

Endowments for Think Tanks in developing countries: What role for private foundations and official donors?

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BACKGROUND NOTE

Think tanks, fiscal policy and development

Experts agree that democratic governance is a strong pillar of development. This is why public and private donors have been placing increasing emphasis on good governance in their programmes. One essential component of democratic governance is high-quality fiscal policy. However, many developing-country governments fail to deliver adequate public services, with taxes and transfers playing a limited distributive role.¹ Poor quality fiscal policy undermines “fiscal legitimacy” (i.e. the trust of citizens in their government’s policies). This, in turn, makes citizens less willing to pay taxes, reducing government revenue and frustrating public expenditure that can help boost development. When governments fail to deliver adequate public services despite high levels of taxation, this undermines overall trust in the democratic system.

Fiscal policy is an area of economic policy where think tanks could play a key role. As independent, research institutions that attempt to influence policy making through high-quality research, local think tanks could help turn around the abovementioned “vicious circle” that affects many developing countries. Their analytical capacity and unique knowledge of local circumstances are strong assets in identifying effective fiscal-policy options. Unlike many watchdog organisations or pressure groups, they base their recommendations on solid research. Unlike academic institutions, they produce applied analysis with the aim of improving public policy. As brokers, think tanks can make complex topics more accessible for the general public and help stimulate national policy dialogue. As outsiders to government, they can provide independent monitoring of public policy, propose policy alternatives and have greater room for innovative thinking². In sum, think tanks can nurture development by helping narrow the traditional gap between knowledge and practice.

Think tanks and ownership

Strengthening local think tanks working on fiscal issues could thus help catalyse better public policies, stimulate public debate and, in turn, overcome problems of fiscal legitimacy. But beyond that, fostering local, independent research and monitoring capacity on fiscal issues gives developing countries more space – or “ownership” – in choosing their own policies. Donors have committed to promoting local ownership in the *Paris Declaration on Aid Effectiveness*, primarily by harmonising their aid around government budgets. However, ownership requires more than central budget support. It implies that development strategies and public policies should be a matter of public debate and country dialogue.

The lack of endogenous economic expertise frequently acts as an obstacle to further appropriation of development processes by developing countries. If the weakness of analytical and technical capacity is noticeable in the public sphere, where ministries and government agencies usually require specific funding and programs for staff training, the shortage of economic expertise and means is particularly acute within civil society. The scarcity of independent, cognitive institutions that can monitor the performance of the government and provide alternative recommendations on economic policy making exposes the conundrum of ownership in its full extent: for developing countries to truly own their strategies for economic development there is a need to foster the activities of independent, local third-party institutions with the knowledge, technical competence and leverage to bringing further transparency and expert scrutiny to economic policy making.

¹ OECD Development Centre, *Latin American Economic Outlook 2008* (OECD, Paris, November 2007).

² Santiso, J. and Whitehead, L., 2006, “Ulysses, the Sirens and the Art of Navigation: Political and Technical Rationality in Latin America”, OECD Development Centre Working Paper No. 256, Paris:OECD

Think tanks could be instrumental in broadening local ownership of development strategies, helping to rectify what many call a knowledge imbalance on development: solutions often come from the outside and are not sufficiently tailored to local circumstances and particular characteristics of the country's political economy. Think tanks could promote transparency and ownership by contributing to national debate on fiscal policy through well-informed, alternative research and monitoring of government policies. In this context, the fact that the Accra High-Level Forum on Aid Effectiveness will discuss a broader concept of country ownership, including actors outside government, should be welcomed.

The constraints faced by think tanks

Unfortunately, think tanks in many developing countries lack the financial and human resources to conduct in-depth economic analysis and carry out their tasks effectively³. Often, they also lack the necessary independence to monitor government performance effectively. In 2004, for example, most Latin American think tanks employed fewer than 20 people, and only 13 per cent had budgets larger than \$1 million⁴. The Peterson Institute for International Economics, a medium-sized think tank based in Washington, had twice the budget of all Venezuelan think tanks combined⁵.

The challenge lies not only in the volume of funding, but in the way it is provided. Contributions to think tanks' budgets and operations are often irregular and project-specific, preventing them from conducting long-term research. In their struggle for resources, think tanks also often sacrifice their independence, as they need to satisfy funders with their policy findings, and doing so is the only way to secure financial resources to keep functioning. Developing countries think tanks need to devote too much time and human resources to grant-making to survive, which has an obvious effect on the ability to focus more on research-oriented work. This contrasts with many US think tanks that enjoy large-scale permanent endowments, the interest from which pays them a sufficient, stable income and allows them to operate with high degrees of independence.

