



Philanthropy
Impact

Magazine

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Can governments make you more virtuous?
The Future of Philanthropy Research
The Commercial Evolution of Microfinance Institutions
#GivingTuesday

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The Match Game

Can match funding really boost giving?

If philanthropy is to grow and thrive, it needs vigorous international debate. That has been the guiding principle of *Philanthropy Impact Magazine* since we launched earlier this year.

We are delighted that our readers have risen to the challenge and so many of you want to be writers! This edition opens with David Gold taking on our 'Secret Philanthropist' again, responding to the article 'Philanthropists should join the war on waste' in the last edition, and Ira Lieberman makes the case for microfinance, rising to the last 'Hoffman's Challenge'. Richard Ross shares his joy of philanthropy and invites others to become involved.

We hope that this edition similarly provokes. Our theme this month is match funding: Michael reviews the landscape, Caroline Fiennes weighs the evidence, Rob Williamson looks at the impact on community foundations and Michael Brophy has a radical proposal for future funding. Of course, match funding could be considered a form of subsidy, which raises questions regarding the tools governments use to encourage giving: from gentle nudging to tax policies. The Secret Development Director, yes a new aspect to the magazine, looks at nudging, Richard Cassell and Martyn Gower consider tax reliefs and Gerry Salole describes the potential of the European Foundation Statute all giving an international flavour.

This issue also features stories on Giving Tuesday, philanthropy education, philanthropy research, and leadership within social enterprises.

We hope you appreciate this issue as much as we have enjoyed compiling it. What do you think? We'd love to know, email editor@philanthropy-impact.org

Best wishes



Sue and Michael

PS. Don't forget to register for the **9th annual conference of the European Venture Philanthropy Association (EVPA)** which takes place **26 & 27 November 2013 in Geneva**. The theme is **Responsible Leadership: Inspire & Act**. The two-day conference is an opportunity for European based philanthropists and professionals to network, exchange ideas, share tools and be inspired. To register: www.evpa.eu.com/annual-conference-2013/registration.

Philanthropy Impact, launched in December 2013 following the incorporation of Philanthropy UK, the European Association for Philanthropy and Giving (EAPG) and the Philanthropy Advisors Forum. For more information see www.philanthropy-impact.org



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The purpose of the magazine is to share information about philanthropy in a domestic and international context. We welcome articles, letters and other forms of contribution in *Philanthropy Impact Magazine*, and we reserve the right to amend them.

Please contact the Editor at editor@philanthropy-impact.org

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Dear Editors,

Why Charities should join the war on waste – response

There is so much to agree with in this article, but unfortunately the case is built on fantasy logic rather than the reality of how things really work between the sector and government.

It is true that the charity sector truly understands the issues in civic society and, if funded properly, would be able to address these issues in a cost effective and human way. The government does sometimes listen to the view of the sector; indeed the last government listened and consulted extensively. Rarely did money follow the intellectual exercise. Compare that to the way government listens to the business sector; the way business is put on a pedestal, always available to solve the problems of both health and society.

One of my biggest and enduring lessons learnt is that the real influence in society and in government is money. The ability to make money is seen as both the power and as ingenuity. When did a Prime Minister last herald a new initiative or the future resolution of a problem in civic society under the leadership of a top charity CEO? That is not to say that there are not some brilliant and wise business leaders, but there are just as many, if not more in the voluntary sector.

The government sometimes tries to listen, but by the time they have gone through their support priorities, namely the banks, defence, the education system and the NHS, there is little room for this incredible and creative sector. There is no malicious intent: it is simply that the time and money go elsewhere.

The Secret Philanthropist mentions the Peterborough Social Investment Bond (SIB) project, an outstanding idea that I feel will work. But when you look at the quantum of the spending on this project, it is too small to bring about the change fast enough. And Big Society? A great term for something that has gone on for centuries. I think promoting the concept is great. How much money is behind it? What is Nick Hurd's budget? We have a minister who probably understands a great deal about the positive impact of the sector in social and financial terms, but I have not seen budgets to really fuel the much needed change.

I would love the Secret Philanthropist's money to be used to change government thinking. I would suggest engaging his or her money with other like-minded and wealthy people to explain the real impact the sector could have, that would make our society stronger, healthier and happier; that would probably reduce both the social and financial cost for the tax payer. I have some great campaigning stories that I am happy to share!

The Big concepts and structural change are important to consider but so is each and every human life; that is the starting point for good philanthropy. Money is the power; use it with passion to drive the change you talk of.

David Gold, London

The Secret Philanthropist

Why charities should join the war on waste

In the face of recent cutbacks I have often heard it said that philanthropy will have to work harder to fill the gaps. This implies that it might actually be possible for philanthropy to fill that gap. It is a dangerous route to go down. The gap isn't going to be filled by passing the hat around the usual suspects.

In the UK, the state spends about £400 billion a year on welfare, education and health. Charities involved in these areas attract about £8 billion a year in voluntary donations, reduced to £6 billion a year after fundraising costs. It follows that a 1% cut in state spending requires a 66% increase in giving. Since all charities are already doing everything possible simply to maintain the current level of giving, this seems unlikely. We need to be realistic. The charity sector isn't going to raise any more money, the state sector isn't going to find any more money to spend either in the form of grants or tax incentives for giving.

The most valuable role of the philanthropic pound is the independence it gives to organisations which enables them to speak out and influence the way issues are dealt with. Since it is not possible for charities to simply fill the funding gap, it would be far better to close the gap by helping the state find ways to achieve the same results on the reduced budget. Put another way; helping the state sector achieve 1% better efficiency is the equivalent of increasing giving by 66%.

Helping the state sector achieve 1% better efficiency is the equivalent of increasing giving by 66%.

Charities have the sector expertise to give a legitimate and valuable input into the debate and in most sectors the interface between state and voluntary sector exists, but if the government is serious about Big Society it should see the role of the voluntary sector as more than merely filling in the gaps, pound for pound, and instead embrace the contribution that the combined experience of the sector can make in improving the efficiency of state spending through innovation and fighting waste. In turn the voluntary sector needs to embrace the notion that its interaction with state should be about more than just financial support for its own programmes.

Charity programme staff work at the coal face, often side by side with the state sector, particularly those charities with large state funded programmes. They are in the best position to see and shed light on the inefficiencies. Rather than sit back in silent bemusement watching government departments squander sums of money

representing several years expenditure for their own charity, they should see that they have a responsibility to speak out to improve their sector on both sides of the fence. Some people can be remarkably territorial in their concerns, the rest of us would just like to see the issues addressed effectively and it really doesn't matter who takes the credit.

There are formal and informal channels of influence, from policy committees involving both state and voluntary sector through to the informal and indirect influence of the press. Charities should always have a role in yapping at the heels of the state to drive change for good; it is quite right that this should incorporate the war on waste. The Peterborough Social Impact Bond, launched by Social Finance in 2010, is probably one of the best examples of how this could work. It looked at the issue of reoffending as a whole and offers the Ministry of Justice a more effective way to spend the existing budget.

I like to know that my donation has been well spent but I am equally keen that my taxes are well spent too.

As a donor I prefer the idea of my money being used to influence the efficiency of the whole budget, state and voluntary, rather than just topping it up. It is rather depressing to make a donation to a cause, only to hear of examples of waste in the very same sector that completely dwarf the efforts of the charity. I like to know that my donation has been well spent but I am equally keen that my taxes are well spent too.

Perhaps the government should embrace the idea that, wherever charities identify public sector waste which can be addressed, half of the money saved should be given to the charity as an incentive. If the government agreed to that, I would be delighted to fund a unit within a charity responsible for prospecting for public sector waste. In the meantime I hope we will see an increasing range of Social Impact Bonds offering more efficient solutions to social problems.

In the meantime, it is hard to imagine that charities could ever increase annual voluntary fundraising by 66% but it is not hard to imagine that the state sector wastes 2% of its budget.



The Secret Philanthropist is a successful British entrepreneur.

The Match Game

by Michael Green

Governments and private donors are embracing match funding as a way to boost giving. How far should this tool to promote philanthropy go?

The Greek mathematician Archimedes boasted that with a long-enough lever and a place to stand he could move the earth. So how long a lever would you need to open the British public's wallets and see a real increase in giving? The answer to this fundamental question of philanthropic mechanics has eluded politicians and fundraisers for the last 30 years. Through economic boom and bust, and despite new tax breaks for philanthropy and exhortatory campaigns to get people to dig deeper for good causes, giving levels in the UK have remained obstinately flat. Yet there is excitement building that match funding might be the way, finally, to lever open those wallets.

The idea of match funding is simple: someone, government or a private donor, puts up a chunk of cash to match donations by others, as an incentive to both givers and, crucially, askers. The impact on givers, spotting a bargain of getting, say, a tenner for their cause for just a fiver, is that they give more (or non-givers become givers, or hopefully both). The incentive also works for askers. Every pound raised is now worth two pounds, making it more worthwhile for charities to invest the effort in fundraising. That's the theory anyway. But does it work in practice?

In 2008 recruitment industry tycoon and philanthropist Alec Reed offered £1million to match public donations on an online platform. Within 45 minutes the money was gone and 240 charities had benefitted. Based on that success, the 'Big Give Christmas Challenge' has turned into annual event, raising £42 million over the last five years for 9,500 charities. The 2013 challenge kicks off on 5th December and, according to Big Give manager Helen Cable, is going to raise "more than last year" (£10 million).

2008 was also the year that the UK Government started testing out the lever of match funding, with the launch of a £200 million fund to boost Brits rather anaemic giving to universities, managed by the Higher Education Funding Council for England (HEFCE). The HEFCE scheme ran for three years and raised £540 million for English universities, winning praise from the 2012 'Review of Philanthropy in Higher Education', chaired by Professor Shirley Pearce, Vice-Chancellor of Loughborough University. (The Grassroots Programme of matched funding to boost the endowments of community foundations also launched in 2008 – see Rob Williamson's article on p. 9)

For both these schemes, the impact on askers has been crucial to their success. According to Professor Pearce, the HEFCE scheme "changed the amount of money because it incentivised people in universities to go out and ask". And, as Helen Cable explains, the Big Give is "a great way to build up databases of donors" and charities "can try out a new form of fundraising".

"These experiments in match funding have not been without critics. One complaint is that they are too complex."

