

Lundsgaarde, Erik

**Research Report**

## Complementarity in development: bringing private foundations on board

Briefing Paper, No. 10/2013

**Provided in Cooperation with:**

German Institute of Development and Sustainability (IDOS), Bonn

*Suggested Citation:* Lundsgaarde, Erik (2013) : Complementarity in development: bringing private foundations on board, Briefing Paper, No. 10/2013, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199710>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



## Complementarity in Development: Bringing Private Foundations on Board

### Summary

One key challenge facing OECD-DAC donors at present is how to enlarge the community of actors committed to principles of effective aid delivery. The recently established Global Partnership for Effective Development Cooperation signals that global efforts to promote development goals will increasingly involve managing diversity by exploiting the relative strengths of OECD-DAC donors, public development cooperation providers beyond the OECD-DAC community, and a multitude of private actors, whether civil society organisations, firms, or private foundations.

In the context of stagnant official development assistance (ODA) flows, private foundations have been considered an important alternative source of development finance and a category of actors contributing to the transformation of the development cooperation landscape. While foundation funding for development remains miniscule in comparison to global ODA, it has significant future growth potential. This briefing paper outlines the main characteristics of foundations as development actors and identifies key areas where OECD-DAC donors and foundations can create a basis for complementary action.

The additional financing that foundations provide can add value in development cooperation if it is directed towards underfunded areas in partner countries. Identifying neglected areas of investment and compensating for funding gaps from other actors can nevertheless be difficult due to deficits in information management systems in partner countries as well as the limited scope of reporting on development activities funded by governments, donors, and a diverse array of non-state

actors. In addition to supporting country systems for information management, foundations and OECD-DAC donors need to establish a firmer basis for complementary action by:

- promoting incremental reporting standards that encourage small organisations to increase the availability of information about their investments;
- systematizing data on investments from diverse aid providers to a greater degree. Transparency about giving from individual organisations that report in a dispersed manner is not sufficient in and of itself to assist governments, partners, and other aid providers in identifying neglected funding areas and fruitful options for cooperation. Greater use of existing aid management platforms can help to improve systematization.

Foundations are also considered to add value to global development by supporting innovations in development practice. Due to their small scale, however, foundation-supported initiatives may not translate into broad development success stories if exchange on best practice and cooperation with other aid providers is not promoted. To improve the visibility of innovative approaches and enable knowledge transfer, foundations should therefore commit to strengthening peer networks at different levels: in platforms specific to the regions and countries where investments are disbursed, within OECD-DAC donor countries, and at the global level. National and global foundation platforms offer useful interfaces for bilateral and multilateral donors to exchange information with foundations and explore possibilities for cooperation.

### Foundations in global development: key characteristics

Foundations working in global development are a diverse group, though the funding landscape is dominated by a small number of large foundations with a strong global profile. The growing significance of the Bill and Melinda Gates Foundation in this field has drawn attention to this category of aid providers. Gates Foundation giving is exceptional: it alone provided close to USD 2 billion for global health and development programs in 2010, accounting for nearly half of international foundation funding from the United States. In the United Kingdom, foundations are estimated to provide some USD 430 million annually for global development. The US and the UK are the most important sources of documented foundation giving for development. By comparison, OECD-DAC donors provided some USD 128 billion in ODA in 2010.

Claims that foundation giving may displace official aid flows result in part from the conflation of foundation funding with other types of private assistance. The term 'foundation' can itself refer to a variety of organisational forms differing in terms of their funding source and operational mandate (see Table 1). Private foundations are commonly distinguished from other non-governmental and non-profit actors due to their autonomous source of financing. While this holds true for well-known foundations such as the Ford or Rockefeller foundations, other foundations may be financed by regular contributions from a firm or receive funding from diverse public and private sources. For example, the Clinton Foundation depends largely on donations and serves as an implementing partner for donor governments. Many foundations are grant giving organisations disbursing funding through various public and private channels, providing support through multilateral organisations, public and private research institutions, or international and domestic non-governmental organisations.

