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CREATING KNOWLEDGE TO END POVERTY

WILL 'PHILANTHROCAPITALISM' REDUCE GLOBAL POVERTY?

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'Philanthrocapitalism' – the use of markets and business methods to address poverty and other global concerns – is a recent and much-contested entry into the international development dictionary. Its supporters celebrate the arrival of a transformative movement that will unlock new sources of money, energy and innovation in the fight against hunger and disease. It is a movement that could even 'save the world', according to Bishop and Green (2008, *Philanthrocapitalism: How the Rich Can Save the World*).

Private philanthropy for international development has increased significantly over the last five years. As part of other private flows it now outranks official development assistance by a factor of five to one (see Fig. 1).

The movement has its origins in Silicon Valley and the new philanthropic foundations created by Bill Gates, Pierre Omidyar, Jeff Skoll and other successful entrepreneurs. It is marked out by a different approach to social investment, based around an entrepreneurial, results-oriented framework, leverage, personal engagement, and impatience, and by the use of markets to achieve social as well as economic goals.

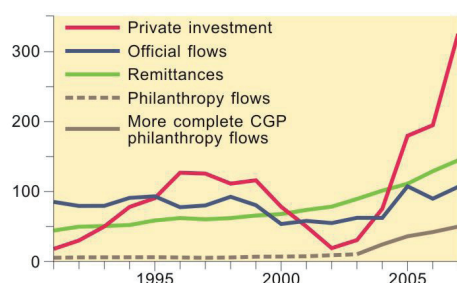


Figure 1: Official, private investment, philanthropic, and remittance flows from OECD donor countries to developing countries, 1991–2007 (US\$ billions). (Reproduced with permission from The Hudson Institute Index of Global Philanthropy and Remittances 2009, Washington, DC.)

Philanthrocapitalism promises results at a scale and level of economic sustainability that have eluded most government and NGO interventions. In the process, it may well be 'remaking the landscape of international development assistance', according to the Hudson Institute in Washington DC (2009, *The Index of Global Philanthropy*), and promising to resolve the tension between society and the market that has lain at the core of the poverty reduction debate over the last 100 years.

To others, these claims seem overblown or premature. They appear to exaggerate the long-term impact of philanthrocapitalism on the social and political forces that create and sustain poverty and inequality. Critics argue that the rhetoric of this movement runs far ahead of its results. It may disguise important trade-offs between household asset-building, social equality, government intervention and

the strength of collective action in society. All of these have proven to be essential components of successful poverty-reduction strategies in both industrialised and lower-income countries.

The oft-repeated mantra among philanthrocapitalists 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 poor governance. At best, these new approaches may be a useful complement to other, more traditional routes to poverty reduction that can be deployed in certain contexts. But there is no escape from the need to promote public action, civil society development, government accountability and market regulation as essential strategies and tools.

There is some evidence to suggest that philanthrocapitalist investments do extend access to socially- and environmentally-useful goods and services. It is much more difficult to tie these successes to changes in the social and political institutions that underpin equitable and sustainable development at a scale sufficient to eradicate absolute poverty and reduce income inequality to acceptable levels.

Key policy points

- Using the market to attack poverty has both costs and benefits; make sure that both are rigorously assessed.
- The best results come when market-based investments are combined with measures to change the structure of the economic system, through new forms of ownership and accountability.
- Increasing the 'social value' of the market must go beyond a target-group approach, to encompass the full range of social issues that underpin poverty reduction.
- 'Philanthrocapitalism' is best seen as a complement to, not a replacement for, other routes to poverty reduction that rely on civil society and public action.

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Further reading

Edwards, M. (2009). *Small Change: Why Business Won't Save The World* (San Francisco: Berrett-Koehler).