

PRIVATE DEVELOPMENT ASSISTANCE

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PRIVATE DEVELOPMENT ASSISTANCE: GLOBAL TRENDS

Private development assistance (PDA) is finance from private sources given voluntarily through formal channels, including civil society organisations (CSOs), and transferred across borders to promote international development and reduce poverty. PDA is also referred to as international private giving, international philanthropy or voluntary giving.

If the international community is to meet the goal of ending absolute poverty by 2030, all available resources for development - not just official development assistance (ODA) - need to be targeted to where they are needed most.

ESTIMATING GLOBAL PDA

Twenty-three countries that are members of the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) provide an estimated US\$45.3bn in PDA annually, equivalent to around a third of all aid from these countries (see Figure 1). An estimated further US\$1bn of PDA comes from emerging economies, with Saudi Arabia being the largest provider out of seven countries (see Figure 2).

However, data on PDA flows is insufficient in terms of both coverage and quality.¹ PDA data is poor because of low reporting levels, a lack of accountability structures for private donors and an absence of established transparency and reporting standards. The absence of data² is one aspect of a wider accountability deficit in philanthropy and CSOs.³ Data on volumes and trends in global southern contexts is particularly lacking. The data gaps suggest that PDA volumes are underestimated.

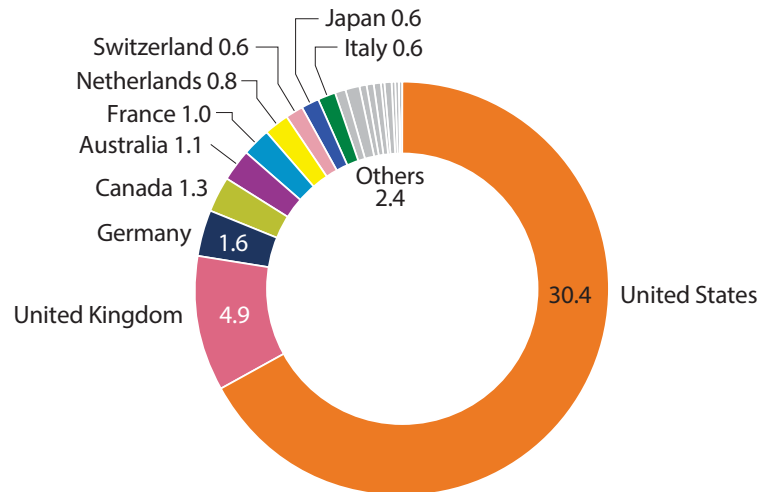
Further, a lack of standards impedes cross-country comparisons. Financial information is not standardised at the international level, and diverse regulatory environments and legislative classifications of charitable organisations, international giving, social investments and annual reporting make international comparisons particularly problematic. A lack of regulation and a sound legal basis for civil society in some countries also contributes directly to the challenge of data collection and analysis.⁴

Based on the best available data for 2011 or the most recent year, the United States is by far the largest known source of PDA: at US\$30.4bn, it accounts for 67% of total PDA. The UK is the second largest source (US\$4.9bn, 11%), and after these two, only Germany, Canada and Australia give over US\$1bn.⁵

These countries have each developed their own legislative frameworks for and incentives to encourage private giving, and provide substantial freedoms for civil society activity and fundraising, and systems for regulating tax incentives and recording income and expenditure trends. These stimulate PDA. Tax exemption regimes have helped create what Severino and Ray (2009) call “open-ended solidarity”, in which the contributions of private individuals are subsidised

by the state through tax exemption. Such incentive systems can also result in better measurement, as more data is recorded.