For sheer boldness, these schemes pale into insignificance compared to another initiative that was launched in 2008, by former model and convenor of the rich Renu Mehta, and Nobel Prize winning economist James Mirrlees. Their proposal, known as the MM (Mirrlees-Mehta) Aid Model, was to turn the UK's aid budget into a giant match funding scheme: pound for pound, million for million, billion for billion, hopefully turning a £5 billion aid budget into £10 billion to fight poverty around the world. The proposal



earned predictably withering comment from ‘The Guardian’, which sneered at the possibility of billionaires getting their philanthropic pounds doubled by the taxpayer.

Yet Mehta may get the last laugh. Over the last couple of years, the Department for International Development (DFID) that runs the UK aid programme has become one of the most enthusiastic users of match funding of all government departments. (Rob Williamson discusses the government’s other recent matching initiatives: the £50 million Community First fund to support community foundations and the £55 million match for arts endowments provided by the Department of Culture Media and Sport, Arts England and the Heritage Lottery Fund.) DFID has already committed £100 million to match fund organisations such as the GAVI Alliance (in partnership with the Gates Foundation) and campaigns such as Sport Relief, Christian Aid Week and Islamic Relief’s Ramadan Appeal, with more money to come for more matching this year and next.

“The British government’s recent interest in match funding seems to be tactical and piecemeal rather than strategic.”

These experiments in match funding have not been without critics. One complaint is that they are too complex. The HEFCE scheme, for example, separated universities into three tiers, with a varying level of match ranging from £1 match per £1 raised, to £1 per £3 raised, and imposed a cap on how much any one institution could claim, to give stronger incentives to universities new to fundraising and to stop the big boys of Oxbridge guzzling the pot. The Big Give has also been criticized for being less generous than it seems, since it requires charities to raise ‘pledges’ of support from their trustees and major donors in order to access the match funding on offer (the charity only gets the Big Give’s cash if it can raise the public donations during the campaign to trigger the release of these

resources). The Big Give is unapologetic, seeing the requirement that charities raise money from their major donors first as a key part of the leverage of the scheme, to get charities to sweat their boards and supporters harder. Also, by having some skin in the game, charities are more likely to put in the necessary effort around the challenge.

A more fundamental question is whether match funding is a nice-to-have extra tool for fundraising or the big lever that everyone has been looking for. Take the universities match funding scheme, for example. Despite the plaudits, this scheme was not renewed when it expired in 2011, in the face of cuts to the government’s higher education budget. Treating match funding as an unaffordable luxury in straitened times assumes that the higher education funding crisis is a passing problem and that we will, eventually, get back to business as usual with government as the principal funder of universities and philanthropy as a sideshow. Maybe. An alternative view might be that Britain needs to desperately address the paltry levels of giving to higher education if its universities are going to thrive in the decades ahead when public money will continue to be scarce. If that is the case, it is going to require a sustained effort, with match funding as a lever to bring about that cultural change.

“Thirty years ago state universities in the US were raising nothing,” explains outspoken Americanophile education donor Sir Peter Lampl. What turned this around, he believes, was a sustained effort by state governments to put in place match funding schemes to kick-start fundraising efforts. (Canada has done the same more recently says Professor Pearce, pointing to the University of Toronto’s ‘Thanks a Billion’ campaign). Sir Peter was one of the architects of the HEFCE



scheme but the lesson of US experience that it takes time to change the giving culture seems to have been lost in the decision to end the HEFCE public match funding of universities.

Indeed, the British government's recent interest in match funding seems to be tactical and piecemeal rather than strategic. While the experiments with community foundations, arts organisations and overseas aid are to be welcomed, they are responses to local problems, not a coherent long term plan to make private giving a core part of how we get the public actively involved in how we solve society's problems.

Others are not so constrained. Michael Brophy, the former head of Charities Aid Foundation, sets out his vision to make match funding central to public policy on page 21. Mehta and Mirrlees also still have big plans. The £100 million DFID has committed to match funding so far is, as they observe, "barely 1% of the aid budget". Their plan is to go big and go global. "We plan to launch the 'Real Aid Campaign'", they say, "using UK's bold action as a beacon to other richer OECD nations to follow suit which could bring in over \$100b per year, if implemented fully."

Part of the allure of the new match funding schemes, however, is that this is new money going into the nonprofit sector at a time when any cash injection is welcome. But we live in zero-sum times, where what the Treasury gives with one hand it is likely to be taken away with the other to balance the books. Might an expansion of match funding by government threaten the existing subsidy to the charity sector, the Gift Aid system?



"Part of the allure of the new match funding schemes is that this is new money going into the nonprofit sector at a time when any cash injection is welcome."

From government's point of view, match funding has some big advantages over Gift Aid. A match can target the sectors, even the organisations, that government wants to support whereas Gift Aid money follows public whims that may be out of kilter with political priorities. Gift Aid is also criticized for its weak psychological appeal to donors ("barmy", as Lampl puts it). If that is the case, turning the general subsidy of Gift Aid into juicy fiscal worms to bait the hooks of the government's favourite causes as a lure to fat philanthropic fish might actually boost giving overall.

There are, of course, good reasons for continuing with a general subsidy to giving, rather than allowing government to use this cash to encourage donors to back its favourite hobbyhorses. But what we have learnt in the last couple of years is that nothing is sacrosanct, not even Gift Aid. "More money" is no longer the easy answer to the question of how government should support philanthropy. More for matching may come at a cost. Is this worth paying?



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Empiricists Corner:

Does matching work? The evidence says:

Not always and not best

by **Caroline Fiennes**

Many fundraisers tell us that donors give more if a match is available, that is, somebody else will also give if, and only if, they give. Fundraisers' confidence is based largely on anecdote and imprecise comparisons. Happily there is now a growing – if still small – body of solid evidence about whether matches really work, and whether they are really a fundraiser's best friend.

Size doesn't matter

An early experiment found that matching does increase giving – at least in the US. In 2005 Dean Karlan and John List, economists at Yale and Chicago respectively, ran an experiment in which over 50,000 donors to a USA civil liberties NGO were randomly assigned to receive one of several versions of fundraising letter. One group received a letter without mention of a match. The other groups' letters all (truthfully) offered different matches: some donors were offered a straightforward match of \$1 for each \$1 given; other donors were offered a larger match (\$2 for every \$1 given); and, other donors were offered an even larger match (\$3 for every £1 given).

The match offers worked. Karlan and List found that offering a match increased the probability that each recipient would give by 19%, and that the average gift increased by 22%. Pretty impressive gains, but then the surprises start.

The level of the match does not matter. Donors were no more likely to give, nor to give more, if offered at 2:1 or 3:1 match than if the donor was offered a 1:1 match. [This is pretty interesting in relation to debates about tax breaks for giving. Gift Aid is essentially a match provided by the tax-payer, and people often claim that the level of tax relief affects the level and number of gifts.]

Matching can make it worse

In Germany, matching seems to reduce a fundraisers' success. Steffan Huck and Imran Rasul of University College London sent various different types of letters to over 22,500 patrons of the Bavarian State Opera House in Munich asking for donations. The 'vanilla' letter gathered an average donation of €74.30, but recipients of a letter which, again truthfully said that a major donor would increase any donation by €20 gave only €69.20. [Technically this is a



leverage, not a match, but the ideas are very similar.] Huck and Rasul also found that increasing the level of a match does not help, though their results were even more stark than the those of American researchers': donors offered a 50% match (that is, 50¢ for every € given) gave on average €101, whereas donors offered a 100% match gave only €92.30. The response rates for the two groups were identical, at 4.2%.

Better options

So if a major donor is interested in encouraging other donors, what beyond matching might a charity ask them to do?

Unsexy, but effective, a charity might use the funds simply to ask potential supporters again. This is described in a different experiment also with the Bavarian State Opera House. In this experiment, Huck and Rasul found that of donors who were asked once, not one donor gave again several weeks later, but when they were asked again (within a six week period) 1.6% of donors gave again. Of the 22,500 recipients, that is 360 people.

The charity could also use the money to enclose a pre-filled bank transfer form. Huck and Rasul tested this and found that including a pre-filled form more than doubled the number of donors who gave.

The Charity could also create a newsletter, in which all donors are listed against the level of their donation. In an experiment in the US (this trick might not work elsewhere), Dean Karlan and Margaret McConnell found that including in the asking letter the possibility of having the gift recognised in this way increased the probability of recipients giving by 2.7 percentage points.

Big gains seem to come from offering a match only for fairly large donations. In one of the opera house experiments, some patrons were offered a match only if their gift was above €50. They then gave on average €97.90. This is somewhat irrational if you think about it, because patrons whose letter offered no match gave on average of €74.30, which implies that most patrons would not have needed to increase their gift to qualify for the match.

However, the lesson is not to suggest large amounts. A new study by Huck, Rasul and Maja Adena of Berlin's Science Centre for Social Progress found that suggesting donations of €100 and €200 does increase the average size of donation, but reduces the number of them, making the net effect virtually nil.

Socialise with the big and famous

The biggest gains of all seem to be from donors wanting to emulate leading donors. One device increased opera patrons' gifts by over 75%. The letter to donors asking for support simply stated that an anonymous donor had already committed €60,000.

This is somewhat surprising: the response was more than 400 times the average donation, so most donors are not simply copying the major donor. The researchers think that a large gift is a quality signal: the donor must have done his or her homework before making such a commitment.

Another experiment by Karlan and List supports this. A poverty-reduction charity sent donation request letters to two groups of donors stating that a donor would match donations. One group received a letter which described an anonymous donation, whereas the other groups' letters identified the donor as the Gates Foundation. Citing the Gates Foundation generated more and larger donations, presumably because it is more salient and memorable to donors and hence a stronger quality signal. The implication of this for fundraisers is to try to get your match from somebody known and credible, and willing to be identified.

Method in the madness

All of these results come from experiments in which the NGOs or opera houses were sending fundraising requests to their existing donor databases. The researchers simply worked with the organisations to create various types of letter, to randomly determine which donors got which type of letter, and then to track the results. That is, they are all randomised control trials, all with decent sample sizes. They were all inexpensive to implement, and yet they provide evidence which is not subjective, is not anecdotal but is reliable. Good fundraisers track their response rates, so testing fundraising activities in this way is fertile ground for generating many more rigorous and useful insights.



Caroline Fiennes
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The G8 Social Investment Summit – beginning or end?

by **Arthur Wood**

“I believe that this generation could see a revolution in our social economy comparable to the revolution in the commercial economy in the 1980s. That is the revolution that I want to lead (...). Don’t we need the same transformation in the social sphere that we have seen in the economic sphere?”

