

Robert Marten · Jan Martin Witte

Transforming Development?

The role of philanthropic foundations in
international development cooperation

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www.gppi.net

Global Public Policy Institute

Reinhardtstr. 15
10117 Berlin · Germany

Tel +49-30-275 959 75-0

Fax +49-30-690 88 200

E-Mail gppi@gppi.net

Web www.gppi.net

About the authors

Jan Martin Witte is Associate Director of the Global Public Policy Institute (GPPi) and also Managing Director of GPPi Consulting. His areas of expertise include international organizations, non-state actors in global governance, international development policy and energy governance. Jan Martin holds a Ph.D. and M.A. in International Relations and International Economics from the Nitze School of Advanced International Studies of Johns Hopkins University. He also received a Diploma in Political Science from the University of Potsdam (Germany).

Robert Marten is a Research Assistant with the Global Public Policy Institute, Berlin. He is currently a MPP Fellow at the Hertie School of Governance. His research interests focus on international development, international organizations, transatlantic relations, public health and global governance. Robert holds a BA (Honours History and Political Science) from McGill University in Montreal, Canada.

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1. Introduction

When Warren Buffett donated \$30 billion to the Bill and Melinda Gates Foundation in 2006, many commentators heralded the arrival of a new age of private philanthropy in the Carnegie and Rockefeller tradition.¹ Yet, whereas Carnegie set up libraries across the United States, the Gates Foundation funds global health initiatives in places like Senegal, China and India, the Google Foundation funds worldwide renewable energy sources and the Gordon and Betty Moore Foundation funds international environmental conservation.

The new philanthropy is not only global, but is also increasingly being seen as a significant player in international development. Some observers have even claimed that the scale of private donor engagement may even rival or overtake that of official development assistance.² Other observers might argue that this private philanthropic engagement has always been there, but has been greatly overlooked; in fact, no less a commentator than Jeffrey Sachs recently noted that, “[t]he Rockefeller Foundation was the world's most important development institution of the 20th century, and the Gates Foundation can be that of the 21st century.”³

The international engagement of foundations is indeed impressive. Accordingly foundations have earned not only much attention from the media, but have also come under increasing scrutiny from traditional donors.⁴ For example, British, French and German development agencies have recently commissioned studies to better understand the challenges and opportunities of foundations' engagement in the developing world.⁵ Despite this emerging dialogue around foundations' philanthropic efforts, the role of foundations in development and the implications for the international aid architecture remain unclear. Because of a dearth of systematic data, the discussion on foundations in international development is still in its initial stages. Nonetheless, this short study seeks to bring some clarity and structure to the discussion and move the debate forward for policymakers in both foundations and donor agencies.

¹ Fleishman, Joel. *The Foundation: A Great American Secret; How Private Wealth is Changing the World*. New York, Public Affairs: 2007, Pages xi-xiv.

² Kharas, Homi. *The New Reality of Aid*, presented at Brookings Blum Roundtable 2007 in Brookings Institute, Washington, DC, 1 August 2007.

³ Boulton, Leyla and James Lamont. *Private wealth 'can eclipse G8 in fighting poverty'*. 9 April 2007, Financial Times. http://www.ft.com/cms/s/0/3ad405a0-e637-11db-9fcf-000b5df10621.html?nclick_check=1 (Accessed on 5 April 2008).

⁴ See for example, Heim, Kristi. *Gates Foundation faces multibillion-dollar dilemma*. 14 January 2007, The Seattle Times. Accessed on 7 December 2007, http://seattletimes.nwsourc.com/html/localnews/2003524534_gatesmoney14m0.html and Thomas, Jr. Landon. *A New Breed of Billionaire*. 14 December 2007, New York Times. <http://www.nytimes.com/2007/12/14/business/14billionaire.html?pagewanted=all> (Accessed on 6 April 2008).

⁵ Respectively, these are MacArthur, Tessa. *The Scaling up of Private Philanthropy: Implications for Development Outcomes* Mimeo. London: DFID, 2006; Chervalier, Benoît and Joseph Zimet. *American Philanthropic Foundations: Emerging Actors of Globalization and Pillars of the Trans-Atlantic Dialog*. Agence Française de Développement, 2006, and Witte, Jan Martin. *Private Geber in der internationalen Entwicklungszusammenarbeit: Trends und Herausforderungen*. Mimeo. Berlin: Global Public Policy Institute (GPPi) 2008. See also Scott, Simon et al. (2003), *Philanthropic Foundations and Development Co-operation*, in: *DAC Journal* Vol. 4, No. 3.

This study is based on an extensive literature review from both academic and media sources, as well as close to thirty expert interviews with foundation policymakers, official donors and other relevant institutions.⁶ It will refer to “foundations” and “traditional donors” or “official donors.” “Foundations” should be understood to refer to independent foundations, corporate foundations, and/or community foundations. “Traditional donors” and “public donors” will be used synonymously to refer to bilateral or multilateral institutions that disburse government funding for international development.

For legal and tax reasons, the term “foundation” is defined quite differently around the world. For the purposes of this study, however, foundations minimally:

- are not profit oriented;
- are not part of the public sector;
- use their own financial resources (unlike NGOs);
- are led by an independent Board of Trustees or CEO;
- aim to face issues for the common good (for example, development, environment, etc.)

The operational setup of foundations is extremely diverse. Broadly speaking though, foundations can be classified into two groups:

1) Foundations as grant-makers finance projects and programs which are implemented by other actors (typically NGOs);

2) Foundations as operational actors finance and implement their own projects and programs, either alone or in cooperation with other actors.⁷

This study specifically does not deal with corporate social responsibility engagement from business, nor does it focus on the development activities of national and/or international NGOs⁸, or innovations in individual giving.⁹ This study also does not examine foundations financed by governments, such as the German political foundations.¹⁰ Rather this study focuses on the role of American and European foundations working in international development.¹¹

⁶ At the request of some interview partners, citations from individual interviews have been made anonymous; however, a list of all interview partners follows this study in Annex 1.

⁷ It should be noted that many foundations that are active operationally, also act as grant-makers, e.g. the German Marshall Fund of the United States.

⁸ It should be noted that some businesses conduct their CSR through foundations, for example, the Shell Foundation.

⁹ For example, see Kiva, <http://www.kiva.org/>, or Mama Cash, <http://www.mamacash.org/> (Both accessed on 9 April 2008).

¹⁰ The main four German political foundations are the Friedrich-Ebert Foundation, <http://www.fes.de> (Accessed on 9 April 2008), the Konrad-Adenauer Foundation, <http://www.kas.de> (Accessed on 9 April 2008), the Heinrich Boell Foundation, <http://www.boell.de/> (Accessed on 9 April 2008), and the Friedrich Naumann Foundation, <http://www.fnst-freiheit.org> (Accessed on 9 April 2008).

¹¹ This is not to exclude the fact that others have done interesting work on foundations in other parts of the world. For example, see Faath, Sigrid. *Islamisches Stiftungswesen und wohltätige Einrichtungen mit entwicklungspolitischen Zielsetzungen in arabischen Staaten* Hamburg, DOI: 2003.

With these definitions in mind, this study will focus on answering three questions.

- How much money do foundations disburse in which sectors and where is this money spent? To what extent is the attention foundation engagement has received in recent years matched by actual investment? (Chapter 2)
- To what extent do foundations bring a different approach to international development than official donors? How can that approach be characterized? What are the strengths and weaknesses of that approach? (Chapter 3)
- What are the consequences of foundations' involvement for the international aid architecture? (Chapter 4)

Finally, this study will conclude with some recommendations for both foundations and public donors to create better results for development. (Chapter 5)

2. Taking Stock—Assessing the scope and nature of foundation engagement in international development

Systematic data on foundation involvement in the developing world is difficult to find. While the World Bank writes that in 2005 private donors gave roughly \$4 to \$4.5 billion to international development, it is also quick to add that numbers and data looking at global philanthropy—and specifically philanthropic giving towards international development—must be handled extremely cautiously.¹² According to the World Bank, philanthropic giving “is significantly under-researched due to the lack of a world-wide data collection procedure.”¹³ This study focuses exclusively on philanthropic funding for development assistance.

The debate on the role of private donors is also frequently confused by the fact that some commentators and analysts conflate philanthropic, humanitarian and development assistance financing.¹⁴ Because the data is used for various different purposes and agendas, this treatment of the numbers is misleading.

This chapter seeks to assess the size of foundation engagement in international development disaggregated across countries and sectors, identify key players in the foundation world and highlight their funding priorities. Data for US foundations is compiled by the US Council on Foundations and the US Foundation Center, and periodic reports and publications present a reasonably solid overview of the engagement of US foundations.¹⁵ Data concerning European foundations is assembled by the European Foundation Centre.¹⁶ It is comparatively much less complete for many reasons, including the wide variety of legal requirements (or lack thereof) across the EU concerning financial reporting, on top of wide variances in defining “international work” and “international development.”¹⁷

¹² Sulla, Olga. *Philanthropic Foundations Actual versus Potential Role in International Development Assistance*. Mimeo. World Bank Global Development Finance Report Group, 2006.

