Foundations and Private Actors

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Abstract

While Official Development Assistance (ODA) comprised the majority of resource flows in international development during much of the twentieth century, today private money, composed of philanthropy, remittances, and investment, significantly surpasses ODA. Additionally, with increased remittances, a more skilled labor force, open markets, and rise of communication technology, the developing world has also changed. Private actors in developing countries are taking on a larger role in the assistance process. These private flows have fundamentally transformed the way foreign aid is delivered: the private sector, with more flexibility and higher risk tolerance, is more likely to fund programs that government aid may not. This paradigm shift offers a great opportunity to reinvent official aid, allowing the aid community to better focus on
results, demand-driven development, transparency, and sustainability. This chapter covers the value of private flows, the actors involved, future developments in private-sector involvement in foreign assistance, and the impact of private flows on the development landscape.

*Keywords:* Official Development Assistance, philanthropy, foreign aid, private development assistance, public-private partnerships, emerging economies, civil society
Introduction

Traditionally, international development practitioners have placed value on government actors on both the donor and the receiver side. Official Development Assistance (ODA) often manifests itself in the transfer of public monies from a donor government into the hands of a recipient government. During much of the twentieth century, official flows comprised the majority of resource flows in international development. After World War II, the Marshall Plan was composed mainly of U.S. government grants and technical assistance to European nations. While private sector actors supplied goods, they were not the main financial source, and the majority of the resources came from official flows.

Today, ODA flows constitute only a small fraction of the total public and private flows to developing countries. This change in the public to private ratio is a recent one: only in the 1990s did private money, composed of philanthropy, remittances, and investment, begin to significantly surpass ODA (Hudson Institute 2012). This paradigm shift offers great opportunity to reinvent official aid, allowing the aid community to better focus on results, demand-driven development, transparency, and sustainability.
During the latter part of the twentieth century, the aid community saw a rise in popularity of public-private partnerships. Increasing participation from private actors reflects changes not only in the traditional donor countries, but also in developing countries. Over the past thirty years, and particularly in the last decade, developing countries have seen an increase in open markets and open societies (Adelman and Eberstadt 2008). The rise of emerging economies is largely a result of increased economic and democratic growth and is characterized by a more skilled labor force, improved life expectancy, and increased civil freedoms and entrepreneurship. In turn, communication technologies have produced a means to access the local talent and local organizations with which private-sector entities can partner.

Furthermore, private actors in emerging economies and developing countries are themselves taking on a larger role in the assistance process. With recent economic prosperity in emerging economies, these countries are developing not only their own government aid strategies, but also philanthropic initiatives domestically and abroad. In addition to philanthropy, remittances continue to rise and contribute to the disposable incomes of individuals in developing countries. Diaspora communities as a whole have engaged in philanthropic activities, and diaspora philanthropy has caught the attention of policy leaders in donor and developing countries alike.
Private actors have provided new and rising cash flows domestically and across borders. These private flows have fundamentally transformed the way foreign aid is delivered: the private sector, with more flexibility and higher risk tolerance, is more likely to fund programs that government aid may not.

Not only have private actors changed the architecture of aid, but new strategies are changing the way aid is being delivered. Traditional, grant-making foundations are embracing program-related investments; corporations have gone beyond traditional corporate social responsibility to promote a shared-value approach and corporate volunteerism; investment funds are taking on mission-related investing; businesses are working to reach a double bottom line; remittances are being pooled into development projects and used for securitization; and diaspora bonds are being issued to raise capital. With the large contributions from the private sector, it is critical not only to include private actors in development strategies, but to stay current on the continuing changes within the private aid delivery system and its best practices.
This chapter will cover the value of private flows, the actors involved, future developments in private sector involvement in foreign assistance, and the impact of private flows on the development landscape.

**Financial flows to the developing world**

Official development assistance currently consists of government flows from twenty-three Development Assistance Committee (DAC) members, with Korea being the newest member. According to the Organization for Economic Cooperation and Development (OECD), total ODA flows have been steadily increasing since the 1960s. According to the OECD, in 2010 ODA was at its highest ever, exceeding $128 billion. Despite the recession, many nations continued to increase their assistance packages.

