Making Every Dollar Count
How expected return can transform philanthropy

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Making Every Dollar Count: A Summary

Imagine you’re a program officer at a foundation devoted to reducing poverty. You get the joy of investing in projects that improve people’s well-being. You’re also in the painful position of turning down projects that could improve society, or even save lives. Deciding where to allocate resources can be nerve-wracking at best, heartrending at worst. There’s an abundance of worthy causes and a limited amount of cash at hand. By saying “yes” to an investment, you could deprive another worthwhile initiative of funding. How do you decide which investments to take on? How can you make every dollar count?

Faced with nearly infinite need but decidedly finite resources, philanthropies consistently grapple with the challenges of funding allocation. Does influencing trade negotiation deserve more money than teaching children to read? What about improving how government funds are allocated in impoverished countries?

To make matters worse, it’s difficult to get accurate information about projects’ potential benefits, let alone compare the value of diverse investments.

In spite of these challenges, the desire to do as much good as possible has always driven philanthropies to ask tough questions of themselves when comparing potential grantees. What is the ultimate goal? What are the most effective ways to reach that goal? How much is it going to cost? These questions are as old as philanthropy itself. What is often missing is a systematic method of answering them.

Enter Expected Return, a consistent, quantitative process for evaluating potential investments. Although still in its infancy, Expected Return has the potential to help maximize the return on scarce resources. Flexible, dynamic, and applicable to a broad range of topics, Expected Return asks and answers the right questions for every investment portfolio:

► What’s the goal?
► How much good can it do?
► Is it a good bet?
► How much difference will we make?
► What’s the price tag?

The first section of this paper presents the preliminary benefits of using Expected Return to systematize a philanthropy’s grant-making process.

Section two describes the Expected Return calculation, which is comprised of four components (Figure 1): benefit in a perfect world, likelihood of success, the philanthropy’s contribution, and cost. The result is a systematic estimate of the return on each potential investment and the ability to compare disparate projects.

Section three shows how Expected Return will become more robust through better estimation techniques and new applications.
A quick note on the case example used throughout the paper: In early 2007, the William and Flora Hewlett Foundation decided to experiment with the use of Expected Return in its grant making.

In choosing a test case, Hewlett looked for a program that would push the method’s limits by posing difficult-to-quantify investment decisions. Fortunately the Foundation’s Global Development program, which pursues the ambitious and complex goal of global poverty reduction, volunteered. Established in 2004 “to promote equitable growth in the developing world,” the Global Development program spends more than $60 million a year on a wide variety of initiatives aimed at reducing poverty.

Of course the Hewlett Foundation recognized that Expected Return is no panacea: its results are only as accurate as the professional judgments and assumptions that drive them. All involved acknowledged that the early applications of Expected Return described in this paper greatly simplified complex elements of the estimation process (for example, how to quantify interdependencies between investments and how to discount costs and benefits).

Still, Expected Return delivered a valuable process for identifying strategies. It provided structure – in a complex social science setting – in which Program Officer judgment could be codified and applied consistently across investment decisions.

It helped the Global Development program move toward preliminary quantification of the returns to different strategies. Consequently, program officers can now quantify high-level tradeoffs between investments. The next step is to add ground-level, grant-specific measurement and fine-tuning.

The Hewlett Foundation’s experiment with Expected Return reflects a longstanding commitment to improvements in the execution of philanthropy, and a strong belief that foundations are responsible for ensuring that their investments maximize benefits to society. While still in the early days, the experiment with Expected Return is clearly helping the Foundation in its commitment to make every dollar count.
So many causes, so little funding... Expected Return helps channel investment dollars in the most promising direction by improving the way in which programs choose strategies and program officers make grants. Following a consistent process for identifying high-return initiatives helps stretch philanthropic resources and refine investment portfolios.

Expected return is a quantitative tool for comparing potential investments; it’s a process of systematically drawing on existing knowledge to facilitate clear decision-making. Rather than trying to replace professional expertise or eliminate tough judgment calls, Expected Return provides a consistent method for bringing out the best from available information and resources.

