in profits, employing 9 people*
- Positive externality:
 - No commercial value attributed BUT helped the local municipality with blocked drains - used oil is no longer poured down drains but rather recycled

* Based on 2022 data

We believe there are thousands of such “new ecosystems of economic development” opportunities - our goal is to play a catalytic role in unlocking them...

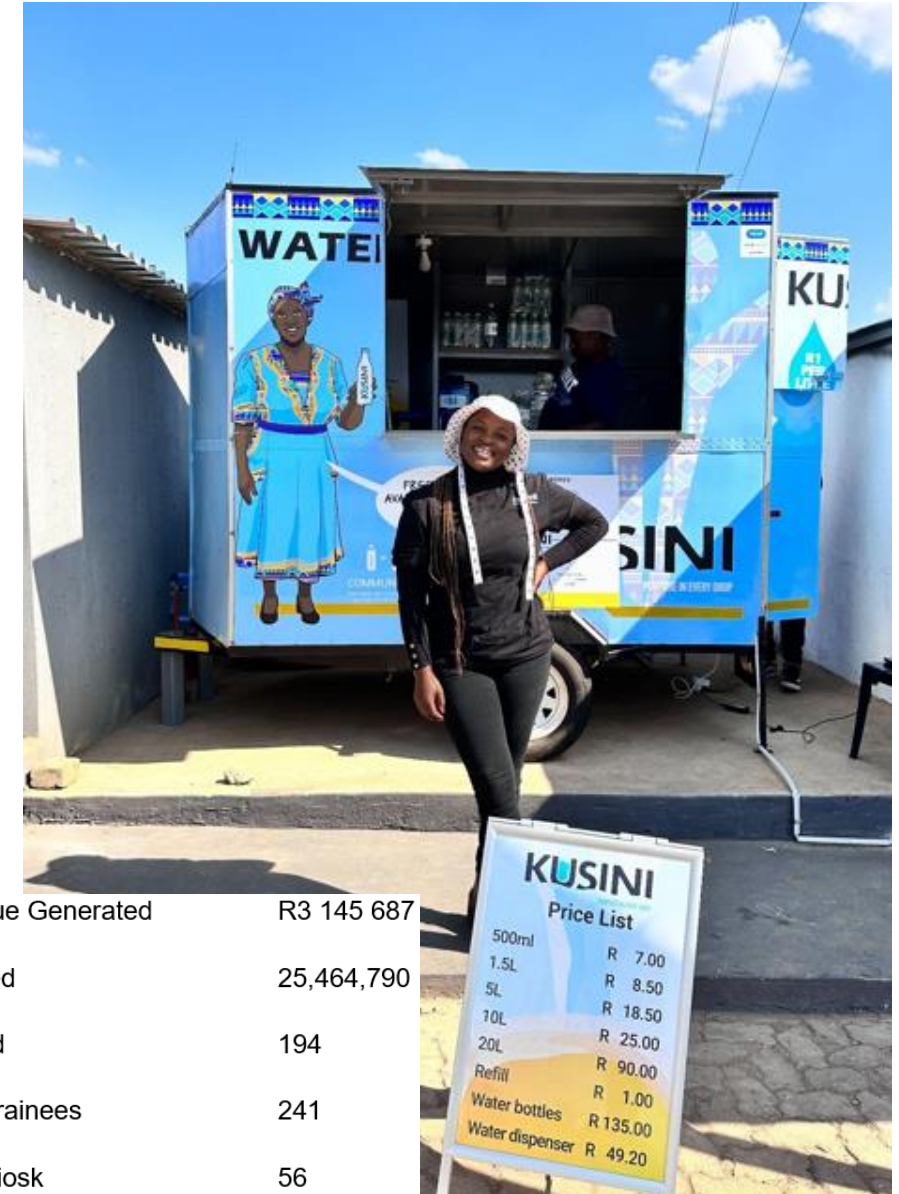
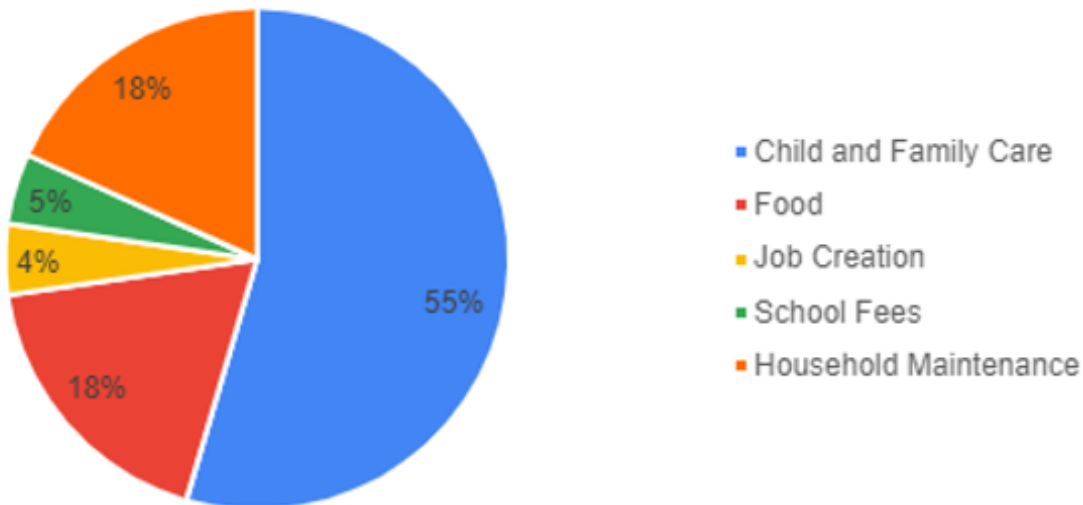
KUSINI WATER IMPACT OVERVIEW



