CO-SOLVE Collective: New approach to philanthropy

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January, 2022

Serious problems such as poverty, social strife and environmental degradation have persisted despite concerted philanthropic efforts. This is true for almost all sectors of development, whether it is provisioning of services such as education and health or strengthening livelihoods of the impoverished. Even with adequate availability of external funds and cutting-edge knowledge, outcomes from development initiatives have tended to wane as outside support is tapered off.

Often the donors attribute this to the failure of the “beneficiaries” to take ownership of the initiatives or their inability to build capacity to sustain the initiatives. Such conclusions are not only grossly incorrect, but is also unhelpful in improving the success rate. While it cannot be denied that there is indeed poor ownership and capacity among the beneficiaries, it is not ***the cause*** for failure but in fact, ***the result*** of some basic flaws in the way the activities are implemented.

Let us look at two serious design flaws:

1. The financial support offered by traditional charities are almost always a 100% grant from philanthropic donors or even government programs. There are two serious problems with that. (i) If the beneficiaries have no equity in it, they cannot be owners in letter and spirit. (ii) grants/subsidies always distorts the real cost and benefits and therefore the economic viability is not established at all. There is no financial accountability built into the activities if the beneficiaries have no “skin-in-the-game”.
2. When there is 100% grant funding, the choice of activities and decision making process is almost always made by the well-meaning outsiders. This deprives the beneficiaries from gaining experience (skills and knowledge) in sustaining the activity after the donors and/or their representatives withdraw. Moreover, the recipients of charity rarely, if at all, provide feedback about the quality service or product they receive. This further erodes any notion of ownership. An often heard complaint from beneficiaries is “we accepted what was given to us because it was free. It was not necessarily what we wanted.”

These two design flaws are very rampant among traditional philanthropies. By taking this traditional approach to funding, we are setting the project up for failure even before it has started. Very few of them sustain beyond the initial months or years.

On a brighter note, we now have enough success stories where a different approach to financial and knowledge support was employed. This approach differs from the traditional ones on two counts:

1. Instead of **donors** giving 100% grant funds, **investors** provide capital on generous term (as explained below) so that those receiving it are not “beneficiaries” but partners. They have an obligation to make the project generate sustained revenue so that it not only recovers the initial capital, but also generates income stream that will endure beyond the involvement of the investors.
2. Instead of donors dealing directly with beneficiaries, the investors identify or promote a business organization that will be accountable to both: (a) the investors and (b) the partners. We can refer to this entity as a **social enterprise** that will be a legal entity liable to repay like any business entity.

The modus operandi

The steps listed below is generic in nature and will be tweaked to meet project-specific conditions:

a. We promote a non-profit corporation in the US, with the specific mandate of mobilizing funds and technical know-how from various socially-conscious donors and individuals in the US and Canada. This resource-managing non-profit corporation will take the main responsibility to manage the funds raised: hold, disburse, draw up agreements, and monitor donor-approved projects. This entity in the US will be CO-SOLVE.
b. A similar entity in India will either be identified or a new one promoted. This entity will be a registered as a Section-8 Company under the recently amended Companies Act, 2013. Section-8 companies can operate as a business, recover investments, and generate profit/surplus as long as the surplus/profits are applied for the social objectives of the company. To get started without delay, we have identified one such credible Section-8 Company in Rajasthan. Promoted by Manjari Foundation (https://www.manjarifoundation.in/ - a well-regarded Indian NGO), the company is called MaHSIE Ltd.
c. The team at CO-SOLVE will identify projects and activities in India that are market-resilient. Simply put, the projects should be such that it is able to generate income streams in a manner that it meets the operating costs and generates some surplus. Ideally, the project (social enterprise) must be economically viable in the traditional sense of the term, we will be appreciative of fact that some innovative technologies and approach to business may have a high preparatory start-up costs that may not be passed on to the enterprise. For example, production of a prototype will be at our cost, but cost replication of subsequent units will be recovered. In other words, our idea is not to maximize profit. Instead, the sustainable social benefits and poverty-reduction objective will be the priority.
d. The proposed business model in India will clearly differentiate the one-time capital costs and the recurring operational costs. CO-SOLVE will only provide funds for the capital costs.
e. It is made clear that recurring costs (also referred to as operation and maintenance) will NOT be provided by the CO-SOLVE. It must come from revenue generated by the project.
f. Money repaid to Section-8 Company/MaHSIE by the enterprise will go into a revolving seed capital that can fund additional projects.

