

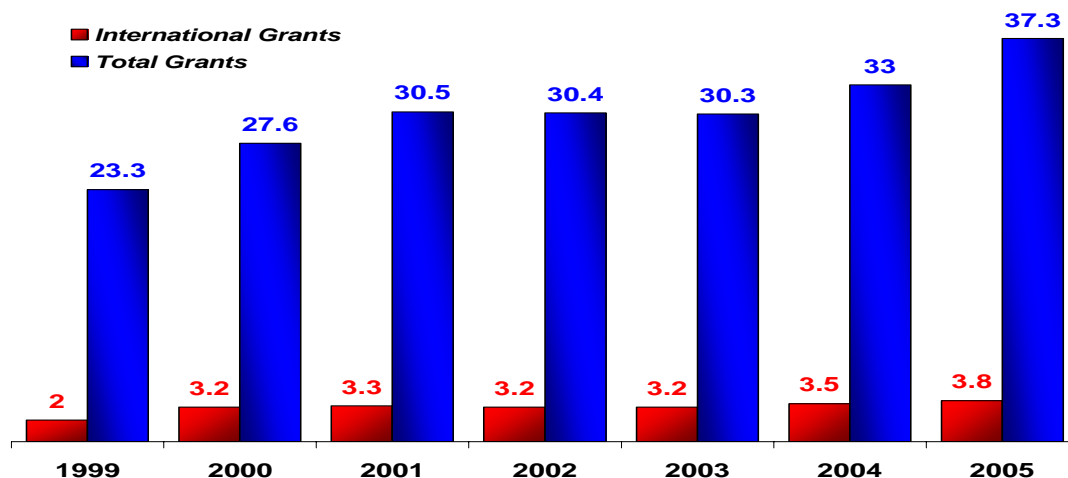
Philanthropic Foundations Actual versus Potential Role in International Development Assistance¹

The role of private philanthropic foundations in the international development agenda has been drawing significant public attention over the past year, highlighted by Warren Buffett's donation to the Gates Foundation.² Many speculate on the future potential role of the private foundations in the area of development assistance and compare it with the official capital flows for development.

Total international giving by private foundations is small compared to official development assistance.

Although the role of the private foundations in international development is undoubtedly very important, so far, the scale of the world's foundations' work in development field is roughly estimated³ at \$4-4.5 billion annually with U.S foundations playing the major role and European and Asian foundations contributing to a much smaller extent. This amount, being an important contribution to development could still hardly compete with the Official Development Assistance (ODA) provided by the donor countries through bilateral aid and multilateral development institutions, accounting for more than \$100 billion⁴.

Chart 1: US foundations: Total and International Grant-Giving, US\$ billions



At the present time, most of the world's foundations' activities are not related to international development assistance, but are domestic.

¹ The draft note was prepared by Olga Sulla for the forthcoming Global Development Finance report, and we are especially grateful for the help provided by Ms. Eleanor Fink at Global Programs and Partnerships.

² With the Buffett's donation of \$31 billion, the Gates foundation is currently estimated to possess more than \$60 billion in assets.

³ This area is significantly under-researched due to the lack of world-wide data collection procedure.

⁴ Total net ODA by official DAC donors only accounted for \$106.5 billion in 2005 (some of the non-government flows being included in this static), of which bilateral ODA accounted for almost 80% of the total and comprises mostly of grants (GDF 2006).

Out of some 100,000 of the world's foundations, only less than 1% have activities which touch on developing countries, and among those, there is great heterogeneity on a number of levels compared to ODA: (i) the share of expenditures for international development purposes of the total foundations' activities varies widely, usually accounting for only a small portion of total expenditures; (ii) the degree of foundation's implementation involvement in development agenda varies from mere grant-making to decentralized and fully-staffed in-country programs; (iii) foundations are generally more specialized in their scope than bilateral official aid agencies and their attitude to publicity and accountability also varies, since they are not answerable to parliaments.

Box 1: Philanthropic Foundations: What are they?

Differentiating foundations from other non-profit, non-governmental organizations is often challenging. Foundations can be either private or public, when the distinction between the private and public foundations is based on their sources of funding rather than allocation of the funds. Public foundations lack a large private endowment, and therefore raise money from multiple sources.