Mulago Mudau from Tshikonelo Village, Limpopo

- Holds a Masters in Hydrology and Water care - was unemployed for over 3 years
- Has generated revenue of over R126,000
- Provides over 30,000 litres of clean water per month
- Area no longer dependant on weekly water trucks
- Created 2 new jobs

Income Usage

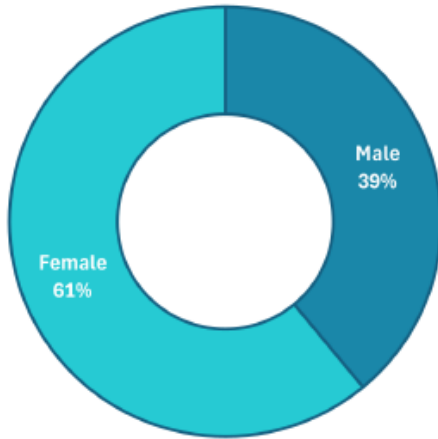


Total Revenue Generated	R3 145 687
Water Purified	25,464,790
Jobs Created	194
Number of Trainees	241
Number of Kiosk	56

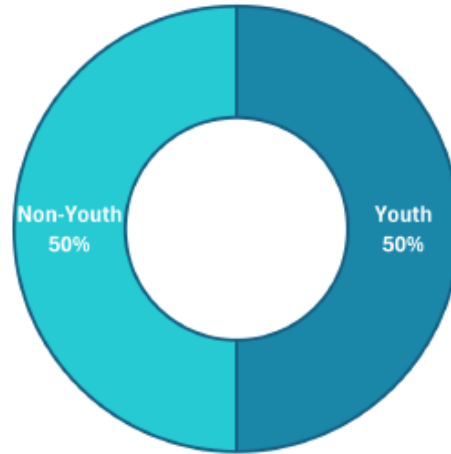
FETOLA ACCELERATOR IMPACT OVERVIEW



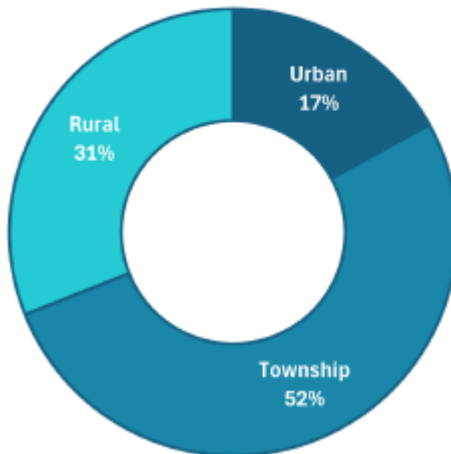
GENDER SPLIT (OWNERSHIP)



