

# ACTING LOCALLY. THINKING GLOBALLY?

## *International grantmaking trends of U.S. foundations*

by Marc Pfitzer, Fay Hanleybrown, & Sunder Ramakrishnan

Everyone knows that U.S. foundations are increasingly focused on international giving. Between 1990 and 2000, international giving by U.S. foundations quintupled, growing from \$508 million in 1990 to \$2.5 billion in 2000, according to the Foundation Center's international grants database. As a percentage of all U.S. foundation grants, international giving increased over the same period by one third, from less than 12% to more than 16%. But, as FSG discovered, the real story beneath this data is not what it seems.

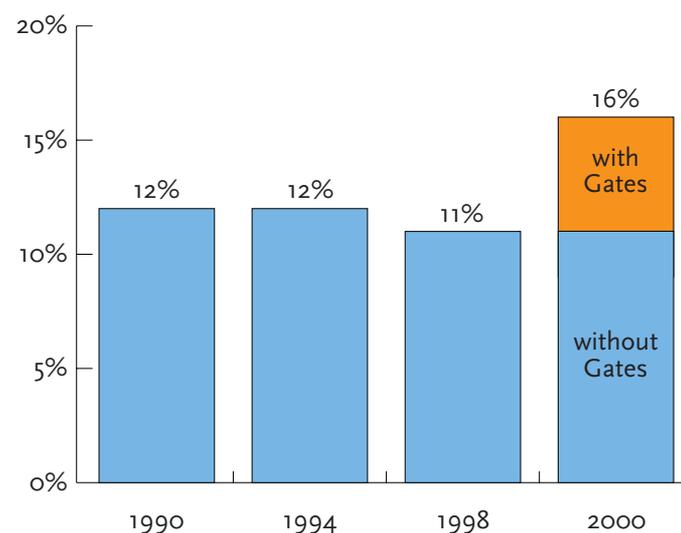
It would be easy to explain a large increase in international giving. Humanitarian needs are far greater outside the U.S. The AIDS epidemic in Africa, well documented in the media, has caused human suffering on a staggering scale. Many of the most urgent issues of our day – famine, terrorism, developing civil societies, reducing global warming, promoting sustainable development, and preserving biodiversity – are all global concerns. Technology and the Internet, the primary source of wealth for a new generation of donors, have not only brought the world together but are inherently global businesses, relying on customers, suppliers, and software developers from around the world. It would be no surprise, therefore, to find that new donors are much more attentive to international giving.

But none of this holds true, as FSG discovered when we were retained by the AVINA Foundation. Established by the Swiss philanthropist Stephen Schmidheiny, AVINA partners with local leaders to promote sustainable development in Latin America and the Iberian Peninsula. AVINA asked FSG to analyze trends in international giving by U.S. foundations and to recommend a strategy to promote greater international support.

We began by working with the Foundation Center to conduct a deeper analysis of the data that they collected from U.S. foundations for the year 2000. What we discovered, upon a closer examination of that data, was surprising.

The apparent increase in the percentage of international giving by U.S. foundations is entirely attributable to the Bill and Melinda Gates Foundation. (See Figure 1.) To be sure, international giving has grown in absolute dollars along with the overall growth of foundation support. The number of foundations making international grants has increased too, from 415 in 1990 to 618 in 2000. Still, when measured

Figure 1 PERCENTAGE OF U.S. FOUNDATION GRANTS FOR INTERNATIONAL SUPPORT



Source: Foundation Center's international grants of \$10,000 or more awarded by a sample of 1,000+ larger U.S. foundations, FSG analysis.

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# Newer foundations give significantly less of their dollars overseas compared to older foundations.

as a percentage of overall dollars, the only disproportionate growth is a result of the Gates Foundation.

From 1998 to 2000, for example, international giving grew by \$1.4 billion: two-thirds of that amount, or \$900 million, came from Gates. Excluding their grants, one finds that international giving as a percentage of total grants for U.S. foundations has actually *declined* from 12% in 1990 to 11% in 2000. (See Figure 2.)

What about new donors, so many of whom made their money through global technology? Apart from Gates, 80% of international funding comes from foundations that are more than 30 years old.<sup>†</sup> Newer foundations (created since 1990) give significantly less of their dollars for international grants compared to older foundations.<sup>‡</sup> Even those created since 1970 give only 9% of their grant dollars internationally, compared to 14% for foundations created before 1950.<sup>†</sup>

International funding is also far more concentrated than domestic funding. The top 25 foundations account for 83% of all international giving versus only 40% of domestic giving.<sup>†</sup> (See Figure 2.) More than half of the 100 largest U.S. foundations have geographical restrictions written into their charter or as part of their grant guidelines, which prohibit them from funding outside of U.S. borders. It is primarily a few older, larger foundations – not the new donors – that provide consistent international funding.

