

# The California Consensus: Can Private Aid End Global Poverty?

**Raj M. Desai and Homi Kharas**

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Foreign aid from private sources is changing the landscape for international development assistance. Since 1998, international giving by US-based corporate and independent foundations has doubled, and they now contribute, along with non-governmental organisations (NGOs) and charities headquartered in the United States, over \$30 billion to international causes annually. The World Bank, in comparison, disburses about \$20bn in loans, credits and grants.<sup>1</sup> Some have traced the beginning of the new era of global philanthropy to 1997, when cable-TV mogul Ted Turner pledged \$1bn to the United Nations – and challenged wealthy ‘skinflints’ to do likewise.<sup>2</sup> Two years later the world’s richest man, Bill Gates, poured \$16.5bn into his foundation to help pay for a campaign to improve health care for the world’s poor. Bill and Melinda Gates have since pumped \$31bn – over two-thirds of their current net worth – into their foundation, making it the world’s largest. With Warren Buffett’s promise to contribute an additional \$31bn, the Gates Foundation promises to become the largest, most rapidly growing foundation of all time.

This growth in private aid is being seen at all levels: community foundations are growing faster than ‘mega-charities’ such as the Gates, Ford and

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Hewlett Foundations.<sup>3</sup> Meanwhile, NGOs distribute more development aid than the entire United Nations and multilateral system, excluding the European Community. Large NGOs such as CARE, Oxfam, Médecins Sans Frontières and Save the Children, each with annual budgets exceeding \$500 million, now deliver essential services and public goods that poor-country governments cannot. Over the next decade, this expansion in private giving to international causes will continue.

Charitable organisations and philanthropies, of course, have long found fertile soil in the United States. John Winthrop's sermon 'A Model of Christian Charity', best remembered for its invocation of the 'city on a hill', argued that the wealthy had a holy duty to look after the poor. And Alexis de Tocqueville commented in *Democracy in America* on the American disposition to organise and join voluntary associations which, among other things, provided relief to those in need. Modern philanthropy emerged between the 1880s and 1915 when multimillionaires sought practical ways of disposing of their immense wealth. The cornerstone of charitable giving – domestic and global – was Andrew Carnegie's set of guidelines for 'scientific philanthropy': investigating the causes of poverty and influencing the morals of the poor by personal involvement. Similarly, private giving for international causes can trace its roots, primarily, to the United States, where nineteenth- and early twentieth-century international charity was closely tied to American missionary work around the globe. Both the Rockefeller Foundation (1913) and Ford Foundation (1936), for example, had partnerships with religious missions in India among their first programmes in developing countries.

Early twentieth-century global philanthropy focused primarily on health and disease, including the eradication of yellow fever, the professionalisation and training of public health workers, and the spread of Western medicine to non-Western lands. Post-Second World War philanthropy, on the other hand, broadened to encompass educational needs, birth control, maternal health and agriculture.

Private development aid may soon eclipse official aid, a development that many of those disappointed with the spotty performance of such assistance would welcome: 'Turn all foreign assistance over to the private sector'

trumpeted a *Wall Street Journal* article in July 2007.<sup>4</sup> Development activists (and an alliance of left-leaning NGOs, conservative groups, and other aid critics) have long argued that the global ‘foreign aid’ regime is ineffective – even harmful – and increasingly irrelevant given the needs of the poorest around the world. These claims are supported to some extent by official-aid statistics. Of the more than \$100bn in official foreign aid disbursed by rich countries to poor ones in 2005, over \$60bn was used for debt relief, technical cooperation, emergency or humanitarian relief, and food aid. Of the remaining \$40bn directed at actual development projects and programmes, perhaps half reached its intended beneficiaries, the rest being spent on administrative costs, side payments to politicians or local elites in recipient countries, or routine bribes to bureaucrats. In other words, only \$20bn actually reached the poor. Of that, a mere \$5–6bn was allocated for the poorest continent, Africa.<sup>5</sup>

In response to such deficiencies, the global foreign-assistance regime is rapidly changing. Traditional donors are splintering into many specialised agencies. Some, like the Millennium Challenge Corporation, only select well-performing countries. Others target their resources in places where they determine the need is greatest. The Global Fund to Fight Aids, Tuberculosis, and Malaria, for example, focuses its activities in those countries where the burden of these diseases is heaviest. Countries like China, India, Venezuela, Russia and Saudi Arabia are setting up their own foreign-aid programmes with their own approaches to development cooperation.

