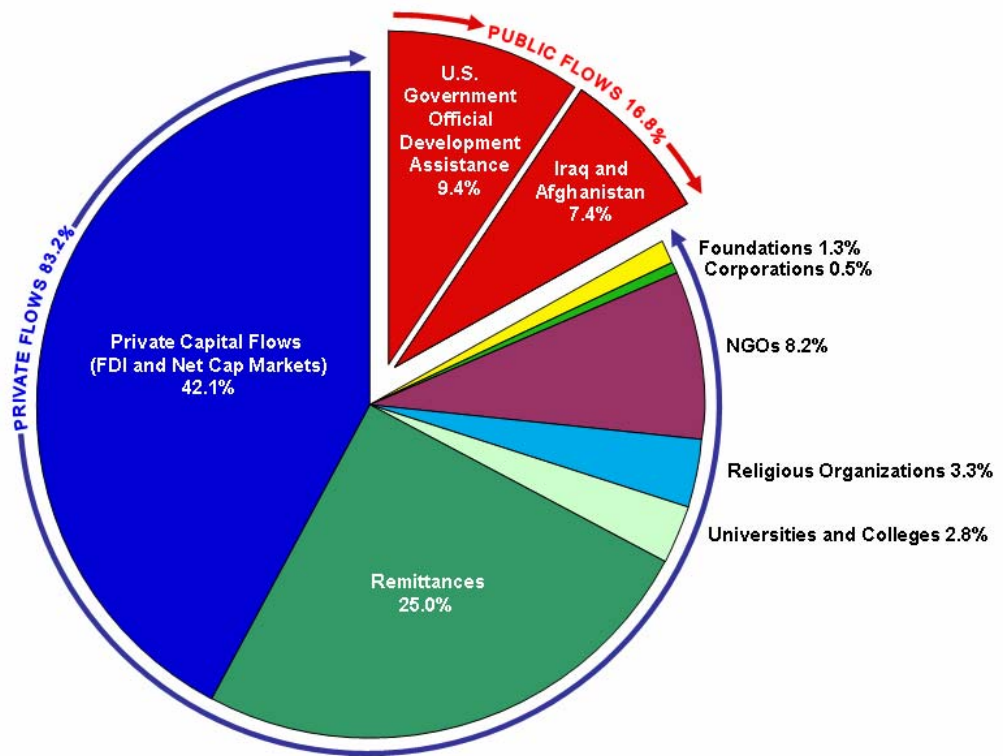




USAID
FROM THE AMERICAN PEOPLE

GUIDE TO THE 2005 RESOURCE FLOWS ANALYSIS

**US TOTAL FLOWS TO THE
DEVELOPING WORLD IN 2005: \$164 BILLION**



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GUIDE TO THE 2005 RESOURCE FLOWS ANALYSIS THE PRIVATE REVOLUTION IN FINANCING DEVELOPMENT

INTRODUCTION

Understanding the diversity of sources in private flows to the developing world is critical to leveraging the effectiveness of public aid to poor countries. This is the rationale behind USAID's Global Development Alliance initiative (GDA). The GDA is an innovative public-private alliance model for improving social and economic conditions in developing countries. The GDA combines the assets and experience of strategic partners, leveraging their capital and investments, creativity, and access to markets to solve complex problems facing government, business, and communities.

The relationship between official development assistance (ODA) and private flows to the developing world has reversed over the last thirty years. In 1969, 70 percent of resource flows from the US to developing countries came from ODA and 30 percent came from private sources. As 2005 data show, private capital now accounts for over 80 percent of flows.¹

Public flows remain the primary source of dedicated funding for development and humanitarian assistance, but as a portion of financial flows to developing countries more broadly, they now account for less than 20 percent of the total.

While private philanthropic giving is used directly for development and related purposes, remittances and foreign investment have both direct and indirect impacts on development. The fundamental realignment of monetary flows underscores the importance of building public-private alliances to achieve development impact, reduce widespread poverty, and help sustain democratic, well-governed states.

HIGHLIGHTS OF THE ANALYSIS

- Conservative estimates of resource flows to the developing world show that they have increased by nearly \$52 billion in the last two years, reaching approximately \$164 billion in 2005.
- U.S. FDI/Private Capital Flows and Remittances account for the largest categories of flows (at 42.1 percent and 25 percent, respectively).
- ODA makes up the third largest category of flows with approximately 17 percent of the total. While the share of ODA has shrunk over the past twenty-five years, the total value has grown at an average annual rate of 5.5 percent, from \$7.14 billion in 1980 to \$27.6 billion in 2005.