So why haven't U.S. foundations gone global? FSG conducted dozens of interviews with foundation staff, experts, academic researchers, and international NGOs to understand the attitudes and motivations that might explain the true story behind the data. Our interviews revealed a number of issues:

- **Donor motivations and experience.** Many U.S. donors and foundation boards are motivated by the desire to “give back” to the communities in which they live and work. Regardless of the size of the foundation, philanthropy is still primarily a local phenomenon. Those donors who have traveled to developing countries and seen humanitarian needs firsthand are significantly more likely to direct their grant dollars abroad.
- **Lack of international expertise and infrastructure.** Many U.S. foundations do not believe that they can make grants effectively outside the U.S. because they lack the knowledge and infrastructure to understand needs, identify trustworthy and effective grantees, or monitor results. Establishing a foreign office or infrastructure is considered prohibitively expensive.
- **High transaction costs.** Complying with IRS regulations and navigating the intricacies of establishing a 501(c)(3) equivalency, or monitoring expenditure responsibility requirements is seen as risky, complex, and time-consuming. Foundations that complete the legal work necessary to qualify a grantee generally do not want

Figure 2 SOURCES OF NEW INTERNATIONAL GRANTS 1998 vs. 2000

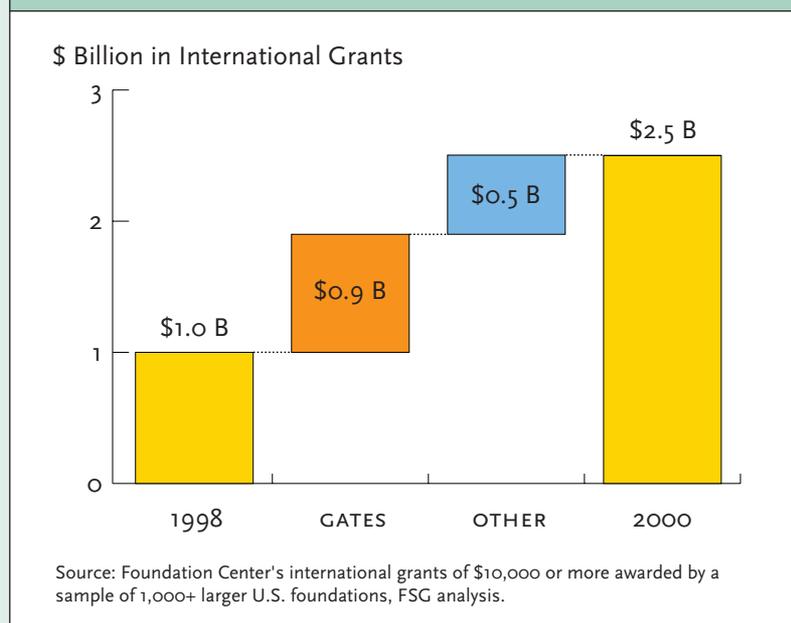


Figure 3 CONCENTRATION OF U.S. FOUNDATION GIVING 2000

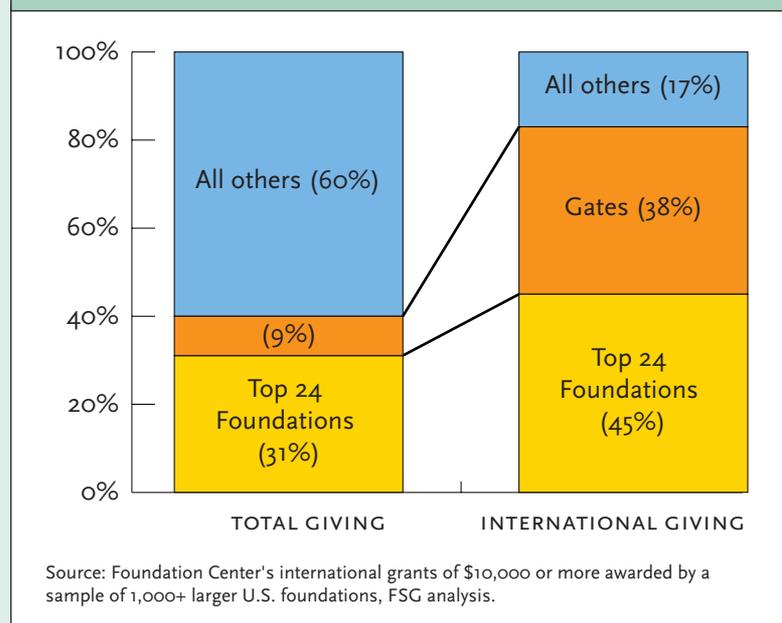
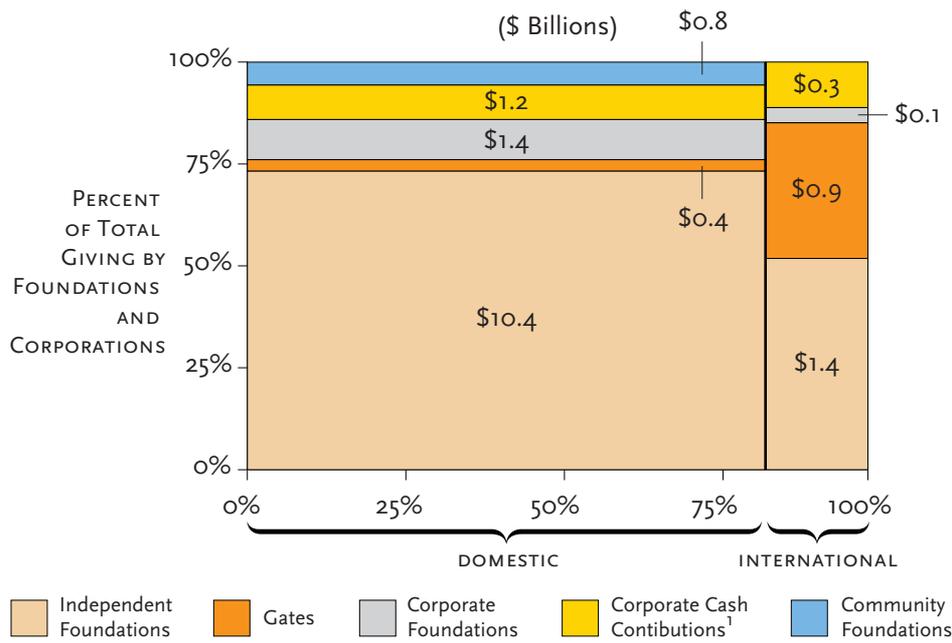