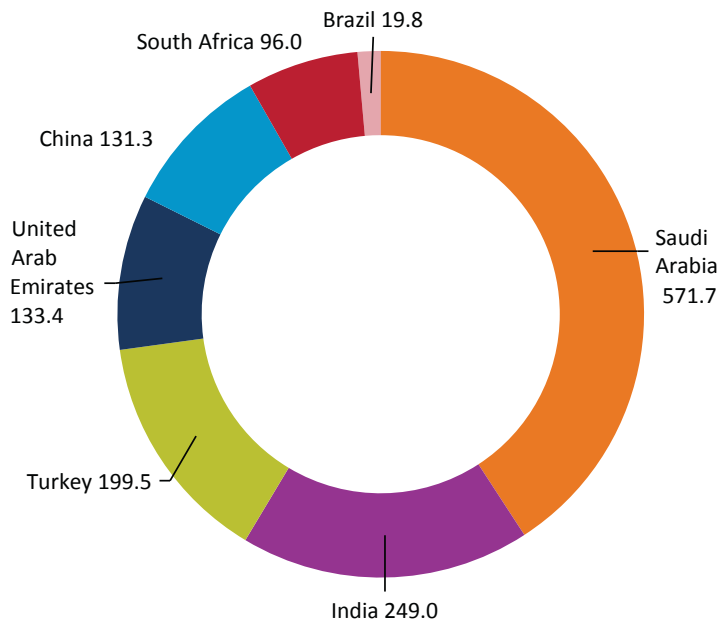
Figure 1. Private Development Assistance from 23 DAC and seven non DAC providers, 2011 estimates, US\$ billions



Data on PDA from non-DAC countries is available for 2011 from seven countries (see Figure 2). Saudi Arabia provides US\$572m, 41%, of known PDA from the seven countries. Saudi Arabia’s contribution mainly consists of funds from Saudi public fundraising campaigns, channelled through CSOs, and going to humanitarian relief in the Middle East, and PDA from royal family foundations.

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Figure 2. Private Development Assistance from seven non DAC providers, 2011 estimates, US\$ millions



Source: *Development Initiatives 2014*⁶

PDA and local philanthropy are set to have increasing roles in fast-growing developing economies. These resources could be more effectively focused on reducing poverty, especially as these countries receive less aid. Corporate giving and high net worth individuals (HNWIs) could be important avenues for philanthropy in such countries.

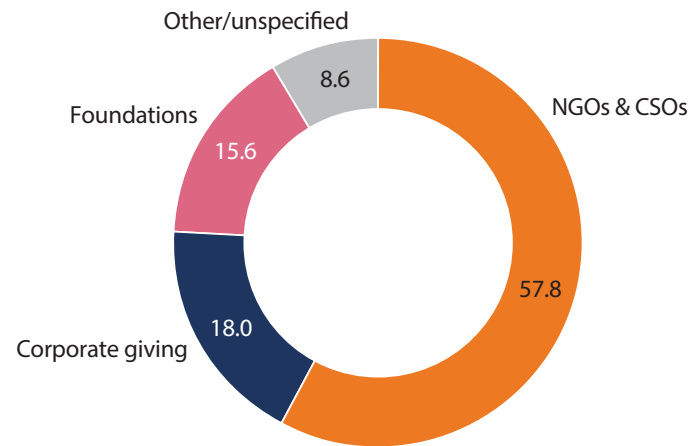
PDA FROM FOUNDATIONS, CSOS AND CORPORATIONS

How PDA is distributed across provider types, including foundations, CSOs and corporations, varies

by country. Further, each PDA provider has different approaches to reducing poverty. CSOs are most likely to work in countries in crisis, while foundations favour more advanced developing countries.⁷

As shown in Figure 3, CSOs deliver the largest share of PDA, providing 57.8% of total PDA in 2011, an estimated US\$26.2bn. Additionally, CSOs deliver a share of ODA: this share has risen from 13% of ODA in 2008 to 17% in 2012, reaching US\$17bn. Corporate giving represented US\$8.2bn, or 18%, of PDA in 2011. Foundation giving represented US\$7.1bn, or 15.6%, of estimated PDA in 2011, mainly from US foundations.