These words, spoken by David Cameron in a speech in 2006, were and are highly laudable. However judged by the harsh realpolitik benchmark of what he achieved at the G8 Summit with his initiative on social investment, action has not matched rhetoric. Yes, Mr Cameron announced a number of domestic initiatives, all of which are to be praised. But where was the radical ambition of 2006? He could, for example, have taken steps to get the foundation sector to align their core endowment funds with their social mission. Or, since this was G8, why did he not announce an extension and development of his government’s modest commitment of \$50 million for the CDC impact fund to fight against global poverty?

Mr Cameron’s 2006 vision remains valid. At the end of the day, social entrepreneurship and impact investing are simply the injection of modern capital and commercial practices into the provision of social goods. In financial and strategic terms, the opportunity and paradox is that in the traditional “for” profit world we are reaping the whirlwind of over-leverage, whilst in the “not for profit” world there is under-leverage. Yet if the social sector can leverage capital effectively through new financial products, the incentives for collaboration and scale will change fundamentally.

The social finance revolution, and the political flag of the Big Society that it sailed under, has been cynically seen as an attempt to save a bit of cash and reduce the public deficit. It should be an issue that is bipartisan: it moves resource to issues the Left care about and, to the Right, it is about driving modern commercial practices and efficiency into a sector they have always regarded with some suspicion. But what both the Big Society policy and the G8 Summit on impact investing lack is a statement of why it is so necessary—TINA (“There Is No Alternative”) in Conservative language.



To give you an idea of the potential of impact investing as a critical strategic building block of our societies, if by 2020 just 20% of US foundation assets were allocated to mission-related investment – that is a less than 2% annual change in core asset allocation for Foundations between now and 2020 – this would make \$125bn available for solving social problems. Even better, these assets could be leveraged a further three times to bring in other investors – a sum equivalent to current total core funds of the foundation sector. And that is just in the US. Or, to take another example, according to the World Bank there are nearly \$2 trillion in local capital pension fund markets in developing countries that could be harnessed much more effectively to help those countries’ sustainable development.

And it is not just about the money. There is a plethora of “new” financial tools that can be applied to this market in real scale. The Prime Minister repeatedly mentioned Social Impact Bonds - an innovation I was involved in from birth – but there is much more that could be done with this type of product to strengthen the incentives to collaboration, scale and rapid achievement of social objective. The big issue is not the funding of Newcastle Swimming Pools or individual social entrepreneurs, it is changing the fundamental flows of capital.

What is only too clear to protagonists is that the supporting infrastructure to drive this revolution in financing the social sector is unaligned and unfocused. It is here Government must play a clearer structural role. It is about moving from being an element of Finance Policy to an integrated Policy Finance approach. To drive real change requires a clear understanding from Government as to the nature, ecosystem and regulation of this developing trilateral relationship between the corporate sector, civil society and government. Let us hope that for impact investing, as Mr Cameron’s most-celebrated predecessor Winston Churchill said, “it is not the end, it is not beginning of the end, but perhaps it is the end of the beginning”.



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A Match Made in Giving

by Rob Williamson

UK giving may not be growing, but the number of ideas dreamt up to make people give more, or better, seems to be increasing. One method that has been around for a while is matching donors' gifts. But is this an effective way to get people to give in the first place and, when they do, to give well?

There are good examples of how matching has been used by community foundations in the UK. In 1990 The Charities Aid Foundation (CAF) and the Mott Foundation came together to offer a £2-million endowment match challenge. The three foundations chosen – Greater Bristol (now Quartet), Cleveland (now Tees Valley) and my own – each had to raise £1.34 million to get a matching share of £667,000 to achieve a £2m endowment. The Mott Foundation believed that such a challenge enabled a community foundation to reach 'take off' point. Between 2001 and 2005 the Esmée Fairbairn Foundation's *Time for Growth* scheme took forward this idea, investing £1 million in operating support to ten other community foundations, giving them each the target of achieving a £2 million endowment. Overall, £19.5 million was raised.

In 2008, the Government took an interest, with the *Grassroots Programme for England* which matched gifts into local endowments. By the end, donors had given just shy of £50 million. The present administration has put in place *Community First*, a further £50m endowment match challenge through community foundations running to March 2015. The *Catalyst* scheme, meanwhile, aims to boost private giving to culture and heritage organisations. It includes a £55-million endowment match from Government, Arts Council England and the Heritage Lottery Fund. And, on a smaller scale, the Government has matched three fundraising campaigns with the aim of getting more people to donate.¹

Against their individual targets, the completed schemes described all succeeded. But what effect did the match have? That is hard to tell since none have been the subject of a randomised control trial. Nonetheless, experience and qualitative evaluations are positive. Greater Bristol told Mott in 1999 that "the challenge money was absolutely essential to attract other donors."² In Tyne & Wear, we

generated conditional pledges simply as a result of putting together our bid, we increased our challenge ratio to £1m for £2m raised with the support of Sir William Leech, who was keen to take the opportunity to encourage a new generation of philanthropists to follow his example. The evaluation of *Grassroots* found that many donors cited the match as a powerful incentive: over a third reported they would not have given without it.³ Here we found the match also worked to incentivise existing donors to increase their philanthropy, or to move some from annual gifts into endowment funds for the first time.

If we accept that match is broadly a good thing, we then need to understand how the terms of individual schemes affect the donations generated. Those run by trusts and foundations have, unsurprisingly, been the least restrictive, whereas Government schemes have been tied to wider policy objectives and rules. *Community First* is less generous than its predecessor: the match was up to £1 for £1 under *Grassroots*, including Gift Aid, whereas it is a maximum of £1 for £2 raised under *Community First*, with Gift Aid ineligible. Whilst this can be understood in the fiscal context, it is confusing that *Catalyst* still matches pound-for-pound. Neither current scheme is yet evaluated, but anecdotal evidence suggests the going is tougher – although how much that is down to the economy, and how much to the terms offered, we may never tell. Certainly development capacity in community foundations and arts institutions varies, and for a starved organisation, unless operating costs are themselves supported, a match scheme may just be another impossible hurdle.

“...the availability of match has rarely encouraged someone to make a major donation if they are not already on a journey towards philanthropy”.

One of the more controversial questions might be whether money already charitably deployed should be matched. The CAF/Mott Challenge was open on where gifts came from, so contributions from other foundations were happily matched. *Community First*, on the other hand, does not match gifts from 'active' foundations, but it will from 'dormant' trusts and operating charities. That a Government scheme incentivises new charitable commitments is not unexpected (although again consistency is lacking since gifts from foundations are matched through *Catalyst*). However, many philanthropists that set

up small family trusts as vehicles for their giving would likely be surprised that in doing so they were excluded from match opportunities. For larger charitable funders, there can also be strong drivers for matching. The Esmée Fairbairn scheme, for example, was described as: “a reinforcement from independent grant maker to other independent grant makers...”⁴

So, to learn the real lessons about match schemes, I would suggest we need to turn away from the institutions providing and receiving the match, and instead focus on the donors whose giving they are meant to incentivise. Our experience is that the availability of match has rarely encouraged someone to make a major donation if they were not already on a journey towards or in philanthropy. But a match has in many cases been a tipping point to give, to give more or to give differently (for example, moving from annual gifts to endowments). And we have seen some donors themselves taking up the idea of a match as a means to engage peers in giving collaboratively. The challenge there has been to win over others to the individual’s chosen cause.

I cannot say a match funding scheme always works. But I can say it works best when the terms give the flexibility to meet donors’ intents, and when time to engage with donors and understand their interests (rather than just selling the match and expecting gifts to roll in) is supported. That match schemes do not succeed without development costs may be the most important message of all.



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Ten Things You (Probably) Didn't Know About Philanthropy in Switzerland

by Cédric Daetwyler and Heiko Specking, Credit Suisse, Switzerland

1. There are 12,957 charitable foundations registered in Switzerland as of the end of 2012. This represents one foundation for every 650th Swiss citizen. The country is well recognized for its political and economic stability, liberal charitable laws and thriving financial industry that attracts significant wealth, a part of which is often allocated to charitable purposes.
2. The regulation of charities and tax breaks for giving differ slightly in each of Switzerland's 26 cantons. The canton of Zurich currently counts the most charitable foundations; followed by the French-speaking canton of Vaud; and then the canton of Bern. The largest density of charitable foundations per inhabitant is found in the canton of Basel-City, which is characterized by a long and successful tradition in giving.
3. In general, donations to Swiss non-profit organizations are exempt from taxes. More specifically, donations to non-resident non-profit organizations can be tax exempted depending on the supported causes, while donations to Swiss domiciled non-profit organizations are usually fully deductible up to 20% of the annual income for most cantons with some exceptions.
4. Seventy-five percent of the Swiss population over the age of 15 donate money, goods or in kind at least once a year. Interestingly, the Swiss German people give more than their French-speaking counterparts, and in general, Swiss people are four times more generous than their French or German neighbours. Donations in general declined substantially to an average of CHF 380 per household in 2012 after two consecutive years of giving at an average of almost CHF 700 per household, which was spurred by the high number of catastrophes that occurred worldwide in that time period. Child care, fighting diseases and helping people with disabilities were among the most popular giving causes in 2012, while donations for refugees became less popular.
5. Humanitarian work has a long tradition in Switzerland; the International Committee of the Red Cross ICRC was founded in 1863. Apart from being an attractive jurisdiction for charitable foundations, Switzerland is home to over 400 Non-Governmental Organizations (for example Médecins sans Frontières, World Wide Fund For Nature, Terre des Hommes), more than 22 international organizations (e.g. World Health Organization, United Nations Refugee Agency (UNHCR)) and ground breaking initiatives or intergovernmental agencies (for example World Economic Forum, Global funds, Partnering for Global Impact).
6. In 2008, the Center for Philanthropy Studies was founded at the University of Basel to conduct research and professional training in philanthropy. Its aim is to increase and disseminate knowledge in philanthropy and related themes. At the University of Zurich, the Center for Foundation Law provides an academic venue and curriculum for those interested in foundation law. It also offers assistance to researchers, scientists and scholars.
7. The Swiss foundation sector – under the lead of Swiss Foundations, the association of Swiss Grant-Making foundations – has launched the first European Governance Code for grant-making foundations in 2009. The code comprises three principles and 26 recommendations for the establishment and management of grant-making foundations and has become a reference guideline point for various countries in Europe.
8. Switzerland has a globally recognized infrastructure for responsible activities, from philanthropic advisory services, including sound competence in Microfinance (approximately 35% of the global private sector Microfinance assets are managed out of Switzerland, with responsibility being the largest provider with 1.5 billion under management); Impact Investing leadership; and a long tradition in Sustainable Investing both on the strategic and asset management side (220 organizations are regularly active in the Swiss sustainable finance market).
9. The total endowment of Swiss charitable foundations is estimated at approximately CHF 70 billion, although over 80% of them are expected to comprise assets of less than CHF 5 million each. Clear reporting guidelines regarding the investment strategy of the endowment of charitable organizations still does not exist.
10. The investment strategies of most Swiss charitable foundations remain conservative, when social responsible investments have become a much debated topic in recent years. More Swiss charitable foundations align their investment guidelines with sustainable, long-term investment criteria and often link them deliberately to their giving causes. Efforts to improve the understanding of impact investments or mission-related investments is currently being deployed by many independent advisors.

