

# INTERNATIONAL FINANCE BRIEFING NOTE

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## Philanthropic Foundations and their Role in International Development Assistance

The role of private philanthropic foundations in international development has drawn significant public attention over the past year, much of it centered on Warren Buffett's donation of \$31 billion to the Gates Foundation.<sup>1</sup> Many speculate on the development potential of private foundations, comparing it with the official development assistance (ODA) provided by donor countries through bilateral aid and multilateral development institutions.

Total international giving by private foundations remains small compared to official development assistance. The scale of the development operations of the world's foundations is roughly \$5 billion annually,<sup>2</sup> with U.S. foundations playing the major role and European and Asian foundations contributing to a much smaller extent. By contrast, ODA amounts to more than \$100 billion.<sup>3</sup>

The main messages of this note are:

- International development represents a small share of overall foundation giving, and foundation giving for international development is small compared with official aid.
- Philanthropy for development is dominated by U.S. foundations, which channel their giving primarily through global funds rather than directly to developing countries. Few foundations have offices in the world's poorest countries.
- Worldwide, procedures for gathering data on foundation giving differ greatly, making comparisons difficult. Outside the United States, Europe, and a few other countries, data are hard to come by.

Foundations are nongovernmental, nonprofit organizations that possess a principal fund of their own and are self-managed by a board of trustees or directors. They promote social, educational, charitable, religious, or other goals that serve the common welfare, either domestically or internationally (Fink 2005).

Fewer than 1 percent of the world's 100,000 foundations conduct activities that touch on developing countries. Among that 1 percent, there is great heterogeneity.

- Spending for international development as a share of total foundation activities varies widely, but in all but a few cases accounts for a small portion of total expenditures.

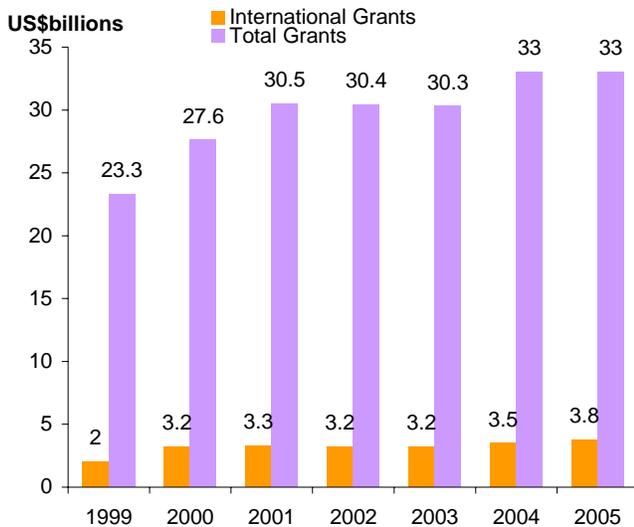
- The degree of involvement in implementation of the development agenda varies from grant-making to decentralized and fully staffed in-country offices.
- Foundations are generally more specialized in their scope than bilateral official aid agencies.
- Foundations' attitude to publicity and accountability varies widely.

### *U.S. foundations are by far the most important in the field of philanthropy for development*

The first interventions by U.S. philanthropic foundations in the area of international development date back to

the 1920s, when the Rockefeller Foundation took ground-breaking action in the field of public health. More recently, U.S. foundations have raised their profile in development assistance.

