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The Role of Philanthropy in
Furthering and Preserving Harmony in International Relations:
Reducing Cross-Border, Conflict Spillover by Bolstering
Economic Conditions through Innovative Philanthropic Practices

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ABSTRACT

This study examines the relationship between the lack of economic development and unemployment against the eruption of civil unrest and political instability. I illustrate how political instability in one country is a cause for concern for neighboring countries within the region, thereby creating an incentive for the larger, international community to promote, support, and bolster economic activities and growth in said country.

Within the field of international relations (IR), the efforts of governments, international organizations, and grassroots, non-governmental organizations in addressing development are the primary focus. However, the role of philanthropic organizations in promoting development and economic development abroad is less frequently examined. This thesis demonstrates how philanthropic activities can promote economic development and sustain international peace and security using Ghana and Nigeria as case studies.

Philanthropy has an important role in promoting stability in international relations, albeit indirectly. When conducted as results-oriented, investment activities, it can improve the quality and quantity of economic opportunities available to citizens. Consequently, high levels of social discontent and unrest that often trigger protests, uprisings, and violence will decrease, thereby reducing the potential of conflict spillover into cross-border areas.

CHAPTER ONE

Introduction

In this study, I examine the relationship between the lack of economic development and unemployment against the eruption of civil unrest and political instability. I also illustrate how political instability in one country is a cause for concern for neighboring countries within the region, thereby creating an incentive for the larger, international community to promote, support, and bolster economic activities and growth in said country. Within the field of international relations (IR), the efforts of governments, international organizations such as the United Nations and World Bank, and grassroots, non-governmental organizations in addressing development are the primary focus. However, the role of philanthropic organizations in promoting development and economic development abroad is less frequently examined. To this objective, this paper will examine how U.S. philanthropic activities can promote economic development using Nigeria as a case study.

Nigeria has experienced decades of sectarian violence which is often misconstrued as an issue of religious conflict. Although recognizing that such tensions can often stem from sectarian differences, this study will take an economic approach and argue instead that the tensions between Islamic and Christian groups that divide the country more accurately arise from high poverty levels and severely unequal distribution of wealth. The region is steeped in competition for strained resources including lack of access to agricultural lands but more critically, severely limited employment

opportunities. In other words, ethnic tensions and violence are driven by economic disparity.

Here, as we have witnessed in other parts of the world, lack of access to economic opportunities can lead to discontent, protest, and violence, with large ramifications for spillover and the spread of conflict into cross-border regions. A complex relationship exists between economic growth and political stability, leading some to argue for a direct, causal relationship that growth leads to stability, while others contend the inverse to be true. This paper does not intend to disregard or lessen the influence of each of these factors and recognizes the circular interaction that exists between them. However, the scope of this paper lies specifically in exploring and highlighting the impact of economic growth and development as one of several factors in reducing conflict and political instability.

Additionally, I argue that philanthropic organizations can reduce poverty levels and have a role in creating economic opportunities and spurring growth at the local level. There are opportunities for reducing ethnic and group tensions when citizens are economically engaged which would constitute a positive gain for the larger objective of sustained international peace and security, and the role of philanthropic organizations in this effort is one worth exploring. I also argue that philanthropy has an important role in promoting stability in international relations, albeit indirectly. Philanthropy, when conducted as results-oriented, investment activities can improve the quality and quantity of economic opportunities available to citizens. When this occurs, quality Gross

Domestic Product (GDP) growth more likely follows which reduces high levels of discontent and unrest that often trigger conflict and have the potential to spillover and affect cross-border areas.

To begin, I will review secondary sources of information, including economic data sets and scholarly literature in the forms of books, chapters, articles, and news reports to examine the relationship between economic growth and political and civilian security. Following this I will survey the traditional methods of delivering foreign aid with a special focus on philanthropic trends and activities, as well as the role of philanthropies in providing aid and promoting economic growth in developing countries. And finally, I will examine various types of funding mechanisms carried out by philanthropic organizations in both Ghana and Nigeria including traditional grant-making models in contrast to philanthropic driven projects in venture capital and impact investment approaches. There is an accountability mechanism built into these strategies that produce greater, more sustainable and quality results at levels that straight grant-making models do not necessarily produce. This paper will look to make a case for philanthropic strategies vis-à-vis venture capital and impact investment schemas as the preferred method for achieving levels of economic stability that will positively impact regional security.

Background

Recent global events illustrate the significance of access to jobs and employment opportunities in ensuring the longevity and stability of political regimes and institutions.

This relationship has been portrayed in several regions including the civilian protests in Egypt during 2011 which led to the eventual collapse of the Mubarak regime, continued political strife and upheaval in the Kashmir region between Indian and Pakistani youth vying for a limited number of job opportunities, riots springing from disenfranchised Muslim youth in France during the summer of 2010, “Occupy Wall Street” demonstrations spreading across the United States rallying against corporate greed and joblessness, and protracted and violent ethnic disputes among tribal groups in Nigeria stemming from competition for strained resources such as employment opportunities and access to agricultural lands among other issues.

The aforementioned events that unfolded in Egypt serve as a poignant example that underscores the suggestion that economic stability does indeed have ramifications for domestic security (and consequently regional security by way of spillover effects). This relationship is apparent in the onslaught of mass protests and riots that took place in the streets of Tahrir Square in Egypt in 2011, which brewed from growing discontent and frustrations over rising unemployment rates and spurred a civilian movement that shook Mubarak’s politically autocratic regime and loosened its grip. Specifically, Egyptian youth played a significant role in building momentum and leading the charge in a passionate and powerful, collective demand for change. These developments created a ripple effect in the Middle East, igniting waves of demonstrations in the region including the Arab Spring movement. The magnitude, scale, and explosive potential of deeply entrenched frustrations of a restive unemployed constituency in these countries served to alert the international community of the political instability that could ensue. Neighboring

countries to those experiencing internal strife also began to recognize the costs of absorbing displaced persons both economically and towards national security goals. Consequently, more attention is now being paid to the need for job creation, especially among youth. In Ghana for example, the National Youth Employment Programme was initiated in 2006 and continues to be the largest government effort to date aimed toward training, preparing, and building the capacity of youth beneficiaries to secure permanent employment positions in eighteen sectors including agriculture, oil, education, and sanitation. The country's high unemployment rates and especially among youth had spurred this effort which was designed to create more job opportunities and open channels for employment by providing skills development support, internship placements, and on the job training; more recently the initiative has refocused its methodology on promoting entrepreneurial approaches and helping beneficiaries to identify business opportunities as well as improving access to credit lines.

CHAPTER TWO

Literature Review

Internal instability, chaos, and the inability of governments to ensure law and order and security for constituents within territorial boundaries have been cited by several scholars as a source of potential conflict that can erupt and flow across borders to the detriment of neighboring countries. In *How to Rebuild Africa*, Stephen Ellis describes two frequently shared characteristics of dysfunctional states, including the inability to guarantee law and order within its territory and to fulfill duties affecting the international community at large.¹ Further, he states that failed states which embody these characteristics can be dangerous for the maintenance of international security, specifically noting the events of September 11, 2001 to illustrate this point. For example, chaos in Afghanistan led to detrimental spillover effects that jeopardized the security of other nations internationally.² Ellis' descriptive analysis is appropriate in examining the state of Nigeria where internal security issues have continued to worsen, thus leading to a potential spillover situation and threatening regional security. The domestic security situation in Nigeria will be covered in greater detail in subsequent pages.

Building on Ellis' forecast, Alberto Ades and Hak B. Chua make the case that spillover tendencies can reduce economic growth in neighboring countries. This study highlights the consequences and costs to the regional community if political instability in neighboring countries is ignored. The authors illustrate specifically that it is the economic

¹ Stephen Ellis. (2005). *How to Rebuild Africa*. *Foreign Affairs*, 84(5), p. 138.

² *Ibid.*

performance of states not directly involved in the conflict that will duly experience decline.³ It supports the argument that having politically stable countries as neighbors will mean less potential for conflict spillovers that threaten security. Furthermore, ensuring or aiding this goal should be regarded and pursued as sound foreign policy by those countries not directly involved. Steven Radelet also examines the relationship between political stability and economic growth. In *Emerging Africa*, he discusses five fundamental changes that have brought about improved economic, political, and developmental growth in seventeen Sub-Saharan African (SSA) nations. He places paramount emphasis on improved democratic climates, more accountable governments, and stronger leadership as the key to economic growth in these countries.⁴ According to Radelet, the economic growth that has been prevalent in these emerging countries is firstly the product of a shift toward more democratic systems of government.⁵ Noting that all of the seventeen emerging economies in SSA first attained the scores outlined by the Freedom House and Polity IV standards to be considered as democracies, Radelet explains that economic growth and improved governance soon followed.⁶ Improved, democratic governance has meant that leaders are more accountable to their citizens and has allowed better economic policies to be put in place which in turn has spurred growth that has provided citizens with tangible benefits.⁷ Although arguing for a relationship that progresses in this sequential order, Radelet also recognizes that accelerated growth has the ability to reinforce democratic practices and better governance, stating that “it appears

³ Alberto Ades and Hak B. Chua. (1997). Thy Neighbor’s Curse: Regional Instability and Economic Growth. *Journal of Economic Growth*, 2(3), p. 297.

⁴ Steven Radelet. (2010). *Emerging Africa: How 17 Countries are Leading the Way*. Washington, DC: Center for Global Development.

⁵ Ibid.

⁶ Ibid, p. 66.

⁷ Ibid.

that they are connected in a virtuous circle in which improvements in one area helps support improvements in the others.”⁸

Similarly, Jenny Minier asserts that countries with more democratically stable governments also see higher economic growth whereby “...political freedoms reinforce economic freedoms.”⁹ Although this is the crux of Minier’s argument, she does acknowledge the reverse, a relationship that earlier several theorists and scholars had declared in research literature. She cites Huntington’s study which highlighted the role of economic growth in building democratic political systems in Greece, Spain, Brazil, South Korea, and Taiwan.¹⁰ Additionally, Minier notes arguments by Lipset, Moore and Rueschemeyer, Stephens, and Stephens, whom identify a larger middle class as a result of economic growth which subsequently influences and shapes norms and values (both social and political) toward those that are more democratic in nature and form.¹¹

Dambisa Moyo however, rejects Minier’s argument that democracy leads to economic growth. Instead, Moyo states “What is clear is that democracy is not the prerequisite for economic growth that aid proponents maintain. On the contrary, it is economic growth that is a prerequisite for democracy...”.¹² Several other scholars are also in agreement with Moyo’s assertion. In *Political Instability and Economic Growth*, Alberto Alesina et al., offers low economic growth as a contributing factor to government

⁸ Ibid.

⁹ Jenny A. Minier. (1998). Democracy and Growth: Alternative Approaches. *Journal of Economic Growth*, (3), p. 243.

¹⁰ Ibid, p. 243-244.

¹¹ Ibid, p. 244.

¹² Dambisa Moyo. (2009). *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*. New York: Farrar, Strauss and Giroux.

instability.¹³ Particularly, they find that in nondemocratic states, low growth is a source of dissatisfaction among the masses which in turn spurs anti-government efforts and leads to political destabilization.¹⁴

Richard Posner echoes a similar argument, concluding that a higher median income is a stronger indicator of political stability than a higher average income.¹⁵ That is, ensuring that general income levels are higher overall (i.e. growing a middle class) is more critical to maintaining political influence and would be more beneficial towards this end than cultivating an upper class with disproportionately higher incomes than the rest of the masses.¹⁶ Posner illustrates this point by raising the examples of “riots in slum neighborhoods in U.S. cities and in French suburbs (black in the United States, North African immigrants in France) [which] confirm the existence among the permanently poor or near-poor of smoldering resentments exacerbated by social neglect.”¹⁷ However, because the larger constituency in these nations lean toward middle class status, they are able to bolster and support political regimes (and therefore, contribute to political stability) that may be targeted by the underclass in an effort to air its frustrations and discontent. As Minier notes, earlier scholars also drew similar conclusions.

Seymour Martin Lipset conducted extensive studies on the impact of various economic indices including wealth, urbanization, education, and industrialization and the

¹³ Alberto Alesina, Sule Ozler, Nouriel Roubini, & Phillip Swagel. (1996). Political Instability and Economic Growth. *Journal of Economic Growth*, (1), p. 191.

¹⁴ Ibid.

¹⁵ Richard A. Posner. (1997). Equality, Wealth, and Political Stability. *The Journal of Law, Economics, & Organization*, 13(2), p. 349.

¹⁶ Ibid.

¹⁷ Ibid, p. 348.

consequences of these factors for democracy.¹⁸ Wealth, as Lipset defines, is measured by per capita income, the number of persons for every motor vehicle and for every physician, as well as the number of radios, telephones, and newspapers per every thousand persons in a country.¹⁹ With regard to per capita income, he finds more democratic, European countries yielding an average of \$695 versus \$308 in less democratic countries.²⁰ In Latin America, he finds a similar trend of \$171 for more democratic countries in the region as compared to \$119 in ones that are less so.²¹ The relationship between education and democracy is also illuminated through his studies, offering that increased education serves to broaden the individual outlook of man, increase tolerance, reduce inclinations toward extremism, and strengthen the capacity of man to make rational choices as they relate to electoral activities and decision making.²² As such, Lipset argues that increased income, economic security, and education can lead citizens to assume more complex and gradualist political perspectives which in turn reduces their commitment to more extremist political views that counteract the development of democratic systems.²³ Furthermore, Lipset contends that increased wealth “affects the political role of the middle class through changing the shape of the stratification structure so that it shifts from an elongated pyramid, with a large lower-class base, to a diamond with a growing middle-class. A large middle class [he offers]

¹⁸ Seymour Martin Lipset. (1959). Some Social Requisites of Democracy: Economic Development and Political Legitimacy. *The American Political Science Review*, 53(1), p. 71.

¹⁹ Ibid, p. 75.

²⁰ Ibid.

²¹ Ibid.