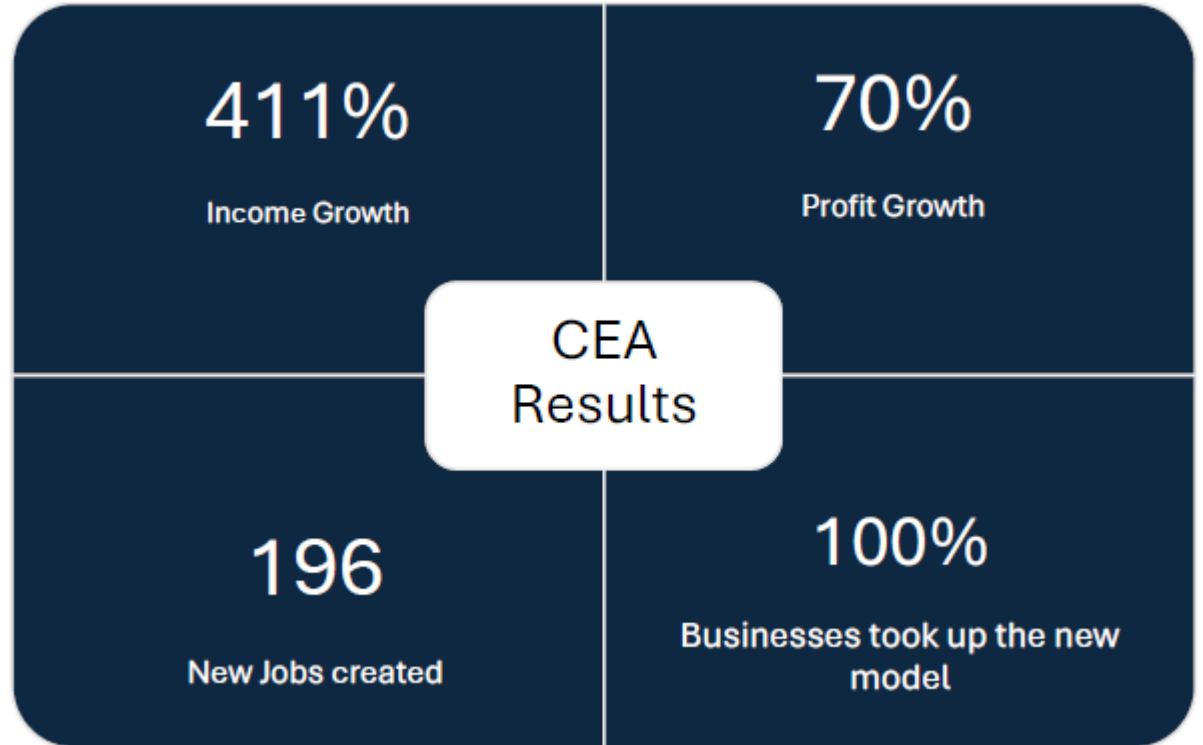
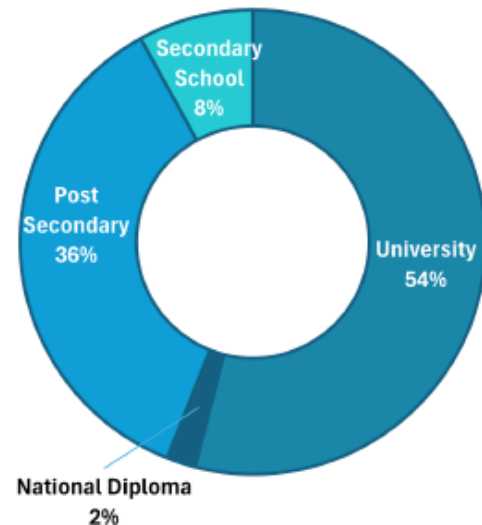
AGE (OWNERSHIP)



AREA



EDUCATION LEVELS



Circular principled businesses outperformed “traditional” accelerator by a factor of 2

SYSTEM RETURN ON INVESTMENT



Green Economy Impact and SROI



12

Projects



2150

Jobs Created

3.91

SROI



815

Enterprises



1738

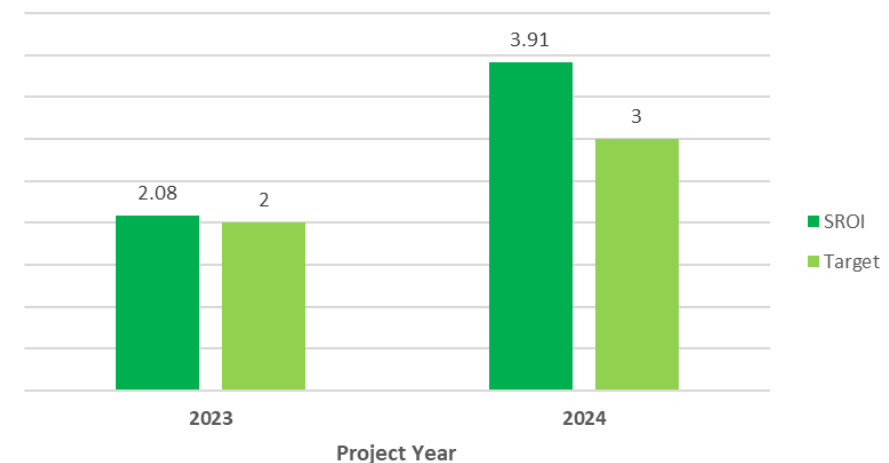
Skills Developed
(no. of people)

