

# THE ROLE OF PRIVATE ASSISTANCE IN INTERNATIONAL DEVELOPMENT

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## I. INTRODUCTION

Private development assistance (PDA) is quietly revolutionizing international development. This paper will examine this phenomenon as well as the potential benefits and drawbacks of increased private assistance in international develop-

to new ways to better the welfare of the poor around the world.

This Article will detail the size and scope of all private financial flows from the Organisation for Economic Co-operation and Development's (OECD) Donor Assistance Committee (DAC) donor countries to the developing world, including private investment, remittances, and private philanthropy. This Article will also offer a definition of private development assistance and suggest tools for transparency that will maximize the benefits of private development assistance. It will also argue that the combination of an increase in indigenous participation in development planning and implementation and the increase in the sources and quantity of private funding are creating a new development paradigm that threatens the entrenched development bureaucracy. The new development model, however, also faces the challenge of producing results and avoiding the limitations of traditional development models.

## II. SIZE AND SCOPE OF PRIVATE FINANCIAL FLOWS

To understand the increased role of PDA, it is important to understand the size and scope of private financial flows. Since 2003, the Center for Global Prosperity (CGP) at the Hudson Institute has published *The Index of Global Philanthropy and Remittances*, which is the only comprehensive report measuring the sources and magnitude of private financial flows from developed countries to the developing world.<sup>1</sup> In 2008, (the latest available numbers) ODA represented only 25.4 percent of donor nations' economic engagement with the developing world, while private financial flows, which include private investment, remittances, and private philanthropy accounted for the remaining 74.6 percent.<sup>2</sup> This Article defines private development assistance (PDA) as cross-border transfers of cash, grants, loans, in-kind contributions, or volunteer time to individuals, NGOs, or governments ultimately residing in Part 1 of the DAC List of Aid Recipients (developing countries). Private assistance is further limited to aid that is: (a)

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1. CTR. FOR GLOBAL PROSPERITY, HUDSON INSTITUTE, *INDEX OF GLOBAL PHILANTHROPY AND REMITTANCES* (2010), [hereinafter CTR. FOR GLOBAL PROSPERITY].

2. *Id.* at 13

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undertaken by private actors including individuals, foundations, corporations, private voluntary organizations, universities and colleges, or religious organizations; (b) with promotion of economic development and humanitarian need as the objective; and (c) at concessional financial terms where commodities and loans are concerned.

As seen in Figure 1<sup>3</sup>, private capital flows to the developing world spiked beginning in 2003, reaching the unprecedented level of \$325 billion by 2007. These private capital

FIGURE 1  
OFFICIAL, PRIVATE INVESTMENT, PHILANTHROPIC , AND  
REMITTANCE FLOWS FROM OECD DONOR COUNTRIES TO  
DEVELOPING COUNTRIES, 1991–2008 (B

flows include investments and lending on market terms, such as direct investment, private export credits, securities, bank credits, and other private transactions with DAC recipient countries. In 2007, the United States accounted for 30 percent of all donor nations' private investment in the developing world, at \$97.5 billion, a 56 percent increase from 2006. As a result of the global financial crisis and a sharp decline in bilateral portfolio investment, private flows declined significantly in 2008. The banking crisis caused many lending institutions to pull their short-term investments out of developing countries and decrease their lending activities, causing an overall decline in capital flows. It should be noted, however, that the declines were not the result of large decreases in foreign direct investment. The three private financial flows—philanthropy, remittances, and private capital investment—from all donor countries totaled \$355 billion in 2008, still almost three times greater than ODA.<sup>4</sup>

The growth in private investment has had important multiplier effects. It has generated interest in social investments in small and medium enterprises (SME) and micro-finance (MF) funds in African frontier markets and other emerging economies. Altruistic motives are often the glue that holds these investments together. Social investors willingly accept a lower financial return on a for-profit investment, provided that social returns such as job growth, increased wages, or life-skills training are part of the return.