Figure 3. PDA by provider type, 2011 data or most recent year available, US\$ billions



Source: *Development Initiatives (2014)*

PDA is characterised by a high concentration of resources moving through large, well-known CSOs and a few large foundations. For example, the 10 largest foundations account for about 60% of international foundation giving. At the other end of the scale, PDA is fragmented among thousands

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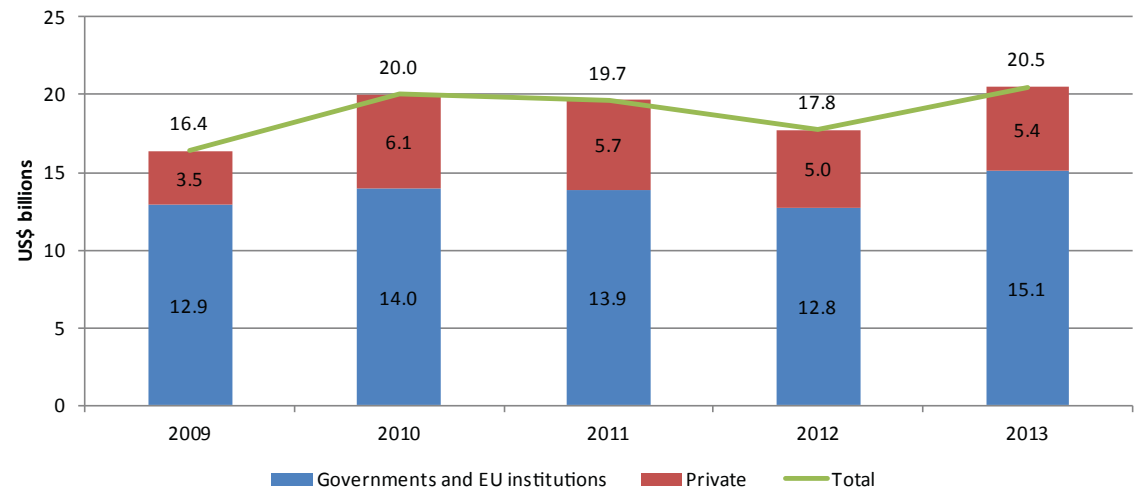
of thousands of small actors, including CSOs at the delivery end of the chain.

PRIVATE FUNDING OF HUMANITARIAN ASSISTANCE

Private donors, including individuals, trusts and foundations, and private companies and corporations, contributed an estimated US\$5.4bn of humanitarian assistance in 2013, representing 26% of the total international finance for the humanitarian sector. Over a quarter of all international humanitarian assistance came from private donors between 2009 and 2013.

Individuals contribute the overwhelming majority of private funding, providing 72% of the total in 2013. In the humanitarian sector, as in development overall, CSOs are the largest mobilisers of private funding, raising an estimated US\$4.7bn in 2013, and almost US\$23bn in the five years between 2009 and 2013.

Figure 4. Total international humanitarian assistance, 2009-2013



Sources: Development Initiatives. Based on OECD DAC, UN Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking Service (FTS) and Global Humanitarian Assistance's unique dataset of private voluntary contributions

IN FOCUS: CHANGING ROLE OF PRIVATE SECTOR IN SUPPORTING HUMANITARIAN RESPONSE

Private companies and corporations provided an estimated US\$324.4m in humanitarian funding in 2013, and US\$1.1bn between 2009 and 2013. Their role and profile in humanitarian response is changing

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significantly, with many moving beyond a direct donorship role towards a ‘corporate partnership’ approach, providing a range of skills and resources, the financial value of which is unknown.

Some innovative examples of non-financial support provided by the private sector to support international disaster response efforts in recent years include:

- Shipment and logistics corporation UPS’ Humanitarian Relief Programme uses pre-approved funds, Logistics Emergency Teams and their own expertise and supply chains to assist disaster relief efforts around the world.
- Legal firm Allen & Overy has developed a suite of legal tools that countries can use to deal with issues that arise in the aftermath of a natural disaster.
- Construction company Bouygues UK sends volunteers to work with the Emergency Architects Foundation, a CSO, following major natural disasters. In Haiti, Bouygues volunteers used their skills to help local people rebuild services and their lives following the massive earthquake in 2010.

