Scaling the impact of development assistance

By

MACHARIA, Stephen Mwangi (Kenya)

ABSTRACT

Aid has played a big role in tackling some of the most pressing problems that humanity faces. In spite of the heavy deployment of aid to solve various problems, the world is still replete with stories of hunger, disease and illiteracy. In recent times, technology and an ever growing population demand a change in tact in how problems are addressed and how aid is deployed to solve these problems. Market based, and pro-poor solutions are currently making ripples in social change circles. Impact investing is one of the channels through which aid can be harnessed to scale the impact that individuals and foundations with a desire to make the world a better place can use. There has been increased focus on how donor funding can be more targeted at provision of transformational capital to provide solutions to the problems at the grassroot. By unlocking capital for use in such business, grant makers will bring environmental conservation to scale, create employment and improve the livelihoods of the global poor. Impact investing is sustainable and can have a catalytic and productive effect on impact investing and hence a scalable positive impact on social and environmental spheres.
Scaling the impact of development assistance

The benefits accrued through donor aid over the years cannot be gainsaid. Small pox, a highly contagious disease, is a thing of the past, thanks to aid from the Carter foundation. The deadly and debilitating polio is currently on its deathbed. Millions of precious lives have been saved through the fight against malaria, HIV/Aids, hunger and poverty. Through donor aid, millions of children who could not have gone to school are now pursuing the career of their dreams. The world has definitely been made a better place by men and women who have dedicated their hard-earned resources to addressing the plight of the marginalized. Nevertheless, despite the heavy spending by governments and donors in alleviating the most pressing problems, millions of people are still languishing in poverty, disease and illiteracy. This is enough testimony that the effort of donors and governments are not enough to solve the problems of humanity. There is no single panacea to the problems that the world faces today. They cannot be solved easily or within a short period of time. They cannot also be solved through a one-fits-all approach. They need effort, time and a strategic, multifaceted approach. Aid can be harnessed for higher impact by integrating it with other financial tools to realize bigger and long term impact.

Aid has in recent times faced changing attitudes from governments and some scholars. Also, technology and an ever growing population demand a change in tact in how problems are addressed. Market based, and pro-poor solutions are currently making ripples in social change circles. There has been increased focus on how donor funding can be more targeted at providing solutions to the world’s most pressing problems. As a response to that, many financial tools and emerging asset classes have been set-up. These market-based solutions have also received attention from philanthropic organizations and individuals. Among them is the Rockefeller Foundation which has engaged and remained at the forefront in scaling up impact through promotion of impact investing initiatives.

In light of the increasing problems in different parts of the world, aid needs to be more focused and more strategically deployed to have a bigger impact. New policies and approaches are required to achieve this lofty ambition. Some limitations of donor aid inform the need to change and improve the way it is deployed. The current aid model, in some cases, is not sustainable. This was evident at the height of the global economic crunch when donor taps in most countries ran dry. The current model also has been blamed for promoting the culture of dependency among other short-comings. In other cases, aid is top-bottom and always ignores the voice of the grantees. These shortcomings among others indicate the need to restructure the model and accommodate new ideas. At this point in time, there is need to reflect on what has worked, how it has worked and how we can foster a bigger impact.

Impact investing is a term that has gained currency in investing and philanthropic circles in recent years. Different terms such as social investments, triple-bottom-line enterprises, social impact enterprises have been used to refer to this concept. There is lack of a clear description of the term but all the definitions available are congruent with ventures that are set-up deliberately with a view to generating profit as well as addressing social and environmental problems. In brief, it refers to deploying capital in a venture that will intentionally create a desired and quantifiable social impact as well as create some modest profit for growth and sustainability of the venture. The key principle in this concept is the aspect
of measurement. The impact of these enterprises must be measured and reported in order to track the desired change and in some cases, replicate the venture or inject more capital.