¹³ Sulla, Olga. *Philanthropic Foundations Actual versus Potential Role in International Development Assistance*, op. Cit.

¹⁴ Kharas, Homi. *The New Reality of Aid*, op. Cit.

¹⁵ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*. US Foundation Center and The Council on Foundations, 2006.

¹⁶ *EFC 2007 Survey of European Foundations' and Corporate Donors' Funding for Global Development*. Mimeo. Brussels: European Foundation Center. (Not yet published).

¹⁷ In contrast to American philanthropic organizations, European foundations are not required by law to publish their tax returns. Except for minimal reporting requirements, European foundations are free to decide what and how much information they publish. Some associations have also drawn up voluntary codes of conduct that commit signees to publish more information. See e.g. European Foundation Centre (2007). *Principles of Accountability for International Philanthropy: An Aspirational Tool for International Donors*. Developed by a joint working group of the European Foundation Centre and the Council on Foundations (Brussels: EFC).

2.1 US Foundations

In the United States, the Council on Foundations estimates that there are 68,000 grant-making foundations which gave \$3.8 billion in 2005 for international development.¹⁸ This is, adjusted for inflation, a roughly 12 percent increase in giving over the previous year. Compared with growth in international giving in the late 1990s, this rise is relatively modest, and can be attributed mostly to three factors. First, the Bill and Melinda Gates Foundation increased its giving for its “Grand Challenges in Global Health Initiative”. Second, a relatively new giver, the Gordon and Betty Moore Foundation, saw its assets increase from \$93 million in 2002 to close to \$5 billion in 2003, and funded the new Andes-Amazon Initiative to conserve biodiversity. Third, foundations increased their giving for international humanitarian disasters.

Table 2.1 Top 15 US Foundations for international development giving in 2004¹⁹

Foundation	International Grant-giving in \$US
Bill and Melinda Gates Foundation	\$1,233,160,002
Ford Foundation	\$258,502,043
Gordon and Betty Moore Foundation	\$83,184,068
John D. and Catherine T. MacArthur Foundation	\$73,138,000
Rockefeller Foundation	\$72,306,649
William and Flora Hewlett Foundation	\$56,595,034
W.K. Kellogg Foundation	\$56,315,269
Freeman Foundation	\$53,456,718
Carnegie Corporation of New York	\$42,415,000
Starr Foundation	\$41,392,820
David and Lucile Packard Foundation	\$39,544,027
Andrew W. Mellon Foundation	\$37,741,100
Charles Stewart Mott Foundation	\$25,356,798
Lincy Foundation	\$25,037,847
Harry and Jeanette Weinberg Foundation	\$22,936,500

¹⁸ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*. op. Cit, Page 1.

¹⁹ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*, op. Cit, Page 6.

The table above shows the top fifteen US foundations for international giving in 2004. The most evident observation from this table is the dominant role played by the Bill and Melinda Gates Foundation; it is roughly five times the size of the second-largest Ford Foundation. With Warren Buffett's recent large donation effectively doubling the Gates Foundation, Gates' dominance is set to increase.

Funding is also heavily concentrated in a few sectors. Most significantly, an examination of overall international grant-giving in 2004 reveals that 49.1 percent of all international grant-making was spent in global health; 42 percent of the 49.1 percent spent on health was funding from the Bill and Melinda Gates Foundation.²⁰ The other half of grant-giving is focused on education, civil society and good governance, agriculture and the environment.²¹

It is also interesting to note that US foundations only invest about 20-25 percent of their spending directly with partners in developing countries.²² The remainder is programmed through organizations based in industrialized countries, most significantly in the US. According to interviewees, much like public donors, US foundations struggle with the complexities of finding suitable partners in least-developed countries.

Instead of reaching these countries, according to World Bank data, roughly 45 percent of US grant-giving goes to emerging developing countries like China, India, South Africa or Brazil.²³ Another 20 percent of money goes to "Global Programs" like the Global Fund for HIV/AIDS, TB and Malaria, from which much of the money may end up in some of the least-developed countries. The rest of the money is thinly spread around the world for various programs.

In summary, this brief review of available data suggests that international grant-giving from US foundations is dominated by a handful of big players. All projections suggest that international grant-giving by US foundations is set to increase steadily in the coming years. However, it is important to note, much like in recent years, this increase will continue to be largely driven by the Bill and Melinda Gates Foundation. In fact, if one discounts the Bill and Melinda Gates Foundation from 2002 to 2004, the dollar commitment by US foundations and the number of foundations working in international development has actually decreased.²⁴ Also, the number of grant-makers focused on international development stagnated during the past years. In particular, small and medium-sized foundations have discontinued their international programming; the total number of international foundations active in international development declined. The reasons for this are that many foundations lowered their giving because of the stock market's

²⁰ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*, op. Cit, Page 5.

²¹ Ibid.

²² Interview with a policymaker.

²³ Sulla, Olga. *Philanthropic Foundations Actual versus Potential Role in International Development Assistance*. Mimeo. World Bank Global Development Finance Report Group, 2006.

²⁴ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*. US Foundation Center and The Council on Foundations, 2006, Page 3.

2001 downswing and stricter government policies to stifle potential international transfers to terrorists.²⁵

And yet in the coming years, the Gates Foundation will not be the exclusive source of growth; others are also expected to drive an expansion of giving. For example, the Carnegie Corporation, along with several partners, is steadily expanding its Partnership for Higher Education in Africa, and the Ford Foundation is giving around \$100 million in expanding its International Fellowship Program and launching TrustAfrica, an Africa-based grant-making foundation.²⁶ The Google Foundation is also entering the fray, having recently made commitments to invest heavily in the development of renewable energy.²⁷

2.2 European Foundations

The OECD estimates there are roughly 85,000 organizations that could be classified as foundations; this number, however, should be viewed with caution.²⁸ There are extreme variations in the systems of classification across the EU; moreover, many of these organizations are operational, instead of grant-giving foundations like many in the United States. As there are not yet EU-wide stipulations or regulations on foundations, data for analyzing European foundations is incomplete at best. Nonetheless, the number of foundations has grown dramatically over the last years; this is to a large extent the result of law reform concerning foundations in many EU countries, which makes the creation of foundations attractive for tax purposes. Businesses have also started foundations for Corporate Social Responsibility (CSR) purposes.

The European Foundation Centre (EFC), an umbrella organization with more than 200 members, conducted a survey in the summer of 2007 (funded by the German Marshall Fund of the United States) to assess European foundations working in international development. The results of this survey show that of those foundations taking part in the survey, 24 percent funded programs with a development focus. The results highlight the fact that European foundations involved in international development spent around \$607 million in 2005; these investments were targeted at 126 countries, only 29 of which were so-called least developed nations.²⁹ (See the table below for a list of the top 15 foundations.) Available data and interviews conducted for this study suggest that European

²⁵ Interview with a policymaker.

²⁶ Renz, Loren and Josie Atienza. *International Grant-making Update 2006: A Snapshot of U.S. Foundation Trends*. US Foundation Center and The Council on Foundations, 2006, Page 7.

²⁷ For more on Google, see Rubin, Harriet. *Google Offers a Map for its Philanthropy*. 18 January 2008, New York Times. http://www.nytimes.com/2008/01/18/technology/18google.html?_r=1&oref=slogin&pagewanted=all (Accessed on 9 April 2008), Stone, Brad. *Google's Next Frontier: Renewable Energy*. New York Times. <http://www.nytimes.com/2007/11/28/technology/28google.html> (Accessed on 14 December 2007).

²⁸ Scott, Simon. *Philanthropic Foundations and Development Co-operation*. DAC Journal 2003. Vol. 4, No. 3, Page 58.

²⁹ *EFC 2007 Survey of European Foundations' and Corporate Donors' Funding for Global Development*. Mimeo. Brussels: European Foundation Center, 2007. (Not yet published.) For a definition of least-developed country, see, <http://www.un.org/issues/m-ldc.html> (Accessed on 9 April 2008).

foundations, much like their US counterparts, are heavily engaged in public health as well as higher education. Yet, most significantly the data also shows a striking difference in the overall level of international engagement of European vis-à-vis American foundations. Many interview partners made the point that they expect European involvement specifically in Sub-Sahara Africa to dramatically increase in the coming years. However, at this stage these claims cannot be corroborated by available data.

Top 15 European Foundation for international development giving in 2005³⁰

Foundation	Global Development Expenditure 2005 (EUR)
The Wellcome Trust	153,000,000
Deutsche Bank Corporate Social Responsibility	53,000,000
The Big Lottery Fund	35,250,000
Bernard van Leer Foundation	15,559,537
Shell Foundation	12,320,000
Sigrid Rausing Trust	12,219,000
Volkswagen Stiftung	11,100,000
Rabobank Foundation	10,335,114
The Swedish Foundation of Strategic Research	8,800,000
Gatsby Charitable Foundation	8,469,339
King Baudouin Foundation	7,545,633
Fondation Charles Leopold Mayer	6,500,000
Calouste Gulbenkian Foundation	6,074,916
Unidea/Unicredit Foundation	5,684,657
Fundacio "la Caixa"	5,600,000

2.3 Conclusion

Spending a total of between \$3 and \$5 billion annually in the past and upcoming few years, it is clear that international foundations are engaging in international development

³⁰ *EFC 2007 Survey of European Foundations' and Corporate Donors' Funding for Global Development.* Mimeo. Brussels: European Foundation Center, 2007. (Not yet published.)

work. Admittedly, this is a substantial amount of money on its own. However, this total funding committed to international development needs to be examined critically. First, the numbers alone do not allow any conclusions regarding the actual impact foundations may have in international development. Second, given that much of this total is fragmented geographically and sectorally, this amount of money should not be seen as one solid block of funding.