GROWTH TRENDS ESTIMATES

Overall, PDA grew faster than ODA between 2006 and 2011, with PDA provided by corporations and foundations growing particularly fast (see Figure 5). Three trends following gross domestic product (GDP) growth are particularly relevant to the growth of PDA from source countries:

- A rise in private giving by the middle classes: In general, as national income increases, donations from individuals are observed to increase.⁸ Research into individuals’ donations in Canada shows that donations grew faster than both GDP and median incomes between 1984 and 2010.⁹ The ‘global middle class’ is projected to increase, although estimates vary. One source suggests that the size of this group will increase from 1.8bn people in 2009 to 4.9bn by 2030, of which 80% will live in non-OECD economies.¹⁰
- High-profile initiatives led by wealthy philanthropists, including HNWI: Initiatives such as the ‘Giving Pledge’, initiated by Bill Gates and Warren Buffet, and the Clinton Global Initiative, are catalysing HWNI giving to development. For example, under the Giving Pledge, 129 individuals, with a combined net worth of over US\$400bn, have committed to giving ‘the majority’ of their wealth to philanthropy either during their lifetime or in their wills.¹¹ Numbers of HNWI in emerging economies are also rapidly increasing. One report finds that in China, India and African countries, the number of people with wealth of US\$100m or more could increase by 37% from 2011 to 2016.¹²
- Increased corporate giving: The share of profits that private companies or corporations allocate to charitable giving also increases with profit levels.¹³ India passed a law in 2013 requiring large companies to spend 2% of their post-tax profits on social welfare activities. While much of this may be allocated to domestic issues

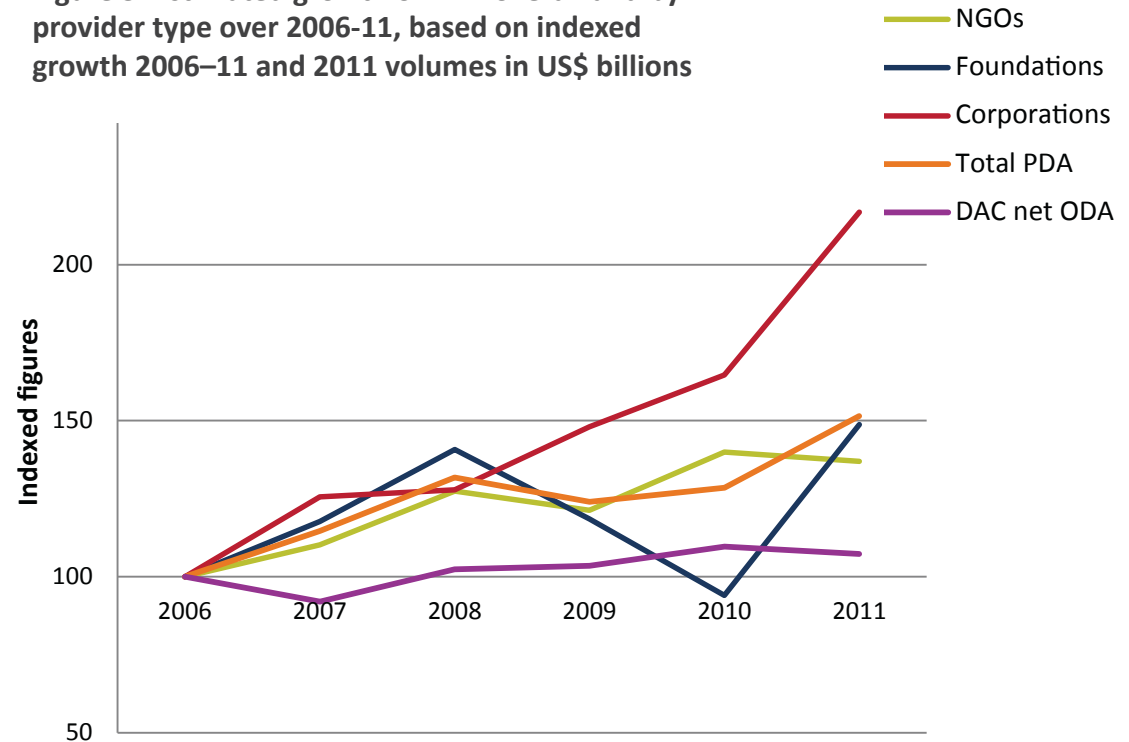
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within India, and therefore not meet the PDA definition, it may become a model for future private sector involvement in development.¹⁴

