

Philanthropy as a development actor: influence and implications

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1. Introduction

Private contributions to international development – often through philanthropic organisations commonly referred to as ‘foundations’ – are growing worldwide, and philanthropic foundations are taking on a more prominent role in international development forums. But information on the current and changing roles of such foundations is surprisingly thin. Reliable data can be found in only a limited number of countries and as a result, while various efforts are underway to redress this issue, analysis of philanthropy at a global scale is relatively scarce.

This paper analyses the changing role of philanthropic foundations in international development and implications for the international development community, including government donors.

2. Philanthropy as an international development actor

While 40 years ago government aid to developing countries outstripped private financial flows, now more than 80% of all financial flows from developed to developing countries are from private sources. In 2014 international Official Development Assistance (ODA), as measured by the Organisation for Economic Cooperation and Development (OECD) Donor Assistance Committee (DAC), stood at about \$135 billion¹, substantially less than foreign direct investment of approximately \$680 billion and remittances of about \$430 billion to developing countries.²

In this context, with the international community’s agreement of the 2030 Agenda for Sustainable Development in 2015 came a new consensus on the need for deployment of both public and private resources to achieve these Goals. Underlying this consensus is the estimated annual finance gap of \$2.5 trillion between the investments required to achieve the Sustainable Development Goals (SDGs) and current annual investments in developing countries (Table 1).³ While this gap appears large, it constitutes just 1.1% of the value of global capital markets controlled by the private sector, estimated at \$218 trillion.⁴ Hence there is considerable interest in the potential to leverage private sector resources to deliver development outcomes at a large scale, and achieve the SDGs.

¹ All dollar figures in this paper are in USD unless otherwise noted.

² Center for Global Prosperity (2013), *The Index of Global Philanthropy and Remittances 2013*, Hudson Institute, accessed at <https://www.hudson.org/research/9914-2013-index-of-global-philanthropy-and-remittances-with-a-special-report-on-emerging-economies> on 12/01/2017.

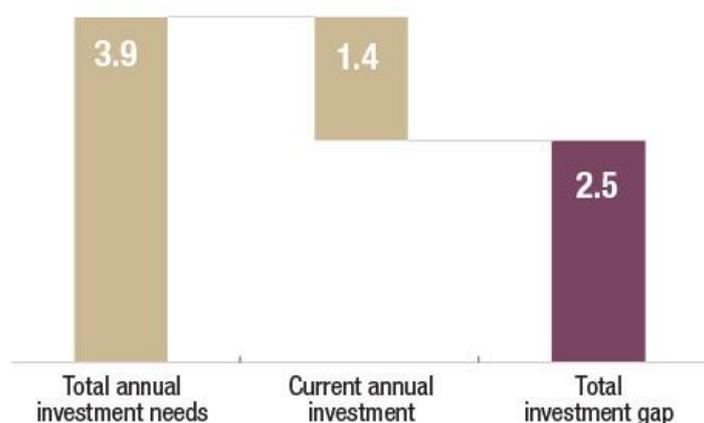
³ UNCTAD (2014), *World Investment Report 2014: Investing in the SDGs: An Action Plan*, United Nations Conference on Trade and Investment, Geneva, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf accessed on 17/01/17. While this gap appears enormous, it constitutes just 3% of global GDP, 14% of global savings, or 1.1% of the value of global capital markets (estimated at \$218 trillion).

⁴ Sachs, J. (2014), *Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships*, United Nations Sustainable Development Solutions Network (UNSDSN), http://unsdsn.org/wpcontent/uploads/2014/11/Full-FSD-draft-for-public-consultation_clean.pdf cited in OECD (2016), *Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities*, OECD Publishing, Paris. Available at <http://dx.doi.org/10.1787/dcr-2016-en>.

Table 1. SDG Investment Gap

Estimated investment gap in key SDG sectors, 2015-30

Trillions of USD, annual average



Donor awareness of the potential to work with the private sector to achieve better aid outcomes has been growing for some time. In Australia in 2014 this manifested in Foreign Minister Julie Bishop’s announcement of a *new aid paradigm* to govern delivery of Australia’s program of foreign aid. The *new aid paradigm* requires Australian government agencies to be more innovative and catalytic in aid programming. It provides Ministerial endorsement for efforts to engage with any organisations that have the capability to deliver results, particularly highlighting the potential benefits of partnering with the private sector.⁵ The subsequent Ministerial Statement on engaging the private sector in aid and development released in 2015 went on to identify philanthropic foundations as having an important role in this regard:

Experience demonstrates that philanthropic foundations [and others].. will be key to our collaboration with the private sector. Globally, businesses are seeking to access the specific capabilities of these groups to support their social impact and sustainability work.⁶

Private philanthropy international flows

Available data suggests private philanthropy – particularly through philanthropic foundations – is on the rise around the globe and has emerged as an important development actor. While the fragmented nature of philanthropy and lack of available data in many countries make estimates of philanthropic giving difficult,⁷ several sources provide indications of its significance. In its 2013 publication *The Index of Global Philanthropy and Remittances*, The