¹ The only exception to 2005 numbers is the combination of data from 2005 and 2004 that was used for NGOs due to a two year lag in updates to the USAID *Report on Voluntary Agencies*.

- Over 40 percent of 2005 ODA went to reconstruction and other assistance in Afghanistan and Iraq. If not for the conflicts in these countries it is possible to assume that ODA would be an even smaller percentage of the total pie.
- Estimates for remittances range widely. The US Bureau of Economic Analysis (BEA) Balance of Payments estimate, the most conservative number available, found \$41.3 billion in transfers from the U.S. to the world in 2005. In contrast, the InterAmerican Development Bank (IDB) estimated \$45 billion in personal transfers from the U.S. to Latin America and the Caribbean alone. Estimates using a conceptual model developed by the World Bank come to \$61.7 billion from the US to the developing world.
- Private flows from philanthropic sources (grantmaking and corporate foundations), religious, non-governmental and academic organizations combined represent 16.1 percent of flows. The information on these categories comes either as reported in the Hudson Institute's comprehensive analysis in the *Index of Global Philanthropy 2007*, or revised from their data in alignment with the GDA precept of opting for a more conservative calculation.

\$164 BILLION: DOLLAR VALUES BEHIND THE PERCENTAGES

Category	U.S. billion (2003)	U.S. billion (2005)	% of Total (2005)
Public Flows (ODA)	17.7	27.6	16.8%
ODA (non-Iraq/Afghanistan)	--	15.5	9.4%
ODA Iraq and Afghanistan	--	12.1	7.4%
Private Flows	94.9	136.6	83.2%
Foundations	3.2	2.2	1.3%
Corporations	1.2	0.8	0.5%
NGOs	2.9	13.4	8.2%
Religious Organizations	7.5	5.4	3.3%
Universities and Colleges	2.3	4.6	2.8%
Remittances	27.9	41.0	25.0%
Private Capital Flows to the Developing World (FDI and Net Capital Markets)	51	69.2	42.1%
Total	112.6	164.2	100%

Note: Different sources and/or methodologies were used for a number of private philanthropic categories in 2003 and 2005. This comparison is for illustrative purposes only.

HISTORICAL OVERVIEW

Charting of US financing for development was first undertaken by GDA staff using 2003 numbers as a graphic representation of the value of partnering with the private sector. While many actors devote resources in cash and in other forms to alleviate global poverty, the power that resides in allying efforts is at the core of the GDA model.

The 2005 analysis shows an overall percentage change of 45.8 percent over the 2003 findings, from \$112.6 billion to \$164.2 billion.

EXPLANATORY NOTES

Key characteristics of each 'slice' of the private sources include:

Foundations – \$2.2 billion (1.3%)

Every two years The Foundation Center—the nation's leading authority on philanthropy—publishes the *International Grantmaking Update: A Snapshot of U.S. Foundation trends*, with data on grants to recipients in developing countries, grants to US-based international programs, and grants for global health programs.

In 2005, The Foundation Center found that \$3.8 billion in grants were given to international causes overall, of which \$2.4 billion went to developing countries. To avoid double counting, \$181 million in grants from corporate foundations were subtracted from this number for a total of \$2.2 billion.

Corporations and Corporate Foundations – \$0.8 billion (0.5%)

The corporate giving number used here is derived from two sources: the Committee Encouraging Corporate Philanthropy (CECP) and the Hudson Institute's Center for Global Prosperity. The number used in this calculation differs significantly from the number reported by the Hudson Institute in their *Index of Global Philanthropy 2007*. The GDA has chosen to include only cash giving in these estimates in order to maintain a conservative approach and avoid relying heavily on estimated values of in-kind giving.

The CECP number used here, \$212,344,617, was found through the following methodology:

- 1) The CECP's regularly conducted survey of their 150 members.
- 2) A follow-up survey to include companies that had not reported international giving.
- 3) Deletion of in-kind giving amounts from pharmaceutical and non-pharmaceutical sources.
- 4) Prorating the final number on international giving by 98 percent, the estimated percent going to developing countries.

The Center for Global Prosperity number used, \$598,556,610, is derived from an extensive review of 73 Fortune 500 corporations and corporate foundations not represented elsewhere. Some percentage of in-kind giving is unavoidably included in this number.

NGOs – \$13.4 billion (8.2%)

This number is compiled from a variety of sources and reported in the Hudson Institute's *Index of Global Philanthropy 2007*. The number used in the GDA presentation differs somewhat from the number reported by the Hudson Institute in their report, however, as the GDA has chosen to include only cash giving in these estimates in order to maintain a conservative approach and avoid relying heavily on estimated values of volunteer time.