Although it is still at a nascent stage, this venture has already made an impact that has made the lives of millions of people more productive and efficient. In Kenya, Ecotact, a sanitation company, has provided dignity to thousands of people who could not access clean toilet facilities. Through an innovative facility that uses little water but maximizes on human waste by producing methane and organic fertilizer, Ecotact has solved the problem of poor sanitation in urban areas and also provided a solution for farmers who require affordable nutrients for their crops. All over the world, there are many examples of impact investments that have gone a long way in providing working solutions and reducing poverty. KIVA lends as little as 25 dollars to young people to pursue education. The loans are payable at minimal interest upon completion of studies. That facility has enabled thousands of students from poor backgrounds to access university education. Other impact enterprises target low cost housing, ICT access and provision of affordable electricity generated through renewable energy sources. This means that instead of giving out mosquito nets, one can provide capital for a group that recycles waste to make the nets at a cost that is affordable to the target population. In doing that, you create employment, promote environmental conservation and ensure continuity of impact.

Impact investments are not business as usual. They attract a higher risk than the usual business, they generate below market rate returns and hence they are less attractive to many capitalists whose main objective is raking in massive profits, sometimes at the cost of the poor.

Although the practice of impact investing is old, the keen interest on it is as a vehicle for positive social and environmental change is at a nascent stage. This concept is becoming a buzz word within the circles of individuals and foundations with a powerful desire to improve society. It is a complementary tool in their arsenal of offering a strategic intervention in providing solution to the problems of humanity at scale.

**Why Impact Investing?**

Donation dependent non-profits and the non government organizations that rely on donor funding are not sustainable. Sustainability is key to any programme that will have a lasting social change. In the current philanthropy model, a project aimed at providing mosquito nets for fighting malaria lasts as long as aid lasts. In impact investing, the enterprises grow and live long, independent of external funding and hence the impact is sustainable.

Although many investor funds have been set up, there is still a gap in this emerging market that can only be filled through aid. Impact investing looks unattractive to the profit-first funders. Although the social returns are impressive, financial returns are not very attractive and it is a high risk venture.

The benefits of deploying capital in this sector are numerous. As a market based solution to diverse issues, the funder is guaranteed of a bottom-up approach. It is the people at on the ground who know their most pressing problems. When solutions are sought from them, there is assurance that priority will
be given to their most immediate needs and the solution will be compatible with their social cultural environment.

The impact investing market is also attractive due to the ease in measuring the impact. Already, several impact rating tools have been developed through donor funding. These include the Global Impact Investing Rating System (GIIRS) and IRIS metrics. There is a surge in growth and initiation of entrepreneurs who are ready to set-up small and large businesses that are unattractive to the usual business people but which have a major impact on alleviating poverty. Such enterprises provide services as provision of water to the underserved populations, sanitation, food, decent employment among other issues. A philanthropist can choose a programme and easily identify a rating tool to determine where more capital should be deployed for greater impact.

Wastage of donor funds will be minimized in this model. The grantees will know that the resources obtained are given in form of borrowed money that they have to repay and hence it must be put into prudent use. At the moment, in some cases, aid is spent in conferences or in some projects that have high administrative costs. Deploying capital in this investment therefore minimises misuse of aid.

**Deploying aid to impact investing**

There has been increased focus on how donor funding can be more targeted at providing solutions to the world’s most pressing problems. As a response to that, many financial tools and emerging asset classes have been set-up. These market-based solutions have also received attention from philanthropic organizations and individuals. Among them is the Rockefeller Foundation which has engaged and remained at the forefront of scaling up impact through promotion of impact investing.

Impact investing consists of investors and entrepreneurs who form the supply and demand side of capital respectively. Development partners can enter the emerging sector either as an investor whose tentacles will go beyond providing capital or capacity building. The biggest challenge is not getting capital, but getting enough enterprises to take up the capital.

How can the impact of aid be scaled through impact investing? In considering the choice of impact investing as a vehicle that can be used to scale up impact, one can borrow a lesson from the microfinance sector, which was started as a non-profit making venture but it later grew to a multi-billion dollar industry with a huge positive impact on the lives of millions across the world. In recognition of the potential of this emerging sector, Koh, Karamchandani and Katz (2012, pg. 1) describe impact investing as ‘the next micro-finance revolution’. To a large extent, microfinance has been a product of aid. Rodin and Brandenburg (2014), explain that unlocking even a small percentage of the trillions of dollars in aid for impact investments would dramatically expand resources available to address the world's biggest social and environmental problems.

