PHILANTHROPY, AID, AND INVESTMENT: CREATING A COMMON LANGUAGE

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EXECUTIVE SUMMARY:

The recently released United Nations 2007 Update on Africa suggests that, despite an unprecedented level of attention and focus from major philanthropists, celebrities, academics, corporations, and governments on Africa's urgent and crushing needs, sub-Saharan Africa is not on track to achieve any of the Millennium Development Goals. One reason is the lack of collaboration, or even coordination, among these kinds of actors. Philanthropy, international aid, and foreign direct investment are three entirely separate sectors that operate in very different ways while pursuing goals that overlap to a surprising degree. The challenge then is whether this commonality of goals can be leveraged to build collaboration across sectors in order to accelerate social progress and increase the impact of current expenditure levels. If a common set of evaluation metrics and procedures were adopted across all three sectors, it would streamline the evaluation process for all players and help forge a common language across these very different organizational cultures. This coordination would increase the possibility for greater impact on the economic, social and environmental development of Africa.

The recently released United Nations 2007 Update on Africa offers a sobering conclusion: "At the midway point between their adoption in 2000 and the 2015 target date for achieving the Millennium Development Goals, sub-Saharan Africa is not on track to achieve any of the Goals."[1]

[1] www.un.org/millenniumgoals/docs/MDGafrica07.pdf

This conclusion is especially discouraging in light of the unprecedented level of attention that major philanthropists, celebrities, academics, corporations, and governments have in recent years focused on Africa's urgent and crushing needs. Why has so much money, publicity, and good will produced such limited effects?

One reason, I suggest, is the lack of collaboration, or even coordination, among these different kinds of actors. Philanthropy, international aid, and foreign direct investment are three entirely separate sectors that operate in very different ways. The institutional cultures, backgrounds of staff, and incentive structures are entirely dissimilar, as are the channels of communication, the conferences they attend, and even the terminology they use. Yet the lack of cooperation among these three separate flows of capital limits the impact that each can achieve both independently and in the aggregate.

At the same time, despite their differences, the goals that each sector is hoping to achieve overlap to a surprising degree. This is not to suggest that their goals are identical. Philanthropic donors often bring personal values or religious convictions that other sectors do not share. Government aid may be linked to political objectives, and corporate investment aims to make a profit. Yet the humanitarian objectives that government and philanthropic assistance serve—such as fostering a well-nourished, healthy, educated, productive, and peaceful society—are also the preconditions necessary for businesses to flourish. The widespread acceptance of the Millennium Development Goals among all three sectors highlights this overlap in objectives. Yet when it comes to evaluation, each sector—indeed each actor within the three sectors—often struggles to arrive at a separate and unique set of performance measures.

The challenge then is whether this commonality of goals can be leveraged to build collaboration across sectors in order to accelerate social progress and increase the impact of current expenditure levels. Foreign direct investment in Africa amounted to $40 billion in 2006.[2] International aid amounted to another $79 billion, of which roughly 1/3 consisted of debt relief and approximately $50 billion was in current aid. Philanthropic contributions, operating on a much smaller scale, were under [$2] billion.[3]

In practice the lines between these three sectors are less clear when one looks at the flow of funds. A considerable amount of government aid is administered by the NGOs and multilateral organizations, who also receive much of the charitable contributions. Corporate investment follows a very different path, but government programs in many countries provide investment capital for business enterprises or major construction projects, as a form of aid, but with the expectation of financial returns similar to conventional investments. Therefore, although the decision-makers behind these allocations often operate in isolation from each other, the support they provide is often commingled in ways that disregard the different tools they bring.

It is only by understanding the differences and interdependencies among these sectors that a more strategic alignment can be developed. The greatest impact will be

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[2] Economic Development in Africa Report 2007 (UNCTAD).
[3] Still researching this number.

achieved when each sector directs it's funding to projects that it can undertake more efficiently or effectively than the other two sectors, and which simultaneously help support the developmental needs of those other sectors.

At the same time, the overlapping nature of the goals suggests that a common set of evaluation metrics might be promulgated across all three sectors. Common evaluation processes could, in fact, represent the key leverage point to build collaboration among these disparate sectors. If each sector is working toward common ends, tracked by the same measures, then despite their many profound differences, the activities of the three sectors will inevitably begin to align.