The Urban Institute's Center on Nonprofits and Philanthropy (CNP) used data from "990" tax-exemption forms filed with the IRS and USAID's annual *Report on Voluntary Agencies (VolAg)* 2006, which reported 2004 numbers. For organizations not represented in the *VolAg*, CNP used estimates of international giving—either by simply using the best available information for each organization, or by incorporating a random sampling technique to determine the average distribution of domestic and international giving. CNP found that, on average, 98.51 percent of donations by smaller NGOs were international. Wherever possible, giving to Western Europe, Canada, Japan, Australia, New Zealand, and Israel was excluded. CNP worked to eliminate double counting by comparing organizations with those included by The Foundation Center and reviewing *VolAg* and "990" forms for "health development and assistance" and subtracting any overlapping data.

This number includes giving by religious organizations that are defined as non-governmental organizations.

Religious Organizations – \$5.4 billion (3.3%)

There is no source that compiles reliable data for international giving by religious organizations, so information must be gathered from each individual organization. The Hudson Institute's Center for Global Prosperity used data from the Billy Graham Center's annual study of 700 U.S. Protestant missions' international giving, which was primarily to the developing world. These data were cross referenced with data on international philanthropy from the National Council of the Churches of Christ in the USA (NCCCUSA) and data from three additional denominations—The Church of God General Council, the Church of the Lutheran Confession, and the Evangelical Lutheran Synod, identified through Empty Tomb Inc.

This number is extremely conservative as it does not include data on international giving from other faiths and denominations.

Universities and Colleges– \$4.6 billion (2.8%)

The Institute of International Education's (IIE) annual student census, *Open Doors*, found that 56,000 international students were studying in the US in the 2004/2005 academic year. The Global Prosperity Institute used these data to determine that 81 percent of students were from developing countries. Hudson Institute partners at the University of Indiana used data on tuition payments from the College Board, prepared for NAFSA: Association of International Educators, to determine the sources of funding for these international students. Funding from US Government sources, home country governments, families, and foreign sponsors, was subtracted from the total. The final value was multiplied by 81 percent in order to reflect the proportion of funds going to students from the developing world.

Remittances – \$41.0 billion (25.0%)

Estimates for international migrant remittances range widely, and there is no universal agreement on how to measure them. In 2005 a comprehensive measure of several officially recorded flows — workers' remittances, compensation of employees ("the total remuneration, in

cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period"²), and migrant transfers — produced a worldwide estimate of \$167 billion. The true size may be more than 50 percent higher than this due to the high degree of unrecorded flows. Furthermore, migrant transfers are no longer included in remittances estimates because of possible overlaps with the other two flows and the difficulty in measuring this concept (it is basically a flow measurement of the “net worth” of individuals that move from one economy to another).

The number used here was grouped for DAC statistics by William McCormick, using data from the US Department of Commerce and the Bureau of Economic Analysis/Bureau of the Public Debt. This number incorporates both personal transfers, defined as “current transfers in cash or in-kind made by resident households to non-resident households”³ (\$31.80 billion) and employee compensation payments (\$9.23 billion).

Institutional remittances are included under NGO flows.

Private Capital Flows to the Developing World (FDI and Net Cap Markets) – \$69.2 billion (42.1%)

This calculation includes net Foreign Direct Investment (FDI), foreign stocks and bonds, and long term bank loans.

FDI constitutes equity capital outflows (net increases in US parent companies’ equity in foreign affiliates); reinvested earnings (US parent companies’ shares in the net income of their foreign affiliates after taxes minus distributed earnings); and inter-company debt outflows (the increase in US parent companies’ net inter-company debt receivables from foreign affiliates during the year).

Net capital markets includes portfolio investments (purchases and sales of foreign stocks and bonds by US residents) and bank loans (claims on foreigners of banks, brokers or dealers, and domestic customers). The 2005 Bank Lending total includes a large amount of short-term flows that can not be separately identified since the Federal Reserve Board survey instrument no longer sub-divides overseas bank lending by maturity. The use of bank lending flows in OECD Development Assistance Committee (DAC) statistics that include short-term flows was based on consultations with BEA for the State Department’s presentation of total flows in September 2006 at the UN. Technically, DAC statistics use long-term bank lending (maturities over one year) only, but the US can no longer make this differentiation due to the change in the survey instrument.

METHODOLOGY

This mapping of resource flows is not an exact science, and as a result these numbers are not entirely ‘pure.’ In all cases we used reported numbers rather than compiling estimates from many different sources. The over-arching principle in the determination of final numbers guiding this chart is to err on the conservative side.