²² Ibid, p. 79.

²³ Ibid, p. 83.

plays a mitigating role in moderating conflict since it is able to reward moderate and democratic parties and penalize extremist groups.”²⁴

Samuel P. Huntington cites a study conducted in 1981 which further promotes a positive correlation between economic development and the prevalence of free and democratic governments. The study compared the World Bank’s rating of countries in terms of economic development with their Freedom House’s ratings on the measure of liberty and found two of thirty-six low-income countries to be classified as “free” or democratic, fourteen of sixty middle-income countries to fall under the same category, and eighteen of twenty-four high-income countries to be classified accordingly.²⁵ Referencing this study, Huntington states that countries occupying a higher rung on the economic ladder will likely be more democratic as well.²⁶ While maintaining that there is a strong correlation between wealth and democracy, Huntington does acknowledge that both could be caused by a third factor. He cites Protestantism as one of these factors which has been argued by some to have brought about capitalism and democracy.²⁷ Moreover, although Huntington recognizes the counter argument that democracy could indeed spur economic wealth and development, he maintains that high rates of economic wealth are preceded by high rates of economic growth which does not necessarily require democratic systems.²⁸ Therefore, Huntington concludes that “it seems unlikely that

²⁴ Ibid.

²⁵ Samuel P. Huntington. (1984). Will More Countries Become Democratic? *Political Science Quarterly*, 99(2), p. 199.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

wealth depends on democracy, and, if a connection exists, democracy must depend on wealth.²⁹

Finally, Evelyne Huber, Dietrich Rueschemeyer, and John D. Stephens also promote the causal relationship between economic development and democracy. Their explanation however offers that economic growth and development functions to transform class structure. As a result, the working and middle-class become more efficient and capable at self-organizing which makes it more challenging for elites to exclude them from political activities and other forms of participation.³⁰ The argument for ensuring economic growth and development in the pursuit of sustaining political stability and security is an important relationship that supports the need for investment in job creation and the expansion of access to employment opportunities which will be further discussed in forthcoming chapters.

²⁹ Ibid.

³⁰ Evelyne Huber, Dietrich Rueschemeyer, & John D. Stephens. (1993). The Impact of Economic Development on Democracy. *Journal of Economic Perspectives*, 7(3), p. 83.

CHAPTER THREE

A Comparison of Economic Growth and Stability in Two African States

It is apparent through a survey of the literature, that there is a strong scholarly support for the correlation between high economic growth and greater political or democratic stability. Two traditional indicators of economic growth include a country's GDP which is described as the value of all goods and services produced by a country within a specific time period, and the Human Development Index (HDI) which measures a country's progress toward human development along three dimensions including access to health, education, and income. According to data compiled by the African Economic Report, the following table illustrates the relative progress that Ghana has made along both indicators as compared to Nigeria.

	Ghana	Nigeria
Real GDP change 2010	7.7	7.8
Real GDP change 2011 (estimated)	13.7	6.7
Real GDP change 2012 (predicted)	8.3	6.9
Real GDP change 2013 (predicted)	7.7	6.6
HDI 2011	0.541	0.459

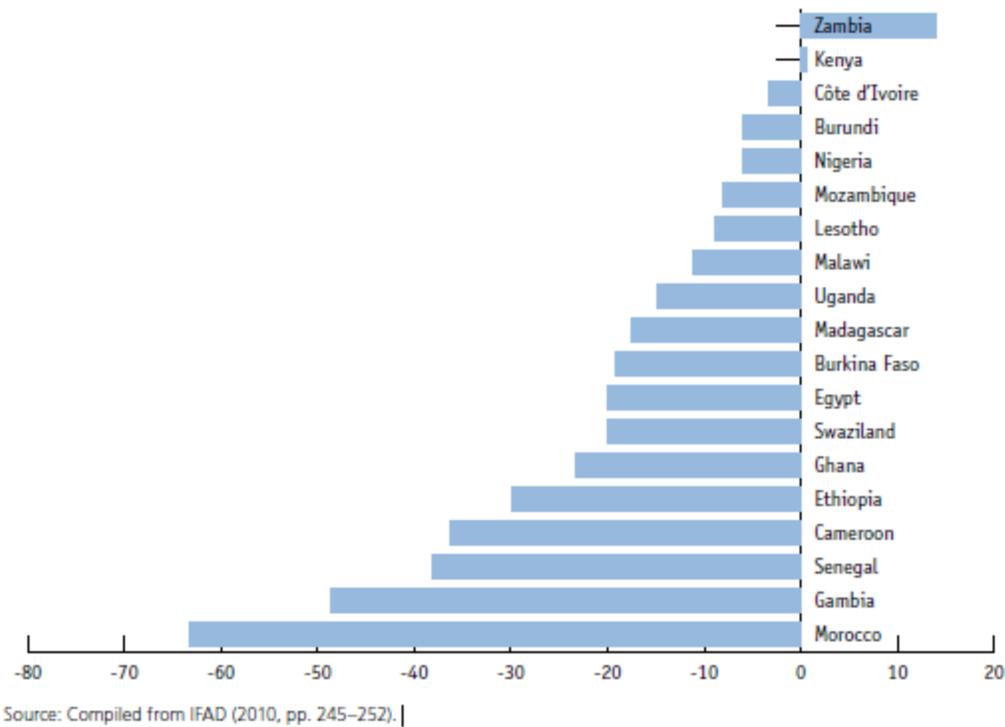
Source: African Economic Outlook 2012³¹

³¹ African Economic Outlook 2012. (2012). [Graph illustration The Guardian May 28, 2012]. Retrieved from <https://www.google.com/fusiontables/data?docid=1wjrxCjigYpl46-Gacv7aFOlqCNNYvplgshsPZo>

It is clear that Ghana outranks Nigeria on both economic indicators. The HDI is especially telling as it more closely indicates the standard of living and access to social services than does the GDP, which conveys little about the actual distribution of wealth.

In addition to these indicators, access to employment opportunities is another economic indicator that conveys information about a country's progress toward human development. In *Global Employment Trends 2012*, the International Labour Organization reports that progress toward the reduction of working poverty in the Sub-Saharan Africa region has been meager and along with South Asia, it is one of two regions globally that are unlikely to reach the Millennium Development Goal (MDG) of halving poverty by 2015. Moreover the report warns that lack of progress in reducing poverty may also derail growth and put at risk the successful attainment of other MDG goals in the areas of health and education.³² MDG progress in Ghana is substantially ahead of that which is seen in Nigeria as illustrated in the following chart which displays the percentage change in population living below the poverty threshold of \$1.25 USD per day between the decade spanning from 1998 to 2008.

³² International Labour Organization. (2012). *Global Employment Trends 2012: Preventing a Deeper Job Crisis*. Geneva.



Source: United Nations Development Programme³³

Towards the goal of eradicating extreme poverty, Ghana is well on its way to halving extreme poverty by the year 2015. In fact, the overall poverty rate in Ghana has been reduced from a 51.6% in 1995 to 28.5% in 2006; there is confidence that this rate will be further reduced to 26% well before 2015.³⁴ Additionally, the proportion of the population living in extreme poverty has also declined from 36.5% to 18.2% between 1995-2006, exceeding the 2015 target rate of 19%.³⁵

³³ United Nations Development Programme. (2011). *Assessing Progress in Africa toward the Millennium Development Goals: MDG Report 2011*. New York.

³⁴ United National Development Programme. (2012). MDG Progress in Ghana. Retrieved from <http://www.undp-gha.org/mainpages.php?page=MDG%20Progress>

³⁵ Ibid.

In Nigeria however, progress towards this first MDG goal is meager. Comparable figures do not exist to measure progress in the Nigerian case. Instead, the United Nations Development Programme (UNDP) offices in Nigeria report that "...the target will be difficult to meet. Growth needs to be more equitable and broad-based. Developing agriculture and creating jobs will require the public sector to create an enabling environment for business... and providing sustainable access to enterprise finance. Social protection and poverty eradication programmes need to be scaled-up and better coordinated."³⁶ The lack of data is telling of the slow progress and challenges faced by Nigeria in pursuing economic growth that is more equitably distributed and ensuring the well-being of its citizens through poverty alleviation.

Taking these figures into consideration it is unsurprising to learn that the unemployment rate in Nigeria by far overshoots that which is prevalent in Ghana at 21% and 11%, respectively.³⁷ Between the period of 1997-2000, Ghana saw a sharp decline in the unemployment rate, starting at 20% and dropping to 11%.³⁸ The Nigerian experience however, seems to be regressing instead and while there was an extreme decline in unemployment between 1992-2005, from 28% to 2.9%, this rate has increased in the past several years jumping to 5.8% in 2006 to a slight drop to 4.9% in 2007, and soaring to a massive 21% in 2011.³⁹

³⁶ United National Development Programme. (2012). MDGs in Nigeria: Current Progress. Retrieved from <http://www.ng.undp.org/mdgsngprogress.shtml>

³⁷ CIA World Factbook. (2012). *Unemployment Rate – Country Comparison* [Data file]. Retrieved from <http://www.indexmundi.com/g/r.aspx?v=74>

³⁸ Ibid.

³⁹ Ibid.

Moreover, falling within the category of the unemployed is a significant and unsettling mass of jobless youth. Nick Mead reports, “around 60% of the [African] continent’s unemployed are aged 15 to 24 – and more than half of these, many women, have given up on finding work.”⁴⁰ The rise in youth unemployment is particularly disturbing as this population is not only growing rapidly but also becoming better educated.⁴¹ By 2030, it is projected that 59% of Africa’s youth aged 20-24 years will have attained a secondary education as compared with 42% today, or 137 million youth completing secondary education and 12 million obtaining tertiary degrees by the same year.⁴² While this presents an enormous opportunity for economic development if governments are able to harness this reservoir of human capital and talent, it may also pose a challenge to political stability if lack of access to employment opportunities and joblessness persists, creating an extremely difficult environment for securing a decent standard of living.⁴³ Melanie Standish and Gale Muller reiterate a similar sentiment stating that the “desire for jobs underpinned the Arab Spring, forcing Middle Eastern countries to rethink their job creation efforts and... providing greater opportunities for youth employment.”⁴⁴ A 2011 MDG report echoes a similar cautionary note. The report indicates that 20% of North African youth were unable to find jobs in 2008.⁴⁵ This poor employment climate forced many youths to flood the informal sector and engage in low-

⁴⁰ Nick Mead. (2012, May 28). Youth unemployment takes shine off Africa’s economic growth. *The Guardian*. Retrieved from <http://www.guardian.co.uk/global-development/2012/may/28/african-economic-outlook-2012-youth-unemployment>

⁴¹ African Economic Outlook 2012. (2012). [Graph illustration The Guardian May 28, 2012]. Retrieved from <https://www.google.com/fusiontables/data?docid=1wjrxCjigYpl46-Gacv7aFOIqCNNYvplgshsPZo>

⁴² Ibid.

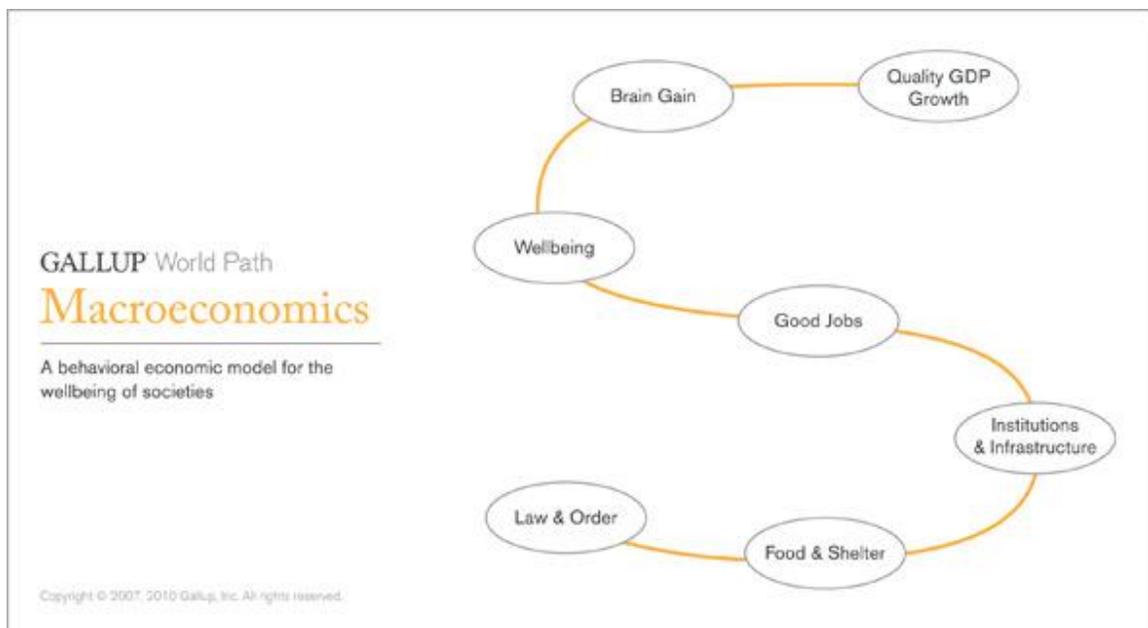
⁴³ Ibid.

⁴⁴ Melanie Standish and Gale Muller. (2012, July 30). World Pessimistic About Job Prospects. *Gallup*. Retrieved from <http://www.gallup.com/poll/156341/world-pessimistic-job-prospects.aspx>

⁴⁵ United Nations Development Programme. (2011). *Assessing Progress in Africa toward the Millennium Development Goals: MDG Report 2011*. New York.

productivity jobs which authors of the report suggest, may have contributed to the brewing social and economic conditions that culminated in the wave of protests that swept the North Africa and Middle East regions.⁴⁶ Taking this into consideration, African governments should be keen to reinvigorate job creation efforts in order to avoid potential demonstrations and riots as those led by the Arab Spring.

