Gates, Google, and the Ending of Global Poverty: Philanthrocapitalism and International Development

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"Philanthrocapitalism"—the use of business and the market to transform philanthropy and foreign aid—is a recent and much-contested entry into the international development dictionary. To some, it is another "naked emperor": more hype than substance and at best a complement to other, more traditional forms of assistance that can be useful in certain limited contexts.[1] To others, it is a potentially transformative movement that will unlock new sources of money, energy, and innovation in the fight against poverty, hunger, and disease—a movement that will literally save the world.[2] The truth, as in most things, probably lies somewhere in between, since philanthrocapitalism may not be as different as its proponents often claim. That is because there are no magic bullets for international development or global security—only a never-ending effort to find better ways forward through diverse and unpredictable journeys. Nevertheless, the debate about philanthrocapitalism provides a fresh perspective on the future of foreign aid and raises the question: does this movement really exist, and if so, what exactly is it?

Money and Markets

Philanthrocapitalism is an umbrella term that covers a diverse range of actors and approaches. There is no founding text that informs this movement, no federation of philanthrocapitalists with a K Street address, and no consensus on which problems or

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priorities are the most important. For some, it is the new philanthropic foundations endowed with fortunes from Silicon Valley that are the most exciting, like Gates, Google, Omidyar, and Skoll, often gathered together under the Clinton Global Initiative and the World Economic Forum. For others, it is the much broader phenomena of social enterprise and innovation that are of greatest interest, or at an even deeper level the movement to address social problems through business and the market via corporate social responsibility, Triple Bottom Line accounting, and "bottom of the pyramid" interventions. All of these methods see "creative capitalism," in the words of Bill Gates, as a bold new paradigm for governance and problem-solving.

Nevertheless, there are two distinguishing features that cross these different interests and interpretations. The first is a belief that philanthrocapitalism will generate an increasing volume of private resources large enough to compensate for a projected decline in aid from governments and NGOs—and that it will one day surpass them. At long last, there will be sufficient money in the international system to tackle the grave problems of climate change, hunger and disease, education, and global poverty.

The second claim is that philanthrocapitalism will achieve better and more sustainable results in these areas because it privileges the market as a superior mechanism for generating large-scale economic and social change, while the traditional development industry must function on highly-fractured and bureaucratic structures. It is this promise that seems so attractive to many donors and investors who are fed up with the perceived failings of government assistance and traditional development NGOs.

This claim is strongly underpinned by business thinking and particularly by the practices of venture-capital investing, which leads to more of an emphasis on intervention (and even control) by the donor as a critical factor in success. Adam Waldman, founder and president of the Endeavor Group, a Washington-based philanthropic consultancy, says the hallmarks of this approach are, "an entrepreneurial results-oriented framework, leverage, personal engagement, and impatience."[3] As befits an approach that emerged from the Silicon Valley, "results" are usually defined in terms of short-term, measurable, material outcomes. This strategy is dominated by aggressive revenue generation efforts to promote financial sustainability through the market, and an emphasis on rapid "scaling-up" to meet potential demand; and "leverage" comes through investing in, and working with, a wide range of vehicles to achieve social and economic goals, including for-profit corporations, public/private partnerships of various kinds, social enterprises, and even profit-making subsidiaries of the new foundations themselves.

Some of these qualities are not especially new or innovative, but they have certainly been aggressively promoted. How does philanthrocapitalism measure up on these two important and pressing claims?

With regard to the volume of resources that are supposedly being released into the international system, philanthrocapitalism is in its early days, and there are still no accurate or comprehensive figures available for it, or even for the "new philanthropy." In general terms, the United Nations estimates that $4.5 billion was spent by *all* philanthropic foundations on "development activities" in 2006, a mere 3 percent of total development assistance.[4] Relatively few foundations fund outside their borders, and as a result, aid from foundations is heavily skewed towards the priorities of a small number of institutions that do work internationally (like Gates, Ford, and the Wellcome Trust), and towards a small number of developing countries, which are often not the poorest countries. The World Bank estimates that 45 percent of international grant-making by U.S. foundations goes to a handful of emerging economies such as China, India, Brazil, and South Africa, while only 23 percent of the countries to which European foundations made grants in 2005 were classified as "least developed nations."[5]

