Beyond feel-good Philanthropy

By Dr Michael Liffman, Director of the Asia-Pacific Centre for Social Investment and Philanthropy at Swinburne University.

I am sure we have all experienced that strange feeling when driving, of arriving at the other side of a difficult intersection with no recollection of how we crossed it. The current debate overseas about the importance of impact in giving reminds me a little of that feeling. Suddenly, instead of talking about the virtue of giving, the commentators are talking about ‘social return’.

Typical is the December 2009 issue of that especially useful UK-based journal, Alliance which draws attention to commentators who urge that outcomes are more important than donor intentions.

A discussion at the European Foundation Centre Conference in Rome last year led to leading British consultant (and one of APCSIP’s early Waislitz Visiting Fellows) David Carrington being commissioned to produce a report asking whether better research into philanthropy and social investment could improve the practice of philanthropy.

New Capital Philanthropy (NCP) (www.philanthropycapital.org) an exceptional UK based organisation which came into being in order to increase the impact achieved by charities and their funders and to share this as widely as possible, has now joined with Germany’s Bertelsmann Stiftung to create an Association of Nonprofit Analysts. NPC has also added to its already outstanding list of reports a new publication, unhelpfully entitled The Little Blue Book, explaining NPC’s charity analysis framework, and looking at how charities can assess their effectiveness in six performance dimensions. In the USA GiveWell (www.givewell.net) also leads the way in analysing causes, needs and the charities which serve them and offering explicit assessment of what works, and which agencies are most effective.

Both NCP and GiveWell are something of a blend between Choice magazine, offering charity supporters a guide to quality products, and an investment prospectus for social investors.

In the US media such as the Wall Street Journal regularly run stories drawing attention to the importance of philanthropic effectiveness. The recent tragedy in Haiti has led some commentators to the courageous position of suggesting that the rush of giving to relieve that catastrophe may not be the most effective way of converting compassion to results.

Suddenly, therefore, instead of talking about how wonderfully risk-taking, innovative and transformative philanthropy is, the commentators are talking about the need to make sure that social investment is effective, and can be shown to be so. This is, in my view, a very good place for the debate to have moved to.

Encouragingly, a similar focus is emerging in Australia too. The Centre for Social Impact is offering useful resources for the measurement of social return through the December issue of its publication Knowledge Connect, and its forthcoming short course: http://csi.edu.au/latest-csi-news/ksi-march-newsletter/#Social

“I contend that a mature philanthropic sector is one which recognises that generosity does not exonerate virtuous people from the responsibility to consider the effectiveness of their actions, by ensuring that their gift, if not maximising the good it can do, is at least is doing some real good.”

But while there is increasing, and largely welcome, noise around this area from commentators, practitioners, consultants and academics, it seems to me that the pointy end of the work is still based around the USA’s GiveWell, and the UK’s New Philanthropy Capital.

Indeed the GiveWell story, if its website is anything to go by, is quite remarkable, and makes for the most invigorating and challenging professional reading I have encountered for quite some time. The GiveWell story is extensively documented, commencing with a forthright statement suggesting that much of the work of many charities, including the most celebrated, is unaccountable and frequently ineffective; that many of the policy directions most accepted within various fields are unproven or even counter-productive; and that the other ratings agencies, such as the US’s Charity Navigator or Australia’s GiveWell (which is not affiliated with the American GiveWell), are unrigorous and near useless. All of this, and GiveWell’s unapologetic insistence that it is not unkind, but, on the contrary, obligatory, to ruthlessly look behind intentions to study impacts, is courageous and refreshing.

The passion and directness with which GiveWell (US) does its work, and writes its reports, investigations, and blogs, is something to behold. GiveWell takes no prisoners. Some of the most hallowed names and causes, particularly in the international development field to which GiveWell gives greatest priority, fail GiveWell’s assessments. For instance, ‘building
wells often fails to reduce water-related illness, and there are better options for donors looking to change lives.’ And, going where most fear to tread, GiveWell asserts that Oxfam does not provide sufficiently rigorous information to enable GiveWell to confidently recommend it to donors.

