



Statement Before the
Senate Foreign Relations
Subcommittee on Multilateral International Development,
Multilateral Institutions, and International Economic, Energy, and
Environmental Policy

***“Global Philanthropy and Remittances and
International Development”***

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Chairman Young, Ranking Member Merkley, distinguished Members of the subcommittee, thank you for inviting me to testify before you today. It is a privilege and an honor. Currently, I hold an endowed chair at the Center for Strategic and International Studies, researching global development and “soft power” issues. There, and in my past experiences in the Bush Administration at USAID, and at the World Bank Group, I have had ample experience working with governments and the private sector along with private philanthropy and have observed closely the phenomenon of remittances.

I have had the opportunity to work with the largest private foundations in the US. I have also worked with America’s largest NGOs and our most influential religious organizations. I have worked closely with several of our closest allies including Japan, South Korea, Canada, and Denmark; and I had a great partnership with the Obama Administration on development. Finally, it has been a privilege to work closely with some of America’s finest companies on international development. In short, I come to this conversation with a diverse perspective on the topics you have asked me to discuss.

I have three main messages for the subcommittee today:

1. **First, while remittances and private philanthropy exceed official U.S. foreign assistance, neither can supplant nor replace the specific roles and functions of American and multilateral development assistance. Private actors are critical partners for the U.S. and we should, as a standard operating procedure, ask how we can leverage these additional forces to strengthen U.S. engagement in developing countries. But neither remittances, nor philanthropy can replace the expertise, scale, or agenda setting capacity of official American foreign assistance.** The U.S. government should always seek to partner with or encourage private activity but the growth of these resources should not be an excuse for the U.S. to take the “foot off the foreign assistance gas pedal.” The challenges we face are too big for one force or country to solve alone.
2. Second, while I am supportive of the Trump Administration’s willingness to explore ways to radically reform our foreign policy and soft power apparatus, **the wrong kind of merger of USAID into the State Department endangers the ability of the U.S. to work in partnership with companies, philanthropy, and civil society and will limit the U.S. government’s ability to leverage expertise and finance.** USAID is the most capable development agency in the world to partner with philanthropy, NGOs, private giving, CSR, FDI, and diaspora groups.
3. **Finally, we must consider the world we find ourselves in: this is not your grandparents’ developing world. It is richer, freer, and more capable than ever before.** At least 50 countries are on their way to becoming middle income, or even developed, countries. In the medium term, these countries will continue to require limited U.S. foreign assistance, but will shift towards a trade, investment, and cooperation relationship. This is great. Sadly, however, there are 30-40 failed and failing states that are the genesis for U.S. security problems, including: terrorism, large migration flows, trafficking in persons, illegal drugs, gangs, and pandemics. These countries will require a steady mix of foreign aid, security, and diplomacy to help fix the problems coming from these countries and protect the U.S. We will not be able to solve the problems in these countries alone. We will need good and willing counterparts on the ground, we should partner with our allies, and we should partner with private entities to help turn these societies around.

I want to also wish the Trump Administration great success in its foreign policy. I agree with the Trump Administration that there is a need for radical rethinking of our soft power and I agree that the right kind of reorganization could be useful. There are opportunities for gradual reductions in our soft power spending, perhaps even by as much as 10 to 15 percent over a three-year period, but we should not reduce global engagement. My comments are at once supportive of and constructively critical of the Administration.

Today I want to focus on two powerful, yet often misunderstood, development forces: philanthropy and remittances. “Philanthropy” of all kinds—meaning corporate giving, private foundation giving, and the small but many checks that average Americans write to non-profit organizations and religious organizations—and remittances—one individual sending money from back to one’s home country via cash, wire transfer, or increasingly, the web—are two major ways that the U.S. interacts with the developing world.

These two sources of financing—alongside foreign direct investment, local capital markets activity, and tax collections in developing countries—have far surpassed total U.S. foreign assistance. These forces should be counted when we think about how the United States engages with the developing world, as they multiply and facilitate U.S. leadership. The U.S. government should, by default, partner with these private sources of finance. The good news is that the U.S., through USAID, has already been doing this in an intentional and even strategic way over the last 15 years. But we could do more.

Now I will cover how these trends have reshaped the developing world and how the growth of philanthropy and remittances fit in this larger context:

The Changed Development Landscape- foreign assistance is not the largest wallet anymore

U.S. official foreign assistance alone will never meet all the demands of the developing world, but it plays roles that other sources of finance cannot. Combining all private flows—capital, remittances, philanthropy, and investment—these forces are at least 10 times larger than official aid flows.¹ Remittances and philanthropy, however, are not well positioned to work on the traditional, long term capacity building, tax, banking, or health reform; the bread and butter of official assistance. As you can imagine, this necessary work also does not lend itself to great photo ops and requires immense technical expertise.

