HARVARD INTERNATIONAL Review

SPRING 2006 • Vol. XXVIII, No. 1

SOVIET LEGACIES

MIKHEIL SAAKASHVILI
PRESIDENT OF GEORGIA
ON **GEORGIA'S FUTURE**

MICHAEL MCFAUL
STANFORD UNIVERSITY
ON **DEMOCRATIZATION**

YAROSLAV BILINSKY
UNIVERSITY OF DELAWARE
ON **BALTIC REALIGNMENT**

VITALI SILITSKI
STANFORD UNIVERSITY
ON **BELARUS' DICTATOR**

PLUS...

TOM DASCHLE
FORMER US SENATE DEMOCRATIC LEADER
ON **US FOREIGN POLICY**

JOHN YOO
UNIVERSITY OF CALIFORNIA, BERKELEY
ON **EXECUTIVE POWER**

AMITAI ETZIONI
GEORGE WASHINGTON UNIVERSITY
ON **RELIGIOUS EDUCATION**

ERIC THURMAN
GENEVA GLOBAL
ON **PHILANTHROPY**

the former
soviet union

$7.95 (Can. $9.95)

ERIC THURMAN

ERIC THURMAN is CEO of Geneva Global, which provides research, advice, and grant management for philanthropists worldwide. He was formerly CEO of Opportunity International and HOPE International.

Performance Philanthropy

Bringing Accountability to Charitable Giving

Rightly, 2005 will be remembered for the huge public generosity demonstrated in the face of multiple disasters. It should also be remembered as the year when traditional philanthropy displayed how stagnant and ineffective it really is.

Not since the Ethiopian famine of the mid-1980s have issues of philanthropy, disaster relief, the rich/poor divide, and foreign aid been more publicly prominent. From the widespread destruction of natural disasters, to the Millennium Development Goals, to debt forgiveness, every month of the year seemed to have its own compelling story about human need. All of the stories were accompanied, of course, by pleas for contributions.

Within these pleas lies a painful irony. Though the massive scale of recent destruction demands efficient allocation of resources, hard data shows unequivocally that the methods we have for delivering help are seriously flawed. According to World Bank data, the world has pledged approximately US$36,000 per displaced person affected by the Boxing Day Tsunami in Indonesia. Although this is more than 10 times the per-capita GDP of the country, only a small fraction of money given has reached victims. Less than 25 percent of aid committed to Sri Lanka has been disbursed, and only 10,000 of 123,000 homes needed across the region have been rebuilt. Across the region 80 percent of those affected still do not have permanent housing, according to many estimates.

The public response to the natural disasters of 2005 shows there is no lack of funds. In fact, the balance sheets of the various aid agencies have probably never been healthier. The poor, however, continue to suffer. Meanwhile, donors give blindly without demanding the accountability that ensures results. This is simply unacceptable.

Whatever little attention is given to accountability is usually misplaced. Most donors and watchdogs have become attuned to being alert to fraud and theft. This has led to organizations like Guidestar that make it much easier to compare statistics on items such as "overhead" for non-profit organizations. These comparisons are useful but still somewhat suspect. An analysis by the Center on Philanthropy showed that 20 percent of charities raising more than US$5 million per annum reported no fund-raising costs.

Fraud and theft are, however, no longer the real accountability issues. We should focus on avoiding waste and ineffectiveness. The problem with philanthropy today is that too much attention is focused on counting receipts and too little on outcomes. Philanthropy, like business, should have a bottom line. Any industry is going to degenerate in the absence of clearly defined measures of success.

Despite the generally agreed difficulties of making philanthropy effective, there is a deep-seated human desire to reach out to those in need. So while a constant stream of books and studies in the last 20 years has detailed the failure of public and private charity to achieve measurable results, we still see demands for more giving. Would anyone tolerate such demands for more money with a concomitant failure to deliver results from an investment? Would an investor put up significant amounts of money with the same lack of research and due diligence that bedevils philanthropy? The answer, of course, is no.

Approaching philanthropy as a form of investment is an important part of the solution to the problems of philanthropy. There is reason for optimism: increasingly, donors are treating their giving like their investments. Well-known examples include the Gates Foundation, Sir John Templeton and the Templeton Foundation, and the Omidyar's conversion of their foundation into the Omidyar Network so they could invest in any initiative that generates the results they seek, not just in non-profits. These philanthropists and many others have begun to see philanthropy as a capital market. They demand the same levels of transparency and accountability they expect from stock markets. Some have termed this "social investment" or "venture philanthropy." We at Geneva Global prefer the term "performance philanthropy." Performance philanthropy is a hopeful alternative to traditional approaches to giving, because it is working.

The first step toward performance philanthropy is gathering data on results not just needs. Geneva Global, an organization created by donors in search of real accountability, embarked on the quest to determine "return on investment" for philanthropy more than five years ago. We have learned, via detailed research and by brokering hundreds of grants affecting millions of people each year, a great deal about measuring performance in philanthropy.