**Table 1: Organisational varieties in the foundation sector**

Endowed foundations	Corporate foundations	Fundraising foundations
Constant income stream provided from founding capital	Independent organisation, but financially dependent on firm	Capital originates from donations
Source: Author		

The ability to mobilise and spend funding independently affords foundations more freedom than other actors in setting priorities and determining how aid should be disbursed. Organisational independence is also perceived to give foundations the ability to take risks and to support innovations in development practice, whether by identifying and investing in areas neglected by other funders, transferring practices into new

fields, or testing new approaches through pilot initiatives. In contrast to OECD-DAC donors, foundations typically fund work in narrow thematic areas, a logical orientation given their smaller scale. Such specialisation can be advantageous in achieving measurable results, but can pose challenges in addressing systemic issues. Although foundations may be able to support successful initiatives within narrow areas, they are generally not large enough to scale-up successful projects on their own. This implies that foundation outreach with other aid providers is necessary in order to link successful projects to broader development outcomes and to increase the sustainability of the initiatives they fund.

### Promoting additionality and complementarity in foundation giving

Several factors can hinder foundations from contributing additional resources for development where there is unmet need. Firstly, many foundations have strong ties to the cities and regions in which they are based and direct their giving toward local initiatives. Secondly, small organisations in particular may lack the capacity to conduct assessments of development challenges in diverse country contexts and to adequately monitor their investments. Foundations need to weigh their decisions to disburse funding for development against the transaction costs that additional financing can entail for grant recipients. To limit country-level transaction costs, foundations can alternatively finance development-oriented work in their countries of origin (scholarships for foreign students, support for development education) or contribute to pooled funding mechanisms. Given that foundation grant recipients typically rely on funding from multiple sources, those funders that decide to invest internationally should encourage the more widespread use of common reporting formats.

A third challenge in exploiting funding from foundations to address development needs concerns the availability of information about global and country-level funding gaps. There are two key dimensions of this problem. The first relates to the identification of funding needs and the second to the collection of data on existing commitments from governments, donor countries and private aid providers to address these needs.

Consistent with the principles of aid and development effectiveness promoted by the OECD-DAC community and partner governments, the responsibility for setting funding priorities and identifying areas of unmet need should lie primarily with partner countries themselves. However, partner governments in many cases do not have the capacity to adequately collect and disseminate data on national and sub-national development deficits. Strengthening the capacities of partner countries to collect data and manage information is a prerequisite for promoting complementarity between private aid providers such as foundations, public aid providers, and partner country governments. At the global level, the capacity of international organisations to collect data on funding needs across countries and thematic areas can also be improved.

At the country level, the identification of funding gaps and the pursuit of complementary areas of operations also demand improvements in the extent to which governments and external aid providers of various stripes report their investments across different thematic areas and regions. In addition to strengthening country-level information management systems, addressing this issue requires a greater commitment to providing accurate data within national aid management platforms. While tracking external financial flows is a common challenge faced by many different aid providers, private foundations face particular reporting challenges at country level due to their limited operational presence, the importance of regional programming, and their reliance on third organisations for implementation. In order to limit the reporting burden on small organisations in particular, efforts to better document development financing need to advocate an incremental approach, encouraging more detailed reporting as organisational capacities for reporting increase.

Such organisational limitations also hinder foundations in achieving complementarity through coordination with other aid providers. A study of private foundations involved in development cooperation in Tanzania revealed that although many foundations are not averse to engaging with governmental actors and have various channels for sharing information at national and sub-national levels, they generally operate independently of national aid management structures. Because few foundations can operate on the scale of public donors, integrating them into national coordination structures is also not necessarily an efficient solution for dealing with communication deficits. Nevertheless, the dispersed nature of information flows about foundation activities means that many aid providers may be oblivious to areas of overlap or opportunities for closer collaboration. Identifying focal points within partner country governments and in donor coordination groups for liaising with foundations and other private aid providers offers one way of dealing with this issue.

### **Fostering innovation and the diffusion of best practice**

Improvements in information collection at the country level on the scale and nature of private foundation flows are also needed in order to assess what innovations in development practice foundation funding have enabled and to identify how lessons learned from innovative programmes can be transferred to broader communities of learning. Many foundations have links to the business world and a special interest in demonstrating effectiveness. In emphasizing results-based management, they share common ground with many OECD-DAC donors. The small scale of foundation investments can nevertheless create a gap between project effectiveness and aid and development effectiveness on a national scale. Closing this gap requires building networks and strengthening partnerships with governmental actors and other aid providers.