Foundation spending should increase in the future as a result of projected intergenerational transfers ($55 trillion over the next 40 years in the United States alone). Moreover, the expansion of philanthropy among the very wealthy in the aforementioned emerging economies, as well as the rising popularity of development-related investments by new foundations including Gates, will create an estimated total expenditure of at least $100 billion during the lifetime of its founders.[6] However, even if these assumptions turn out to be true (and there are reasons to doubt this optimistic scenario, especially as a result of the financial crisis that exploded across the world in September 2008), there are no data that support the claim that private resources will outrank Official Development Assistance in the next ten years, except in a small number of situations where private actors already play an influential role (like combating infectious diseases in the case of the Gates Foundation) and unless one includes private remittances and Foreign Direct Investment in the calculations. The *Index of Global Philanthropy*, released each year by the Hudson Institute, does exactly this and notes a significant increase in "total private aid from US sources" from $71 billion in 2004 to $168.6 billion in 2006, but counting all private funds flowing into other countries as foreign aid is questionable given that they are put to many different uses.[7] Of course, private investment and remittances have major impacts on development (this is a core tenet of philanthrocapitalism), but these impacts are complicated, contested, and in some cases clearly harmful to social and environmental goals. In any case, it is not the quantity of resources that underpins development effectiveness, but the quality—how, where, and when they are invested. Do the claims made for philanthrocapitalism's distinctive advantages match the evidence we have about its success?

Evidence suggests that it is perfectly possible to use the market to extend access to socially and environmentally useful goods and services, thereby addressing gaps in the provision of many "global public goods." However, it is much more difficult to tie these successes to the social and political institutions that underpin national development and a more stable international system. Take, for example, the large investments in global health that the Gates Foundation is making, along with the Clinton Global Initiative and others. Although no vaccines have yet been found against HIV/AIDS or malaria, the investments of these organizations in subsidized commercial research and testing guarantee to reduce future drug prices, and innovation in delivery systems on the ground (including free distribution) appear to be effective and legitimate uses of private foreign aid. The same might be true for environmental goods and services in the future, since there is clearly money to be made from advances like solar-powered water pumps at a price point that is affordable to the poor. However, doubts have already been expressed about the effects of these investments on the strength and sustainability of national institutions and capacities. A recent report from the Center for Global Development concluded, "the big HIV donors are creating AIDS-specific systems that compete for health workers and administrative talent, share the same inadequate infrastructure, and further complicate already complex flows of information," a well-known problem in the foreign aid community.[8]

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The other high profile focus of philanthrocapitalism is micro-finance. Although few rigorous evaluations of the impact of micro-finance exist, it is clear that increasing poor people's access to savings, credit, and other financial services is a good thing—and in one or two countries it has already reached significant scale (21 million "clients" and 105 million "family members" in Bangladesh alone).[9] Micro-finance increases people's resilience and reduces their need to sell precious assets in times of trouble, but it does not move them out of poverty on its own. That requires other and more complicated measures to develop a sustainable livelihood and create more well paying jobs through large scale, labor intensive agro-industrialization; address the deeper issues of disempowerment that keep certain people poor, like land rights or patriarchal social structures; and get governments to redistribute resources on the necessary scale through health, social welfare, public works, and education.[10] Micro-finance institutions also need continued subsidies to reach the very poor, questioning the philanthrocapitalist assumption that market methods, social goals, and financial sustainability are mutually supportive. There is some evidence that micro-finance has a positive impact on the factors that lead to broader social change—women's empowerment, for example, and stronger small group skills—but these advances have not translated into significant shifts in social and political dynamics, Bangladesh included.