Incorporating Expected Return in the Hewlett Foundation’s Global Development program systematized the process of choosing the right investments, and led to a portfolio characterized by the following:

► The best opportunities – Expected Return provided a method to go beyond the faddish investments of the day. It systematically identified cost-effective investments, and down-graded those with low returns to philanthropic intervention.

► Overarching goals – Grant-making strategies have to be as multi-faceted as the problems they seek to tackle. Expected Return drew complex, diverse strategies together under a single, measurable goal with a standard metric of success.

► Rigorous grant-making – Expected Return’s quantitative nature limited grant-making biases and made explicit previously unidentified risks and unspoken assumptions, changing the way program officers think about grant-making.

► Maximum global impact – Expected Return helped the program find the optimal geographic scope, balancing global and in-country investments to most effectively reach target populations.

Each of these four benefits is described in more detail in the sections that follow.

The best opportunities

Identifying and omitting low-return investments frees up funds to be spent on higher-return investments. Expected Return helped the Global Development program highlight and eliminate dozens of low-return investments. This improved the investment portfolio by:

► Rejecting the wrong initiatives. Some investments weren’t logical for Hewlett to pursue. For example, some experts suggested that school feeding programs in developing countries would have high impact. However, large organizations with enormous means, such as the United Nations World Food Programme, are likely to be more effective in the highly decentralized arena of district- and community-level feeding efforts than an individual philanthropy.

In other cases, investments that were comfortable because they drew on existing knowledge proved to be less attractive than alternatives that stretched into new territory.
Thus Expected Return helped to avoid the risk that ‘when you have a hammer, you tend to look for a nail’.

- **Reducing duplication of effort.** Expected Return helped eliminate strategies that already receive significant investment. For instance, providing microcredit has been shown to raise incomes in some settings, but a recent spate of microcredit initiatives is already addressing many high-return opportunities.

- **Reallocating funds to overlooked initiatives.** Transparency and accountability efforts have historically received little funding because of limited understanding about their link to poverty reduction. However, recent research shows that improved governance can dramatically improve the lives of the poor, and that philanthropy has high potential to effect change in this field. Expected Return analysis estimated high returns to investments in this area, bolstering the Global Development program’s decision to be at the leading edge of this movement. Indeed, in many cases Expected Return highlighted the unique role that philanthropy can take by assuming greater risk, but potentially reaping far greater returns, than other more conservative institutional investors.

Focusing on the best opportunities doesn’t mandate putting all resources into the highest-return strategy. Rather, it aims to help a philanthropy make educated decisions on how to diversify investments. Many grantees are only able to productively absorb a limited amount of funding at any one time. Furthermore, strategies often produce diminishing returns on larger amounts (e.g., the second $1 million spent on some investments may have a smaller effect than the first). Diversification also mitigates the consequences of misestimation of benefits or of investment risk.

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**Figure 2**

*Aggregating impact: Millions of poor people who could double income under various granting scenarios*

![Map of the world showing millions of poor people who could double income under various granting scenarios](image-url)
Overarching goals

Expected Return has helped the Global Development program see how a diverse set of strategies contribute to a unified, measurable goal. A program officer trying to choose between increasing the quality of education and influencing trade negotiations will find the task almost impossible without a common yardstick for evaluating both strategies. Explicitly linking all categories of investment to the overarching aim of reducing poverty has helped grantmakers focus on the program’s ultimate outcome and given them a tool for achieving it.

Expected Return, first, requires the translation of missions and (sometimes vaguely-worded) goals into quantifiable metrics and targets.

Through the Expected Return process, the Global Development program began by discussing their objectives during a multi-day workshop, and ultimately decided to set goals of doubling the incomes of people living on less than $2 per day (Figure 2) and increasing human well-being as measured by a multi-factor index. Although two investments might result in very different accomplishments – say, influencing infrastructure throughout Africa versus increasing government transparency in an individual country – Expected Return allows these very different results to be compared based on their shared ability to reduce poverty and increase well-being.

Rigorous grant-making

Expected Return’s ability to organize expert opinions and research to better ferret out opportunities has helped program officers think differently as they weigh potential investments. By assembling standardized, thorough, and explicit assumptions, Expected Return ultimately reduces potential biases in grant selection and makes grant-making more rigorous. The resulting documentation can be examined, challenged, and updated, and consequently leads to better decisions by:

- Making assumptions explicit: Program officers often have a deep understanding of their field and potential grants, and this knowledge is implicit in the decisions they make. However, by making assumptions explicit, Expected Return documents views that can be compared, across diverse strategies.