A macroeconomic model devised by Gallup outlines the general development pathway that according to researchers, countries must follow in order to attain prosperous societies.⁴⁷ According to the following framework, individual well-being is both an end goal and force that fuels positive growth and success in communities and in countries, if and when it is attained.



⁴⁶ Ibid.

⁴⁷ Gallup World Path: Macroeconomics. Retrieved from <http://www.gallup.com/strategicconsulting/156935/gallup-world-path-macroeconomics.aspx>

Source: Gallup World Path: Macroeconomics⁴⁸

Along this trajectory, access to basic needs such as food and shelter is one of the primary stepping stones toward individual and consequently, societal well-being. Access to “Good Jobs” both in quantity and quality occupies a mid-level residency on this trajectory course whereby “the availability of good jobs correlates with higher well-being.”⁴⁹ This Gallup study further bolsters the case for investing in economic opportunities and job creation as a strategy for producing stable, prosperous, and thriving societies.

For this thesis, Ghana will be examined in a comparative analysis against Nigeria on the dimensions of security and stability, and economic growth and opportunity. Moreover, I will look at the impact of these factors on the level, type, and outcome of philanthropic activities in both countries. While they are disparate in many ways, there are also points of similarity that allow for robust comparison. For example, Ghana and Nigeria are both influential players in contributing to the maintenance of security in the West African region due to the size of their economies (although the distribution of this wealth is more skewed in the Nigerian case, which will be discussed in forthcoming chapters). Additionally, both Ghana and Nigeria have achieved active electoral democracy and citizen rule since the 1990s (although peaceful transitions have been more of a norm in Ghana, while rigged and corrupt practices still exist in Nigeria). Along these dimensions however, the contrasts that exist have impacted the direction of philanthropic

⁴⁸ Ibid.

⁴⁹ Ibid.

investments in each country, leading to an unequal economic and employment growth rate that is in favor of Ghanaian development but contributive to continued instability in Nigerian economic and political security.

While Ghana has been referred to as a shining, model democracy in the West African region, Nigeria instead has been regarded as a country steeped in corruption, chaos, and violence. According to Erin Burnett, “In 2008, Nigeria was ranked 18th out of the 60 most unstable countries on the Failed States Index of the Foreign Policy and Fund for Peace, U.S., and 129th in the ranking of 140 most peaceful countries on the Global Peace Index of the Vision for Humanity, Australia.”⁵⁰ Taking into consideration the Gallup World Path framework, the first milestone on the trajectory (law and order) is still unmet in Nigeria and the country is not faring well on the subsequent two milestones that serve as prerequisites to good jobs (i.e. food and shelter, and institutions and infrastructure). Accordingly, the ultimate achievement of quality GDP growth in Nigeria will be put at risk, which in return will feed discontent, unrest, and political instability as I have argued in previous sections.

In a Congressional research report, Lauren Ploch, offers a harrowing estimate of more than 14,000 Nigerians who have been killed since 1999 due to sectarian and ethnic violence that often stems from a fierce competition for land rights, jobs, and other avenues of socioeconomic development.⁵¹ Not only is violence rampant in the country,

⁵⁰ Erin Burnett (Producer). (2007). *Dollars and Danger: Africa, the Final Investing Frontier*. New York: CNBC.

⁵¹ Congressional Research Service. (2012). *Nigeria: Current Issues and U.S. Policy*. Washington, DC: Lauren Ploch.

the Nigerian police and security forces have been accused of human rights abuses, guilty of unleashing brute force, violence, and even torture on some communities to stem unrest.⁵² Furthermore, rampant corruption within the Nigerian government and Nigeria Police Force has created an apathetic and tolerant culture toward violence in some areas leading warlords such as militant Islamist leader, Boko Haram, in the northern region of the country to become emboldened in their terrorist tactics.⁵³

Expanding on Ploch's research, A.E. Ojie describes a country where political assassinations occur widely, religious massacres and reprisal killings occur with high frequency, and a total disregard for and violence toward human life is the operative norm.⁵⁴ In particular, Ojie asserts that Nigerian police have a large role in fueling this type of environment as they too take part in corrupt practices such as bribery, harassment, intimidation, and torture.⁵⁵ This has resulted in high tensions between civilians and Nigerian security forces and sheds light on the serious problem that "... there is no dependable foundation for the maintenance of law and order in Nigeria by the police."⁵⁶ As Ojie explains, the ramshackle state of law and order is particularly worrisome, for the instability and security issues that ensues serves as a serious threat to Nigeria's fragile democracy.⁵⁷

⁵² Ibid, p. 14.

⁵³ Ibid, p. 9-10.

⁵⁴ A.E. Ojie. (2006). Democracy, Ethnicity, and the Problem of Extrajudicial Killing in Nigeria. *Journal of Black Studies*, 36(4), p. 522.

⁵⁵ Ibid, p. 560.

⁵⁶ Ibid, p. 561.

⁵⁷ Ibid, p. 554.

These factors are also hampering Nigeria's advancement on Gallup's World Path schematic, slowing progress toward the development of good jobs and ultimately the quality GDP and economic growth that will be needed in order to contribute to a more stable and secure nation. Other commentators and scholars on the issue of insecurity and instability in Nigeria identify similar root causes as those that Ploch touches upon in her research. J.J. Dibua for example, pinpoints the problem to a skewed distribution of wealth that benefits a minority population, and the marginalization and deliberate efforts on the part of the Nigerian government to disenfranchise certain ethnic groups by barring their access to lands and stripping their rights to use and control the natural resources that are abundant in those territories, among other forms of economic repression.⁵⁸ As a response to increasingly violent tactics employed by the Nigerian Police Force to suppress civil unrest in these communities, youth groups have organized and responded by becoming increasingly militant in their reprisal strategies.⁵⁹ In fact, in November of 1999 a confrontation between a large, militant organization comprised of over 5,000 youths culminated in what is known as the Odi massacre and led youths to resort to tactics such as kidnapping employees of oil companies, murdering security personnel, destroying oil installations, and stealing crude oil for sale on the black market.⁶⁰ Such incidences illustrate the significance of economic opportunities such that the lack of access to the use and control of lands and natural resources can spur and fuel social unrest and political instability.

⁵⁸ J.J. Dibua. (2005). Citizenship and Resource Control in Nigeria: The Case of Minority Communities in the Niger Delta. *Afrika Spectrum*, 39(1), p. 11.

⁵⁹ Ibid, p. 18.

⁶⁰ Ibid, p. 19.

Further, Meg Handley offers what many Nigerians argue as the cause of violence to be rooted in a “scramble for land, scarce resources and political clout”⁶¹ as opposed to religious or ethnic differences. Moreover, “poverty, joblessness and corrupt politics drive extremists from both sides to commit horrendous atrocities”⁶² whereby herder communities from the north and farmers from the south fight over rights to fertile lands, and an unequal distribution of oil wealth in the Delta region has prompted citizens to resort to militant tactics in their demand for a greater share of revenue.⁶³ The core motivation behind these conflicts can be attributed to a desire for greater economic agency, participation, and well-being. Elisabeth Rosenthal describes the situation as deteriorating and reports alarming youth unemployment rates. In urban areas, among high school and university graduates, aged 15-24 reaching nearly as high as 50% and Rosenthal attributes this to be main driver of discontent and crime.⁶⁴ The most recent MDG report outlining progress and challenges in Africa specifically highlights the marginalization of youths as a pressing issue of concern for the continent. Africa, in fact, has the largest youth to total population ratio worldwide and their continued disenfranchisement will be a source of discord with the potential to erupt into violence.⁶⁵ Rosenthal further offers that according to experts, “the swelling ranks of unemployed youths with little hope have fed the growth of the radical Islamist group Boko Haram,

⁶¹ Meg Handley. (2010, March 10). The Violence in Nigeria: What’s Behind the Conflict? *TIME*. Retrieved from <http://www.time.com/time/world/article/0,8599,1971010,00.html>

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Elisabeth Rosenthal. (2012, April 14). Nigeria Tested by Rapid Rise in Population. *The New York Times*. Retrieved from http://www.nytimes.com/2012/04/15/world/africa/in-nigeria-a-preview-of-an-overcrowded-planet.html?pagewanted=all&_r=0

⁶⁵ United Nations Development Programme. (2011). *Assessing Progress in Africa toward the Millennium Development Goals: MDG Report 2011*. New York.

which has bombed or burned more than a dozen churches and schools this year.”⁶⁶ Of greater concern is a potential link between Haram’s forces with al-Qaeda networks which security analysts warn is a threat to stability in the Sahel region.⁶⁷

In fact, Oladiran Bello writes, Nigeria is of central importance in efforts to improve security in the Sahel region overall which is currently pervaded by al-Qaeda operatives in Mali, Mauritania, and Niger.⁶⁸ Bello warns that “regional stability is impossible without Nigerian leadership” as deteriorating security within its borders can mean increased “drug trafficking and other trans-border crimes linking West Africa and the Sahel.”⁶⁹ He suggests that security efforts led by the European Union should focus on securing and stabilizing the northern region where Haram has been intensifying recruitment efforts and looking to accelerate the process of radicalization.⁷⁰ Burnett adds, that violent and inhumane treatment by the government and state security forces have exacerbated the insurgency which has the grave potential to spread instability across the Gulf of Guinea and into neighboring Cameroon and Equatorial Guinea, both of which have been attacked by Nigerian gangs in recent times.⁷¹

In addition to investing in job creation and youth employment in particular as mentioned above, another constituency that has historically been marginalized and

⁶⁶ Ibid.

⁶⁷ Oladiran Bello. (2011, August 9). Nigeria: A New Terrorist Challenge. *European Voice*. Retrieved from <http://www.europeanvoice.com/article/imported/nigeria-a-new-terrorist-challenge/71951.aspx>

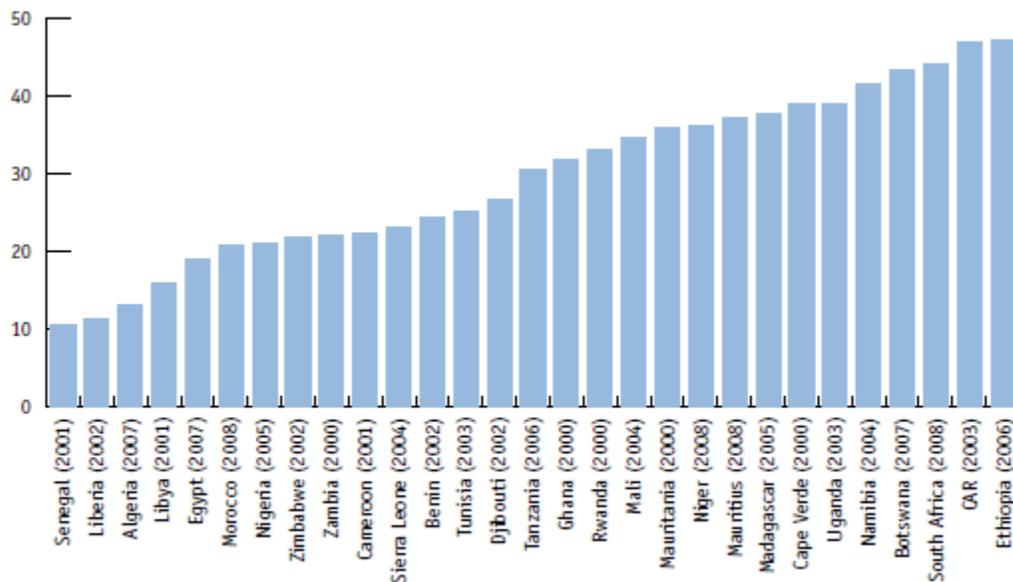
⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Erin Burnett (Producer). (2007). *Dollars and Danger: Africa, the Final Investing Frontier*. New York: CNBC.

excluded from the formal employment sector are women. In Africa as a whole, women are disproportionately represented in the informal sector but make up less than 50% of all wage position in the non-agricultural sector.⁷² As the following chart indicates, Ghana surpasses Nigeria in the percentage of women employed in waged positions external to the agricultural sector.



Source: Compiled from UNSD data (updated in June 2010).

Source: United Nations Development Programme⁷³

While this population is not as volatile, susceptible, and inclined to conduct violent, retribution tactics, they are an important group to bear in mind in the design and implementation of job creation efforts.

⁷² United Nations Development Programme. (2011). *Assessing Progress in Africa toward the Millennium Development Goals: MDG Report 2011*. New York.

⁷³ Ibid.

Ghanaian democracy however, is thriving in comparison. The peaceful transition that occurred during the last round of elections in 2009 which transferred power from John Kufuor of the New Patriotic Party to John Atta Mills of the National Democratic Congress signaled an era of robust and more imbedded democratic practices in the electoral process. Even further, when President Mills passed away in the summer of 2012, John Dramani Mahama was sworn in immediately just two hours after the announcement of Mills' death. This historical moment signaled a rare but emerging commitment to the constitution and by expansion, the democratic system. Ghana is making substantial progress as compared to Nigeria on the MDG goals including major improvements in efforts to eradicate extreme hunger and poverty, and to provide universal primary education.⁷⁴ As such, along Gallup's World Path framework, Ghana is on course and ahead of Nigeria in achieving quality GDP growth. Furthermore, as mentioned in earlier sections, a stronger Ghanaian economy based on GDP data and projections lends support to this statement. Finally, unemployment is also lower in Ghana than in Nigeria, while the HDI measure higher, which has likely contributed to the relative political stability that has been enjoyed by the country. In order to produce similar levels of security and political stability as apparent in Ghana, Nigeria will need to make heavy investments in democratizing economic participation, creating job opportunities for its expanding population and especially a growing, educated youth constituent, and promoting quality, distributive economic growth. And, these objectives can be achieved via innovative, philanthropic investment strategies which will be

⁷⁴ United National Development Programme. (2012). MDG Progress in Ghana. Retrieved from <http://www.undp-gha.org/mainpages.php?page=MDG%20Progress>

discussed in forthcoming chapters.

