Executive Summary

Beyond the expanded complexity of official development aid channels, international aid effectiveness dialogues must contend with the significant and proliferating contributions of private assistance. After analyzing the relationship between official aid and private development assistance—with a focus on international non-profit organizations, this brief recommends that core principles of the Paris Declaration and the role of civil society representatives must evolve in the international dialogue in order to maximize aid effectiveness and achieve the U.N. Millennium Development Goals.

Introduction

Significant shifts are occurring within the international aid architecture. The channels through which official development assistance (ODA) is delivered have expanded dramatically, with a 2006 World Bank analysis listing more than 230 international organizations, funds and programs.

The global dialogues culminating in the High-Level Forums and the commitments explicit in the Paris Declaration have been a welcome recognition of the hazards accompanying the growing complexity of this international aid system, and they have also been positive catalysts for rationalizing the delivery of ODA and taking concrete steps to increase both its effectiveness and transparency.
Yet the changes associated with ODA are only one shift in the overall aid architecture. Nonstate entities and middle-income countries are adding significant new resources and complexity. These new actors bring distinctive value, expertise, partners and motivations—dimensions that expand the potential of aid beyond the simple addition of their financial revenue. For example, the members of InterAction, the largest platform for U.S. NGOs, pledged $511 million in private development assistance (PDA) for the reconstruction of Haiti, and they are also investing a comparable amount in the relief effort. However, these aid flows have essentially been ignored by the formal ODA architecture, and thus globally there are in essence two relatively disconnected aid systems, one official and the other private.

This brief examines the scope and character of the PDA being provided by nonprofit organizations. For the aid architecture to maximize its effectiveness in promoting development and achieving the UN Millennium Development Goals, formal integration of the intellectual capital, financial resources, technical capacity and decades-long experience of PDA into broader aid effectiveness dialogues would represent a significant leap forward. There is a largely unexplored space for high-level collaboration to enhance the complementarity between ODA and the aid provided by organizations whose operations are funded by private sources. This brief aims to assist and encourage this constructive dialogue in order to engage populations in efforts that advance the MDGs, to leverage the varied strengths of official and private aid flows, to shape the effectiveness of private aid flows and to promote the design of a global aid architecture that better reflects the current reality of all aid flows.

Private Development Assistance

Private development assistance is complex. To understand how PDA works, it is thus necessary to consider its ecology, the roles of international nongovernmental organizations and the role of foundations.

The Ecology of PDA

The scale of PDA is significant. It is estimated that private philanthropic aid from 14 developed countries totaled $49 billion in 2008. ODA totaled $121 billion. The U.S. portion of PDA, $33.7 billion (almost 70 percent of the total), results in the breakdown shown in table 1.

### Table 1. Sources of U.S. Private Development Assistance, 2008

<table>
<thead>
<tr>
<th>Source</th>
<th>Total (billions of dollars)</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>International nongovernmental organizations</td>
<td>11.8</td>
<td>35</td>
</tr>
<tr>
<td>Foundations</td>
<td>4.3</td>
<td>13</td>
</tr>
<tr>
<td>Corporations</td>
<td>7.7</td>
<td>23</td>
</tr>
<tr>
<td>Religious congregations^5</td>
<td>8.2</td>
<td>24</td>
</tr>
<tr>
<td>Universities</td>
<td>1.7</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Index of Global Philanthropy and Remittances.
Not all PDA represents organized project-based aid, applicable to the norms, protocols and best practices representative of the organized aid architecture. Portions of the contributions by religious congregations, for example, go to short-term missions—such as trips by groups to tackle small projects. Universities support scholarships for international students to study in the U.S. The largest segment of PDA that most closely conforms to the practices of the aid architecture comes from international NGOs and foundations.6

It is important to note that developing countries can direct only a portion of ODA toward actual development programs. An analysis of 2005 aid flows found that once other uses—such as debt relief, administrative costs for aid agencies, expenses for coordination, humanitarian aid and food security—were deducted, the actual aid for country programs was approximately 37 percent of ODA, a total of $38.4 billion. A much larger proportion of PDA associated with international NGOs and foundations supports a country’s domestic development programs and associated community-level needs.7 Though accurate estimates are complicated by incomplete data, the orders of magnitude of ODA and PDA available for country program aid are much more equivalent than the aggregate totals suggest.

It would be a mistake, however, to assess the importance of PDA solely in terms of financial resources. The reach, characteristics and distinctive approaches of international NGOs and foundations add important new dimensions to the aid system that improve its development effectiveness.

