

Global Philanthropy and Remittances: Reinventing Foreign Aid

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not supplanted, by public-private partnerships. The roles played by business, govern-

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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.

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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.

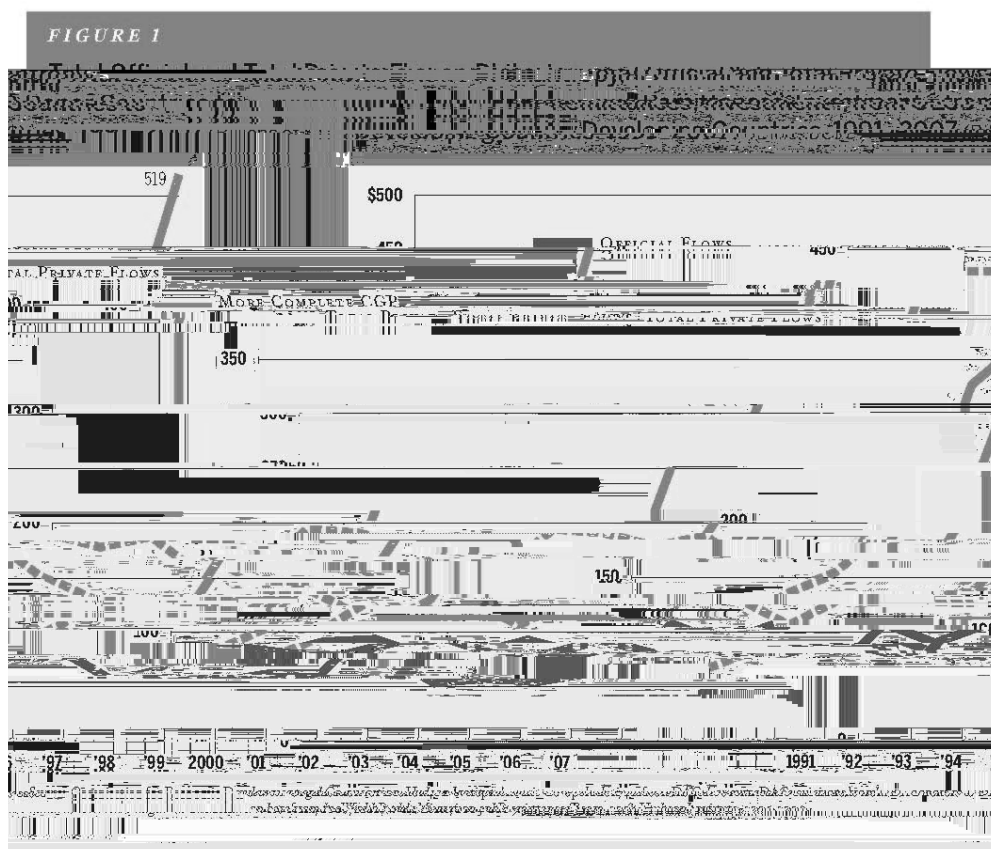
The landscape of private philanthropy that has emerged was unimaginable just a decade ago. To understand the effect that private philanthropy is having around the world, it is necessary to understand the various forms it takes, just how much money is involved, and what private philanthropy can do that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

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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.



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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

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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