CHAPTER FOUR

The Contributive Potential of Philanthropic Work toward Global Development and Security Goals

Foreign aid has many advantages for both donors and recipients but may also result in repercussions and negative consequences for recipients. There are a multitude of motivations including being utilized as a diplomacy tool by donor countries to further economic or security agendas, and/or to gain political leverage. Further yet, other objectives of foreign aid are geared toward promoting donor-led development policy in recipient countries.⁷⁵

In surveying the landscape of IR theories of foreign aid, Tomohisa Hattori discusses the various studies that aim to answer the question: what is foreign aid? Political realists would define foreign aid as a policy tool that emerged during the Cold War in order to drive political loyalties in a bi-polar world order.⁷⁶ Liberal internationalists take a more benevolent stance and describe the objective and function of foreign aid as a means to promote socio-economic and political development abroad.⁷⁷ Finally, Hattori uncovers the world system theory which establishes foreign aid as an instrument that restrains the development trajectories of recipient countries and contributes to the unequal distribution of capital and wealth throughout the world.⁷⁸

⁷⁵ Tomohisa Hattori. (2001). Reconceptualizing Foreign Aid. *Review of International Political Economy*, 8(4), p. 633.

⁷⁶ Ibid, p. 634.

⁷⁷ Ibid.

⁷⁸ Ibid.

These answers however are lacking and incomplete according to Hattori. His main critique is that these theories simply address the function of foreign aid rather than its essence. Even further than exploring what foreign aid *does* is the examination of what foreign aid *is*, and to that objective, Hattori, maintains that it functions as a symbol of power hierarchies between the donor and recipient countries.⁷⁹ Hattori expresses concern and critique for current theories that miss this point in their preoccupation with the policy objectives and effects of foreign aid.⁸⁰ Instead, he prefers to conceptualize foreign aid as “the pervasive hierarchy between the industrialized states and their former colonies, [which has been] *naturalized* by a practice of extending and accepting gifts.”⁸¹ Hattori’s analysis centers solely on bi-lateral foreign aid relations. However, he is keen to emphasize that there are forms of aid that operate beyond the state level including individual donations, philanthropic aid, multilateral grants via international organizations and, what he terms as other types of “institutionalized giving practices.”⁸² These forms of foreign aid he argues, serve to further skew hierarchical structures between donors and recipients with the only difference being that the relational dynamic is “*mediated* by a third party organization.”⁸³

While Hattori’s critique is important to keep in mind, there is also an expansive amount of good that can be derived from foreign aid programs, and specifically via philanthropic means. Howard Husock argues for philanthropic driven aid citing high

⁷⁹ Ibid, p. 633.

⁸⁰ Ibid, p. 649.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

incidences of ineffectiveness in government run social services programs.⁸⁴ Private donations however, would be a more appealing option because philanthropic organizations can often tailor programs and adapt efforts to local needs rather than inappropriately force “one-size-fits-all” federally designed programs onto communities that do not have the conditions necessary to achieve success.⁸⁵ In addition, aid recipients of privately financed donations are expected to track progress and show results.⁸⁶ These expectations lend to higher levels of both efficiency and effectiveness than programs funded by governments, which often the capacity to track, measure, and report results.

Moyo adopts a similar view towards foreign aid disbursements taking place at the state-to-state or government-to-government level. She identifies the abundant aid flow into Africa as the source of continued poverty throughout the continent.⁸⁷ For the past fifty years, she describes, aid has been poured into Africa leading African leaders and governments to believe that it is a consistent and permanent source of income that is unlikely to be cut off.⁸⁸ Consequently, African governments have had little incentive to pursue sound, strong, and vigorous financial planning efforts or look for alternative capital and funding opportunities.⁸⁹ According to Moyo, foreign aid in this form perpetuates poverty in a multistep manner. Firstly, free-flowing aid serves to prop corrupt governments by making available an unlimited and generous source of wealth and

⁸⁴ Howard Husock. (2012, November 27). More Independence, Greater Results. *The New York Times*. Retrieved from <http://www.nytimes.com/roomfordebate/2012/11/27/are-charities-more-effective-than-government/more-independence-greater-results>

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ Dambisa Moyo. (2009). *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*. New York: Farrar, Strauss and Giroux.

⁸⁸ Ibid.

⁸⁹ Ibid.

income to leaders who disregard civilian liberties, reject the rule of law, and conduct activities – issuing economic, political, and social policy decisions – in a highly non-transparent fashion.⁹⁰ Moreover, opaque and corrupt environments tend to reduce and stifle private investments due to the increased risks that follow and reduced guarantees for return.⁹¹ As a result, fewer investments hamper economic growth which leads to fewer job opportunities and thereby, protracted poverty.⁹² Greater poverty levels prompt donor countries to disburse even more aid which subsequently reinforces a culture of dependency on foreign financial assistance which perpetuates rampant and deep poverty.⁹³

Instead, as suggested earlier, instilling expectations for a strong return, including tracking, measurement, and reporting procedures would be important for donors to insist upon as a standard practice for aid recipients to produce. Moyo compares China's endeavors in Africa as significantly more successful than that of the West. She writes "The secret of China's success is that its foray into Africa is all business. The West sent aid to Africa and ultimately did not care about the outcome; this created a coterie of elites and, because the vast majority of people were excluded from wealth, political instability has ensued."⁹⁴ China, Moyo describes, expects and even demands a return for their investments, which leads to positive results such as job creation, infrastructure and road development, and food poverty alleviation.⁹⁵ As these series of events and benefits

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Ibid.

unravel, the average African becomes better off which helps to maintain political stability.⁹⁶ Moyo maintains that it *is* absolutely a growing economy that precludes political stability and cites Singapore as one example of this claim. Singapore she describes is a nation of relative peace and order even in the absence of democracy because the median citizen enjoys more favorable economic conditions.⁹⁷ Finally, she concludes that what Africa needs from the West is not more unrestricted aid but investment in the form of public-private partnerships and corporate leadership in foreign direct investments (FDI).⁹⁸ Additionally, she calls for other “private-capital solutions to development financing,”⁹⁹ which I will add, include an array of impact investing funding options.

Other scholars also see value in increased corporate investment as one method to lift African nations out of poverty. Sandra T. Barnes describes a dilemma that many foreign corporation face when considering making investments in Africa. While they recognize that the region is an immense opportunity for profit gains, there are also challenges of infrastructural weakness, poor tax and other economic policies, and often corrupt, bureaucratic practices and political red tape that exist.¹⁰⁰ Consequently, private sector actors have embraced strategic philanthropy in order to directly contribute to the

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ Sandra T. Barnes. (2005). Global Flows: Terror, Oil & Strategic Philanthropy. *Review of African Political Economy*, 5(104), p. 235.

development of communities in which they operate and improve African livelihoods.¹⁰¹

Barnes explains the evolution and rise of corporate engagement in this region as follows:

The message that conflict and poverty are bad for business is giving rise to a fresh set of business practices that are making their way throughout the world by means of a new kind of corporate philanthropy. In the past three to five years, corporations have been attempting to increase their value and shield themselves from a multitude of negative forces – including the ramifications of working in weak states – by engaging in local community development projects. These projects are known as ‘strategic philanthropy’.¹⁰²

To further illustrate the extent and potential of corporate-driven aid to contribute to development efforts in Africa, Barnes offers that multinational companies allocate between 0.5-4% of their in-country operating budgets every year to community development projects.¹⁰³ She cites examples ranging from Alcoa’s \$5 million investment in Guinean communities, which is just over 4% of its budget for annual operating costs.¹⁰⁴ Moreover, General Electric has been an active player in South Africa, contributing \$20 million to help build and strengthen health infrastructure in the country.¹⁰⁵ Finally, of the five Shell companies based in Nigeria, one has spent \$60 million, making up 3% of its annual operating budget on community development

¹⁰¹ *Ibid.*

¹⁰² *Ibid.*, p. 243.

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.*

¹⁰⁵ *Ibid.*

projects.¹⁰⁶ While these figures look substantial and in many cases does in fact provide the much needed financial resources to have a positive impact on impoverished communities, Barnes adds that it should be noted that these contributions are not all for naught and companies expect a rate of return on investments in the range of 26-28%.¹⁰⁷

Foreign corporations have a vested interest in seeing to the development and well-being of the communities in which they operate. Daimler-Chrysler for example has recognized this after finding a way to use sisal (a plant fiber) in car interior parts. In order to ensure that their supply needs were met, the company helped local farmers return to and improve sisal production methods.¹⁰⁸ Barnes explains that as the world marketplace becomes more competitive, companies are beginning to look for new opportunities at the base of the pyramid (BoP) where there is massive potential for tapping into an expansive consumer base. A report published by the Monitor Group references C.K. Prahalad's contribution to directing attention and spurring interest in this sector. In his book titled, "The Fortune of the Bottom of the Pyramid," Prahalad argues that the purchasing potential of this group is enormous and should be taken seriously by the corporate sector.¹⁰⁹ Prahalad points out that there are billions of people living in poverty worldwide and together, they have a combined purchasing power of \$5 trillion. In order for companies to achieve success in this space, they must contribute to building and fostering conditions in these communities that enable them to operate securely, sustainably, and with a potential for growth. Barnes references an argument by world renowned Harvard

¹⁰⁶ Ibid.

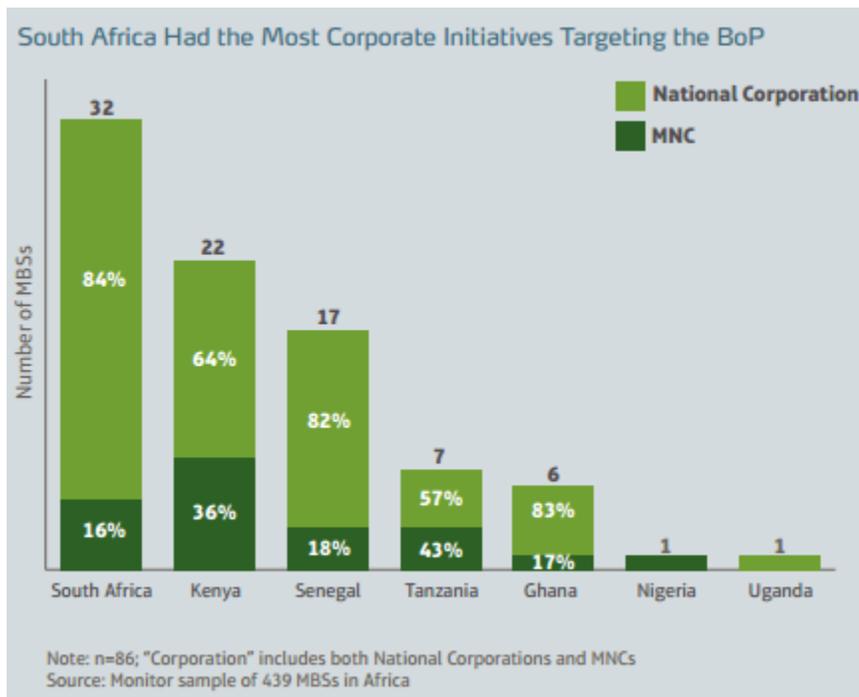
¹⁰⁷ Ibid.

¹⁰⁸ Ibid, p. 244.

¹⁰⁹ Monitor Company Group. (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Cambridge: Michael Kubzansky, Ansulie Cooper, & Victoria Barbary.

economist, Michael Porter, who states that “in today’s business environment, an enterprise cannot expect to compete and survive unless it is integrated into and contributing to the full social context in which it operates.”¹¹⁰

A study by the Monitor Company Group finds that corporate initiatives aimed at the BoP are disproportionately implemented in South Africa as the following chart illustrates:



Source: Monitor Company Group¹¹¹

¹¹⁰ Sandra T. Barnes. (2005). Global Flows: Terror, Oil & Strategic Philanthropy. *Review of African Political Economy*, 5(104), p. 244.

¹¹¹ Monitor Company Group. (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Cambridge: Michael Kubzansky, Anslie Cooper, & Victoria Barbary.

The private sector is tellingly much stronger in South Africa than any other nation in SSA. There are a total of 32 national and multinational corporations operating in South Africa whose businesses target the BoP but only 6 companies in Ghana who do the same.¹¹² Even more appalling is the fact that there is just 1 company operating in Nigeria that engages the BoP.¹¹³ Although undesirable this finding underscored the need and potential in Nigeria for corporate engagement with the BoP.

At the same time, while Barnes welcomes multinational contributions toward development efforts and goals, she also recognizes potential downfalls to this model. Firstly, similar to Hattori's assessment, she does acknowledge that corporate giving dynamics can perpetuate power structures that cultivate and perpetuate a dependency culture.¹¹⁴ She also points out that there are many cases where payments to elite leaders and government officials in the form of taxes and profit cuts fail to reach the masses and intended recipients.¹¹⁵ Instead, these funds are squandered, further bolstering the economic status of the already well to do. This is a grave problem as resentment grows for those that benefit and has a tendency to erupt in the form of anger and violence.¹¹⁶ Specifically, Barnes cites the tumultuous situation that is currently being witnessed in the Niger Delta in which fighting amongst communities stems from perceived inequalities.¹¹⁷

¹¹² Ibid.

¹¹³ Ibid.

¹¹⁴ Sandra T. Barnes. (2005). Global Flows: Terror, Oil & Strategic Philanthropy. *Review of African Political Economy*, 5(104), p. 246.

¹¹⁵ Ibid, p. 245.

¹¹⁶ Ibid.

¹¹⁷ Ibid.