The OECD and the international aid community set targets and encouraged donor nations to increase their aid packages. In the 2002 Monterrey Consensus, developed countries were urged to increase their government assistance to 0.7 percent of their gross national product (GNP) (Clemens and Moss 2005). The call for this increase was based on the assumption that more
government funding for international development would help the world reach the Millennium Development Goals. Thus far, only five of the twenty-three traditional DAC donor nations have reached the 0.7 percent target; however, ODA in absolute amounts has been increasing and has held steady at over $100 billion per year since 2005 (Hudson Institute 2012). ODA is composed of more than just cash flows. Critics of aid have noted that much of ODA is not actual cash, but rather debt forgiveness and technical assistance (Kharas 2008). In fact, analysis of the $107 billion of aid flows in 2005 determined that only $38 billion of that was composed of funds for projects on the ground in developing countries (Kharas 2008).

While DAC donors’ goals continue in support of increasing ODA, non-DAC donors and private sector actors have filled many of the financing gaps in foreign assistance (Desai and Kharas 2008). Private financial flows (including philanthropy, investment, and remittances) far exceed ODA, and now dominate the development landscape (Hudson Institute 2012). This paradigm shift from government to private flows will become even more substantial in the future as private flows continue to rise. Figure 47.1 shows the steady rise of private flows from the traditional DAC donor countries over the last twenty years. As demonstrated, the private monies took off with unprecedented momentum in 1991 and will likely continue to far outpace ODA, making government flows a minority shareholder in the development landscape. Figure 47.2 shows the
breakdown of the private flows into the three components: investment, remittances, and philanthropy. Of the $575 billion in 2010 private flows, private capital investment is the largest and the most volatile. However, even if this market-dependent source is excluded, remittances and philanthropy combined are nearly double government aid.

![Figure 1: Total Official and Total Private Flows- Philanthropy, Remittances, Investment - from OECD Donor Countries to Developing Countries, 1991-2010](image)

Source: OECD, Hudson Institute’s remittance calculations from DAC donors to DAC recipients based on data from the World Bank’s Migration and Remittances Team’s Bilateral Remittance Matrix, 2010, Hudson Institute, 2005-2012.
Figure 2: Official, Private Investment, Philanthropic, and Remittance Flows from OECD Donor Countries to Developing Countries, 1991-2010

Source: OECD, Hudson Institute’s remittance calculations from DAC donors to DAC recipients based on data from the World Bank’s Migration and Remittances Team’s *Bilateral Remittance Matrix*, 2010, Hudson Institute, 2005-2012.
While remittances are not philanthropy, they are a substantial private flow with demonstrable effects on poverty reduction. During the recession in 2008–10, remittances held at remarkably steady levels. Moreover, on a macroeconomic scale, countries are beginning to use remittance inflows as collateral to improve nations’ creditworthiness for access to capital markets (Ratha 2006). Figure 47.2 shows remittance flows from donor nations to developing countries; however, South-South remittance flows have also grown substantially in the past decade. The World Bank reports that nearly 50 percent of all migrants from the South reside in a nation which is also considered in the South (Ratha and Shaw 2007). While remittances from developed to developing countries in 2010 amounted to $190 billion, total remittances to developing countries are estimated at $371 billion, thus demonstrating that almost half of remittances come from South to South migration. The cost of remittance transfers has decreased substantially in the past decade, allowing for migrants to transfer money securely regardless of their base location.

Philanthropy involves numerous actors, including foundations, private and voluntary organizations, corporations, religious organizations, and volunteers. In traditional donor nations and emerging economies, private relief and development assistance travel through a variety of channels. Philanthropy data for the U.S. are more complete than for other countries. According
to recent data, U.S. philanthropy going to international relief and development causes amounted to $39 billion in 2010, outpacing U.S. ODA by nearly $10 billion. This philanthropic value is composed of $7.6 billion from corporations, $4.6 billion from foundations, $14 billion from private and voluntary organizations, $7.2 billion from religious organizations, $3.7 billion in volunteer time, and $1.9 billion in private financial assistance to students. International philanthropy from the other twenty-two DAC donor nations in 2010 is estimated at $17 billion (Hudson Institute 2012), although this amount is under-reported because not all DAC donors adequately measure private giving. The total value of global philanthropy is even harder to estimate, as there are even fewer data on philanthropy from emerging economies.