- Reducing unidentified risk: In the absence of an explicit calculation of likelihood of success, it’s common to focus on impact alone. Making the expected probability of success explicit can help manage and mitigate program risk.

- Quantifying tradeoffs and goals: By translating diverse programs into a comparable metric, Expected Return provides a tool for quantifying tradeoffs between investments and a concrete measure of success for grantees. Because the process is dynamic, decisions can be reevaluated as assumptions are updated based on field experience, and failing strategies can be eliminated when appropriate.

Maximum global impact

During the first few years of its life, the Global Development program engaged in exploratory grantmaking based primarily on research in relevant fields, professional judgment, and
expert recommendations. Its goal was to gradually develop strategic plans for future grantmaking. As a new program with limited staff, it emphasized research and advocacy strategies that could achieve global impact by influencing decision-making, particularly within the United States.

As the program grew, it sought to deepen the impact of its grantmaking in the developing world. The program used Expected Return to help identify an optimal combination of global strategies, which can have wide-spread impact, and local strategies, which can be well-targeted toward key populations.

Although the Global Development program maintained its investments in some high-return global strategies, it also systematically narrowed its local focus to a handful of countries in a few regions where it believes it can have significant impact, based on need, political stability, and positive implementation conditions. It further narrowed the scope of particular strategies to sub-sets of these countries where impact is expected to be highest (Figure 3).

Limiting local investments to a specific set of countries helped maximize the program's impact. It also yielded practical program advantages, allowing the Foundation to begin to develop country-specific expertise, link projects on the ground, and streamline travel.

**Conclusions**

In essence, Expected Return is a way of documenting intended philanthropic impact. Its method is to make the evaluation of individual investments systematic and consistent. By quantifying the goals, benefits, risks, and costs of potential investments, Expected Return changes the way program officers approach grant evaluation by reducing biases, making assumptions explicit, and creating consistency across program areas.

The chapter that follows explains how it works; it describes the process of Expected Return.
2. How It Works
The Process of Expected Return

The previous section touched on the benefits of Expected Return. Now it’s time to focus on the process. Expected Return translates five key philanthropic questions into a mathematical equation:

Calculating Expected Return is the process of translating existing ideas and knowledge into consistent, quantifiable forms. Expected Return answers five questions – one program-wide and four investment-specific – using information from program officers, field experts, academic research, data, and past experience.

► What’s the goal? Target defines the topical and geographic scope of all potential investments and the metric used to measure them.

► How much good can it do? Benefits in a perfect world measures an investment’s potential results under ideal conditions.

► Is it a good bet? Likelihood of success takes risk into account.

► How much difference will we make? The philanthropy’s contribution describes the philanthropy’s share of impact within a potential investment that includes other sources of funding.

► What’s the price tag? The cost expresses the size of a philanthropy’s financial investment.

This chapter explains how to define each of these variables and then how to calculate Expected Return using a specific case from the Global Development program: governance reform in Nigeria.

What’s the goal? Defining the target

Target describes the ultimate outcome the program is trying to achieve, and defines the geographic and topical scope in which that outcome is to be achieved. The Global Development program used Expected Return to narrow investment options from an initial goal of reducing poverty anywhere in the developing world. The first step in calculating Expected Return was to quantify and define the scope of the program-wide task in more detail.

a. Choose a yardstick – Before impact can be estimated, the program needs to decide on a metric. Creating a standard metric can be the most difficult step in calculating expected return, because it defines the yardstick by which the success of each investment is ultimately measured.

The choice of a metric can strongly influence the specific investments that are eventually selected. The Global Development program approached this choice by reviewing measures used by other organizations focused on development (e.g., the United Nations and the World Bank), and refining them to fit its particular needs.

In the end, the Global Development program focused and quantified their mission of equitable growth and their general goal of reducing poverty to measuring the equivalent number of people living on less than $2/day whose incomes doubled as a result of Hewlett’s efforts.