STRATEGIC ALIGNMENT

All three sectors exercise selectivity in deciding how to spend their money, conditionality by imposing requirements on the recipients, and evaluation by looking for results. Viewed strategically, however, each sector brings a very different set of tools to these activities. Foundations can act with complete independence, support innovative and untested projects, fund research, and invest their endowment capital. The funds at their disposal, however, are minimal compared to the other sectors, and their limited staffing means that they can provide little support beyond their cash contributions. They do, however, bring influence and the power to convene on neutral ground. Foundations are often more trusted than governments or corporations because they are viewed as being without ulterior motives. As such, they can sometimes enlist the cooperation of NGOs and local governments to a greater degree than other sectors.

The William & Flora Hewlett Foundation and the German Marshall Fund, for example, were able to assemble the International Food & Agricultural Trade Policy Council (IPC), a group of influential leaders in farming, agribusiness, government and academia, to develop policy recommendations to end distorted agricultural subsidies. The policy papers were introduced into the Doha Development Round process, and the recommendations were promptly integrated into the proposals from the G20. The foundations played an important role in establishing contacts for IPC and in disseminating their work.

In contrast, corporations have extensive non-monetary resources, specialized expertise and a deep in-country presence that neither foundations nor government agencies could match. They have the ability to employ people directly, to train them, establish reasonable working conditions, provide access to global technology and distribution, and through their supply chain purchasing, inject substantial income into a region. The multiplier effect of their investment contributes broadly to sustainable economic development by creating wealth that is redistributed to employees and, through taxes, to governments. Their direct presence serves as an important complement to the more attenuated role of foundations and aid organizations that fund others to manage and implement projects on their behalf. Despite the power and breadth of their resources, however, the competitive pressures under which they operate leave little room for them to dedicate any substantial portion of their resources to the altruistic ends that foundations and aid agencies more fully embrace.

As an example of direct and coordinated impact by a corporation, consider GE's health care initiative to develop and equip hospitals in Africa. Unlike most corporations, GE took advantage of the expertise in aid and NGO organizations in planning its work, conducting over 100 interviews with experts from UNICEF, AfriCares, EU, USAID, and the U.S. State Department. Based on this advice, GE decided to invest in building and equipping a hospital in Ghana. The district they chose had a population of 100,000 people, but no reliable power, clean water or access to health care other than a single midwife.

Realizing that any solution required local ownership and participation, GE developed a cross-sector partnership that included the state health ministry, local members of parliament, the mayor, tribal leaders and nonprofit organizations working in the region. Each partner contributed to the project: The government waived import fees on the equipment that GE donated, the ministry agreed to assign a doctor to the region and to complete a half-finished abandoned hospital building, and the nonprofits worked with tribal leaders and local residents to dig trenches for water pipes and construct a building to house the generator. Nine months after GE first selected the district, the hospital was complete, fully staffed and functioning. GE now has eight similar projects underway in Ghana and is committed to opening hospitals in all of the 22 districts that currently lack them. In addition, they are extending their work to South Africa, Malawi, Tanzania, and Uganda. GE's accomplishments depended on the expertise and direct investment of corporate resources, but also on its willingness to engage local government and nonprofits as partners in its work. In many cases, cross sector partnerships such as these enable rapid and systemic solutions that no single player could bring about on its own.

Aid organizations bring yet a different mix of capabilities from foundations or corporations. They can respond to humanitarian needs on a scale that dwarfs the charitable contributions of philanthropists and corporations. Generally, they must operate with the cooperation of local governments, and in cases where local government is unwise or corrupt, it may be difficult for them to operate effectively. Their scale of operation also means that they cannot be as selective about the recipients of their aid, nor efficiently engage in small-scale experimental programs.

Aid efforts, however, have the scale to impact societal conditions in a way that can pave the path for business. Corporations often cannot justify the excessive investment required for infrastructure where societal conditions are inadequate to support profitable operations. The region may lack access to energy, stable capital markets or a skilled labor force; transaction costs and traditional ways of doing business may be overly burdensome. Neither philanthropic dollars nor corporate investment can overcome these barriers, instead governmental aid is required to help reshape local conditions.

In sum, by concentrating on their different capabilities and interdependencies, philanthropy, aid, and corporate investment could leverage each other to achieve greater impact. Measuring that impact consistently across sectors, however, is equally important to sustained collaboration.

