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Global Philanthropy and Remittances: Reinventing Foreign Aid

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PRIVATE PHILANTHROPY IS REMAKING THE landscape of international development assistance. Remarkable new players have emerged who are finding innovative ways to help the world's poor, and, in the process, are transforming the concept of foreign aid. The traditional "donor-to-recipient" model of foreign aid has been supplemented, if not supplanted, by public-private partnerships. The roles played by business, governments, charities, and even the recipients of aid have changed as new projects make development efforts more sustainable, work in partnership with local institutions and communities, and encourage the poor to become active partners and co-investors in the development process.

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The *Index of Global Philanthropy and Remittances*, published by the Hudson Institute, is the first comprehensive guide to the sources and magnitude of private giving and investment to the developing world.¹ The *Index* has always separately measured and recognized the distinction between the three private financial flows to developing countries: philanthropy, remittances and private investment. Numerous accounts of philanthropic success stories and best practices are also documented in the *Index*. Regarding remittances, the World Bank and other studies are clear that the funds sent back by migrants to their families and to community development projects are one of the strongest poverty reduction forces in poor countries.² Private investment in the developing world has also been shown to lift people out of poverty through jobs and sustainable economic growth.

Today, these three private financial flows from all donor nations to developing nations account for 83 percent of the industrialized world's economic dealings with

DR. CAROL ADELMAN is the director of the Center for Global Prosperity at the Hudson Institute, publishing the annual *Index of Global Philanthropy and Remittances*, the first comprehensive guide to private philanthropy and remittance flows abroad. She has previously served as an Assistant Administrator at USAID overseeing foreign aid to Asia, the Middle East, and Eastern Europe.

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poor countries. Official flows are only 17 percent. Numerous studies have examined deficiencies in government foreign aid programs.³ Lamenting the dearth of rigorous evaluation of the billions of dollars in official aid, for example, the Center for Global Development found it “...deeply disappointing to recognize that we know relatively little about the net impact of most of these social programs.”⁴

While such evaluation is also needed for private philanthropy, the *Index* has developed important new information on the amount, purposes, and efficiency of this giving compared to government aid. Through its research partners—including the Center Encouraging Corporate Philanthropy, the Foundation Center, the Urban Institute Center on Nonprofits and Philanthropy, the International Institute of Education, the University of Notre Dame Center for the Study of Religion and Society, and various European research organizations and individuals—we know that private philanthropy is directed to the same types of activities as government aid. For example, U.S. Private and Voluntary Organizations (PVOs), alone, gave \$10.8 billion in private aid in 2007, of which 45 percent was for disaster relief, 36 percent for economic growth and trade, 5 percent for health, 4 percent for democracy and governance, and 2 percent for education.

Overall, in the United States, private philanthropy at \$36.9 billion is over two-thirds larger than government aid at \$21.8 billion. Remittances at \$79 billion are three and one half times greater than government aid. When private investment is taken into account, U.S. government foreign aid is only 9 percent of total U.S. financial flows to developing countries. Official aid is a minority shareholder in the growth and development of poor countries. As a result, government aid agencies are beginning to change their business models to leverage official aid with activities launched and run by businesses, foundations, charities, religious groups, universities, and even remittances being sent back to hometowns for community projects. While much of this private giving is for traditional purposes, such as disaster relief and development, there are exciting new ways that private aid is being delivered, such as cause-related marketing, online giving, what Bill Gates dubbed “creative capitalism,” and philanthrocapitalism, which is only one small component of total philanthropy to the developing world. In all its forms, private philanthropy tends to focus more on local ownership of projects, transparency, accountability, sustainable outcomes, and efficient delivery of services.

Examples of the new models abound from microinsurance to less costly cell phone money transfers through partnerships between credit card and cell phone companies, and to Internet giving sites such as GlobalGiving.org and Kiva.org that allow anyone with a computer and a modest donation to provide fast, efficient, targeted loans and grants to poor people overseas. Social networking sites like Facebook and MySpace have entered the field, allowing users to recruit their friends to their favorite causes.

Business development and investment strategies are being deployed to the developing world as nonprofit investment and venture capital firms focus on jumpstarting local businesses and economies with donated capital. The Acumen Fund, which provides small amounts of investment capital and large amounts of business acumen to help create thriving businesses in the developing world, has invested \$20 million in donations in Africa, India, and Pakistan, creating 20,000 jobs.

