

# TRANSPARENCY IN INTERNATIONAL PHILANTHROPY

## Solving a coordination problem\*

**Philanthropy is difficult to assess due to a scarcity of information, as grant makers and foundations produce mostly hard-to-codify, tacit knowledge. This hampers foundations' ability to coordinate with one another because they are unaware of each other's efforts. The article discusses how to build an international knowledge base for philanthropy, and how to mitigate the drawbacks from the lack of a data-sharing culture in the philanthropic sector.**

### 1. INTRODUCTION

International philanthropy has a knowledge problem. Despite the many expressions of philanthropy in different countries, contexts and moments in time, not much is known about how philanthropy works as a system, much less how giving compares between countries. In both the developed and the developing world, with the notable exception of the United States, philanthropy is rarely identified by national statistical systems, and most information available is second-order, for example deriving from tax returns for charitable donations or *ad hoc* studies on corporate and individual giving. While organised philanthropy discloses information about its objectives and activities voluntarily, for the most part it does so in an idiosyncratic manner; foundations that share information about their grants, funding disbursed or evidence on what they accomplish do so because of the preferences of their trustees, boards or those to whom they are solely accountable. Philanthropy thus operates in a decentralised, isolated manner, reflected in the lack of system-wide information.

In the development context, unlike other channels of financing for development such as *official development assistance* (ODA), private investment and even remittances, philanthropy in support of development has only recently been partially identified at an international level by the OECD. This has taken place firstly with the regular publication of the *Bill and Melinda Gates Foundation* data alongside ODA and secondly through a recent survey that included 143 of the largest foundations worldwide. This shed light on the volume and channels of financing towards developing countries on

behalf of the foundations, showing that philanthropic giving for development reached USD 8 billion on average between 2013 and 2015 (OECD, 2018). It also confirmed that philanthropy for development is concentrated in health and education, mostly in low to middle-income countries, and channelled through intermediary organisations such as the *World Health Organization* and other non-governmental organisations.

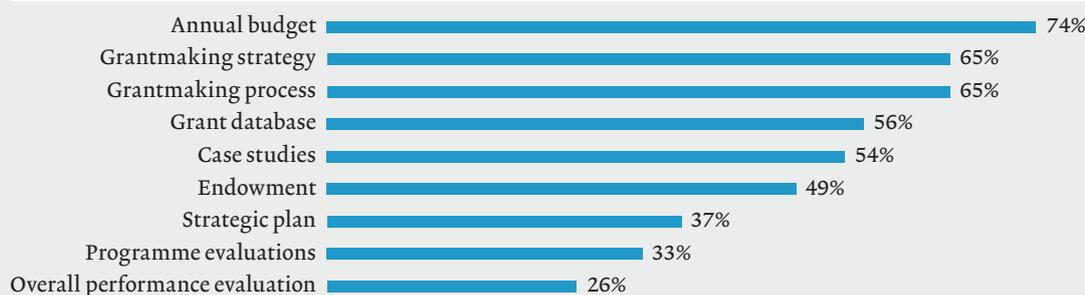
Why is it so difficult to understand philanthropy as a system? One reason is that philanthropy is organised in a way that creates and manages knowledge only between philanthropists and the organisations they support. This means that the type of knowledge produced within the philanthropic sector is implicit, or tacit: that is, knowledge that is not transferable without direct and continuous socialisation (Collins, 2010). The distinction between tacit and explicit knowledge is important because it defines the boundaries between organisations and their environments, and how much learning within an organisation can be transferred outwards, given that tacit knowledge is “[...] *experience-based: it can only be revealed through practice in a particular context and transmitted through social networks*” (Lam, 2000, p. 489). A relationship between a foundation and a specific grantee over the years can be a type of tacit knowledge, if it depends on the people who established and maintained that relationship in the first place; know-how of a particular process or obstacle that is difficult to communicate remains part of the tacit knowledge of an organisation. Accumulation of tacit knowledge increases organisational capacities, but if nothing is encoded along the way, no explicit knowledge can be shared outside of the organisation.