As research into measuring philanthropic flows improves, other donor countries’ governments may also begin to value the size and opportunities that this financial flow offers, leading to better measurement and publicity. The UK government has already appointed a Philanthropy Ambassador in an effort to engage the philanthropic community and promote philanthropic activities. The Japanese government, in collaboration with Osaka University, has also begun measuring private giving.
The rise of philanthropy goes beyond the borders of traditional donor nations. Emerging market economies such as China, Brazil, India, Russia, and South Africa, with economic growth and the emergence of high net-worth individuals, are also seeing a rise in giving. In India, individual giving increased by 50 percent from 2006 to 2011, and more high net-worth individuals are beginning to establish foundations (Sheth and Singhal 2011). Younger family members are playing an active role in the launching of these foundations and in local development. Similarly, after the 2008 earthquake in China, the Chinese upper and middle classes were encouraged to give through a remarkably well-organized Internet and mobile campaign launched by Chinese movie star Jet Li. In Brazil, corporate philanthropy has been on the rise for the past decade, and in 2012 Brazil’s Institute for the Development of Social Investment formed a partnership with the Global Philanthropy Forum to further work in increasing Brazilian philanthropy. Similar trends are seen in Russia and South Africa.

Organized philanthropy, which in the past has been considered an American tradition, is now rising in various forms in both developed and developing countries, and is increasingly being channeled to international efforts. These indisputably substantial philanthropic flows are being developed by a variety of actors. Understanding the role of private actors in relief and development and the resources they bring to the table is valuable in order to develop best
practices in aid projects and to reassess the changing role of government assistance in foreign financial flows.

**Private actors**

**Foundations**

Although private aid is delivered through a number of channels, the international development community and the public often focus specifically on the role of foundations in development, particularly with the rising influence of certain large foundations. According to the Foundation Center (2011), the U.S. foundation sector has grown tremendously in the past few decades, increasing from 22,000 foundations in 1980 to 76,000 in 2008. Similar growth has also been observed in Europe and to a lesser extent globally. Nevertheless, U.S. contributions from foundations to relief and development causes are relatively small compared to contributions from corporations, religious organizations, and other private and voluntary organizations. Foundations constitute only 12 percent of U.S. global philanthropy (Hudson Institute 2012).
Traditionally, family foundations have led the way in international giving. In 1913, well before the Marshall Plan era, the Rockefeller Foundation launched research into yellow fever in Africa, leading to the development of critical vaccines used today. The foundation continued to support medical research in Africa through the 1960s and ’70s (Rockefeller Foundation 2013). Later, in the 1990s and 2000s, the Rockefeller Foundation supported Product Development Partnerships, which were first-of-their-kind initiatives aimed at controlling infectious diseases globally by partnering with organizations across sectors. Since the 1990s, the public-private partnership model has been embraced by foundations, corporations, and governments in a variety of sectors.

Foundations were pioneers in demonstrating that private actors can have a pivotal role in development, particularly because foundations tend to be more flexible than government agencies and able to take on greater risk in testing out new ideas. For example, Grameen Bank, a microfinance institution started in Bangladesh, came to fruition largely as a result of seed funding from the Ford Foundation. Similarly, the Bill & Melinda Gates Foundation has taken numerous initiatives in the field of vaccine research, contributing $10 billion over the course of ten years. Both of these initiatives carried larger risk than traditional government aid models could handle.
The dominance of Gates, as an example of the impact a single private actor can have, has been received with both applause and criticism. More than half of foundation giving in international aid comes from the Bill & Melinda Gates Foundation ($2.7 billion in 2008). While this spending surpasses the ODA contributions of nine of the twenty-three DAC donor countries, it is still small compared to U.S. total philanthropy of $37 billion. The Bill & Melinda Gates Foundation’s ability to create “convergence” on its priority areas is undeniable (Tompkins-Stange 2011). Through the sheer volume of funding, the Foundation has been able to invigorate entire areas of health research. Aside from funding initiatives, the Foundation has been successful in driving policy toward its own key interest areas (Freschi and Shaikh 2011).