Meanwhile, a new form of global philanthropy has emerged, exemplified by the Global Philanthropy Forum. Established in 2001, the forum considers itself a ‘community of donors and social investors committed to international causes’. More generally, it promotes a new philanthropy that is increasingly global, aims to reduce poverty through flexible and innovative initiatives, and sits at the intersection of the private and non-profit sectors. It is also closely tied to the US information-technology sector – many of the forum’s members derive their wealth from high-tech and IT ventures. Thus, their initiatives largely reflect their experiences in starting companies and securing capital, customers and markets, and they are focused on innovative, small-scale projects in which there is often significant donor

involvement. Their approach – what has been called ‘venture philanthropy’, ‘philanthrocapitalism’ or ‘social entrepreneurship’ – emphasises the ‘scalability’ of innovative, small-scale projects (that is, the extent to which the number of beneficiaries can be quickly expanded). In contrast to earlier philanthropic approaches, the new global philanthropy has moved away from programme-based grant-making to a more open, flexible architecture in which donors are typically heavily involved in beneficiary projects. And

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there is an emphasis on blurring the line between ‘non-profit’ and ‘for-profit’ approaches, as the new philanthropists seek to invest in income-generating activities. Google.org (a for-profit charity aiming to address issues of global health, disease, poverty and climate change) and the for-profit Omidyar Network are prime examples. Rather than funding a medical

clinic, for example, the new philanthropists invest in biotech companies working on tropical diseases. Rather than fund the distribution of drugs, the new philanthropists seek to invest in and create incentives for drug companies to operate in poor regions.

Many of these newer foundations, charities and non-profit organisations have reached something of a consensus on their potential role in reducing global poverty. Reflecting the Silicon Valley dot-com boom that created much of the wealth of these new philanthropists, this ‘California consensus’ holds an abiding faith in the capacity of innovation, technology and modern management methods to solve problems of extreme poverty. Indeed, the strength of the new private-aid movement stems from the ‘power of many’, the notion that the thousands of international NGOs, tens of thousands of developing-country NGOs and hundreds of thousands of community-based organisations in developing countries provide a network of knowledge and resources that can be tapped in powerful new ways. Private aid is less susceptible to ‘leakage’ due to corruption and bribes, and because it usually avoids governmental recipients and is transferred directly to front-line NGOs and development projects, it avoids the thorny problems associated with poorly functioning public sectors in developing countries. Smaller portions of private aid are spent on overhead and administrative costs, and

on technical assistance and other purposes that typically fund contractors, advisers and consultants in rich countries.

### How much private aid?

Most of the world's charitable activity takes place in the domestic rather than the international sphere. Out of 100,000 foundations worldwide, fewer than 1,000 conduct activities that affect developing nations. Moreover, although the United States is by far the largest source of global private aid, only about 11% (18% when the Gates Foundation is included) of US foundations' grant-making has gone to international development, and most of that money has been channelled through international institutions such as the International Committee of the Red Cross or the World Health Organisation rather than going directly to developing countries.<sup>6</sup>

Nevertheless, the amount of private aid dedicated to international development is rapidly growing. Estimates for the United States suggest a fourfold increase in international giving in the 1990s, and, after a dip in 2002 following the stock-market crash, steady growth since. In 2005, private giving from the United States to developing countries, excluding remittances, was estimated at \$33.5bn.<sup>7</sup> Sources of American giving comprise foundations, corporate donations, private voluntary organisations, NGOs, educational scholarships and religious organisations (see Table 1). Moreover, this giving is broad-based: some 65% of all households with annual incomes of less than \$100,000 contribute to international charitable causes.<sup>8</sup>

US philanthropic giving represents between 49 and 58% of the global total annually.<sup>9</sup> If US private international giving, excluding humanitarian aid and emergency relief, is about \$21.4bn per year, then global

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**Table 1. Sources of US Private International Giving, 2005**

	US\$bn
Foundations	2.2
Corporations	5.1
Voluntary and non-governmental organisations (NGOs)	16.2
Higher education	4.6
Religious organisations	5.4
<b>Total</b>	<b>33.5</b>

