

TARSIAN & BLINKLEY SOCIAL RETURN ON INVESTMENT

THE SOCIAL IMPACT OF PRODUCTION IN AFGHANISTAN AND PAKISTAN

Tarsian & Blinkley makes a huge social impact by providing employment and social benefits for its workers and their families in Afghanistan and Pakistan. Its future employees are currently unemployed or earn extremely inadequate incomes under harsh and/or unsupportive working conditions. Its incremental social impact therefore consists of a considerable improvement in wages, benefits and conditions for its future workers and related stakeholders. Tarsian & Blinkley identifies the following quantifiable social benefits of an investment in the Company:

1. **Wages to local production workers** in Afghanistan and Pakistan. We feel that the full wages to local workers are social benefits to the community, since local taxes deducted from those wages also eventually serve a social purpose, given the local economic situation.
2. **Training of workers** and the increase in lifetime wage expectations for these workers. Tarsian & Blinkley intends to provide training and education for its workers. Should workers choose to move to other employment or start their own businesses, we feel that the training and experience acquired from working at Tarsian & Blinkley represents a social benefit to the local community.
3. **Purchases of local Afghan raw materials.** These expenses directly flow to equally troubled regions in the north of the country where cottage industry workers directly benefit from the market created by Tarsian & Blinkley's purchases.

Since the investment in Tarsian & Blinkley will most likely be made by a US entity, we need to express the social impact realized by this investment in Afghanistan terms of a comparable social impact to a community in the United States. We adjust for the difference in minimum cost of living in Afghanistan and the US. The minimum daily cost of living in Afghanistan is estimated at \$ 2.- per day, or \$ 730.- per year¹, where a US minimum cost of living for a household of four would be \$ 9,278.-². One would have to spend \$ 12.71 (= \$9,278 / \$730) in the US to realize the same social impact of spending US\$ 1.- in Afghanistan. Therefore we have to multiply our social impact in Afghanistan by 12.71 to reflect a social impact to a US community. We refer to this adjustment as adjusting for **Social Impact Parity**. In contrast to our social impact in Afghanistan and Pakistan, the incremental social impact of our operations in the US will be negligible; our employees and agents would be engaged in similar activities and would enjoy similar benefits elsewhere, and our customers would purchase and use similar clothing items elsewhere. Table 1 presents an overview of the quantified social benefits offered.

Table 1. Social Impact Cash Flows of Tarsian & Blinkley's Activities in Afghanistan and Pakistan

(in 000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Terminal Value ³
Wages paid	\$ 21.5	\$ 115.4	\$ 415.9	\$ 1,074.8	\$ 1,820.1	\$ 10,706.3
Training & Education	\$ 32.3	\$ 173.0	\$ 623.8	\$ 1,612.2	\$ 2,730.1	\$ 16,059.4
Material Purchases	\$ 0.9	\$ 14.4	\$ 27.9	\$ 79.9	\$ 180.5	\$ 1,061.8
Total Social Cash Flows	\$ 57.8	\$ 318.9	\$ 1,125.8	\$ 2,917.4	\$ 4,985.5	\$ 29,326.4
Discounted CF at 20% ⁴	\$ 50.3	\$256.0	\$ 853.2	\$2,114.5	\$3,484.0	\$ 19,871.9
Cash Flows at	\$ 0.6 M	\$ 3.1 M	\$ 10.3 M	\$ 25.5 M	\$ 42.0 M	\$ 239.6 M

¹ Sarah; stick a couple of NGO references in here

² US census bureau; <http://www.census.gov/hhes/poverty/threshld/thresh02.html>; 2001 poverty level for a household of four, assuming two out of four have income

³ in perpetuity at a 3% growth rate and 20% discount rate

⁴ For our 5 year projection we use the 5-year bond rate of 2.86%, a market risk premium of 7%, an industry Beta of 1,06 (Ralph Lauren, Jones Apparel, Liz Claiborne, Nautica, Perry Ellis, Tommy Hilfiger) and a 10% small cap premium. Many appraisers consider common stock and small stock premiums based on information published by Ibbotson Associates or by Grabowski and King to estimated premiums to Treasuries in the range of 8% to 12% or more for small capitalization investments. [See STOCKS, BONDS, BILLS, AND INFLATION: VALUATION EDITION 2000 YEARBOOK, (Chicago, IL: Ibbotson Associates, 2000); Grabowski, Roger and King, David, "New Evidence on Equity Returns and Company Risk".

Social Impact Parity						
-----------------------------	--	--	--	--	--	--

Tarsian & Binkley’s initial investment of \$ 400,000 has a Social NPV of US\$ 24.9 million at a 20% discount rate and a 3% terminal growth rate. When adjusting these social cash flows for Social Impact Parity to a US community, the project’s Social NPV would be US\$ 320.7 million. As the accounting of social impacts of wages, training and material purchases is straight forward, the sensitivity of our analysis lies in the discount rate and growth rate applied to the terminal values of respective cash flows, and in the Social Impact Parity adjustment. We believe that a \$ 25 million real social impact in Afghanistan is a wonderful thing to pursue, knowing that this compares to a social impact of \$ 320 million in a US community.

