A brief guide to high-impact philanthropy

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Four Questions

A charismatic and capable social entrepreneur brings you a project to fund. You're intrigued, but you want to be as sure as you can that your investment will create big and lasting change—in other words, that the thing will a) work and b) scale -up. Here are the four critical questions to ask:

1. **Does the project have measurable and proven impacts?**
2. **Are the impacts cost-effective?**
3. **Will the impacts be sustained?**
4. **Can the project be replicated and taken to scale?**

Large-scale, lasting change requires that you can answer "yes" to <u>all</u> four of these questions. Projects with a history can be evaluated on the basis of their track records, while new ventures must make a persuasive case that their design and implementation will produce a "yes" answer to all four.

Question 1 – Measurable and proven impacts?

First you must understand what impacts the project is trying to achieve; then you need to know how they measure these impacts. For example:

- A project working to reduce the incidence of malaria by distributing mosquito bed nets must demonstrate that the incidence of malaria is in fact reduced. It is not enough to simply report on the number of nets distributed – the link to impact may not exist. Nets can be improperly used, sold by the beneficiaries for quick cash, or even used as fishing nets. It is not enough to track activities and behavior change – you need to track the *ultimate impacts in terms of the primary mission* of the project.

- A project that aims to reduce poverty by helping poor people start businesses needs to show that the participants earn significantly more net-income after the intervention than they did before it. Business training, access to credit, or "empowerment" may or may not get people out of poverty—measuring incomes is the only way to know for sure.

The quality of impact data is of course important: randomized prospective trials, while the gold standard, aren't always feasible or necessary, but you must at least try to

ensure that there is a reasonable comparison made with a non-intervention group and that there are meaningful baseline data.

If a project leader claims that it is too difficult to measure the impacts, you have to wonder how they know if they're doing any good. If the project can't prove impacts, it's not worth going any further.

Question 2 - Cost-effective impacts?

OK, so the project can show impacts, but are they cost-effective? You need to know how many donor dollars it takes to produce a given impact. A mosquito-net project must calculate how much it costs to prevent a case of malaria; a poverty reduction project should know how much local incomes were increased for every dollar spent.

Cost-effectiveness is relative, so compare the project to other projects working to produce the same impacts in similar areas. If you have nothing to compare it to, then at least ensure that the cost-effectiveness can be measured and that it feels reasonable to you.

Don't worry about percentages of "overhead" or "administration costs"- these are not very meaningful numbers. Everyone defines them differently and different types of projects require different cost-structures. Instead, look at the *overall* cost-effectiveness of the project – the *total impacts divided by the total cost*. New projects spend money on design, infrastructure and fundraising before they generate impacts, so they are inherently less efficient—that's OK, but they must show you how they plan to become cost-effective over time.

Many projects claim a host of impacts for a single investment, making cost-effectiveness calculations impossible. Many of these additional impacts are best viewed as secondary to the emergence of the key impact. Stick to the real mission, the primary outcome that the project set out produce. For example, a poverty-reduction program that works will create a host of subsidiary and ripple effects, but we hold it accountable and measure its effectiveness by the thing it set out to do: increase income.

In any case, if a project can't demonstrate—or at least project—cost-effectiveness, it probably isn't scalable. If a project *can demonstrate* cost-effective impacts, then you can spend a lot less energy on the usual due-diligence/oversight stuff that requires so much donor and staff time and energy—you already know they're spending the money well.

Question 3 - Sustainable impacts?

Even with proven and cost-effective impacts, you need to know if the project can pass the "**walk-away test**;" i.e., what will happen when the current project and donor

financing end: Will the impacts be sustained? Will the current beneficiaries of the project continue to benefit? Will the project leave in place a mechanism that will provide new impacts to new beneficiaries? This is sustainability – whether impacts last:

- Will the people who are given mosquito nets continue to use them? Will the nets continue to be effective? Will they get replacement nets? Will new people want and be able to get nets?
- Will the businesses that people have started continue to prosper? Will more people start new profitable businesses over time?

There are two critical aspects to sustainability, to passing the walk-away test. The first is **lasting behavior change**. Impacts happen because people change the way they behave—farmers switch to using manual irrigation pumps, families use mosquito nets, merchants sell products that help people. The second is whether there is a successful **exit strategy.** A successful exit strategy is one that leaves in place an organized structure that will continue to generate impact-making behavior change—a profitable supply chain that continues to sell irrigation pumps to farmers, say, or a government program that effectively supplies mosquito nets to mothers of young children.