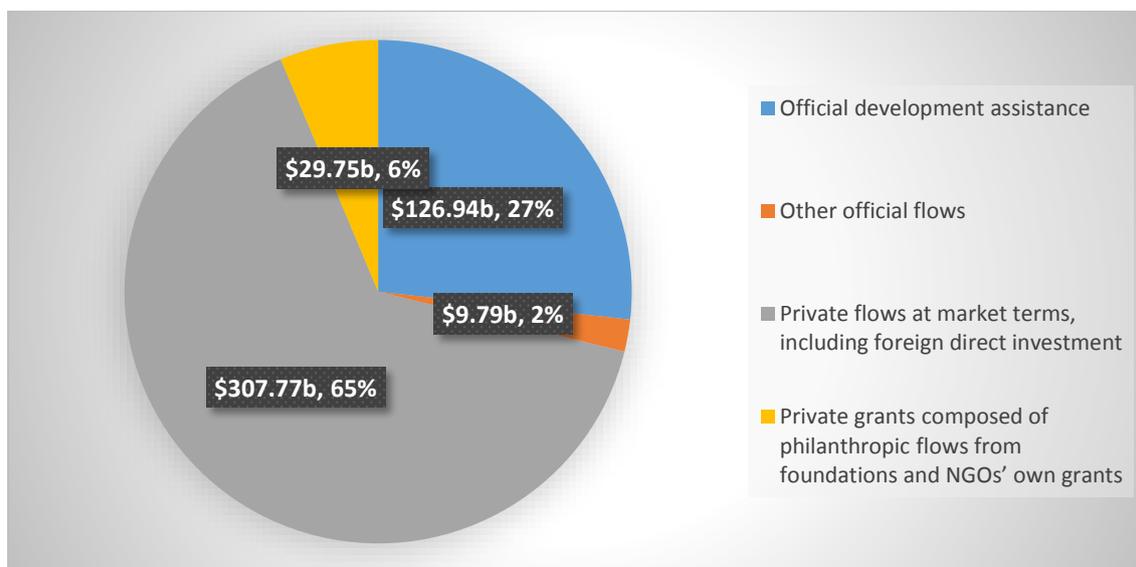
⁵ *The New Aid Paradigm* speech, available at http://foreignminister.gov.au/speeches/Pages/2014/jb_sp_140618.aspx accessed on 19/01/17.

⁶ DFAT (2015) *Creating Shared Value Through Partnership: Ministerial Statement on Engaging the Private Sector in Aid and Development*, available at <http://dfat.gov.au/about-us/publications/aid/Pages/creating-shared-value-through-partnership.aspx> accessed on 23/01/2017.

⁷ As an example of such difficulties is provided by the Center for Strategic and International Studies, which in 2004 estimated global Islamic philanthropy at between USD200 billion and USD1 trillion annually, allowing a significant range for error. Alterman, J. B., & Hunter, S. (2004). *The idea of philanthropy in Muslim contexts*. Washington, DC: CSIS.

Hudson Institute reported \$59 billion in global philanthropic finance flows from developed to developing countries, with \$39 billion from the United States alone surpassing United States ODA that year.⁸ Meanwhile, the OECD estimates that philanthropic contributions to development multiplied ten-fold over the course of a decade, from \$3 billion in 2003 to almost \$30 billion in 2012⁹, representing some 6 per cent of resource flows from all donor countries at that time.

Table 2. Philanthropy: A small slice of the external finance pie in 2012



Total net resource flows from DAC donors to developing countries, 2012 (net disbursements, \$ billion)
 Source: OECD (2014), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), <http://dx.doi.org/10.1787/data-00072-en>.

The ten-fold increase in philanthropy reported by the OECD likely reflects not only the increase in private wealth generated by the remarkable growth of the world economy over the past thirty years, but also increased efforts to collect data on private philanthropic activities.

3. Who are these philanthropists?

While the above figures include a mix of sources of private giving (from small donations by individuals to much larger institutional giving), this paper will focus on the organised giving of resources through institutions with specific legal and/or organisational characteristics – generally known as philanthropic foundations. These organisations are accorded different cultural, institutional and legal treatments around the world, making it difficult to formulate a global definition of what constitutes a philanthropic foundation. But the OECD Development Center describes them as independent, non-profit organisations with their own resources that work locally, regionally and internationally to improve the lives of citizens.¹⁰ It is these types

⁸ Center for Global Prosperity (2013), *The Index of Global Philanthropy and Remittances 2013*, Hudson Institute, accessed at <https://www.hudson.org/research/9914-2013-index-of-global-philanthropy-and-remittances-with-a-special-report-on-emerging-economies> on 12/01/2017.

⁹ Missika, B. and Romon, E. (2014), "Foundations as development partners", *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/dcr-2014-en>.

¹⁰ Missika, B. and Romon, E. (2014), "Foundations as development partners", *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/dcr-2014-en>.

of organisations – with capacity to define their own objectives, mobilise resources accordingly, and participate in institutional partnerships – that are the focus of this paper.

Philanthropic foundations make interesting potential international development partners as they share at least some of the characteristics of traditional donor development agencies:

Private foundations and official aid agencies are both committed to improving peoples' lives and expanding their choices. They face similar challenges in terms of project selection, supervision, and the need to balance the achievement of immediate targets against the need for long-term capacity building.¹¹

On the other hand, their private nature means philanthropic foundations respond to a different set of incentives and accountability structures than government donors, and are able to work in different ways. The challenge then for public and private sector stakeholders is to identify where interests converge, and to learn from and leverage one another's strengths to achieve better development outcomes.¹²

4. Global philanthropy

There are reportedly over 200,000 philanthropic foundations around the world, including over 100,000 in the United States alone¹³, as well as fast growing sectors in Europe, Asia, Africa and Latin America. According to the Mastercard Foundation, the largest 1,000 foundations globally represent around \$25 billion in annual grant funding.¹⁴

Unlike regular reporting by donor countries on their ODA contributions to the OECD DAC, there is no single consolidated and verifiable data bank providing detailed statistics on philanthropic grants and other resource flows to developing countries. There are a few online platforms which provide a variety of relevant data. Among these, sdgfunders.org supports UNDP's SDG Philanthropy Platform (see section 6 for further detail) to track financing and implementation of the Sustainable Development Goals. It identifies the top ten philanthropic foundations globally in terms of their contributions between 2010-2013 to targets subsequently identified in the Sustainable Development Goals (as outlined in Table 3).¹⁵ While the data do not disaggregate contributions to developed or developing countries, the list will suffice for illustrative purposes.