Investment since inception = **R118m**

Data as at end October 2024

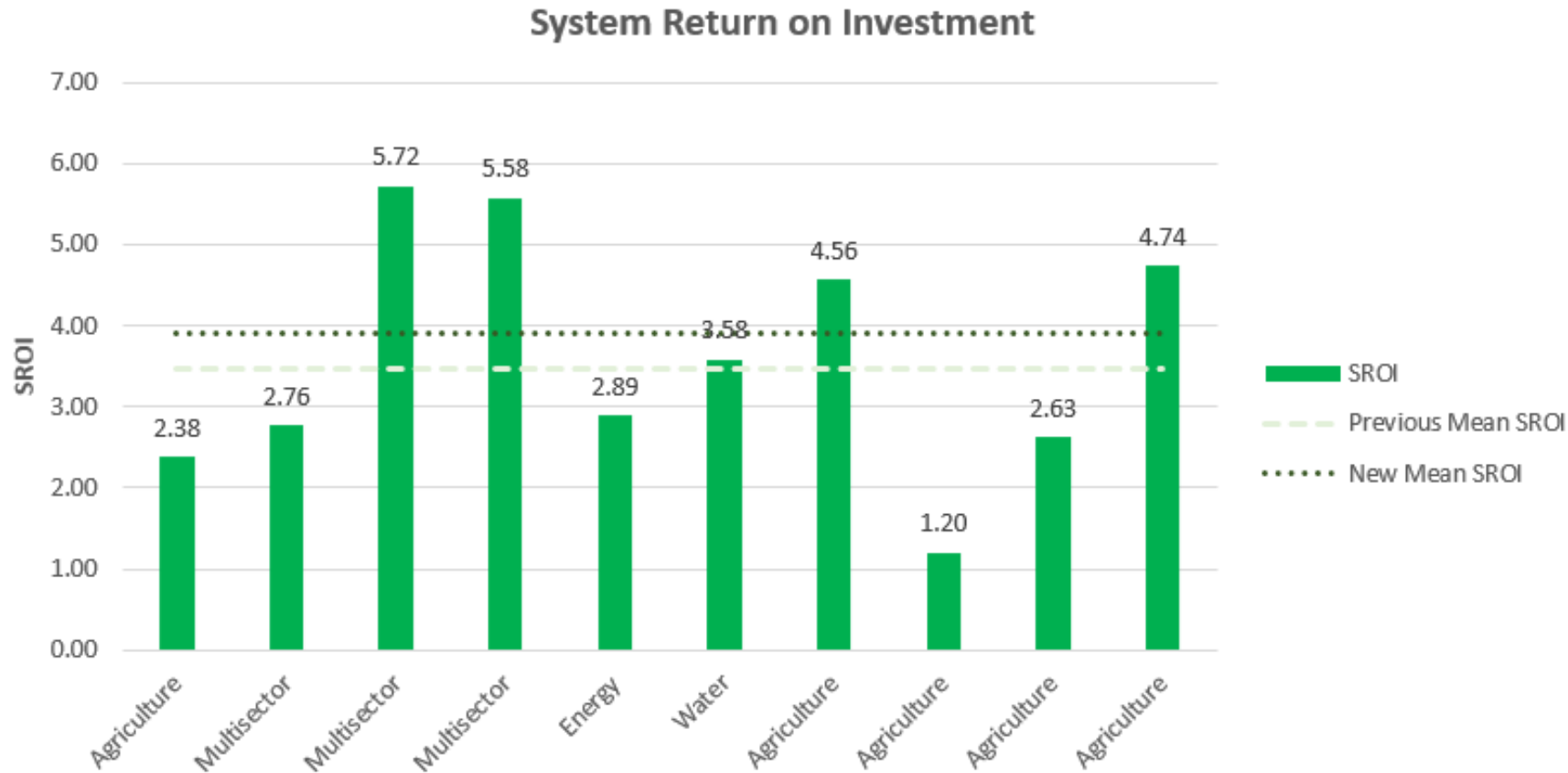


System Return on Investment (2023 - 2024)



SROI has exceeded targets and expectations

SYSTEM RETURN ON INVESTMENT



* System Return on Investment (SROI) includes Social, Environmental & Economic outcomes