The landscape of private philanthropy that has emerged was unimaginable just a decade ago. To understand the effect that private philanthropy is having around the world, it is necessary to understand the various forms it takes, just how much money is involved, and what private philanthropy can do that government-backed aid cannot.

THE CHANGING FACE OF INTERNATIONAL AID

Private philanthropy includes giving from foundations, corporations, private and voluntary organizations (PVOs), universities and colleges, and religious organizations. To understand private philanthropy in the context of foreign aid, it is useful to compare these private philanthropic flows to the flow of Official Development Assistance (ODA). The United States shared last place with Greece in 2007 (latest year for which comparable government and private aid data are available) among donor nations in terms of ODA as a percentage of Gross National Income (GNI). In absolute terms, however, the United States was far and away the largest donor, with \$21.8 billion, or 21 percent of all donor ODA. However, to judge the generosity of the United States by its ODA alone would vastly misstate the generosity of the American people. Table 1 (next page) shows the breakdown of American private philanthropy in 2007, which totaled \$36.9 billion—69 percent more than U.S. government aid.

As can be seen, religious organizations in the United States gave \$8.6 billion in 2007, which is over one-third of all U.S. government aid. American private and voluntary organizations (PVOs), which gave half of U.S. government aid, sent more aid to the developing world than France, the Netherlands, Sweden, or the United Kingdom each gave in government aid in the same year.⁵

But even these numbers do not provide a full and accurate picture of America's economic engagement with developing countries. A more complete way of measuring donor impact on the developing world is to look at a country's total economic engagement with the developing world, including ODA, philanthropy, remittances, and private capital flows. Remittances and private capital flows each eclipse official aid in magnitude and efficiency. Remittance outflows from the United States to the developing world, for example, totaled \$79 billion in 2007 compared to \$21.8 billion in government aid, and they accounted for 34 percent of total U.S. economic engagement with

developing countries.⁶ These financial flows play a major role in poverty reduction in the developing world and help many families educate their children, build clinics, and start businesses. They exceed any other donor country's government aid program and are equivalent to 76 percent of total ODA from all donor countries.

Private capital flows from the United States to the developing world totaled \$97.5 billion, the largest among donor countries, accounting for 30 percent of all international private capital flows to developing countries.⁷ These flows represent investment and lending by the private sector on market terms, which helps create jobs, raises productivity, transfers skills and technology, and boosts export industries in developing countries. Total U.S. private financial flows—including philanthropy, remittances, and private capital—to the developing world in 2007 totaled \$213 billion, far exceeding government aid of \$21.8 billion.

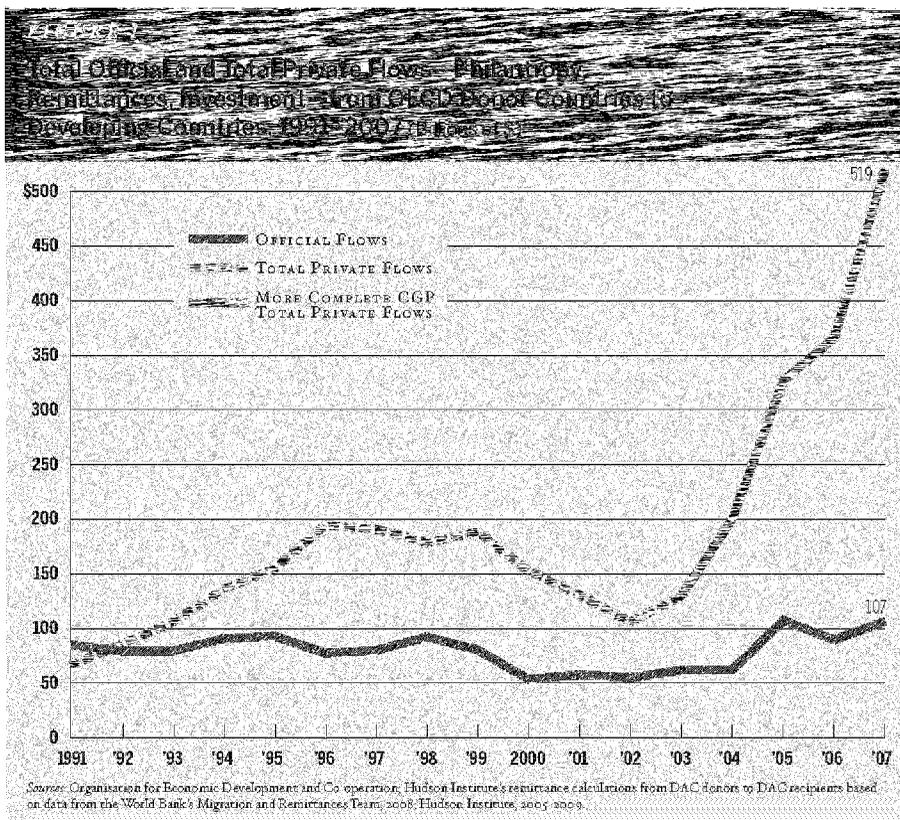
Total U.S. Economic Engagement with Developing Countries, 2007