Because the Bill & Melinda Gates Foundation is a single donor with such a large contribution, critics have noted that the Foundation can easily create a monopoly through its ability to set the agenda, particularly in global health: of the $2.7 billion that Gates spent on international programs, 60 percent was directed at global health programs. Before this, spending on global health was largely focused on maternal child health and primary health care. After Gates, global health funding increased dramatically in HIV/AIDS, tuberculosis, malaria, and other infectious disease-based programs. Notably, President George W. Bush’s significant focus on these same diseases paralleled the Gates Foundation’s efforts. Some of the criticisms of the Gates
Foundation started in 2008, when the head of the World Health Organization’s malaria program, Donald G. McNeil Jr., noted that Gates’ dominance in funding of malaria research has led scientists to depend on the success of their peers to continue receiving funding, thus compromising the peer-review process (McNeil 2008). The Foundation has helped revive research into malaria eradication and vaccine development. Before 2000, malaria spending was less than $100 million annually, yet over the following eight years the Foundation alone allotted over $1 billion to this cause.

In addition to their influence over agenda setting, foundations have been questioned about the transparency of their activities. In order to qualify for tax-exempt status, foundations in the U.S. are required to report overall disbursement figures to the Internal Revenue Service. However, they are often left to their own discretion in determining the level of reporting they want to pursue beyond the required basics. The Gates Foundation has been criticized for its lack of reporting on its decision making process, measuring results, and reporting successes and failures (Freschi and Shaikh 2011). Despite the drawbacks, foundations working in relief and development often have more flexibility with their spending, and can devote large sums of money to causes over long periods of time. Foundations with significant assets can direct larger sums of money to single initiatives and make a significant impact in a specific area, while
government aid may be distributed over a wider range of initiatives and regions. Foundations today have taken on more entrepreneurial approaches, by applying business techniques to create long-lasting solutions.

While Bill Gates has become the face of philanthropy in the U.S., in emerging economies, high net-worth individuals are also engaging in philanthropy. Perhaps the most famous in Indian philanthropy is the work done by the Tata family, which established the Tata Trusts in 1919. The Tata model of philanthropy focuses on creating long-term institutions, and these trusts have funded a number of hospitals, educational institutes in science research, and a performing arts center. In addition to the Tata family, Azim Premji, chairman of the Indian tech company Wipro, created his own foundation in 2001 in order to improve education. Much of this foundation’s work in elementary school education is done in public-private partnership with the Indian government. Like the movement in the U.S. foundation sector, the Azim Premji Foundation has committed to measuring outcomes and remaining transparent. In addition, the Shiv Nadar Foundation and the Bharti Foundation, both initiated by high net-worth individuals, work on education issues.
Philanthropy in other emerging economies is also on the rise. According to the Foundation Center (2011), foundation spending in Brazil amounts to $2 billion annually. In China, economic growth has given a number of individuals a billionaire status. While Chinese philanthropy is highly regulated, the value of total giving has more than quadrupled since 2006, and high net-worth individuals are becoming increasingly active in philanthropy. For example, Yu Pengnian, a real estate developer, donated $1.2 billion through his charity, which focuses on health and education. In Russia, where philanthropy has only recently become part of mainstream society, a similar trend is seen with high net-worth individuals establishing foundations. The public’s growing trust in Russian charities has enabled greater involvement by these private institutions in domestic issues such as HIV/AIDS and tuberculosis, orphan care, and education. This rise in local philanthropic activities demonstrates that solutions are beginning to grow locally from both the public and private sector in developing countries.

Philanthropy is beginning to bloom in Africa as well. However, much of Africa’s giving is limited to the continent’s emerging economies, such as South Africa and Nigeria. Besides local philanthropy, African diaspora members abroad are launching foundations to work in their countries of origin. Mo Ibrahim, who is Sudanese-born but now resides in the UK, launched his foundation in order to promote better governance and democracy in Africa. The Mo Ibrahim
Prize is awarded annually to African leaders who demonstrate fairness and good leadership while in office. In addition to the prize, the Mo Ibrahim Foundation offers educational scholarships to young Africans.

While foundations in emerging economies vary in size and activities, they do share some similarities. For example, there is a large focus on institution building, particularly in education and health, both areas in need of improvement in developing nations. This focus is intuitive, and demonstrates that philanthropists abroad are in tune with the needs of the population, especially in areas where the public sector may fall short.