It is important to understand that financial resource flows from the United States to the developing world have radically changed since the 1960s when 70 percent of the resources from the US came from official foreign aid and 30 percent was from private actors. Today less than 10 percent of our economic engagement is from official foreign aid and 90 percent is from these other sources of economic engagement.

When I entered the development business 15 years ago, there was a reluctance to recognize these changes. The reluctance came from: 1) a fear that the U.S. government would seek to cut official foreign assistance in the hopes that other sources might be a substitute, and 2) there was a bias in our foreign assistance system that assumed that foreign aid was “the driver” of development. Today, most in the official aid business recognize these changes, but the corresponding systems, procurement, planning and resource allocation have not been updated. And there is still an assumption that official foreign assistance is the largest wallet in the room. This assumption is one area that should be targeted as part of any

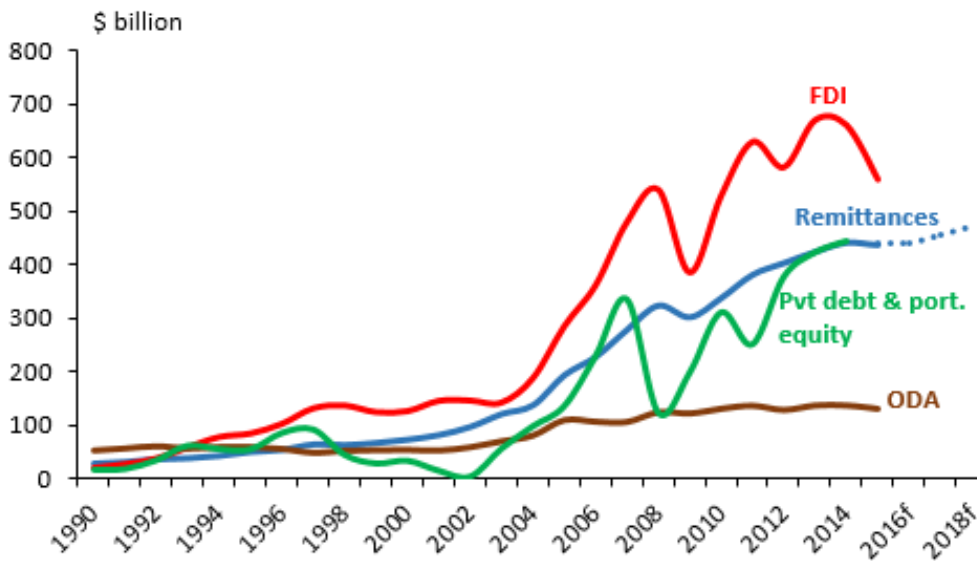
¹ Adelman, Carol, Bryan Schwartz, and Elias Riskin. “The Index of Global Philanthropy and Remittances: 2016.” *The Hudson Institute*. February 15, 2017. <https://www.hudson.org/research/13314-index-of-global-philanthropy-and-remittances-2016>

reorganization and rethink of resource allocation, but it must be done in the context of a larger approach to foreign policy and national security.

U.S. Total Net Economic Engagement with Developing Countries, 2013-2014²

Flow	USD Billions	Percent
U.S. Official Development Assistance	33.1	9%
U.S. Private Philanthropy	43.9	12%
• Foundations	4.7	11%
• Corporations	11.3	26%
• Private and Voluntary Organizations	15.4	35%
• Volunteerism	4.3	10%
• Universities and Colleges	2.2	5%
• Religious Organizations	6	14%
U.S. Remittances	108.7	30%
U.S. Private Capital Flows	179.3	49%
U.S. Total Economic Engagement	365	100%

Changing Global Economic Engagement with the Developing World, 1990-2014³



² Adelman, Carol, Bryan Schwartz, and Elias Riskin. "The Index of Global Philanthropy and Remittances: 2016." *The Hudson Institute*. February 15, 2017. <https://www.hudson.org/research/13314-index-of-global-philanthropy-and-remittances-2016>

³ <http://blogs.worldbank.org/peoplemove/trends-remittances-2016-new-normal-slow-growth>

In 2015, the U.S. official foreign assistance amounted to \$33.59 billion.⁴ Meanwhile, remittances from the U.S. alone totaled over \$130 billion.⁵ Philanthropy from the US accounted for \$44 billion.⁶ US FDI surpassed all categories at \$322.5 billion.⁷ I would hasten to add that these flows are not even spread across the developing world. For example, much of the FDI goes to large emerging market economies such as the BRICS.