Figure 4 SOURCES OF INTERNATIONAL AND DOMESTIC FOUNDATION GRANTS



<sup>1</sup> Non-cash contributions for both domestic and international giving is approximately equal to cash contributions. Two-thirds of international cash contributions are given through local affiliates, with one-third given through headquarters.

Source: Corporate cash contributions are based on Conference Board data on 207 corporations; Foundation Center's international grants of \$10,000 or more awarded by a sample of 1,000+ larger U.S. foundations, FSG analysis.

the potential liability of permitting other foundations to rely on their work, even though it might substantially reduce transaction costs for all parties.

- **Lack of coordination among U.S. foundations.** Much international grantmaking by U.S. foundations is done in isolation, so that foundations do not benefit from shared expertise or infrastructure. For example, in examining Latin American grantees that receive money from U.S. foundations, we found that 81% have only a single U.S. funder, suggesting that there is very little collaboration among U.S. foundations.
- **State of civil society.** Whether perceived or real, the lack of economic or political stability and institutional integrity in some overseas regions is cited as a major deterrent for many U.S. foundations.

These barriers help to explain why international giving has remained so low, yet they raise genuine philosophical tradeoffs as to how foundations can best allocate their resources. Given the relative buying

power of the U.S. dollar, overseas grants may well create substantially greater impact on human lives than domestic grants, even when factoring in the relatively high transaction costs. On the other hand, foundations can add the most value when they understand the field they are funding and can engage closely with the work of their grantees.

These barriers, however, also suggest three ways in which overseas funding could be increased. First, programs such as the Rockefeller Philanthropy Workshop that offer donors the opportunity to travel and observe international needs firsthand seem to be very powerful in changing donor perspectives. Second, greater cooperation among foundations that are active overseas would reduce the transaction costs and increase the awareness of all involved. There is evidence that such coordination is on the rise through organizations such as Grantmakers Without Borders and the recently established Global Philanthropy Forum, which work to provide funders with the tools, information, and relationships they need to be effective international grantmakers.

Third, U.S.-based intermediaries can allow foundations to fund in specific regions or issue areas overseas without the regulatory red tape or the need to create a separate infrastructure. In fact, our research disclosed a strong trend toward the use of U.S.-based intermediaries in place of direct overseas contributions. Whether organized around issues, such as the International AIDS Vaccine Initiative and the Global Fund for Women, a theory of change, such as the Acumen Fund, or around geographical regions, such as Give2Asia, intermediaries are playing an increasingly important role. There remain, however, many important gaps in the international funding landscape that are not currently filled by intermediaries.

For some U.S. foundations, international giving will never make sense in the context of their mission and strategy. But for others, firsthand experience, increased access to information opportunities for collaboration, and an ability to navigate the barriers to international giving may offer a powerful opportunity to further the foundation's mission and create significant impact overseas.

<sup>†</sup> Based on an analysis of the Foundation Center's database of international grants of \$10,000 or more awarded by a sample of 1,000+ larger U.S. foundations.

<sup>‡</sup> Based on a sample of 11 major foundations created in the 1990s, the average percentage of grant dollars going overseas was only 3%.

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