**Private and voluntary organizations**

The non-profit sector in donor countries and recipient countries has increased tremendously. From the late 1990s, the number of non-profits in the U.S. has grown by 60 percent in a span of a decade. In 2004–05 the U.S. non-profit sector brought in $1.6 trillion in revenue; $300 billion per year is estimated to come from private donors, the majority of them individuals (Kapur and Whittle 2010). Individual giving to organizations comprises a large portion of the $14 billion in private spending on international development causes. This figure excludes donations from
foundations and corporations, which are attributed directly to those sources. Members of InterAction, a coalition of U.S.-based international relief and development non-governmental organizations (NGOs), report increasing activities with the private sector in partnerships that exclude the government (InterAction 2011). In addition to short-term humanitarian work, the majority of InterAction members are focusing on long-term solutions in their programming. Furthermore, NGOs are working across sectors and are partnering with local institutions (Kharas, Makino, and Jung 2011). Civil society is growing internationally as well, providing opportunities for a local voice in international development projects. During the 2008 High Level Forum on Aid Effectiveness (held in Accra, Ghana), 360 civil society organizations from eighty countries were recognized as independent “development actors in their own right.” Civil society groups were also represented at the 2011 High Level Forum on Aid Effectiveness (held in Busan, South Korea). The declaration from this meeting states that civil society is vital in implementing development policies.

The rise of numerous private actors in development and the resulting possibility of fragmentation have caused concern among some policy makers. Although there are significantly more private actors than governments, the NGO sphere, like the foundation sector, is dominated by a few large institutions. The largest NGOs have annual budgets surpassing $100 million, and some,
like World Vision, have budgets in the billions. These organizations have thousands of employees worldwide, a history of working with local governments, and the capacity to perform extensive monitoring and evaluation of their projects. Furthermore, NGOs, working through civil society networks, prefer to implement initiatives by using local groups.

The rise of technology and other convenient methods to promote individual giving have helped civil society continue to grow, particularly in relief and development. The 2010 Haiti earthquake brought increasing attention to individual givers equipped with mobile technology: it is estimated that individuals gave $43 million to Haiti relief efforts using text messaging, with the majority of individuals donating for the first time (Smith 2012). However, once they had experienced the ease of mobile giving, more than half of the donors made contributions to other disaster relief efforts post-Haiti via mobile phones. Technology and its ease of giving have increased “impulse giving,” or making a small contribution on the spur of the moment without doing significant research. While individual contributions are small, the sheer number of people with a cell phone can result in contributions totaling millions of dollars. The “Text for Haiti” campaign is an example of a fundraising strategy used by NGOs and aimed at individual donors in response to an event. Besides specific campaigns, numerous online platforms have been developed to make it easier to reach local non-profits. For example, GlobalGiving.com vets organizations to ensure
that small NGOs abroad are using the funds appropriately. Similarly, Kiva.org works through an online platform to provide microloans to individuals.

Improved technology has eased financial transactions, increased the speed of giving, and improved communications, allowing non-profits to target donors on an individual level—a vast difference from the traditional grant-seeking model in which NGOs sought out funds from government agencies or large foundations. Platforms such as give2asia.org have begun targeting individual and corporate philanthropy to specific geographic regions. These same technologies that are creating new fundraising mechanisms for NGOs may also be used to advance accountability (Kapur and Whittle 2010). While GlobalGiving.com allows an NGO to tap into a new source of revenue, it also creates external pressure on the organization to maintain a public track record in order to be eligible to continue raising funds through its site.

Sharing best practices among the vast number of civil society groups needs to be encouraged. In addition to creating networks, NGOs have begun to share information and implement geographic information systems (GIS) technology to map their activities. During the aftermath of the Haiti earthquake, organizations working in the area provided detailed activities of their projects and locations. This information was then fed into a publicly accessible online Haiti Aid Map. Such
information sharing not only provides a way to coordinate efforts, but helps hold organizations accountable to their donors. The increase in private funding to relief and development has enabled non-profit organizations working in this sector to employ innovative techniques in fundraising, reporting, and project implementation.

