The role of philanthropy in financing for development

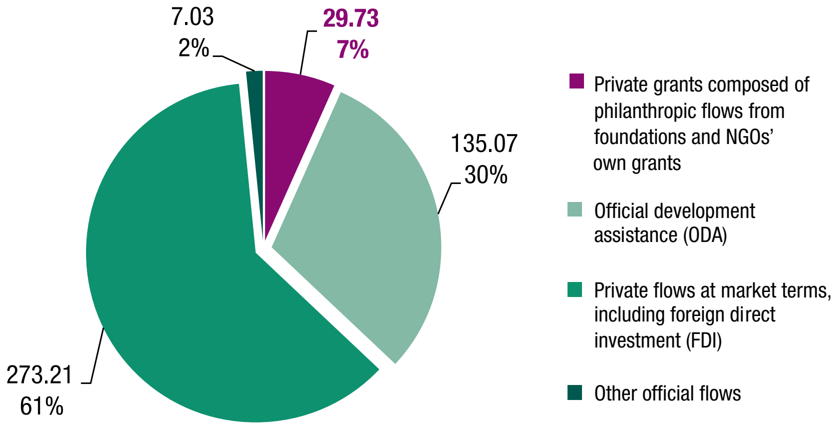
Philanthropic foundations play an important role in sustainable development – not only in mobilising financial resources, but also as development actors in their own right. Until recently, however, governments and foundations have often followed parallel paths without engaging in genuine complementary partnerships. There is increasing recognition that including foundations more strategically in policy discussions at the global and the local levels will help optimise development results. This will require a paradigm shift in how governments approach foundations, embracing them as catalytic partners rather than solely considering them as financiers. Recognising the distinctive role of foundations in the development arena, and acknowledging the innovative practices emerging from the philanthropic sector, the OECD Development Centre launched the **OECD Global Network of Foundations Working for Development (netFWD)** to serve as a platform for co-operation and exchange, and as bridge between foundations and policy makers.

Philanthropy's financial contribution to development has nearly multiplied by ten over a decade

Although the overall contribution of philanthropy to development is hard to quantify, OECD-DAC statistics suggest that it has multiplied by nearly ten over a decade: from around USD 3 billion in 2003, to USD 29.73 billion in 2013, including grants from non-governmental organisations (NGOs).[1]

Figure 1: Philanthropy's contribution to development finance

Total net resource flows from DAC donors to developing countries, 2013 (net disbursements, USD billion)



Source: OECD (2015), "Detailed aid statistics: Official and private flows", OECD, International Development Statistics.

Philanthropy's non-financial contribution to development includes testing innovative approaches and leveraging resources from others

Philanthropic actors have important comparative advantages over other development finance providers. Foundations enjoy greater freedom in the way they operate: they are not bound to electoral/political government cycles, nor are they under the same pressure as private investors from their shareholders to deliver immediate financial returns. This flexibility – together with their ability to devote "patient capital" to testing innovative practices that can later be scaled-up through multi-stakeholder partnerships – has led some to see foundation funding as "development risk capital". It also allows them to build

1. OECD (2015), "Detailed aid statistics: Official and private flows", OECD, International Development Statistics.

close relationships with their grantees, providing them with the long-term technical knowledge and management capacity they require to achieve self-sufficiency.

Foundations' comparative advantages as development partners also include their unique potential to leverage funds and build multi-stakeholder partnerships around specific development issues. For instance, the proximity of corporate foundations to the private sector allowed them to tap into private flows at market terms; in 2013, these flows – including foreign direct investment – amounted to USD 273.21 billion.[2]

Identifying incentives for foundations can rally support for the post-2015 agenda

Unlike the Millennium Development Goals (MDGs) or the Monterrey Consensus on Financing for Development, which were primarily intergovernmental processes, the process leading to the definition of the Sustainable Development Goals (SDGs) has included consultation with foundations. The Addis draft outcome document constitutes a significant shift in focus from the MDG/Monterrey era, as it recognises philanthropy as a significant actor. It paves the way for foundations to be considered beyond their funding capacity, as sources of expertise and knowledge. The initial draft also resonates with the *Guidelines for Effective Philanthropic Engagement*[3], which the OECD's netFWD has contributed to developing; these guidelines were acknowledged at the High-Level Meeting of the Global Partnership for Effective Development Co-operation in Mexico in April 2014.

The recognition of the role of philanthropy at the global level should also lead to a paradigm shift in the way governments and foundations work together within the ''development galaxy". Indeed, governments still tend to see philanthropy's role as contributing financial resources in support of their own efforts to tackle poverty and inequality, overlooking the incentives required to further engage foundations in support of the post-2015 agenda. Foundations, on the other hand, are increasingly aware of the need to better understand and complement the efforts of other development actors, whilst rightly cherishing their autonomy.

Despite the heavy transaction costs to foundations of partnering with governments at the country level, their contribution could be strengthened in several ways:

- The first is by enhancing dialogue, which implies identifying common goals.
- Secondly, foundations' comparative advantage can be better exploited. For instance, when "venture philanthropists" provide social purpose organisations with first-stage, seed capital, later-stage investors are often missing. Official development co-operation providers can enhance their impact by identifying successful initiatives led by foundations in their partner countries and bringing them to scale, in collaboration with other stakeholders such as national partners.
- Finally, practice makes perfect. Before systematising any partnership, governments and foundations should initiate collaboration at the country level around development challenges of mutual interest. Piloting small-scale public-private partnerships or testing new approaches to development funding (e.g. development impact bonds) can create an entry point to a broader buy-in of the SDGs from the philanthropic community.

2. OECD (2015), "Detailed aid statistics: Official and private flows", OECD, International Development Statistics.

3. The Guidelines aim to enhance collaboration between the philanthropic sector and governments on shared goals with the view of increasing the effectiveness of philanthropic contributions to development. These voluntary and non-binding measures contribute to the ongoing efforts to strengthen development effectiveness and mutual accountability in the spirit of the Paris Declaration on Aid Effectiveness and the Busan Declaration for Effective Development Co-operation.