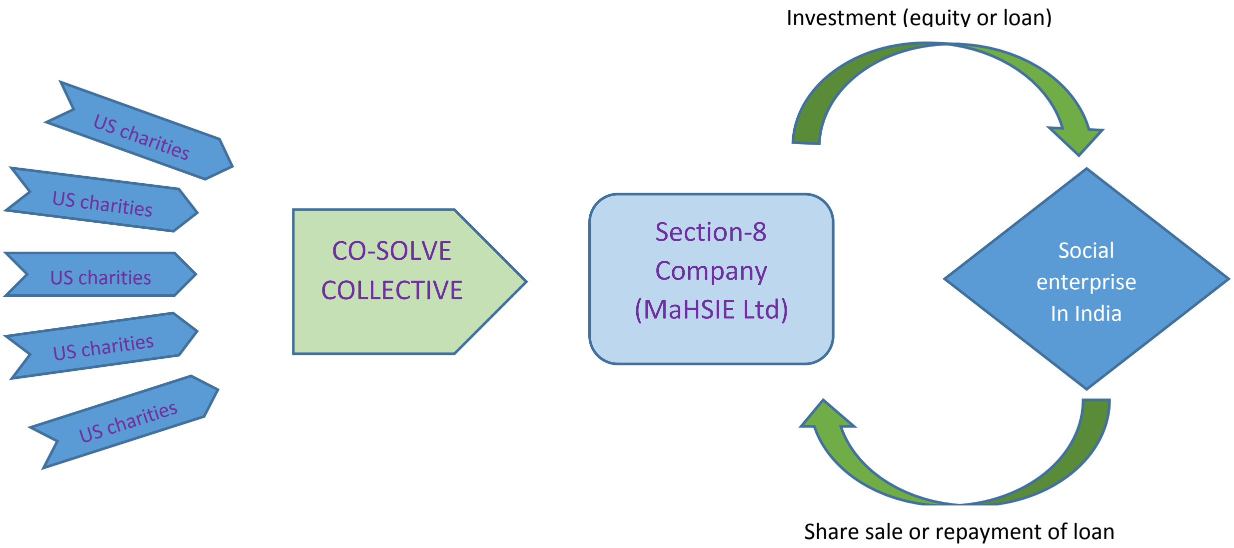
Options for investment: A Debt-Equity combination

The most commonly used instrument in a traditional market-strong enterprise is debt or equity or a combination of the two. They are very effective in such enterprises because the ownership and accountability structures are clearly defined and codified. It is possible to identify beneficiary families who are likely to invest against predictable and secure returns. They, or their collectives, can therefore hold the equity that reflects their interests. In turn, they will then negotiate their right to participate in the management/ownership of the resource in proportion to their investment.

Funds provided by CO-SOLVE will be invested by MaHSIE in the social enterprise either as equity or loan. Terms of repayment will be clearly articulated in the agreement between MaHSIE and the Social enterprise. Similarly, another agreement between CO-SOLVE and MaHSIE will outline their respective financial responsibilities. The recovery from the social enterprise can either be in the form of regular instalments of the principle and interest (if it is a loan) or sale of the shares to the members of the enterprise (if it is equity).

This financing method is best suited for raising funds for small asset creation (USD 10,000 to 15,000).

<u>Suggested flow of funds/responsibilities</u>



About the author:

Dr. Shashi Enarth is a co-founder of CO-SOLVE. Shashi Enarth comes to CO-SOLVE with a mix of academic and professional experience. From 1986 to 2000 he worked with three well-known NGOs in India (co-founding one of them) in senior executive and leadership positions.

During these years, he worked with rural communities in one of the most arid and drought prone regions of India. To synthesize the field experiences and dig deeper into some of the intractable challenges he faced, Shashi pursued a PhD program at the University of British Columbia, Vancouver, Canada. For the next 20 years (2001-2021) he continued his academic and professional pursuits through various multi-country research projects including a stint as Deputy Dean with Institute of Livelihood Research and Training (A BASIX social enterprise), an international consultant to the World Bank projects in Nigeria, Tanzania and India and as the Graduate Program Director at the School of Public Policy and Global Affairs at University of British Columbia.

A common thread that runs through his career is the community that he prefers to work with – the vulnerable segments of the population of small land-holding farmers, indigenous people, low-income migrant communities, marginalized women and children. He believes that inclusive growth and development can be equitable and sustainable only when the communities build the capacity to navigate public institutions and the market.

At CO-SOLVE Shashi brings his decades-long understanding of the political economy of vulnerable communities, diagnosing systemic problems, situating it in the policy landscape and bringing together globally sourced best practices. He spends his time between Vancouver, Canada and multiple locations in India.