**Corporations**

While foundations and other civil society organizations are often considered the more typical non-governmental actors in relief and development, corporations have also worked in this space for decades. This involvement has been through a variety of methods, including direct cash contributions, in-kind donations, corporate foundations, employee volunteerism, and employee matching programs. Corporate interest in international philanthropy continues to grow. According to the Committee Encouraging Corporate Philanthropy (CECP), as companies expand their business operations abroad, their international philanthropic activities also expand (CECP 2012).

The highest dollar value of corporate involvement in relief and development is given through in-kind donations within the health sector. Such giving has a long history, especially among U.S.
pharmaceutical companies. One of the first successful public-private partnerships was in combating river blindness, a neglected tropical disease prevalent in some of the poorest regions of the world. The partnership between Merck, a variety of multilateral organizations including the World Health Organization (WHO) and the World Bank, and international and local communities was launched in 1987. Today, it is one of the largest medical donation programs. The partnership has provided over 500 million treatments to individuals living in the most remote areas of the world. Traditional medical donation programs for neglected tropical diseases, tuberculosis, malaria, and HIV/AIDS remain popular, and over 90 percent of the $7.6 billion in U.S. corporate giving is attributed to in-kind pharmaceutical donations of drugs for these and many other diseases. While other industries also engage in significant philanthropy, drug donations are higher in value and easier to measure and report than other forms of corporate contributions.

Outside of the U.S., corporate social responsibility (CSR) has gained significant traction. For example, in China, while 20 percent of philanthropic contributions come from individuals, the majority of the balance comes from corporations. Chinese firms engage in corporate social responsibility both in China and abroad, particularly in Africa, where CSR initiatives improve the public perception of Chinese firms. Indian companies are also active in CSR and are
estimated to have spent $7.5 billion dollars in initiatives in 2006. In India there is great overlap between corporate foundations and family foundations.

Social responsibility in Brazil has also become popular over the last decade. In 2010 alone, top Brazilian companies gave over $1 billion to causes such as education and community development. Arguably, CSR in Brazil has outstripped traditional philanthropy, to a point where it is now expected of companies. The majority of Brazilian grant-makers were formed by corporations. In contrast to the U.S., corporate foundations in Brazil channel a greater portion of their grants to managing programs directly, as opposed to giving grants to NGOs. In Russia, corporate philanthropy is also relatively high and is estimated to constitute 70 percent of the value of all charitable donations in the country. As in Brazil, companies in Russia are open to corporate giving, with many setting up social funds for charitable purposes.

Today’s corporate involvement is moving beyond traditional philanthropy toward more inclusive business models and a shared value approach where companies create good in a society while building shareholder value. Through a shared value approach, businesses redefine their products in order to benefit the community at large, reconsider energy and resource use in value chain production, and contribute to developing local businesses. For example, Nestlé, which has coffee
growing production in Latin America, built up local businesses that produce agricultural inputs such as fertilizer in the regions the company operates. Building up local business operations has both created more jobs in the community and helped Nestlé with its coffee growing operations. The involvement of corporations in development has come a long way from the precedent set by Western pharmaceutical companies. Corporate philanthropy and social responsibility have now permeated globally, and are viewed as beneficial not only by the recipients of corporate initiatives but by the corporations themselves.

**Religious organizations**

Globally, religious organizations have long played a dominant role in poverty relief efforts. Measuring religious contributions can be a challenge, as in many countries religious organizations, unlike foundations and non-profits, are not required to report donations or tax data to the authorities. U.S. religious organizations are estimated to contribute nearly $8 billion annually in cash donations and volunteer time through mission trips. In addition to cash donations, members travel to developing countries on short-term and long-term service trips. Since World War I, U.S.-based faith-based organizations (FBOs), such as Catholic Relief Services and Lutheran World Relief, have been active in community development both
domestically and abroad. Today, FBOs continue to play a large role in relief and development, and their number has increased in the past decade, in both developed and developing countries. Some estimates show that as much as half of the education and health provision in Africa is done by religious organizations and churches (Marlink and Teitelman 2009).