Capacity and know-how is also a burden for developing countries think tanks, with limited human resources and constraints to invest in permanent training. Reduced budget also prevent these institutions to connect with and develop further cooperation with other international research and think tanks networks that could provide useful technical support and assistance in their work

Endowment for think tanks: official donors and private foundations working together

The increasing presence of large private foundations in the field of development finance has increased the interest in dialogue between foundations and official donors. In Lisbon in March 2007, representatives of both groups met to discuss the potential for partnerships and joint work (see www.oecd.org/development/globalforum). A major conclusion of the conference was that further dialogue would have to focus around specific themes in which foundations and official donors had complementary roles.

Official donors and foundations could work together in support of think tanks for fiscal legitimacy. Whilst donors have expertise on fiscal policy and political capital, foundations bring to the table innovative practices from the private sector, and are less constrained by the need to deliver short-term results within political cycles. Together, they could invest in permanent endowments for think tanks from developing countries that have financial needs, a proven record of research quality and political relevance.

As illustrated by the experience of US think tanks, endowments could provide long-term stability and sustained financial certainty for think tanks to carry out ambitious and complex research projects. The William and Flora Hewlett Foundation and the International Development Research Centre (IDRC) have already begun

³ MELLER, P. and WALKER, I. (2007), "CIEPLAN: Thirty Years in Pursuit of Democracy Development in Latin America", paper presented at the Informal Experts' Workshop *Ownership in Practice*, organised by the OECD Development Centre in Paris, 27-28 September 2007.

⁴ BRAUN, M. et al (2004), "A comparative study of think tanks in Latin America, Asia, and Africa", CIPPEC, Buenos Aires.

⁵ SANTISO, J. and L. WHITEHEAD (2006), "Ulysses, the sirens and the art of navigation: political and technical rationality in Latin America", OECD Development Centre Working Paper Nbr. 256, Paris.

work in this area by providing long-term core support and access to training to selected think tanks in selected geographic clusters. The project is envisioned as a long-term investment with a minimum time horizon of ten years.

Permanent endowments provide the long-term financial stability think tanks from developing countries need to carry out their work and maintain their independence. While the core funding for think tanks would come from the annual interest yielded by the endowment (e.g. at an annual rate of 5 per cent) beneficiaries could complement their operating budget by generating income from the provision of products and services. This combination could provide a balance between certainty and incentive.

Endowment for think tanks: proposal questions for discussion

The initial proposal: the creation of a permanent endowment of €100 million funded by official donor agencies and private foundations. The endowment would allow for a permanent annual revenue of approximately €5 million, which could fund the activity of think tanks working on fiscal issues in a selected country in each of four regions: Africa, Asia, Eastern Europe and Latin America (approx. €1.25 million each).

Key questions for discussion:

1. What ought to be the initial size of the investment and how would it evolve over time? Who would be the funders? Would they fund through annual allocations, and would contributions be fixed or variable?
2. Where would the fund be held, and what would be its legal status and governance structure? How would the fund be managed – from where would staff be drawn? How would administrative expenses be covered? How would risk be managed?
3. What would be the selection criteria for think tanks seeking support? What would govern the selection of priority countries?
4. How would results be defined for the success of the venture, for example in ensuring their positive impact on development? How would results be monitored and evaluated? How would this feed into future allocations?

Follow Up

A high-level reflection group will work on a detailed proposal to create co-funded endowments for think tanks. A draft proposal will be prepared by October 2008 and will be supported by an OECD Development Centre Working Paper that focuses on technical issues in further detail. A final proposal and working paper will be presented at a high-level seminar in early 2009, aiming to mobilise funds from leading official donor agencies and private foundations.

The main conclusions of this Seminar will be presented at the Second Annual Plenary of the OECD Global Forum on Development, which will be held in Paris on 20 May 2008 (see www.oecd.org/development/globalforum). The Forum's afternoon session will be devoted to the question of "Broader Country Ownership", discussing the role of a variety of civil society actors, including think tanks, in making development finance more effective. Participants will include ministers and senior-level representatives of donor agencies.