Foundations are currently defined as non-governmental, non-profit organizations, possessing a principal fund of their own, managed by their own trustees and directors, which promote social, educational, charitable, and religious or other activities serving common welfare⁵ either domestically or internationally.

The first interventions by philanthropic foundations in the area of international development date back to the 1920s, with ground-breaking action in the public health sector undertaken by the Rockefeller Foundation. Later on, with the help of the recent increase of their international contributions for development, U.S. foundations have raised themselves as new actors in the area of aid for developing countries.

International grant-giving by US foundations doubled since 1998, although the proportion of the foundations which work in the area of development assistance has declined.

U.S. foundations are by far the most important in the development field due to their size and experience, since foundations tend to start locally and to extend their geographic outreach as their resources and expertise grow⁶. The total number of philanthropic foundations in the US increased from 30,000 in 1993 to 76,000 in 2005 with the total grants-giving growing from US\$10 billion to more than US\$30 billion in the same period⁷. These developments in turn, contributed to significant increase in the portion of the U.S. foundations' international contributions for development.

U.S. foundations' international grant-giving has doubled since 1998 and rose to 3.8 billion in 2005. That being said, the proportion of total US foundations involved in international giving has declined since 1998 from 2.6% to 1.7%⁸. The two main reasons

⁵ See: Fink E. The World Bank and Foundations: Good Practices for Partnerships", 2005

⁶ Philanthropic foundations and Development Co-operation, OECD DAC, 2003

⁷ See Foundation Center, "International Grantmaking III, an update on U.S Foundations Trends," 2004

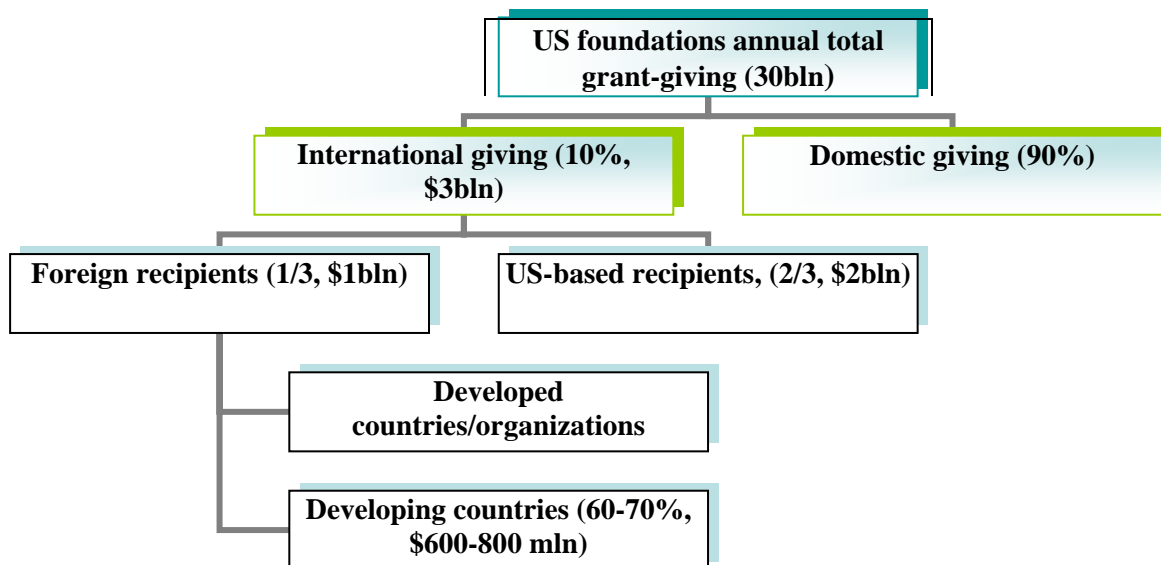
⁸ In 1994: the total number of foundations was 40,000, of which foundations with international giving was 1,020 (2.6%) and in 2004 the total number of foundations was 70,000 of which the number of foundations with international giving 1,173 (1.7%)

for this phenomenon are: (i) creation of a few new large foundations, a large part of which financing devolved to international programs⁹; (ii) an overall increase in the portion of international grant-giving relative to domestic assistance. For example, between 1994 and 2004, domestic giving of the foundations that are active internationally has declined from 91% to 82 % due to the increase of the proportion of international giving¹⁰.

