Over 176,000 philanthropic foundations exist in the United States and Europe alone, some with famous names like Gates and Rockefeller and others that are anonymous, but they all form part of a growing movement to channel private funding to the public good in innovative ways.

Foundations provided between US$7 and US$9.5 billion to ‘international’ or ‘development’-related activities in 2009, with approximately two-thirds of that amount coming from the USA, an increase of approximately 60 per cent in four years and now constituting almost 7 per cent of total development assistance. By far the largest contribution came from the Bill and Melinda Gates Foundation, which spent US$2.5 billion worldwide in 2009 and is the largest funder of global public health outside of the US and UK governments.

Because foundations make grants from the interest on their endowments and are privately governed by their trustees, they are free from the financial and political pressures that constrain other funding agencies and – at least in theory – can take risks from which governments and market-based investors might shy away. This makes philanthropy especially important in tackling the toughest challenges of human wellbeing and development.

But there are many debates about how foundations should use these advantages and whether they live up to their reputation for risk-taking and innovation. Some foundations focus on work that is politically risky, supporting groups that challenge power relations, hold business and government to account, and press for the fundamental transformation of society – like investigative journalists, watchdog groups and campaigns for social justice. Because foundations can look to the long term they can use their freedom and flexibility to strengthen the infrastructure of social change and encourage local institutions to choose which problems to attack and how best to address them over time.

Other foundations select the problems that are most urgent or important to them and try to solve them in the shorter term in a more aggressive way, like eliminating malaria or finding a ‘miracle’ variety of rice, pulling in resources from the private sector in order to make this happen. By lowering the economic risks associated with investing in social goods that don’t make enough money to secure support from the marketplace, this approach can spur research for new vaccines against HIV and other killer diseases, for example, and expand microcredit and other financial services for poor people.

These two approaches to philanthropy are complementary, because they address different elements of wellbeing over different periods of time that are measured in different ways. There are no data, case studies or moral arguments to prove that one is better than the other. Unfortunately, the excitement and high profile of the second approach with its promise of quick, material results is in danger of displacing support and resources away from the equally important work of institution-building and social transformation that underpins the first approach.

Two key policy messages follow from this conclusion. The first is that an ‘ecosystem’ of different approaches to philanthropy is likely to be more effective in tackling the complexities of wellbeing than a ‘monoculture’ in which resources are directed in the same ways to the same sub-set of problems and solutions.
The Role and Limitations of Philanthropy

Foundations, governments and aid agencies should support this diversity and resist the temptation to push philanthropy all in the same direction. At a time when development assistance is becoming more technocratic generally it is worth asking whether foundations should support or mimic this trend or hold out the option of a different style of funding.

Secondly, when the 'best' course of action is uncertain or contested, strong learning and accountability mechanisms are vital to make sure that foundations respond to real needs and rigorous research, and not just to their own ideas or the fashions of the day. Unfortunately, foundations are not strong on this account, and their increasing size and reach are beginning to raise some questions about the undue influence of private wealth over public policy concerns.

In order to address these questions there are many things that could be done, including:

• Diversifying boards of trustees, and obtaining more honest feedback from the recipients of grants and other independent voices. The Gates Foundation controls a quarter of global health spending and has a board of three family members plus Warren Buffet – a model that is sure to raise more questions in the future.

• Increasing coordination with host governments in order to generate a dialogue about priorities. In Liberia for example, a special office for philanthropy has been established under the Office of the President which ensures that foundations liaise with each-other and with the national authorities before they take the really big decisions.

• Channelling more resources through institutions that are governed by a broader cross-section of society, like the Global Fund for Malaria, TB and HIV/AIDS which has formal civil society representatives on its board.

• Strengthening independent evaluation, transparency and debate, with the aim of building up a richer base of knowledge around different approaches to philanthropy that is not controlled by the foundation community itself.

None of these measures would do away with the essential independence of foundations or curb their flexibility, but all of them would introduce more checks and balances and encourage greater learning and impact over time.

Foundations do have power and their influence is growing, but they also have an obligation to use it in ways that help others to choose the future that is best for them, even if this takes more time, differs from standard templates, and encounters unsuspected detours along the way. Balancing the demands of democracy with the determination to address global problems in a focused and energetic manner is the key issue facing philanthropy in the century to come.

Credits

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