In a number of ways, aid can be harnessed and deliberately deployed to foster measurable change. Firstly, aid can be deployed as capital for impact investing. This should be done either directly by the donor financing an existing enterprise on the strength of the size of social and environment impact it has on the target area or through an investor whose role is to provide seed-funding to start-ups or existing
enterprises. By unlocking capital, aid can spur growth in this sector and ultimately scale up impact. It is advisable that the donating agency forms a subsidiary or joins an existing investor such as Root Capital, Acumen Capital or Grassroot Capital among others in order to remain focused on their core business. That capital should not be a donation to the enterprise. The grantees should be given a grace period upon which they start repaying the debt or have the debt converted to equity. In so doing, the business will be sustainable and its impact will be scaled.

Aid can also be channeled in form of Social Impact Bonds. This involves a commitment that the donor will pay for the social or environment service delivered by the enterprise or government. In issuing such a bond, aid will be a catalyst and motivation to the entrepreneurs to deploy capital in ventures that will deliver more impact with a view to receiving such funding. Injecting more capital to the existing enterprises that hold promise for a larger impact is a big shot in the arm for this sector. Bonds in this sector will give people confidence to invest in the sector as they are assured of a return after they have successfully undertaken their duties.

Furthermore, aid can scale up impact through research on impact investing. There is currently need to create more informed decisions in this sector that will be informed by solid scientific data through research. Rockefeller Foundation, for instance, provided funds to different research institutions to examine the landscape of policy in impact investing in the global south. Such studies are crucial in development of favourable policies that will scale up the sector as well as social economic impact. The sector requires initial due diligence as well as a well designed impact measurement tools and practices.

Aid can also be deployed in impact investing through programmes that support the ecosystem of the sector. Funds can be strategically placed to promote awareness among consumers on the need to supply and consume the products of these social businesses. One of the challenges faced in this sector is lack of consumer awareness about the existing products. For instance, if an impact enterprise uses recycled waste and employs the urban poor to make a product, consumers should be made aware of the social and environment benefits of promoting such business through consumption of its products. In addition to that, investors lack smooth deal flows that are viable when they receive application for funding from the enterprises. In such cases, aid can be deployed to undertake capacity building among people with a desire to do business in this sector.

The intervention that aid should be deployed to make should be directed towards crucial projects that are likely to have a broader impact on other sectors of the economy. The investments identified should be program related ventures.

**Conclusion**

While impact investing holds promise in helping alleviate the most pressing problems that humanity faces, it is still a small industry that can only deliver large scale impact with the intervention of assistance through aid. This is one of the avenues where aid can be deployed to scale up social impact. Although investor capital is available, its potential to scale impact is hampered by the stringent conditions put on it. It therefore requires a less risk averse funder such as a philanthropist. This does not
mean in any way that there will be a high probability of such business going under. Before funding an impact enterprise, there is need for thorough due diligence on the target enterprise or its business plan.

Philanthropy can be a good catalyst for unlocking the potential of impact investing. The Koh, Karamchandani and Katz (2012) decry the lack of deal flow in impact investing as a major challenge in the sector. However, I look at donor funds as a factor that will stimulate deal flows. With enough communication on the existence of such a fund, existing and potential entrepreneurs will have a desire to join the sector. From this experience and success stories, I would advise the donor community to diversify their approach in making the world a better place by embracing impact investing and boosting it. Their intervention should not be anchored on starting those enterprises themselves but by promoting the existing enterprises or promising start-ups through provision of capital.

Philanthropists should however not quit their grant-giving activities. Different problems require different interventions. They need to broaden their approach for sustainability and bring the impact to scale. Koh, Karamchandani and Katz (2012) observe that impact investing should not replace philanthropy but it should complement it.

References