**Figure 1 U.S. Foundations: Total and international grant-giving, 1999–2005**



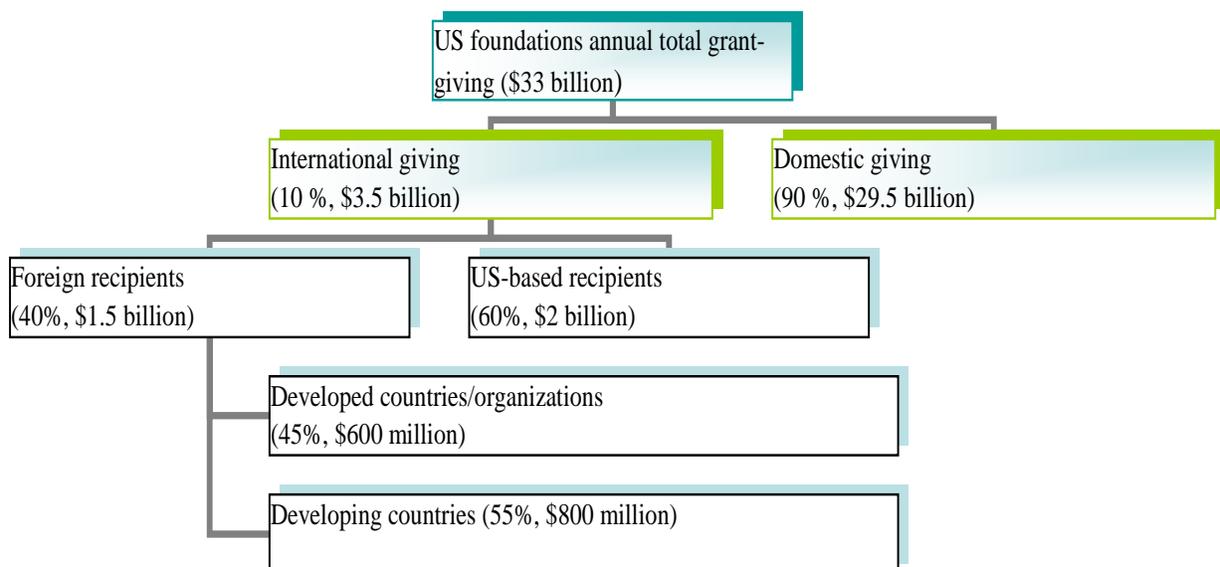
Source: Foundation Center 2006.

U.S. foundations are by far the most important philanthropic institutions in the development field owing to their size and age—foundations tend to start locally and to extend their geographic outreach as their resources and expertise grow. The number of philanthropic foundations in the United States rose from 30,000 in 1993 to 68,000 in 2005, with grant-giving growing from \$10 billion to \$33 billion in the same period (Figure 1).

Comparing total grant-giving by U.S. foundations (more than 30 billion annually) with international grant-giving (3.8 billion), it is clear that close to 90 percent of the foundations’ funds are spent for domestic purposes within the United States (Figure 1).

**Slightly more than 10 percent of U.S. foundations’ grant-giving goes to international development;** most of that is channeled through global funds (such as GAVI), international institutions (such as WHO), or NGOs in Europe and the United States, rather than directly to developing countries

**Figure 2 Grant-giving channels used by U.S. foundations**



U.S. foundations' international grant-giving has doubled since 1998, rising to 3.8 billion in 2005 (Figure 1). After declining in 2002, international giving rebounded, increasing nearly 11 percent in 2004 and 8 percent in 2005. Creation of a few large foundations and significant giving by the Gates Foundation for global health and the Moore Foundation for environment contributed to the increase.<sup>4</sup>

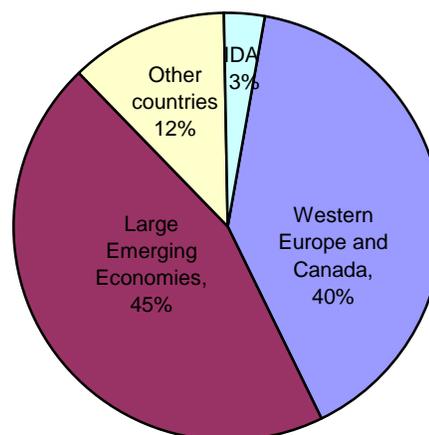
About 60 percent of international grants by U.S. foundations are channeled through U.S.-based international programs, mostly global funds (figure 2). In 2005, out of the \$2 billion awarded to U.S.-based grantees, \$750 million came from the Gates Foundation to the Washington, D.C.-based Vaccine Fund. The rest funded global programs, such as initiatives to reduce global warming, or was channeled through NGOs.