	Billions of \$	%
U.S. Official Development Assistance	\$21.8	9%
U.S. Private Philanthropy	\$36.9	16%
Foundations	\$3.3	9%
Corporations	\$6.8	18%
Private and Voluntary Organizations	\$10.8	29%
Volunteerism	\$3.5	9%
Universities and Colleges	\$3.9	11%
Religious Organizations	\$8.6	23%
U.S. Remittances	\$79.0	34%
U.S. Private Capital Flows	\$97.5	41%
U.S. Total Economic Engagement	\$235.2	100%

Sources: Organisation for Economic Development and Co-operation, Development Co-operation Report 2009; Hudson Institute's remittance calculations from DAC donors to DAC recipients based on data from the World Bank's Migration and Remittance Team, 2008; Hudson Institute, 2008.

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When we look at all donor countries combined, as demonstrated by Figure 1 below, total private financial flows from all the developed donor countries, including the United States, far exceed public flows such as ODA and other official flows to developing countries. In 2007, philanthropy amounted to \$49.1 billion, remittances to \$144.6 billion, and private investment to \$325.4 billion. The sum of these three components totaled \$519 billion, representing 83 percent of all flows.⁸ Total official flows (ODA and other public flows), at \$106.6 billion,⁹ represent only 17 percent of all financial flows from developed to developing countries. In the 1950s and 1960s, these percentages were basically reversed, with public flows accounting for the vast majority of the world's economic engagement with poor countries. These numbers underscore the dramatic change in the ways that industrialized nations are now engaging with the developing world—through a large and diverse private sector that is shaping economic growth and social patterns in remarkably new and lasting ways.



KEY PLAYERS IN PRIVATE PHILANTHROPY

Contemporary private giving takes an astounding number of forms, from small NGOs working in remote villages in Africa, to state-of-the-art online charitable giving sites, to nonprofit venture philanthropy firms.

Independent, community, and grant-making operating foundations in the United States gave a total of \$3.3 billion to developing countries in 2007. The Hewlett Foundation's Think Tank Initiative, for example, is a ten-year, \$100 million program to bolster the capabilities of independent research institutions in East and West Africa, South Asia, and Latin America so that local scholars can flourish. The goal is to support high-quality research that can help developing countries formulate national policies.

Corporations are also major players in the world of private philanthropy. They provided \$6.8 billion in cash and in-kind giving in 2007. U.S. corporations are engaged in global philanthropy in new and diverse ways. For example, Google.org—the search engine company's philanthropic arm—engages both for-profit and nonprofit organizations to address energy, poverty, and environmental issues. The idea behind such “social entrepreneurship” is that global problems are most effectively addressed by collaboration between the public and private sectors. Increasingly, localized approaches and collaboration characterize the philanthropy of large corporations. Coca-Cola and Unilever have turned to local community organizations, PVOs, and international agencies to pursue responsible business strategies that also help local groups achieve their purposes.

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As with other sources of international private giving, PVOs are increasingly applying business models to traditional development challenges while raising \$10.8 billion in 2007 for developing countries. For example, the One Acre Fund is linking poor African farmers to commercial markets, fostering entrepreneurial approaches that will improve the marketability of crops from small, individually owned farms. Founder Andrew Youn, a graduate of Northwestern University's Kellogg School of Management, applies business school principles to the challenges of farming in rural Kenya. Based in Bungoma, Kenya, One Acre works closely with mostly women farmers, providing advice on growing and marketing produce attractive to international markets. The farmers are trained in successful agricultural techniques, provided with seeds and fertilizer and assisted with crop monitoring. One Acre then serves as a bulk seller, allowing crops to reach larger markets and to get higher prices. The fund collects a small portion of the profits to defray expenses, but farmers are nonetheless making double what they made before the program.