Research on complex forms of measuring philanthropic performance such as "Social Return on Investment" and "Blended Value" has provided important insights. Social Return on Investment is a methodology quantified and popularized by the Roberts Enterprise Development Fund that attempts to measure the societal value of investments in non-profit enterprises. REDF's methodology focuses on six metrics: Enterprise Value, Social Purpose Value, Blended Value, Enterprise Index of Return, Social Purpose Index of Return, and Blended Index of Return. Blended Value, on the other hand, is an attempt to redefine how "value" is measured. Today, the for-profit world generally measures only economic value, while the non-profit world (when it measures anything) generally only measures social value. The blended-value approach contends that all value discussions should include both measures (and thus producing economic value while destroying social value would not be a good investment in any terms).

Still, we find the most effective measure is the most *prima facie*: life change. This is, at heart, what philanthropy is all about—changing the lives of the neediest among us. Measuring life change can be remarkably easy. Income growth, improved nutrition, access to health care, orphans housed, AIDS patients cared for, access to clean water, completion of primary education, and falling infant mortality rates are clear indicators of life improvement that can be readily quantified. In fact it is these exact statistics that show the failure of traditional "blind" giving.

Which leads to the next question: how can life change be maximized? Geneva Global has found that the highest return on investment is generated by local, grassroots organizations rather than big national agencies or international non-governmental organizations (NGOs). This shouldn't be surprising. The poor know what they need and are tireless when seizing self-help opportunities. A classic example of this is James Tooley of the University of Newcastle's work

Opposite: A Sri Lankan woman stands inside a house destroyed by the December 2004 tsunami. _Above:_ Eric Thurman, CEO of Geneva Global, meets with Pierre Nkurunziza, President of Burundi, to discuss foreign aid and NGO funding.

Photos Courtesy Reuters/Eric Thurman

demonstrating the prevalence and success of private schools in the world's worst slums. We also find that maximum return on investment comes when funds are invested in the hardest places. These are situations where traditional approaches have most thoroughly failed.

Evaluating grassroots projects requires investment-grade due diligence showing evidence that each initiative has a successful track record of performance—that it not only shows "need" but also demonstrates "proven results." Based on analysis of results from grants placed, we have found that there are a number of key performance indicators that predict results. The first is track record. While past performance does not guarantee future results in investing, past performance is a strong predictor of future results in philanthropy. Other key indicators are sustainability and scalability of the intervention, existence of thorough project plans with well-defined performance measures, and risk management planning. Project leaders themselves are strong indicators of future performance, all able to be measured through demonstrated experience, demonstrated commitment to power sharing and training of others, and extent of networking to other implementers. Nearly 80 percent of projects evaluated and funded over the past five years using this methodology met or exceeded their stated numerical project objectives.

In the past year, for example, donors via Geneva Global placed nearly a million US dollars in grants related to tsunami relief. These contributions, distributed across more than 20 grassroots projects, will deliver trauma counseling to more than 60,000 affected individuals (a response many commentators noted was drastically underfunded), restore incomes of more than 9,000 people, and provide medical care to more than 30,000 people. This does not include additional benefits like rebuilding 500 homes and immediate aid such as access to clean water and food. At an even more micro scale, one US$40,000 grant provided medical care to more than 4,000 people, trained 200 families to grow vegetables for themselves in temporary housing camps, and provided therapy to hundreds of surviving children who were displaced. In contrast, the total US$14 billion provided by governments and private aid agencies has thus far provided medical care and temporary housing to approximately 800,000 displaced people and rebuilt approximately 20,000 homes. There is a stark contrast in the cost/benefit ratio of these two sets of figures.

Performance philanthropy has additional benefits. Not only does it maximize results; it also encourages additional investment. When donors are able to follow their money and understand the direct results of their generosity, they become much more committed to the philanthropic process. These committed and involved donors help to energize and expand the field of giving.

The marriage of measurable results and more committed donors is why performance philanthropy is so convincing as a viable strategy for reducing chronic global poverty and its related consequences. According to the World Bank, half the world's 3 billion people live on less than US$2 a day, and 1.3 billion people—20 percent of the world's population—live on less than US$1 per day. These figures, despite hundreds of billions of dollars of traditional philanthropy, keep growing. The number of people living on less than US$2 a day grew by 300 million in the last 20 years.

"WOULD AN INVESTOR PUT UP SIGNIFICANT AMOUNTS OF MONEY WITH THE SAME LACK OF RESEARCH AND DUE DILIGENCE THAT BEDEVILS PHILANTHROPY?"

Our experiences show that there are many willing to enlist in the noble campaign to end poverty on our planet. Unfortunately, most charitable giving stays inside the wealthiest countries. In the United States, which accounts for the majority of private philanthropy worldwide, less than six percent of monetary giving leaves the United States. Even using the Hudson Institute's liberal calculations that include volunteer time and other forms of giving, the total is still less than eight percent. All data indicate similar statistics in other developed nations. A leading reason for this disparity in need and giving has been the lack of reliable, independent information and confirmation that donating abroad actually impacts those who need help the most. Western private donors give great weight to risk and return on investment. When allowed to apply investment strategy to philanthropy, they respond. This is evident in the growing number of givers applying similar philosophies, in the growth of for-profit microcredit investment funds, in the concepts behind the Millennium Challenge Account, and at the most prosaic level, in the 100 percent compound annual growth rate of grants placed through Geneva Global.

Giving blindly perpetuates the status quo of poverty in the world. This need not be the case. Much can be accomplished with relatively modest sums when giving is invested in results rather than need only. Philanthropists must demand nothing less than real, meaningful and measurable life change for those they seek to help.