Alberto Chong et al. echo a similar concern and in their research examine the effect of foreign aid on reducing poverty and income inequalities, they find that aid on its own does not have a significant effect on either measure.¹¹⁸ They also cite studies conducted by William Easterly and Rajan and Subramanian which also conclude that foreign aid has no effect on growth even when the quality of institutions (strong transparency and accountability, low corruption) is high.¹¹⁹ In fact, as Brautigam and Knack posit, aid may actually lead democratic institutions to deteriorate in quality.¹²⁰ According to Figure 1 below which illustrates the relationship between inequality (as measured by the Gini coefficient), foreign aid, and institutional quality, Chong et. al. report the following findings: When institutional quality is high (i.e. corruption is low), an increase in foreign aid flows from low to medium levels actually increases income disparity (i.e. income distribution becomes more unequal, or the Gini coefficient falls).¹²¹ However, when aid increases from medium to high, the distribution of income is relatively unchanging.¹²² When considering recipient countries where the quality of institutions is weak, the study finds that income inequality does not change when aid increases from low to medium.¹²³ Interestingly, however there is a sharp increase in the Gini coefficient when foreign aid pours into the system from medium to high levels.¹²⁴ This illustrates that inequality and disparity rises when corruption is high and yet aid continues to flow and is consistent with Barnes' earlier aforementioned cautionary note.

¹¹⁸ Alberto Chong, Mark Gradstein, & Cecilia Calderon. (2009). Can foreign aid reduce income inequality and poverty? *Public Choice*, (140), p. 79.

¹¹⁹ *Ibid*, p, 59-60.

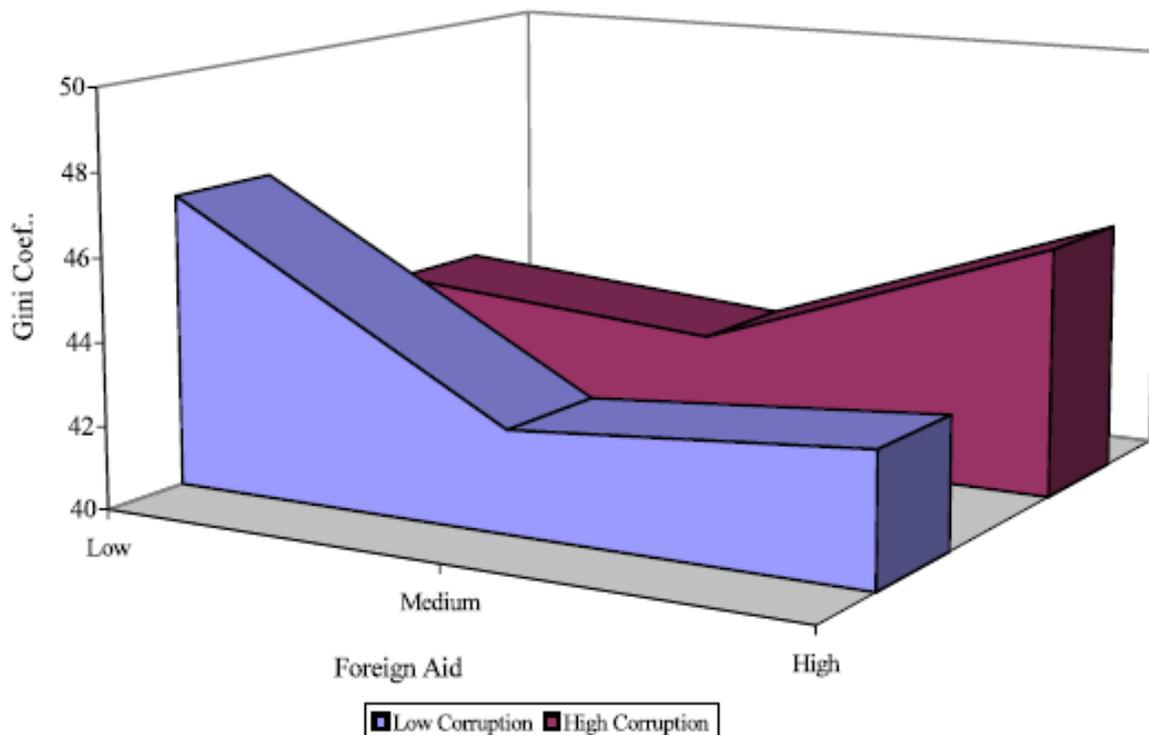
¹²⁰ *Ibid*, p. 60.

¹²¹ *Ibid*.

¹²² *Ibid*.

¹²³ *Ibid*.

¹²⁴ *Ibid*.



Source: Alberto Chong, Mark Gradstein, & Cecilia Calderon. (2009). Can foreign aid reduce income inequality and poverty? *Public Choice*, (140), p. 61.¹²⁵

Furthermore, Huntington also cautions that economic development as yielded by foreign aid assistance may not necessarily produce more equality and more stability.¹²⁶ He contends, “It could well exacerbate regional differences, promote differential rates of social mobilization and economic well-being among ethnic group, and enhance communal consciousness through increasing literacy and education.”¹²⁷ Instead, gradual (as opposed to rapid) improvements in economic conditions would help to counter the unbalanced and biased economic growth and increase in income inequality that may

¹²⁵ Ibid, p. 61.

¹²⁶ Samuel P. Huntington. (1971). Foreign Aid For What and For Whom. *Foreign Policy*, (2), p. 180.

¹²⁷ Ibid.

result from foreign aid receipts. That is, rapid growth may contribute to politically destabilizing conditions and so he advocates for gradual growth to mediate against these potential outcomes.¹²⁸

Despite these seemingly grave challenges and repercussions of foreign aid on the economic and political environments of recipient countries, it is important to note that there is a difference between traditional foreign aid in the form of state to state grant-making and loan arrangements (which is the type of aid addressed in Alberto and Huntington's analysis above) as opposed to the investment aid and capital via corporate players and strategic philanthropic means that is the focus of Barnes' study.

Alternatively, there are a plethora of benefits that a philanthropic model of foreign aid can generate. In an interview conducted by the *Georgetown Journal of International Affairs*, Thomas Pogge and Carol Lancaster promote this route arguing that philanthropic organizations and endeavors are not as inflexibly bound by government interests and priorities as traditional foreign aid program via government, or bilateral bodies.¹²⁹

According to Pogge, U.S. funded aid programs are often "... adulterated by other ulterior motives... [and] used as a policy instrument toward advancing the geostrategic interests of the United States."¹³⁰ They offer however, that privately funded, corporate investments can improve the communities within which they operate and also increase profit potential at the same time.¹³¹ This strategy constitutes a type of market-based approach that

¹²⁸ Ibid.

¹²⁹ Interview of Thomas Pogge and Carol Lancaster. (2012). *Global Institutions and Partnerships: The Future of International Development?* Conducted by *Georgetown Journal of International Affairs*.

¹³⁰ Ibid.

¹³¹ Ibid.

endorses and reinforces the triple bottom line approach of “doing good while doing business.”

The adage illustrates a shift toward a growing culture of corporate social responsibility (CSR). In a panel discussion organized by the Council on Foreign Relations, Jane Wales explains that CSR has prompted business leaders and corporations to consider the impact of their operations on social change as well as points along the design, production, and consumption chain where they may contribute a value add.¹³² Further, Carol Adelman sees an enormous potential in building the CSR sector. In fact, she cites that private donations to the developing world surpassed those made by the government for the first time in the 1990s.¹³³ Whereas 80% of aid contributions from the developed world were government funded in the 1950s with only 20% being private donations, the most recent figures show a shift toward privately funded foreign aid.¹³⁴ Today, only 13% of all aid flows originating from developed countries are government funded while a staggering 80% are privately sourced.¹³⁵ These financial resources include investment capital, remittance payments, as well as traditional, philanthropic grants.¹³⁶ A percentage of these privately funded donations are also comprised of corporate giving and private sector philanthropic programs.

¹³² Moderated panel between Carol Adelman and Jane Wales. (2009). *Philanthropy and U.S. Foreign Policy*. Organized by *Council on Foreign Relations*.

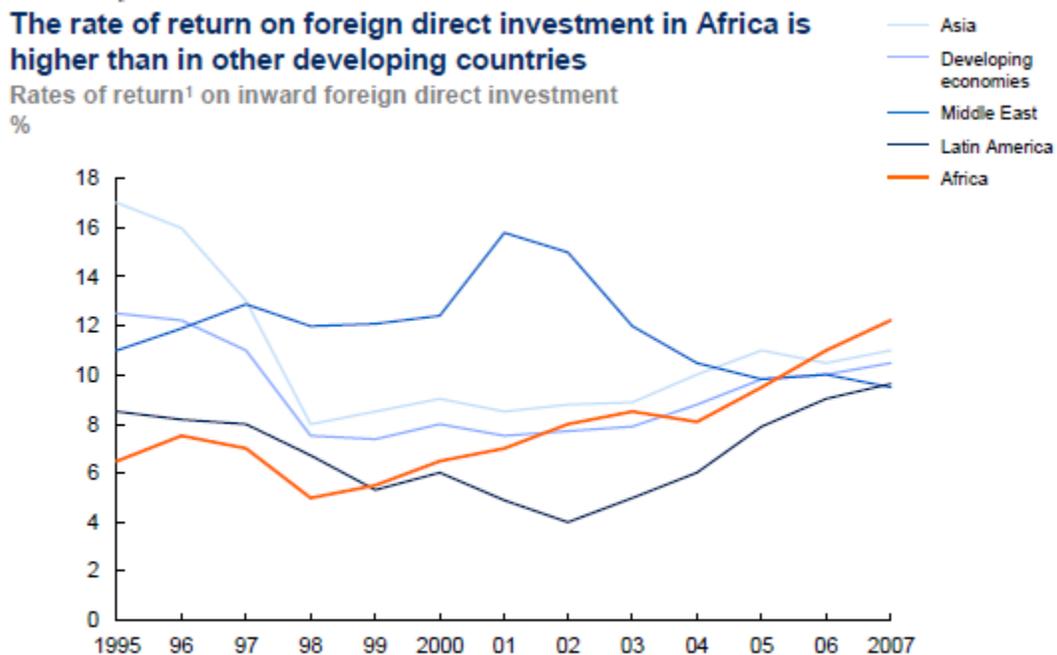
¹³³ *Ibid.*

¹³⁴ *Ibid.*

¹³⁵ *Ibid.*

¹³⁶ *Ibid.*

In a study examining the ethics of foreign direct investments and exploring how companies can contribute to social good while turning a profit at the same time, Roland Bardy, Stephen Drew, and Tumenta F. Kennedy have identified a tremendous opportunity for companies to make foreign investments in Africa, noting several reasons including a report by UNCTAD that FDI in Africa yields the highest rate of return in the world as evidenced by the following chart:



¹ The rate of return is calculated as direct investment income for the current year divided by the average of FDI stock of the previous year and the current year. The figures for 2007 rates of return are based on 39 countries in Africa, 33 in Latin America and the Caribbean, 11 in West Asia, and 18 in Asia.

SOURCE: United Nations Conference on Trade and Development; McKinsey Global Institute

Source: McKinsey Global Institute¹³⁷

¹³⁷ McKinsey Global Institute. (2010). *Lions on the move: The progress and potential of African economies*. Charles Roxburgh, Norbert Dorr, Acha Leke, Amine Tazi-Riffi, Arend van Wamelen, Susan Lund... Till Zeino-Mahmalat.

They write, “While not yet as competitive as the BRIC countries, the demographics bode well for Africa as a market as more than half its population is under the age of 24. Europe’s population will lose 60 million people by 2050, however, Africa will add 900 million.”¹³⁸ The population bulge in Africa, while worrisome and may become a development challenge, can also be regarded as an enormous business potential. Opportunities for tapping into the millions that make up the market at the BoP are ample and can be sought in the expansion of education sector, of healthcare and banking services, as well as the proliferation in need for infrastructure in addition to serving as a general population for consumer goods.¹³⁹

Charles Roxburgh et al. further emphasize the opportunity to conduct business with this growing population reporting an estimate of about 85 million African households earning \$5,000 or more.¹⁴⁰ This is the income level at which half of all earning are spent on items other than food.¹⁴¹ In the next ten years, this number is expected to grow by 50% bringing the number of households with discretionary income to 128 million.¹⁴² By 2030, it is projected that the combined spending power of the top eighteen cities in Africa could reach \$1.3 trillion.¹⁴³ These figures should provide corporations, foundations, and other investors with the incentive to conduct business and

¹³⁸ Roland Bardy, Stephen Drew, & Tumenta F. Kennedy. (2012). Foreign Investment and Ethics: How to Contribute to Social Responsibility by Doing Business in Less-Developed Countries. *Journal of Business Ethics*, 106, p. 271.

¹³⁹ Ibid.

¹⁴⁰ McKinsey Global Institute. (2010). *Lions on the move: The progress and potential of African economies*. Charles Roxburgh, Norbert Dorr, Acha Leke, Amine Tazi-Riffi, Arend van Wamelen, Susan Lund... Till Zeino-Mahmalat.

¹⁴¹ Ibid.

¹⁴² Ibid.

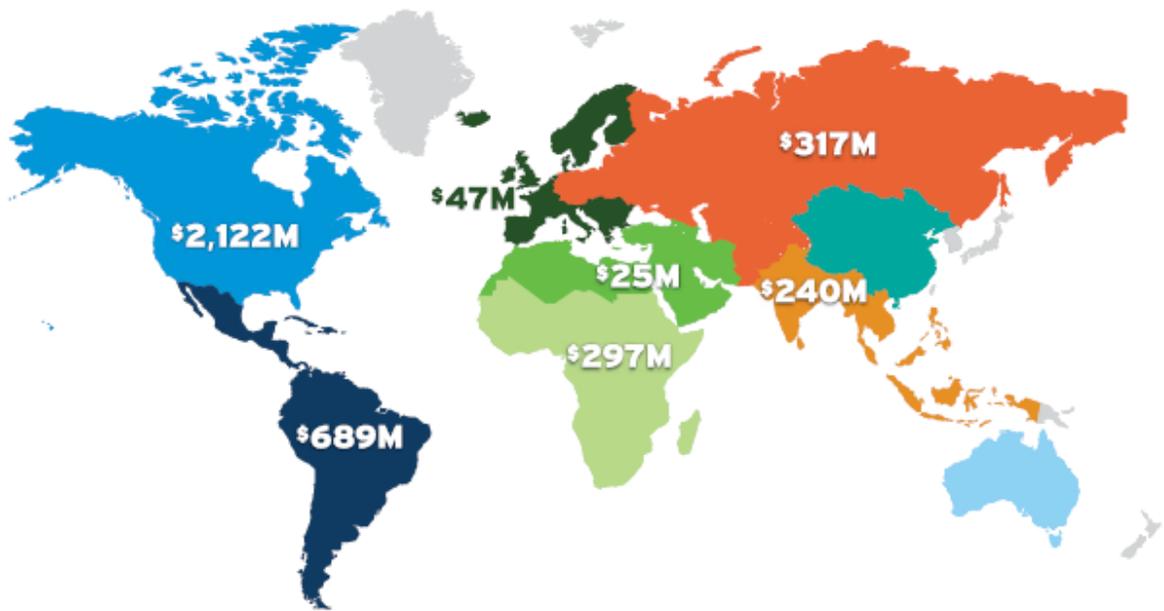
¹⁴³ Ibid.

pursue strategic, philanthropic activities in the region. And, the potential rate of return in targeting this consumer base is phenomenal.