There are challenges, however, with these socially motivated funds. SME funds are complex and offer wide-ranging returns. These funds face a challenging financing environment given the economic downturn, and they must clear costly barriers to entry, such as burdensome regulatory hurdles posed by governments in frontier markets. But optimistic fund managers like Rodney J. MacAlister, who heads the Africa Middle Market Fund, see these funds as one of the best "bottom up" ways to create long-term economic and social change in frontier markets. MacAlister projects that, in ten years,

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4. *Id.* at 13.

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parts of Africa will be a profitable mainstream investment option.<sup>5</sup>

Remittances, the money that migrant workers send home to their families, are another important source of private financial flows to the developing world. Migrant workers continue to send remittances home to the developing world in record amounts. As seen in Figure 1, developing countries received \$181 billion from immigrants working in DAC donor

the local, state, and federal level in the popular 3x1 program.<sup>9</sup> The success of this program attracted Western Union to offer an additional match, creating the 4x1 program.<sup>10</sup>

After private investment and remittances, philanthropy accounts for the smallest volume of the three private financial flows.<sup>11</sup> However, its explosive growth in the United States and its relative size compared to U.S. ODA is changing the aid framework in the United States, and as a result, the rest of the world. In addition, private philanthropy is demonstrating an innovative influence in the wider context of all financial flows, as evidenced by the growth of social investment, the donative activities of remitters, and the rise of public-private partnerships in international development. Secretary of State Hilary Rodham Clinton created the Global Partnership Initiative to coordinate U.S. government efforts with the private sector as a result of this growth:<sup>12</sup>

“There is potential for fruitful partnership between our government and the dozens of American universities, laboratories, private companies, and charitable foundations that chase and fund discovery. . . . And these efforts have not been the work of government alone—which, most people don’t realize, contributes only about one percent of our budget to foreign assistance. The balance is made up by the generous spirit of Americans and is reflected across our nation’s landscape, from farms to civic groups to churches to charities. Over the years, the American people have opened their hearts and wallets to causes ranging from eradicating polio in Latin America to saving the people of Darfur, to helping people who are poor in

9. Rodolfo Garcia Zamora, *Collective Remittances and the 3x1 Program as a Transnational Social Learning Process*, Paper Presented at the “Mexican Migrant Social and Civic Participation in the United States” Conference, (Nov. 4-5, 2005), available at <http://www.wilsoncenter.org/news/docs/garciazamorafinal1.pdf>.

10. Press Release, Western Union, *Western Union Expands Initiative to Promote Community, Economic Development in Mexico; Mexican State of Michoacan the Second State to Benefit from 4x1 Program* (June 23, 2006) <http://ir.westernunion.com/press/releasedetail.cfm?ReleaseID=219081>.

11. Fig. 1, *supra*. See also *CTR. FOR GLOBAL PROSPERITY*, *supra*note 1, at 14 fig. 4.

12. U.S. Department of State, *Global Partnership Initiative*, <http://www.state.gov/s/partnerships/> (last visited May 21, 2010).

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Asia purchase livestock, to investing in microenterprise. This private giving exceeds the amount our government spends on foreign assistance!<sup>13</sup>

As seen in Table 1, Americans gave \$37.3 billion to charitable causes in the developing world in 2008, almost one and one-half times more funding than U.S. ODA for the same period.<sup>14</sup> The bulk of charitable activity in the United States is in the form of small gifts from individuals, channeled through foundations, private and voluntary organizations (PVOs), volunteerism, and religious organizations.<sup>15</sup> Corporations, as well as universities and colleges, also make meaningful contributions to developing countries, often in the form of in-kind contributions, as well as scholarships and fellowships.<sup>16</sup> U.S. private philanthropy, as seen in Table 1, is a measurement of the giving in all six of these areas.

Independent, community, and grant-making foundations in the United States gave a total of \$4.3 billion to developing countries in 2008.<sup>17</sup> Foundations are continuing to focus on making giving more effective and sustainable. Several major foundations, such as the Mellon Foundation and Duke Foundation, are providing funding to develop indigenous research capacity in developing countries so that public policy can be informed by the work of local scholars.<sup>18</sup>

Further, Table 1 shows that private and voluntary organizations contributed \$11.8 billion in private funding to the developing world in 2008 to foster economic development, address social needs, provide disaster relief, assist refugees, promote human rights, and implement environmental programs.<sup>19</sup> New Internet-based giving platforms like Global Giving and Kiva.org, which allow donors to micro-direct their

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13. Secretary of State Hillary Rodham Clinton, Transcript of Remarks, Center for Global Development (Jan. 6, 2010) <http://www.cgdev.org/doc/2009/Clinton%20Transcript2.pdf>.