While FBOs by definition have a religious affiliation, their activities are not always geared toward the promotion of religion. A study of FBOs that work with the UN Economic and Social Council found that almost 50 percent of these organizations have a dominant field of work that excludes religious promotion, such as a focus on education, health, environment, and other services (Petersen 2010). Besides FBOs, religious giving also encompasses relief and development activities taken on by U.S.-based churches, some of which have networks that span countries and continents. For example, Saddleback Church has over 400,000 churches in its worldwide network. Through its members, the church has been addressing health issues such as tuberculosis and HIV/AIDS. While FBOs receive some government funding, studies show that the greater portion of FBO revenue comes from individual giving. Churches, more than FBOs, rely on individual contributions. Thus, religious giving remains a top channel for individuals, whether based in developed or developing countries, to contribute to improving lives at home or abroad.
Volunteerism

While volunteerism is not reflected in traditional cash donations, individuals contribute significant amounts of time to relief and development. In the U.S. this value amounts to nearly $4 billion annually (Hudson Institute 2012). Researchers in other countries have also found significant contributions in volunteer time from their citizens. In Japan, the annual value of volunteer time donated to international activities is estimated to be over $2 billion. In addition to short-term volunteering activities, many NGOs and faith-based organizations rely on skilled volunteers for long-term work. For example, Mercy Ships depends heavily on highly skilled volunteers for many of its health care operations. Doctors Without Borders, Engineers Without Borders, and even Clowns Without Borders all rely on volunteers who donate their time to relief and development abroad.

With increased globalization of multi-national corporations, cross-border corporate volunteerism has also been on the rise. Companies are beginning to offer fellowship programs in which the company covers expenses and provides paid time off for the volunteering employee. Such programs run on an ongoing basis or respond to an unexpected disaster. IBM, through its
corporate volunteerism program, has deployed volunteers during numerous disasters in the past
decade. Other companies, such as GE, have provided volunteers within their sector for help in
electrical maintenance and water purification activities. Whether short-term or long-term, NGO-
affiliated or corporate, volunteerism continues to be a substantial resource to international relief
and development causes.

**Evolution of private aid delivery**

With technology and increased emphasis on social entrepreneurship, private aid delivery
methods are themselves transforming (Bishop and Green 2008). In addition to e-philanthropy,
cause-related marketing, remittances, public-private partnerships, and new financial vehicles are
blurring the lines between typical investment and traditional philanthropy. These new means for
private actor involvement include socially responsible investing (SRI), program-related investing
(PRI), mission-related investing (MRI), and social enterprises.

*Socially responsible investing (SRI)* is a form of investment that avoids companies that may
negatively impact the environment or society as whole. While SRIs are traditional investments
with a return, the screening component provides an incentive for companies to incorporate social benefit into their bottom line. SRIs are not limited to developed countries: according to the Emerging Market Disclosure Project (SIF 2012), socially responsible investing is rising in emerging markets as well, especially in Brazil and South Africa.

*Program-related investments (PRIs)*, unlike SRIs, are closely linked to charitable activities of an organization and are strictly defined in the U.S. by the Internal Revenue Service. These capital investments are made by foundations to support philanthropic activities that have the potential to return the capital within a certain timeframe. Unlike grants, PRIs have a return on investment through repaying loans or returns on equity. The main purpose of PRIs must be consistent with the purposes of the foundation, and the main purpose of the investment cannot be to produce a profit. Thus, many PRIs have below market returns.

*Impact investing or mission-related investing (MRI)* occurs when capital is invested in projects that seek to generate societal change and financial returns with the ultimate goal of creating a larger impact than can be achieved by philanthropy alone. Impact investing and MRIs do not screen companies based on negative impacts; rather, they focus on finding a positive societal benefit in addition to the profit.
Social Enterprises refer to non-profit or for-profit organizations that operate using business strategies to advance the organizations’ social goals. Unlike corporate social responsibility programs, social enterprises create products that aim to directly impact disadvantaged populations in accordance with the enterprise’s mission.

Impact of private actors

Private flows and the increased involvement of private actors in development have helped rectify some of the critiques of bilateral and multilateral government aid. Private aid has brought to light the value of creating partnerships across sectors and with local institutions, where numerous groups have a stake in an initiative. Increasingly, private and government aid donors and analysts are documenting the progress of private aid programs, including the Center for Effective Philanthropy and the International Finance Corporation. Hudson Institute (2012) has published an annual Index of Global Philanthropy and Remittances which documents successful private aid programs and public private partnerships.
Private aid, however, is not without its detractors. While there is reason to believe that private aid may be more cost effective than government aid, through the use of volunteers and lower overhead, evaluations to measure this claim are largely lacking (Desai and Kharas 2008). For example, evaluations of NGOs are often self-performed and tend to highlight the positives, not failures. One website, www.admittingfailure.com, shares personal accounts of failed or problem projects. While this is not a comprehensive, systematic look at failures, it is a step in the right direction.