One prerequisite for foundations to pursue innovations in development practice is an awareness of initiatives that have already been tried and proven effective in particular sectors and regions as well as the lessons learned from past programmes that were unsuccessful. It is thus important for foundations themselves to develop and strengthen networks of practice that facilitate knowledge sharing on cutting edge approaches to addressing development challenges. With the possible exception of a handful of large foundations, the direct peers of private foundations are foundations and other private aid providers that prioritize narrow themes in development financing and limit the geographical scope of their engagement. Networks of best practice should be strengthened at multiple levels: within regions and countries where development financing is disbursed, at the national level within donor countries, and internationally.

The limited field presence of foundations can be a barrier to exchanging with other foundations funding development activities in the same regions or countries. Region-specific umbrella groups for grant makers can provide an important platform for sharing information and identifying complementary areas of work. One example is the Africa Grantmakers' Affinity Group, which currently has 35 member organisations. By attracting a wider circle of funders to platforms that deal with regional or country-specific development challenges, foundations can promote efforts to pool resources and adopt common standards in order to increase the collective impact of their investments.

Because private foundations generally have a national identity, national foundation organisations in OECD-DAC donor countries provide a forum for encouraging greater dialogue on development issues among foundations from the same country and a portal for bilateral aid agencies to relay relevant knowledge on the operational contexts they may be more familiar with. Beyond evaluating and sharing lessons on innovations in practice from foundation-funded programmes and projects, these platforms can also deal with issues such as harmonising reporting requirements for implementing organisations, reconciling experimentation with the need to provide predictable and sustainable support for local populations, and developing strategies for engaging effectively with governmental actors and public aid providers at the country level. OECD-DAC donor outreach to national foundation associations can serve to raise awareness about investment opportunities in global development and to transfer knowledge about principles of effective aid delivery.

While outreach activities between bilateral donors and foundation networks with the same nationality can be an attractive way of bringing new actors into global development discussions, because foundations are independent organisations active in a global context where their priorities overlap with diverse actors, it is also necessary to strengthen dialogue platforms in multilateral settings. In this context, multilateral platforms for foundation engagement linked to the United

**Table 2: Existing platforms for engagement with foundations in development**

European Foundation Centre	The Brussels-based organisation currently has 231 member organisations. Key work areas include the promotion of standards of philanthropic practice, advocacy related to the regulatory environment for philanthropy, and the creation of forums for collaboration among foundations and with multilateral organisations.
OECD NetFWD	Launched in October 2012, the Network includes a handful of corporate, personal and public foundations that seek to promote knowledge sharing. Linked to the OECD Development Centre, the network is designed to offer foundations a channel for engaging with development practice networks organized around the OECD.
US Foundation Center	This organisation considers itself to be the leading source of information on global philanthropy. It tracks foundation sector funding trends and prepares reports on philanthropic practice to promote the more effective use of private funding.
Worldwide Initiatives for Grantmaker Support	Headquartered in São Paulo, WINGS brings together 145 grant maker and philanthropic support organisations. It seeks to generate knowledge resources to enable collaboration and improvements in philanthropic practice and emphasises the importance of cooperation with organisations such as the US Foundation Center.
Source: Author	

Nations system, the OECD-DAC, or other multilateral development agencies need to prevent a proliferation of unconnected networks that have similar functions but limited collective momentum.

### Conclusion

The key challenges related to foundation engagement in global development outlined above are not exclusively related to this category of aid providers. Rather, they largely reflect the dilemmas of actors operating on a fundamentally different scale than OECD-DAC donor countries. On the one hand, smaller funding organisations may be agile and contribute to successful projects in narrowly defined areas. On the other hand, their

dispersed efforts may not lead to broader development achievements if there is limited attention to complementarity with other aid providers. To facilitate greater collective impact, the onus is on foundations to strengthen knowledge transfer platforms across a diverse organisational landscape and on bilateral and multilateral donors to support network development. On a basic level, managing and profiting from diversity in the development financing landscape requires significant improvements in information availability. Public and private aid providers alike have a responsibility to address information gaps by strengthening partner country capacities to identify funding needs and increasing the scope of their own reporting.

### Literature

- Lundsgaarde, E. et al. (2012) Private foundations and development cooperation : insights from Tanzania, Bonn: DIE (Studies 69)  
 House of Commons International Development Committee (2012): Private foundations : 13th report of session 2010-12, London: The Stationery Office Ltd.



**Dr. Erik Lundsgaarde**

**Senior Researcher**

Department "Bi- and Multilateral Development Policy"  
 German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)