**International Nongovernmental Organizations**

Estimates put the number of secretariats for international nongovernmental organizations (INGOs) at about 18,000, and the development-focused revenues of the sector now exceed those of the entire United Nations system (O’Keefe 2007; Desai and Kharas 2009). At the same time, the bulk of INGO resources are concentrated in a small number of organizations. InterAction found that its nine largest members accounted for 47 percent of all revenue, compared with 1.17 percent for the 63 smallest (InterAction 2009). The largest global INGO has a paid staff of 46,000, but less than a quarter of its $2.2 billion worldwide budget is part of ODA and the official aid architecture.

The majority of the INGO community has organized its services around one or more Millennium Development Goals, with the largest global INGOs actively engaged across multiple sectors. Major INGOs have extensive project monitoring and evaluation capacity, often much larger than that of donor governments; they have thousands of highly technical staff members; their global infrastructures are overwhelmingly staffed by local personnel; and their relationships with local governments and civil society groups are often founded on decades of joint project work. Theirs is a bottom-up approach to development where the initiative and participation of poor people and local civil society groups drive programs and outcomes.

The INGOs in particular have a direct interest, as large global donors, in participating in and shaping the evolution and rules of a broader, more comprehensive frame for the global aid architecture. Their programs often complement and leverage ODA flows while fitting into the development strategies of nation-states.
**Foundations**

From 1980 to 2008, the number of active foundations in the U.S. increased from just over 22,000 to almost 76,000 (Lawrence and Mukai 2010). Between 2001 and 2005, these foundations’ giving to international causes increased by more than 70 percent (Foundation Center and Council on Foundations 2008). And between 2001 and 2005, the number of public-benefit foundations in 13 EU member countries increased by more than 50 percent—to 95,000.

The resources of foundations are fairly concentrated. In 2008, only 25 U.S. foundations accounted for almost 25 percent of total domestic giving, and the 10 largest EU foundations held almost 25 percent of foundation assets in those countries (Foundation Center and Council on Foundations 2008; European Foundation Center 2008).

Some of this growth has been driven by a wave of successful entrepreneurs entering the philanthropic world, seeking to apply to social problems the calculated risk taking, business discipline, and drive for scalable solutions that served them well in their for-profit ventures. Their activity has significantly raised the profile of philanthropy among the world’s wealthiest, with much attention focused on developing countries.

**Dimensions of the Relationship between PDA and ODA**

For the most part, the channels through which ODA and PDA flow remain separate. Though there are a small number of public–private mechanisms, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and though U.S. INGOs program a limited proportion of overall U.S. ODA (10 percent, according to recent estimates), ODA channels are dominated by public funds and government-led decisionmaking, whether through bilateral channels or by the boards of multilaterals. PDA flows predominantly through civil society organizations, with INGOs and foundations funding a wide array of local civil society groups. Yet PDA and ODA intersect in substantive ways, and an examination of their relationship helps to give a comprehensive picture of the aid system and its potential for achieving development outcomes.

**Complementarity**

PDA and ODA are often complementary (Desai and Kharas 2009), with the strengths of each enhancing or building upon those of the other. Several distinctive characteristics of INGOs and foundations facilitate this:

- **Innovation**: As mission-driven organizations whose bottom lines are social improvement, with primary accountability to governing boards of directors, both foundations and INGOs have the space to exert a high degree of independence, flexibility and risk taking. This often results in significant innovation. The Bill & Melinda Gates Foundation, for example, has pioneered new collaborations (such as the GAVI Alliance) and new approaches (such as advance market capitalizations) to accelerate the development of vaccines for infectious diseases affecting developing countries. Many essential development practices—such as participatory development, rights-based approaches, gender-based practices, microfinance and a focus on smallholder farmers—were originally championed by the INGO community.

- **From local to global**: With their objectives firmly rooted in social change and progress, INGOs
place a high priority on identifying promising ideas and leaders that emerge at the community level, often investing in smaller-scale efforts grounded in a local context and culture. At the same time, they have a global presence, with global networks that act as conduits for sharing development knowledge and innovations within and across countries.

- **Knowledge:** INGOs have significant evaluative capacity and decades worth of project assessments, and foundations routinely monitor outcomes on a per-grant basis. Admittedly, many of the data for these outcomes are at the project level and unpublished, which makes their impact across sectors difficult to aggregate. At the same time, the learning that is captured makes INGOs, foundations and other private sources key experts and valuable sources of knowledge for other development actors.