Importantly, each of these three sources of PDA - the middle class, wealthy individuals and corporations - give PDA in different ways: they use different channels and give to different sectors and countries. While HNWI's may establish their own charitable foundations through which to channel their giving, most middle-class people contribute a share of their private wealth through CSOs.¹⁵

The number of choices for channels of delivery of PDA is growing, as are the number of agencies involved in providing development assistance, bringing increased diversity among organisations that are involved in reducing poverty.

Figure 5. Estimated growth of PDA overall and by provider type over 2006-11, based on indexed growth 2006-11 and 2011 volumes in US\$ billions



Source: *Development Initiatives 2014*

This growing diversity is transforming power relations. Today, some large private actors control financial resources of a value comparable to those controlled by official donors. Greenhill and Prizzon (2013) found that developing countries welcome non-traditional flows, including philanthropy and social impact investment. The benefits of increased choice are seen as outweighing the costs of increased fragmentation of development assistance. Another benefit is increased negotiating power for the governments of developing countries, as they have access to non-ODA grants.¹⁶ In turn, this can be seen as reducing official donors' influence over development priorities in the global south, as argued by Severino and Ray in 'The End of ODA' (2009).

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The role of *Zakat* in humanitarian assistance

All of the world's major religions contain some element of almsgiving, and faith plays a key role in the funding and delivery of development assistance and humanitarian response across the world. In 2013, faith-based organisations received and delivered between US\$420m and US\$434m (15-16%) of all international humanitarian assistance channelled through CSOs.¹⁷

Islamic countries, and those with large Muslim populations, are also becoming more significant humanitarian actors, as both donors and recipients. Between 2011 and 2013, international humanitarian assistance from governments within the Organisation of Islamic Cooperation grew from US\$599m to over US\$2.2bn, representing a growth in the share of total international humanitarian assistance from governments from 4% to 14%. At the same time, an estimated 75% of people living in the top 10 recipient countries of humanitarian assistance in 2013 were Muslim.

Zakat, the mandatory Muslim practice of giving 2.5% of one's accumulated wealth for charitable purposes every year, is one of the main tools of Islamic social financing. It is explicitly intended to reduce inequality, and is widely used in Muslim countries to fund domestic development and poverty reduction efforts. There are clear parallels to be drawn between the eight individual categories of eligible recipients of *Zakat* listed in the Qur'an and people in need of humanitarian assistance.

There is no reliable data currently available to show precisely how much *Zakat* is paid by Mus-

lims around the world, or how it is spent globally. Yet data collected for Indonesia, Malaysia, Qatar, Saudi Arabia and Yemen, which make up 17% of the world's estimated Muslim population, indicates that in these countries alone, at least US\$5.7bn is currently collected in *Zakat* by formal *Zakat*-management institutions each year.

The global volume of *Zakat* collected each year through formal mechanisms can be estimated, at the very least, in the order of tens of billions of dollars. If *Zakat* currently thought to be paid through informal mechanisms is included, the estimate would be much higher estimate, potentially in the region of hundreds of billions of dollars.

There is a growing interest among humanitarian and development actors in leveraging greater levels of funding through *Zakat* and other forms of Islamic social financing. Organisations outside of the traditional Muslim aid agencies are beginning to conduct *Zakat*-based fundraising drives, such as United Nations High Commission for Refugees (UNHCR)'s current *Zakat* Syria Campaign.