Foundation financial engagement should also be put into larger perspective. Some commentators have argued that philanthropic engagement will soon rival official development assistance (ODA).³¹ A review of the available data paints a somewhat different picture. Compared to the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee's (DAC) Official Development Assistance (ODA), which in the past few years has been slightly more than \$100 billion, \$3 to \$5 billion seems comparatively small.³² Total foundation financial engagement will not rival total ODA. Yet when one breaks down ODA into individual donor countries, and total philanthropic giving into individual foundations, another picture becomes clear. One foundation, namely the Bill and Melinda Gates Foundation, rivals and gives more than some donor countries. The Gates Foundation's approximately \$1.7 billion total disbursement in 2007 is larger than seven of the twenty-two member countries of the DAC.³³ Moreover, if one discounts debt relief and considers the anticipated rise in Gates Foundation disbursements because of the Buffett Gift, the growing importance of the Gates Foundation increases. While it needs to be remembered that the Gates Foundation is a great anomaly among foundations, given these facts, the Gates Foundation must be considered a significant development player.

Discounting the Gates Foundation and acknowledging that growth of the engagement of foundations in international development is set to increase, the growth may not be as large as many commentators appear to believe. There is no indication that this growth will be dramatic. Moreover, compared to the repeated promises of traditional donors to increase their ODA to 0.7 percent of GDP, which for some donors would mean potentially gargantuan increases in total dollars given, any potential growth in foundation giving appears rather marginal.

In conclusion, based on pure numbers of dollars dispersed for international development, foundations give significantly less than traditional donors. Despite the comparatively low

³¹ Kharas, Homi. *The New Reality of Aid*, presented at Brookings Blum Roundtable 2007 in Brookings Institute, Washington, DC, 1 August 2007.

³² However, upon further inspection, this \$100 billion ODA should also be seen as somewhat of a political number as well; for example, some scholars have argued that as low as \$38 billion of more than \$100 billion in 2005 was actually oriented towards long-term development projects and programs. See, Kharas, Homi. *The New Reality of Aid*, op. Cit.

³³ This figure of \$1.7 billion is the author's calculation; he started with the total 2007 grant payments number of \$2.007 billion given on the Gates Foundation website, <http://www.gatesfoundation.org/MediaCenter/FactSheet/> (Accessed on 9 April 2008), and added the total of US Program Grants, <http://www.gatesfoundation.org/UnitedStates/Grants/default.htm?showYear=2007> (Accessed on 9 April 2008), coming up with a total of \$304,892,917 for US Program Grants. To reach \$1.7 billion, the author subtracted this amount from the \$2.0007 billion total grant payments in 2007. A review of ODA in 2007, see *Table 3: Gross Official Development Assistance in 2007*, <http://www.oecd.org/dataoecd/27/55/40381862.pdf> (Accessed on 5 April 2008).

amount of financing, how can we explain the apparent disconnect between the attention that foundations in international development have received in recent years and the actual size of that engagement? Most likely various factors are at play. First, it appears that this attention reflects the entry of an exciting and new actor which comes into development with large resources, fresh expertise, and an interesting approach. Second, foundations benefit from the media attention garnered by individuals like Bill Gates and Warren Buffett which can inflate and exaggerate the role of foundation's work. One senior official at an American foundation referred to this as the "announcement effect", i.e. the effect of media interest in celebrities like Bill Gates amplifying foundations' role in international development. While financing coming from foundations may not, after all, be as large as perceived, the so-called announcement effect allows foundations to have an impact on the development agenda, and use the media to push interest on certain subjects, topics or locations. But looking at the quantitative picture is not sufficient for assessing the role of foundations in international development; indeed, as the Bill and Melinda Gates Foundation's outgoing CEO recently commented, "[u]ltimately, it doesn't really matter how big we are, how many dollars we have, or even how famous our founders are[...] The only thing that really matters is: Did we change the lives of those we wanted to assist".³⁴ To understand more fully the role and foundations in international development, it is essential to get a good understanding of their basic operating model and their strengths as well as weaknesses.

³⁴ Doughton, Sandi and Kristi Heim. *Gates Foundation head steps down*. 7 February 2008, The Seattle Times.
http://seattletimes.nwsourc.com/html/nationworld/2004169928_webstonecsiferr07.html
(Accessed on 5 April 2008).

3. Towards philanthrocapitalism? Assessing the business approach to philanthropy in international development

*“Many of the new philanthropists are well aware that traditional philanthropy is not sufficiently businesslike. They want to bring about a productivity revolution in the industry by applying the best elements of the for-profit business world they know. [...] The new approach to philanthropy is “strategic”, “market-conscious”, “knowledge-based” and often “high-engagement”, and always involves maximizing the “leverage” of the donor’s money.”*³⁵

Much of the recent attention for new private donors in international development has been driven by the emergence of a new breed of philanthropists. These foundations, often founded and led by technology entrepreneurs, are hoping to bring a “business approach” to philanthropy. This does not necessarily imply that they advance exclusively market-based solutions for development problems. Instead, philanthropy’s business approach to development — or as some have referred to it philanthrocapitalism — refers to a novel way of operating for international development.³⁶

Philanthrocapitalists like to think of themselves as operating as businesses focusing on efficiency, effectiveness, performance goals, (social) returns on investments; indeed, Judith Rodin, the President of the Rockefeller Foundation, was recently identified in the New York Times talking about “her foundation’s grants as investments to create sustainable change — a ‘portfolio,’ in her words, in which risk is balanced, dispersed and hedged.”³⁷ This is not to imply that all foundations have adopted the mantra of philanthrocapitalism; many, specifically European foundations and older, traditional American foundations like Ford and Carnegie, so far have not. For both European and traditional American foundations, however, the basic operating model is changing. As the President of the Hewlett Foundation, Paul Brest, recently stated, “I think these attempts for philanthropies to think as investors as a metaphor is fairly new,” but this metaphor is powerful, and it is changing the way foundations approach international development work.³⁸ Indeed, another leader in the field recently said, “I have difficulty not thinking of any nonprofit as a business.”³⁹

Applying a business approach to philanthropy is fresh, exciting and appealing to many, but has also engendered some critical responses. Foundations are fashioning themselves, to use William Easterly’s phraseology, to be “searchers” rather than “planners.” Yet, many critics are arguing that this business approach is merely rhetoric and that the realities of their growing bureaucracies are turning them into “planners”. Some critics even doubt whether this approach is new. Susan Berresford, former president of the Ford Foundation, recently argued that differentiating between “new” and “old” philanthropy

³⁵ *The business of giving*. 25 February 2006. The Economist.

³⁶ Edwards, Michael. *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*. New York/London, Demos: A Network for Ideas & Action and The Young Foundation: 2008.

³⁷ Gertner, Jon. *For good, measure*. 9 March 2008, New York Times. <http://www.nytimes.com/2008/03/09/magazine/09metrics-t.html?ref=magazine&pagewanted=print> (Accessed on 11 March 2008).

³⁸ Gertner, Jon. *For good, measure*. 9 March 2008, New York Times.

³⁹ This quote from Guidestar founder, Buzz Schmidt in Edwards, Michael. *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*. Op. Cit, Page 13.

was a mistake; in her words, “the way new philanthropy is characterized in the media often is to say it is more ambitious, more results oriented, and uses business principles more and to great effect, and I don’t think there is anything more ambitious about new philanthropy than old philanthropy.”⁴⁰

While it is too early to assess the success or failure of this business approach to philanthropy, it is possible to assess some of the model’s strengths and weaknesses as well as highlight some of the apparent differences between the rhetoric and the reality.⁴¹ The following discussion assesses five aspects of the foundations’ business approach to development: “solving problems”, “taking risks, fostering innovation”, “managing organizational structures”, “mobilizing media attention to set the agenda” and “measuring success” of foundations’ business-like approach, highlighting both the potential as well as the limits of the approach. By no means does this discussion represent an exhaustive treatment of the philanthrocapitalist model. Also, given the novelty of the phenomenon, it is simply too early to draw conclusions about its impact, especially vis-à-vis traditional philanthropy. But it is worth reviewing some of the working assumptions of the model, and to assess the relevance of this new approach in the development realm.

3.1 Solving problems

Philanthrocapitalists, and foundations more generally, claim their work is apolitical and “problem-oriented”; they argue that they select programs and projects on the basis of need, and do not need to consider other priorities such as foreign policy or foreign economic concerns. This, in their own view, allows them to focus on problem solving and “getting things done”. In the words of one interviewee, “it is important to understand that foundations are usually problem-driven, they look towards success. They identify an issue, they analyze it, and they try to devise solutions. In the end, it is always about impact. They don’t need to worry about politics.”⁴² In doing so, foundations also do not restrict themselves to one partner. Instead, they are able to engage the stakeholders they believe will help them “get the job done.” In practice, this often means foundations prefer to work with civil society organizations or the private sector while ignoring governments in the countries in which they engage.