Only 10% of US foundations’ grant-giving goes to international development and it is mostly channeled through international institutions like the WHO or NGOs in Europe, rather than directly to the countries.

Comparing total grant-making by U.S. foundations (more than 30 billion annually) to international grant-making (slightly more than 3 billion), it is clear that most of foundations’ funds (about 90 %) are channeled for domestic purposes and have no link with development assistance (see the scheme below). Only 10% of US foundations grant-giving is channeled to development activities. Moreover, only about 30% of this international giving by US foundations goes directly to foreign implementing organizations, while the rest of the funds are channeled for development through US-based organizations (these numbers being already accounted for by the OECD/DAC statistics as part of non-governmental).

Chart 2: Scheme of the Grant-Giving Distribution Channels by US Foundations¹¹



As illustrated by the scheme above, close to 30 % of U.S. foundations’ aid funds which are channeled internationally go to developed countries in Europe (Switzerland, UK, France, Germany), Australia, Canada, Japan, therefore indirectly supporting the major

⁹ (Since its creation in 1998, the Gates foundations has donated some 10 billion dollars, including 5.8 billion for the Global Health Fund and Moore foundation has made a billion dollars worth of donations since 2001, a large part of which has gone to environmental protection projects).

¹⁰ AFD Working paper – American Philanthropic Foundations-July 20006/22

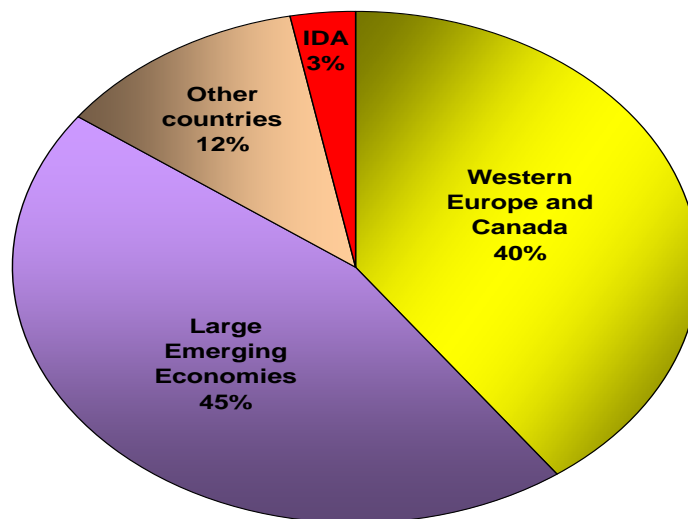
¹¹ Approximate, for schematic purpose only, based on the number for 2004.

international organizations such as the UN, the WHO¹², UNESCO, the UNDP etc. and European NGOs) by using their expertise in terms of implementing aid in the developing countries. U.S. foundations' international giving to developing countries directly is only about 600-800 million dollars per year at most.

The main direct recipients of the capital flows with development impact from US foundations are top 10 emerging economies rather than the poorest countries.

Geographically, the aid flows from U.S foundations are very concentrated (90% in 3 geographical zones: mostly Asia, Latin America, and Africa) being also highly concentrated in terms of the countries. Noteworthy, only 1.5% of the contributions made by the 12 main foundations went to Middle East and North Africa (this region being the main recipient of the US official development assistance).

Chart 3: Countries Receiving International Grants from US foundations¹³



Interestingly, the main developing countries that directly receive international assistance from U.S. foundations are the top emerging markets, including Russia, Brazil, India, China, Mexico, and South Africa¹⁴. The poorest countries seem to be benefiting only slightly on the margins from foundations' direct international flows, largely due to the difficulty with accessing information and with the process of the assistance's implementation.