PDA strives to be innovative, people centered, long term, and grounded in local adaptation; ODA seeks to work at scale and build state-centered capacity. ODA grows out of, and is influenced by, the strategic political considerations of donor countries. Its primary point of entry is at the national level, supporting national governments and plans, and building physical infrastructure as well as social programs. PDA, which is primarily mission-driven, represents the personal engagement of private citizens in social issues. Its primary focus begins at the community level—in supporting local civil society and municipal and provincial governments, and in investing in poor people themselves to develop the human capacity to overcome poverty, environmental degradation and human rights violations. From this perspective, ODA and PDA together constitute a more robust definition of “country ownership” than that suggested by the Paris Declaration.

**Political Interdependence**

As country-to-country aid, ODA is drawn from tax revenue. Decisions about its deployment are made by elected and public officials, and its continuation depends upon their political will. PDA, conversely, represents the ideals of a large group of private citizens. In 2006, members of InterAction in the U.S. received funds from 13.6 million different U.S. donor groups that varied from community organizations and corporations to faith-based institutions and youth service groups. These groups consisted of an estimated 30 to 40 million Americans (Interaction 2009).

PDA can be characterized as less “democratic,” in that it derives its force from self-selected donors and their particular motivations, ideas and interests. Yet, though all taxpayers nominally contribute to ODA, citizens have limited, if any, direct agency over the direction of those resources. PDA results from donors choosing to give—embodying decisions about the strengths of a particular INGO and who will benefit from their aid, and in what way. It not only provides an outlet for a set of compelling motivations and values; it also builds the primary domestic political constituency for ODA. The advocacy of its proponents significantly influences the public agenda for development.

**Substitution**

The official aid architecture is based on the notion that governments are the primary providers of social services. In many instances, however, nations or the UN structure have been unable to successfully provide basic public goods to all citizens. Civil society
has evolved to fill some of these gaps. Tremendous global capacity has been developed; approximately 20 INGOs each have from 5,000 to 46,000 employees, and typically 97 percent of their staffs are local.

These resources tend to flow from INGOs in the global North to civil society actors in the South, and at times to the frontline services of municipal governments, bypassing the national infrastructure—admittedly, not an ideal situation for strengthening state governance and the delivery of services. Governments often try to structure or regulate these services, and the move to capture or restrict PDA compels it to flow to a more hospitable environment. This misses the opportunity to tap and leverage the capacity of local civil society groups.

As local civil society groups increase their capabilities to provide services and support communities, they also provide a platform for strengthening the ability of everyday citizens to engage in political processes and push the state to increase its capacity for social services and public goods. Their relationships with INGOs in the North help amplify the voice and concerns of poor communities in policymaking discussions at the global level. This plays an important role in ensuring that policy decisions and local service delivery take the realities and challenges of day-to-day living into account.

A 21st-Century Charter for International Cooperation

The cooperative agreements embodied in the Paris Declaration and the Accra Agenda for Action have fostered concrete improvements in the delivery of ODA. However, to acknowledge that civil society—given its size and distinctive contributions—plays an integral role in advancing development outcomes and providing essential services is to recognize that the capacity of governments and state-sponsored agencies falls short of what is needed to achieve the Millennium Development Goals. To end extreme poverty, instead of just following a “whole-of-government” approach, we must gain a “whole-of-society” capacity that includes both government and local civil society groups.

From this vantage point, dialogues must expand beyond a focus on aid effectiveness to maximize the development effectiveness of the entire global aid system. This will create the space for discussing the roles and responsibilities of the various actors and for exploring ways to tap and leverage PDA’s potential. A comprehensive donor framework could work to ensure a constructive relationship among the public, corporate and NGO sectors, enhancing the comparative advantages of each.

The core principles of the Paris Declaration would define the overall aid agenda, but they would need to evolve significantly to reflect a broader approach. Thus, a set of PDA norms needs to emerge, building on the global effort already under way to establish a framework for PDA:

- The concept of the “enabling environment,” as put forward in the Accra Agenda, would take on added importance and be introduced for all civil society organizations.

- The principle of “ownership” would expand to include local civil society groups and community leaders.

- The norms related to “transparency” would also apply to PDA, creating an incentive for achieving additional openness and the standardization of data.
“Accountability” would extend beyond the nation-state to focus on local populations.

“Harmonization” and “alignment” would add urgency to the emerging efforts to rationalize and map PDA.

