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Philanthropy as an Emerging Contributor to Development Cooperation

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I. Executive Summary

The world is at a pivotal moment for global development cooperation. While many stakeholders are brought increasingly into international development processes, philanthropy stands apart, despite the scale, ambition and potential of philanthropy's contributions to international development. Its resources are growing as a proportion of total Official Development Assistance (ODA), and in 2011 philanthropic North-South flows from OECD DAC donors alone was at least US\$59 billion. But philanthropy should not be viewed principally as a "gap filler" for ODA. Instead, and crucially, philanthropy brings a complementary and beneficial set of new actors, approaches, and types of funding. Most philanthropy is directed to supporting individual and collective human initiative and ingenuity, an expression of belief that the answers to societies' toughest challenges lie not in one institution or set of actors, but in the vast array of individuals and institutions who make up those societies, who represent different beliefs and perspectives, and approach the same problems with different solutions. The value of a philanthropic portfolio is that it enables one institution, even with modest resources, to simultaneously, and over time, test and support disparate organizations and interventions. *This is an essential contribution to the immense undertaking of development.* And given the growing importance and enthusiasm around South-South cooperation and linkages, the burgeoning philanthropy originating in the Global South, which has not been well-documented, is particularly important to explore and analyze.

A range of issues and recommendations are raised in this report. Philanthropy's contributions to international development should be better measured, and there is a need for a stronger emphasis on better data overall in terms of both measuring progress, and enabling a better understanding of the range of potential grantees working on development themes. There is a need to build trust not only in the role of philanthropic institutions, but in civil society more broadly. In countries across all the world's regions, today's landscape, even if constrained by social or political factors, poses enormous possibilities in terms of finding partners for official development cooperation. As governments engage in global and national planning for the Post-2015 Agenda, successors to the Millennium Development Goals, and other national planning processes, involving the substantial philanthropic sector in the process will be of lasting value – for their own voice, and even more so, to amplify the voices of their grantees and partners. Moreover, philanthropic institutions need to understand that their own aims of reaching greater scale, achieving deeper results, and financial sustainability can be furthered by collaborating with – and leveraging their resources towards - the ODA community. And the increase of official aid to developing countries from emerging markets themselves has not yet been accompanied by an encouragement to domestic foundations to do the same, even though this will be beneficial.

Differences in the norms and practices of the ODA and philanthropy sectors, described in detail in the paper, must be addressed: how strategy is formulated; how success is measured; and the drivers of accountability and transparency. More superficial differences in the sectors, such as the size of resources, should not obscure these dimensions. If the differences are acknowledged and embraced, collaboration can help enrich the landscape and bring the benefits of complementarity; if ignored, they will constrain effective collaboration. There are a host of untapped opportunities, as well as enduring challenges, for philanthropists – particularly those from the South - to create more linkages and collaboration with official development cooperation structures to achieve greater impact together. Despite different starting points, strategic approaches, and accountability mechanisms, there can be more effective, systematic collaboration and partnerships. Progress is likely to come faster, and with greater depth and breadth, by relying on networked approaches and supporting institutions that serve as hubs for building capacity and sharing information. Specific recommendations describe how change must be catalyzed within the multilateral system, governments, and philanthropy itself.

Recommendations to the Multilateral System: Create systematic entry points and partnership processes that encourage and engage with philanthropy networks, at the country and global levels;

incorporate explicit support for an enabling environment for philanthropy and broader civil society as a key component of effective development cooperation at the national and global levels; appoint philanthropy liaison staff and include the sector on UN websites; aim partnerships at achieving specific Post-2015 Agenda goals and targets, rather than one broad Partnership goal, and encourage more intentional planning and monitoring around the goals; document and learn from efforts already underway across the multilateral system. A major shift will be to move from one-off meetings and discussions to consistent, meaningful engagement. This means conceiving of philanthropy's role not as an afterthought, but as routine, bearing in mind that they are but one set of non-state actors whose legitimacy and quality must be demonstrated through genuine accountability mechanisms.

Recommendations to Governments: Create an enabling environment for both domestic and international philanthropy so that this sector can flourish and contribute to its maximum potential, and work to build trust in the sector and in philanthropic giving. Government development agencies should become more familiar with domestic and international philanthropy and civil society in country; ensure data on philanthropy is accessible; ensure policies and legislation encourage domestic philanthropy and civil society more broadly; institute tax policies that encourage an expansion of domestic philanthropic giving; and foster openness toward international philanthropic contributions to complement government resources and ODA.