² OECD Glossary of Statistical Terms.

³ Bureau of Economic Analysis/Bureau of the Public Debt.

Specific methodological precepts include:

- “Flows” are grants, loans and contributions from the U.S. government (public), and direct investments, securities, bank credits, transfers, and individual and institutional giving from the private sector.
- Multiple data sets were consulted to corroborate the findings.
- Figures represent cash and not quantified in-kind contributions (to the degree this breakdown is available).
- Contributions were not double-counted (i.e. a grant in ODA to an NGO is attributed to the original official source),
- US private capital flows and ODA are widely accepted as the definitive figures.
- Our measure of remittances flows utilizes the most conservative figures available given the variations in estimates and is thus thought to be dramatically underestimated. The estimates of private remittances vary from \$41.3 billion in total transfers from the US to the world as a whole, estimated by the BEA, to \$45 billion in personal transfers from the US to Latin America and the Caribbean alone, estimated by the IDB. This second number would result in US transfers to the developing world of more than \$70 billion when combined with other developing regions.
- Private giving figures are low compared to those presented by the Hudson Institute’s *Global Philanthropy Index* as the GDA has made an effort to minimize estimations of the value of non-cash giving, and has used a different number for remittances.
- A combination of data from 2005 and 2004 was used for NGOs due to varying data available.

SOURCES

The primary sources from which these data were derived include:

The OECD, The Hudson Institute, The Foundation Center, The Committee Encouraging Corporate Philanthropy (CECP), The Urban Institute, USAID, The Institute of International Education, The University of Indiana, The US Bureau of Economic Analysis (BEA), faith-based groups, and internal estimates.

Detailed citations are available in the Annex.

ANNEX

By category, the specific citations are as follows:

Government Official Development Assistance: \$15.5 billion and \$12.1 billion

- OECD, Final ODA Data for 2005.
(<http://www.oecd.org/dataoecd/52/18/37790990.pdf>)

Foundations: \$2.2 billion

- *International Grantmaking Update: A Snapshot of U.S. Foundation Trends*, The Foundation Center, October 2006.
- *The Index of Global Philanthropy*, The Hudson Institute, May 2007.

Corporations and Corporate Foundations: \$0.5 billion

- The Committee Encouraging Corporate Philanthropy.
- *The Index of Global Philanthropy*, The Hudson Institute, May 2007.

NGOs: \$13.4 billion

- The Urban Institute's Center on Nonprofits and Philanthropy.
- The Foundation Center.
- *Report on Voluntary Agencies (VolAg)*, USAID, 2006. This source includes 2004 data.
- *The Index of Global Philanthropy*, The Hudson Institute, May 2007.

Religious Organizations: \$5.4 billion

No organization compiles numbers on religious giving to developing countries, so it is necessary to contact individual religious organizations directly or obtain data from their annual reports.

Sources consulted were:

- Billy Graham Center Evangelism and Mission Information Service,
- National Council of the Churches of Christ in the USA,
- Empty Tomb, Inc.,
- The Church of Jesus Christ of Latter-Day Saints, and
- *The Index of Global Philanthropy*, The Hudson Institute, May 2007.

Universities and Colleges: \$4.6 billion

- *Open Doors 2005*, Institute of International Education (IIE), 2005.
- University of Indiana, Jason Baumgartner and Lynn Schoch.
- *The Index of Global Philanthropy*, The Hudson Institute, May 2007.

Remittances: 41.0 billion

- US Compensation of Employment Payments to Foreign Entities and US Personal Transfers Abroad in the CY2005 US international accounts, BEA compiled by William McCormick, USAID (PPC/DCO).
- The formula used for this accounting is: Personal Remittances to the World (31,800 million) + Compensation of Employees (payments) (9,229 million) = 41,029 million. This number reflects flows to the entire world and does not isolate the developing world. It is generally believed that this number is far too low for flows to the developing world.

Private Capital Flows to the Developing World (FDI and Net Cap Markets): \$69.2 billion

- *US Direct Investment Abroad: Capital Outflows Without Current-Cost Adjustment, 2003 – 2005* (FDI): International Investment Division, Bureau of Economic Analysis, US Department of Commerce.
- *US International Transactions in Foreign Securities for DAC reporting – 2005* (Portfolio): Balance of Payments Division, Bureau of Economic Analysis, US Department of Commerce.
- *Total CY2005 Flow of US Claims on Foreigners by Type and Country - TIC Forms BC, BQ1, and BQ2* (Long Term Bank Lending): Treasury International Capital Reporting System.

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