14. Tbl. 1, *infra*. Table 1 is reproduced from CTR. FOR GLOBAL PROSPERITY, *supra*note 1, at 12 tbl. 1.

15. *Id.* at 12.

16. *Id.* at 32.

17. Tbl. 1, *supra*.

18. CTR. FOR GLOBAL PROSPERITY, HUDSON INSTITUTE, INDEX OF GLOBAL PHILANTHROPY AND REMITTANCES (2009), at 24 [*Hereinafter* 2009 CTR. FOR GLOBAL PROSPERITY].

19. Tbl. 1, *supra*.





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percent to disaster relief, 26 percent to economic development activities, and the remainder to democracy and governance, health and education.<sup>22</sup>

While not a financial flow per se, Americans continue to be generous with their time as well as their money. Americans contributed an estimated \$3.6 billion worth of volunteer time in 2008 for relief and development causes abroad and for international assistance causes in the United States<sup>23</sup>. According to the Census Bureau, more than 1 million Americans traveled abroad in 2007 to volunteer. The most popular volunteer destinations are Latin America and Africa, and increasingly volunteers are participating in “voluntourism” or “volunteer vacations” that combine travel and service<sup>24</sup>

U.S. corporations are major players in private philan-

totaled \$8.2 billion in 2008.<sup>30</sup> Religious giving plays a large role in American assistance to the developing world. Nearly three-quarters of U.S. religious congregations give directly to U.S.-based international relief and development organizations; just over one-quarter contribute directly to programs in foreign countries; one-third of congregations report that members went to foreign countries on short-term service trips; and just under one-third report support for long-term mission trips for relief and development.<sup>31</sup>

Americans are also generous in their support of international students. Table 1 shows that American support for international students totaled \$1.7 billion in 2008.<sup>32</sup> Among the sources of funds are U.S. colleges and universities and private sponsors such as foundations, businesses, and religious organizations.<sup>33</sup> American students are also volunteering their time to causes abroad in the form of alternative spring breaks that give students an opportunity to volunteer for international development projects and student-run charities such as the Vassar Uganda Project, which raises money to bring medical supplies and training to impoverished areas of Uganda.<sup>34</sup>

The United States is not alone in the generosity of private citizens and private organizations. As illustrated in Figure 2,<sup>35</sup> private philanthropy from all donor nations reached \$48 billion in 2008.<sup>36</sup> Total private giving from all DAC countries, excluding the 7 Tw [( Tottttttttitizens a1 0 udents t0 Tw)]TJ9ITD 0.1\$10 6led \$8.2 billion in







where to direct their resources, beneficiaries would have a greater voice and more opportunities for collaboration, and competition and innovation would increase.

## V. CHALLENGES AND OPPORTUNITIES FOR PRIVATE DEVELOPMENT ASSISTANCE

### A. Indigenous and Diaspora Efforts

There are a number of challenges and opportunities for PDA. One of the most promising opportunities in development today is the rise of indigenous and diaspora philanthropy and the emerging voice of Africans demanding greater participation in development planning and implementation. These new assets and voices encourage local ownership and initiatives, peer-to-peer approaches, self-reliance, and feedback.

Research is showing that local ownership, peer-to-peer approaches, and other factors encouraging self-reliance are crucial to successful projects. Carol Adelman and Nick Eberstadt completed a thorough review of USAID's Impact Evaluation Series alongside other projects by funded by USAID, the World Bank, foundations, and corporations that were found to have measurable impact.<sup>44</sup> They determined that successful projects featured collaboration between U.S. and developing-country institutions, especially private institutions. They identified nine characteristics and principles of foreign aid projects that work: local ownership and initiative; partnership; leverage; flexibility; peer-to-peer approaches; technology adaptation and adoption; self-reliance; continuous information feedback; and risk.