Recommendations to the philanthropy sector: Become informed about relevant global and national development goals and targets, both to understand the external context better, and to unlock opportunities for leverage; use philanthropy networks or affinity groups to join UN and government processes; expand grantmaking to support a vibrant civil society, which will be even more important to the Post-2015 Agenda than it was for the MDGs; report programmatic spending as much as possible against national and global development goals and share information transparently; and include development cooperation experts at philanthropy events and on Boards and Advisory Groups.

Philanthropy resists easy definition and categorization. That has made it difficult to track its contribution to specific development goals. But it need not impede philanthropy's ascent into deep engagement with others in international development cooperation. Philanthropy, no matter where it originates, is driven by the imperative to meet human needs, alleviate suffering, and tackle the systemic challenges that prevent human development and progress. On one end of the spectrum it can be pathbreaking, supporting innovation, field building, first movers and fast movers - and at the other, it provides patient capital for long-term challenges that require painstaking efforts that go beyond political winds and shorter-term business interests. Philanthropy needs to leverage the larger resources and expertise of official development cooperation actors. And governments and the UN system need to leverage the insights, innovations and more nimble approaches of philanthropy and those organizations who the sector supports. Philanthropy reaches across borders and silos to create a better and safer world for all. The power of joining the forces of official development cooperation and philanthropy in the service of the new international, universal development goals will make a substantial difference. But this will require new mindsets, partnerships and forms of collaboration amongst the UN system, governments and the philanthropic sector alike. The challenge is worth surmounting for the leverage and greater impact it will bring.

II. Background and Introduction

The world is at a pivotal moment for global cooperation. Planning for the Post-2015 Development Agenda and Sustainable Development Goals (SDGs) is well underway. The High Level Panel of Eminent Persons on the Post-2015 Development Agenda, the UN Commission on Sustainable Development, and the Open Working Group on the Sustainable Development Goals have each brought governments and other stakeholders together to craft a global framework by September 2015.¹

All of these processes, like the formulation of the Millennium Development Goals (MDGs) at their launch, are led by UN Member States and multilateral agencies. Other crucially important stakeholders, notably civil society organizations² and the business sector, have gradually established their roles and are acknowledged as non-state actors who should at times be included. The Global Partnership for Effective Development Cooperation has recognized this, aiming to help bring governments, the private sector, civil society and others together to ensure funding, knowledge and policy produce maximum impact for development.³ And the recent High-level Meeting in Mexico endorsed wider stakeholder engagement.⁴ But one distinct set of actors – those in the philanthropy sector - are rarely engaged.

Philanthropy is literally "love of humanity." Philanthropy enhances what it is to be human through the process of giving and receiving - private giving for the betterment of others.⁵ It gives to society in many ways, and sometimes its contributions are making up for the failure of governments or the marketplace.⁶ Most philanthropy is directed to supporting individual and collective human initiative and ingenuity, an expression of belief that the answers to societies' toughest challenges lie not in one institution or set of actors, but in the vast array of individuals and institutions who make up those societies, who represent different beliefs and perspectives and approach the same problems with different solutions. The value of a philanthropic portfolio is that it enables one institution, even with modest resources, to simultaneously, and over time, test and support disparate organizations and interventions. *This is an essential contribution to the immense undertaking of development.* But philanthropy as a sector receives scant attention in the processes and documents described above, and in turn does little to engage actively with them.⁷ There are exceptions, but they are very few relative to the scale, ambition and potential of philanthropy's contributions to international development.

Much data about philanthropy is difficult to compile, and most philanthropy around the world is not planned, monitored or reported according to global development frameworks like the MDGs, or global reporting standards like the International Aid Transparency Initiative (IATI). Philanthropic funding is, nonetheless, contributing enormously to the MDGs outcomes. The US Foundation Center data shows, for example, that in 2011 alone, at least 300 US foundations contributed over \$770 million towards MDG Goal 1 of eradicating extreme poverty and hunger. To help address this reporting gap, the Foundation Center is in the process of beginning to both expand and refine its data on giving related to the MDGs and, eventually, the SDGs.⁸ They created the table below to show the range of contributions from just a selection of US foundations, very few of whom report toward the MDGs, but whose contributions can be ascribed to one or more of them.