COORDINATED EVALUATION

If a common set of evaluation metrics and procedures were adopted across all three sectors, it would not only streamline the evaluation process for all players, but it would help forge a common language across these very different organizational cultures. Simply stated, the clarity of pursuing a common set of goals, tracked by common indicators, would lead to greater strategic alignment.

As yet, there are no generally accepted evaluation metrics that cut across all three sectors and all types of projects. The UN, along with many other agencies, tracks macro data about progress toward the Millennium Development Goals, but this is at far too high a level to evaluate the results of specific interventions. What is needed is a common set of metrics that can be applied at the project, regional, and national level, for all types of initiatives. Despite the wide variety of initiatives undertaken by different actors, all interventions create some or all of four types of impact:

Financial returns – For corporate or government investors that expect a financial return, whether in the form of direct corporate investments, aid-related investments in SMEs, or loan repayments, one measure of success is the money earned on the investment. This is not only important to the investor, but is an essential step in economic development. If investment capital earns a sound return, more will follow; if not, the investments may create short term benefits but is unlikely to be sustained.

Socioeconomic benefits – Socioeconomic benefits are improvements in the economic status of a target population as a result of the initiative. At the individual level, these benefits include job creation and increased earnings or cost savings, such as reduced time collecting fresh water or fuel. At the national or regional level, socio-economic benefits include increased government tax revenues, decreased costs in providing public services, along with increased regional investment and economic activity.

Social benefits – Social benefits are improvements in the wellbeing of a target population as a result of the initiative, such as better health, education, or quality of life. Specific metrics are needed for each type of benefit, such as mortality rates by age as a measure of health, but a limited list of representative metrics can be developed.

Environmental benefits – Environmental benefits are improvements in the natural environment resulting from initiative, such as cleaner water, reductions in the emission of greenhouse gases, or reduced rates of deforestation. Again, a limited list of representative benefits can be developed.

Although these categories are quite broad, they can serve as the starting point for a set of quantitative and qualitative metrics that can be tracked against an initial baseline for any initiative. Many different indicators can serve as valid proxies for progress. What matters is the consistency of metrics and data collection across different initiatives, enabling a common language to evolve that can facilitate collaboration and mutual learning.

Take, for example, an initiative called Renewable Energy Enterprise Development (REED) developed by the United Nations Environment Programme, in partnership with the

United Nations Foundation and E+Co. REED provides financing and business development support to small and medium-sized clean energy enterprises in Africa, Brazil, and China. The chart below lists the indicators that REED uses to evaluate progress against its goals.

Performance Type	Performance Indicators
Financial	▪ Return on investment ▪ Financial performance of the investee enterprise (*e.g.*, sales, gross margin, net profits, increase in assets)
Social	▪ Improved health of consumers from use of cleaner energy ▪ Enhanced quality of life for consumers from spending less time obtaining other sources of fuel
Socioeconomic	▪ Additional jobs created by the enterprise ▪ Increased income of enterprise employees ▪ Customer cost savings from access to cheaper energy source ▪ Increased income for related industries ▪ Additional financing raised by enterprise as result of REED/E+Co's investment
Environmental	▪ Greenhouse gas offsets (tons CO_2 equivalent), valued at the price of carbon credits traded on the global market ▪ Deforestation avoided or forest reclaimed (hectares)

REED's local program officers collect the financial and operational data from investees and enter it into a standard format as part of their regularly scheduled visits. REED staff and consultants also interview a wide range of stakeholders including local community residents and governmental agencies. This wide range of perspectives enables REED to take a broad view of impacts, looking beyond the investee itself to the community and supporting industries.

During the interviews, REED's interviewers ask about the most important social or non-financial benefits that resulted from the investment. The responses are categorized, and REED reports the five most often cited qualitative impacts as part of its summary, along with a one-page narrative about the enterprise and the results of the investment. The result is a concise but holistic report based on a methodology that could easily be translated across different projects.

Given the relatively small contribution of philanthropic capital from foundations, representing less than 5 percent of the resources from each of the other two sectors, it may be that facilitating strategic alignment, developing common metrics, and devising a consistent system for collecting them, is the best way to leverage foundations' contributions by increasing the impact of aid and corporate investment.

CONCLUSION

Strategic alignment and coordinated evaluation among the philanthropic, governmental, and corporate sectors that are contributing to the economic, social and environmental development of Africa offers the possibility of greater impact through better collaboration.