Unlike firms in the private sector, philanthropic organisations do not face a competitive market in which the information disclosed carries a competitive disadvantage. Yet, the majority of foundations still do not share information about what they do for multiple reasons: some do not want to lose operational freedom or expose their grantees to pressure from governments (OECD, 2018, p. 84). Also, preparing and sharing information is expensive, and perhaps more importantly, there are no social nor legal norms to standardise transparency in the philanthropic sector. The overreliance on



NELSON AMAYA,  
MPA, ECONOMIST, NETFWD  
COORDINATOR\*\*, OECD  
DEVELOPMENT CENTER,  
PARIS

Figure 1: **WHAT INFORMATION DO FOUNDATIONS SHARE OPENLY?**  
(Answers from 82 out of 143 foundation respondents)



% of foundations that shared each type of information

Source: OECD (2018)

tacit versus explicit knowledge might explain why philanthropy remains mostly unidentified: only a few foundations share their financial information, even fewer their grant-making process and results, and only a small subset of those publish evaluations of the effects of their philanthropy (Figure 1).

This article suggests that calls for transparency, despite being welcomed and necessary, are not sufficient to change the current standards, and that a more constructive approach that emphasises the relevance of information sharing could be successful in solving the knowledge problem in international philanthropy. The next section will describe a framework to understand why foundations do or do not share information, and consequently how a particular model of data consolidation can overcome the hurdle of limited transparency in international philanthropy.

## 2. THE COORDINATION OF KNOWLEDGE AND INFORMATION IN PHILANTHROPY

At the heart of the lack of transparency in international philanthropy lies a coordination problem. Given that philanthropy produces both tacit and explicit knowledge, the latter in the form of dedicated grants and related financial statements, earmarked funds and targeted population or grantees by geography, an opportunity arises for philanthropic organisations to incorporate a broader set of information into their decision-making process. If foundations stand to gain in allocative efficiency by incorporating information from other organisations doing related work, they can also gain from combining internal and external information into their decisions. However, foundations do not have enough extrinsic incentives to share information more broadly, and the framework below explains why this might be the case.

To capture the idea that the lack of transparency is in response to a coordination problem, a simple game in which foundations decide what information to share with others will prove helpful. In this framework, the information problem in philanthropy resides in individual foundations basing their grant-making and operational decisions on information only they have access to, as well as information other

foundations make available, using information directly as a factor of production into their objectives (Berczi, 1981). Information here is not considered, as it often is, as being related to the actions of others or the degrees of belief about different states of nature [1], but a direct factor of production used by philanthropic organisations to reach their objectives that reflects the tacit and explicit dimension of the information they can use.

Let  $t_i$  denote tacit knowledge in foundation  $i$ , which can be used at a cost  $c_t$ , and explicit knowledge  $e_i$ , at a cost  $c_e$ . Both types of information are combined to maximise the organisation's objective  $U_i$  independently of what the specific objective  $U_i$  of the organisation might be [2]. Tacit and explicit knowledge involve independent costs: a foundation can choose to use explicit knowledge or not, independently of its level of tacit knowledge. More importantly, foundations can combine internal tacit knowledge, together with *internal explicit knowledge* and *external explicit knowledge* from other foundations. For the latter two (that is, internal and external explicit information), we assume they can be combined: that is, a foundation can gain from being able to use their level of explicit knowledge together with that of other foundations. The key idea here is that explicit knowledge, once used, can be shared between organisations – which is something that tacit knowledge, by its very nature, cannot accomplish.

Foundation's  $i$  problem can be described by the following expression (1), which shows how a foundation maximises its objective function by combining tacit and explicit information, where explicit information from foundation  $i$  combines only with explicit information from all other foundations producing it (denoted foundations  $-i$ ) subject to the costs of using each type of information [3]:

$$\text{Max}_{t_i, e_i} U_i = f(t_i, g(e_i, e_{-i})) - c_t t_i - c_e e_i$$

From the formulation above, the more foundations use and share explicit knowledge, the more other foundations can incorporate additional information into their decision-making [4]. However, a foundation does not know whether others will use and share their explicit information and never-

theless needs to decide about its own use of explicit information, making this a strategic interaction captured by the term  $g(e_i, e_{-i})$ . In this case, the information sharing problem resembles a public goods game, where all involved would benefit from its provision, but no individual foundation has incentives to contribute if others do not do so as well.