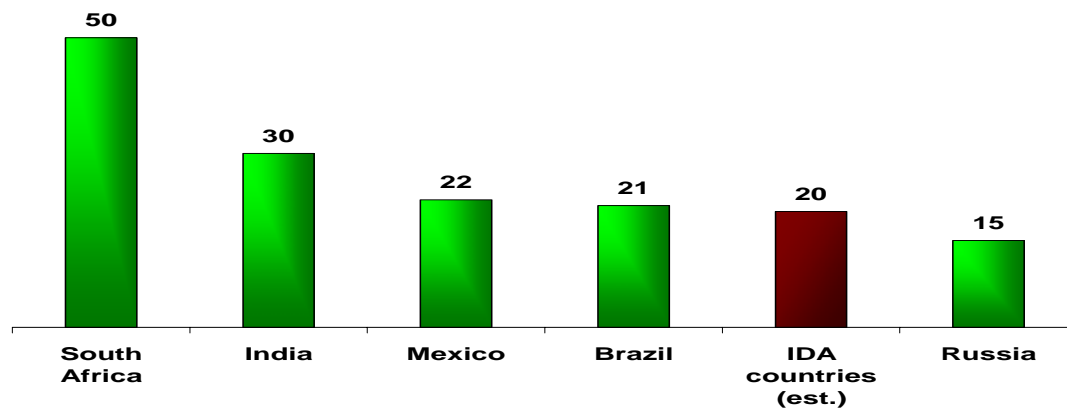
¹² The Funding from the Gates Foundation to the WHO and other medical research institutions represents 95% of the financing allocated by U.S. foundations to Switzerland.

¹³ The Chart is based on partial statistics and staff estimates.

¹⁴ Moreover, these tend to be the same countries that receive most of the foreign direct investments and foreign portfolio equity flows, and they tend to be those emerging economies with the better current accounts and less need for development assistance.

According to the study by AFD¹⁵, none of the IDA countries is among the ten main recipients of US foundations' direct international aid and only five are on the list of the top fifty countries.

Chart 4: Developing Countries' Recipients of the US Foundations International Grants, 2004, US\$ millions



International grant-giving by US foundations originates mainly from the top twelve foundations which often do not have offices in developing countries.

Of the main 1,000 U.S. foundations, the 12 largest ones that are active at the international level implement more than 50% (1.5 billion dollars) of the international grant-making¹⁶. The Ford, Kellogg, Rockefeller, MacArthur, and Soros Foundations favor direct partnerships with developing countries. These foundations tend to have offices representation in the recipient countries. On the other hand, the Gates, Hewlett Packard Foundations and the Rockefeller Fund frequently use developed countries' organizations to channel aid to developing countries.

The health sector continues to be the main aid priority for US foundations, followed by education and basic social services.

In terms of the sectors, there are two distinct groups of U.S foundations: those that target "political" objectives (democratization, supporting civil society) and those that seek to promote basic services and provide global public goods, as education, health or environment protection. The top 3 priorities of U.S. foundations in international grant-making are health (49%), education and basic social services. U.S. foundations also provide limited funding in areas such as public affairs, religion, social sciences, human services, arts and culture.

Interestingly, according to a study by AFD¹⁷, while 77% of foundations feel that Development Assistance was a priority for them in the process of funds allocation, 70%

¹⁵ AFD Working paper – American Philanthropic Foundations-July 2006/22

¹⁶ These top 12 foundations include Gates, Ford, Hewlett, Packard, Rockefeller, Mellon, Kellogg, Mott Foundations, Open Society Institute, Rockefeller Fund, Carnegie Corporation of New York, MacArthur.

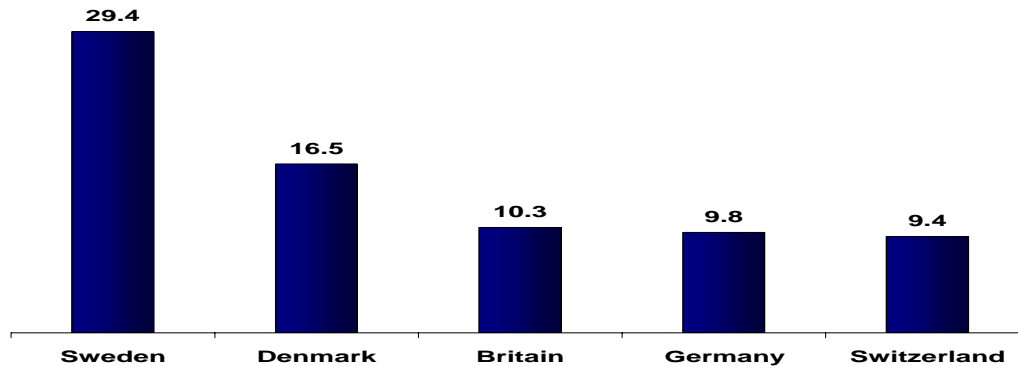
¹⁷ AFD Working Paper- American Philanthropic Foundations, July 2006/22

did not see the MDGs as having a direct influence on how their programs were developed nor how their international philanthropic activities are carried out.