¹¹ Scott, S., Adelman, C., Sebag, R., & Ruiz, C. A. (2003). Philanthropic foundations and development co-operation. *DAC Journal*, 4(3), 73-148, p11.

¹² DAC membership confirms a country's commitment to promoting international development. From <http://www.oecd.org/dac/joining-the-development-assistance-committee.htm> accessed on 17/01/17.

¹³ Stuckler D, Basu S, McKee M (2011) Global Health Philanthropy and Institutional Relationships: How Should Conflicts of Interest Be Addressed? *PLoS Med* 8(4): e1001020. doi:10.1371/journal.pmed.1001020

¹⁴ Johnston, Chris, 2015. "Philanthropy and the post-2015 development agenda." The Mastercard Foundation. Accessed at <http://www.mastercardfdn.org/philanthropy-and-the-post-2015-development-agenda/> on 06/01/17.

¹⁵ <http://sdgfunders.org/sdgs/>

Table 3: Largest philanthropic contributors to SDGs 2010-13

Foundation	Contribution (\$ billions)
Bill & Melinda Gates Foundation	\$12.44
Ford Foundation	\$1.82
The Susan Thompson Buffett Foundation	\$1.36
Walton Family Foundation, Inc.	\$1.36
The Robert Wood Johnson Foundation	\$1.25
Nationale Postcode Loterij	\$1.11
Vanguard Charitable Endowment Program ¹⁶	\$1.09
W. K. Kellogg Foundation	\$1.09
Foundation to Promote Open Society	\$0.96
Gordon and Betty Moore Foundation	\$0.93

Notably all but one of the ten organisations listed are US-based foundations.¹⁷ Even when expanded to include the top 25 philanthropic foundations, only one other non-US organisation appears. Otherwise the list is made up of big American foundations that are active in a variety of developing countries and international development forums. These include names prominent in business and philanthropic circles, if not in general cultural discourse, such as: Packard; Hewlett; MacArthur; Chuck Feeney’s Atlantic Philanthropies; Bloomberg; George Soros’ Open Society Institute; Rockefeller; Helmsley; The Oak Foundation; and Wal-Mart.

The Bill and Melinda Gates Foundation

The Gates Foundation is the clear outlier in the list above, contributing more than the other top nine foundations combined. Indeed, the volume of its contributions overshadow all other global philanthropic actors. In 2014 (most recent data available), the Gates Foundation’s total contributions of \$2.9 billion (increasing from \$2.8 billion in 2013) to international development outpaced the respective contributions of fifteen of the twenty-eight OECD DAC donors at that time. It is the only philanthropic organisation to report to the OECD on its activities with developing countries.¹⁸

The Gates Foundation is a significant donor in its own right across a range of global health, food security and financial inclusion funds and agencies.¹⁹ Women and girls empowerment is another priority. But the Gates Foundation’s focus is largely weighted to international health, providing about three quarters of all philanthropic funding in that sector.²⁰ According to the

¹⁶ The Vanguard Charitable Endowment Program is an independent public charity offering a donor-advised fund which utilizes Vanguard mutual funds as investment options. Available at https://www.bogleheads.org/wiki/Vanguard_Charitable_Endowment_Program accessed on 10/01/17

¹⁷ The Nationale Postcode Loterij (National Postcode Lottery) is a corporate foundation in the Netherlands. Available at https://en.wikipedia.org/wiki/Nationale_Postcode_Loterij accessed 10/01/17.

¹⁸ Mark Suzman, the Gates Foundation’s President of Global Advocacy, authored Chapter 8 of the OECD’s Development Cooperation Report 2015: *The Gates Foundation’s experience with successful development partnerships*.

¹⁹ These include, for example: the Global Fund for Fighting AIDS, Tuberculosis and Malaria; Gavi, the vaccine alliance; the World Health Organisation; the Global Polio Eradication Initiative; Global Agricultural and Food Security Program; AgResults; Consultative Group for International Agricultural Research; Consultative Group to Assist the Poor; United Nations Capital Development Fund.

²⁰ Foundationcenter.org

OECD “[t]he Gates Foundation is the fourth-largest international source of funds for health after the United States, the Global Fund for Fighting AIDS, Tuberculosis and Malaria (the Global Fund), and the United Kingdom.”²¹ In 2015, only the United States and the United Kingdom provided more funding to the World Health Organization – a United Nations body – than the Gates Foundation.

Bill and Melinda Gates, as co-chairs of their foundation, regularly meet with political leaders to lobby for key development investments and interests, and participate in national and international events to focus attention on issues the Foundation champions. Illustrating their proximity to some significant decisions from the highest levels of government in 2015 – not long after the Gates Foundation announced a new focus on malaria eradication – the United States and United Kingdom governments entered into multi-billion dollar malaria eradication commitments,²² in the case of the United Kingdom in partnership with the Gates Foundation. Moreover, at the United Nations Framework Convention on Climate Change conference held in Paris in November 2015, President Obama announced Mission Innovation, asking governments around the world to commit to doubling their spending on renewable energy research by 2020 (Australia is a member). Bill Gates then separately announced the Breakthrough Energy Coalition, a group of billionaire philanthropists and venture capitalists committed to investing in clean energy opportunities emerging from Mission Innovation initiatives.