Investments in micro-finance have spurred the use of similar techniques for other goods and services like cell-phones and insurance, inspired by C.K. Prahalad's famous "bottom-of-the-pyramid" (BOP) theory, which promises profits, poverty-eradication and empowerment all in a seamless package.[11] Prahalad claims that huge, untapped markets lie at the base of the global income distribution, which—when supplied with goods the poor can buy and sell—will lift them out of poverty and also transform their lives socially and politically. But research by Aneel Karnani and others shows that many of the case studies used to support the BOP paradigm involve consumers who are not poor at all, and it argues that the products and services that are sold by "micro-entrepreneurs" have less market penetration and productivity-enhancing potential than is claimed, so they fail to generate sustainable incomes.[12] An evaluation of Project Shakti in India, for example, revealed good results in integrating low-income women into the marketing chain of Hindustan Lever, selling goods like shampoo and detergent "to boost their incomes and their confidence." However, there was no evidence that the project empowered women or promoted community action.[13]

Markets versus Politics

Obviously this evidence is not conclusive, but it does suggest that philanthrocapitalism will have more impact in some areas of development than in others—not exactly rocket science, but an important corrective to some of the hyperbole concerning the ability of this movement to "save the world." The oft-repeated equation of "technology plus science plus the market brings results" may produce new vaccines against malaria and HIV, but there is no vaccine against poverty and inequality, violence and alienation, corruption, and lousy governance. Economic inclusion is unlikely to be a reliable formula for successful development unless action is also taken to address more fundamental deficits of power, representation, and accountability, and it is here that philanthrocapitalism demonstrates something of a "split personality." On one hand, market empowerment—giving the poor more choices through increased personal assets and incomes—could break down traditional donor-recipient relationships if it could be realized on a very large scale. On the other hand, the control-orientation that often accompanies philanthrocapitalism—whereby venture philanthropists take on a proactive management role in their investments to generate short-term, concrete results—makes donors skittish about the messy and unpredictable processes of politics and institutional development, despite their obvious importance in securing long-term gains.

As a result, philanthrocapitalism is in danger of diverting energy and resources away from efforts to transform the social, political, and institutional landscapes that ultimately determine poverty and inequality in favor of investments that increase some poor people's access to material goods and services. The best foreign aid does deliver tangible outputs like jobs, health care, and houses, but more importantly it helps to change the social and political dynamics of places in ways that enable whole communities to share in the fruits of innovation and success. As the best of the recent raft of popular books on international development conclude, the role of foreign aid is not simply to fill temporary gaps in financing, but to strengthen the capacities required for countries to respond to the long-term challenges of a globalizing economy, political coalition-building, and embedded social institutions.[14] And that means promoting national control and accountability; supporting the internal political processes that create incentives for investment; enabling public and private actors to make the most of the room-to-maneuver they need to respond to changing circumstances; and redistributing power and opportunity throughout the population so that all can participate in the benefits of growth and help to secure the political stability required to sustain it over time. These are all ultimately matters of politics, not markets.[15]

From "Either-or" to "Both-and" Thinking

Clearly, it would be wrong to polarize this debate in terms of philanthrocapitalism versus traditional approaches to foreign aid, partly because those traditional approaches have had such limited results. In truth, there are elements of success and failure in all models and approaches—old, new, and all points in between. The most important interventions lie at the intersection of social, economic, and political forces; short and longer-term objectives; and individual and collective action (whether by states or civil society). The learning curve of some philanthrocapitalists already indicates a movement in this direction, with the Gates Foundation beginning to invest in civil society infrastructure around budget-monitoring, for example, and Google.org promoting greater accountability in the provision of health and other public services.[16] At its best, philanthrocapitalism can complement other approaches to international development that specialize in the areas that business and markets generally ignore. However, realizing those synergies requires us to address the accountability deficits that plague foundations and foreign aid alike. That is partly an intellectual challenge—since we have insufficient analysis to make sound judgments about "what works where"—and partly a political one, since the philanthrocapitalists represent a powerful interest group with low levels of transparency and accountability.