Trying to ensure that, in its call for absolute transparency, GiveWell practices what it preaches, GiveWell’s homepage prominently features a detailed and sometimes damning list of its own shortcomings (this, even though some years ago, GiveWell’s founder was found to be manipulating online research in an unethical way which led to a severe and public reprimand and apology from its own board).

New Capital Philanthropy, as one might expect of an outfit based in London rather than New York, is more measured and detached, although no less rigorous. But its mission is the same: ‘to put effectiveness at the heart of how all charities work and how all funders give’. New Philanthropy capital was established by Goldman Sachs staff who were trying to find the best way to give away money to charity. It does this by undertaking in-depth research of social issues and analysing charities’ effectiveness. To date, over 50 reports have been published, covering such varied topics as the effectiveness of strategies to assist youth offenders, and options for supporting NGOs in India.

Behind these organisations is a challenge rarely given voice in Australia. It is easy, and polite, to enjoy and commend the good feeling gained from a generous act, to avoid engaging with the complexities of saving the world, and to promote the mutual self-congratulation which characterises the philanthropic sector. But I contend that a mature philanthropic sector is one which recognises that generosity does not exonerate virtuous people from the responsibility to consider the effectiveness of their actions, by ensuring that their gift, if not maximising the good it can do, is at least is doing some real good.

This approach to philanthropy, perhaps better described as social investment than benevolence, requires candour and a caution about sentimentality. It also requires a willingness to admit to failure, or unintended consequences. A range of technical skills are entailed – research, policy analysis, project management – as well as the more subtle ones of judgement and emotional intelligence. But possibly even harder to bring to the task are a suspicion of orthodoxy, and a willingness to confront peer thinking. Real risk-taking, and a consequent admission and analysis of failure, is integral to the continual assessment of effectiveness.

Arguably, profound global forces and events have lead our overseas counterparts to this new, more hard-nosed approach to the former sacred cow of philanthropic giving. The economies the global financial crisis and the Madoff scandal have forced even the mega-foundations to make, the continued existence of so many of the age-old ills philanthropy sought to cure, and the emergence of the new ones such as climate change, must lead to questioning of how money is best spent. Australia, too, is subject to these forces, and it is to be hoped that our colleagues in the philanthropic sector will agree that we have an opportunity, and indeed an obligation, to explore this path and take us to a new level of purpose and maturity.

Impact investing: creating social and environmental returns alongside financial returns

Kylie Charlton, the Social Investment Fellow at the Centre for Social Impact, explains that the new industry of impact investing is at the forefront of the idea that investment, rather than philanthropy, will be the vehicle to mobilise the capital needed to address global challenges.

The philanthropic and investment landscape is rapidly changing as around the world charitable and government capital is recognised as insufficient to address today’s social and environmental challenges. Despite the events of the global financial crisis, over the past year interest in harnessing the capital markets to address these challenges has grown significantly.

Unravelling Impact Investing

Impact investing helps solve social or environmental challenges while generating financial returns. The industry of impact investing has taken hold in the US and Europe over the past decade, with industry pioneers developing investment opportunities in the areas of microfinance, community development finance, global health and clean energy. Monitor Institute forecasts impact investing will represent 1 per cent of total global managed assets approximated at US$500 billion (A$561 billion) within the next decade.¹

Impact investors are diverse. Individuals undertake impact investing to express their values through their investments. Private and public foundations see impact investing as a way to maximise their impact by augmenting grantmaking with the effects of an investment strategy aligned with their mission and values. Impact investing also provides foundations an alternative to perpetuating grant dependency in those they support. Institutional investors such as pension and mutual funds are looking to satisfy the demand from their clients to hold a range of investments offering more than simple negative or best-in-class screens.

Some impact investors decide to fully integrate impact investing into their overall portfolio allocation, while others elect to carve-out a dedicated pool of capital from their portfolio. For example, last year the Bill and Melinda Gates Foundation announced it would carve-out US$400 million (A$449 million) for impact investing. This move signals a shift