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Funding With Others

– The Benefits of Collaboration and Leveraging

by **Richard Ross**

I recently met with an expert in the field of psychology of philanthropy who asked me why does my family give proportionately such a large amount to philanthropy and why I have dedicated my life to it. It is a question that I have thought long and hard about, as to some extent it is initially counter-intuitive to give money away that you have worked so hard to earn. My answer was two-fold.

First, I do believe that if you are successful then you have an obligation to help others less fortunate than yourself. This may be through giving money or time and expertise. But second, becoming involved in philanthropy is not about an obligation, it is about what it brings to the philanthropist in terms of personal enjoyment, satisfaction and fulfilment. I said to the psychologist that the irony of life is that charity involves giving something away but what you get back at the end of the day is far more than you give.

The crucial aspect is that you find an area that you are interested in, as the enjoyment comes from the hands-on involvement in your chosen area of philanthropy. I am not criticising the concept of writing a cheque to a large charity and then forgetting about it, but you can't hope to derive the same personal satisfaction and fulfilment as taking an active role in the giving process. The net effect of being fully immersed in the area of philanthropy of your choice is that it becomes a story. Initially as a philanthropist you are a small character in the story but the more involved you become you start to shape the story, which is where the satisfaction is taken

to another level. My story is with cutting edge medical research.

I have chosen to make medical research my area of philanthropic work, because I believe that finding new treatments and cures for diseases, which cut short lives and destroy the quality of life of sufferers and their families, is the best way to benefit humanity.

Rosetrees, the foundation my parents established in the early 1980s, applies a strategic and business-like approach to the field of medical research, which is one of the few areas where this country still excels. We provide seed-corn funding and develop close working relationships with individual researchers. £4m of Rosetrees funding has led to nearly £140m in follow-on grants from major funders and co-donors who want to support the cutting edge medical research that Rosetrees helps get off the ground. We have a long term target of £1bn, which will make a real difference to the health of everyone.

There are no quick and easy wins, for medical research takes time and for me that means developing relationships with the researchers that are dedicating their lives to finding treatments. I absolutely love meeting the researchers, and understanding what they need, what they are trying to achieve and how I can help them. They are incredibly intelligent, motivated, passionate people whose positivity and optimism that they will make breakthroughs rubs off on you. There is no more fascinating or enjoyable experience, than to hear highly intelligent, committed, passionate researchers explain in language an eight year old would understand, the science barriers they are trying to break and the potential health benefits for all of us. Over 25 years I have met hundreds of professors and their young researchers and I can honestly say I have not met one whom I have not liked nor felt their drive and commitment.

.....
“... the irony of life is that charity involves giving something away but what you get back at the end of the day is far more than you give”
.....

Rosetrees tends to focus on supporting the young researchers under established professors, PhDs and post-docs who do not have university funding and would be lost to science without philanthropists' support. I cannot tell you how wonderful it is to see our young researchers getting new research of the highest quality off the ground and going on to major funding and discovery. The opportunities in medical research are enormous. Rosetrees supports over 200 projects across all main areas of medical research, including dementia and neurological disorders, cancer, cardiovascular disease, imaging, lung damage, nano-technology, regenerative medicine, rheumatology and stroke. These researchers are striving to find therapeutics, diagnostics and devices to prevent and treat patients and save this country from a ticking time bomb of age and lifestyle related illnesses.

Sadly the money available for the best research projects is never sufficient and our talented professors can spend up to half their long working hours raising funds, which barely cover the cost of living for their young teams.

It seemed to me that their time should be spent on research (where they have expertise) rather than on fundraising (which should be done by someone else). I thought if Rosetrees could offer, at no cost, its expertise, we might find co-donors with an interest in a particular area of medicine. Maybe a husband had a heart attack, a grandma – dementia, or a wife - breast cancer.

Over the last couple of years I have joined with other like-minded philanthropists to support medical researchers. By combining our resources we can leverage our money and experts to make more of an impact. A great example of this is that recently I joined

with another philanthropist to support a young researcher under one of the leading cancer professors in the country. As a result of only 8 months of our funding the research had shown such tremendous results that Cancer Research UK made its largest ever single grant of £13m to take the project nationwide. Now the initial research may have been funded elsewhere but it might not have been and, whilst it was too much for Rosetrees to fund on its own, by joining with another philanthropist we can get cutting edge research off the ground that can really fly. I have replicated this model with other philanthropists and I am driven by my desire for philanthropists to join together forged by a mutual interest in a particular area to really make a difference.

I am so engrossed in my philanthropy that I used to spend one day a week on Rosetrees and 5 days on my business but I now spend 5 days on Rosetrees and 1 day on my business. The business is probably suffering but I simply don't get the same satisfaction from business as I do from my philanthropy. This has been echoed by a number of successful people who have told me they get far more pleasure giving the money away to their area of interest than earning it!

So my advice to anyone who is thinking of philanthropy is to think about an area of particular interest. Once you find that area, meet the people who are involved in that field and speak to those who are already giving in that area. In essence, discover what makes you happy and then get busy doing it. Start by giving a small amount of money as well as your time and build up slowly. Before you know it you will be totally engrossed.

Why not fund a project and find out about the joy for yourself!



Richard Ross is Chairman Rosetrees Trust, a charitable foundation, set up by his parents in 1987. Rosetrees uses a venture philanthropy approach to fund cutting edge medical research.

In 2011 Richard was named Philanthropist of the Year at the Spear's Wealth Awards



I Have a Dream

by **Martyn Gowar**, Partner McDermott, Will & Emery



Imagine that yesterday, there was horrifying news of a natural catastrophe in a remote part of (say) Indonesia, with great loss of life and fearsome numbers of the population evacuated from their homes, and appalling weather exposing those suffering privation from further risk of disease, and worse.

Unsurprisingly, you (and many others) are desperate to help and you look to see how you can make a difference, and you find a well-respected charity operating in the region which is familiar with the country and the language, has a track record of being efficient in their dealings with Government organs, and is far enough away from the disaster area to have its staff largely intact and able to spring into action.

So out comes the cheque book and you are ready to make an immediate impact. So you look up the details on the website and find the address and, suddenly, you realise that the charity is based in Indonesia and despite the fact that you have every confidence in its integrity and organisation, and are convinced that it is the best charity to be able to make a real difference, you are not going to be entitled to make your donation that much larger and helpful by being able to give the benefit of tax relief that you would claim. You are therefore trapped into reviewing the options of giving to a charity where you will get that relief, in the hope that it will act as an intermediary to transfer the funds on – with loss of time, focus, and at a cost, however noble the local charity may be.

How did we get to this place? Let us remind ourselves of the basic rule that is in force in the UK when it comes to tax relief on charitable giving. In essence, a taxpayer can claim tax relief against income tax at his or her personal top rate of tax on the amount which he or she donates to charity, so that a person who has an income of £1million and who gives £1million to charity theoretically pays no tax! I have never done that, so cannot confirm it! The suggestion in

the Budget of 2012 that the relief should be limited to a maximum of charitable giving of £50,000 per annum was greeted with such powerful cries of horror that the Government backed down. Maybe they realised that the number of taxpayers giving more than £50,000 per annum meant that the saving of tax relief was tiny, for they certainly did not back down on the imposition of a restriction of reliefs in other areas of claim, such as business losses!

Other generous charitable tax reliefs apply for Capital Gains Tax and Inheritance Tax where assets, or part or all of a person's estate pass to charity and it must be agreed that the picture is a good one in sending a message that gifts to charity are to be supported. Particularly with this readership, a contrary view would be unpalatable! We expect it in a civilised society.

So far, so very good, but we have made an assumption here by talking about gifts to “charity” and we must define what we mean by this term. I am not talking here about the definition for UK purposes which was widened in the Charities Act 2006, but about territorial issues and inconsistencies.

“If nations want to try and harmonise their tax systems to accept inevitable globalisation, could this not be a positive and inspiring initiative which would provide real benefit to the very people who need the charitable benefit that more fortunate countries and taxpayers are able to provide?”

The UK rule for the availability of tax relief was set out in the Dreyfus case (*Dreyfus (Camille and Henry) Foundation v IRC* [1956] A.C.39), in that relief was only given for a gift to a UK charity, even though the purposes of the foreign charity were charitable under the law of the UK. But it is clearly acceptable that a gift to a UK charity will be allowed even though the gift will be applied completely outside the UK. The charitable test, as the Court held in the Dreyfus case, depended on where the charity was established. So it is perfectly acceptable to give for relief of distress in Indonesia, provided we give through a UK charity.

Over the years, this has led to the artificiality of overseas charities setting up UK organisations as separately registered feeders to their own purposes. And the same solution applies in the US where there is

an equivalent rule that you only get a deduction for US tax if you give to a body registered under the US Code section 501 (c) (3).

Now, you may say that it is quite understandable that each nation should want to ensure that charities are properly registered and supervised and that it is right that it should be considered to be a matter of domestic law. But the dam is breaking on that issue, and it is now recognised that registration and supervision in one country is a separate issue from whether charitable payments should be tax relievable. The undermining factor was the 2009 Persche case in the European Court of Justice (C318.07) where the Court held that the restriction of a deduction in one Member State, in that case Germany, to purely domestic charities was in breach of European principles. The result was the enactment of section 30 (and Schedule 6) Finance Act 2010 which now allows tax reliefs under UK law on gifts to European charities on the same basis as for UK charities.

Unless you subscribe to the theory that local domestic supervision cannot be trusted to supervise charities, then the way that we do things now just lays another burden of bureaucracy on charities with international donors, which reduces the amount of the funds they have to undertake the very charitable functions which they are there to provide. Having an international charity doing wonderful work but being forced to operate with separate administrative entities purely to satisfy tax gatherers may have been quite understandable when we were living in the very different world of the 1950s, when the Dreyfus case was heard, but is it necessary now?