Remittances

Globally, remittances have quadrupled since the early 2000s, moving from 100 billion around 2002 to an estimated \$582 billion in 2015.^{8,9} Given that U.S. is the worldwide leader in immigration, we also lead in remittances.¹⁰

Diasporas—meaning large communities of people who have left their homelands—as individuals send funds via wire, mobile, or internet connection to supplement income for their families, neighbors, and communities “back home.” Senders in the U.S. transmit the most money to Mexico, China, and India (the largest global destination)—each accounting for over \$10 billion—with Mexico alone accounting for \$24 billion.¹¹ Many families and individuals rely on remittances for basic needs and services absent in the developing world or in an emergency. Most remittances go to direct consumption: food, basic education, health, and housing. Only a small amount goes towards starting businesses or collective philanthropic endeavors. Remittances are important to keeping poor families, especially in rural areas, afloat. U.S. foreign assistance cannot fill the person to person, family-to-family role that remittance plays, and should not fulfill a subsistence role.

Given the size of global remittance flows, there have been many attempts by the US government, multilateral development banks, and development finance organizations to “channel” them into long term economic growth or to reduce the transaction costs of remittances that are sent. There have been several examples of remittances brought together and then matched with corporate money and/or aid dollars to respond to natural disasters. Some have also sought to use remittances as collateral for the financing of government bonds in a developing country through so called “remittance bonds.” Though, this approach remains limited.

There are significant opportunities to reduce the cost of remittance transactions, because of emerging technologies. While many remittances are still sent via traditional wire arrangements, this trend is changing. For example, almost 20 million people in Uganda alone use digital payment methods via their cell phones, almost four times the number of traditional bank accounts.¹² In ten years’ time, most

⁴ <http://www.oecd.org/dac/development-aid-rises-again-in-2015-spending-on-refugees-doubles.htm>

⁵ <http://www.pewglobal.org/interactives/remittance-map/>

⁶ Adelman, Carol, Bryan Schwartz, and Elias Riskin. “The Index of Global Philanthropy and Remittances: 2016.” *The Hudson Institute*. February 15, 2017. <https://www.hudson.org/research/13314-index-of-global-philanthropy-and-remittances-2016>

⁷ <https://data.oecd.org/fdi/fdi-flows.htm>

⁸ Ratha, Dilip. “Trends in Remittances, 2016: A New Normal of Slow Growth.” *The World Bank*. October 6, 2016.

<http://blogs.worldbank.org/peoplemove/trends-remittances-2016-new-normal-slow-growth>

⁹ <http://www.pewglobal.org/interactives/remittance-map/>

¹⁰ <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>

¹¹ <http://www.pewglobal.org/interactives/remittance-map/>

¹² Adelman, Carol, Bryan Schwartz, and Elias Riskin. “The Index of Global Philanthropy and Remittances: 2016.” *The Hudson Institute*. February 15, 2017. <https://www.hudson.org/research/13314-index-of-global-philanthropy-and-remittances-2016>

remittances could be sent via mobile wallets and currencies using “blockchain” technologies such as “bitcoin.”

For over ten years, USAID has had experts focused full time or part time on opportunities with diasporas and remittances. I know this because I pushed for the role to be created and found the money to hire the first expert on diasporas and remittances at USAID in 2007. But more innovation, creativity, and a broader regional focus are needed.

Latin America represents one example. Two USAID investments provide snapshots of the ways in which aid dollars can be used in partnership with official aid dollars. The Pan American Development Foundation (PADF) implements two USAID remittance programs: one in Haiti and one in El Salvador.¹³ The Haitian program, called LEAD, mobilizes investment capital from the diaspora in the U.S. to expand production and employment on the island. It also signals that sometimes remittances on their own need a nudge toward broader goals and outcomes provided by official assistance. PADF’s El Salvador program similarly channels collected remittances from the diaspora overseas to school and education projects.

Remittances are tricky because they represent personal transactions. At the end of the day, remittances hold many countries together through funding basic service delivery but, on their own, cannot transform a society because what you need for societal change are good political governance, entrepreneurs and an expanding private sector. Remittances can and should work more closely with official assistance, as is the case in Haiti and El Salvador. But remittances cannot supplant official assistance.

U.S. “Philanthropy” is significant; but it is mainly Ms. Smith and Mr. Johnson. Not Mr. and Mrs. Gates.