For a simple illustration, consider the case of two foundations: A and B. Foundation A can choose to use explicit information  $e_A$  if foundation B uses explicit information  $e_B$ , so both can incorporate it into their respective objective functions and get a payoff of  $a = U(t_i, e_A, e_B)$ . If foundation A does not use and share explicit information, therefore not incurring the cost of using it, it can in any case use foundation B's explicit information  $e_B$  and receive a payoff of  $b = U(t_i, e_B)$ . If foundation A uses explicit information but foundation B does not, then it receives a payoff of  $c = U(t_i, e_A)$ . Finally, if neither foundation uses any explicit information, they do not incur the cost of doing so and have to rely solely on their tacit knowledge and receive  $d = U(t_i)$ . It follows that, under the conditions specified above, when the marginal benefit from explicit information does not offset the marginal cost of using and sharing it, the expected result [5] is that neither foundation will produce explicit information. In other words, there is a fully decentralised philanthropic system, where all foundations rely solely on their own tacit knowledge, much like the one observed. More importantly, as this framework shows, this need not be the product of a deliberate lack of transparency on the part of foundations, which cannot be readily solved, but simply the manifestation of a coordination problem.

### 3. EXPLORING SOLUTIONS TO PHILANTHROPY'S COORDINATION PROBLEM

What can provoke a transformation from not sharing explicit information, to foundations benefiting from each other's explicit knowledge? There are multiple ways of promoting cooperation in an uncooperative environment [6], but here we will focus on two features of a particular model based on: 1) *third-party information consolidation* and 2) *optional degree of disclosure*.

Introducing a third-party information compiler, in much the same way that national statistical agencies provide regular statistical information on industry performance at an aggregate level, can shift the payoff results from the coordination game through two channels. The first channel involves adding information to the pool of existing explicit

information, which increases the stock of available explicit information for common use. The second channel solves the simultaneity problem arising from foundations waiting for others to decide to share before doing so themselves. Let us discuss further how each channel contributes to solving the coordination problem.

The first of these channels is simply an additional source of information: the standardisation of philanthropy under the same classification as another financing-for-development flow like ODA. Given that, for the most part, ODA and philanthropy towards developing countries share many dimensions, such as targets, areas of work and geography, and the absence of a for-profit dynamic, the complementarity between both sources of information is evident. In this sense, the information encoding ODA integrates naturally with philanthropy in the development field, and the availability of both types of information can be incorporated into the objective function of foundations through  $g(e)$ , which we will denote  $g'(e)$  [7].

The second channel, which is more important than the first, overcomes the who-shares-information-first coordination problem. A neutral broker such as the OECD can coordinate information-sharing if it can credibly communicate to foundations that it will make this available under conditions that motivate those same foundations to share information in the first place. This follows from making the information available online and only up to the level that each foundation agrees to [8]. Foundations can, if they so choose, share information so that it is computed into the aggregates but not shared in its entirety, given that anonymisation is easily incorporated into the information consolidation process. This allows foundations to choose the level of explicit information shared openly without incurring a risk to their operations. This way, Foundation A can share its explicit information with the OECD and be able to identify how its own philanthropy compares with ODA in multiple dimensions (themes, locations, population targeted, etc.), gaining additional information it can incorporate into its objective function.

These two channels have already been applied by the OECD to partially solve the coordination problem. *Figure 2* summarises the coordination of explicit knowledge for the case of only two foundations, in the two scenarios posited: with and without a third-party compiler. In the first case, as described above, unless the marginal cost of producing explicit knowledge matches the marginal benefit, no explicit information will be used and shared. In the second case, if information

Figure 2: COORDINATION OF EXPLICIT KNOWLEDGE

		Standard information-sharing problem		Information sharing with third-party (i.e. OECD)	
		Foundation B		Foundation B	
		Share	Keep	Share with 3 <sup>rd</sup> party	Keep
Foundation A	Share	$a, a$	$c, b$	$\hat{a}, \hat{a}$	$c, b$
	Keep	$b, c$	$d, d$	$b, c$	$d, d$

Pure strategy equilibrium goes from  $(d, d)$  to  $(\hat{a}, \hat{a})$  when  $g' > c$ , that is, when the value of publicly available information for each foundation is higher than the cost of producing explicit knowledge.

can be shared with a credible organisation that will make it available to all, due to the potential of explicit information to be a public good and the additional information from  $e_{ODA}$ , there exists an information value range [9] that would result in all foundations wanting to share information and collectively benefiting from its use due to the new higher payoff  $\hat{d} = U(t_i, e_A, e_B, e_{ODA})$ . In brief, when the value of publicly available information contributed by the third party is high enough, it can nudge foundations to use and share explicit information even when others are unwilling to do so, shifting the equilibrium from one where no use and sharing of explicit information occurs  $(\hat{d}, \hat{d})$  to one where each foundation has an incentive to share  $(\hat{d}, \hat{d})$ . This change is even more likely to happen the larger the stock of explicit information share becomes, due to the public good nature of information.