There is some recognition of the unattractive nature of this interaction because there are some ways in practical terms whereby (looking at the UK/US position) it is possible to break the barriers down. The Charities Aid Foundation has an arm called CADAF where a UK donor, wishing to give to a US charity, can give to that body and get UK tax relief and CADAF will take responsibility and authority to give the money as desired to the US charity. In the other direction, I have come across organisations in the US which will facilitate gifts in the opposite direction across the Duck Pond (otherwise known as the Atlantic Ocean!) But fees are payable, so it is not a perfect option. And this complication is necessary apparently, where the US definition of Charity has exactly the same source as the UK!

Governments are now co-operating earnestly to look at international global tax issues built round the spectre of avoidance, but they should not forget that the tension between tax systems in the case of cross-border issues is not new.. The difference is that the pressure was geared around accepting that tax systems, built up domestically, ended up with taxpayers who were exposed to two different regimes being liable for taxes in both States, and it was inequitable. That is why we have a system of Double Tax Treaties (note that they were never called Anti-Avoidance Treaties!).

This co-operation has to work on a mutual respect for each country's individual tax regime, cobbled together, if the UK's is any guide, by very little recognisable principle, and a lot of political compromises, but recognising the essential nature of the national economy in terms of who can and should pay. Deep philosophical debate is rare to find! But if one nation can operate with a respect for the next nation's system, would it not show a disrespect if other areas of that country's system, and charities is an obvious example, were not similarly treated?

In a global world, what we mean by charitable giving in different societies is bound to be marginally different, but that difference is eroding as we all interact more frequently with the ease of communication (both physical and in the written or transmitted word). If (as is the case) domestic tax rules do not forbid, indeed they are at worst neutral, in the giving of international aid to those who are less privileged than us, then there is no logic which requires restriction on charitable giving between nationals of countries which share that ethos. Why could there not be a Convention, to which countries could subscribe, which laid down a common set of minimum standards of supervision and of common charitable definitions, from which the way in which the UK dealt with the Persche ruling could expand internationally? This might start with a limited acceptance in Europe and the US to start with, but surely it could soon extend round the Globe.

If nations want to try and harmonise their tax systems to accept inevitable globalisation, could this not be a positive and inspiring initiative which would provide real benefit to the very people who need the charitable benefit that more fortunate countries and taxpayers are able to provide?



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Can Governments Make You More Virtuous?

by **Richard Cassell**

How effective is a government charity tax policy? It is axiomatic that philanthropy is a Good Thing, that citizens are more virtuous if they participate in philanthropy, and that governments should try to encourage their citizens to be virtuous.

Well, not everyone thinks that philanthropy is virtuous. In *'Of Human Bondage'* Somerset Maugham said "it is pleasure that lurks in the practice of every one of your virtues. Man performs actions because they are good for him and when they are good for other people as well they are thought virtuous: if he finds pleasure in giving alms he is charitable; if he finds pleasure in helping others he is benevolent; if he finds pleasure in working for society he is public spirited; but it is for your private pleasure that you give two pence to a beggar as much as it is for my private pleasure that I drink another whisky and soda". So maybe the philanthropists are not so virtuous after all, but surely charity is still worthwhile and governments should help it along?

"there is no doubt in my mind...that tax reliefs and government policies can encourage philanthropy and do in practice enhance it."

A recent article caused me to question this shibboleth. Atlantic Magazine published an article in April by Ken Stern *'Why the rich don't give to charity'*. In the US context Mr Stern reviews some of the eye-popping philanthropic gifts made in the last year by our prominent rich and virtuous citizens, with the headline gift being Mortimer Zuckerman's \$200m dollar gift to Columbia for a new institute named for him. Mr Stern comments that you would expect, in light of all the fanfare and hoopla attendant on major philanthropic gifts that you would find that the rich and virtuous are giving away lots of their income and this is the result of tax policies pursued by benevolent governments. In America, however, and I think the same is true in England, the most generous and therefore the most virtuous appear to be those who can least afford it. The richest 20 per cent contributed only 1.3 per cent of their income to charity, whereas the bottom 20% donated 3.2 per cent of their income and the bottom 20 per cent presumably received little tax benefit. Why is this and is this a failure of tax policy?

Mr Stern takes a somewhat jaundiced view of the motivation of philanthropists and quotes Paul Piff, a psychologist at Berkeley, who said “the rich are more likely to prioritise their own self-interests above the interests of other people” and commented that the rich “exhibit characteristics that we would stereotypically associate with, say, assholes”. To paraphrase F.Scott Fitzgerald and Hemmingway “the rich are not like us, they are more selfish”.

Looking back over the World Giving Index published by the Charities Aid Foundation, we find a similar pattern. Although the United States has long been lauded as one of the most philanthropic nations known to mankind, according to the CAF survey only 60 per cent of the population actually give money to charity, and only 65 per cent of them help strangers (maybe they were warned by their parents not to talk to people on the street), whereas if we turn to Ireland we find that the percentage of the population giving money to charity is 72 per cent. CAF uses some Gallup survey results to try to score the countries of the world, not only on their charitable giving (or rather the proportion of the population who tell opinion pollsters that they give money to charity) but then to use this raw data which includes people who say they help strangers (presumably these are the busybodies who shove elderly people in front of oncoming buses) to construct a rather grandly-named World Giving Index. But nevertheless, there is behind some of this data what looks like a conclusion that, despite having some of the most generous charitable reliefs in the world, the United States is not the most generous or therefore the most virtuous nation in the world. Poor people do not get tax reliefs and it does not seem to stop them giving. In fact, the more tax reliefs we give people, the less they seem to give. Is this the correct conclusion?

For those of us who work in both the tax and the philanthropy areas and who have campaigned for better tax reliefs, not just for rich people but for everybody, this all makes for rather depressing reading. Should we just give up and join Somerset Maugham in pouring another whisky and soda?

Well, no. That would be to ignore the evidence in front of us, the evidence from our everyday professional lives and to downplay the importance of the voluntary sector. The voluntary sector covers a wide range of activities, some of it directly on the frontline of the relief of poverty and other activities that would clearly qualify as virtuous. Other activities are less obviously virtuous – many would question the wisdom of governments encouraging large gifts to small elitist educational institutions, for example. But nevertheless, the very essence of the voluntary sector is that it is responsive to the will and actions of the people who drive it, not just the rich philanthropists but also the charitable volunteers and the people whose conscience

pricks them every time they walk down the street and see someone who needs help – the poor and the dispossessed. What is important for society as a whole is that citizens should feel able, empowered and encouraged to take action to get involved and to do things to address needs that they perceive as important. The prime virtue of the voluntary sector is that it is not state-driven and although it is regulated, its activities are not guided by some central planning committee or Treasury mandarin. That is why the project to establish effective charity law in China is so controversial there.

Nobody should argue that tax reliefs are the prime driver behind volunteering or charitable giving. There is no doubt in my mind, however, that tax reliefs and government policies can encourage philanthropy and do in practice enhance it. I have no doubt that without the tax reliefs the rich would give even less. The best example of effective tax relief is that relic of bygone tax policy, the Gift Aid basic rate relief given directly to charities. This provides a cash boost from taxed income directly to lots of charities. Although somewhat cumbersome in administration, it is effective.

Finding the right tax reliefs to stimulate charitable giving is always tricky. The UK Treasury will usually point to failed reliefs as being evidence that they are not that effective and so we should not bother with any more complications to the tax code (those guardians of our tax laws have, of course, done such a good job of preserving the simple integrity of our tax system). The fact that Payroll Giving is widely viewed as a flop should not, to my view, deter future governments from responding to initiatives from the voluntary sector for targeted tax reliefs. Payroll Giving was ultimately a way for employers to bask in the reflected glory of their employees’ generosity and reduces the key element that distinguishes charitable giving from paying tax – you can choose what to give it to and it is nobody else’s business how generous you are.

Many of us know that at all income levels it may be only a small pinprick of conscience or a relatively light tax carrot that can actually get donors blowing the cobwebs off their wallets, but the tax relief has got to be targeted correctly. That is why I will continue to support Philanthropy Impact in campaigning for lifetime legacies.



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Successful Philanthropic Fundraising: it's not rocket science, is it?

In his opening speech at Institute of Fundraising's conference in London in July 2013 Mark Astarita, Director of Development British Red Cross, said that "whilst charity leaders [CEOs and Boards] are happy to take the cash raised by their fundraising teams, they are less than supportive of the fundraising effort overall". For those involved in philanthropic fundraising this raises several questions: is this situation unique to the UK, what issues does it raise and how can they be addressed?

The first question is relatively easy to answer as two recent reports indicate that this issue is not unique to the UK and both reports highlight similar issues, which addresses the second question. In the USA¹, study which involved more than 2,700 executive directors and development directors, the researchers found: inadequate attention to philanthropic fundraising among key board and senior leaders; the lack of a compelling story; inadequate fundraising systems; an unwillingness to develop and build capacity within teams and understanding throughout the organisation; and, organisational cultures that do not support philanthropic fundraising success. The report found that these factors significantly contributed to high levels of development (fundraising) staff turnover, lengthy job vacancies and a lack of qualified candidates for development director positions and that these were endemic throughout the nonprofit sector in the USA. The report also found that this instability lead many nonprofits to become caught in a vicious cycle that ultimately threatened their ability to raise the resources required. *Quell suprise!*

In the UK,² the *2012 Review of Philanthropy in the Higher Education Sector* found that successful philanthropic fundraising required not only an engaged institutional leadership, including governing bodies who understood their role in fundraising, but also an internal culture that encouraged and supported academic and other staff for their active participation in philanthropic activities. The study also found that performance in philanthropic fundraising correlated closely with investment (in capacity building and other resources) and that skilled development professionals were in short supply and workforce development was weak.

For those working in this arena these findings are disheartening. Fundraising, and philanthropic fundraising in particular, is not only a vital component to an organisation's long-term financial sustainability, but also it brings the intellectual and emotional engagement of the donor. Unfortunately some nonprofits treat fundraising as the poor relation to almost every other organisational activity and/or the 'gap' filler in the budget planning process.

The research clearly indicates that a lack of understanding and commitment from the top severely restricts what development professionals can achieve. Therefore, organisational leaders must lead the fundraising charge and Boards must be fully engaged in the fundraising activity. This is particularly pertinent: because in some organisations some Board members are likely to be in place longer than the CEO. Board engagement is also essential as it is the Board which has a fiduciary duty to ensure the organisation is financially sustainable and the CEO is, usually, the only staff member that the Board manages.