R45 544 912
Invested

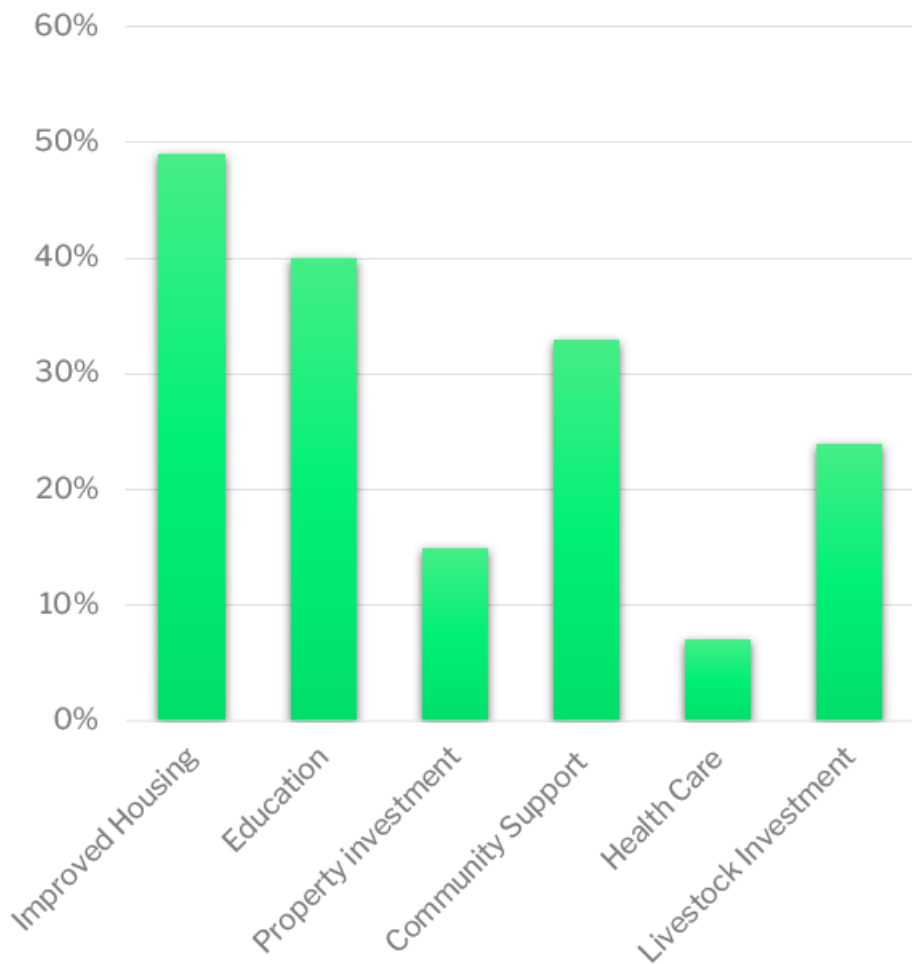
R178 074 159
System Value
Created

3.91
System Return on
Investment (SROI)

Material outperformance in Agriculture & Multisector programmes



Use of new discretionary income



Improved Housing

Employment has enabled **49%** of respondents to move to better housing and **43%** to renovate their homes, showing a positive impact on living conditions

Education

Employment has allowed **40%** of respondents to improve their children's education and **20%** to send household members to school or college, indicating a positive impact on educational opportunities

Property Investment

Only **15%** of respondents have invested in building rooms/flats to rent, suggesting that while some are able to invest, the majority may still lack the financial stability to do so

Community Support

A significant number of respondents have joined stokvels (**32%**) and burial societies (**47%**), indicating increased participation in community-based financial support systems. This can enhance financial security and social cohesion

Healthcare

Although only **7.7%** have joined a medical aid scheme, this still represents an improvement in access to health security for some respondents

Livestock Investment

25% of respondents have invested in livestock, which can provide a source of income and financial security

Wealth creation empowers people to “make their own decisions about their children’s schooling, the food they eat and their healthcare” — Lorenzo Davids

Continue proving our hypothesis

- Outcomes highlight the **transformative potential of circular economy**
 - “The commercial potential of the circular economy is massive, with Fetola’s data indicating outperformance of businesses underpinned by circular economy principles”
- Consequently, co-creating a more socially inclusive and environmentally sustainable economy is not just good for society and the environment, it is astute business!

Nedbank’s business transformation

- We recognise the need for an economic system that more closely aligns the needs of the planet & its people
- We recognise the commercial potential in deliberately co-creating a better economic system
- We will continue to grow and scale with our partners, fulfilling our responsibility in the just transition

Scaling our partnerships

- We continue to seek partners with whom we can collaborate on our transformational journey