Source: *The Index of Global Philanthropy*, Hudson Institute, 2007

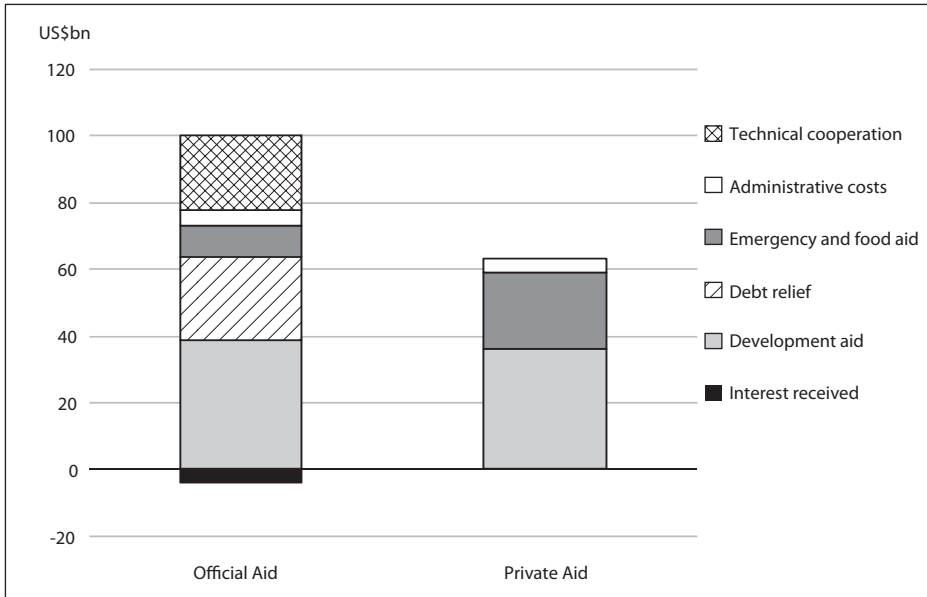


Figure 1. Breakdown of International Aid Spending, 2005

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private giving for international development might total around \$37–44bn per year. However, not all of this is available for development projects. In the United States, administrative overhead and fundraising consume roughly 11% of NGO expenditures.<sup>10</sup> Applying this percentage to all private-aid organisations yields an estimate for private giving in the range of \$33–39bn per year. This is less than official aid from rich countries, which totals \$61bn, plus \$6.7bn in new developing-country bilateral aid programmes. But one-third of this (\$23bn) pays for technical cooperation and is not available for development projects and programmes. Moreover, \$6bn in bilateral funds is channelled through private NGOs, and when these are counted, private service delivery may be as large as, or even larger than, official aid in terms of the money actually reaching the poor. Figure 1 shows that comparable amounts of official and private aid are allocated for development work. It also shows that charitable organisations and NGOs have been generous in mobilising funds for emergency operations. In the United States, humanitarian aid and relief work is estimated to represent 36% of total private assistance, much more than is the case for official aid.<sup>11</sup>

The destination of private aid is more difficult to assess, but general trends suggest a focus on Africa and Asia. Among prominent international NGOs and US foundations, Africa and Asia are clear areas of intense activity. But US-based organisations give Latin America nearly twice the attention Africa receives, suggesting a propensity to send aid to projects closer to home in geographic, cultural and religious terms.<sup>12</sup>

### **How effective is private aid?**

The ‘California consensus’ view is that private aid is more effective than official development assistance for numerous reasons. Freed from the complex decision-making structures of official aid agencies and the sensitivities of maintaining bilateral relationships, international philanthropies are assumed to be cost-effective, nimble institutions that adapt well to local environments.<sup>13</sup> Overhead costs are lower: foundations and charitable organisations typically lack a (costly) network of field offices with international staff, and instead tend to rely on local staff and partnerships with frontline NGOs. NGOs, in turn, find their public image is bolstered by keeping overhead costs low.<sup>14</sup> Very little private-aid money is funnelled back to consultants and contractors in rich countries, leaving more for beneficiaries in developing countries. And while official donor allocations are influenced by, among other things, political coalitions, policy concerns and colonial ties, NGO allocations are assumed to be influenced by need. Finally, because international philanthropy does not fund public sectors in recipient countries, NGO resources are said to suffer from less leakage (in the form of bribes and other transfers to public officials) than official aid.