Experienced professionals and organisations that are really successful at philanthropic fundraising agree that 'getting it right' is not rocket science: it just takes time and dedicated effort. I am also reminded of a Chinese proverb which states 'a fish always rots from the head'. So, in order to break the cycle that is where change must start, which answers the third question, how can the issues be addressed.

It will come as no surprise that successful philanthropic fundraising organisations exhibit the following:

- **A deep understanding of and support for 'a culture of philanthropic fundraising'. What does this mean? (not in any order of priority)**
 - everyone in the organisation (across all positions) understands the role they play as ambassadors for the organisation and in relationship building. This is led from the top and embedded in an organisation's DNA. It is ALL about relationship building;
 - the organisation has a distinctive and compelling case for support. Most staff can articulate a case for giving and talk about the organisation and its successes;
 - philanthropic fundraising is valued and mission-aligned by the organisation with systems established that support donors;
 - donor stewardship drives excellence and good practice across all activities especially communications; and,
 - the organisation's leadership (the Board and the CEO) is fully committed to and personally involved in philanthropic fundraising.
 - the board, CEO and the fundraising team fully understand the mechanisms which donors can use to give, and have excellent financial literacy.
- **The development director position is fully integrated into the organisation and actively engaged in setting and agreeing the financial goals of the organisation.**
- **The organisation understands that donors have choices and rights. They tend to give to organisations that solve problems and/or demonstrate excellence in a particular activity or similar, rather than to those organisations that have problems.**
- **That asking for gifts in a timely and appropriate way is fundamental to success. Confidence is essential in this process as are the resources and mechanisms to support and monitor activity.**
- **Training of staff involved is regular and appropriate to their needs.**
- **The development function is appropriately resourced and supported.**

Changing organisational cultures, systems and processes is never easy and not for the faint hearted, but if you can work towards creating a philanthropic fundraising culture the rewards will come.

Sources

1 Compass Point and Evelyn and Walter Haas, Jr Fund (2013). Underdeveloped: A national study of challenges facing the nonprofit fundraising.

2 More Partnership (2012) A Review of Philanthropy in UK Higher Education: 2012 status report and challenges for the next decade. For HEFCE.

Philanthropy through Nudge or Push?

Since 2009, the beginning of the economic recession and subsequent Government spending cuts, we have seen a multitude of initiatives to encourage increased giving from the private sector to fill the gap as a result of reduced Government funding especially in the arts and cultural sectors.

The Government is keen to nudge society in its support of the cultural sector. For whatever reason, it has chosen not to push but to gently encourage a change in behaviour. But is nudging enough? Would charities be better served if the Government developed initiatives and policies that pushed charitable giving?

Nudging is subtle, we adopt new behaviours without realising that we are gently being manoeuvred into doing the “right thing”. On the other hand pushing forces us to change, laws are made, taxes introduced to enforce change. When the Government pushes it is accused of being paternalistic. However nudging can be viewed as Libertarian Paternalism – we continue to have freedom of choice.

In 2008 Richard Thaler and Cass Sunstein published their book *Nudge*. They define the goal of nudge as “.....to show how choice architecture can be used to help nudge people to make better choices (as judged by themselves) without forcing certain outcomes upon anyone....”

The *Nudge* theory has been adopted by the Government as a means to change a range of behaviours from healthy eating initiatives and anti-smoking campaigns to taking personal responsibility for pension investment for example. The Cabinet Office Behaviour Insights Team, often referred to as the Nudge Unit, works across all government departments as well as NGOs, charities and private sector partners. In May this year they published their report: “Applying behavioural insights to charitable giving” (Crown publications). The paper explored how four behavioural insights might be used to support charitable giving:

1. Make it Easy
2. Attract Attention
3. Focus on the Social
4. Timing Matters

“ clumsy, diverse and unfocussed government initiatives will not work.”

Five behaviour trials were undertaken using the above four insights. When used appropriately, the insights did indeed increase charitable giving.

Subtle nudge interventions work, they are effective and they enable us to change our behaviours without too much effort. In December 2010 Jeremy Hunt (the then Secretary of State for DCMS), launched his ten point plan to facilitate cultural institutions becoming stronger and more financially resilient in the long term. Since his announcement we have seen the following Government backed initiatives launched:

- Legacy 10
- Living Legacy
- Catalyst Fund
- National Funding Scheme
- Tax incentives to boost Legacy giving
- Philanthropy beyond London report
- Digital Giving in the Arts report

Just who are all these initiatives aimed at? Who is being encouraged to give? How are individuals and corporations being nudged to increase their philanthropy? How visible are associated marketing campaigns? There is plenty of formal and informal publicity around the dangers of smoking – take for example the Government’s recent decision to enforce plain packaging (though admittedly they did perform an astonishing U- turn), and there is the guilt inducing TV adverts on eating healthily and exercising and the seemingly perpetual (this though could be a personal perception due to my age) warning

messages that few of us have saved enough of our salaries to enjoy a decent retirement. Outside of the specialist fundraising media, where are the messages aimed at the public to increase their donations and take responsibility for ensuring that charities, the arts and the cultural sector have the funds needed to continue to play a vital role in society?

It seems to me that the cultural sector itself is being nudged to improve charitable giving, however, the nudge for the donors is so subtle it is hardly felt. And the fact that so many art and cultural organisations are either closing or reducing their outputs, suggests the financial gap is not being filled by philanthropy.

One thing is very clear: philanthropy is an essential part of our economy. Without it we would be a socially and culturally bereft country. What is less clear is how we should encourage all sectors of society to give.

Philanthropy has to become the social norm and in order for it to do so, we need a mix of incentives to encourage giving by all sectors of society and across all regions. What we currently have in place are platforms that push the responsibility for philanthropy towards the charitable organisation.

John Nickson (author of *Giving is Good for you: Why Britain should be Bothered to Give More*) wrote in the FT recently that “...every donor I consulted agrees that philanthropy should be taken out of politics and that we need a long term strategy to develop charitable giving backed by the main political parties.” He argues that it is through the tax and honours systems that Government should encourage philanthropy.

It would be fair to say everybody knows giving to charities is a good thing to do. However, it has not yet become the norm to give. And it won't become the norm unless society is pushed to do so through tax incentives, rewards via the honours system and visible, explicit campaigns that promote the good giving does – not just to specific causes and appeals but across the board.

It would seem a lot more needs to be done for philanthropy to become the social norm. Clumsy, diverse and unfocussed Government initiatives will not work. The Government ought to look to its Cabinet Office Nudge Unit and its paper on behaviour in charitable giving. Pushing responsibility to the charitable organisation to increase philanthropy does not address any of the behaviour insights discussed in the paper (Make it Easy, Attract Attention, Focus on the Social, Timing Matters). Meaningful tax incentives (push) and initiatives that nudge the public into seeing charitable giving as a social norm and default position will.

Overheard On Twitter: 5 trending stories on #philanthropy

The ‘hashtag’ is a way to give your tweet a theme, so we looked through some of the most ‘retweeted’ articles on #philanthropy to give you a flavour of what has got people buzzing over the last month (in no particular order):

1. Just in case you were asleep in July, Peter Buffett, son of Warren Buffett, surprised and shocked with his attack on the charitable-industrial complex. Also see Michael Green's response with Matthew Bishop, on the philanthrocapitalism blog: http://www.nytimes.com/2013/07/27/opinion/the-charitable-industrial-complex.html?_r=1&http://philanthrocapitalism.net/the-so-called-charitable-industrial-complex/
2. Transparency is good for philanthropy says Foundation Center's excellent Glass Pockets blog: <http://blog.glasspockets.org/2013/08/walsh-20130826.html>
3. Welcome news on the rise of the woman donor from the Xperedon blog: <http://ht.ly/oTfZu>
4. Jackie King from Swinburne University of Technology makes the case for educating children in philanthropy: <http://theconversation.com/giving-the-gift-of-giving-why-children-should-be-taught-philanthropy-13991>
5. New Philanthropy Capital, Peabody Trust and the Smith Institute report on rebuilding the relationship between affordable housing and philanthropy: <http://www.smith-institute.org.uk/file/Philanthropy%20and%20Affordable%20Housing.pdf>

Don't forget to follow Philanthropy Impact on Twitter:
[@philanthropyimp](https://twitter.com/philanthropyimp)

Matching Fund Issues

(a new approach to funding Public Benefit)

by **Michael Brophy**

It is my belief that the present chaotic economic situation could lead to a change of direction politically as dramatic as happened in 1906 (Lloyd George), 1944 (Beveridge) and 1979 (Thatcher).

If crisis is to lead to opportunity the institutions and leaders of civil society must think longer term. What should society be like in 2050? For me this time-scale is not ridiculous. I started in the sector forty years ago when it was on its knees; forty years from now will be 2053! And we can be sure the rate of change over the next decades will be more rapid than hitherto.

The essence of the problem is government cannot afford to provide for health, welfare, education and pensions at current, let alone future levels. Yet deep cuts are politically unacceptable and heavy tax rises counterproductive. Government must therefore rebalance responsibilities: it must take steps to create a Civil Society Sector an order of magnitude bigger than it is today, and quickly. (This doesn't necessarily mean a smaller state; it is not a zero sum game.) The problem is that government does not know how to bring this change about. The only lever at its disposal, apart from rhetoric (The Big Society!), is the tax system. But the various incentives to giving are nowhere near to creating the flow of private funds needed.

What I am arguing for is a new *system* of Fund Matching. Fund Matching has been successful in the fields of Higher Education and produced results in the difficult field of creating endowment for Community Foundations. Its potential for the sector as a whole could be very great.

The system would in many ways be like issues of gilt-edged securities. Government would periodically offer Matching Fund Issues (MFIs) for more or less specified purposes addressing social problems. As with issues of gilt-edged stock the 'coupon' (the size of the match) would be more or less financially attractive. Each Issue would have a Prospectus setting out the terms. No one Issue would be the same.

In the early years one could argue that MFIs for capital projects – a school playground, a cardiac unit – would be easier to understand. But sooner rather than later revenue projects, including the payment of salaries, should be introduced; if not the ambition to 'rebalance responsibilities' between state funding and citizen participation will not be realised.

An example of the latter might be a £2 billion MFI offer, delivered through local authorities willing not only to participate but add a council tax rebate to the 'state-side' offer, at a ratio of say 1 to 3, to guarantee every school leaver in that authority on Job seekers allowance a post in a useful activity at a rate equivalent to the living wage. No school leaver would be at home 'resting'; all would have something on their C.V. And the beneficiaries would be hospitals or carers or farmers, or anyone needing enthusiastic "labour". If Council X took £10 million to raise £30 million to raise the take home pay of all school leavers out of a job to the living wage then that Community

would have no youth on the street, lots of motivated youngsters, and a number of very proud donors.

