

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 sure that your investment will create big and lasting change. Here are 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 all four of these questions.

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 be there. Nets can be improperly used, sold by the beneficiaries for quick cash, or even used as fishing nets. Simply tracking activities is not enough – you need to track the impacts of those activities.
- A project that aims to reduce poverty by helping poor people to start businesses needs to show that the participants earn significantly more net-income after the intervention than they did before it. Business training or access to credit may or may not get people out of poverty—measuring incomes is the only way to know.

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 cost 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 costs. New projects spend money on design, establishment 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.

In any case, if a project can't demonstrate—or at least project—cost-effectiveness, you needn't spend any more time on it.

Question 3 – Sustainable impacts?

Even with proven and cost-effective impacts, you need to know if the project can pass the "walk-away test"—what will happen when the project and the donor funding ends? Will the impacts be sustained? Will the current beneficiaries of the project continue to benefit? Will the project leave in place a mechanism which will provide new impacts to new beneficiaries?

- 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 new people be able to start new profitable businesses?

Because no project can rely on donor funds forever a truly effective project must have sustainable impacts. And it turns out that there are only four distinct ways that a project can pass the "walk-away test".

1. The project can hand-over the provision of goods or services to the local government – which will fund the continued interventions by collecting taxes. For example:

- The public health system can buy and hand-out mosquito nets to poor people.
- The government can donate machinery or training, or offer subsidized credit to poor people who want to start new businesses.
- Governments can contract companies or non-profits to provide the services.
- Governments can also pass and enforce new laws that help sustain social impacts.

In too many cases, though, reliance on government is not a sustainable solution. Even developed countries governments often cut spending on social programs, 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. 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.

- Mosquito nets can be distributed and sold to poor people thru the private sector. They may be highly subsidized at the start, but eventually as volumes and market acceptance grow and prices come down, they will reach a “tipping point” where they can be sold in a purely sustainable way.
- Machinery, credit and training that help poor people to establish profitable businesses can also be provided thru profitable private sector entities.

Because self interests are aligned – and businesses create a win-win proposition for all the parties involved – this is often the most sustainable type of solution. Market mechanisms can create reliable and stable solutions, but they don’t always provide equitable outcomes, and not all problems lend themselves to market solutions.

3. The project can leave in place a self-reliant community organization that continues to solve local problems with no external sources of funding. However, this can only work if all the participants continually benefit from their actions. A good example is a “merry-go-round” savings group — where members get a regular pay-out from group savings. Here a simple mechanism generates ongoing incentives for all the participants, and new members can join, and new groups can be formed at no extra cost. Unfortunately, though, there are still relatively few effective models for this sort of sustainable community mobilization.

4. Finally, a project may work to permanently eradicate the problem it is trying to solve. Either it can get rid of the problem itself, or it can permanently change a no-cost social behavior. Malaria was eradicated in the US and 'hand washing before eating' is a social norm that has saved many lives. Unfortunately, significant problems amenable to this approach are rare and such projects are generally expensive to implement.

Some projects can integrate more than one of these methods – such as public/private partnerships, or government support of community groups – but keep in mind that the more complicated the solution the less likely it is to sustain impacts in the long-term.

Which exit strategy — or integration of strategies— is best for a given project depends on the kind of change wanted, and the kind of processes that create that change. However, in every case the impacts will only be sustained if the incentives are aligned so that all the key players benefit when the desired change happens.

Creating sustainable impacts is not easy, and one can not know if a project will actually pass the “walk-away test” until well into the future. None-the-less any high impact project must have a well thought-out plan for making its impacts sustainable. But remember, it takes a long time to solve difficult social problems, so don't expect a project to leave sustainable impacts in place quickly—after all, it took almost ten years and billions of dollars of lost investments to generate sustainable business models for the internet.

Finally, don't confuse the sustainability of the impacts with the financial sustainability of the implementing organization. The critical thing is to leave in place a system that continues to generate positive impacts even after the organization leaves. To do this requires money, and once an organization has succeeded, the organization will most likely require on-going funding to expand the project into new locations, and/or to develop new high impact projects. As long as the organization continues to use donor funds to leave in place cost-effective and sustainable impacts, this is not a bad thing.

Question 4 – A replicable and scaleable model?

If the project can create proven, cost-effective impacts delivered in a sustainable way one then needs to ask if the program can be successfully replicated in new settings and taken to-scale. Developing successful models for social change is expensive and we can't afford to reinvent the wheel every time. The best models can 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 scalable models for change are:

- Systematic enough to be distilled to an easily understood methodology.
- Simple enough that they can be copied.
- Flexible enough to be adapted to new settings and problems.
- Not dependent for their success on unique circumstances; a unique local institution, a unique local market opportunity, a local government figure or a charismatic leader – because none of these things are replicable.

Replicable models for producing 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 approach that can generate new 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 different settings.

In conclusion

Social change is not 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. To solve the problems we need to be as efficient as possible, which means generating sustainable impacts that can be replicated and scaled-up. Only if you can answer “yes” to all four of the questions can your investment create big and lasting change.