There are certainly reasons to believe that private aid is more cost effective, and that larger portions of private aid than official aid actually reach the poor. But in contrast to the extensive evaluation of official-aid effectiveness, there is very little evidence for or against the argument that private aid is more cost efficient. To be sure, self-evaluations of NGOs are overwhelmingly positive, but these are rarely conducted according to accepted standards of reliable evaluation. NGOs raise billions of dollars each year from individuals, private- and public-sector donors, and charitable foundations, but there are no commonly accepted benchmarks for evaluating the

effectiveness of NGOs in their stated missions, and NGOs are not subject to the same standards of budgetary and governance oversight as official aid agencies.

Of the thousand or so NGOs operating internationally,<sup>15</sup> a tiny portion has been evaluated. The available evidence is mixed. One study of several European NGOs found that NGO aid per capita had a limited effect on infant mortality and female illiteracy in recipient countries.<sup>16</sup> An examina-

tion of Swedish NGOs found that the selection of potential recipients was less affected by policy considerations than was the case with official aid, but that the funds did not outperform official Swedish aid.<sup>17</sup> A study of leading NGOs from the Netherlands, Germany, Norway and the United States concluded that NGOs tend to cluster in 'favourite' recipients, allowing them to take advantage of networks of other NGOs and aid workers.<sup>18</sup> Thus, NGOs complement official aid, concentrating their efforts in the same countries as official donors. This means, however, that NGOs and

official donors often make similar allocation decisions; it also means that NGOs are able to spread the blame for failure among many partners.

Some sceptics of private development aid believe that aid allocation is influenced by considerations unrelated to the needs of the poor in recipient countries. In particular, they assert that increased competition among NGOs for funding has prompted these groups to capitalise on the misery of the world's poor in order to perpetuate and fund themselves. As a result, NGOs hop from crisis to crisis, forever seeking the next development cause or humanitarian disaster that will draw funding. A study of NGOs, however, found no evidence of 'faddishness' in aid allocations.<sup>19</sup>

While there are reasons to believe that NGOs may be less vulnerable to corruption, some notes of caution are necessary. First, the history of charitable giving is replete with scandals involving misappropriation of funds and theft. High-profile incidents include the misuse of children's-aid funds by US-based groups in the late 1990s, the American Red Cross's use of donations in response to the 11 September attacks for other causes, and a series of questionable land deals by the Washington DC-based Nature Conservancy

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in 2003. A study by Harvard University's Hauser Center for Nonprofit Organizations listed 152 incidents of misconduct by US non-profits between 1995 and 2002, including 104 cases of criminal activity.<sup>20</sup> These may be no more alarming than recent cases of corporate wrongdoing, but as NGOs operate more and more like businesses, there will inevitably be a greater need for tighter rules and enforcement.

Second, many high-profile NGOs are now closely involved with managing official aid programmes and may be susceptible to the same sorts of pressures that traditional implementing agencies face, including the temptation to adopt corrupt practices to speed up implementation. Between 1990 and 2005, official aid grants and funds channelled through NGOs more than tripled, rising from \$1.7bn to \$5.4bn in constant 2005 dollars. Programmes executed by NGOs now constitute between 5 and 6% of total official development aid, up from 2% in 1990.<sup>21</sup>

Third, unlike official aid agencies, which have the backing of recipient governments, NGOs often find themselves at odds with the governments of countries in which they work. Governments may deny them access to those in need; officials or warlords may demand payoffs; and local violence may threaten the safety of field personnel. This kind of harassment, unfortunately, is often a way of life for NGO workers. In extreme cases, recipient governments see NGOs as Trojan horses for Western governments. When international aid workers die in the field, it is more likely to be from intentional violence than from any other cause, including illness and vehicle accidents. In the vast majority of cases, aid workers have been deliberately targeted.<sup>22</sup>

Moreover, accountability with respect to private aid raises a host of additional difficulties. Global regulation is mixed at best. The United States and United Kingdom have fairly rigorous reporting requirements for charitable organisations, but in many other countries there is virtually no control. While many large NGOs have strong internal rules, NGOs as a class are generally much less transparent than either business or government.<sup>23</sup> Large and small NGOs, the beneficiaries of their activities, and their donors are increasingly aware of the importance of ensuring that the work of international charities is transparent and subject to oversight. But in practice

even those who think that NGOs should be accountable cannot agree on how to accomplish that goal. Should donors or recipients judge success? Should achievement be measured by those within the organisation or by an independent watchdog? And what exactly should be measured: short-term improvements or harder-to-assess long-term investments?