In addition to the lure and attractiveness of a growing consumer base with discretionary income, there are several other reasons for investing in African economies. Firstly, what is most troubling as described in a report by the Rockefeller Foundation is the decline in resources and budget cuts resulting in smaller foreign aid packages from the West.¹⁴⁴ The report notes that “Philanthropic giving was uneven and declining in some areas for both domestic and international projects.”¹⁴⁵ This reality signals a need to shift from development dependency on traditional foreign aid assistance to strategic, philanthropic methods that prioritize investment and impact for results. Furthermore, as the map below indicates, the value of reported investments in 2011 was skewed and there is large gap between amounts invested in Africa as compared to other regions of the world.

¹⁴⁴ Rockefeller Foundation. (2012). *Accelerating Impact: Achievements, Challenges and What’s Next in Building the Impact Investing Industry*. New York.

¹⁴⁵ *Ibid.*



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

Source: Rockefeller Foundation¹⁴⁶

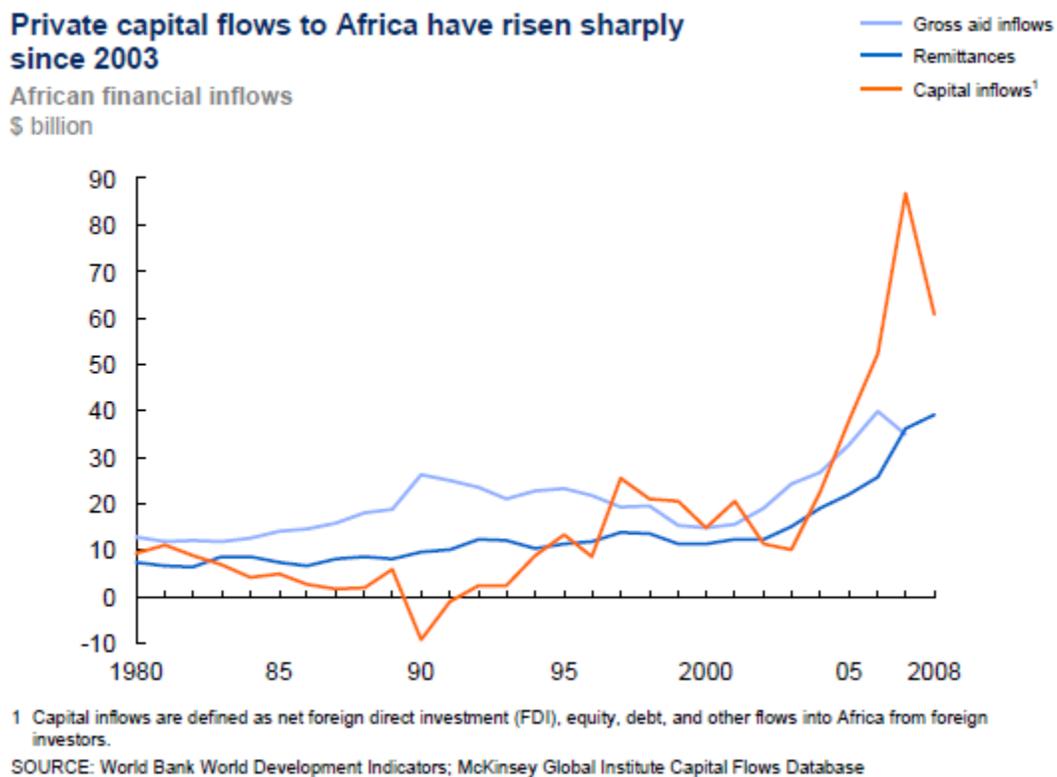
This illustrates a large potential and also need for further investment in Africa as a whole. A second reason, why the development landscape will begin relying on philanthropic giving and investments as opposed to receiving funding from a depleting reservoir of government backed foreign aid assistance packages, is their deteriorating legitimacy with the public. A report by the Council on Foundations offers the following insight:

As governments lose capacity, they are losing public trust. The result is an increasingly hostile and polarized political environment. We are seeing growing social discontent and protests such as the Occupy and Tea Party movements in the United States and riots linked to severe austerity

¹⁴⁶ Ibid.

measures in Europe. More and more, the public is looking to the business world for leadership, not just in the economic realm but in the social realm.¹⁴⁷

On a promising note, we are seeing evidence of increasing corporate engagement in this arena as they begin to recognize the large potential for growth in African economies. Private capital flows to Africa have risen substantially beginning in 2003 as the following chart illustrates:



Source: McKinsey Global Institute¹⁴⁸

¹⁴⁷ Council on Foundations. (2012). *Increasing Impact, Enhancing Value: A Practitioner's Guide to leading Corporate Philanthropy*. Arlington: Christopher Pinney.

In fact, FDI grew from just \$9 billion in 2000 to \$62 billion in 2008.¹⁴⁹ This growth demonstrates an emerging trend and interest towards investment in the region.

¹⁴⁸ McKinsey Global Institute. (2010). *Lions on the move: The progress and potential of African economies*. Charles Roxburgh, Norbert Dorr, Acha Leke, Amine Tazi-Riffi, Arend van Wamelen, Susan Lund... Till Zeino-Mahmalat.

¹⁴⁹ *Ibid.*

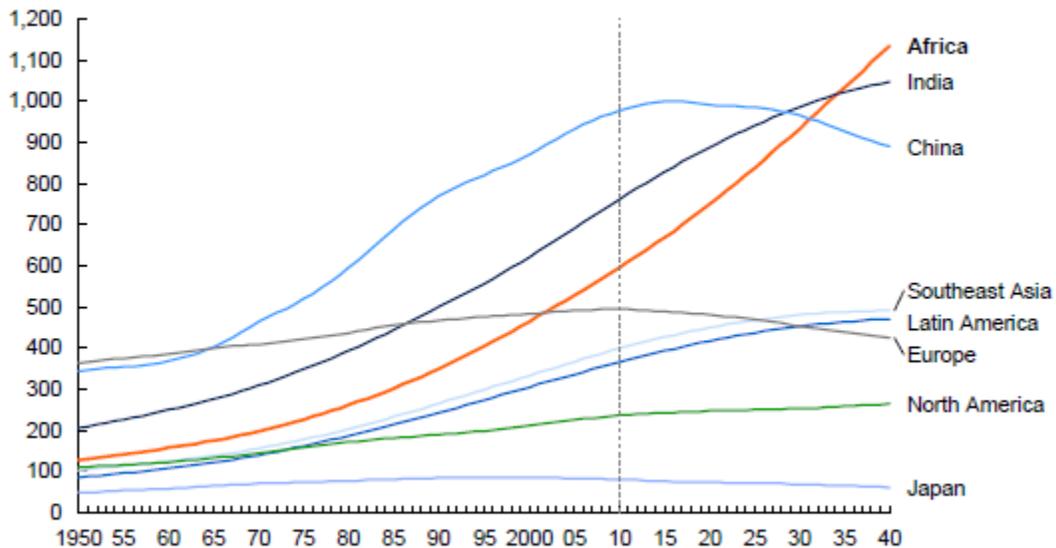
CHAPTER FIVE

Opportunities for Strategic Philanthropy: Investment Climate, Methods, and Obstacles to Growth

Not only is the consumer population growing and strengthening as discussed in previous chapters, the labor force in Africa is also expanding at an unprecedented rate. By the year 2040, it is projected that there will be 1.1 billion Africans of working age.¹⁵⁰ And as illustrated below, this would mean that Africa's workforce is expected to surpass that of both India and China's.

Africa's workforce will become the world's largest by 2040

Size of the working-age¹ population
Million



1 Population aged 15–64.

SOURCE: United Nations World Population Prospect; McKinsey Global Institute

¹⁵⁰ Ibid.

Source: McKinsey Global Institute¹⁵¹

Roxburgh et al. suggests taking steps to harness this human capital by providing the education and skills they need to succeed.¹⁵² This in turn can significantly boost worldwide consumption and production levels.¹⁵³ Also important to note is the deleterious consequences that may ensue if governments and societies fail to engage this large workforce. Continued population growth without expanded access to jobs both in quality and quantity can cause friction in society. Therefore, I echo Roxburgh et al. and argue that it is of increasing urgency to engage this growing constituency so that they are appropriately absorbed into the formal, economic sector.

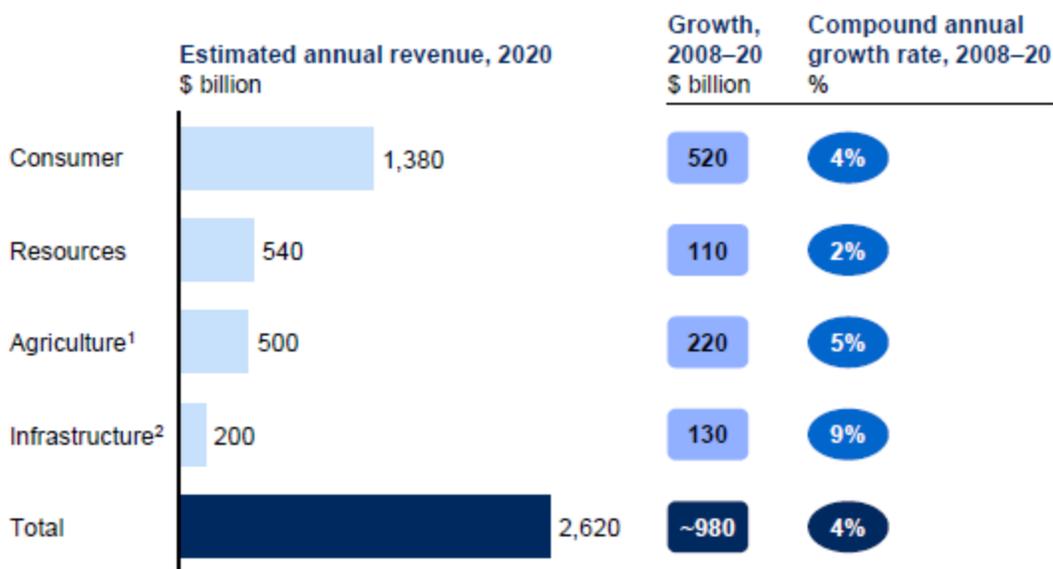
In addition to the capital potential that Africa's growing population provides by way of serving as both a large consumer base and productive labor force, three other major industries that form a combined potential business worth of \$2.6 trillion by the year 2020 are resource extraction, agriculture, and infrastructure as illustrated in the chart below:

¹⁵¹ *ibid.*

¹⁵² *ibid.*

¹⁵³ *ibid.*

Four groups of industries could have combined revenue of \$2.6 trillion by 2020



¹ We took the 2030 value of \$880 billion and calculated straight-line equivalent for 2020.

² Represents investment. Assumes need remains as same share of GDP through 2020.

SOURCE: McKinsey Global Institute

Source: McKinsey Global Institute¹⁵⁴

The resource extraction industry in Africa includes petroleum drilling as well as mineral mining activities. In Nigeria and more recently Ghana, oil production has generated a substantial revenue stream for both nations. However, the extent to which oil wealth has reached the masses in Nigeria is problematic and has been a source of sustained corruption and disparity between the classes.

Agricultural development however has a large potential of impacting the masses and improving their livelihoods and wellbeing. The African continent alone amasses 60%

¹⁵⁴ Ibid.

of the world's share of total uncultivated, arable land.¹⁵⁵ For companies, agricultural pursuits and development of the sector holds enormous business potential. In addition, because Africa experiences low crop yields, there is a ripe opportunity for igniting a “green revolution” which not only would transform the sector as was witnessed in Asia and Brazil but also improve the livelihoods of farmers and create jobs both in upstream and downstream markets.¹⁵⁶ New business opportunities would arise exponentially at a rate that Roxburgh et al. estimate would lead to a \$35 billion market for upstream inputs (of which fertilizer products would constitute the largest share) by 2030, from current values at around \$8 billion.¹⁵⁷ This figure translates to a \$14 billion potential revenue for suppliers and in \$3 billion in profits.¹⁵⁸ Similar projects for downstream markets are estimated to grow from a value of approximately \$40 billion to \$240 billion in 2030, with the largest opportunity in business for vegetable and fruit processing services.¹⁵⁹

Roxburgh et al. do however recognize challenges in Africa's agriculture sector which stifles production levels including lack of access to and use of advanced seeds which are able to overcome the harsh ecology found on the continent, poor road infrastructure which hampers the transportation of crops to markets, unfavorable trade barriers, weak and unclear laws regarding the use and ownership to land rights, and lack of access to financing for farmers.¹⁶⁰ Fortunately, if these barriers to growth can be overcome, there would be potential for sector output to increase from \$280 billion to

¹⁵⁵ *ibid.*

¹⁵⁶ *ibid.*

¹⁵⁷ *ibid.*

¹⁵⁸ *ibid.*

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*

\$880 billion by 2030.¹⁶¹ Furthermore, this would mean that demand for upstream products such as seeds and fertilizers would grow, leading to an increase in downstream, processing activities such as grain refining.¹⁶² The yield and output potential exhibited in this sector is a lucrative market for which CSR and strategic philanthropic investments should be made. Additionally, there are vast opportunities for job growth toward which companies could contribute. And finally, expanded access to employment would not only create a larger consumer base with more disposable income to spend but also improve livelihoods and in turn, political and social stability.