Education is also a cornerstone of development efforts and Americans continue to be generous in their support for international students. Americans gave a total of

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\$3.9 billion in private support to students from the developing world in the 2007-2008 academic year. This figure includes funds not only provided by U.S. colleges and universities, but also by private sponsors including foundations, businesses, and religious organizations. Students from U.S. business schools are putting their money where their mouths are through exciting new volunteer programs such as the Wharton International Volunteer Program and the Global Social Venture Competition, a partnership among Berkeley, Columbia, Yale, the London Business School, and the Indian Business School.

Religious organizations—churches, mosques, and synagogues, as well as missionary societies and religious fellowship organizations—play a large role in American assistance to the developing world. U.S. religious organizations gave \$8.6 billion to developing countries in 2007. About 74 percent of congregations report some financial donations to U.S.-based organizations that contribute to relief and development in foreign countries, with an average contribution in 2007 of \$11,960 for each congregation. About 27 percent of congregations made financial donations directly to programs in developing countries to assist in disaster relief, housing, food or clothing, schools, orphanages, and development projects. These contributions amounted to \$3.3 billion. In addition, 34 percent of congregations contributed by supporting short-term mission and service trips in 2007. For example, Saddleback Church in Lake Forest, California claims a network of 400,000 churches of various denominations worldwide that address social and health concerns, including AIDS, tuberculosis and malaria.

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HARNESSING THE POWER OF PRIVATE PHILANTHROPY

The new global philanthropy is coming at a time of increased scrutiny and criticism of traditional government foreign aid programs. Whereas disaster relief and humanitarian programs generally have been handled well by government donors, there is widespread agreement that the government foreign aid model for development projects—top-down and centrally planned—has been unsuccessful. Development funds too often have been concentrated in the hands of a few large contractors with high overhead who are incentivized by lasting contracts, not by building lasting institutions and capabilities in poor countries. The HELP Commission, a bipartisan congressional commission to reform foreign aid, revealed that two large consulting firms in the Washington, D.C. area received almost \$810 million out of USAID's \$2.2 billion in contracts in fiscal year 2005. The share of USAID contracts awarded to the top five contractors rose from 33 percent in 1996 to 58 percent in 2005.

In February 2007, the Canadian Senate Committee on Foreign Affairs and International Trade conducted a study of its foreign aid program to Africa and concluded

that, after 40 years and over \$12 billion, its government aid program had failed to make a significant difference in Africa. The committee said that ineffectiveness and the overly bureaucratic nature of the program was to blame, along with ineffective governments and leadership in African countries themselves.

In order to help people in sustainable ways, foreign aid clearly needs a new business model. The new paradigm should be grounded in what William Easterly calls an “opportunistic innovation” model that looks for targets of opportunity, not rigid, long-range goals set by donor agencies. While government aid officials lament a lack of coordination in their programs which are designed and implemented mostly with governments, private aid needs no detailed coordination. Decentralized and more flexible, private aid responds to the enormous initiative and entrepreneurship in the large and growing civil societies of developing countries. Philanthropy works with many different models and players, so different approaches can be tried and discarded if unsuccessful. Successful private philanthropic projects and public-private partnerships work because they respond to local initiatives, require co-financing as a measure of commitment, involve peer-to-peer relationships through U.S. professional associations and volunteers, and build local institutions. Best practices of these projects, rather than being coordinated, simply need to be shared.

30 With a focus on local ownership, accountability, and flexibility, privately-funded programs are more likely to have lasting results. Local ownership is key to successful programs; it ensures sustainability and that programs reflect actual needs of the recipients. Traditional governmental aid projects are too often “owned” by foreign agencies or contractors. They design the projects, staff the projects, and determine priorities on the ground. This makes it difficult for local recipients to have a stake in the success of the program or to learn the skills needed to keep it going. Private philanthropic projects tend to see local communities as partners in development projects, not merely aid recipients. They are more insistent on requiring members of the community or local institutions to be involved in the project through their time and co-funding.

The private philanthropic model is also flexible, while public sector efforts can too often be constrained by politics, bureaucracies, and old legislative mandates. USAID’s popular child survival program, for example, began with a legislative earmark more

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than 20 years ago. Since that time, it has spent more than \$15 billion to provide education and preventive services for childhood communicable diseases. Today, however, noncommunicable

diseases in adults—such as cardiovascular disease, cancer, and diabetes—have overtaken infectious diseases as the leading causes of death in most of the developing world. But

child survival funding continues to dominate USAID's health budget, leaving little funding to tackle diseases that are draining adult productivity and economic growth in the developing world. Where the nature of the problems and opportunities for change are evolving, aid must be able to anticipate and respond to such changes.

