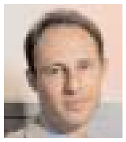
Why Philanthropy Should Be On Your Agenda



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The US charity market represents 1.85% of the country's GDP, and around the world increasing resources are being allocated to philanthropy, which is faced with the choices of how to give and to whom. There is no universal model, but the future of philanthropy is about building a framework for strategic giving

Philanthropy is hard to define, though we feel we all know what it is when we see it happening. It is not because its a new activity. In fact, its practice can be traced back to the emergence of civilisation. However, new expectations of donors and continuing challenges in the field have recently led to significant evolutions in both its understanding and practices.

We will first look at the global factors behind such changes and then at their practical implications for European clients in the light of two case studies.

"There have been significant changes in the understanding and practices of philanthropy"

To understand the cultural context of the world's different regions is a crucial prerequisite in determining how foundations and philanthropic endeavors can or should operate and how they can be most effective in creating real value. Philanthropy is indeed influenced by many cultural factors, such as:

- the societal organisation on which depends the creation or absence of tax incentives;
- religious traditions and the importance they assign to giving;
- recent history and its political implications.

SPECIFIC CULTURES INSPIRE SPECIFIC PRACTICES

The main characteristics of the Anglo-Saxon approach apply both to the US and the UK. In these two countries, civil society is viewed as a natural substitute of the government and the state. Plurality and subsidiarity in efforts to promote public good are considered as normal: where the state cannot, or will not intervene, the civil society, including foundations, takes on its role. This natural balance is reflected in the legal and fiscal systems, which provide important incentives for individual donations and gifts.

In Western Europe, expectations about the role of the state in ensuring public good are far higher. Being a welfare state, it is its responsibility, and its responsibility only, to provide social services. Consequently, civil society plays a much smaller role in delivering services, serving mainly as a counterweight in the public arena.

However, within Europe itself, there are important variations in the degree to which this principle of complementarity, in distinction of the subsidiarity of the Anglo-Saxon model, is applied.

Finally, a greater presence in the field of global giving, as a consequence of its particular history, differentiates the European model from the Anglo-Saxon one.

"In Germany, 850 new foundations are now being created each year"

Looking solely at these two different approaches is sufficient to demonstrate that cultural plurality and heterogeneity highly influence the practices of philanthropy. There is no universal model, but different traditions provide different incentives for individual and family leadership. Philanthropy is, however, growing rapidly all around the world, as more resources are allocated to it than ever before.

GLOBAL TRENDS GENERATE NEW CHALLENGES

A number of trends can be identified concerning high net worth individuals (HNWIs) and philanthropy.

- On a global perspective, the 2006 World Wealth Report released by Cap Gemini confirms the increasing diversity of origin of HNWIs.
- A recent survey in the US estimated that estates worth over US$20m now leave an average of 49% of their value to charity and only 21% to heirs.
- In Germany, 40% of new foundations have been created in the past 10 years at a current rate of over 850 new foundations per year.
- In France, the increase in the number of new foundations has reached 28% over the same period.
- Last year, the US charity market was worth almost US$ 250 billion, which represents 1.85% of the country's GDP.

NEW APPROACHES IN GIVING ARE STIMULATING THE MARKET

Examples of new approaches in giving include:

- venture philanthropy;
- social entrepreneurship;
- e-philanthropy.

These are stimulating the market, pioneering new thinking and vitality in the sector.

Questions about quantity and quality have both become central for the donor. The Asian Tsunami gives a clear example of this double trend. On the one hand it revealed a collective desire to support right causes never seen before, and on the other hand, it gave rise to considerable concerns over the good use of funds.

At the same time, global civil society is exploding worldwide, as demonstrated by its increase of 75% between 1990 and 2000. This explosion gives donors a wider choice, but also a harder one, because identifying the competent and reliable actors of the civil society becomes more complex.

Finding the right way to give is therefore a confusing endeavor, even more so when considering that individual philanthropic commitment remains largely driven by social networks and emotions.

