

# Real Good, Not Feel Good

## A Brief Guide to High-Impact Philanthropy

Today, everywhere we look, we see another global challenge—from poverty and disease, to climate change and the economic meltdown. And even our own finances are not what they used to be. But we still need to do whatever we can to help the world. So now more than ever, we need to use our limited philanthropic dollars in the best ways that we possibly can.

We can no longer afford to spend scarce funds on things that simply feel good. Instead we need to support initiatives that do real good, and that have the potential to generate large-scale and lasting solutions to the world's biggest problems.

Every day, we are presented with innovative non-profits and social enterprises, claiming to “do good”. But not every effort—no matter how well-intentioned—will generate equal results. It is all too easy to support those that sound the best, use the coolest technology, have the best PR or give a warm and fuzzy feeling.

But with the world's increasing problems, and limited resources, this is no longer an acceptable option. Instead, we need to identify and support those initiatives that really do have the potential to change the world.

### FOUR QUESTIONS

Here are the four most critical questions to ask a non-profit or social enterprise to determine if it has the potential to create real, large-scale and lasting change, and if it is worthy of your support.

1. Does the project have measurable and proven impacts?
2. Are the impacts cost-effective?
3. Will the impacts be sustained?
4. Can the model be scaled and replicated?

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 the organization measures (or plans to measure) the impacts.

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And finally, you need to know if they are actually achieving them. 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 not in fact get people out of poverty—measuring incomes is the only way to know.

For a project to have measurable and proven impacts:

(i). **The organization must succinctly define exactly what change it is trying to achieve.** This is best done in a short and concise Mission Statement that can be written in 10 words or less.

- “Poor families will earn a lot more money”
- “Fewer people will get, and/or die of, malaria”
- “Fewer people will get, and/or die of, diarrheal diseases”
- “The overall CO<sub>2</sub> released into the atmosphere will be reduced”

Many organizations string out a long list of things they are trying to do, using words like “empowering,” “fighting poverty and injustice” or “improving lives.” They need to decide exactly what change it is they are trying to achieve, and the more specific they are the better.

(ii). **There has to be a way to both measure the desired changes, and demonstrate that they are caused by the interventions.** This can be done scientifically using a randomized trial, or with a simpler measurement like comparing the change in a group of beneficiaries to that in a control group. Or, if they exist, an organization can rely on past studies of very similar interventions in similar settings, which indicate a strong correlation between the intervention and the changes. So, it is not good enough to simply say things like “clean water saves lives”—the truth is always more complicated and evidence is required. For completely new and untested interventions, the organization must provide an evidence-based argument for the expected changes, implement a pilot study and measure the impacts.

If a project leader claims that it is too difficult to measure the impacts, you have to wonder how they know they’re doing any good. Remember, the bigger the impact, the easier it is to measure, and the easier it is to demonstrate causality. And today we need solutions with big impacts. If the project can’t define its mission, or can’t measure and prove its impacts, either directly or through past studies, it is not worth going further.

## QUESTION 2. COST-EFFECTIVE IMPACTS?

OK, so the project can show impacts, but are they cost-effective? Funding is limited, so 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, or save a life; a poverty reduction project should know how much local incomes were increased for every donor 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 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 donor costs/subsidy divided by the total impacts. 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?

With limited philanthropic funds it is too expensive to continue subsidizing the same solution, in the same geographical area, forever. Instead we must leave in place a lasting solution that ensures sustainable impacts, and then move on to fund a new geography and/or a new problem.

So, even with proven and cost-effective impacts, you need to know if the project can pass the "walk-away test." Will the impacts be sustained after there is no more external philanthropic funding? We have to ask two questions.

(i) Will the current beneficiaries of the project continue to benefit?

(ii) Will the project leave in place a mechanism such that new beneficiaries, living in the same geography, will also benefit, and/or that the positive changes will remain?

For example:

- 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?

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 leave in place a business model and supply chain, which will continue to provide the required goods and services at a profit.* For example:

- Mosquito nets can be distributed and sold to poor people through 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 be provided through profitable, private sector, supply chains.

Since self interests and incentives are aligned—creating a win-win proposition for all the parties—market mechanisms can often result in the most sustainable solutions. However, there are often major “market failures” that need to be overcome to reach profitability, business solutions don’t always provide equitable outcomes, and not all problems lend themselves to market-based solutions.

2. *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, or pass and enforce laws that help dissipate a problem.

In too many cases, though, reliance on governments is not a sustainable solution. Even developed country’s 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 generally well aligned.

3. *The project can leave in place a self-sustaining community process that continues to provide a solution to a local problem with no external source of funding.* For example:

- This could mean establishing a mechanism for on-going local fundraising, or leaving in place an endowment fund that continues to pay for the interventions.
- Or it could mean leaving in place a process that continues to create impacts with no more funds. A good example is a “merry-go-round” savings group—common in the developing world—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.

These types of solutions can be very effective, but they are hard to design, often collapse due to the “tragedy of the commons” and can only be sustainable if all the participants continue to benefit from their actions.

4. *Finally, a project can work to permanently eliminate 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. Small pox was eradicated globally, malaria was eradicated in America, the Truth and Reconciliation process in South Africa enabled a new

system to emerge, and the adoption of “hand washing after defecation” as a social norm (or meme) may have the potential to save many lives. Unfortunately, significant problems amenable to this approach are rare and such projects are often very 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 cannot know if a project will actually pass the “walk-away test” until well into the future. Nonetheless, any high impact project must have a well thought-out plan for making its impacts sustainable. It must know which exit strategy it plans to use, and implement a strategy from day-one that drives toward that end.

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. And it took 20 years for American farmers to adopt hybrid seeds, despite the huge increases in yields and incomes.

The critical thing is to leave in place sustainable impacts. So, don’t confuse the sustainability of impacts with the financial sustainability of the implementing organization. The success of a non-profit, needs to be measured in terms of the cost-effectiveness and sustainability of its impacts, rather than by any measure of its own profitability. An effective non-profit makes highly efficient use of donor funds to leave in place lasting impacts. Once an organization has succeeded in one location, it should be supported by additional donor funds to develop new high impact and sustainable projects in that same location, and/or to expand its impacts into new locations.

Successful non-profits are rare. And only by offering continued support to the truly successful ones, can we leverage this success to solve problems on a large scale.

#### QUESTION 4. A SCALABLE AND REPLICABLE 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 scaled in its initial location and replicated in new settings. 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, scalable and replicable models for change are:

- (i) **Systematic enough to be distilled to an easily understood methodology.**
- (ii) **Simple enough that they can be copied.**
- (iii) **Flexible enough to be adapted to new settings and problems.**

(iv) **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 are more like a turn-key business model and can be replicated in new settings with only minor modifications—e.g. high-quality micro-finance. 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.

### REAL GOOD, NOT FEEL GOOD

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 scaled and replicated. Only if you can answer “yes” to all four of the questions can your investment create truly large-scale and lasting change.

Philanthropic resources are finite, but the needs are huge. If we want to make real progress on the big problems, then we need to pair donor funds with efforts that satisfy these criteria.

“Real Good, Not Feel Good” is more than a slogan. It’s a rallying cry for what we hope will become a movement of funders and nonprofit leaders demanding real change for the world. We hope you will join us.