THE NEED FOR TRANSPARENCY AND DATA TO SUPPORT DECISION-MAKING

There is an urgent need for better data on PDA, to allow greater understanding of how it is used, which sectors and countries it goes to, and who benefits.

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This data is essential to support understanding of the potential of these flows to reduce poverty, and inform resource allocation. There are three main gaps in the information that can be extracted from current data sources:

- The traceability of PDA is particularly poor, leading to a lack of data on where PDA goes, especially at sub-national level.
- The impact of PDA is still not well understood, both in terms of impact and outcomes. The lack of comparable data on the impacts of PDA providers impedes a wider understanding of the value of this resource for reducing poverty.
- The predictability of private development finance is low, particularly in comparison with ODA. Forward-looking data is largely absent.

Data is also lacking on private giving usually considered outside the traditional development finance area, including crowd-funding, social impact investment and Zakat.

Mapping global PDA is a critical first step towards taking full advantage of its potential impact on poverty, including understanding how PDA can catalyse or complement other resource flows, and where it can have most impact. The International Aid Transparency Initiative is one initiative that uses a common standard to improve data on PDA. This data is fundamental for any assessment of the impact of investments on poverty. In the humanitarian sector, a clear understanding of resourcing capacity and needs is essential to underpin effectiveness and coordination of live-saving humanitarian finance.

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1 See for example Greenhill et al, 2013.

2 See for example Bob Reich, What are foundations for?, 2013, Boston Review, <http://www.bostonreview.net/forum/foundations-philanthropy-democracy>.

3 The term CSO here refers to non-governmental organisations (NGOs) and not-for-profit organisations involved in development and public fundraising activities. For specific countries, the organisation denomination that is commonly used for CSOs is utilised in this analysis. For example, for the United States data, CSOs refer to private voluntary organisations (PVOs).

4 Watson, 2012.

5 Based on data collected over 2013 and 2014.

6 Development Initiatives, Measuring

Private Development Assistance, 2014 <http://devinit.org/wp-content/uploads/2014/08/Measuring-private-development-assistance.pdf>.

7 Developme <http://devinit.org#!/post/foundation-resources-development>, and NGO resources for development, 2014, <http://devinit.org#!/post/ngo-resources-development>.

8 Bain, 2013.

9 Lasby, 2011; Statistics Canada, 2009.

10 Kharas, 2010.

11 The Giving Pledge focuses on billionaires or those who would be billionaires were it not for their giving. For more information on the Giving Pledge, see <http://givingpledge.org>.

The Clinton Global Initiative

uses 'Commitments to Action' to catalyse financial and non-monetary commitments to address global challenges. For more information on the Clinton Global Initiative, see <https://www.clintonfoundation.org/clinton-global-initiative/about-us/cgi-model>.

12 Knight Frank Research and Citi Private Bank, 2012.

13 Committee Encouraging Corporate Philanthropy, 2013.

14 The 2013 Companies Act requires certain companies to spend 2% of their three-year average annual profit. It applies to companies with net worth of at least US\$90m, turnover of US\$180m, or net profit of US\$900,000 in any financial year. See <http://indiacode.nic>.

[in/acts-in-pdf/182013.pdf](http://www.deloitte.com/india/acts-in-pdf/182013.pdf) and Deloitte and ASSOCHAM, 2013. The Act is thought to cover around 8,000 Indian businesses (from a total of around 1.37m in India as of the end of 2013, according to a report in The Hindu newspaper, 13 February 2014, <http://www.thehindu.com/business/Industry/over-19-registered-companies-close-shop-in-2013/article5685180.ece>). It applies to domestic companies and foreign companies doing business in India.

15 Charities Aid Foundation, 2013.

16 Greenhill et al, 2013.

17 In this analysis of humanitarian assistance, 'CSOs' are organisations coded as NGOs in the UN OCHA FTS.