

Philanthropic investment

Could it hold the key to innovative procurement for development?

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“...the aim of philanthropy...is improvement in the quality of human life.”

- ‘American Philanthropy’ by Robert Bremner, United States academic and historian

Introduction

In 2015, experts from around the world set the global agenda for country development by launching the Sustainable Development Goals (SDGs) that will extend until 2030. However, according to the United Nations Intergovernmental Committee on Sustainable Development Financing,¹⁰ governments and traditional development aid agencies simply do not have enough funds to meet the goals; a multitrillion dollar yearly funding gap exists.

In order to meet the enormous challenges our world is facing, seismic shifts will need to occur in how procurement for development is undertaken and where funding comes from. According to the UN, public

procurement systems represent an annual expenditure of over \$10 trillion USD,¹¹ an equivalent of 15% of global GDP. However, development results seem to indicate inefficiencies in achievement of impacts.

The origin of procurement systems: A response to market inefficiencies

Traditional procurement systems evolved as a response to imperfections in the market for goods and services as a result of incomplete information. As such, public funds could be allocated inefficiently if producers of goods and services were not completely aware of the purchasing desires of consumers.

To date, attempts to improve public procurement focus on strengthening procurement processes and capacity within developing countries and institutions. However, innovative financing models could be a game changer for public procurement and development.

Social impact investors are individuals and businesses committed to fostering benefits for the societal good through ‘impact investments,’ largely to

disadvantaged communities, while earning a profit on their investments. These forces combined result in the ‘impact economy.’¹² There is a swell of excitement and new interest around this investment class. With a rise in impact-motivated investment decisions, and an increasing alignment between corporate social values and the SDGs, there is a real opportunity to develop a framework within which development actors, governments and philanthropic entities can actively collaborate. However, the tools, including procurement options, are yet to be developed to make these innovative partnerships scalable.

The issue is how to tap into the opportunities philanthropic funding provides to innovate in public procurement. Who can lead this innovation? And what can be done within the current system to encourage it? The discussion below explores the priorities and direction necessary for future proofing procurement.

Innovative procurement and impact investments

In 2013, the G8 countries¹³ started a social impact investment steering group. The social impact investment



| From cocoa pods to chocolate confections: a metaphor for process innovation. Photo: Martin Mouttet

movement is characterized by a number of principles that can give procurement professionals insight into the future. First, social impact actors recognize that today's philanthropists seek a reciprocal relationship with the cause they aim to support: the opportunity to help develop new ideas, generate impact or create a sense of fulfilment are sometimes as important as expected returns on their investment. In other words, unilateral giving is out and co-production¹⁴ is in. Second, they acknowledge a link between a greater investment risk appetite and the impact financing model, and use that knowledge to encourage the use of non-traditional procurement methods to foster philanthropic investment. Lastly, the government's role is clearly established. As the largest purchaser of goods and services, governments must determine how much innovation they can reasonably introduce in public procurement in order to meet financial growth objectives and make a social impact.

Concrete steps can be taken on the investment and impact side in using philanthropic funding to bring innovation to procurement. First, define metrics for project success in terms of financial returns and social impact. Second, promote involvement of private investors in programmes in developing economies and match them to high-risk/high-return priority areas. This includes motivating individual investors to become more involved in the impact economy by showcasing successful models, as well as by having guarantors for a percentage repayment of the investments. Third, create specialized teams for impact investment project portfolio management in support of the SDGs – staffed with procurement, foundation and investment professionals who've spent part of their careers working in the developing world to manage the pipeline. Fourth, bring

together experts on social impact investment mechanisms to develop standard practices on how to adopt these investment models that could be shared with policymakers. Finally, develop a global, data-driven IT platform on what to look for when engaging in social impact procurement, including Request For Proposal packages specific to meeting social aspects of the SDGs, evaluation methodologies, sample contracts and supplier performance standards. The latter may include drafting simple legal frameworks for managing impact investment disputes and encouraging a multisector approach when designing such programmes, including a phased implementation plan for impact deliverables and financial returns.

Such actions have already begun in Australia, the United Kingdom and the United States, for example, but expanding them would signal to the investment markets that development actors are ready and willing to take bold steps to better engage in the impact investment arena.

Social impact investment mechanisms

There are a number of investment categories specifically intended to have both financial returns and social and environmental impact. These include corporate social responsibility (CSR) initiatives, Benefit Corporations (or B Corporations) and social impact bonds (SIBs). Social entrepreneurship companies, also called social enterprises, are a hybrid model. Like traditional non-profits, their objective is measurable social and/or environmental impact. However, like for-profits, they design revenue streams into their operating model for financial sustainability and scalability.

Certification as a B Corporation represents the current industry standard for companies working

in the social impact space. The combination of metrics and an independent certification system for B Corporations adds both data and legitimacy for social entrepreneurs. SIBs are a contract between the government and the executing agency, when the latter is a non-profit or for-profit entity. Some models of SIBs¹⁵ may also include private sector intermediary banks or development financing institutions. CSR programmes are an effort by corporations to demonstrate their good citizenship, but the funds are simply charitable giving, not targeted funding for social impact.

Impact and philanthropic investing instruments have made significant changes in the development landscape in the last decade. They are defined not only by large financial flows, but also by innovative project design, multisectoral partnerships and their emphasis on defined outcomes, along with strong execution capacity. In particular, they tend to use their own contract terms and conditions and work with nontraditional development partners, which allows for greater flexibility and faster disbursement of resources than traditional multilateral development banks.

Conclusion

In summary, the development procurement model must evolve to allow impact investors to explore approaches that are both innovative and practical in addressing public needs. If philanthropic funds, experience and skill are combined in a manner that aligns development objectives with impact, innovation and diversified resources, future proofing procurement and the social impact it can create looks bright.

¹⁰ United Nations Sustainable Development Solutions Network, 'Working Paper on Investment Needs to Achieve the Sustainable Development Goals,' 12 November 2015: <http://unsdsn.org>.

¹¹ UNOPS, 'Supplement to the 2013 Annual Statistical Report on United Nations Procurement': <https://www.unops.org>.

¹² J.P. Morgan, Rockefeller Foundation, Global Impact Investment Network, 2010.

¹³ See G8 Steering Group membership: <http://www.socialimpactinvestment.org>.

¹⁴ Cahn, Edgar S., 'No More Throw Away People: the Co-production Imperative,' December 2014.

¹⁵ Goldman Sachs, 'Our Thinking: Social Impact Bonds,' Accessed 20 April 2016: <http://www.goldmansachs.com/our-thinking/pages/social-impact-bonds.html>.



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