The program also tracked a multi-dimensional metric dubbed the Hewlett Global Development Index (HGDI) that
included literacy and health indicators, as well as income. This choice reflected the fact that although health and education outcomes are strongly linked to income, some investments can increase income without causing commensurate increases in well-being for the poorest members of society.

For instance, using HGDI as an indicator revealed that some policy investments that increased incomes substantially were concentrated on middle-income people in wealthier countries. As a result, the investments did not contribute to the well-being of the poor living on less than $2 per day as substantially as other investments with similar average income increases. The difference between the HGDI and income rankings brought out this nuanced distributional effect of investments.

b. Define the geography – Unless a particular philanthropy has the time and resources to evaluate every potential investment in every country in the world, an important step in calculating Expected Return is setting geographic boundaries on the consideration of strategies.

The Global Development program considered the possibility of working in 95 countries with significant poor populations. The program compared countries based on three criteria that were analyzed using a combination of quantitative and qualitative measures. The criteria were: economic and overall need; political stability; and positive implementation conditions. Once these filters were applied, the pool was narrowed to investments in 16 countries. The selected countries still encompassed 40 percent of the world’s 2.9 billion poor people.

c. Define the playing field – The Global Development program began the Expected Return process by creating a theory of change and logic model for each category of investment under consideration – quality education, government transparency and accountability, and markets and trade – and brainstorming all possible poverty reduction strategies that contributed to the theories of change. It then discussed strategies internally and consulted with experts in the field to see if other strategies should be included, and to further narrow the range of investments it would consider.

How much good can it do?

**Estimating benefits in a perfect world**

*Benefits in a perfect world* measures the many different outcomes of potential philanthropic investments – new irrigation systems, vaccinated children, reduced carbon emissions. To ensure consistency, these benefits are expressed in the single metric chosen above for all investments under comparison.

Benefits are estimated by identifying and quantifying the links between an investment and the desired outcome, often based on previous research. For instance, improving the quality of education by investing in teacher training can increase student literacy, which in turn may lead to increased productivity, more job opportunities, and higher wages later in life.

The Global Development program’s Expected Return analysis drew on academic research on the relationship between education and income to quantify the benefits of such an investment. This allowed for consideration of direct benefits (e.g., education leading directly to higher incomes) as well as indirect benefits (e.g., education leading to improved health leading to higher incomes).

Is it a good bet? Estimating likelihood of success

*Likelihood of success* reflects the inevitable presence of risk. It takes into account three components that are combined to provide a risk estimate (Figure 4):
a. **Strategic accuracy**: Likelihood that the hypothesis linking the strategy to the expected outcome is correct.

b. **Grantee success**: Likelihood that grantees will have sufficient internal capacity, coordination ability, and influence to succeed.

c. **External conditions**: Likelihood that the political and economic conditions necessary for success will be in place.

When possible, probability estimates should be based on documentary evidence from similar situations. Alternatively, interviewing experts in the field can serve as a source of information. Over time, refinements can be made to the probability estimates by incorporating additional data and expert opinions as strategies mature. The Global Development program estimated probability of success based both on interviews with experts, and on its own experience and the experiences of others with past investments.

**How much difference will we make? Estimating a philanthropy’s contribution**

A philanthropy’s contribution is the extent to which a specific philanthropy’s share of a collective investment is responsible for driving the outcome. By measuring philanthropic contribution, a philanthropy can be sure its own investments will really make a difference.

Philanthropic contribution combines two components:

a. **Financial contribution**: Percentage of an individual organization’s contribution relative to the overall philanthropic contribution needed to achieve the outcome.

b. **Degree of influence**: How essential the investment is to achieving the outcome. This measure can result in philanthropic contribution that is greater than the level of financial share (if the philanthropy is providing substantial leadership, for instance), or can result in contribution that is less than financial share (if the philanthropy is relying on the leadership of others, and is contributing little other than money).

Since there’s no obvious equation for weighing financial contribution and degree of influence, philanthropic contribution is tricky to estimate. Is a small financial investment combined with large political influence a bigger contribution, or vice versa? A grant that is small compared to the total cost of a project might be the tipping point needed to achieve the desired outcome. Similarly, an organization’s expertise in a field might be a more powerful driver of success than its financial contribution.