Foundation Giving for Programs Related to the Millennium Development Goals, 2011

Millennium Development Goals	Amount	No. of Grants	No. of Fdns.
Goal 1: Eradicate extreme poverty & hunger	\$770,761,183	1,663	318
Goal 2: Achieve universal primary education	42,756,909	294	80
Goal 3: Promote gender equality & empower women	223,768,315	312	56
Goal 4: Reduce child mortality	456,276,756	337	54
Goal 5: Improve maternal health	211,008,135	215	38
Goal 6: Combat HIV/AIDS, malaria & other diseases	1,572,823,543	426	48
Goal 7: Ensure environmental sustainability	534,927,086	1,747	224
Goal 8: Develop a global partnership for development ¹	278,124,929	363	109

A key preoccupation for many in the international development field today is how the Post-2015 Agenda will be funded. In 2013, official development aid (ODA) from all OECD DAC nations (Organization for Economic Cooperation and Development's Development Assistance Committee) reached US\$134.8 billion.⁹ Development aid, and more broadly international public finance for sustainable development, will remain essential in the decades to come. But more attention and analysis

is going to the shrinking proportion of ODA within total financial flows to the South. At the same time, private flows have grown significantly. The largest proportion comes from foreign direct investment, portfolio and equity flows; the second largest is remittances; and the third is private philanthropy. All three of these can contribute to philanthropic outcomes, but philanthropy, if deployed well, can be particularly strategic and additive. The opportunity is enormous, since a broader range of philanthropists is emerging and becoming engaged in international giving, and domestic giving within developing countries itself is increasing.

But the emergence of philanthropy should not be viewed principally as a “gap filler” for ODA. Instead, and crucially, philanthropy brings a complementary and beneficial set of new actors, approaches, and types of funding. Philanthropy often supports under-funded sectors like social inclusion, human rights, and gender equality. It has often supported grantees and partners at the nexus of different disciplines and approaches, thereby creating new fields that are then taken up by the official donor community – such as community-based natural resource management, land rights for the poor, and urban climate change resilience. Moreover, *a distinctive added value of philanthropy to the non-profit sector is through the creation of grantmaking portfolios that help build communities of practice, disciplinary fields, and social movements for positive change.* Throughout this report this distinction will be highlighted, as the nurturing of civil society is in itself a crucial contribution that philanthropy can make to development – and one that its role is unique in supporting. Moreover, given the growing importance and enthusiasm around South-South cooperation and linkages, the burgeoning philanthropy originating in the global South, which has not been well-documented, is particularly important to explore and analyze.

III. Resourcing Development and the Changing Shape of Global Financial Flows

Today, so-called developing countries (in this paper referred to as the global South) are driving global economic growth, principally but not only in middle-income countries. The 2013 Human Development Report *The Rise of the South: Human Progress in a Diverse World*, notes that for the first time in 150 years, the combined GDP of the three largest economies of the South – China, India and Brazil – almost equals the combined GDP of the longstanding industrialized powers of the North (Canada, France, Germany, Italy, UK and the US).¹⁰ The power and influence of these countries has grown, accompanied by independence from traditional multilateral and bilateral aid donors. Each year more middle-income countries become donors (even as they continue to receive aid from wealthier countries), to the point where the boundary of giver and receiver is blurred. Within aid a portion relatively increasing is concessional flows from emerging economies to low-income countries, which the World Bank estimated in 2011 were already between US\$12 and 15 billion.¹¹

An analysis of four significant players – Brazil, India, China and South Africa – illustrates the scale of the shift.¹² Brazil’s ODA amounted to \$362 million in 2009, going mostly to Lusaphone countries.¹³ In 2011, China’s overseas assistance amounted to \$2.47 billion, although reportedly not all of this falls under the OECD DAC categories of ODA.¹⁷ This flows to 123 countries across the globe, with the largest portion going to Africa.¹⁸ India’s ODA in 2011 amounted to \$731 million, with most going to its neighbors but increasing amounts to Africa, especially for agriculture and infrastructure projects.¹³ The OECD reported that South African ODA amounted to \$95 million in 2011. These trends, as well as the intention of the Post-2015 successor goals to be universal, means that international cooperation will look very different in a decade than it does today.