When up and running there would be a number of MFIs of various orders of magnitude. Government (the Treasury and HMRC) could avoid the cost of offering MFIs by outsourcing to organisations like Banks or Community Foundations or Local Government or Hospitals, Schools, Churches or Consortia of Charities. An obvious set of intermediaries for an early experiment would be Community Foundations. They would be well placed to transfer funds from the well-off into areas of poverty, from a city sized MFI. Effective and highly imaginative promotion of the system would be very important including perhaps prizes (as with National Savings). Donor recognition and reward may also be key – (a new Honour for example).

It will be argued the Chancellor would never agree to it because he is so short of money. But if the government's matching offer is met by a response two or three times as great, he might. This could be determined by experiment; answers would be needed to questions like What levels of matching? What causes and how specific? What amounts of money? What donor discretion? What donor recognition? Once results come in from pilots, the Chancellor would know how to maximise contributions and how closely they can relate to government priorities.

"what I am arguing for is a new system of Match Funding"

The development of a powerful and recognised system of MFIs from the present small ad hoc experiments will take time, perhaps a generation. As MFIs begin to work they will bind Citizens and Government more closely together for the common good. This in turn will shatter the existing taxonomies of 'charity', ngo, independence, public/private and so on. The new taxonomy will of course include thousands of genuine, independent charities whilst making clear what large service providing charities are for. MFIs are also likely to encourage the creation of large conglomerates relating public benefit to commercial and other interests. All of this is not before time: in a rough and changing global economy we all need to work together to prosper in a civilised country. In the new world of instant information, trust in the charity sector will be at risk if the present myths and contradictions are allowed to continue.



Michael Brophy, was chief executive of Charities Aid Foundation (CAF) for two decades until 2002 and the architect of several other institutions in the UK including Community Foundations, the Association of Charitable Foundations and the Institute of Fundraising. Whilst at CAF he successfully lobbied for the introduction of gift aid and other tax reliefs.

Three Lessons From #GivingTuesday

by **Henry Timms**

#GIVINGTUESDAY™

“Interesting idea, but you should leave it a year...” Summer 2012

Coming from a mentor to countless entrepreneurs, with an appetite for experiment, this was *not* the encouragement we were hoping for...

The idea he was hesitant about was simple. On the heels of Thanksgiving, ‘Black Friday’ and ‘Cyber Monday’ have become two of the biggest US retail days. We had pitched him the concept of launching ‘#GivingTuesday’ – a national day of giving after two days of getting.

Our vision was that the ‘umbrella’ of #GivingTuesday would harness the collective impact of the philanthropic world. And the hashtag was there for a reason. We wanted to create a giving tradition for a new generation of philanthropists in the age of Twitter and other social media. So, in the great spirit of ignoring unwelcome advice, we publicly launched in September last year, just seventy days before our first ‘#GivingTuesday’.

#GivingTuesday 2012, run on a limited budget and lots of goodwill, turned out better than we had ever hoped. The White House, Bill Gates and many others endorsed the campaign, #GivingTuesday generated over 800 media hits and trended no. 1 on Twitter, and 2,700 partners representing all 50 states took part. A range of donation platforms showed online giving increased by around 50%. One measured an increase in cell phone giving by almost 500%.

Looking back, three factors really helped create momentum for #GivingTuesday:

1. The amazing innovation in the non-profit sector

Too often our sector is seen as resistant to change, even stuck in its ways. But our experience with

#GivingTuesday told a very different story. The movement was fueled by many dynamic and entrepreneurial campaigns leaping into life – often led not from the top of an organization but by emerging leaders. Here are just four examples:

Heifer International created an infographic and app that showed people how much they had saved shopping on Black Friday and Cyber Monday, and encouraged them to turn the saving into a gift. Driven by an effective marketing campaign this told a powerful story about the values of their organization.

Phoenix House – an organization dedicated to helping people challenged by substance abuse - organized a campaign asking people everywhere to write letters of support for those in treatment programs. All the letters were issued on #GivingTuesday, providing encouragement for people who often feel alone.

The Case Foundation, Kevin Bacon’s sixdegrees.org and Crowdrise formed a unique partnership to run an online matching campaign. They had hit their goal before lunchtime.

Dress for Success – who provide disadvantaged women with suits for interviews – renamed the day #GivingShoesDay, encouraging donations of professional shoes.

2. The power of a ‘posse’ strategy

We decided at the outset that #GivingTuesday would not be an initiative owned and directed by one organization. Instead, we built the core #GivingTuesday team using an idea from *Philanthrocapitalism* authors Michael Green and Matthew Bishop (who provided strategic advice from the beginning): raising a voluntary and collaborative ‘posse’ of people, uniting top talent from many different organizations, all sharing one goal.

So, alongside our team at 92Y, many others joined in. The award-winning team at the UN Foundation took



Henry Timms
Co-founder
#GivingTuesday, Interim
Executive Director, 92Y

on communications. Digital leaders from Mashable built the social media structure and website. Experts from Stanford University and the Bridgespan Group advised on impact and strategy. Many other leaders – from Facebook, Groupon and elsewhere – contributed their time, contacts and expertise.

None of these people were mere ‘names’ on an advisory board. None received fees. With a start-up mindset, a huge amount to get done and a ticking clock, we saw amazing results from members of the posse taking on a task, owning it, and delivering. (This also proved the great value in asking the busiest and smartest people you know to volunteer their skills.)

3. The opportunities in shared giving

The most effective way to secure a gift is to be asked by someone you know. The Internet facilitates this and social networks, in particular, are proving powerful drivers of peer-to-peer fundraising. Recent research from Waggner Edstrom and Georgetown University have shows that three out of four people agree that it is important to them personally to influence others on social media to care about their favoured causes.

Although this trend flies in the face of the nobler traditions of anonymous giving, the potential is enormous. Just as we proudly share images of our birthday parties, holidays or pets, we are beginning to share symbols of our giving. Many organizations used #GivingTuesday to experiment in this area, and this encouraged the ‘virality’ of our efforts. As online giving continues to spike (up 11% in the last year in the US) this could not be more important.

As we look towards #GivingTuesday 2013, it is inspiring to see the movement begin to scale further. We are hearing about ‘posses’ forming in different cities (Philadelphia’s #GivingTuesdayPHL is looking especially promising), and even in different countries, with Canada leading the way with www.givingtuesday.ca.

Beyond that, we are hearing about even greater innovation. This December will see the launch of the ‘#GivingTuesday Pledge’, where people will use the day to commit to increased giving over a full year. We’ll even see philanthropic couples going on a #GivingTuesday – where instead of a fancy meal out, they will volunteer together.

So mark your calendars for Tuesday December 3rd. And this year help create a new ‘opening day for the giving season’.

Ten Things You (Probably) Didn't Know About Philanthropy in China

by Erika Helms, Founder, Linking China Ltd

1. In Imperial China, before the communists did away with personal wealth, the wealthiest families who were landlords or warlords were expected, and usually did, take care of the poor and disadvantaged in their communities. As many Chinese become wealthy, some of these Confucian values are being emphasised again.
2. An important change in the Foundations law in 2004 allowed for the first time the category of private foundations. There are now 1,900 private foundations registered in China and the number is growing rapidly. Many of these philanthropists are actively seeking international cooperation and opportunities to learn from different models of philanthropy.
3. An important player is still the “public”, or government-run foundations (the only type prior to 2004), of which there are 1,350 currently registered, and “GONGO’s” (government-run NGO’s). Public foundations and GONGO’s enjoy many privileges that private foundations and NGO’s do not, and make-up a majority percentage of the sector, in financial terms.
4. The largest private donor in China last year gave the equivalent of GBP 374 million to his own private foundation. The top 100 most generous philanthropists donate an average of 1.3% of their personal wealth.
5. The largest donor in 2011 was the China Education and Development Foundation, a “public foundation”, making donations totalling almost the equivalent of 100 million GBP. The largest sector receiving private donations were universities.
6. The China Foundation Center (CFC) was founded in 2010 by eight private Chinese foundations, with financial support from the Ford Foundation, with a stated objective to enhance transparency and impact in the social sector, through access to data and provision of information.
7. Only donations made to public foundations qualify for tax benefits. Donations to most other legally-registered non-profits and foundations are tax-free for the recipient organisation, but there are no benefits for the donor, in most cases.
8. Approximately two-thirds of charitable giving is from corporations. Of the Chinese companies listed on the stock exchanges in Shanghai or Shenzhen, for which data is publicly available, the median charitable spending was GBP 160 million per year, or just 0.02% of annual revenues.
9. Estimates of the number of grassroots and non-profit organisations, including both those registered with the authorities and those not registered, vary from 200,000 to one million. Local governments, such as in Shanghai and Beijing, have begun to outsource public services to local non-profits.
10. Legal registration is a big challenge for local non-profit organisations. In limited experiments, some local governments are beginning to relax the “dual registration” requirement in which non-profits have had to get a government agency sponsor before they can apply to register their organisation legally.

If Pets Can Move Freely Across EU Borders, Why Can't Philanthropy?

by **Gerry Salole**

For over ten years pet owners have enjoyed more freedom and rights across Europe than philanthropic donors and charitable foundations do, and this year these rights have been further enhanced.

Commending the 'New Pets Regulation' a British Member of the European Parliament, hailed the measure as an example of an EU law that made life better for people, stating that: *'The misery of quarantine restrictions for both pets and their owners has come to an end. This is the EU creating opportunities and adding value to the experience of people and their pets in a way that no single country could do alone.'*

As a philanthropic organisation representative, I would be dismayed if Member States can see eye to eye on a 'pet passport' which was clearly needed and is a very good thing but could not soon agree on a European passport for foundations, namely the European Foundation Statute that our sector has repeatedly called for over the past decade.

Foundations, and their donors and beneficiaries, are now closer than ever to having a European legal form to facilitate cross-border charitable activities to meet common challenges across the EU. The European Foundation Statute would enable the creation of a charitable foundation under European law, a 'European Foundation'. Why is the European Foundation Statute important and what will it mean for philanthropy across the EU? Where are we in the legislative process and what needs to be done to make the Statute a reality?

Philanthropy is increasingly international. People and money are more mobile than ever, not least within Europe's Single Market. Philanthropists have



international assets and international interests and the charitable foundations they are donating to and founding are increasingly working to address issues that do not stop at national borders.