Estimations of the philanthropy’s contribution in the Global Development program relied on program officers’ judgments and experience, and expert opinions on what was needed to drive the intended change. The program considered factors such as the success of similar grants in the past, the number of other players involved (e.g., other philanthropies, international organizations, national governments), whether the program had any particular expertise or political influence to offer, and what others were doing or planned to do.

Determining the exact impact of an individual philanthropy can be difficult. Yet, provided that over- or under-estimation remains consistent, the relative return of potential investments in comparison to one another will remain accurate. And while imprecise, the effort to estimate contribution can help program officers justify extra leadership efforts in some cases,
and can help them avoid possible temptation to ‘cherry pick’ grants that accomplish little that would not have occurred in any event.

**What’s the price tag? Estimating cost**

*Cost* is estimated based on past grants and expected grantee requirements. The cost of an investment has two components:

a. **Program cost**: Cost to implement a specific strategy (e.g., carry out an advocacy campaign, develop new curriculum materials)

b. **Overhead cost**: Cost to run the organization and to administer the grants (e.g., office space, staff salaries)

Because the total cost of an investment may be spread across multiple funders, only the share borne by the individual philanthropy in question is considered.

The Global Development program estimated costs based on similar past interventions and country-specific data. For instance, program costs for quality education investments were based on a combination of academic evaluations of programs similar to Hewlett’s proposed education grants in India and country-level data on students, teacher salaries, and class sizes.

In the Expected Return calculation, all other factors are divided by the total cost. This normalizes investments so that they represent a cost-benefit ratio, rather than reflecting benefits alone.

**The case study**

Because Expected Return calculations can be complicated, case studies are a good way to illustrate the mechanics.

The case\(^1\) describes an investment considered by the Global Development program to improve transparency and accountability (T/A) in Nigeria (Figure 5). It is somewhat simplified, in that it only considers one of the two targets set by the Global Development program – the number of poor people for whom income is doubled.

The case is quite typical of the more than 100 investment categories that were subjected to Expected Return analysis by the Global Development program. The level of complexity and data availability are similar, and the results are at the upper-middle of the Expected Return pack.

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**Summary: Nigerian governance**

In Nigeria, a history of unaccountable public expenditures and extreme poverty go hand-in-hand. Hewlett could promote better public services and higher incomes for the poor by supporting Public Expenditure Surveys that ensure effective public spending from revenue watch activities.

**Figure 5**

With that as background, here is the case example:

Despite $50 billion in annual oil revenues and $1 billion in annual aid, 92 percent of the population of Nigeria (over 120 million people) lives in abject poverty. To determine the expected value of the proposed T/A work in Nigeria, the Foundation relied on the analyses

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\(^1\) The case study shown here was developed in collaboration with Paul Brest and Hal Harvey. It appears together with a thorough description of several other social-return-on-investment calculations in their forthcoming book, *Money Well Spent: A Strategic Guide to Smart Philanthropy*. 
of development experts and its on-the-ground experience supporting similar work in Mexico.

The ER calculations summarized here yield a pragmatic estimate of what the Foundation could hope to accomplish in Nigeria with an initial commitment of about $30 million for a multi-year investment in T/A.

That amount covers a suite of grants for T/A support activities – such as expenditure tracking, budget monitoring, and “citizen report cards” on the quality of public services – that combine with significant investments by fellow foundations, multi- and bilateral donors, and others.

Calculating benefits in a perfect world

The benefits in a perfect world were the social benefits that would be realized if the proposed theory of change were to succeed perfectly. Cross-country research by Daniel Kaufmann and others at the World Bank and elsewhere, suggests that improving governance increases gross national income per capita and raises the well-being of the very poorest citizens by a relatively predictable amount. Based on the Foundation’s experience in Mexico and trends in Nigeria, the Program estimated that absent risk, the investments by Hewlett and others could double the incomes of about eight million Nigerians currently living on less than $2/day.