THE FUTURE OF GLOBAL PHILANTHROPY

Despite the global economic downturn, the future of global philanthropy looks less dismal than expected. The very nature of private philanthropy helps ensure that programs are not ended suddenly due to shortages in funding. Most private programs have sustainability as their mantra, whether it is the African Foundation for Development, founded by African émigrés in London who share their expertise to help their countrymen in Sierra Leone and Ghana build sustainable businesses, or Chevron's Alternative Livelihood Program, which is helping Bangladeshi villagers to start profitable fish farms. While not every program is literally teaching people how to fish, the idea remains the same: give people the skills and tools they need to make a living and build civil society from the ground up and then stand back. Other financial flows, such as remittances, have been more resilient. Remittances to developing countries continued to grow in 2008, and projections for 2009 indicate that they may decrease between one and six percent only. These new approaches are literally blurring the line between business and philanthropy. TOMS Shoes has become successful selling its wildly popular, colorfully patterned canvas slip-ons in part because it donates one pair of shoes to someone in the developing world for every one pair of shoes it sells. Patrick Byrne found success with his Overstock.com web site and then spun-off a site called Worldstock.com that helps small artisans in the developing world find a market for their products. Even travel agencies have jumped on the bandwagon, with philanthropic voyages to Africa and Asia, where vacationers go to game parks and stay in luxury hotels while also visiting charitable projects and sometimes doing volunteer community work for clinics and orphanages. Enterprising nonprofits are participating in these tours to take travelers to their own favorite projects, in the hope that they can raise money from these peripatetic philanthropists.

The good news is that the savviest of government aid agencies are beginning to partner with the private sector to tap into this innovation and local ownership. For example, thanks to a large grant from the Bill and Melinda Gates Foundation, the Kenyan government is getting the opportunity to partner with leading nonprofits and corporations to figure out how best to bring clean water to rural towns—by using schools as a focal point. The project will have the flexibility to learn from a variety of approaches, discarding what does not work and scaling up what does. In this way, scarce funds can

be used to pay for only the most viable approaches and projects—the “mistakes” are made in the pilot phase, lessons are learned, and everyone benefits.

Technology will also play a major role in the future of global philanthropy. Cell phone providers are using cutting-edge technology to allow migrants to send money home to their families quickly and safely. The Vodafone Foundation is using its state-of-the-art technology to help countries heal faster from major disasters and to reunite displaced families. African farmers are being provided with hand-held technology that lets them participate in modern commodity markets.

Most importantly, local, indigenous philanthropy—in the form of social entrepreneurship, corporate giving, and community foundations—is remaking the face of global philanthropy to reflect local priorities and local needs. This local philanthropy will continue to grow as developing countries themselves grow and prosper. Local businesses in emerging countries are creating formal philanthropic initiatives, both in their own countries and other developing country markets. Fundacion Cisneros in Argentina, the Azim Premji Foundation in India, the Al-Bukhary Foundation in Malaysia, and the Fundacion Bradesco in Brazil are just some examples of the philanthropic organizations started by successful businesses in developing countries. Fundacion Bradesco, for example, is Brazil’s largest foundation and has inspired a wave of corporate foundations in Brazil. Fundacion Bradesco has built 40 schools that have provided education for some 700,000 children from rural areas. Through its teacher training program, Fundacion Cisneros has trained over 6,000 teachers throughout Central and South America.

Community foundations continue to grow in developing countries as high-net-worth individuals, along with an expanding middle class, begin to fund home-grown philanthropy in some of the poorest countries around the world. The International Community Foundation in San Diego is linking immigrants and first-generation Americans with ties to communities in Mexico and Latin America to development projects in their hometowns. And indigenous foundations continue to astound with the depth and breadth of their programs. In Pakistan, the Layton Rahmatulla Benevolent Trust is providing corrective eye surgery to help low-income Pakistanis access the care that can save their sight. In Colombia, Fundación Pies Descalzos is helping children and families displaced by violence rebuild their lives and receive an education. These organizations and thousands like them are the face of global philanthropy—targeted, immediate, local, and lasting. Government aid agencies would be wise to recognize what these groups are doing around the world and partner with them in new business models that can and are creating new prosperity in the developing world. 

NOTES

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