Commercializing Human Development

Ariel Dloomy

Anyone who has fantasized about "changing the world" during the past two decades has certainly encountered jargon such as "innovation", "eco-systems", "scaling-up", "agile planning", and "impact investment". Borrowed from the corporate world, these terms dominate international development discourse.

In 2015, the United Nations General Assembly unanimously adopted the Sustainable Development Goals, a set of 17 broad goals and 169 specific targets that cover a wide array of social, environmental, and economic themes. The UN predicts that 4.5 trillion USD would be required each year to meet the SDGs by 2030. Other estimates are significantly higher, leaving a funding gap of trillions of dollars annually.

The SDGs demonstrate the need to act faster and with greater intensity to meet the world's most daunting challenges. The private sector, due to its focus on efficiency, scale, and financial resources, is viewed as an important vehicle for achieving these goals. As of 2017, traditional *overseas development assistance* (ODA) stood at just 146.6 billion USD annually, a sum that would not account for even half of the requisite funding for meeting the SDGs by 2030. Thus, it is critically urgent to identify additional funding sources from the private sector.

While the business sector can and should assist in achieving the SDGs, we need to acknowledge the implications of infusing corporate strategies, tools, and mindsets into the domain of human development. 'Commercializing' human development brings its own concerns that must be carefully considered.

From innovation to implementation

We live in a world where innovation is part of our lives. Our reality is changing at a speed never before witnessed in history. Research and development centers are the heart of private enterprise, especially in the hi-tech sector. Companies that do not continuously innovate rapidly fall behind their competition. However, while product innovation is the ultimate objective for a hi-tech R&D center, in international development, technological innovation is merely a tool for a loftier end goal.

In recent years, innovation labs for development have mushroomed all over the world, or more precisely, all over the developed world. They offer cutting edge innovation in areas where need is greatest, such as water, food security, health, clean energy, fin-tech, and more. Too often, however, these novel innovations confuse or ignore the differences between the means and the goals. Technology is merely a tool to achieve sustainable human development. At the center of this process stand human beings, not products, with their needs and potential. Sustainable human development aims to act holistically in order to create a secure environment in which people can realize their full potential and enhance their human capabilities, living with honor and in freedom.

Technology for development unintentionally can become an 'opiate of the masses', serving the symptoms but not the cause. We provide solar power to remote villages in Africa but fail to ask why people lack access to the electrical grid. We extract drinking water from humid air without asking why the rivers have dried out. We help count the number of elephants in Africa through satellite technology and do not ask why people need to hunt wild animals in the first place.

The challenge of international development does not lie with innovation but rather with implementation. Most development programs fail not in the planning process but rather when the drawing board collides with reality in the field, in the places where people's identities, cultures, and behaviors matter the most. Do we choose to innovate instead of implementing because it is simply easier, and carried out in a sterile environment without the need to "get muddy" and go through the rigorous process of engaging with real people and communities?

Technology can change people's surroundings, but it cannot change their attitudes, beliefs, and behaviors. For technological innovation to succeed, it must take into consideration people's perspectives towards the technology and their abilities to adopt and maintain it.

If we really want to change the world, we should think about implementation before innovation, move innovation centers to the developing countries, involve communities in the process, and, perhaps most importantly, understand their needs and their abilities as much as we understand research and development.

Impact Investing

Recent years have been marked by increasing numbers of business people, many with hi-tech and investment banking backgrounds, adopting an ethos of *doing good by doing well*. The result has been the birth of the impact investing industry. Impact investing refers to investments that combine social and environmental advancements with financial returns. The unique value of this field is created by investing in enterprises that commercial VCs or equity funds would avoid, while also yielding social externalities. According to the Global Impact Investing Network (GIIN), the estimated size of the impact investing market in 2018 stood at a minimum of $228 billion USD, double the previous year.

Impact investing has the potential to attract new sources of funding to international development on an unprecedented scale. Impact investing pioneers (before the term impact investing was even coined) included microcredit banks in Latin America, such as *Banco Compartamos* and *BancoSol*. These banks have succeeded in leveraging the funds available for micro-finance loans to millions of people every year through project-related investments (PRI), later growing into initial public offerings (IPO).