Calculating likelihood of success

The likelihood of success reflected the fact that virtually all philanthropic theories of change face strategic, organizational, and external risks, and in this case the history of corruption in Nigeria exacerbated some of these issues. To calculate these risks, the Foundation consulted with experts from Nigeria and elsewhere and again took into account its own experience, particularly with T/A grant making in Mexico. Although staff members had initial confidence in the proposed strategies, and in potential grantees in Nigeria, they acknowledged that the theory of change relies on many moving parts working together in just the right way. Taking into account all these risks, the Foundation gave its theory of change for Nigerian governance a 25 percent probability of success.

Calculating the Foundation’s philanthropic contribution

The Hewlett Foundation’s contribution was an estimate of the portion of success for which the Foundation’s effort could be credited, recognized both as the amount of dollars invested, and the influence of those dollars. Since the theory of change relied on donations by other foundations, and many non-philanthropic investments, Hewlett’s contribution would clearly be only one part of a larger effort. For instance, experience in Mexico suggested that an ongoing government contribution of more than $200 million in present value could be needed just to fund an agency to administer freedom-of-information requests. All told, compared with other donor and government expenditures, Hewlett’s financial share of the theory of change would likely be less than five percent. However, given that Hewlett’s involvement was intended to be catalytic, the team estimated Hewlett’s contribution at 10 percent for the purposes of the ER calculation.

Calculating the cost

The cost associated with the benefits under consideration would include supporting NGOs engaged in budget and revenue monitoring, in expenditure tracking, and in training government officials in the implementation of freedom of information laws. The costs also included the administrative costs involved in making, monitoring, and evaluating grants. As mentioned earlier, the Foundation’s theory of change required that Hewlett invest $30 million during an eight-year period.
As described in more detail in section four, the Foundation considered, then rejected, the idea of discounting this investment using present value. However, because all of the investments that the Foundation was comparing will operate in a similar time horizon, and because there is little agreement on an appropriate discount rate for efforts to improve human wellbeing, the Foundation assumed a zero discount rate.

Conclusions

Putting the benefits factors together the Expected Return calculation estimated that the Global Development program’s $30 million investment in T/A work in Nigeria could double the incomes of about 200,000 people now living on less than $2/day:

a. Benefits in a perfect world: 8,000,000 poor people double incomes

b. Likelihood of success: 25%

c. Hewlett contribution: 10%

d. Cost: $30 million

e. Expected benefit: 200,000 poor people double incomes

Thus, according to the ER calculation, every $1 million that the Hewlett Foundation spent on improving T/A in Nigeria would likely contribute to the doubling of income for about 6,700 poor people. When this result was combined with credit for improvements in wellbeing, the T/A investment in Nigeria achieved a score of about 400 against the program’s outcome index.

Similar analyses for an array of potential investments resulted in scores ranging from more than 1,200 for supporting impact evaluation of public services, to about 50 for reforming trade regulation in emerging economies such as Brazil and China. With due recognition of the imprecision of these estimates, the Foundation ultimately decided to further investigate a number of strategies with ERs of at least 150 (including T/A in Nigeria and elsewhere, improving agricultural markets, and education in certain developing countries) (Figure 6). It also rejected a variety of candidate strategies with ERs of less than 150. As we write, the Hewlett Foundation is using this type of analysis to determine where in Africa to pursue certain of these strategies.

Postscript: Calculating Expected Return in dollars per dollar invested

Because the actual measure used by the Global Development Program included well-being factors that were not measured in dollars, the Foundation did not calculate the expected return on a per dollar basis for its decision making. However, with our simplified example this is possible. Just to close the loop, here’s how one might do this.

Data suggests that the average income of a person in Nigeria living on less than $2/day is $644/year, so doubling his or her income would yield an annual increase of that same amount. Let’s assume (conservatively) that the person earns this income for 10 years, yielding a total increase of $6,440 (not discounted).
Referring back to the expected benefit result (200,000 poor people with doubled incomes) multiplied by the $6,440, we arrive at a total expected return of $1.25 billion for a $30 million investment. This results in an expected return per dollar invested of $43 of income, which is substantial but perhaps not unreasonable considering the risks associated with the investment.
3 - What’s Next
New Frontiers for Expected Return

The Hewlett Foundation’s effort to apply Expected Return to one complex philanthropic program is a significant first step. Looking forward, three specific refinements to Expected Return can increase its utility even further:

- **Technical enhancements** – Expected return can benefit from improving the modeling of interdependencies, optimizing investment portfolios based on program constraints, and discounting future benefits.