Of special interest to note, improvement of the agriculture sector via increased investment aid could reduce already strained resources and competition for employment in urban areas. Jobs added in this sector could attract youth and human capital from urban cities and potentially reverse urban migration patterns, alleviating tensions that result from competition over scarce jobs and contributing to stable social and political environments.

Similar business opportunities and investment needs as discussed above for the agricultural sector exist in the infrastructure space. African governments and private companies have currently invested an estimated \$72 billion in infrastructure projects.¹⁶³ Further, we are seeing an interest and growth in investments from private sources which account for 13% of the total directed into the emerging markets (an increase from 7% in

¹⁶¹ Ibid.

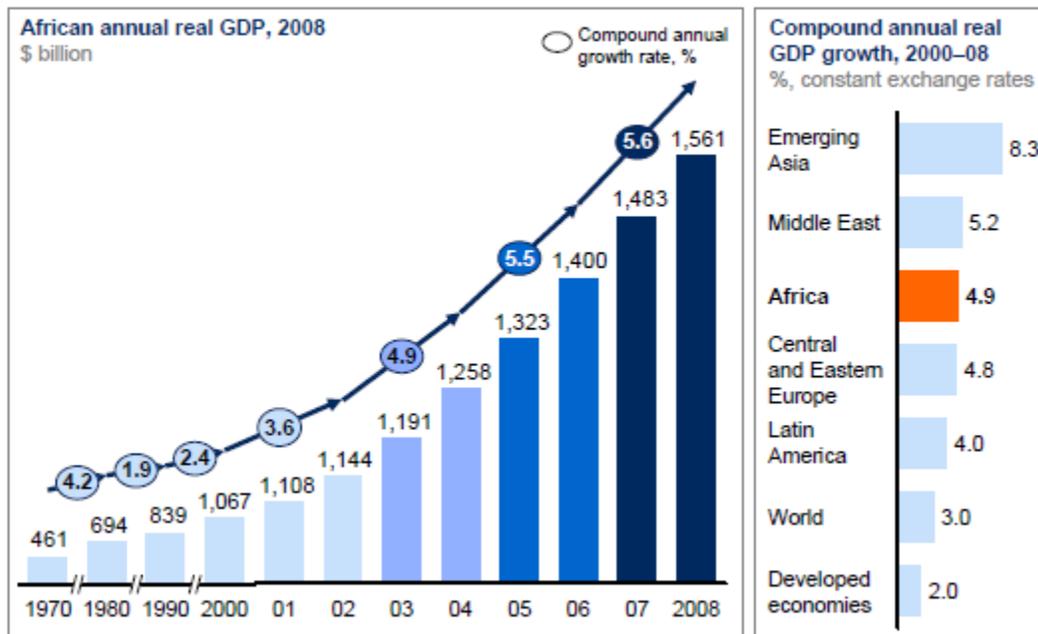
¹⁶² Ibid.

¹⁶³ Ibid.

2000).¹⁶⁴ In spite of growth in activity levels, Africa still needs \$46 billion more per year in order to meet infrastructure gaps in power and water distribution, and transportation infrastructure.¹⁶⁵ And, according to Roxburgh et al., this funding gap could be met through a combination of spending programs allocated by African governments, private company investments, and policy and regulation reforms.¹⁶⁶

As discussed, the investment landscape for strategic philanthropic activities is ripe. Africa makes up the world’s third fastest-growing region as the chart below indicates:

Africa’s economic growth accelerated after 2000, making it the world’s third-fastest growing region



SOURCE: International Monetary Fund; World Bank World Development Indicators; McKinsey Global Institute

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

¹⁶⁶ Ibid.

Source: McKinsey Global Institute¹⁶⁷

Acceleration in Africa’s economic growth rate after 2000 translates into new, and more commercial opportunities for the private sector to seize. Consequently, corporations are increasingly recognizing the business potential of impact investing, as well as value in pursuing these strategies to enhance triple bottom line returns in financial, social, and environmental arenas; strategic investment toward generating impact and results emerges as a preferred approach to development aid. The Council on Foundations offers the following explanation as a motivation for the investment approach, stating, “the reason we use investment is to distinguish between charity and philanthropy.”¹⁶⁸ This is an important distinction that communicates an expectation toward result-oriented, development aid versus traditional and often ineffective, grant-making approaches. Additional emerging trends in corporate giving strategies are offered below:

Emerging Trends in Corporate Philanthropy Operations

CURRENT PARADIGM	EMERGING PARADIGM
Values	Values and Value Created (ROI)
Charity Mindset	Investment Mindset
Responsive	Proactive and Responsive
Transactions	Relationships
Needs Focused	Outcomes Focused
Organizations	Issues
Short Term	Short and Long Term
Isolated	Aligned and Integrated
Invisible	Visible
Cash, Employees	Cash, Employees, Full Value Chain
Reports	Knowledge
Managerial function	A Leadership Function

¹⁶⁷ Ibid.

¹⁶⁸ Council on Foundations. (2012). *Increasing Impact, Enhancing Value: A Practitioner’s Guide to leading Corporate Philanthropy*. Arlington: Christopher Pinney.

Source: Council on Foundations¹⁶⁹

Apparent in this comparison is a shift in mindset toward the ultimate objective of value creation.¹⁷⁰ Moreover, the outlook would place emphasis on value that fulfills both profit and social development objectives.

In collaboration with the Acumen Fund, a venture fund that invests in social enterprises to alleviate global poverty, the Monitor Group conducted extensive research and assessments that culminated in a report titled, “From Blueprint to Scale: The Case for Philanthropy in Impact Investing.” The study advocates an alternate channel for philanthropic investment that is different than the corporate-led strategies and motivations discussed above. Instead, Harvey Koh, Ashish Karamchandani, and Robert Katz promote a practice which they term “enterprise philanthropy.” According to them, the availability of impact capital alone will not necessarily unlock the full potential of the industry to affect social and environmental development while generating a financial return at the same time.¹⁷¹ Even though venture funds may exist, the challenge lies in finding “good opportunities to invest for impact.”¹⁷² The reason, explains Koh et al., is the exorbitant risks that investors must absorb when engaging social ventures at the embryonic stage. Katherine Milligan describes the expansion of social enterprise ventures

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

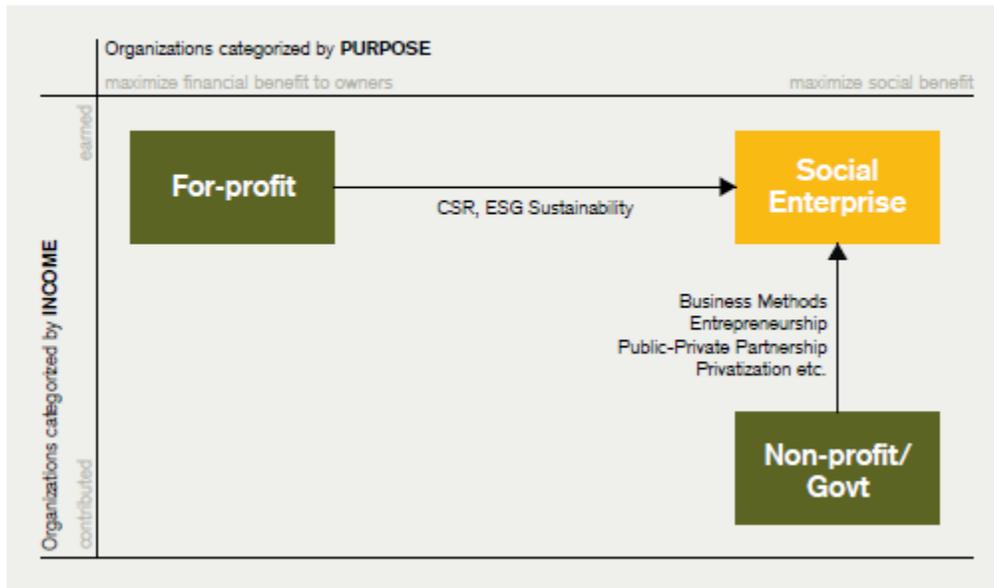
¹⁷¹ Monitor Group. (2012). *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*. Cambridge: Harvey Koh, Ashish Karamchandani, & Robert Batz.

¹⁷² Ibid.

as an emerging “fourth sector.”¹⁷³ As illustrated below, social enterprises merge both for-profit and non-profit or government objectives:

Social enterprises blur traditional boundaries between for-profit and non-profit

Source: Adapted from Heerad Sabetti, “The Emerging Fourth Sector,” The Aspen Institute, 2009.



Source: Credit Suisse¹⁷⁴

These enterprises take market-based approaches toward alleviating poverty and social ills for those living at the BoP.¹⁷⁵ They are characterized by similar objectives aimed toward tapping into potential consumers at the BoP while offering ‘push’ products such as preventative healthcare which differs from ‘pull’ products such as mobile

¹⁷³ Credit Suisse. (2012). *Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return*. Geneva: Catherine Clark, Jed Emerson, Julia Balandina, Robert Katz, Katherine Milligan, Robert Ruttman, Brian Trelstad.

¹⁷⁴ Ibid.

¹⁷⁵ Monitor Group. (2012). *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*. Cambridge: Harvey Koh, Ashish Karamchandani, & Robert Batz.

phones.¹⁷⁶ ‘Push’ products are more difficult to sell than desirable and marketable ‘pull’ products and require high up-front expenditures to bring to scale.¹⁷⁷ This creates a very challenging environment for enterprises to operate and reduces investor confidence. In surveying over 400 enterprises in Africa, the Monitor Group learned that only a small percentage (13%) were operating at scale.¹⁷⁸ Thirty-two percent of these enterprises however had a potential for scale but a majority were still risky investments that were not yet proven as strong business models with a potential for financial returns.¹⁷⁹ As a result, a circular and self-reinforcing problem ensues whereby impact investors seek strong, viable investment opportunities but are presented with weak portfolios and pioneer entrepreneurs are unable to secure the financing necessary at early stages of business development in order to bring their models to par. A financial service gap thus exists for small and medium-sized enterprises (SME) which perpetuates the challenging investment climate that is all too familiar to investors in this region. Koh et al. however promote enterprise philanthropy as a crucial sector that should be nurtured, contending that it will play a significant role in providing the early-stage capital needed in order to grow inclusive businesses to a stage in firm development that is attractive to impact investors.

There are also various other types of investment funding options that are available to social entrepreneurs. These options are outlined below:

¹⁷⁶ Ibid.

¹⁷⁷ Ibid.

¹⁷⁸ Ibid.

¹⁷⁹ Ibid.

Comparison of financing instruments		
Financing instrument	Term sheet	Implications for social enterprise
Grants	Duration: Short-term Annual payments: None Repayment: None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt capital	Duration: Long-term (3–7 years) Annual payments: Interest payments (variable) Repayment: Yes	- Annual interest payments require low-risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity capital	Duration: Unlimited Annual payments: Dividend payments (variable) Repayment: No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine capital	Duration: Long-term (3–7 years) Annual payments: Interest payments (variable) Repayment: Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid capital	Duration: Long-term (3–7 years) Annual payments: None Repayment: Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Source: "Social Investment Manual: An Introduction for Social Entrepreneurs. Schwab Foundation for Social Entrepreneurship & Technical University of Munich, 2011."

Source: Credit Suisse¹⁸⁰

As discussed earlier, aid in the form of traditional grant allocations do not require recipients to repay the aid amount. One downside to this model however is the tendency of encountering weaker results and lower rates of return as these expectations are not typically tied to the aid; the objective towards impact thus suffers. Additionally, grant aid is often bound by the issue areas of interest prioritized by the donor rather than those that are most pressing to the recipient, and the aid is subject to parameters set by the donor in regards to the scope of the issue addressed as well as methods for program implementation. Other financing structures include debt and private equity options as well as mezzanine and hybrid capital funds. The two main financing products that are

¹⁸⁰ Credit Suisse. (2012). *Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return*. Geneva: Catherine Clark, Jed Emerson, Julia Balandina, Robert Katz, Katherine Milligan, Robert Ruttman, Brian Trelstad.

available to SMEs in Africa are debt and private equity.¹⁸¹ Still however, the financing amounts needed by entrepreneurs in this region are between \$1,000 to \$100,000 and investors typically avoid these types of investments because the upfront expenditures and transaction costs may be high.¹⁸² In these cases, there is a need for broader financing products to fill the financing gap for SMEs and in particular, early stage ventures.¹⁸³ The types of products suggested by the Rockefeller Foundation include, “angel financing or royalty-based [repayment mechanisms] with manageable levels of interest and supporting business development services.”¹⁸⁴ Non-profit philanthropic, investment funds can also help to fill this gap. A report conducted by Credit Suisse on impact investment in social enterprises reports an increase in the availability of these types of funds with some sustaining over \$1 billion in capital. The report explains:

These funds target SMEs because many believe them to be the best way to achieve the greatest social impact on local economies. This is mainly because SMEs then to be the backbone of most emerging economies, driving entrepreneurship and opportunity, job creation and training, and ultimately also economic growth and poverty reduction.¹⁸⁵

¹⁸¹ Rockefeller Foundation. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York.

¹⁸² Ibid.

¹⁸³ Ibid.

¹⁸⁴ Ibid.

¹⁸⁵ Credit Suisse. (2012). *Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return*. Geneva: Catherine Clark, Jed Emerson, Julia Balandina, Robert Katz, Katherine Milligan, Robert Ruttman, Brian Trelstad.