IV. The Expansion of Private Flows and Philanthropy's Contribution to Global Development

Private flows from North to South have increased enormously in recent years. In 2011, private capital investment, remittances and philanthropy from the 23 developed donor country DAC members amounted to about \$577 billion, over four times larger than official flows that year. Private capital flows remained largest at \$322 billion, and remittances from all DAC donors to the developing world were \$196 billion, a slight increase from \$190 billion in 2010. Total philanthropy from all DAC donors was reported to be \$59 billion in 2011, though the Hudson Institute, a leading analyst of such data, considers this underreported.¹⁴

Two of the institutions that have done detailed studies of giving in rapidly-growing economies are the Hudson Institute's Center for Global Prosperity and WINGS. The Hudson Institute has begun an in-depth analysis and comparison of Brazil, China, India and South Africa. These four nations have become deeply involved in foreign assistance not only through government aid but also through private investment, philanthropy, and remittances. Compared to their ODA-type flows which reached a maximum estimate of \$3.7 billion, according to World Bank data, remittances from these countries to developing countries amounted to \$14.2 billion in 2011. And the Center for Global Prosperity estimates another \$366 million was philanthropic contributions to international causes in the developing world.¹⁵

The estimated figures for philanthropy are particularly difficult to accurately measure. The Hudson Institute has spent years developing partnerships and methodologies to capture it as accurately as possible for at least a target number of key countries.¹⁶ Official statistics reported to the OECD consistently underreport philanthropy and other private flows (some countries do not measure private giving at all, and others underestimate the level). To illustrate this, according to the Hudson Institute, Japan's private philanthropy to international development causes amounted to \$5.51 billion in 2010, the most recent year data is available, a value significantly greater than the \$467 million reported by the Japanese government to the OECD. *Since more effective coordination rests in part on accuracy of data, philanthropy's contributions to international development should be better measured; and thus the work being done now by Japanese researchers to fully capture private international giving is potentially a model for other countries to follow.*

Philanthropy as a Sector

The figures above include all private giving including that directly from citizens to NGOs. Philanthropy as *organized giving through a legal and organizational "home"* is a subset of that, and the most common institutional structure for philanthropy is foundations.¹⁷ In the US, which has the highest level of giving domestically and internationally, there are 90,000 foundations registered, with the top 1,122 foundations accounting for nearly half of all foundation giving.¹⁸ Total US foundation giving is now about \$51 billion per annum, with endowments valued around \$670 billion (most of these funds are not used toward charitable purposes).¹⁹ International giving constitutes about 25% of total US giving (combining grants made to U.S. organizations for international programs as well as grants made to organizations in other countries).²⁰ While U.S. foundations must publicly disclose grant-level information about their giving, that information is often incomplete and requires further cleaning and research before it is truly useful. *In most other countries, foundations are not required to disclose such information, making the challenge of collecting it even greater.*

Remittances

Remittances are sometimes considered a form of philanthropy and form a large share of today's private flows. In 2013 over 230 million people were living outside their countries of birth (another 700 million or more were internal migrants).²¹ Officially recorded remittances to developing countries alone were estimated at \$404 billion in 2013, and expected to reach \$436 in 2014. The result - remittances sent home by migrants to developing countries are equivalent to more than three times the size of ODA.²² Remittances contribute greatly to developing economies through income transfers that reduce poverty, increasing health and education expenditures at the household level, enabling families to expand their linkages into the formal financial sector, reducing the need for child labor, building financial and social resilience to household- or community-level stresses and shocks, and improving access to information and communications. They generate knowledge, skills and expertise in the individuals who move, with the diaspora community representing an important course of knowledge, trade and other benefits for the sending the receiving country.²³ In 2013, India was the top destination country for officially recorded remittances (\$70 billion), with the next three highest being China (\$60 billion), the Philippines (\$25 billion), and Mexico (\$22 billion). Remittances are often a larger share of national GDP, though, in smaller and lower income countries, such as Tajikistan (52%), Kyrgyz Republic (31%), Nepal and Moldova (both 25%), and Samoa and Lesotho (both 23%). In terms of where funds originated, the largest sending country is the US, with about 23% of the total.²⁴