WAGES FOR PRODUCTION WORKERS IN AFGHANISTAN AND PAKISTAN

For calculation of the social impact of wages paid to local workers we assume:

- 90% of our future work force is currently and wholly unemployed, an estimate based on personal observations during trial production sessions in Afghanistan in summer 2002, but also reflective of statistics about the region⁵.
- 10% of our future work force is currently employed earning about \$ 0.50 a day. A typical Afghan widow (20% of mature females are widowed), is estimated to make about \$120 to \$180 per year.
- Tarsian & Binkley employs workers full time. Our calculations are based on 12 months per year, 22 days per month, 8 hours per day employment. Embroiderers will be paid \$3.00 per day, tailors \$6.25 per day.
- Taxes (although currently not collected) are also considered a social benefit to the community
- Workers employed in Pakistan are Afghan refugees and will be paid wages similar to those in Afghanistan.
- In calculating a terminal value social cash flow for wages paid in perpetuity, we use a 20% discount rate and a 3% perpetual growth rate after year 5. We feel this standard rate is applicable since the wages paid in Afghanistan depend entirely on the US business environment.

With the labor requirements projected in section XX and assumptions above, we calculate the following social impact from wages paid:

Table 2. Social Impact of Wages Paid In Afghanistan and Pakistan

(in 000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Comments
Tailors	2	11	38	98	166	264 days @ \$ 6.25
Embroiderers	25	132	475	1,228	2,080	264 days @ \$ 3.00
Wages paid	\$ 21.5	\$ 115.4	\$ 415.9	\$ 1,074.8	\$ 1,820.1	\$ 10,706 terminal value

TRAINING AND EDUCATION

Tarsian & Binkley provides training for its employees to the point where they can skillfully perform the tasks required to produce quality clothing. The social benefits that employees receive through increased skill and ability is largely accounted for in the wages paid during employment with Tarsian & Binkley. However, we expect some employees to part with us to start their own businesses or seek other employment in the same field, equipped with skills and a new “can do” attitude. The provided training therefore creates an incremental social impact over the expected economic active lifetime of the trained employee. In calculating the social impact of this training we assume:

- Every year 15% of trained Tarsian & Binkley employees will leave and of these, we expect half to proceed to other employment and half to engage in non-paid activity.
- These workers will realize wages similar to those at Tarsian & Binkley; otherwise there would be little incentive to leave.
- These workers to part from the Company at an average age of 30 and to retire at the age of 50.⁶

⁵ UN Office for Coordination of Humanitarian Affairs: <http://www.irinnews.org/profiles/afghanistan.asp>, and the US-Afghan reconstruction council: <http://www.us-arc.org/statafgh.asp>

- We count the straight cumulative value of these 20 years of anticipated wages, assuming that discounting future wages will be offset by growth in real wages.

Table 3 estimates the social benefits of employee training at Tarsian & Blinkley using these assumptions:

Table 3. Social Impact of Future Earnings Due to Employee Training By Tarsian & Blinkley

(in 000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Comments
Tailors	0.30	1.58	5.70	14.74	24.96	<i>Leaving the company</i>
Embroiderers	3.69	19.78	71.29	184.26	312.01	<i>Leaving the company</i>
Future Income	\$ 32.3	\$ 173.0	\$ 623.8	\$ 1,612.2	\$ 2,730.1	<i>\$ 16,059 Terminal Value</i>

RAW MATERIALS

Wool, cotton, silver, copper, semi-precious stones, etc. are extremely low cost in Afghanistan. The bulk of Tarsian & Blinkley's raw material costs is comprised of the costs of handloom and metalwork *labor*. The creation of demand for such labor can then be regarded as a social benefit to the local workers. Benefits for raw materials purchases are only counted if acquired from domestic cottage industry sources, not from imported sources in Pakistan and India. We calculate the social impact with the following assumptions:

- Tarsian & Blinkley's local cottage industry raw materials consumption ramps up from 20% of its total raw material purchases in Year 1 to an estimated 50% in Year 5 onward
- 80% of local raw material cost is pure labor compensation to local workers
- Similar discount rates apply, since the financial risk is on the sell side in the US

With these assumptions, our raw material purchases amount to the social benefits stated in Table 4:

Table 4. Social Impact of Future Earnings Due to Raw Material Purchases

(in 000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Comments
Purchases	\$ 5.8	\$ 71.8	\$ 116.5	\$ 249.6	\$ 451.3	<i>see financials</i>
Social Impact	\$ 0.9	\$ 14.4	\$ 27.9	\$ 79.9	\$ 180.5	<i>\$ 1.061 Terminal Value</i>

NON-QUANTIFIABLE SOCIAL BENEFITS

- **Healthcare:** Tarsian & Blinkley provides on-site healthcare for workers and their families. We expect to provide for basic healthcare so workers can maintain a basic standard of living and are in the position to perform their daily tasks. In our view, the social benefits of healthcare are already provided for in the wages paid and in the benefits of training and work experience. We feel there is no additional benefit to be accounted for.
- **Economic vitality** will make a less desperate Afghan population, which in turn will reduce the chances of that same population resorting to religious fundamentalist schools, drug smuggling, or warlord militias as the existent methods of relief and hope.
- **Complementing efforts of the international aid community:** Without the controls required to develop international standards and the design and marketing efforts required to access the Western market, the many income-generating projects set up by various international non-profits have no hope of uncovering export markets and fulfilling their original purpose of creating employment for the Afghan women.

⁶ The average life expectancy for Afghan females of 47 years (US-Afghan Reconstruction Council: <http://www.us-arc.org/statafgh.asp>) reflects high child mortality. Most healthy women working at the age of 30 are expected to become 60 years or older.

SENSITIVITY

With the grave living conditions and dire need for reconstruction in Afghanistan, we feel it is justifiable to count most of the wages paid, future wages expected due to higher skill level, education and literacy, and wages paid indirectly through raw material purchases as direct social benefits to the Afghan community in Afghanistan and Pakistan. Our calculation is mainly sensitive to the way we adjust for the social impacts that take place in Afghanistan -- we have expressed the impact in US buying power dollars, as if the impact were taking place in the United States.