The fact that many businesses in West Africa are small, individual or family owned operations poses another challenge. For those businesses that are eligible for equity investments, there is a high resistance against giving up full ownership by accepting private equity capital.¹⁸⁶ Most business owners instead are limited by the small range of debt options with which they are willing to accept.¹⁸⁷ It would be important therefore to expand financial education and to encourage business owners to consider equity capital options.

Clearly there are profit and social incentives for expanding the strategic philanthropic or “enterprise philanthropy” sector. Furthermore, growth in this area can be achieved via CSR and impact investment funding activities as discussed above. There are however numerous barriers that must be overcome in order to unlock the full potential of impact investing to produce not only profits but also the social and environmental returns that round out the triple bottom line objective. One of the major challenges that continue to stifle investor engagement is the weakness of measurement and evaluation mechanisms. Measurement, tracking, and reporting systems are not well developed and often inconsistent in the methods used (e.g. monitoring systems to track financial accounts¹⁸⁸). The information however is critical data for investors, who are interested in assessing return on investments (ROI) values, output levels, results, and impact.¹⁸⁹

¹⁸⁶ Rockefeller Foundation. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York.

¹⁸⁷ Ibid.

¹⁸⁸ Dalberg Global Development Advisors. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York: Madjiguene Sock, Angela Hansen, Liesbet Peeters, Susanne Normark Christensen, Afua Sarkodie-Kupka, Daniela Nwaobasi, & Abdourahmane Diop.

¹⁸⁹ Council on Foundations. (2012). *Increasing Impact, Enhancing Value: A Practitioner's Guide to leading Corporate Philanthropy*. Arlington: Christopher Pinney.

Developing accurate measurement systems would help to strengthen portfolios by establishing expectations for transparency and accountability, promoting outcome driven practices, and also encouraging investees to address challenges by reevaluating business or program designs and taking the appropriate actions to course correct implementation issues.¹⁹⁰ Consequently, these activities would lead to increased investor confidence which would translate to greater readiness and interest to invest.

¹⁹⁰ Rockefeller Foundation. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York.

CHAPTER SIX

Philanthropic Activities, Progress, and Results in Ghana and Nigeria: Successes, Challenges, and Lessons Learned

There are a plethora of reasons and incentives to pursue philanthropy driven impact investments and grow activities in this sector. Economies can grow stronger leading to job creation and broader improvements in living standards; and restiveness, discontent, and violence igniting from social frustrations will also diminish. The following section will highlight some of the innovative programs and enterprises being implemented in Ghana and Nigeria to underscore the role that strategic philanthropy can play in reducing poverty through job creation and ultimately stabilizing political and social frictions.

The Rockefeller Foundation reports that most of the impact investments taking place in West Africa are occurring in Ghana which my research confirms.¹⁹¹ There are disproportionately more examples of impact investments and strategic philanthropic work being conducted in Ghana than in Nigeria. As the following table shows, there are 23 private equity or venture capital funds targeting initiatives in Ghana while only 14 funds exist for programs in Nigeria.¹⁹²

PE/VC fund country focus in West Africa

¹⁹¹ Dalberg Global Development Advisors. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York: Madjiguene Sock, Angela Hansen, Liesbet Peeters, Susanne Normark Christensen, Afua Sarkodie-Kupka, Daniela Nwaobasi, & Abdourahmane Diop.

¹⁹² Ibid.

Country	Ghana	Nigeria	Côte d'Ivoire	Senegal	Mali	Niger	Benin	Burkina Faso	Liberia	Sierra Leone	Togo	Guinea-Bissau	Cape Verde	Gambia	Guinea
Number of references as a country of focus	23	14	7	7	6	6	5	5	5	4	4	2	0	0	0

Source: Dalberg Global Development Advisors¹⁹³

Although Nigeria lags behind Ghana in terms of being able to attract impact investors, there are some laudable examples of innovative and successful initiatives. The following examples will serve to further highlight these programs.

Case Studies: Ghana

Savanna Farmer's Marketing Company is a firm that is owned by a network of over 40 NGOs that are mostly church-sponsored and focus on development work in northern Ghana.¹⁹⁴ This network comes together under the organization name of the Association of Church Development Projects (ACDEP).¹⁹⁵ Savanna acts as a broker for smallholder farmers (SHF) to assist with getting their crops to market at fair prices. An estimated 12,000 SHFs benefit from services provided by Savanna.¹⁹⁶ Clients include a local brewery owned by Guinness as well as Ghana Nuts, which exports various nuts to European and Asian markets at a level of 20,000 tons annually.¹⁹⁷ SHFs that work with Savannah typically see an increase by about one-third in their incomes than if they were

¹⁹³ Ibid.

¹⁹⁴ Monitor Company Group. (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Cambridge: Michael Kubzansky, Anslie Cooper, & Victoria Barbary.

¹⁹⁵ Ibid.

¹⁹⁶ Ibid.

¹⁹⁷ Ibid.

to sell crops through local farm brokers.¹⁹⁸ And, additional savings are made possible because Savannah absorbs and thus eliminates transportation costs to SHFs.¹⁹⁹ Savannah also helps SHFs to obtain financing at favorable rates by engaging and collaborating with rural banks to arrange credit for SHFs.²⁰⁰ Preferential rates provided through these arrangements are much lower than those that would be offered by larger commercial banks (i.e. 28% versus 32-35%, respectively).²⁰¹ Finally, Savannah will purchase crops from SHFs at guaranteed prices so that SHFs can plan their household finances with more consistency and confidence.²⁰² The Savannah Company exemplifies a business model that aims to address the triple bottom line. It is able to generate profit by operating an export business that supplies local MNCs as well as foreign markets abroad. At the same time, SHFs receive substantial economic benefits; they are able to continue working in agriculture, observe an increase in incomes, and sustain their livelihoods. These outcomes all contribute to larger development goals of lifting people out of poverty.

Voltic is a water company operating out of Ghana that expanded its business to reach the BoP consumer market while also contributing to poverty alleviation through job creation. Prior to this expansion, the company sold 500 ml bottled water to higher-end consumers at \$0.70 per bottle.²⁰³ Its market base was comprised of tourists, hotels, and upper-income Ghanaians.²⁰⁴ However, an opportunity to service the BoP consumer was soon recognized and Voltic developed a 500 ml sachet product priced at \$0.035 per

¹⁹⁸ Ibid.

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Ibid.

²⁰³ Ibid.

²⁰⁴ Ibid.

pouch.²⁰⁵ The new product was named Cool Pac. While there were already vendors and other street hawkers selling sachets on the informal market, Voltic believed that BoP consumers would recognize and attribute their brand to a quality product, thus eliminating the market challenge of selling a product at a higher price point.²⁰⁶ In the early stages of product development, Cool Pac was produced centrally in the capital of Accra.²⁰⁷ However, logistical and distribution challenges to reach rural markets beyond the city limits were costly and uncovered the need to decentralize production facilities.²⁰⁸ The company took steps to rethink its business model which resulted in identifying local franchisees who were entrepreneurs with the capital and operational ability to run factories and distribution chains (e.g. to wholesalers and street hawkers) in outlying areas.²⁰⁹ Voltic split operational costs in half with these franchisees and observed a substantial growth in sales and profit.²¹⁰ The company sells an estimated 500,000 sachets per day while creating 16 franchises, 560 jobs, and although informal, a source of income generation for an estimated 10,000 hawkers.²¹¹ Voltic serves as an example of a corporate-led, market-based solution toward poverty alleviation and underscores the significant impact that corporation can have on communities by weaving CSR into business models and practices.

The Ghanaian government also recognizes the strength and potential in pursuing an impact investment model towards development. It established the Venture Capital

²⁰⁵ Ibid.

²⁰⁶ Ibid.

²⁰⁷ Ibid.

²⁰⁸ Ibid.

²⁰⁹ Ibid.

²¹⁰ Ibid.

²¹¹ Ibid.

Trust Fund (VCTF) in order to provide financial capital and resources to SMEs via venture capital finance companies.²¹² VCTF's goal is "to create a vibrant and well-structured venture capital industry boasting of investments in various sectors, leading to poverty reduction through job and wealth creation with a collateral growth in government revenues."²¹³ Starting with just \$15 million in seed funding, VCTF has grown its capital pool to approximately \$55 million.²¹⁴ It has established five venture capital finance companies through which \$17 million have been invested in SMEs resulting in the direct creation of 1,000 jobs as of the beginning of 2011.²¹⁵ Some additional targets include increasing its fund pool beyond \$100 million, providing education to business owners on the benefits of private equity investment options, and creating an Angel Investor Fund to attract high net-worth individuals that could expand financing options for SMEs.²¹⁶ These activities have the potential to lift thousands of people out of poverty by creating jobs and employment in the SME sector. Moreover, as noted earlier, SMEs in emerging countries play a significant role in driving economic growth, which in conjunction with job creation will further alleviate the poverty that fuels discontent, violence, and social and political instability.

Case Studies: Nigeria

²¹² Dalberg Global Development Advisors. (2012). *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. New York: Madjiguene Sock, Angela Hansen, Liesbet Peeters, Susanne Normark Christensen, Afua Sarkodie-Kupka, Daniela Nwaobasi, & Abdourahmane Diop.

²¹³ Ibid.

²¹⁴ Ibid.

²¹⁵ Ibid.

²¹⁶ Ibid.

The strength of the investment climate in Ghana is thriving as compared to that of Nigeria's. A survey of strategic, market-based, and impact oriented philanthropic investments indicates a skewed level of activity in Ghana. Although investments are markedly more abundant in Ghana, there are some examples of similar philanthropic strategies being implemented in Nigeria. One such example is MN Environmental Services Limited, a hygiene services and management company established in 2000 and operating out of Lagos, Nigeria. The company was created by Adeola Asaba and Jife Williams as an extension of their NGO, Metamorphosis Nigeria, which promotes safe practices in hygiene and sanitation. MN Environmental Services Limited constructs and maintains public showers and toilets in urban areas such as markets, transportation hubs, and slum settlements in order to improve access to sanitary facilities. Users are charged \$0.24 to use the toilet and \$0.32 to access showers. Moreover, these fees enable MN Environmental Services Limited to hire hygiene assistants from the poor and disadvantaged communities in which it operates and train staff not only to maintain these facilities but to also teach users about health related issues.²¹⁷ This self-sustainable, social enterprise model has proven successful and the owners expect a rate of return of 24% on the company's equity investment in the enterprise.²¹⁸ Long-term goals include plans to construct 38 additional facilities in ten years which would directly create jobs for 260 people and indirectly employ 1,300 people.²¹⁹

Another example of philanthropic, impact investing activities in Nigeria is The Tony Elumelu Foundation which was established by Nigerian national, Tony Elumelu in

²¹⁷ Ibid.

²¹⁸ Ibid.

²¹⁹ Ibid.

2010. Its vision is “to contribute to Africa’s economic transformation and prosperity by equipping the African private sector to lead the transformation. [Additionally, it] recognises the power of impact investing and seeks to foster the acceptance, growth, and deployment of significant impact capital towards addressing social problems in Africa.”²²⁰ Particularly unique to this model is the Foundation’s focus on different stages of the business development cycle. Investments will be made not only toward businesses that are proven, viable, and scalable, but also to business students, start-up companies, SMEs, national companies, and both African owned multinational and global companies.²²¹ The availability of investments to early-phase start-ups helps to alleviate the financial services gap that is often experienced by venture entrepreneurs. Finally, the Foundation is self-sustaining and with growing source of funds because all returns on impact investments are re-invested into the organization’s capital financing programs and grant-making activities.²²²

²²⁰ *Ibid.*

²²¹ *Ibid.*

²²² *Ibid.*

CHAPTER SEVEN

Conclusion

The multitude of uprisings, protests, and demonstrations that we witness in today's world can be attributed to systemic failures in political, economic, and social infrastructure. While recognizing that political instability stems from a variety of factors, the scope of this thesis aimed to explore the economic conditions that contribute to exacerbating national instability. Moreover, I argue economic growth and job creation will alleviate poverty to levels that stifle political discontent and restore social stability and security. The international community should especially recognize its vested interest in assisting economic growth in other nations as the discontent and tensions that arise among the economically disadvantaged and marginalized has great potential to erupt into violence that will spill-over into neighboring countries and yield negative consequences for regional stability.

My thesis supports this order of events by demonstrating greater levels of political stability and social security in Ghana than in Nigeria; I attribute stability in Ghana to advanced economic progress. Further, I demonstrate that Ghana's economic and employment environment far exceeds that of Nigeria's because there are greater, more impact and market-oriented, philanthropic activities taking place in the country. This argument is confirmed by illustrating higher levels of corporate initiatives, FDI, venture capital financing and other forms of impact and investment-oriented, philanthropic

activities in Ghana. Accordingly, it would be prudent for the international community to devise foreign aid assistance programs and initiatives that embody these methods.

Finally, these practices should be accelerated in Nigeria as to stifle the progression of increasing ethnic and class tensions that culminate in violent clashes which have the potential to spill-over into neighboring countries and affect stability in broader, regional contexts. In order to attract and grow the impact investment sector, it would be necessary for Nigeria to improve its economic and investment climate in the following ways: 1) Revise licensing rules and regulations as well as tax policy to encourage the informal sector to formalize. It is challenging for investors to conduct business with the informal business and therefore continued neglect to construct a formal, SME sector will perpetuate limited investment activities; 2) Develop financial resources and programs, and educational campaigns to reduce business owners' resistance toward equity capital funding options thus enabling enterprise growth and expansion; 3) Attract angel financing to fill the financial gap for start-up companies with smaller capital needs than those typically offered and viewed warily as riskier investments; and 4) Support efforts to create standardized measuring, tracking, and reporting systems in order to entrench transparency and accountability expectations as to instill investor confidence and encourage greater investments. Such steps would improve the impact investment landscape in Nigeria, while the market-based solutions pursued would increase economic development, create jobs, and reduce poverty levels. Only through the improved livelihoods and standards of living that is achieved in this way, can political stability and by extension, regional stability be sustained.

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