This example also illustrates the important role that Bill and Melinda Gates play in encouraging more philanthropic engagement in international development, by using the Gates Foundation to illustrate the impacts philanthropic foundations can have. The Gates Foundation has an active Philanthropic Partnerships area within its corporate structure that supports philanthropy and promotes policies enabling philanthropy in its countries of operation. And in 2010, Bill and Melinda Gates joined with Warren Buffett to start The Giving Pledge, an exclusive club that secures the commitment of billionaires to giving at least half of their fortunes to charity during their lifetimes. By the middle of 2016, the Giving Pledge included 154 signatories from 16 countries.²³

Other players

This is not to understate the influence of other philanthropic actors appearing in the “top ten” list above who, taken together, contributed just shy of \$11 billion to SDG targets between 2010-13. Along with the Gates Foundation, The Ford Foundation, Rockefeller Foundation, Robert Wood Johnson Foundation and W.K. Kellogg Foundation are cited as among the pre-eminent foundations supporting the international health sector.²⁴ All these organisations consistently appear in lists of the world’s top 10, 20 and 50 philanthropists. Some of them are among the 32 foundations that contribute about 16 per cent of the World Health Organization’s budget. Taken together they are part of an influential community that engages with governments and multilateral institutions at the highest levels, and which plays an active role in international forums that shape global development policy.

²¹ OECD (2016), p301. It is unclear why the Global Fund is included in this list as it relies itself on funding from donors, including the Gates Foundation.

²² <https://www.gov.uk/government/news/3-billion-pledge-to-help-end-malaria-deaths> accessed on 22/01/2017.

²³ https://givingpledge.org/press/PressRelease_6_1_2016.pdf accessed on 22/01/2017.

²⁴ Stuckler D, Basu S, McKee M (2011) “Global Health Philanthropy and Institutional Relationships: How Should Conflicts of Interest be Addressed?” *PLoS Med* 8(4): e1001020.doi:10.1371/journal.pmed.1001020

The dominance of US foundations reflects a strong culture of institutional philanthropic giving for international causes, which has its genesis in some of the first large philanthropic foundations established in the early 20th century, such as the Carnegie and Rockefeller Foundations.²⁵ But philanthropy is not a uniquely American phenomenon. According to the Worldwide Initiative for Grantmaker Support (WINGS) Report on Global Institutional Philanthropy, there were an estimated 110,000 foundations in the 27 European Union member countries in 2010 (40% of which were established since the early 1990s).²⁶ Some of the largest philanthropic foundations worldwide are found in Hong Kong, the United Arab Emirates, Saudi Arabia, and India.

As data improves and becomes more available, it is likely to capture more philanthropic activity generated by the increasing wealth in emerging economies like India, China and Brazil.²⁷ High Net Worth Individuals from such countries are increasingly establishing or contributing to philanthropic foundations,²⁸ and members of Bill and Melinda Gates' Giving Pledge include figures from India, South Africa, Malaysia, Indonesia, China and Saudi Arabia.

Meanwhile in Australia..

Australia is a small player on the global philanthropic stage, and represented in The Giving Pledge only by Andrew and Nicola Forrest, of mining giant Fortescue Resources. The Australian Charities and Not-For-Profit Commission reported total donations of \$1.11 billion to Australian charities for overseas activities in 2014. India and the Philippines received the majority of support, with Papua New Guinea, Cambodia, Thailand, Indonesia and China among other top recipients. Funding was provided mainly for the purposes of religious or educational advancement; relief from poverty and sickness; and for the needs of the aged.²⁹

The proportion of significant charitable contributions provided by philanthropic foundations as opposed to large numbers of smaller donations from individuals or other groups is unclear. Notable Australian foundations giving internationally include Planet Wheeler Foundation (established in 2008 by Maureen and Tony Wheeler, founders of Lonely Planet Publications), which provides substantial assistance in several South East Asian and East African countries; and Adara Development (headed by Audette Exel, the 2015 Australian Philanthropist of the Year) which has a significant presence in Nepal and Uganda.

5. Business models: means to ends

Alongside global development imperatives, national and geopolitical interests drive government donors' resource allocations to developing countries or multilateral institutions.

²⁵ Missika, B. and Romon, E. (2014), "Foundations as development partners", Development Co-operation Report 2014: Mobilising Resources for Sustainable Development, OECD Publishing, Paris, <http://dx.doi.org/10.1787/dcr-2014-en>.

²⁶ Johnson, Paula D. (2010), *Global Institutional Philanthropy: A Preliminary Status Report*, Worldwide Initiatives for Grantmaker Support, p33. Available online at <http://www.wingsweb.org/>.

²⁷ Grady, Heather (2014), *Philanthropy as an Emerging Contributor to Development Cooperation*. New York: UNDP, p5. Available at www.undp.org/content/dam/undp/documents/partners/civil_society/UNDP-CSO-philanthropy.pdf. Accessed on 22/01/2017.

²⁸ Grady, Heather (2014), p10.

²⁹ Australian Charities and Not-for-profits Commission presentation: *Australian charities involved overseas*. Available at <http://acnc.gov.au/sectorbriefing>, accessed on 8/11/2016.

Philanthropic foundations make investment decisions based on much more narrowly defined interests. According to a UNDP report on philanthropy and international development:

[F]oundations' priorities are set principally by themes, which usually stem from the founder's vision of a good society and its building blocks, and whose wishes are interpreted by the current leadership staff and governing board. Living donors and their families have huge influence on spending and what strategy and approaches are used. Corporate foundations consider activities that will maintain or improve the public reputation and profile of the company... In other words, philanthropy priorities are chosen based on profound *internal drivers* much more so than in-depth landscaping and analysis of external context.³⁰

Government donor assistance is generally provided as grant aid or technical assistance to developing country governments, NGOs and communities, or as concessional loans to governments. Traditional government donors are also invested in an international aid architecture that frames the way in which funding decisions and processes occur, including through membership of the OECD's Donor Assistance Committee, the United Nations, and multi-lateral development banks such as the World Bank Group. Although philanthropic foundations can and do contribute to a variety of these agencies' programs, foundations generally do not have access to the governing forums of these international public organisations, to which only nation-states can belong.