The amount of U.S. “philanthropy” to developing countries is big. \$44 billion is a lot of money and more than what the U.S. government officially spends on ODA. But before you assume this is all coming from the Bill and Melinda Gates Foundation, you should know that average Americans are driving much of this private philanthropy. Americans are a generous people. Individuals provided the most philanthropic giving in 2015, accounting for over 70 percent of the national total.¹⁴ When thinking of overseas US philanthropy, it breaks down to:

1. Corporate philanthropy,
2. Private & family foundations,
3. Religious giving,
4. Individual donations collected by NGOs and other civil society organizations, and
5. University scholarships.

Let’s start with corporate philanthropic giving. It is much bigger than 30 years ago, for several reasons: First, U.S. companies and U.S. jobs rely on markets overseas. 95% of the world’s customers are outside our borders.¹⁵ Second, global supply chains and their increasing transparency have created deep interests in many US companies to strengthen foreign labor markets. Third, the external environment for companies makes it much more important to be constructive force. As one friend of mine recently said, “companies will be at the table or they will be on the menu.”

¹³ <https://www.padf.org/news/2015/6/11/usaaid-padf-help-strengthen-small-and-medium-haitian-enterprises-and-create-8000-jobs-through-lead-project>

¹⁴ <https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/>

¹⁵ <https://www.uschamber.com/ad/95-worlds-consumers-live-outside-united-states>

Forces like social media boycott campaigns, employees who want to be proud of their employer, and the concept of a “social license to operate” (a “permission slip” from communities where companies operate abroad) are powerful incentives to do the right thing. Fourth, companies have become very active in the immediate response to humanitarian emergencies. For example, U.S. corporations provided triple what the U.S. government gave after the Great East Japan Earthquake in 2011.¹⁶ Corporations do better with certain critical humanitarian sectors or issues directly related to their business environment, but corporate philanthropy is generally not animated by topics such as institutional capacity building or improved governance and rule of law.

For the past 15 years, the United States has worked closely with companies through USAID’s Global Development Alliance. Like the US Government, private companies cannot solve the challenges they encounter overseas alone. Invariably, the companies and the foundations I talk to value the USAID brand, the scale that the US can bring, and the institutional expertise of USAID missions. Similarly, companies bring their technology, supply chains, people and corporate philanthropic dollars.

Family and private foundations such as the Bill and Melinda Gates Foundation spent \$4.16 billion in 2015, with almost 80 percent going to health and global development.¹⁷ Though they represent approximately 10 percent of U.S. philanthropic giving, they are very important. They take risks the US government cannot and they identify new, innovative ideas and take them to a new level. They can, in theory, take a longer view. Most US government grants are 3-5 years in length. Philanthropy, when done right, can invest for 20 or 30 years on an issue. Many recent foundations have been started by younger individuals who made money in the private sector and bring a private sector mindset to solving global problems. This is a tremendous asset for the United States and should be encouraged.

Much like remittances, private and family foundations are a powerful force. Philanthropists are an important part of the development ecosystem. But, like remittances, they cannot supplant the US official development assistance. The US government and private foundations have worked together for over 50 years. In fact, private foundations scale ideas through official assistance. Much of the great work in global health in the last 15 years has come about because of philanthropy and the US government and others working together.

Most philanthropy comes from individual Americans privately giving to NGOs and civil society. Some of this money is what you and I send to the Save the Children or Technoserve. The government has successfully encouraged this through tax deductions for charitable giving. And the US has worked with civil society groups for a very long time. The US government has been working with NGOs for more than 60 years overseas. Much of US development engagement is done in partnership with these groups. NGOs, however, often look to official US support for the sort of systemic change, host country interaction, policy planning, and overall agenda direction in a developing country. So, private giving via NGOs cannot perfectly supplant US official assistance either.

Another category is religious giving. Small church groups and larger organizations such as World Vision and Catholic Relief Services are major forces of good in the world. Organizations such as Samaritan’s Purse go to some of the most difficult places in the world. The US government also works closely with these organizations and should work even more closely with these groups.

¹⁶ White, Stacey. “Corporate Engagement in Natural Disaster Response.” CSIS. January, 2012. https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/120117_White_CorporateEngagement_Web.pdf

¹⁷ <http://www.gatesfoundation.org/Who-We-Are/Resources-and-Media/Annual-Reports/Annual-Report-2015>

Finally, there is the area of scholarships paid for by universities and colleges. By far one of the best investments the US can collectively make with both public and private money is to train the next generation of decision makers of developing countries. It is often discarded because scholarships are expensive, and there is always the tendency of some students to find ways to stay in the US. These students get exposed to the American way of life; both our good points and our bad points. Thousands of leaders who have studied in the US gone back to a developing country and changed improved those societies. Many have pro-American views and they are natural allies and partners.