According to critics, however, this “problem-oriented” approach to development is rather technocratic and means that foundations may fail to recognize structural and political impediments to development. Thus, rather than taking a holistic approach to development, foundations may tend to focus on isolated problems. As a result, critics point out that foundations simply provide charity in the form of band-aids for broken bones rather than delivering on sustainable development. As critic Michael Edwards points

⁴⁰ Foster, Lauren. *A businesslike approach to charity*. 10 December 2007, Financial Times. <http://www.ft.com/cms/s/2/e3b43e46-a70d-11dc-a25a-0000779fd2ac.html> (Accessed on 25 March 2008).

⁴¹ Heim, Kristi and Benjamin J. Romano. *For Gates Foundation and Buffett, charity isn't a soft touch*. June 27, 2006, Seattle Times. http://seattletimes.nwsourc.com/cgi-bin/PrintStory.pl?document_id=2003087958&zsection_id=2002119995&slug=gates27&date=20060627 (Accessed on 25 March 2008).

⁴² Interview with a policymaker.

out, “[p]hilanthrocapitalism’s other promise is to achieve far reaching transformation by resolving entrenched social problems. Yet its lack of understanding of how change occurs makes it unlikely that this promise will be achieved.”⁴³ Indeed, he continues, “new loans, seeds and vaccines are certainly important, but there is no vaccine against the racism that denies land to ‘dalits’ (or so-called “untouchables”) in India, no technology that can deliver the public health infrastructure required to combat HIV, and no market that can re-order the dysfunctional relationships between different religions and other social groups that underpin violence and insecurity.”⁴⁴ Some critics have even gone further; indeed, a recent academic paper on the so-called “Big Three Foundations” (Carnegie, Rockefeller, and Ford) argued that “[t]hese foundations claim to attack the roots causes of the ills of humanity; however they essentially engage in ameliorative practices to maintain social and economics systems that generate the very inequality and injustices they wish to correct.”⁴⁵

Skeptics also point out that bypassing governments in programming means that foundations often sponsor the development of parallel implementation structures (e.g. in the health sector) that further undermine the effectiveness of the public sector. Working with and enhancing the capacity of governments in developing countries remains, however, one of the crucial tasks of development. Indeed, one senior official at a US foundation admitted that his foundation’s benefactor is continually, to his surprise, re-learning the importance of working with partners from the government side.⁴⁶

3.2 Taking risks, fostering innovation

Foundations need not be concerned with public budgeting rules, political cycles, or finicky electorates. Many interview partners pointed out that this ostensibly allows foundations to innovate, take risks, and do things that official donors might find significantly harder or impossible to do. This independence also presumably permits foundations to take a long-term view as well as to make longer financial commitments than traditional donors. As one interview partner remarked, “foundations are in there for the long haul. In contrast to many governments, they can afford to take a long-term perspective. That definitely increases chances of long-term sustainability and impact.”⁴⁷ As another policymaker put it, “foundations are just much faster and flexible than government agencies. There is a huge potential for innovation here since foundations – and especially those led by their founders – are usually willing to take risks to test new ideas and models.”⁴⁸ There are many examples of this. For example, while longer-term funding was being sought for an innovative research project on the effects of HIV/AIDS on children, the Dutch Bernard van Leer Foundation was quickly able to commit critical start-up money

⁴³ Edwards, Michael. *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*. op Cit, Pages 7-8.

⁴⁴ Edwards, Michael. *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*. op Cit, Page 14.

⁴⁵ Arnove, Robert and Nadine Pinede. *Revisiting the "Big Three" Foundations*. *Critical Sociology*. 2007. 33. Page 389.

⁴⁶ Interview with a policymaker.

⁴⁷ Interview with a policymaker.

⁴⁸ Interview with a policymaker.

to support the project.⁴⁹ In another example, the Ford Foundation in 1981 provided an initial seed grant of \$800,000 to the Nobel-winning Muhammad Yunus to start the Grameen Bank; in Yunus' own words, "[o]ne international organization always came up with unhesitating support whenever I asked for help [...]his was the Ford Foundation."⁵⁰

In a critique of this approach, however, some argue that "flexibility" and "innovation" are merely euphemisms for an inclination of foundations to fall for development fads. As one commentator put it, "history suggests that philanthropic activity [...] happens in bursts, and ends with government taking over the best and scaling it up, making such actors ineffectual in the long-term."⁵¹

Further criticism surfaced in a recent article in the Economist that observed how critics' concern that foundations focus "too much on glamorous science and long-term technology bets, and not enough on putting boots on the ground in places like Africa."⁵² This sentiment was also reflected in expert interviews; critics are concerned that foundations invest in developing new technologies rather than investing in the roll-out of known solutions that are needed and can have a significant development impact. As one policymaker admitted, "what we need are not new technologies, new innovation. We have all the tools we need. [...] we know the technologies we need to provide the poor with access to clean water. We know about pumps and pipes. What we often don't have is the persistence, the funds, and all the rest of it to roll these things out. Many foundations focus on new innovation, new technologies. These may have a role to play. But to solve the complex development challenges of today, we don't always need new innovation."⁵³

Also, while foundations identify themselves as less risk averse than traditional donors, the data discussed in the previous section shows that most foundations invest in middle income or emerging economies like India, China and Brazil. Admittedly, foundations, like traditional donors, have problems locating suitable partners on the ground with whom to work; as one policymaker put it, "foundations look for fundable projects and for capable implementation partners. Those are sorely lacking in many places in Africa".⁵⁴ Foundations are aware of this deficiency, and the focus of philanthropic foundations on countries at the bottom of the list of developing countries is expected to rise. One policymaker noted, "I expect that we will see a major change in philanthropic flows, away from MICs especially to Sub-Saharan Africa. Africa definitely is high on the agenda."⁵⁵ Nevertheless for now, current data does not represent this shift.

One reason for this lack of enthusiasm to work in the least-developing countries often appear to be the Boards of Trustees that run foundations; as one policymaker clarified,

⁴⁹ For more information, see <http://www.jlica.org/about.htm> (Accessed on 9 April 2008). Also this information was confirmed by an interview with a policymaker.

⁵⁰ Yunus, Muhammad. *Banker to the Poor*. London, Aurum Press: 2003. Page 146.

⁵¹ Bishop, Matthew. *Fighting Global Poverty: Who'll be Relevant in 2020?*, presented at Brookings Blum Roundtable 2007 in Brookings Institution, Washington, DC, 1 August 2007.

⁵² *The side-effects of doing good*. 21 February 2008. The Economist.

⁵³ Interview with a policymaker.

⁵⁴ Interview with a policymaker.

⁵⁵ Interview with a policymaker.

“one of the biggest challenges is to convince reluctant trustees that investing in development can generate results. Trustees are often conservative, risk-averse and of course are tied to their local programs. That makes it very tough to engage in international development activities.”⁵⁶ This seems to be particularly relevant in small- and medium-sized foundations. Furthermore, a relationship seems to exist between a foundation’s appetite for risk-taking and the management of the foundation. If the foundation’s benefactor is managing the foundation, risk-taking is more likely to happen; a benefactor has the authority to take great risks. If the Board of Trustees is managing the foundation, risk-taking is less likely to happen; the Board of Trustees also has an incentive to minimize foundation risk taking to maximize the life of their endowment, and thus their own jobs.

3.3 Managing organizational structures

A business-like approach to development depends on keeping overhead low, with minimal staff and bureaucracy so as to maximize the amount of money that reaches intended beneficiaries. It also means using local capacities, which depends on effective delegation and decentralization. Instead of being micromanaged from some far-away headquarters, the idea is for business-minded foundations to work with local entities in the developing world that have a better idea of what to do and how to do it. While this is the rhetoric, the reality is often different.

The reality is that foundations themselves are frequently highly centralized, have little to no field presence and frequently have undeveloped professional organizational structures. For smaller foundations, admittedly it does not make sense to create large staff and office networks; the absence of these networks can be limiting, however, if they do or aspire to run complex projects. Yet many large foundations working in international development also do not have offices in the field and manage their operations from headquarters in the US or in Europe.⁵⁷ This distance from the field naturally exacerbates the difficulties of working with local partners and coordinating with other donors. Furthermore, while some of the larger foundations are consumed by an apparent obsession with staying small and flexible, they are also faced with the reality of huge budget disbursements that simply require more staff. With regard to smaller foundations, some critics argue that they simply start small and then grow more complex over time as they realize what it takes to make a difference. Taken to the extreme, some worry that foundations will simply replicate the bureaucracies and problems that plague the United Nations and other traditional donors.

The best current example to illustrate this tension in managing organizational structures is the Bill and Melinda Gates Foundation and their ongoing efforts to absorb the approximate doubling of their holdings through Warren Buffett’s recent gift. As one policymaker noted, “I think many foundations will have to build capacity internally. Some

⁵⁶ Interview with a policymaker.