As well as more independent decision-making processes, philanthropic foundations are able to be more creative than government donors in regard to how they utilise their funds to achieve particular results. Unfettered by the electoral cycles of government, and with no pressure to deliver financial returns to investors, philanthropic actors enjoy the flexibility to be both innovative and patient with their development efforts, and the freedom to experiment and take risks that traditional international development institutions may not.

Philanthrocapitalism

Philanthropists bring expertise from the business sector and take a problem-solving approach to philanthropy, leveraging financial and non-financial resources and instruments to achieve results.³¹ They are known for talking "the language of business". Judith Rodin, the immediate past President of the Rockefeller Foundation, referred to her foundation's grants as investments to create sustainable change – a portfolio in which risk is balanced, dispersed and hedged.³²

In the quest for efficient and effective philanthropy, foundations often use commercial market instruments to achieve their objectives. The term "philanthrocapitalism"³³ was coined to describe these strategies. For example, in the United States, foundations can make Program Related Investments as loans or equity stakes in a business to help achieve their philanthropic objectives, scale up successes, and regain their investment to recycle through grants or other investments.

³⁰ Grady, Heather (2014), p10.

³¹ OECD netFWD (2014), *Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact*, OECD Development Centre, Paris, p9.

³² Marten, Robert and Witte, Jan Martin, 2008, *Transforming Development, The role of philanthropic foundations in international development cooperation*, Global Public Policy Institute Research Paper Series 10, p8.

³³ *The birth of philanthrocapitalism*, The Economist, 23/02/2006. "Venture philanthropy" is another term with a comparable meaning.

Guarantees are another tool. For example, the Gates Foundation uses its market power to make affordable medical products such as vaccines available to millions of people by providing volume guarantees to pharmaceutical companies in exchange for lower prices. The Gates Foundation in effect promises to buy large volumes of vaccines if they are unable to be sold. In a recent article, Natalia Revelle, the Gates Foundation's Deputy Director for Program Related Investments, explains how this strategy works:

We guaranteed that we would compensate the company if it could not sell a certain volume of pentavalent vaccine over a five-year period. This led the company to expand production of the vaccine and sell it significantly below the market price at the time.

This volume guarantee meant that Gavi, the Vaccine Alliance, to which the Gates Foundation is a major contributor and board member, was able to access more of a particular vaccine at a lower price, enabling increased coverage of the vaccine in question and saving more lives. There are no reports to date suggesting the Gates Foundation has had to pay out on any volume guarantees, illustrating the effectiveness of this market-based strategy.³⁴

Corporate structures

Just as business entities consider which corporate legal structure(s) will help achieve their commercial ends and allow them to maximise profit and minimise tax, philanthropic foundations' corporate structures impact what they can spend their money on, and the types of organisations with which they can engage. For instance, in Australia, while some older organisations are only required to show a 'charitable purpose' in their giving, generally philanthropic foundations can only provide funding to organisations registered with the Australian Charities and Not-for-profit Commission or that have been accorded Deductible Gift Recipient Status by the Australian government. This puts limits on philanthropic foundations' capacities to use commercial tools to achieve their objectives.

With this in mind, philanthropists are coming up with corporate structures that facilitate more creative and flexible philanthropy. For instance, in the United States the Omidyar Network, established by Pierre Omidyar, the founder of e-Bay, has two arms – the first in the form of a traditional United States foundation, the other a Limited Liability Company with capacity to make commercial investments. The Omidyar Network website says:

We are structured to support the notion that philanthropy is more than a type of funding. In its truest sense, philanthropy is about improving the lives of others, independent of the mechanism. Consequently, we work across the social and business sectors, operating both a Limited Liability Company (LLC) and a foundation.³⁵

Another high profile example is the Chan Zuckerberg Initiative (CZI), through which Facebook founder Mark Zuckerberg and his wife Priscilla Chan have promised to give away 99% of the value of their Facebook stock in their lifetimes – estimated at \$45 billion³⁶. Mirroring the Omidyar Network operating model, they have established two organisations to

³⁴ Natalia Revelle, the Gates Foundation's Deputy Director for Program Related Investments, suggests 2017 may be the first year that a volume guarantee is paid out, as a result of other entrants to the market further reducing the cost of the vaccine in question. See <https://www.statnews.com/2016/10/27/strategies-collaboration-global-health/> accessed on 18/01/17.

³⁵ <https://www.omidyar.com/> accessed on 14/01/17.

³⁶ Reported by Forbes magazine, available at <http://www.forbes.com/sites/katiasavchuk/2016/09/14/mark-zuckerberg-sold-285-million-in-facebook-stock-in-past-month-for-charity/#745a2912eaf5>. Accessed on 14/01/17.

conduct this work: the Chan Zuckerberg Foundation and CZI Holdings, a Limited Liability Company and therefore a for-profit commercial entity.

Impact Investing

Both the CZI and Omidyar Network models are ostensibly set up to facilitate investing for social and environmental impact as well as financial return³⁷ – known in current parlance as “impact investing”. The global impact investing market is currently valued at \$60 billion and is growing at 8% per year.³⁸ An example is Omidyar Network’s investment in Bridges International Academies, an education company serving the 700 million children in Africa whose families live on less than \$2 a day. The company provides education to more than 100,000 students attending Bridge’s nursery and primary schools across Africa, with planned expansion to Asia soon. By investing early, Omidyar allowed Bridges to prove their business model and attract further follow-on investment from other investors.