The rise of philanthrocapitalism may encourage the privatization of foreign policy and international policy-making. This may bring new energy and thinking into the international arena, but it may also privilege certain views and voices and challenge efforts to democratize global governance. As a concrete example, is it desirable that a foundation governed by a board of three family members is able to play such an influential role in setting global health policy? That was the accusation made recently by an official from the World Health Organization who complained that it was no longer possible to find independent reviewers for health research proposals because they were all on the payroll of the Gates Foundation.[17] Sour grapes perhaps, but he has a point. Philanthropy has always been an expression of individual desires and passions, and it is assumed that those desires draw from and support more-broadly shared visions of development and social change. If they do not, societies may be in trouble as philanthropy continues to expand.

Conclusion

Philanthrocapitalism undoubtedly provides important additional resources and ideas for international development, and it represents a welcome challenge to accepted ways of providing development assistance among NGOs, governments, and foundations. However, both its potential impact and the depth of its innovation have been oversold in the current wave of publicity that surrounds the Clinton Global Initiative, the Gates Foundation, and others. In financial terms, the volume of resources that philanthrocapitalism generates is too small to make a dent in the global arena unless they are targeted at highly specific problems that are amenable to market-based solutions, such as vaccine development and some areas of environmental protection. In programmatic terms, the strategies philanthrocapitalism favors are too narrow and technocratic to lever fundamental changes in the forces that drive development, especially in redistributive politics and the crucial task of state-building. Over time, and because the same lessons and constraints tend to operate on all development-assistance providers, philanthrocapitalism will come to resemble other forms of private aid, integrating into the international system rather than replacing or displacing other actors, which will be a cause for quiet celebration. "Quiet celebration" may not be what excites the philanthrocapitalists, but it is exactly what development requires—more humility, less hubris, and a willingness to work together without pretending that "we" are ever in control.

Notes

1. Michael Edwards, *Just another Emperor? The Myths and Realities of Philanthrocapitalism* (New York: DEMOS and London: The Young Foundation 2008).

2. Matthew Bishop and Michael Green, *Philanthrocapitalism; How the Rich Can Save the World* (New

York: Bloomsbury Press, 2008).

3. Lauren Foster, “A business-like approach to charity,” *Financial Times*, 10 December 2007.

4. DECPG, International Finance Team, *Philanthropic Foundations: Actual Versus Potential Role in International Development Assistance*, United Nation (2006), 1-2.

5. Robert Marten and Jan Marten Witte, “Transforming Development? The Role of Philanthropic Foundations in International Development Cooperation,” Global Public Policy Institute, GPPI Research Paper Series No. 10, 2008.

6. Edwards, 83.

7. Hudson Institute, *The Index of Global Philanthropy* (New York: Hudson Institute, 2008): 17.

8. Center on Global Development, *Seizing the Opportunity on AIDS and Health Systems* (Washington D.C.: Center on Global Development, 2008).

9. Edwards

10. See Fazle Hasan Abed and Imran Matin, “Beyond Lending: How Micro-Finance Creates New Forms of Capital to Fight Poverty,” *Innovations*, 2, no. 1/2, 3-18.

11. Coimbatore Krishnarao Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (Upper Saddle River: Wharton School Publishing, 2006).

12. Aneel Karnani, “Microfinance misses its mark,” *Stanford Social Innovation Review* (Summer 2007), 34-40.

13. Rajesh Tandon and Julie Thekkudan, *Women's Livelihood and Global Engagement in a Globalized World* (New Delhi: PRIA and Sussex: Institute for Development Studies, 2007).

14. See Paul Collier, The *Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2008); Ha-Joon Chang, *Bad Samaritans* (London: Bloomsbury, 2007); William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (Harmondsworth: Penguin, 2007); Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, (Princeton, NJ: Princeton University Press, 2007); and Roger Riddell, *Does Foreign Aid Really Work?* (Oxford: Oxford University Press, 2007).

15. For a full account of this issue, see: Michael Edwards, *Future Positive: International Cooperation in the 21st Century, Revised Edition* (London: Earthscan, 2004).

16. For these examples, see: Edwards, *Just Another Emperor?*.

17. “WHO Official criticizes Gates Foundation cartel on malaria research,” *International Herald Tribune*, 18 February 2008.