#### 4. TOWARDS A CULTURE OF TRANSPARENCY IN PHILANTHROPY

Transparency in philanthropy is not compelled, and only recently have foundations and philanthropists opened their activities up more widely to both research and scrutiny. Progress has been made in identifying international philanthropy in a consistent manner, by organisations such as the OECD and the *Foundation Center* [10] in the United States, among others. However, philanthropy remains stuck in the information isolation described by the framework above; domestic philanthropy in developing countries, in particular, remains for the most part invisible, particularly in large emerging economies such as India, Nigeria and China. As aggregate patterns of international philanthropy differ markedly from the philanthropy of individual foundations, how can systems of philanthropy be identified beyond case-by-case studies? How is the system of philanthropy in a given region, for instance in Africa, different from the sum of the resources each of its donors allocates and the results each individually accomplishes?

Foundations, as this article has proposed, are the key actors in solving the coordination problem for one reason: they hone the capabilities to organise explicit information. They can

produce explicit knowledge under the right circumstances, and this information can, in turn, be recombined for more general use as a public good. More importantly, this can be done while observing that foundations might not want to disclose every detail of their grant-making, making adherence and the degree of transparency voluntary and focusing only on what is comparable consistently. Organisations such as the *Bill and Melinda Gates Foundation*, the *Open Society Foundations*, the *Ford Foundation*, the *Children's Investment Fund Foundation*, the *Rockefeller Foundation* and many others have chosen to disclose granular information on their grant-giving through grants databases, while others contribute to information as a public good without openly disclosing information they want to remain private. In sum, the public good nature of information in international philanthropy can be built under differential constraints for each specific information provider, as the OECD has shown, which can help foundations coordinate with each other when they tackle development challenges.

The framework presented here illustrates a way of organising explicit information in international philanthropy and allows a culture of transparency to be gradually built in the sector, based solely on the usefulness of publicly available information. This can be achieved firstly by allowing foundations that want their data to be part of other foundations' decision-making processes to be compared consistently with other international financial flows and, secondly, by credibly offering different degrees of transparency to foundations that do not yet want to disclose all information about their philanthropy. This model has successfully identified USD 24 billion in philanthropic flows between 2013 and 2015 and continues to gather information about international philanthropy by establishing statistical partnerships with the largest foundations working for development – not only to reveal aggregate patterns that are not otherwise visible, but also to make it available and share it, so that it can be useful to philanthropists, international organisations, governments and all actors working to achieve Agenda 2030 on sustainable development. ■

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\*\*Global Network of Foundations Working for Development (netFWD). **1)** See (Morris & Shin, 2002), (Slikker, Norde, & Tijs, 2003), (Angeletos & Pavan, 2007). **2)** See (Easley & O'Hara, 1983), (Gui, 1991), (Glaeser & Shleifer, 2001) and (James & Rose-Ackerman, 2013). **3)** The only assumptions made over function  $g$  are that

$$\frac{\partial g}{\partial e_i} > 0, \quad \frac{\partial^2 g}{\partial e_i^2} \leq 0, \quad \text{and} \quad \frac{\partial g}{\partial e_{-i}} > 0, \quad \frac{\partial^2 g}{\partial e_{-i}^2} \leq 0.$$

**4)** The assumption that more information is always better is contestable. However, organisations can always ignore additional information or place a stronger weight on prior information, but the description of this process lies outside of the scope of this article. **5)** That is, the best-response equilibrium of the game (i.e. Nash equilibrium). See (Osborne & Rubinstein, 1994). In this model we ignore mixed-

strategy equilibria, for simplicity. **6)** See (Axelrod & Hamilton, 1981) and (Nowak, 2006). **7)** Note that, by definition, this implies  $g'(e_i, e_{-i}, e_{ODA}) > g'(e_i, e_{-i})$  because of how information is incorporated into the model. **8)** See <http://www.oecd.org/dac/stats/beyond-oda-foundations.htm>. **9)** Formally, when  $g' > c_i$  for all foundations. **10)** See (Foundation Center and the Council on Foundations, 2018).

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