Encouragingly, indigenous and diaspora philanthropy are creating local assets to address local needs in the developing world. Community foundations are being organized across the developing world; there were seven in Africa with almost

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granted within the same countries. HTAs, migrant professional associations, and newly formed student diaspora organizations like Harambee Endeavor formally and informally transfer the time, talent, treasure, and social capital of international students and migrants to benefit communities in the developing world.<sup>46</sup>

The growth of indigenous philanthropy has been paralleled by the emergence of indigenous voices calling for a greater role in how philanthropy is planned and managed. Dambisa Moyo, author of *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*,<sup>47</sup> has brought attention to existing calls for a greater African voice in aid delivery to the continent. Her call for “a generous dose of honesty about what works and what does not as far as development is concerned” has been roundly criticized by development elites<sup>47</sup> But she counters that foreign aid fosters corruption, dependency, and poor government, limiting opportunities for entrepreneurship and disenfranchising African citizens.<sup>48</sup>

Key players in African development are increasingly calling for serious changes in the way aid is planned and distributed. Rwandan President Paul Kagame echoes Moyo’s belief in the crippling effects of long-term aid dependence:

It is my view that more African voices need to be heard in this debate—it is time that we delink the survival of our continent from aid by using it properly to create a solid base and preconditions for a future without it. . . . [B]ut it cannot become a long term substitute for business, investment, innovation and hard work.<sup>49</sup>

Clearly Africans understand that the existing aid paradigm needs to change. Ghanaian economist George Ayittey notes:

The ‘more aid for Africa’ campaign has become so steeped in emotionalism, overt racial sensitivity, and guilt (over colonial iniquities) that pragmatism, rationality, and efficiency have been sacrificed. So

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46. The Harambee Endeavor, Our Challenge, <http://hendeavor.org/content/about/mission.php> (last visited May 21, 2010).

47. DAMBISA MOYO & NIALL FERGUSON, *DEAD AID* 154 (2009).

48. *Id.* at 52-53.

49. Paul Kagame, President, Rep. of Rwanda, Keynote Speech at Nelson Mandela Foundation’s Promise of Leadership Dialogue (Mar. 20, 2009).

many Western governments, development agencies, and individuals have tried to help a continent and its people that they do not understand. More than \$450 billion in foreign aid—the equivalent of six Marshall Plans—has been pumped into Africa since 1960, with negligible results.<sup>50</sup>

Ayittey deplores the generation of “hippos”—the corrupt and complacent leaders he says have ruined postcolonial Africa—and celebrates the up-and-coming, agile generation of “cheetahs” who are taking Africa’s future into their own hands.<sup>51</sup>

#### B. Diversity of Funding Stream, Independence, and Appetite for Risk

This section will examine the diversity of funding streams and the risks and benefits of these diverse funding streams. One of the biggest strengths of private development assistance, and philanthropy in particular, is the diversity of funding streams it creates, which thereby produces large charitable resource flows. Just over half of the \$37 billion given to developing countries from the United States in 2008 came from millions of small individual donors through religious organizations and PVOs.<sup>52</sup> The \$4.3 billion given by foundations was awarded from a pool of 1,490 of the nation’s largest foundations.<sup>53</sup> These diverse funding streams represent the plurality of values and motivations of U.S. donors and can support a range of innovative projects in developing countries to approach problems from many angles. The most innovative solutions can then be scaled up through sustainable grassroots projects and public-private initiatives.

The downside of diverse funding streams is that they may dilute the ability of individual private actors to approach large-scale, complex problems in a top-down and scalable way. Ac-

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50. George B.N. Ayittey, *Poverty: Can Foreign Aid Reduce Poverty?* In *No Controversies in Globalization: Contending Approaches to International Relations*



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ording to Jeffrey Sachs' review of five efforts that met his definition of successful development assistance, reliable funding and the ability to take projects to scale were among six characteristics and principles of development interventions that worked.<sup>54</sup>

There are other benefits to the diversity of funding streams. One unique benefit of private development assistance is its ability to fund projects that governments cannot fund but that make an important contribution to a vibrant civil society, such as religious institutions and controversial civil society organizations. It also can take risks that governments are reluctant to accept.<sup>55</sup> However, as incentives increase for private development actors to undertake public-private partnerships with government actors, there will be a challenge for private assistance to retain its unique strengths of independence, appetite for risk, and flexibility while co-investing with less flexible ODA partners who have equity and political constraints.