Another criticism is that NGOs are too small and fragmented to make a real difference on a large scale. By this argument, private aid organisations can alleviate the worst forms of poverty by providing ‘band-aid’ assistance, but this does not mean they are effective in attacking the root causes of poverty that are often to be found in the ineffective – or downright harmful – operations of the public sector in poor countries.<sup>24</sup>

Finally, private aid can exacerbate the growing fragmentation and volatility that characterise the international-aid architecture. The costs of fragmentation and volatility are well known: multiple donors will make requests for studies and for individual meetings with country officials; these donors will establish separate project-management units and multiple procurement practices for the same products; and they will be unable to coordinate to identify and propagate best practices. With the multiplicity of groups now involved in the delivery of aid, and especially as amounts increase, it is common for aid recipients to see high volatility in their year-to-year disbursements. This translates into large swings in a recipient’s domestic expenditures, especially recurrent spending which is difficult to adjust.

### **Breaking the official aid cartel**

If the new milieu of international aid is fragmented and volatile, it is also one in which private aid will continue to represent an ever-larger share of total assistance. With traditional multilateral and rich-country bilateral aid agencies still expanding, developing-country aid agencies proliferating, and private aid from large and small foundations (and individuals) growing all the time, ‘harmonisation’ will be harder to achieve. Recipients who once faced a choice between loans and grants now have a vast repertoire of instruments from which to choose. Under these conditions, how can the growth in private aid improve the overall architecture for assistance to poor countries?

A competitive market for aid – in which experimental and innovative ideas are matched with donors – has historically faced several obstacles. Official aid to most places has typically been determined by political alliances, geopolitical considerations and national security rather than need. For many years, private aid was too small to make a difference. Accurate information about donor performance was often difficult to come by, preventing recipients from making informed choices. And the lack of rigorous evaluation prevented donors from understanding the prospects for success and failure of different programmes.

The oligopoly that characterises official aid can be broken only by its regulators: the political powers that govern their boards. The governance structure of most official aid agencies encourages them to harmonise activities, diffusing accountability. As is often the case with oligopolies, ‘buyers’ (recipients seeking help) are usually forced to deal exclusively with a particular official bureaucracy on matters of project design, appraisal and evaluation, and are prevented from getting second opinions from non-official sources.<sup>25</sup> Instead, competition should be embraced by official aid agencies. They should be encouraged to be transparent about the costs of their programmes and open to contracting with those who can provide the same poverty-reduction services for less.

Also, the focus of private donors must shift to programmes that can be replicated and enlarged. Traditional donors have long claimed that they can ‘scale up’ programmes more effectively than private-aid suppliers, but this is because they have been entrusted with far more resources. The availability of resources would be less of a constraint for private-aid givers if they could demonstrate their ability to reduce poverty and improve public services for the poor. But too often, private aid programmes mix several objectives – providing fair wages, minimising environmental impacts, changing mind-sets – in a way that reflects the preferences (and zeal) of their founders. This may be admirable, but it often produces short-term projects. The history of private global philanthropy is filled with plenty of ‘success stories’ with little follow-up.

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Finally, private donors need to intensify efforts to better gauge their own effectiveness. Information, coordination and planning are becoming harder as more players deliver aid. In well-functioning markets, trade associations and other bodies monitor market conditions, set standards and define regulations that force a certain degree of transparency. Private-aid givers need to do more to provide good statistical data on their activities so as to permit others to identify key gaps and overlaps. That is the minimum level of accountability they owe the countries in which they operate, and the poor they claim to serve.

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Private aid that is above political influence, that is assiduously evaluated, and that can clearly demonstrate effectiveness could catalyse competition in aid giving. It could allow recipients to judge donor performance according to benchmarks based on comparisons between private and official aid. And it could encourage public and private donors to deliver services and public goods to underserved areas in innovative ways. Such a revolution is possible because private aid is offering new business models and transformative technologies. The provision of better information to the poor on matters such as microbanking and health services through mobile telephony, for example, has already improved the effectiveness of several types of antipoverty programme. There is reason to believe that future innovations will drive similar improvements, but only if certain conditions prevail. Global philanthrocapitalism, as with any other kind of capitalism, will only yield results if there is a market for the goods it offers, if the prices of its products convey accurate information, and if there is true competition between multiple providers of similar goods.

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