While much attention has been given to the ability of impact investing to increase financial resources for development, the idea of measuring the social impact of these investments is still in its early stages. Impact assessment is a complex field, so creating a standardized

matrix for assessing the social impact of different interventions is almost impossible. However, more and more organizations and impact investing funds have developed their own matrices for assessing the potential social return on their investments (see, for example, IRIS of the Global Impact Investing Network, IMM of Bridgespan and the Efficient Impact Frontier of Root Capital).

Efforts to measure social return on investment are crucial for the development of the impact investing field. The challenge begins when impact investing funds meet enterprises with promising financial returns but low social impact. Investors tend to define their social return on investment in rather flexible terms, sometimes even narrowing it down to the founder's ethnicity or the enterprise's venue in a disadvantaged neighborhood or developing country. In such instances, the differences between venture capital and impact investing become vague.

Another challenge is the limited scope of impact investing funds that are invested in early stage social enterprises. According to the GIIN report, not more than 11% of the funds are allocated to businesses in this stage and less than 1% are invested in seed level initiatives. In order to create additional social value, there is a need to ensure that impact investment reaches new social enterprises with greater risk and sometimes below market returns.

In order to avoid an 'impact wash' of traditional venture capital, impact investment funds should adopt more rigid and transparent definitions of social returns on investment. One positive development in this direction is the World Bank's International Finance Corporation's new set of principles on impact investing.

Scaling-up

New venture philanthropists have imported the hi-tech culture of innovation, product development, and quick exits to the field of human development. An emphasis on scaling-up, like new applications with the potential to reach to millions of people within days, has created the phenomenon of 'productizing' the field of human development. However, social interventions are not products that can be developed through agile methods and quick iterations. The 'exit' culture, where VC investors pump money into high-risk start-ups, sometimes regardless of their real value, is dangerous for the human development field. In human development, exiting is not the goal. The return on investment is entirely different from in the dot.com industry, where one successful exit can cover the losses of 10 failures. In human development, any failure means harming real people.

Scaling-up is not synonymous with making an impact. Reaching a high number of beneficiaries does not necessarily equate to a positive impact on their lives or circumstances. For instance, in the case of microcredit, the Abdul Latif Jameel Poverty Action Lab (J-Pal) conducted a series of randomized control trials on a global scale. The study found that, on average, microcredit did not have a transformative impact on income or long-term consumption, but it did help households better manage financial choices. Microcredit may have helped to increase the freedom of the poor but did not necessarily make an impact on their financial condition as its primary effect.

Not all the world's difficulties can be addressed through business models. Moreover, using business models to try to solve problems that are the responsibility of public authorities, such as those related to education or public health, undermine the role of the government in places where institutions are already weak.

One example is "School in a Box", a product developed for Kenya's educational system by Bridge International Academies. An ambitious concept to establish more than 2,500 affordable private schools, the initiative's business model promised its impact investors a 17% return on their equity. However, the idea of exponential scaling-up, without partnership from the Kenyan Ministry of Education, played out dramatically differently in the field than on the drawing board in Cambridge, Massachusetts. Due to complex constraints, from land acquisition to protests from teachers' unions, the project eventually established only 500 quality schools – an important achievement, certainly, but very far from its stated goal of a sustainable financial model with 2,500 schools.

Governments may not be the most efficient organizations, but nonetheless, they remain accountable for and to their people. They cannot and should not be replaced by the markets without, at least, having the ability to institute meaningful regulations. Not all the world's difficulties can be addressed through business models. Domains such as early childhood education or comprehensive public health services in the developing world are not likely to be driven only by market forces.

Market forces shape international development. They can have a very positive impact in terms of efficiency, funding, and scaling-up to support achieving the SDGs. However, we should be careful not to turn people and communities into products. Sustainable human development, by definition, must put people at the center, with their unique identities, cultures, and psychological constraints.