SUCCESSFUL PHILANTHROPY REQUIRES ORGANISATION, PROCESSES AND STRATEGIES

If the motivations underlying philanthropy remain often subjective and emotional, there is a growing recognition that successful philanthropy is about organisation, processes and strategies.

The recent historical giving of Warren Buffet to the Bill and Melinda Gates Foundation is a clear expression of the need to concentrate resources around existing excellence and expertise. Buffet says: "What can be more logical, in whatever you want done, than finding someone better equipped than you are to do it? (…) That's how I feel about this decision about my money".

**"Philanthropy is about choices:
the choice of giving or not,
and of how to give and to whom"**

The near future will see the strengthening of this emerging paradigm to better respond to donors' new expectations:

- clear impact;
- independent sources of information;
- some type of environment to exchange experience with peers;
- direct involvement;
- transparent processes.

In other words, the future of philanthropy is about building a framework for strategic giving.

Rapid changes are affecting the practices of philanthropy and will continue to do so because:

- the trends for an increased quantity of philanthropic giving is here to stay;
- there are increasing concerns over quality and doing it right.

Philanthropy is about choices: not only the choice of giving or not, but of how to give and to whom.

CASE STUDY 1 – CREATING IMPACT WITH A TAILOR-MADE PARTNERSHIP

Mr M has always been involved in giving, but had concerns about making a lasting, measurable difference. Not satisfied with his personal engagement, he wanted his aspirations translated into concrete experience. He therefore asked his private bankers to recommend philanthropic advisors. In this context he met WISE, which has developed with him a three-level engagement:

- a tailor-made strategy – together, we examined potential options to not only guarantee the success of his engagement, but also its matching it with his interests and financial means;
- a selection of a charitable ventures – we provided an independent expertise to identify a portfolio of project leaders Mr M could engage with;
- report on progress – we then planned stages of development and defined with the project's leaders criteria to measure progress and evaluate the impact of the support.

Outcome. Mr M strongly believes that to help the poor to help themselves, one should provide them with opportunities. He selected a venture in Vietnam that focuses on providing professional integration for marginalised children. Added-value for the supported venture can be seen as threefold as:

- financial provision – provision of financial support over a minimum of 3 years with a clear definition of intermediary and final objectives as well as of an exit strategy for both sides;
- intellectual capital – provision of non-financial support during the giving period, including advice on the development of the supported charitable venture;
- networks – strengthening of the venture through increased participation in new global networks, which is made possible by its long-term success.

Mr M has chosen not to publicise his efforts and refuses categorically to speak about his engagement in public. But after a recent field trip, he told us: "You have changed my life – or at least you have allowed me to respond to a plea for help I have long wished to answer: to be at the service of those less fortunate in a world where sharing is so difficult".

CASE STUDY 2 – PHILANTHROPY AS A LEARNING FOR FAMILY GOVERNANCE

Family W has been involved in giving for generations. Until recently, their giving was motivated by a strong feeling of commitment, but kept clearly separated from their business activities. Advising had always been ad hoc and no publicity had ever been made. Giving was and should remain a family matter.

The family settled in Switzerland recently where the five children attend local schools, the plan being that they will go abroad to pursue their university studies in due time. At the time of their arrival, none of the children was directly involved in the family business activities. A year ago, the parents decided that it was time to introduce them into the business world, using philanthropy as a stepping stone with the following selected approach:

- wealth creation – learning about how to create new wealth in the family and getting familiar with basic financial concepts;
- wealth sharing – learning to support those who are less fortunate, but finding one's own way in doing it;
- collective decision making – learning to make mutually acceptable decisions that integrate each family member's points of view and/or inclinations.

To obtain additional expertise, WISE was asked to advise the children in collaboration with the financial advisor of the family. The objectives are:

- to reinforce their individual and collective aspirations in giving;
- to provide them with practical experiences in order to get better at giving.

Outcome. Today the process is under progress, but there is already one element that appears very clearly: the philanthropic engagement of the younger generation will take place in a radically different context. It is thus important for them to learn from direct and concrete experiences and to build networks of peers to exchange with in the future. Additionally, learning about family dynamics and about family governance will prove to be another great asset when the time comes for them to bear the responsibility as investors as well as mature family members.