Building Trust and Effectiveness of Philanthropy and Civil Society

As official development actors take stock of their achievements and lessons learned in implementing the MDGs, an entirely separate process of analysis and reflection is taking place across hundreds of institutions made up of, and supporting, philanthropy. For example, the Global Philanthropy Leadership Initiative (GPLI) launched by three partners - the US-based Council on Foundations, the WINGS network (Worldwide Initiative for Grantmaker Support), and the European Foundation Center (EFC) – has developed new models of cross-border collaboration, a framework towards strengthening partnerships between foundations and multilateral organizations, and a project to address regulatory obstacles to cross-border philanthropy. The EFC and Council on Foundations developed two sets of guidelines aimed at informing foundations' international work: *Disaster Grantmaking: A Practical Guide for Foundations and Corporations* and *Principles of Accountability for International Philanthropy*. The Charities Aid Foundation (CAF) advises on and distributes charitable funds around the world, with offices in nine countries.²⁵ These initiatives highlight a steady growth of foundation involvement in international development and increasing interest in engaging with multilateral organizations and bilateral donors around shaping long-terms policies, providing input on the design of development programmes, testing ways to leverage each other's comparative advantages vis-à-vis governments, and identifying opportunities for scaling up successful initiatives and innovations on the ground.

An ingredient of enabling philanthropy to engage more meaningfully in development cooperation is the need to build trust not only in the role of philanthropic institutions, but in civil society more broadly. The Hudson Institute in 2013 completed a pilot study of 13 countries' philanthropic freedom or ease of giving, demonstrating that ease of giving can be successfully measured, and countries ranked and compared on their philanthropic freedom.²⁶ There must be trust that civil society is a force for good in society and that individual organizations are worth funding, making good use of money and achieving their stated goals. Building trust in civil society is, importantly, part of the role of government, not just the role of civil society organizations and philanthropy, who must share data transparently and hold themselves accountable to public scrutiny. Such trust must be earned. Governments have a key role to play by helping civil society to earn that trust from society, but not by excessive regulation, registration, and reporting requirements, which can be counterproductive. Excessive control has been shown to discourage philanthropic giving, both domestically and across borders. The more governments exert control, the more suspicious the public becomes. *Where governments create an enabling environment for civil society by establishing a regulatory environment that is clear, accessible, impartial, and not overly burdensome, philanthropy and civil*

society can become true partners in the development of prosperous and inclusive societies.

The Role of Philanthropy in Emerging Markets

Philanthropy as an expression of human generosity exists in every culture, and is reflected in most of the world's cultures and religions. It is not dependent on wealth or institutional structures, but greater wealth has inevitably led to expanding levels and types of philanthropy. Jenny Hodgson of the Global Fund for Community Foundations has noted that the growth of local philanthropy is not just a response to tighter North-South aid flows, but also a recognition of the shortcomings of mainstream development, with its issue-based silos, short-term project horizons, and upward accountability to external donors. She notes that locally-funded initiatives can “take more holistic, long-term and flexible approaches that can develop community resilience and social cohesion.”²⁷ Given the focus of this paper on philanthropy playing a growing role in development cooperation, the sections below focus on *organized and registered philanthropy* as it exists across the global South.

Over 80 countries have doubled their per capita growth rates in the 2000s compared to only 12 countries doubling in the 1990s, according to the OECD.²⁸ The number of middle-class people globally is projected to grow by 165% between now and 2030, the anticipated period of the Sustainable Development Goals, with their spending power growing by an estimated 161%.²⁹ About 70% of this growth is expected to occur in countries outside the US and Europe. After emphasizing the importance of building trust within societies, the Charities Aid Foundation has noted that, were the middle classes to donate an average of 1% of their annual spending to charity by 2030, they would contribute an estimated \$550 billion to civil society per year.³⁰

Key Philanthropic Institutional Actors in the South

In many developing countries the existence of an organized charitable sector, not just philanthropy, is relatively new. It varies widely across developing regions. The fast-paced growth of wealth across the developing world has enabled accumulation by individuals and corporations who are now giving back through organized philanthropy, moving from what was very common personalized giving (to family, religious institutions or the local poor) to more formalized structures of giving. The most common form, as in high-GDP countries, is foundations. The term foundations generally refers to not-for-profit organizations that are asset-based and have a stated purpose, with an established income source, usually either endowed with a corpus which is used for grantmaking or operational programs, or income that combines public fundraising with some level of endowment or earned income.³¹ Foundations can be private, public, family-run, corporate, or community foundations; and other philanthropy vehicles include donor-advised funds, direct giving, impact investing, giving circles, family governed operating organizations and social enterprises, planned giving instruments, and corporate giving by a family business.

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