Close to 40 percent of international giving by U.S. foundations goes directly to foreign implementing organizations outside the United States (Figure 2), of which some 45 percent goes to organizations in Europe, Australia, Canada and Japan, largely to support the major international organizations, such as the World Health Organization<sup>5</sup> and the United Nations (including UNESCO and the United Nations Development Programme), or European NGOs that provide aid to developing countries (Figures 2 and 3).

U.S. foundations' direct cross-border giving to developing countries accounts for only about one-fifth of the international giving, some \$800 million per year (figure 2).<sup>6</sup> Moreover, direct cross-border giving makes up a decreasing share of all international dollars and grants (Foundations Center 2006). A more difficult environment for funding overseas,<sup>7</sup> combined with the tendency of new international grant givers to rely on funds and agencies, explain this trend. From 2002 to 2004, cross-border giving declined 3 percent (and the number of grants declined 9 percent), while grants to global programs increased almost 50 percent, causing the significant drop in the share of international dollars directly targeting overseas recipients.

***The main recipients of direct cross-border grants from U.S. foundations are the top 10 emerging economies rather than the poorest countries (figure 3)***

**Figure 3 Destination of direct cross-border international grants from U.S. foundations.**



*Source:* statistics from the Foundations Center, AFD and World Bank staff calculations.

*Note:* IDA = World's poorest countries eligible for concessional financing and grants from the World Bank's International Development Association.

The developing countries that receive the most direct international assistance from U.S. foundations are the top emerging markets—Russia, Brazil, India, China, Mexico, and South Africa (Figure 4).<sup>8</sup> The poorest countries benefit only slightly from foundations' direct international flows, possibly because of the difficulty of accessing information and the difficulty of implementing assistance in the poorest countries.

No country eligible for financing from the International Development Association, the World Bank Group's concessional financing arm, is among the 10 top recipients of U.S. foundations' direct cross-border international aid. Only five IDA countries are among the top 50 (AFD 2006).

The 12 largest U.S. foundations active at the international level account for more than half of the international grant-making.<sup>9</sup> The Ford, Kellogg, Rockefeller, MacArthur, and Soros foundations favor direct partnerships with developing countries and tend

**Table 1 Offices of U.S. foundations in the poorest developing 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

Source: World Bank, Global Programs and Partnerships web site, and staff analysis.

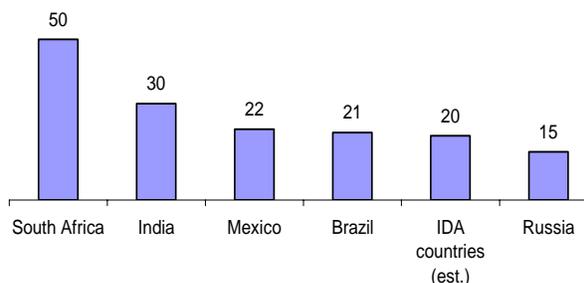
to have offices in the recipient countries. On the other hand, the Gates, and Hewlett-Packard foundations and the Rockefeller Brothers Fund frequently use organizations in developed countries to channel aid to developing countries.

Overall, few U.S. foundations maintain offices in the world's poorest countries. Out of 81 IDA countries, only 26 host one or more foundation offices (Table 1).

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

Some U.S. foundations target quasi-political objectives, such as democratization and support for civil society. Others seek to promote basic services and provide global public goods, such as education, health, and environment protection. The top three priorities of U.S. foundations in international grant-making are health (49 percent), 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.

According to a study by AFD (2006), although 77 percent of internationally active U.S. foundations state that development assistance is a priority in funds allocation, 70 percent *did not see the Millennium Development Goals as having a direct influence on*

**Figure 4 Developing countries' recipients of international grants from U.S. foundations, 2004 \$ millions**

Source: AFD, 2006 and staff calculations.

how their programs are developed or on how their international philanthropic activities are carried out.

***Total international grant-giving by European foundations, now about half a billion dollars annually, has been slowly increasing over the last years***

European foundations have been much slower to develop than those in the United States. The chief reasons include the erosion of private wealth following the two world wars, a stronger welfare system, and a greater propensity to state, over private, action. The European Foundation Center includes about 150 foundations, with the 10 largest accounting for three-quarters of all expenditures. Sweden is home to the largest share (29.4 percent) of European foundations, followed by Denmark (16.5 percent), Britain (10.3 percent), Germany (9.8 percent), and Switzerland (9.4 percent).