This early stage investing by philanthropists can also support the development of the impact investment market by building its investment pipeline. Philanthropic organisations such as Rockefeller and Omidyar have been instrumental in building the impact investment market by supporting organisations such as the Global Impact Investment Network, which connects investors with investment opportunities and builds market infrastructure such as impact measurement tools and publicly available market research.

Influence

In addition to providing access to different commercial and financial tools, the LLC structure provides powerful opportunities to influence public policy debates, lobby for legislative reforms and even fund political campaigns. Non-profit entities and foundations in the United States are more restricted in the activities they can pursue.³⁹ Mark Zuckerberg and Priscilla Chan refer to these intentions in launching the Chan Zuckerberg Initiative:

We must participate in policy and advocacy to shape debates. Many institutions are unwilling to do this, but progress must be supported by movements to be sustainable.⁴⁰

CZI has moved quickly on this promise. Employing common private sector and philanthropy strategies of appointing politically well-connected people to key positions, Mark Zuckerberg recently announced the appointment of several influential former political officials to CZI. These appointments, with deep connections to both sides of US politics, illustrates CZI is serious about influencing US domestic policy to achieve its objectives.⁴¹

³⁷ <https://www.omidyar.com/> and <http://www.forbes.com/sites/katiasavchuk/2016/09/14/mark-zuckerberg-sold-285-million-in-facebook-stock-in-past-month-for-charity/#745a2912eaf5>, accessed on 14/01/17.

³⁸ Abhilash Mudaliar, Hannah Schiff, Rachel Bass, “Annual Impact Investor Survey, the Sixth Edition,” Global Impact Investing Network (GIIN), May 2016. Available at <https://thegiin.org/knowledge/publication/annualsurvey2016>, accessed on 22/01/2017.

³⁹ <http://www.cnbc.com/2015/12/02/mark-zuckerbergs-unusual-method-of-charitable-giving.html> accessed 14/01/17.

⁴⁰ <https://www.facebook.com/notes/mark-zuckerberg/a-letter-to-our-daughter/10153375081581634/>. In another post Zuckerberg explained why CZI was to be set up as an LLC: <https://www.facebook.com/zuck/posts/10102507695055801>.

⁴¹ <https://www.facebook.com/zuck>. David Plouffe, former adviser to and campaign manager for President Barack Obama’s presidential campaign, was appointed as President of Policy and Advocacy; and Ken Mehlmann, who formerly ran the Republican National Committee and served as campaign manager for former US President George Bush, as the leader of CZI’s policy advisory board.

The CZI developments are perhaps the current zenith of the “strategic giving” movement, which spawned philanthrocapitalism and which is associated with the growth of institutional philanthropy over the last several decades.⁴² It reflects a growing consciousness within the philanthropic community globally about the need to engage with and influence governments – and the substantial resources, governance power and access to international diplomatic networks they bring to the table – in order to achieve larger scale and sustainable development impacts.

6. Foundations and development forums

With this in mind, some philanthropists and philanthropic foundations are beginning to engage more in public international development forums to influence the design of the global development framework within which they operate.⁴³ For instance, the 32 philanthropic foundations providing about 16 per cent of the World Health Organization’s funding in 2016⁴⁴ are not able to take part in WHO decision-making processes. But their engagement offers opportunities to influence other partners who do take part in those processes.

In another example, a number of foundations, including the Gates Foundation, Ford Foundation, and the Rockefeller Foundation were involved in the negotiation of the Sustainable Development Goals, often in support of developing country delegates but also through their own initiatives. For instance, The Rockefeller Foundation supported the Bellagio Initiative, a series of consultations conducted in 2012 by the Institute for Development Studies to explore the potential for philanthropy to contribute to development. The Bellagio Initiative ultimately proposed 12 development goals for consideration.⁴⁵

There are many other examples of philanthropic foundations working in partnership with government or multilateral institutions on international development issues, and it is clear that philanthropic foundations – certainly those of the calibre identified elsewhere in this paper – increasingly see a legitimate role for themselves in influencing and setting international development policy.⁴⁶

The philanthropy / donor interface

There is growing recognition within the donor community of the potential benefits of partnering with philanthropic foundations, to leverage their resources, networks and expertise – especially in relation to the private sector. A number of major donors have indicated their interest in partnering with philanthropic foundations but engagements to date, even though significant, have been ad hoc and opportunistic. One major bilateral donor commented that their government agency had no point of coordination for engaging with philanthropic foundations and that “well, maybe we should.”⁴⁷

⁴² Johnson, Paula D. (2010),

⁴³ Missika, B. and Romon, E. (2014).

⁴⁴ Specialist Health Services, *Philanthropic foundations’ contributions to international health multilateral organisations*, unpublished report commissioned by DFAT, 27 June 2016, p5. Available on request.

⁴⁵ <http://www.ids.ac.uk/project/the-bellagio-initiative>

⁴⁶ Convergence: Philanthropy and the SDGs: Back to Office Report. According to a staffer, The Rockefeller Foundation see themselves as an international public policy advocate who choose their partners (eg. United Nations, the World Bank etc) and design their programs with specific policy reform objectives in mind. Rockefeller also engage with corporate partners to develop and promote business practices that provide a better social impact as well as a financial return.

⁴⁷ Interview with DFAT donor contact.

In terms of Australia's aid program, there are only a limited number of formal partnerships or agreements with philanthropic foundations, including with Bloomberg Philanthropies on the \$100 million Data for Health Initiative⁴⁸ and the United Nations Foundation in support of the Business and Sustainable Development Commission. DFAT also engages closely with the Gates Foundation in the Global Fund; Gavi, the Vaccine Alliance; the Global Agriculture and Food Security Program; and the G20's AgResults program for innovative agricultural research and delivery. DFAT continues to explore the potential to partner further with philanthropic foundations in Australia and internationally.