PDA is not a panacea, nor without its challenges. Various issues threaten to undermine its impact—including incomplete transparency and partial data, limited accountability, a lack of effective coordination and excessive competition. But the formal inclusion of PDA in the Paris and Accra cooperative agreements provides an incentive for INGOs and foundations to address these issues, while giving donor governments a voice in proposing solutions.

A significant dialogue has emerged between civil society representatives and the global discourse that continues—through various High-Level Forums—to evolve and advance the commitments of the Paris Declaration. This dialogue has focused on critiques of the OECD’s Development Assistance Committee (DAC), the Paris Declaration, the nature of the global aid system, and the need to include civil society in the conversation. These advocacy efforts successfully brought some representatives of civil society to Accra and helped broaden the agenda. They did not, however, accomplish a number of important tasks—focus on the role of PDA; recognize efforts by civil society to advance development principles for the NGO community; align ODA and PDA, while recognizing the essential nonstate nature of private aid; or engage the leadership of the PDA community.

An official relationship that links the leadership of major PDA institutions with the OECD’s DAC and its ministerial-level dialogues needs to evolve, not simply on an ad hoc basis but more formally within the structure of the global aid system. One concrete solution is to add six “observer” seats—but defined as active participant seats—at the OECD’s DAC ministerial table, three representing PDA donors from the North and three their civil society counterparts from the South. Though the process is challenging, global civil society has increasingly proven its ability to select its own formal representatives through a transparent and inclusive manner. Recent examples include the inclusion of civil society representatives in the Multi-Donor Trust Fund for Food Security and the INGO representative seated on the board of the Interim Committee for the Reconstruction of Haiti.

The organizations supported by PDA are by definition not nation-states and, as such, they are not trying to become an official part of the ODA infrastructure. Private aid structures will remain independent, but it makes little sense for official discussions of the aid infrastructure to keep leading private donors out of the formal leadership dialogue. As nonprofit actors, funded largely by the public at large and narrowly focused on a specific mission, they play an important role that is significantly different and complementary to those of sovereign states engaged in development efforts.

The global aid architecture continues to suffer from a proliferation of uncoordinated actors, poorly applied principles, a lack of rationalization and parallel official and private aid systems. Its overall effectiveness can only benefit from a recognition of the value, role and operational limits of private development assistance, and from the formal inclusion of PDA’s leaders in the shaping of a more global and inclusive dialogue to advance development effectiveness.
References


Endnotes

1. As defined by the World Bank, the aid architecture is the set of rules and institutions governing aid flows to developing countries.

2. The member governments of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) have traditionally been the dominant sources of aid flowing from developed to developing countries.

3. “PDA” is used here to describe the international aid that flows from private philanthropic sources. In this usage, PDA does not include private capital investments or remittances, though these also have development effects.

4. Though the Index of Global Philanthropy and Remittances includes an estimation of the monetary impact of volunteer services, we have omitted this estimate from this analysis, in order to focus solely on actual cash flows. Nation-states and the OECD’s DAC often question the total amount of PDA. Though there are grounds for further analysis, the total private resources raised by international NGOs continue to grow. For InterAction members, it is currently about $8.5 billion a year. In the U.S., these private aid flows continue to grow significantly.

5. This total represents contributions by congregations to local civil society organizations, including both short-term or long-term missions. Contributions to faith-based NGOs, such as World Vision International and Catholic Relief Services, are represented in the international NGO category.

6. Corporations, like for-profit organizations, have pressures, motivations and goals that diverge from the domi-
nant mission orientation of international NGOs and foundations.

7. For the $8.8 billion managed by members of InterAction in 2006, an average of 92 percent was spent on program activities. Also, though it has been customary to think of international NGOs as primarily delivering emergency relief, the best recent estimate of U.S. NGOs programs sets the level of humanitarian aid at 36 percent (Hudson Institute).

8. Notable among these are Bill and Melinda Gates and Warren Buffett, but the movement extends across the world, from Carlos Slim in Mexico to Yu Pengnian in China. Different monikers—venture philanthropy, philanthrocapitalism—have emerged to describe their approaches.

9. Many INGOs routinely plan to spend PDA as 10-plus-year investments into a particular program area or civil society group.

10. Civil society groups engage in advocacy at High-Level Forums and other DAC-led events. These efforts tend to gather the advocacy side of global civil society. The leaders of the large INGOs and foundations rarely participate in these gatherings because there is little or no space for CEO-level dialogues.