- **In-country assessments** – Development conditions are often intensely local; Expected Return for development investments will require detailed in-country assessments.

- **Application to new topics** – Expected Return analysis can be strengthened by learning from applications in other social science fields, as well as by test cases in fields where more hard science is available.

**Technical enhancements**

As a relatively new analytical tool for the philanthropic sector, Expected Return can benefit from technical enhancements that will more accurately reflect the complexity of potential investments. These include:

- **Modeling interdependencies between investments** - To make more accurate tradeoffs between investments, the interdependent relationships between specific strategies should be reflected within Expected Return modeling. For example, an investment in keeping teenage girls in school might not make the cut based on its direct links to educational outcomes, but because it also contributes indirectly to population and women’s rights outcomes, its overall value for poverty reduction could be much higher. Common methods for modeling interdependent events include decision trees, Bayesian analysis, and compound probability analysis. These analyses require detailed assumptions of how events are related and the probability that they will occur, but even modestly improved assumptions can enhance the accuracy of Expected Return results.

- **Optimizing investment portfolios based on costs to foundations** - Funding and staffing constraints and necessary conditions for investment establish boundaries for investment decisions, which were only taken into account informally in the current analysis. Mathematical optimization techniques such as linear or integer programming can dramatically improve the usefulness of Expected Return results where there are multiple, conflicting constraints to be considered.

- **Discounting future benefits** - Financial theory tells us that a dollar today is more valuable than one received ten years from now. For this reason, future cash flows can be “discounted” to represent the value lost from the deferral of benefits or gained from the deferral of costs. In addition, the current simplifying assumptions that costs and benefits will be affected equally by exchange rates and inflation can also become more nuanced.
As mentioned earlier, this theory can also be applied to social investments with the theory that helping a person today is better than helping a person by the same amount ten years from now. However, selecting an appropriate discount rate for social investments is extremely difficult, and the choice of a rate can have a large impact on the relative value of long-term investments. Making these assumptions transparently is an important enhancement to Expected Return.

In-country assessments

Increasing the accuracy of assumptions for specific investment opportunities is the most important improvement that can be made to the Expected Return work undertaken to date. This is particularly true for potential grants that would take place in specific countries or regions. Because development conditions are often intensely local, detailed assessments at the country and regional levels can significantly improve the accuracy of assumptions about probability, cost, timing, and interdependence. This of course will significantly improve the accuracy of Expected Return calculations.

For example, improving student-teacher ratios may be a good investment overall in Sub-Saharan Africa, but it is important when targeting the exact location of the investment to know that Malawi has over 70 students per teacher, while Ghana has only 30. Similarly, Mali can benefit from agricultural infrastructure investments, but the need is narrowly focused in the southwest region—the northeast is a desert (Figure 7). Thus, in-country assessments are a high priority in improving the ability to use Expected Return effectively in comparing country-specific development investments.

Application to new topics

Sometimes the best way to learn is by doing. The Expected Return process was refined significantly during its application to the Global Development program, which faced a number of challenges that made it particularly valuable as a test case:

- **Diverse strategies** in areas like education, trade, and governance made philanthropic impact difficult to measure and compare. At the same time, the breadth of the program’s goal allowed Expected Return to surface a wide range of opportunities, helping the program avoid a potential ‘hammer and nail’ problem.

- **Multiple and conflicting views** of how development happens led to challenges in formulating clear theories of change and logic models.

- **Complex interactions** between potential investments made it difficult to analyze individual initiatives.

The initial success of Expected Return analysis suggests that the method may find new and valuable uses in other complex fields such as global health, the environment, or even the arts.

Conclusions

The use of Expected Return helped the Hewlett Foundation’s Global Development program hone its investment portfolio and systematize its grant-making. It helped surface the best available information for decision-making, and helped pinpoint where information
that should influence decisions was good, and where more information would be useful.

As Expected Return takes on an expanded role at the Hewlett Foundation and other philanthropies in coming years, its ability to make every dollar count will be tested and strengthened. The current implementation of Expected Return has significant room for growth. The transformative potential of Expected Return analysis, however, is already apparent.
Sources