The increasing profile of philanthropic foundations has seen a number of forums established to promote partnership with the donor community, developing countries and philanthropic foundations, as well as better coherence within the philanthropic sector itself.

In 2012, UNDP developed a Strategy for Engagement with Foundations to "support the philanthropic sector's contribution to international development by engaging in long term partnerships which strategically contribute to UNDP high impact development results."⁴⁹ Then, in 2015, UNDP – with assistance from the Foundation Center and funding from the Conrad N. Hilton Foundation, the MasterCard Foundation, the Ford Foundation and others – established the SDG Philanthropy Platform. This forum seeks to engage the philanthropic community in the 2030 Agenda for Sustainable Development and to promote partnership with government, civil society, and the private sector. Indonesia, Colombia, Kenya and Uganda host SDG Philanthropy Platforms supported by UNDP. In September 2016, the US Council on Foundations announced it would host the United States' SDG Philanthropy Platform.⁵⁰

Meanwhile, in 2013 the OECD's Development Center established the Global Network of Foundations Working for Development (NetFWD) to "support foundations in their efforts to build partnerships with governments and achieve development objectives"⁵¹. NetFWD developed a set of voluntary Guidelines for Effective Philanthropic Engagement for presentation to the first High-Level Meeting of the Global Partnership for Effective Development Cooperation in 2014, which welcomed the Guidelines and encouraged "multi-stakeholder dialogue and co-operation as appropriate to foster their implementation and follow-up."⁵²

The OECD has also highlighted the strategic importance of philanthropic foundations as development partners in dedicated chapters in its 2014 and 2015 Development Co-operation Reports. Its 2016 report, sub-titled "The Sustainable Development Goals as Business Opportunities", references philanthropy throughout, particularly in regard to blending public and private finance for development (chapter 3) and investing for social impact (chapter 5).⁵³

⁴⁸ DFAT contributed AUD20 million.

⁴⁹ <http://www.undp.org/content/undp/en/home/ourwork/funding/partners/foundations.html> accessed on 18/01/17.

⁵⁰ <http://www.cof.org/news/united-states-first-high-income-pilot-country-sdg-philanthropy-platform-0>

⁵¹ <http://sdgfinders.org/about/>

⁵² <https://www.oecd.org/site/netfwd/theguidelinesforeffectivephilanthropicengagementpepes.htm> accessed on 18/10/17.

⁵³ OECD (2016).

7. Accountability and Effectiveness

Accountability and Transparency

The enthusiasm among international development agencies about the prospect of partnering with philanthropic foundations is not without its critics. Foundations enjoy the flexibility to be innovative and the freedom to take risks, but critics highlight their lack of accountability compared to other development stakeholders. For instance, with most new health aid over the last decade reportedly coming from individuals and corporations, the influence of private philanthropy on global health is profound and transformative.⁵⁴ In a paper on Global Health Philanthropy and Institutional Relationships, Stuckler, Basu and McKee argue:

In the interests of public health, and particularly because poor communities affected by foundations do not automatically have a feedback mechanism to influence the decisions of private funders, we argue that it is appropriate to subject private foundations to the same scrutiny received by public institutions.⁵⁵

While there are also criticisms and calls for reform of existing international development institutions to ensure a voice for developing countries, these are set within a governance framework that provides avenues for their voices to be heard. A series of international commitments, beginning with the Paris Declaration in 2005, have also been concluded to promote aid effectiveness, better donor coordination, and harmonisation of donor efforts with recipient country systems. Donors have since reaffirmed and built on these principles through the 2008 Accra Agenda for Action; the 2011 Busan Partnership for Effective Development Cooperation; and again at the Global Partnership for Effective Development Cooperation High Level Meetings in Mexico in 2014 and in Kenya in 2016. The Gates Foundation is the only philanthropic foundation to sign on to any of these agreements, at Busan in 2011. “Philanthropy” was identified as a development partner for the first time in the communique from the High Level meeting in Mexico, and only a handful of foundations have been present at or are even aware of such processes.⁵⁶

There are generally no development effectiveness or accountability mechanisms or processes in place for the philanthropic sector, and no common principles to guide their activities. An exception is the Principles of Accountability for International Philanthropy⁵⁷ developed in 2012 by industry organisations including the US Council on Foundations and the European Foundation Center. However, it is difficult to ascertain which foundations might have adopted these Principles.

In response to increasing involvement of foundations and other non-government stakeholders, in May 2016 the World Health Organization (WHO) adopted a Framework of Engagement with Non-State Actors to ensure that such engagements are transparent, accountable and consistent. This is the first such Framework to be applied by a United Nations entity. If philanthropic and other private sector organisations continue their level of engagement with public international institutions it seems likely, according to a *Specialist Health Services* paper on philanthropic foundations’ contributions to health multilateral

⁵⁴ Stuckler D et al (2011)

⁵⁵ Stuckler D et al (2011)

⁵⁶ Grady, Heather (2014), p10.