What can Congress do? Make sure that the US remain a development power and make sure that USAID does not get broken

The US could do three things: **Do not reduce U.S. ODA expecting other financing to fill the gap, do bring foreign aid under one person, but be careful with agency level reorganization.**

First, do not reduce US development assistance and expect philanthropy and remittances to make up for the reductions. The U.S. government should leverage these entities and partner closely with them, but philanthropy and remittances will not carry out all the activities U.S. foreign assistance does.

Private actors cannot solve the problems of the developing world on their own. Knowing the limitations philanthropists' roles, Bill Gates recently sought a meeting with President Trump to argue for maintaining foreign assistance levels. Philanthropy, the private sector, and the retired military are all concerned about the proposed budget.

But the Trump Administration is right to ask questions. Do I think the current assistance budget is arranged the right way for the world we are in or the challenges we face? No.

Do I think we could reduce the foreign aid budget in a gradual way by 10-15 percent, perhaps via a top to bottom review of what we are spending and doing something akin to a Department of Defense like BRAC process? Absolutely.

Second, if we want to partner better with these forces, we should have all foreign assistance under one person. And that person should be the USAID Administrator. There are at least 15 US government agencies delivering some form of foreign assistance. This is crazy. Many of these agencies have now developed partnerships arms as well. Many companies and foundations get requests from 3, 4, 5 or more US government agencies. The good news is that there is a desire to partner with these private actors I have talked about; the bad news is that we have a largely dysfunctional organization of all this "stuff" at the US Government level. One option would be to make the head of USAID the "Director of Foreign Assistance" as well as a Deputy Secretary of State for Development. There is a bill to create a director of foreign assistance role; that is a good idea. The US congress should be engaged heavily in a USAID and State reorganization. Henrietta Fore, the last USAID admin under President George W. Bush, was both USAID Administrator and director of foreign assistance. This is a good model on which to build.

Third, to ensure we are working as well as possible with these outside forces, the Trump administration should make sure that State and USAID and other organizational change are done in partnership with the Congress. Do I think that the current aid system needs big fixes? Yes, I do. Do I think that the US assistance system should arrange itself to reflect this changed environment? Yes, I do. Do I think the answer is folding USAID into State, reverting to their procurement and hiring systems while doing absolutely nothing about the other agencies? No I do not.

China, South Korea, Taiwan, Chile, Poland, and many more have emerged from fragility to become prosperous and developed countries. While these countries required foreign assistance and aid, they

progressed more so through improving governance and private sector engagement. U.S. foreign assistance has a role to play in supporting the gamut of forces required to evenly develop a country. But there are areas where only official foreign assistance is appropriate, such as in governmental reform. For other areas, like developing local economies and income, capital markets, and philanthropic networks, the private sector could perform better. U.S. policy needs to reflect the advantages of each type of engagement and deploy them efficiently.

Specific inquiries:

- *What roles do philanthropy and remittances play in international development?*

Remittances are a function of the global migration trends of the last 30 years. More than 25 developing countries rely on remittances for over 10 percent of their GDP.¹⁸ The clear majority of these transactions are individual to individual for daily consumption. Global remittances today are estimated over \$500 billion a year. These daily transactions fill the gap of big aid in basic income and services, but they could more closely align with global development goals. Some critics argue remittances go toward consumption of luxury goods and discourage employment. But they are the basis for how many people live. Philanthropies fill the gaps caused by specific concerns or emergency situations, for example, after the 2011 Japan earthquake.

- *What are the major trends and developments in philanthropy and remittances associated with international development?*

Remittances have seen exponential growth due to international migration. Western Union handles \$1 of every \$5 wired around the world, with Money Gram handling the second highest amount. But there has been a shift to startups that partner with mobile telecom, enabling money to be sent cheaper and faster via the internet or a mobile connection—with the developing world adopting cell phones faster than any developed country.¹⁹ While Western Union charges from \$14 to \$25 per transaction, Xoom—one U.S. online transaction service—only charges \$5 to \$6 per transaction. Banks handle only between 5-10 percent of remittances between the U.S. and Latin America. In the future, new ways of transferring remittances will be used and the costs of transmission will drop even more given competition.

- *What role is philanthropy playing with respect to innovation in international development, including evidence-based and outcome-based approaches? How can these approaches inform or improve government policy?*

The US government has strong relations with many of the largest private and family foundations. The Green Revolution which spurred major agricultural productivity was a partnership between private philanthropy and US official development assistance. Private and family foundations can take risks that official assistance cannot. Private and family foundations can take a longer-term outlook than official assistance. It is important that the US have an on-going dialogue with these organizations and can bring about respond to new information and insights developed by private philanthropy.

¹⁸ <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>

¹⁹ <http://www.economist.com/node/21554740>