Little information is available on grant-giving by European foundations to developing countries. Total giving by European foundations is roughly estimated at \$1.4 billion annually (international and domestic). Some surveys indicate that about 40 percent of European foundations carry out some international activities. Therefore, annual international giving by European foundations amounts to at most \$600 million, but is increasing, according to the European Foundation Center. Although very little is known about European foundations' international giving by sector of activity, surveys indicate that the main targets are education, research, and health care (OECD, 2003).

***Asian foundations play an increasingly important role in their region***

International philanthropy by Asian foundations is relatively limited owing to cultural and religious traditions that favor local philanthropy. In many countries, nonprofit organizations are struggling to gain government recognition as a separate sector. Most Asian philanthropy is directed at local community needs and social welfare. Aid to nonreligious causes is relatively low, according to the Asia Pacific Philanthropy Consortium. There has been very little research on Asian philanthropy in general and even less on the activities of Asian foundations in developing countries.

The countries with the most foundations are Australia, Japan, China, and Hong Kong (China), and the Republic of Korea, but foundations are also found in Malaysia, the Philippines, Thailand, and Vietnam. Australian foundations make grants of about \$250 million per year both internationally and domestically, with religion, social services, education, and research as the most active sectors. The Japan Foundation Center reports about \$56 million of international grant making by Japanese foundations.<sup>10</sup> In light of the reports of the largest Asian donors, international giving by Asian foundations can be estimated at around \$400 million annually.

***Conclusion: Private foundations could play a larger role in development***

Despite significant data limitations traceable to the lack of a worldwide collection procedure, it is clear that the role of private foundations in international development assistance has increased significantly over the last decade, led by U.S. foundations. However, given the number of the worlds' foundations and the formidable assets of the largest ones<sup>11</sup>, there is an enormous potential for their increased role in development, particularly if the trend toward greater international giving continues.

At the moment, the international development activities of foundations remain highly concentrated in few sectors, with the vast majority of direct cross-border assistance going to the largest emerging economies. Thus, the aid provided by philanthropic foundations is significantly different from ODA (as well as much smaller), both in its nature and in the way it is implemented.

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**Notes**

- <sup>1</sup> With Buffett's donation, the Gates Foundation is currently estimated to possess more than \$60 billion in assets.
- <sup>2</sup> This area is significantly under-researched owing to the lack of worldwide data collecting system.
- <sup>3</sup> Total net ODA by official DAC donors accounted for \$106.5 billion in 2005. Some nongovernmental flows are included in this figure. Bilateral ODA, which consists almost entirely of grants, accounted for almost 80 percent of the total (GDF 2006).
- <sup>4</sup> The Gates Foundation increased its giving, especially through its Grand Challenges in Global Health Initiative. The Moore Foundation boosted giving primarily through its Andes-Amazon initiative to conserve biodiversity.
- <sup>5</sup> The funding from the Gates Foundation for the WHO and other medical research institutions represents 95 percent of the financing allocated by U.S. foundations to Switzerland.
- <sup>6</sup> The Foundation Center estimates total cross-border giving at \$821.6 million in 2004, out of \$3.5 billion in international giving by U.S. foundations.
- <sup>7</sup> Stricter U.S. government policies aimed at preventing the diversion of charitable assets to terrorists created a more demanding regulatory environment. Reportedly, foundations also perceive increased security risks abroad since 2001.
- <sup>8</sup> These tend to be the same countries that receive the largest shares of foreign direct investment and foreign portfolio equity flows.
- <sup>9</sup> These top 12 foundations include Gates, Ford, Hewlett, Packard, Rockefeller, Mellon, Kellogg, Mott Foundations, Open Society Institute, Rockefeller Brothers Fund, Carnegie Corporation of New York, MacArthur.
- <sup>10</sup> 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.
- <sup>11</sup> The Economist, July 1<sup>st</sup>, 2006.