⁵⁷ The Seven Principles of Accountability for International Philanthropy are: Integrity; Understanding; Respect; Responsiveness; Fairness; Cooperation and Collaboration; and Effectiveness.

organisations, there will be some pressure on other international organisations to follow suit.⁵⁸

Effectiveness

There is scope for philanthropic foundations to consider issues of policy coherence in the same way as traditional donors and, as appropriate, seek to address any inconsistencies. In relation to ODA, a government donor can harm the same farmer it is helping through its aid program by erecting trade barriers. Similarly, a foundation's commercial investments – its sustainable funding source – might reduce or render meaningless the net benefit of its philanthropic activities. For instance, a foundation might aim to fight non-communicable diseases while its endowment is invested commercially in companies producing sugary drinks or salty food that contribute to non-communicable diseases.⁵⁹

A recent study of philanthropic foundations' contributions to multilateral health funds suggested that private foundations may be attracted to new funding mechanisms or multilateral agencies where they can exert more influence. The Gates Foundation set up Gavi, the Vaccine Alliance, to be able to attract and receive philanthropic, government and commercial funding, and to be able to use creative commercial instruments such as Program Related Investments and guarantees. In this way, they are able to operate unconstrained by the processes of existing institutions which might otherwise have exercised this function. There are, however, concerns about the creation of new forums, especially in the crowded health sector, which could duplicate existing mechanisms and constrain the most effective use of overall resources.⁶⁰

8. Implications for donors

The 2030 Agenda for Sustainable Development provide the international community with a common set of objectives for all development actors. The \$2.5 trillion annual shortfall between available resources and those needed to achieve the SDGs means engaging with all partners with capacity to contribute.

Philanthropic foundations bring significant resources to the international development arena, and leverage those resources through various financial and market mechanisms to optimise the potential impacts of their activities. Philanthropists also influence governments, private sector actors and other philanthropists to direct resources toward their objectives.

Philanthropic foundations are increasingly engaging in forums that shape the global development environment. For instance, some foundations were involved in negotiations for the 2030 Agenda and Sustainable Development Goals. The Gates Foundation, the Ford Foundation and Rockefeller Foundation are just a few among a group of proven development

⁵⁸ Specialist Health Services, *Philanthropic foundations' contributions to international health multilateral organisations*, unpublished report commissioned by DFAT, 27 June 2016, pp2-3. Available on request.

⁵⁹ <http://www.progressive.org/news/2016/01/188490/why-philanthropy-hurts-rather-helps-some-worlds-worst-problems>. There are efforts by various groups to apply public pressure to philanthropic foundations to divest from investments like fossil fuels, due to their contribution to climate change. Notably, the Rockefeller Foundation has divested all its holdings in Exxon, with which it is in a dispute over claims that Exxon financed climate change deniers to support their own business interests. Ironically Standard Oil, which became Exxon, was the original source of Rockefeller wealth.

⁶⁰ Specialist Health Services, *Philanthropic foundations' contributions to international health multilateral organisations*, unpublished report commissioned by DFAT, 27 June 2016, pp2-3. Available on request.

partners that is likely to grow as an increasing number of foundations become engaged in international development.

Philanthropic foundations are valuable partners for the resources, expertise and influence they can bring to bear – particularly in the private sector, which is the most prospective potential source of any significant growth in resources for development. Working with philanthropic foundations and actors could help shape an environment that unlocks the resources needed to close the \$2.5 trillion financing gap and achieve the 2030 Agenda, and which helps set the parameters for using those resources.

Put simply, it is time for philanthropic foundations to become more firmly entrenched in the international development community tent.

Advocacy

There is scope for government donors to partner with foundations to amplify shared development messages to a range of private sector stakeholders that otherwise might not be reached, for instance to increase understanding of the SDGs and the SDG funding gap, and of opportunities to close the gap through engaging in impact investing. Examples like Bill Gates' Breakthrough Energy Coalition, which proposes to use private sector resources to scale up new clean energy technology, provide excellent reference points for the private sector.

To do this, donors will need to recognise and engage with philanthropic foundations as they do with other government and multilateral partners. It does not require new skills, only the application of core expertise in analysis, advocacy and messaging. UNDP's SDG Philanthropy Platform and the OECD's NetFWD lead the way in international institutions' efforts to engage the philanthropy community more broadly. Bilateral and multilateral donors may consider creating other spaces dedicated to engaging with the philanthropic community, to learn from one another and explore opportunities for collaboration.

Transparency and Accountability

While there appears to be general acceptance of a place for philanthropic foundations in many international development policy forums, inadequate accountability and transparency standards may need to become more robust to meet donor expectations. Partnering with public international development actors may require philanthropic foundations to adjust their modes of operation. The WHO FENSA provides an example of what may become – in the absence of other mechanisms – a prototype for other such frameworks or principles that apply to philanthropic foundations' engagements in international development. Other international development actors may also follow the OECD and UNDP's lead, by agreeing principles to help guide engagements with philanthropic foundations.

In the interests of development effectiveness as well as to manage reputational risks, donors could consider to what extent they require detailed information on philanthropic foundations' commercial investments before entering into partnerships. For example, it may defeat the purpose to engage in a climate change partnership with a philanthropic foundation that invests heavily in fossil fuels to finance its activities.

9. Conclusion

Philanthropic foundations possess an appetite for risk and innovation, business skills and networks of influence – including, importantly, in the private sector – which they bring to bear in their endeavors. The sector is increasingly looking to improve the impact and sustainability of their efforts by partnering with other development actors, including by engaging in global development forums.

Meanwhile, traditional donors offer development knowledge and expertise, as well as influence in state-based policy processes and forums – which can be key to building the systems needed to achieve sustainable development solutions. Donors’ convening power, and their capacity to bring a variety of development actors to sit together at the table is another, perhaps under-valued, distinguishing feature.

With over 200,000 philanthropic foundations worldwide, and growing, current donor engagement with the global philanthropic community is potentially just the tip of the iceberg. Philanthropic foundations’ increasing engagements in international development suggests a provide space for their engagement in international development forums. Such efforts may also see a renewed focus on transparency and accountability requirements of all development partners, to encourage more effective development practices and unlock opportunities to create new partnership networks that can assist to achieve the 2030 Agenda for Sustainable Development.