⁵⁷ Of course some foundations do have offices in the field, the Ford Foundation leads the pack with roughly a dozen field offices, for example in Beijing, Hanoi, Johannesburg, Cairo and other places; it must be remembered though that the Ford Foundation in this respect is the great anomaly. For more on this specifically, see <http://www.fordfound.org/about/contactus> (Accessed on 9 April 2008). A few other foundations, namely the Mott, Aga Khan, Asia, McArthur and Kellogg foundations also have some field offices.

of these players are growing so huge, it is absolutely critical that they invest in human resources, knowledge management, and quality control. The [Bill and Melinda] Gates Foundation has a special challenge here. They are about to double or triple their annual spending to more than US\$3 billion, but they have less than 300 people on staff.”⁵⁸

In fact, there are many looming changes and challenges facing the Gates Foundation. Bill Gates himself is expected to start working full-time at the foundation in the summer of 2008; this move is expected to shake up the foundation. In the fall of 2008, it is possible that many staff will leave the foundation to join a possible future Democratic presidential administration, as much of the current staff served under former President Clinton. Furthermore, the current CEO Patty Stonesifer recently announced her transition out of managing the Gates Foundation; a new CEO is expected to take over by the end of 2008. For now, the foundation currently manages its global activities from its Seattle headquarters with small offices in Washington, DC, and Delhi, India. Naturally, there are forces pushing for the Gates Foundation to open further liaison offices in the field.

In the matter of managing organizational structures, there is a growing amount of tension between rhetoric and reality. How the Bill and Melinda Gates Foundation deals with this evolving tension will most likely set the tone for much of the foundation world.

3.4 Mobilizing media attention to set the agenda

In some cases, private foundation’s work is either led by so-called “celanthropists” or “political philanthropists” (Bill Gates or George Soros) famous for their business acumen and supported by celebrities (Bono and Bob Geldof) interested in international development.⁵⁹ This power of personalities coupled with media visibility helps to mobilize and generate public support for development as well as fosters an interest in development issues for the broader public.

The importance of pushing an agenda and mobilizing the broader public is often underestimated by both public and private donors.⁶⁰ As the Gates Foundation’s current CEO, Patty Stonesifer recently admitted, “I did not realize how much advocacy we would have to do!”⁶¹ Stonesifer surprisingly also admitted that two of the Gates Foundation’s most important partners in furthering causes were Oprah Winfrey and Bono.⁶² This media power allows foundations not only to amplify the impact of their work, but also to increase potential political pressure through forcing the consideration of pressing development issues. Also reinforcing the business-like approach, foundations, particularly the Bill and Melinda Gates Foundation, with their savvy use of advocacy and PR through

⁵⁸ Interview with a policymaker.

⁵⁹ Bishop, Matthew. *Fighting Global Poverty: Who'll be Relevant in 2020?*, presented at Brookings Blum Roundtable 2007 in Brookings Institute, Washington, DC, 1 August 2007.

⁶⁰ For example, see the negative ramifications from the fallout of the case of the LA Times article that criticized the Gates Foundations’ endowment. For more see, Charles Piller, Edmund Sanders and Robyn Dixon. *Dark clouds over good works of the Gates Foundation*. 7 January 2007 Los Angeles Times. <http://www.latimes.com/news/nationworld/nation/la-na-gates07jan07,0,6827615.story?coll=la-home-headlines> (Accessed on 8 April 2008).

⁶¹ Bishop, Matthew. *Fighting Global Poverty: Who'll be Relevant in 2020?* op. Cit.

⁶² Ibid.

the media, have managed to create a brand name for their work in international development, which attracts attention from celebrities and policymakers alike as well as inspires large donations, like the one from Warren Buffett.

On the other hand, there is a critique of foundations' use of celebrities to mobilize the broader public for development. For example, British pop singer, Bob Geldof, working with Bono advocating on behalf of the Gates Foundation, often pushes for doubling development aid to solve Africa's problems.⁶³ This idea to double aid is certainly not without its critics within the development aid community, and could be seen an example of foundations attempting to skewer and manipulate the development agenda.

The lack of accountability and transparency are another criticism that surface when looking at foundations and the media. While foundations enjoy the status of media darlings, foundations are also not exactly the paragons of transparency or accountability that one might expect. US foundations are only legally required to disclose so much information, and this amount of information pales in comparison with more traditional, public sector donors. Foundations, legally speaking, are only responsible to their benefactors and their Board of Trustees. The sole legal requirements for reporting and transparency for US foundations, besides general good governance practices, are tax stipulations that require financial disclosures. For European foundations, governance regulations vary widely, but are also weak compared to official donors.

3.5 Measuring results

Many interview partners pointed to the increasing professionalization of foundation staff in recent years.⁶⁴ This is the result of an increasingly decided focus on impact evaluation. As one interview partner noted, "many of these new players [i.e. private donors] have had a steep learning curve in recent years. They are learning fast, and they are increasingly effective in building on key lessons learned. This is a very business-minded approach to development. You try, you make mistakes, you learn, you improve."⁶⁵

A business-like approach places value on measuring results and organizational learning, from both successes and failures. Foundations want to know how effective their investments have been, as well as to prevent the repetition of mistakes which led to bad investments. Moreover, focusing on results could improve accountability and transparency

⁶³ For example, see <http://www.live8live.com/whatsitabout/index.shtml> (Accessed on 9 April 2008).

⁶⁴ This "professionalization" is supported by a rapidly proliferating philanthropy-consulting firms, such as New Philanthropy Capital (founded by former Goldman Sachs investment bankers), the Rockefeller Philanthropy Advisors, the Bridgespan Group (an offshoot of Bain Consulting), and Geneva Global. For more information on these groups, see Murray, Sarah. *Benefits of an expert parent*. December 10 2007, Financial Times. <http://www.ft.com/cms/s/2/4f752604-a70e-11dc-a25a-0000779fd2ac.html> (Accessed on 26 March 2008), Jack, Andrew. *The business of philanthropy: Intermediaries have the skill to help give*. 5 July 2007, Financial Times. http://www.ft.com/cms/s/2/e0316af8-294c-11dc-a530-000b5df10621.dwp_uuid=c1927432-1f9e-11dc-ac86-000b5df10621.html (Accessed on 5 April 2008), Weiss, Tara. *Performance Philanthropy*. 3 January 2007. Forbes Magazine. http://www.forbes.com/leadership/2007/01/03/leadership-charity-philanthropy-lead-citizen-cx_tw_0103geneva.html (Accessed on 5 April 2008).

⁶⁵ Interview with a policymaker.

for foundations. As one foundation leader noted, “if we really want to do work that makes a difference, work that has some effect, then we have to know whether it is working, and if you really do it well, you don’t only want to know what works; you want to know how it works.”⁶⁶ Foundations are thus moving to focus on conducting studies to show quantifiable results and their impact.

Yet, while the rhetoric focuses on measuring results for impact, the reality is that the majority of foundations are not measuring results; in fact, private donors are far behind public donors in adopting best practices in this area. Indeed, few foundations invest in monitoring and evaluation, and even fewer conduct thorough impact evaluations. For example, a recent survey of US foundations found that 43 percent formally evaluated the work financed by their grants to nonprofit organizations.⁶⁷ Furthermore, there is a criticism that by focusing on measuring impact results to determine grant-giving, foundations are undermining one of their core comparative advantages, the ability to take risks. Moreover, measuring for results is extremely difficult; as one leader of a consulting firm for philanthropies recently commented, “the generation we are dealing with today has an unending thirst and desire for sudden impact, they want results. [...] they acquired their wealth overnight and so they want to see their philanthropic dollars making a difference overnight. [...] Organizations need to take a step back and educate donors about how difficult it is to measure results.”⁶⁸ Accordingly within foundations there is still some skepticism about the practicality of measuring results; as one interview partner admitted, “we have experimented a lot with evaluations, and I am not sure we’ve made much headway.”⁶⁹ Some exceptions, however, should be pointed out.

Most notably, the Rockefeller Foundation recently hired a Vice President solely to focus on monitoring and evaluation; the Bill and Melinda Gates Foundation recently set up an Impact Planning and Improvement Unit.⁷⁰ More broadly, the Gates Foundation and the William and Flora Hewlett Foundation financed a project at the Washington, DC-based Center for Global Development, entitled “Closing the Evaluation Gap” to enhance evaluation for both traditional and non-traditional donors alike.⁷¹ This has led to the establishment of the International Initiative for Impact Evaluation or 3IE (“Triple I E”) which is, in the words of its administrators, “designed to dramatically increase the number of rigorous impact evaluations in areas such as health and education, thereby provid-

⁶⁶ Gertner, Jon. *For good, measure*. 9 March 2008, New York Times. <http://www.nytimes.com/2008/03/09/magazine/09metrics-t.html?ref=magazine&pagewanted=all> (Accessed on 11 March 2008).

⁶⁷ This study was conducted by the Urban Institute and Grantmakers for Effective Organizations, and cited in Gertner, Jon. *For good measure*. 9 March 2008, New York Times.

⁶⁸ Foster, Lauren. *A businesslike approach to charity*. 10 December 2007, Financial Times. <http://www.ft.com/cms/s/2/e3b43e46-a70d-11dc-a25a-0000779fd2ac.html> (Accessed on 25 March 2008).