Private aid has been critiqued for its lack of evaluation. Michael Edwards notes (Edwards 2011) that foundations lack transparency and are insulated from public criticism. Tending to set and follow their own specific priorities can limit their flexibility in responding to new problems and creative approaches. The Millennium Villages Project, a massive public-private partnership funded by foundations, national and local governments, corporations, and partner organizations, was critiqued for overstating results that could have occurred from overall economic growth, independent of project interventions. The drop in child mortality in the pilot villages was only slightly less than the drop in the region as a whole (The Economist 2011). In the early phases, the project was criticized for failing to include control villages for comparison. Thus, when positive
results were proclaimed, they were attributed to the project, not controlling for an overall improvement in the region.

In addition to measuring effectiveness, the multitude of players within a single partnership program can create its own problems. For example, a case study of the decade-long Partnership for Higher Education in Africa (2010) funded by a number of leading U.S. foundations found that participants lacked clarity and understanding of overall goals of the partnership, which very broadly aimed to improve higher education on the continent. Furthermore, lack of coordination among a large number of participating organizations hindered decision making and lengthened program implementation. Large partnerships often face different standards and cultures among organizations, which can create communication barriers and slow the progress of programs.

When numerous actors are engaged in private aid, they can add to an already fragmented foreign aid system. As scholars at the Brookings Institution point out: “Multiple donors will make requests for studies and for individual meetings with country officials; these donors will establish separate project-management units and multiple procurement practices for the same products; and they will be unable to coordinate to identify and propagate best practices” (Desai and Kharas...
2008). Fragmentation of private aid among different groups can also lead to volatility in the disbursements of funds to recipients, impeding long-term institutional improvements.

Both public and private actors are facing pressure to be more flexible, demand-driven, and accountable. The role of flexibility is particularly pertinent as changing demographics and economies mean countries are faced with new and more complex development challenges. For example, today’s developing world is suffering not only from infectious diseases, but from chronic diseases such as cancer and diabetes, and donor organizations need to adapt to this change. Programs that are demand driven, as opposed to only donor or government initiated, have proven to be more successful and sustainable. Private aid has shown that one way of tapping into such demand is using improved communication technologies; local individuals and NGOs are closer to the needs of their communities. As seen with organizations such as GlobalGiving.com and Kiva.org, individuals and NGOs that are based in-country can now raise funds abroad via individual-to-individual channels, bypassing traditional intermediaries in the aid architecture. Communication technology has lowered the cost of creating feedback loops by collecting information directly from beneficiaries. Moving forward, competition among non-profit organizations may increase as each tries to produce better results in rating agency rankings, knowing that a higher ranking may encourage donors to provide more funding.
Conclusion

The changing economic and demographic landscape of the developing world, the increase in the skilled labor force, the emergence of new private players and approaches to delivering foreign aid, and limited evidence of official aid impact on economic growth suggest that ODA requires a new business model to reflect a new developing world and new expectations of aid (Adelman and Eberstadt 2008). Government aid can be leveraged with organizations that put in their own resource contributions from private sources. Competing organizations can be assessed by governments based on their proposed projects’ economic and social impact, local ownership, partnership with local institutions, and achievement of community self-reliance. Too often, the focus on “fixing” official aid is dominated by discussions of the volume of resource commitments, organizational structure, and the coordination of objectives and players among various donor countries. Such thinking is conceptually trapped within a world that existed fifty years ago, when the public sector was the leading player in financial flows to developing countries. Today among DAC members, this is no longer the case: private flows in the form of philanthropy, remittances, and investment have made government flows a minority shareholder.
While the resource shift does not make government aid irrelevant, it does call for a change in the ways it is delivered. One solution may be to have governments acting more as conveners of resources, where they can help leverage successful private endeavors and facilitate introductions and regular substantive consultations among private-sector actors in global development.

References


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