### C. People-to-People Connections

There is another important role for private philanthropy that involves the connections people make through private giving. Charitable causes allow people to make people-to-people connections in ways that governments cannot. This is a major reason for the dramatic increase in giving to the developing world. New charitable tools, like the online portals Kiva.org or GlobalGiving.com further remove the distance between the donor and beneficiary. In many ways, private philanthropy is a non-rational capital market in which people make decisions with their hearts instead of their heads; this is one of its strengths—and a potential challenge.

Raj Desai and Homi Kharas recently confirmed the power of people-to-people connections in their study of Internet-based giving platforms Kiva.org and Global Giving. They

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54. Jeffrey Sachs, *Poverty: Can Foreign Aid Reduce Poverty?* in *CONTRADICTIONS IN GLOBALIZATION*, supra note 50, at 78-79. The five efforts reviewed

found that private contributors act differently from governments when making decisions about where to give money. Americans who give generally try to understand the situations of people in need.<sup>56</sup> Matt Flannery, founder of Kiva.org, also recognized the power of information and empathy, "When understanding increases, so does generosity. People are inherently more generous towards people and causes they understand."<sup>57</sup>

These connections, however, do not guarantee results. The challenge for intermediary organizations is that if philanthropically inclined individuals care more about the connection with an individual in need and less about demanding accountability, the success of the collective efforts of the institutional intermediaries is measured by volume of dollars, not necessarily by lives changed or needs met. Without having to produce evidence of change, the private institutional intermediaries could find themselves in jeopardy of becoming like the ODA, accomplishing few measurable results while squandering resources over long periods of time.

Connection-based giving also raises the concern that donors may contribute only as long as they are moved by a cause. Once they are inured to the touching story, lose connection with the beneficiary, or conclude that the problem is hopeless, they may give somewhere else or stop donating altogether. Organizational accountability, however, may be essential to avoiding donor fatigue while also addressing the concern, discussed *supra* that intermediary organizations are at risk of being absolved of responsibility. A study examining the retention behaviors of donors participating in low-value monthly contribution commitment programs found that knowledge of how the organization had fulfilled its mission was a key element for donor retention.<sup>58</sup> Intermediaries and PVOs will nurture longer-term donor relationships when they produce evidence of lives change and gather data on results. The absence of this stewardship may threaten the long-term viability

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56. Desai & Kharas, *supra* note 21.

57. Homi Kharas, U.S. Private Philanthropy, *J.P. FRONT BLOG*, Nov. 2, 2009, [http://www.brookings.edu/opinions/2009/1020\\_private\\_philanthropy\\_kharas.aspx](http://www.brookings.edu/opinions/2009/1020_private_philanthropy_kharas.aspx).

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of their donor base and ultimately compromise their altruistic mission.

## VI. CONCLUSION

As detailed in this paper, there are many potential benefits to the increasing flow of ODA, as well as some downsides. One of the great hopes of PDA in the United States is that the sheer size of the private flows will force changes in the way that foreign aid is delivered. There is consensus that a new model is needed for foreign aid, and there is hope that requiring foreign assistance to leverage private aid will add a much-needed market test that might lend transparency, accountability, and sustainability to ODA.

As noted above, however, PDA is unlikely to be a panacea. For one thing, if rigorous evaluation and transparency mechanisms are not developed, it may fall into many of the same traps that bedeviled ODA. Private development assistance actors must find a way to make their efforts sustainable and scalable without losing the strengths of the diverse and innovative funding streams currently making their way around the world. Although private development assistance actors are also largely committed to leveraging their contributions to the developing world by working with local actors in people-to-people, grass-roots efforts, more progress must be made in including the voices of local actors in the planning and delivery of both public and private aid. The past decade has offered us a glimpse of the power of private development assistance, but harnessing that power for the long-term alleviation of poverty remains a work in progress.