⁶⁹ Interview with a policymaker.

⁷⁰ For more on this, see the Rockefeller Foundation’s press release, http://www.rockfound.org/about_us/press_releases/2007/090507David_Jihrad.pdf (Accessed on 8 April 2008) and see a recent interview with the Gates Foundation’s head of the newly created, “Impact planning and Improvement” unit here, <http://www.alliancemagazine.org/online/html/aonov07a.html> (Accessed on 9 April 2008).

⁷¹ For more on this, see, <http://www.cgdev.org/section/initiatives/active/evalgap> (Accessed on 8 April 2008).

ing the global development community with more knowledge about what works when and where--and what doesn't."⁷² These efforts at increasing effectiveness will surely enhance foundations' abilities to manage projects and further partnerships for greater leverage; as one policymaker said in an interview, "if we don't know what they [foundations] are good at, how should we collaborate? Many foundations have come to us in the past with projects that they wanted to bring to scale. However, without demonstrating impact in a reliable way there is little scope for partnership."⁷³

3.6 Conclusion

As shown in the above sections, there is great potential for the business model to change and enhance the way philanthropy is conducted in the developing world. Yet at the same time, while foundations often employ the rhetoric of the business model, the reality is often quite different. In the coming years as some of the larger foundations evolve, a significant challenge will be how to realize and implement the rhetoric of the business model without succumbing to the reality of bureaucracy that plagues many traditional donors. This study has now shown how much money foundations invest and where the money is spent, as well as discussed the strengths and weaknesses of foundations vis-à-vis traditional donors and their operational model. The remaining question is the following: what are the implications of foundations' involvement for international aid cooperation?

⁷² For more on this, see, <http://www.cgdev.org/content/opinion/detail/15102/> (Accessed on 8 April 2008).

⁷³ Interview with a policymaker.

4. Private donors in development: Implications for the international aid architecture

There is an emerging debate about the implications of the engagement of private donors in international development.⁷⁴ This debate is still in its early stages, and is hampered by a lack of data (as discussed in chapter 3). Nonetheless, there are currently two broad camps in this intensifying discussion. One camp views private donors as a force for good. Following that view, foundations bring much-needed new resources, new skills and new energy to the international development arena. The other camp, in contrast, views private donors with skepticism, if not outright hostility, arguing that “the hype surrounding philanthrocapitalism runs far ahead of its ability to deliver real results.”⁷⁵ Some critics even suspect that new private donors may do more damage than good, undermining the efforts of established players in the field that are promoting universal goals (the Millennium Development Goals) and efforts at enhanced coordination and cooperation (e.g. through the Paris Declaration on Aid Harmonization).

This paper will not settle this debate. Instead, it seeks to make a balanced contribution to a discussion that so far often seems characterized by soundbites and misperceptions. In order to do so, this section will address three sets of questions: First, how closely do foundations feel themselves attached to the MDGs? What do foundations contribute to achieving the MDGs? Second, what impact does the engagement of foundations have on efforts of official donors to enhance coordination and cooperation through the Paris Agenda? How committed are foundations to improving coherence and coordination? And third, would a strategic dialogue between foundations and traditional donors make sense?

4.1 Foundations and the Millennium Development Goals (MDGs)

In September 2000 the international community at the United Nations agreed to eight so-called Millennium Development Goals.⁷⁶ These broad-based, internationally-recognized and agreed upon goals are to be achieved by the international development community by 2015. Because of difficulties with data, specific input from foundations in reaching these goals is rather difficult to measure. Nonetheless, foundations contribute many additional resources for development, and naturally if these additional resources are wisely used, it is likely that they would have a positive impact related to the extremely broadly-defined MDGs.

Yet, based on interviews with policymakers, while foundations are fully aware of the MDGs, opinions vary widely regarding the MDGs’ appropriateness and achievability. Similar to opinions within the traditional donor sector, at the extremes, some think the

⁷⁴ See for example, MacArthur, Tessa. *The Scaling up of Private Philanthropy: Implications for Development Outcomes*, op. Cit. Kharas, Homi. *The New Reality of Aid*, op. Cit.

⁷⁵ Edwards, Michael. *Just Another Emperor: The Myths and Realities of Philanthrocapitalism*, op. Cit, Page 8.

⁷⁶ United Nations General Assembly, *United Nations Millennium Declaration*, A/RES/55/2, 18 September 2000.

MDGs are an ingenious way to bring attention to specific and achievable goals, whereas others view them as a distracting waste of time. Interviews also show that decision-makers at foundations view the MDGs as relatively broad guidelines for development, rather than as a specific, concrete plan for achieving certain goals. Thus, while they may broadly support the MDGs as an overall guiding framework for development, they do not utilize the goals for their own internal programming.

4.2 The Paris Declaration on Aid Effectiveness

The OECD-negotiated, 2005-endorsed Paris Declaration on Aid Effectiveness was signed by almost all major donors and aid recipients and commits its signatories to five major principles. These are:

- “ownership: partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions;
- alignment: donors base their overall support on partner countries’ national development strategies, institutions and procedures;
- harmonization: donors’ actions are more harmonized, transparent and collectively effective;
- managing for results: managing resources and improving decision-making for results;
- mutual accountability: donors and partners are accountable for development results.”⁷⁷

Amongst traditional donors there are real concerns that foundations, similar to emerging donors like Brazil, China and India, are upsetting the realization of the Paris Agenda. Some interviews with policymakers at traditional donors expressed fears that the engagement of foundations could complicate the already overburdened work of recipient countries by giving them yet another donor with whom to coordinate; they also worry that programs and projects could be duplicated.⁷⁸ In the worst case scenario, traditional donors fear that foundations may counteract their own development initiatives.

As noted above, this study does not offer the scope to assess the impact of foundations on the achievement of the Paris Agenda. Instead, through interviews, it seeks to provide an overview of how the debate on donor coordination is structured, and to highlight some key points for future research and discussion.

4.2.1 Does foundation engagement undermine developing countries’ sense of ownership?

As noted in the previous chapter, foundations traditionally work outside governmental structures; they thus primarily cooperate with civil society organizations in developing countries for their projects and programs. This means that foundations usually do not coordinate their activities with government actors, and that their activities are not in-

⁷⁷ For more information, see the Paris Declaration, at <http://www.oecd.org/dataoecd/11/41/34428351.pdf> (Accessed on 8 April 2008).

⁷⁸ Interview with a policymaker.

cluded in national development strategies. In some cases, particularly in politically sensitive issue areas, this lack of consultation has led to rocky relations between foundations and governments. In recent years, this happened relatively frequently in the case of the Open Society Institute that has sought to foster civil society and democratic governance in Russia and former states of the Soviet Union.

Yet at the same time, foundations are making contributions to development that traditional donors would not undertake; as one policy maker put it, “we are doing work that government donors can’t do – or don’t want to do. We are not constrained by politics, and we are focused on results. As such, I believe many government donors look to us in certain situations – no matter what the Paris Agenda says.”⁷⁹

4.2.2 How closely are foundations’ programs and projects connected to countries’ development strategies?

Because foundations usually work outside of state structures, their projects and programs are not usually connected to national development strategies. Based on interviews with foundation officials, foundations view existing development cooperation mechanisms, like the Poverty Reduction Strategy Papers (PRSPs), with much skepticism; as one foundation official put it, “the existing national planning and implementation systems in developing countries are completely dysfunctional. The system doesn’t work – and why should we sign on to a system that does not work? It would be absurd, a bureaucratic maze!”⁸⁰

Instead, foundations seem to show a preference for vertically organized programs.⁸¹ This should come as no surprise as foundations view themselves as “problem-solvers” (see Chapter 2), and want their funding and efforts to have the greatest impact possible. From their perspective, vertical programs are the quickest and most efficient ways to solve problems. At the same time, studies have shown that this preference for vertical programs can lead to structural duplication which results in a bureaucratic nightmare for developing countries.⁸² This is particularly the case for the health sector, where new funds, like the Global Alliance for Vaccines and Immunization (GAVI) or the Global Alliance for Improved Nutrition (GAIN), are creating new planning and implementing structures for developing countries.⁸³ This proliferation of vertical programs is not only a

⁷⁹ Interview with a policymaker.

⁸⁰ Interview with a policymaker.

⁸¹ Vertical programs are those that are set up to tackle individual diseases; the most often named example is the Global Fund for Fight Aids, Tuberculosis and Malaria. For a critical view of these, see A. Jack. *From Symptom to System*. 28 September 2007. Financial Times. <http://www.ft.com/cms/s/0/2318ea9c-6d60-11dc-ab19-0000779fd2ac.html> (Accessed online 11 April 2008), and for a more balanced view, see L. Garrett. *The Challenge of Global Health*. Foreign Affairs. 2007. January/February 2007.