Total international grant-giving by European foundations, at slightly more than half a billion dollars annually, has been slowly increasing over the last years.

Regarding international grant-giving by European foundations to developing countries, there is no comprehensive information on the total amount or sectors available. Some surveys indicate that about 40% of the foundations are carrying out some international activities. We could roughly assume that international giving by European foundations would be at most 600 million annually; however it is increasing. Although there is very little information on European foundations' international giving by sectors of activity, some surveys indicate that the main targets for their assistance are education, research and health care.

Chart 5: Countries in Europe with the Largest Number of Foundations, % of total



European foundations have been much slower to develop in the 20th century than those in the US, for reasons including erosion of private wealth following the two world wars, Europe's relatively stronger welfare system, and the lower prevalence of private philanthropy. The European Foundation Center includes about 150 foundations, with 10 largest foundations constituting $\frac{3}{4}$ of the total expenditures. The countries most active in terms of the number of foundations are Sweden, Denmark, Britain, Germany, and Switzerland, with the total giving by European foundations roughly estimated at about \$1.4 billion annually (both international and domestic giving). Therefore there is a potential for increased involvement in development assistance by European private foundations.

Asian foundations play increasingly important role within the Asia region.

International philanthropy by Asian foundations is relatively limited due to cultural and religious traditions which favor local philanthropy. In many countries, non-profit organizations are struggling to gain government recognition as a separate sector. There has been very little research on Asian philanthropy in general and even less on the activities of Asia foundations in developing countries.

Most Asian philanthropy is directed at local community needs and social welfare and aid to non-religious causes is relatively low¹⁸. The countries with the most number of foundations are Australia, Japan, China, and Hong-Kong, Korea. The foundations are also present in Malaysia, Philippines, Vietnam, and Thailand. Australian foundations make grants at about \$250 million per year (both internationally and domestically) with religion, social service, education and research as the sectors in which they are most active. The Japan Foundation Center reports about \$56 million of international grant making by Japanese foundations¹⁹. Therefore, it would probably be reasonable to estimate international giving by Asian foundations at a total of \$400 million annually, at most.

Table 1: Foundations’ Representation Offices in IDA countries

| Foundation | IDA countries with foundations’ offices |
|-------------------|--|
| Ford | Kenya, Indonesia, Vietnam, Nigeria |
| Mac Arthur | Nigeria, India |
| Rockefeller | Kenya |
| Soros | Moldova, Kyrgyz |
| Kellogg | Dominica |
| Aga Khan | Tanzania, Uganda, Tajikistan, India, Pakistan, Bangladesh |
| Asia Foundation | Cambodia, Indonesia, Mongolia, Vietnam, Afghanistan, Nepal , Pakistan, Bangladesh, |
| Eurasia | Armenia, Azerbaijan, Georgia, Kyrgyz, Uzbekistan, Tajikistan |
| Open Society | Nigeria, Mongolia, Armenia, Azerbaijan, Bosnia, Georgia, Tajikistan, Uzbekistan |

As illustrated in the table above, very few foundations in the world have offices representation in the poorest countries in IDA category and out of total 81 IDA countries only 26 have office representations by the foundations (less than 1/3).

To conclude, although there are significant data limitations due to the lack of world-wide collection procedure, it is clear that the role of private foundations in international development assistance has increased significantly over the last decade, led by US foundations. However, given the huge number of the worlds’ foundations and the total assets of the largest ones, there is an enormous potential for their increased role in development.

At the moment, international development activities of foundations remain highly concentrated in few sectors with the vast majority of assistance going to the largest emerging economies and only on the margins reaching the poorest ones. Thus, the aid provided by philanthropic foundations is significantly different from ODA (as well as

¹⁸ According to the Asia Pacific Philanthropy Consortium

¹⁹ The Pan Asia Fund of Japan, for example, supports training for journalists and research on international economic systems. Sample grants include capacity building for development in Central Asia and Caucasus, Center for Effective Economic Policy in Uzbekistan etc.

incomparably smaller) in both its nature and the way it is implemented. Moreover, a shift from a domestic to more of an international focus would further increase foundations' potential to play a greater role in international development.