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Dean Karlan on the Future of Philanthropy and Impact Investing

Financing for global poverty reduction is changing. Formerly the domain of rich country development agencies and international organizations, philanthropic foundations and private investment are increasingly playing an important role in international development. But how do we know when “impact investment” (i.e. investment in programs or businesses that have significant societal benefits in addition to private benefits) is actually making a difference on the ground?

IPA President Dean Karlan argues in an IMF magazine piece that more rigorous research and cost-benefit analysis must be done in order to separate impact investment from “normal” investment, which benefits only the investors. Karlan explains:



"In the aggregate any investment that improves competition and efficiency without causing negative externalities is likely to make people better off. If impact investing is to be anything more than a marketing slogan, it must be more than an ordinary beneficial market transaction."

We care a great deal about the role of investment in international development because unlike nonprofits, which are dependent on donations and thus subject to fluctuations in funding, investment in for-profit firms is financially sustainable. Businesses that can provide services at market rates in addition to producing a positive benefit for society are increasingly attracting funds from donors in rich countries. This has become possible in recent years because of improvements in the investment environment in developing countries following the introduction of economic reforms, the Internet, and the World Bank's Doing Business Index. However, much-heralded impact investment opportunities, such as microcredit and clean cookstove technology, have proven, upon evaluation, not to produce as large a societal benefit as donors expected. For this reason, philanthropists need to take an interest in funding rigorous evaluations of what actually works, so that investors know

where to channel their funds.

As Karlan puts it: “if our goal is to make a dent in societal problems, we owe it to our future selves and to future generations to make the time and effort to sort out what is good from what only sounds good.”

Read the full article [here](#).

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