Lasting behavior change is mostly a matter of incentives—whether they're in place, adequate, and durable. The nature of the incentive is important—coerced behavior is the least stable (locking people out of the forest); self-reinforcing behavior the most (think of a shopkeeper making money, or a mom learning ways to save her child's life); compensated (paid) behavior is somewhere in the middle. Equally important is whether the various incentives of key players are aligned toward the same ends. Look at the design of the project: are the behavior changes that create impact supported by plausible and stable incentives? If not, send the project back to the kitchen, the impacts won't last.

There are only three kinds of **exit strategy**. Each has its own strengths and limitations, and which strategy *or mix* of strategies works best depends on the characteristics of the designed intervention. These strategies include:

1. **The government**. The project can hand over the delivery of the intervention to the local government. Governments have the heft and obligation to sustain successful interventions and can provide the resources and infrastructure needed for scale-up. However, governments tend to shift priorities often and most developing country governments lack the funds and capacity to effectively implement the programs. Moreover, efficiency is not the norm, as incentives and infrastructure are not properly aligned.

2. **Businesses**. The project can leave in place a money-making business model and supply chain which will continue to provide goods and services because everyone in the system has incentives to make it work. However, although market mechanisms can create reliable and stable solutions, they don't always provide equitable outcomes, and not all problems lend themselves to market solutions.

3. **Nobody**. The project can leave in place durable new behavior norms (you're considered an idiot not to use a bednet), "viral" behavior change mechanisms (spontaneous adoption, fads) or self-reliant community organizations that continue to solve local problems on their own—or it can permanently eradicate the problem, as in the case of smallpox. However, while there are notable exceptions, cost-effective models that accomplish any of these things *in a lasting way* remain relatively rare.

Some projects can integrate more than one of these strategies - such as public/private partnerships, government support of community groups, or donor-supported research to create a marketable social product - but keep in mind that the more complicated the solution, the less likely it is to sustain impacts in the long-term.

Finally, don't confuse the sustainability of the impacts with the financial sustainability of the implementing organization. It takes money to develop interventions, to create systems to deliver the interventions, and to establish interventions in new settings. The critical thing is to leave in place a system that continues to generate positive impacts even after the organization moves. In the social sector, where governmental and market failures must be overcome, NGO's that continue to innovate and extend to new settings will require continued philanthropic capital. A commitment to financial sustainability only makes sense if it can be shown to maximize impact in terms of the mission.

Question 4 - A replicable and scaleable model?

If the project can create proven, cost-effective impacts delivered in a sustainable way, you need to know if it can be successfully replicated in new settings and taken to scale. It is expensive to develop successful models for social change and we can't afford to reinvent the wheel. The best models will create cost-effective and sustainable impacts in many different locations and conditions, and can also be used to solve other, similar problems.

In general, replicable and scaleable models for change are:

1. **Systematic** enough to be distilled into a straightforward methodology.
2. **Simple** enough that they can be copied (not too many moving parts).
3. Broadly **adaptable** to a wide range of cultures and settings, and not dependent for their success on unique circumstances like local subsidies or a charismatic political leader.

4. Highly **leveraged,** designed to tap a scalable source of revenue for growth. Keep in mind that there are only three sources of revenue: taxes (government), profits (the market), and philanthropy. Again, most efforts to solve the big problems of the poor require some level of philanthropic capital to overcome market or governmental failures.

Replicable models to produce lasting change can take different forms. Some (such as high quality micro-finance) are more like a turn-key business model and can be replicated in new settings with only minor modifications. Others involve a broadly applicable process that can generate unique solutions in new settings — e.g., a model that includes detailed local market research as part of a way to generate new business franchises. But in all cases a replicable model is one that can be reduced to a simple and systematic method that will lead to the desired impacts in varied settings.

In conclusion

Saving the world isn't easy, and any project that can generate proven and cost-effective impacts is already well ahead of the pack. However, the problems to be solved are enormous, and the resources are very limited. The savvy social investor must go for maximum social return. Whether the project sets out to prevent malaria, get farmers out of poverty, or save our remaining forests, only when the answer is "yes" to all four of these questions can you hope to create big and lasting change.

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