⁸² See for example, Uma Lele, Nafis Sadik und Adele Simmons (2005), *The Changing Aid Architecture: Can Global Initiatives Eradicate Poverty?* Available at <http://www.oecd.org/dataoecd/60/54/37034781.pdf> (Accessed on 8 April 2008). This article is based on a multiple year evaluation of global programs at the World Bank; for the complete evaluation results see World Bank Independent Evaluation Group (2005), *Evaluating The World Bank's Approach to Global Programs: Addressing the Challenges of Globalization* (Washington, DC: World Bank) (<http://www.worldbank.org/oed/gppp/index.html>, Accessed on 9 April 2008).

⁸³ For more information, see, <http://www.gavialliance.org/> and <http://www.gainhealth.org/> (Both

result of foundation involvement; bilateral and multilateral donors are just as committed and involved in vertical programs. For example in 2005, the World Bank committed approximately €2.5 billion into global and regional programs.⁸⁴ The majority of these programs are vertical initiatives which are financed from bilateral donors.

The trend moving towards vertical programming provokes a heated discussion for traditional donors and foundations alike. Proponents argue that these programs are clearly focused and can work outside of often dysfunctional structures for quick, successful results. Skeptics argue that the proliferation of duplication simply creates more costs for all involved. In the coming years, data assessing the results should end this discussion.

4.2.3 Does foundation engagement lead to a duplication of projects and programs for international development cooperation?

Interviews with practitioners and policymakers indicate that foundations primarily engage in issues and sectors in which they perceive a deficit of interest, for whatever reason, from traditional donors. The health sector (see the box in the section below for more on the health sector) and the agriculture sector, specifically the Alliance for a Green Revolution in Africa (AGRA), are examples often mentioned in interviews.

On the other hand, foundations are also active in sectors where traditional donors have already been long active. For example, the Bill and Melinda Gates Foundation recently decided to engage heavily in microfinance. In this sector, there is significant danger for duplication of projects and programs as traditional donors are also involved. This danger needs to be avoided through dialogue or strategic cooperation from the earliest stage possible. A further potential risk is not only duplication, but even competition between foundations and traditional donors. For example a few years ago, traditional donors agreed to cease funding fertilizer subsidization in Kenya as it was having a number of adverse environmental and economic effects. Shortly thereafter a foundation came in to provide funding for fertilizer subsidization.⁸⁵

4.2.4 The need for enhanced coordination

This case of fertilizer subsidization is an example where increased dialogue and coordination would have made an impact. Yet dialogue and coordination could clash with the way some foundations operate. For example, many foundations operate quickly to implement promising projects, and along the way, seek to pull other donors on board to broaden financial support for promising projects.⁸⁶ Foundations specifically aim to avoid long, drawn-out coordination and consulting meetings with other donors or developing country governments. Nonetheless, a lack of coordination can lead to serious problems. Not coordinating can lead to conflicts or clashes with other donors as the case in Kenya shows. There are varying forces for and against cooperation and dialogue; regardless, the question arises: would a strategic dialogue between foundations and traditional donors

accessed on 9 April 2008).

⁸⁴ See World Bank Independent Evaluation Group (2005), op. Cit., Page 11.

⁸⁵ Interview with a policymaker.

⁸⁶ Interview with a policymaker.

make sense? The box below gives some background on the health sector, and makes the case that there is a need for continued dialogue and coordination.

The Health Sector and the Need for Enhanced Coordination

The Gates Foundation is the world's largest donor for diseases of the poor. For example, in the late 1990s as little as \$84 million total was being spent annually on malaria research; since 2000, the Gates Foundation has spent \$1.2 billion, roughly tripling annual malaria research spending.⁸⁷ This huge increase is not without criticism; however it sometimes seems that recent whistle-blowing against the Gates Foundation is simply representative of frustrated jealousy of the foundation's wealth and ability to steal the limelight. Indeed, as a recent article in the Economist put it, "the WHO, one of whose captains now calls the Gates Foundation monopolistic, used to hold a monopoly in the fight against malaria, and it did a lousy job as a result."⁸⁸

In some ways, the Gates Foundation is providing some competition for WHO and other United Nations agencies as well as bilateral donors. The Gates Foundation is funding an Institute for Health Metrics and Evaluation at the University of Washington, which some officials are deriding as Gates' WHO. Both the WHO and this new institute are mandated to evaluate health treatments and monitor national health systems; this is, indeed, duplication. When asked about threatening the WHO's role, the institute's director was more diplomatic; he said a new path was needed because the UN agency came under pressure from member countries. His institute will be independent of that.⁸⁹ While this may be the case, better coordination from the beginning could allow investments to be made in other areas instead of duplicating efforts and wasting valuable resources.

As shown above and in Chapter Two, approximately half of all international giving from foundations is invested in health. Total international development giving from foundations for global health in 2005 was roughly \$1.6 billion, which far exceeds the UK's \$660 million for bilateral health cooperation, and is approximately half of the World Health Organization's \$3.3 billion budget in 2006.⁹⁰ In fact, since its inception in 2000, the Bill and Melinda Gates Foundation has given away roughly \$6.6 billion; \$2 billion of this was spent on programs for HIV/AIDS and tuberculosis.⁹¹ Furthermore, in the coming years the spending on global health for the Gates Foundation is expected to grow significantly. These examples point to the serious implications for the health sector that come with the increased engagement of foundations in international aid cooperation. This involvement is creating the need for greater coordination and communication.

The total number of foundations involved in international development is rather large, which complicates any discussion of coherence and coordination; however, the number of influential foundations with considerable capital to invest in international development is rather small. This small group of relevant foundations is made up of independent US and European foundations, the most important of course being the Bill and Melinda Gates Foundation. This is not to belittle the contributions of other smaller or less influential foundations, but rather to emphasize the role of the largest for any discussion of the Paris Agenda and coherence and coordination. Given that there are a relatively small number of relevant foundations, which would keep transaction costs low, a strategic dialogue would seem to make sense.

⁸⁷ McNeil, Donald G. Jr. *Eradicate Malaria? Doubters Fuel Debate*. 4 March 2008, New York Times. <http://www.nytimes.com/2008/03/04/health/04mala.html?pagewanted=all> (Accessed 15 March 2008).

⁸⁸ *The side-effects of doing good*. 21 February 2008. The Economist.

⁸⁹ McNeil, Donald G. Jr. *Gates Foundation's Research Influence Criticized*. New York Times. http://www.nytimes.com/2008/02/16/science/16malaria.html?_r=2&oref=slogin&oref=slogin (Accessed on 11 March 2008).

⁹⁰ MacArthur, Tessa. *The Scaling up of Private Philanthropy: Implications for Development Outcomes*, op. Cit.

⁹¹ Garrett, Laurie. *The Challenge of Global Health*. Foreign Affairs. 2007. January/February 2007.

What is somewhat problematic is determining how to structure this dialogue. Based on interviews, foundations want a dialogue that focuses on specific problems and themes; there is almost no interest in a general dialogue about principles and structures for further international development cooperation. In the words of one policymaker at a foundation, “we are very much interested in talking to donors. In fact, we are doing that on a pretty regular basis. [...] What I don’t think should happen is that we get bogged down in endless discussions about general principles. In the end, what matters to us are results.”⁹²

4.3 Conclusion

The debate about the role and influence of foundations in international development is still in an initial phase. For now there is a serious data shortage to measure foundations’ impact on achieving the MDGs as well as foundations’ influence on the Paris Agenda. Nonetheless in both of these efforts, the preliminary impression is that foundations probably do more good than bad. In many cases, foundations are spending funds and managing projects and programs where no other donors are working; in most cases, they are working in niche-fields or investing in areas that are overlooked or under supported by traditional donors. Yet in some ways, by presenting a type of competitive challenge, foundations are making traditional donors re-examine and reinvigorate their own already-stated commitments and promises. If nothing else, foundations involvement should cause traditional donors to re-examine the reality of their commitments to both the MDGs and the Paris Agenda.

Measuring the effects of foundation engagement against a normative, and far from realized, international aid architecture, is somewhat unfair. While many positive efforts and steps have been made by traditional donors towards reaching the Paris Declaration, serious hurdles remain. For example, reforming the very mechanisms and structures through which traditional donors are attempting to achieve coherence and cooperation. As one foundation policymaker stated, “I have to say that I find some of the accusations we sometimes hear rather ironic. The same donors who have screwed up the past 50 years now turn around and criticize us for taking a new approach. [...] I don’t see any reason why they [official donors] should be able to take the high ground on these issues. We stand ready to work with them. However, we have to agree on an approach that works. I don’t want to sign on to a system that has clearly failed to produce results.”⁹³ This skeptical criticism aside, almost without exception, every person employed by a foundation interviewed for this study recognized the importance of and voiced interest in a dialogue with traditional donors. For certain sectors like health, microfinance or agriculture, the impetus and need for foundations and traditional donors to coordinate clearly exists. It is also important to conduct the debate on implications for the Paris Agenda of the rise of foundations with some prudence. After all, success or failure of the Paris Agenda will most likely not so much depend on foundations, but rather on the efforts of the very large government donors to make it work. To realize this dialogue, Chapter 5 will discuss some possible steps that both foundations and traditional donors can undertake.

⁹² Interview with a policymaker.

⁹³ Interview with a policymaker.

5. Outlook and Recommendations

5.1 Outlook

Foundations generate new resources and bring innovative approaches to the international development field. In some ways, through presenting a type of competitive challenge, foundations make traditional donors re-examine and reinvigorate their own already-stated commitments and promises and generally perform better. Foundations also bring a business-like approach to international development work. This model has great potential to transform the philanthropic world, but also has some weaknesses. As discussed above, there is sometimes a gap between the reality and the rhetoric of foundations implementation of this approach to development.

In some areas the emergence of private donors poses new challenges for international aid architecture, particularly for the international aid architecture with regard to the Millennium Development Goals and the Paris Declaration on Aid Effectiveness. While there is still a risk of duplication or competition, the preliminary impression is that foundations probably do more good than bad in helping traditional donors on the MDGs and the Paris Agenda. In many cases, foundations are spending funds where no donors are working; many times, they are working in areas that are overlooked by traditional donors. Despite this, in certain sectors like health or microfinance, the need for dialogue and coordination is particularly pressing. Yet, as discussed in Chapter Four, there are many challenges to this coordination, most notably foundations' lack of field presence. Based on this analysis, a number of recommendations for both official donors as well as foundations become apparent.

5.2 Recommendations for Public Donors

As the preceding analysis has shown, while foundation engagement in international development may not be as large as some commentators or journalists may believe, the largest foundations working in international development, including but not limited to the Gates Foundation, are clearly influencing the international aid agenda and discussion. Moreover, foundations, at least in principal and in comments made during interviews for this study, are interested in dialogue and cooperation to achieve better results for development.

For public donors to best engage foundations a most crucial, initial step is to have a person or unit responsible for tracking foundations working in international development. Most traditional donors have individuals or units for monitoring and managing relations with other bilateral and multilateral donors; however, the responsibilities of this person or unit should be expanded to include foundations. Based at headquarters, this person or unit could have the following three, interrelated tasks.

1) Monitor relevant foundation activities

Monitoring relevant foundation activities would not only entail keeping abreast of foundation work, but also keeping relevant public donor staff informed about foundation activities (e.g. new programs) through monthly or quarterly briefings and updates. The idea

is to provide donor staff with the necessary information that would allow them to reach out to foundations in the early stages of program development to facilitate coordination or perhaps even partnerships.

One way of monitoring foundations and their work is to attend relevant meetings and conferences. The European Foundation Centre, the American Council on Foundations and the American Foundation Center often host conferences and events, and it would be important for official donors to attend these meetings. There is also the American Global Philanthropy Forum which hosts an important annual conference for the foundation world. Beyond these traditional foundation events, foundations are increasingly represented at the World Economic Forum annual events at Davos and at Bill Clinton's annual Global Initiative meetings.

2) Foster field office engagement with foundations as well as training opportunities for foundation staff that want to work in the developing world, and encourage more foundations broadly to work in international development

At the headquarters level, dialogue between official and foundation donors in some cases already exists; for example, the Bill Gates Foundation holds biannual meetings with USAID.⁹⁴ But based on interviews and preliminary research conducted for this paper, there seems to be room for increased and enhanced dialogue at the field level. To facilitate this, the person or unit responsible for foundations should foster dialogue between actors in the field. This could also include negotiating secondment contracts to further exchange and dialogue. This dialogue is, however, somewhat constrained by foundations' limited field presence. Public donors, particularly European donors, could also encourage more foundations to expand their operations in the developing world.

3) Fund and coordinate more research on the emerging role of foundations in international development

As this study has sought to show, there still exists a systemic dearth of data for foundations working in developing countries. Traditional donors cannot solve this problem alone, but they can start research dialogues. For example, the World Bank January 2008 initiated an eighteen-month study project to assess the "Evolving Aid Landscape in Africa and the Role of Private Philanthropy." This project promises to generate unique information about the engagement of foundations on the African continent, as well as about the scope and depth of African philanthropy. Other bilateral donors should support this initiative.

5.2 Recommendations for Foundations

As this study has shown by examining foundation's business-like approach to international development, there clearly is room to improve the model and close the gaps between rhetoric and reality. Given their less bureaucratic, organizational structures, for foundations to change and implement some of the changes necessary should be easy, in theory at least, compared to official donors. While making recommendations for foundations is slightly more complicated as the field is so diverse, this study recommends that

⁹⁴ Interview with a policymaker.

foundations 1) improve coordination, as well as learning from traditional donors; 2) close the gap between rhetoric and reality in their business model; and 3) fund more research on foundations in international development.

1) Improve coordination, as well as learning from donors

To start, foundations could have a point person for dialogue on coordination with public donors as well as to learn from donor's mistakes and successes. Similar to the person or unit for traditional donors, this person, or unit depending on the size of the foundation, would be responsible for coordinating and communicating with relevant traditional donors to avoid duplication or competition for any development projects or programs. This person would study the donor's development model to replicate success and avoid repeating failures as well as help to coordinate workshops or seminars given by donors for foundations seeking to work in international development. The ideal example of this is the recent appointment of Geoffrey Lamb, as Managing Director for Public Policy at the Bill Gates Foundation's liaison office in Washington, DC.⁹⁵

2) Close the gap between rhetoric and reality in the business model

Foundations need to improve their internal governance and organizational structures (including field presence, accountability and measuring results) as well as become more transparent. As identified in Chapter 3, while foundations often have projects and programs for issues of transparency and accountability in the developing world, they do not always implement these practices themselves. For example, a visit to the websites of many foundations will often not reveal the names or contact details for employees. Understandably many foundations do this to prevent unsolicited grant applications; however, even starting with a picture and short biographies of staff members might make foundations appear more open. An institutional organigram would also be helpful. Beyond these superficial steps, while some foundations are already financially audited, and open these audits to the public, foundations could go one step further. They could allow themselves to be audited annually or biannually by an independent consulting firm to assess their internal governance as well as effectiveness and efficiency; the resulting reports and their responses could then be published in addition to the financial audits on foundation websites.

3) Fund more research on foundations in international development

Similar to the recommendation for official donors, there is a systematic lack of data on foundations in international development. This is not in the long-term interest of foundations. Foundations could easily fund research to begin to redress this shortage of data.

⁹⁵ For more on this announcement, see the Press Release at the Gates Foundation website here, <http://www.gatesfoundation.org/AboutUs/Announcements/Announce-080131.htm> (Accessed on 5 April 2008).

APPENDIX I

List of Interview Partners (in alphabetical order)

- Barbara Addy, Senior Adviser, United States Agency for International Development, Global Development Alliance Office (Washington, DC)
- Nicolas Borsinger, Executive Director, Foundation Pro Victimis (Geneva)
- Kathy Bushkin Calvin, Executive Vice President and Chief Operating Officer, United Nations Foundation (Washington, DC)
- Benoit Chervalier, Head of the Development Activities Evaluation Unit 139, Ministry of Economy, Finance and Employment Treasury Department Multilateral affairs, Trade and Development Policies, Government of France (Paris)
- Eleanor Fink, Consultant, Foundation Partnership Unit, International Finance Corporation (Washington, DC)
- Alfred Hannig, Program Director, Sustainable Economic Development, GTZ GmbH Indonesia (Jakarta)
- Jörg Hartmann, Director, PPP Program, GTZ GmbH (Eschborn)
- Stefan Jansen, Project Manager, Development Economics, GTZ GmbH (Eschborn)
- Simon Junker, Program Manager, Federal Department of Foreign Affairs (FDFA), Swiss Agency for Development and Cooperation (SDC), Employment and Income Division / Division CIS (Bern)
- Craig Kennedy, President, German Marshall Fund of the United States (Washington, DC)
- Georg Kell, Executive Director, Global Compact Office (New York)
- Geoffrey Lamb, Senior Adviser, Bill and Melinda Gates Foundation (Washington, DC)
- Jessica Mathews, President, Carnegie Endowment for International Peace, and Trustee, Rockefeller Foundation (Washington, DC)
- Jeremy Nagoda, International Coordination Officer for Civil Society and Non-State Actors, EU DG AID CO(ordination), Directorate F, Coordination Unit. (Brussels)
- Andrew Preston, Governance Adviser, Donor Policy and Partnerships Team & Financial Accountability and Anti-Corruption Team Global Development Effectiveness Division, Department for International Development, United Kingdom (London)
- Wolfgang Reinicke, Managing Director, galaxar S.A., and Director, Global Public Policy Institute (Geneva)
- Sevdalina Rukanova, Program Officer, European Foundation Center (Brussels)
- Dan Runde, Head, Foundation Partnership Unit, International Finance Corporation (Washington, DC)
- Gerry Salole, President, European Foundation Center (Brussels)
- Buzz Schmidt, President, Guidestar International
- Christoph Schmocker, Managing Director, UBS Optimus Foundation (Zurich)

- Olga Sulla, Global Development Finance Division, The World Bank (Washington, DC)
- Peter Laugharn, Executive Director, Bernard van Leer Foundation (The Hague)
- Jane Wales, President and CEO, World Affairs Council of Northern California and Co-founder of the Global Philanthropy Forum (San Francisco, CA)
- Heiko Warnken, Referat Planung, Grundsätze und Qualitätssicherung der Zusammenarbeit mit Ländern und Regionen Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Bonn)
- Christian Widmann, Referent, Referat 315, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Bonn)

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