Whether undertaking joint initiatives, implementing multi-country projects, pooling resources, seeking to reach more beneficiaries, or raising funds from a wider pool of donors or from diaspora communities, large numbers of charitable foundations want and need to be active transnationally to effectively pursue their mission.

However, even within the EU, cross-border philanthropic activity of all kinds brings challenges, in particular when it comes to legal and administrative aspects. Public-benefit organisations in Europe are governed by a web of complex and diverse national and regional laws. All too often, a seemingly straightforward cross-border

activity quickly becomes complex and costly, and in recent years a number of pan-European initiatives have stalled or been abandoned altogether for practical rather than programmatic reasons.

In February 2012 the European Commission took a major step towards the creation of a European playing field for philanthropy, issuing a proposal for a European Foundation Statute, which will be an optional legal instrument alongside existing national-level legal structures. European Foundations (FEs) will have full legal capacity and recognition in all Member States; they will be exclusively for public-benefit purposes and have activities in at least two Member States; and they will adhere to high standards of transparency and accountability, following uniform reporting, auditing and disclosure requirements across the EU.

Donors and beneficiaries of European Foundations will also reap the benefits of this form. A European label will greatly ease the process of getting cross-border donations to FEs recognised by national authorities, while the high standards of governance and transparency and accountability to which FEs will adhere will provide an international benchmark of good practice and assure beneficiaries of FEs that they are being supported by trustworthy organisations.

So, where are we now? The legislative process towards making the proposed Statute a reality is well underway. The European Parliament has given its assent, with MEPs voting by a large majority in support of a resolution for a European Foundation Statute in July this year. There is also clear endorsement from key EU advisory bodies, the European Economic and Social Committee and the Committee of the Regions.

To pass into law, the EFS must be approved by all EU Member States through the Council of Ministers. Discussions among the Member States in the Council of Ministers are on-going. The Member States still have to find compromises on elements of the proposal before unanimous approval can be reached.

It is vital that the national governments in whose hands the decision now rests understand what a powerful tool the EFS would be, and how it would benefit the societies they govern. And the responsibility to make the case lies with all those engaged in philanthropic activities.

What can you do?

Foundations, private client and philanthropy advisers can underline the strong interest of the sector in the EFS and ask national governments to take action for its rapid adoption.

Share your story and views

Share your experience with the EFC about difficulties you have experienced when undertaking or trying to undertake philanthropic work across borders, how you would like to use a European Foundation Statute, and how it would facilitate your work and bring opportunities for new initiatives. Visit <http://efscases.efc.be/> for some 80 real-life examples to help build your case.

Inform your political representatives

Help us raise awareness and support for the Statute among national and European decision-makers. Bring the issue to the attention of the competent ministries in your country (the EFC is at your disposal to assist in identifying who in your country is handling the Statute) and the persons responsible for internal market affairs and company law at the permanent representation to the EU of your country in Brussels.

For more information, or to express your interest in or support for the European Foundation Statute do not hesitate to contact Philanthropy Impact, editor@philanthropy-impact.org or the EFC (eu@efc.be).



Gerard (Gerry) Salole is the Chief Executive of the European Foundation Centre (EFC). He is the Founding Chair of TrustAfrica, Board Chair of the Global Fund for Community Foundations, and Board Member of the Global Education Advisory Board of the Open Society Foundation. Gerry also sits on the Strategic Advisory Committee of the European Venture Philanthropy Association and is an observer on the Board of the Network of European Foundations.



The Future of Philanthropy Research

by **Arthur Gautier**

For about 30 years, philanthropy has emerged as a dynamic field of academic inquiry, in most if not all social sciences. Before that, philosophers and historians were arguably the only scholars to work on this fascinating and complex phenomenon.

The surge of interest in the 1980s came from the USA, unsurprisingly, as several think tanks, research centers, and academic programs were created at the time to study – and to promote – this cornerstone of the American civilization.

The good news is that we now have deep insights on key aspects of philanthropy. Economists were able to calculate the “crowding-in” and “crowding-out” relations between philanthropy and government support for charities, as well as the effects of tax policy on giving figures. Likewise, thanks to psychologists there is a fairly comprehensive typology of donor motivations, from altruism to emotional benefits and reputation matters. Historians vividly documented the

rise of philanthropy alongside capitalism and the modern State in the 19th and 20th centuries.

However, this precious knowledge remains very specialised and a clear picture of what we know is still missing. Indeed, scholars in philosophy, sociology, economics, law or business have distinct interests and methods. Their works are published in different journals, seldom quote each other and rarely build new theories across disciplinary boundaries. They may not even share the same basic definition since “philanthropy” is a multifaceted concept whose meaning has evolved a lot through time. Besides, most studies in peer-reviewed journals come from Anglo-Saxon countries, often discounting the influence of cultural and institutional contexts on philanthropic patterns.

These challenges should not discourage researchers, to the contrary uncertainty and dispersion are common in young and interdisciplinary fields of inquiry. Progress is happening as a growing number of research centers, both within and outside the USA, contribute to expanding research towards new territories. In Europe, for example, about 100 scholars from more than 20 countries collaborate through the European Research Network on Philanthropy (ERNOP), created in 2008. The same trend is possibly underway in Asia.

There are of course many avenues for future research on philanthropy. Here we only suggest three key priorities moving forward. First, we need to review the entire body of literature across disciplines in order to identify agreed-upon findings as well as remaining gaps. When a field of inquiry reaches a certain degree of maturity, reviewing what has been studied about it becomes necessary. Literature reviews are long and frustrating to carry out, but they are often extremely helpful for scholars working on the same topic from several perspectives. They allow us to connect previously separate streams of work, to understand rival concepts and key stakes, and to develop new theories.

Second, we must work towards greater diversity, both in terms of research questions and methods. Countless studies in economics and sociology were designed around the drivers of philanthropy. “Why do some people give and others do not?” “What are the determinants of giving?” The widespread answer to these intriguing questions is to conduct simple or multiple linear regressions so as to test the effect of one or more independent variables (age, gender, marital status, income, religious affiliation, etc.) on giving choice and giving amounts. While they are rigorous and informative, these studies rely on the same techniques and often the same aggregated data. To analyse

philanthropy we need more varied methods, observational and experimental, quantitative and qualitative. Many research questions call for other methods than regression analyses. For instance, to understand the decision-making process in foundation boards, we need ethnographic methods and in-depth case studies.

Third, as advocated by ERNOP and others, more cross-national comparative studies are needed if we are to analyse philanthropy on a global scale. The overwhelming majority of top tier scholarly works on philanthropy are grounded in the USA or the UK, whether we look at author affiliations or data location. There is much to learn and to celebrate from this remarkable collection. Yet philanthropy is a phenomenon rooted in most religions and traditions around the world, and we lack robust knowledge on the way it is conceived and practiced in many contexts: post-communist Europe, developing countries, diasporas... Better, more open and comparable data is absolutely critical in this regard. In many regions of the world, there are still very few reliable statistics on giving. Provided funding concentrates on making such data available, new and captivating research will flourish.



Arthur Gautier is Researcher at ESSEC Business School and Associate Director of the ESSEC Chair in Philanthropy. His research interests include individual and corporate philanthropy, institutional change, business ethics, and the history of political thought.

Why We Need to Stop Talking About Social Entrepreneurship

by Tom Rippin

If I ask you to think about social enterprise leadership, you will likely call to mind a host of founders of social change organisations, whose names are often better known than the organisations they founded (and very often still run).

In the last 30 years, the hunt for the social entrepreneur has been relentless and successful. Organisations like UnLtd and the School for Social Entrepreneurs have democratised social entrepreneurship, giving people the confidence, skills, networks and cash to take the first steps to starting new organisations. At the other end of the spectrum, the Schwab and Skoll Foundations, the Echoing Greens and Ashoka's of this world have played their part in endowing these entrepreneurs with a near-mystical prestige.

The cult of the social entrepreneur has been so successful that much of the world now uses "social entrepreneurship" interchangeably with "social enterprise"; a linguistic obfuscation I compare to confusing the 100 Best Newcomers List with the FTSE100 Index.

But a realisation is now dawning, especially amongst social investors, that as well as those who start organisations, we are in great need of those who can build and those who can run them – these three categories are often very different types of people.

This realisation is closely entwined with the ongoing scale debate: very few social enterprises are growing big. This is not only limiting the movement's collective impact, it is also creating difficulties for social investors, whose models traditionally rely on

minimising transaction costs by focussing on relatively few, relatively large investments.

When investors do find likely targets, I am increasingly hearing that a significant barrier is the organisation's leadership capacity; unsurprisingly, social enterprise leaders with a track record of building and running organisation are few and far between.

Growing and managing social enterprises is difficult. In fact I believe that, compared to a traditional business or charity, starting a social enterprise is relatively easy but growing and running one is comparatively difficult. An incredible amount of good will can be harnessed for most social enterprise start-ups; grants, volunteers and incubator programmes abound, but once the novelty of the proof of concept has faded, the really difficult part of leadership begins.

“So what does it take to successfully build and run a social enterprise?”

So what does it take to successfully build and run (and not just start) a social enterprise? Julie Battilana and Matthew Lee from Harvard Business School have argued¹ that you need some business experience, but not too much. It is almost as if working in business for too long leaves you too rigid, maybe too dogmatic. (I suspect the same argument can be made about spending too much time in the charity or public sectors as well.)

This supports our view at On Purpose (www.onpurpose.uk.com) that managing a social enterprise is not just about managing a business-with-social-knobs-on, or for that matter a charity-with-commercial-knobs-on. It is a distinct discipline requiring its own know-how, skills and, above all, real social enterprise experience that needs developing early on. This is why our leadership programme focuses on attracting and developing talent at an early point in its career; and we make our participants do full time work

inside a wide range of organisations, complemented by intensive class-room and 1:1 support.

In our first four years we have found five principles to be helpful in developing future social enterprise leaders:

- **Hire on intrinsics:** We hire based on attitudes, behaviours, problem solving ability and interpersonal skills – most of the rest of what is needed can be taught relatively quickly
- **Train broadly:** Bring in knowledge from all sectors, avoid definitional dogmas – we work with corporates, social enterprises, the public sector and commercially minded charities
- **Invest in the personal:** Leadership is as much about leading yourself as leading others
- **Build meaningful networks:** Leaders will be more successful if they contribute to and can rely on the support of diverse, personal and non-virtual networks
- **Broaden horizons:** Make leaders feel part of and responsible for a movement of change beyond their organisation – this will accelerate innovation and system change

After five to ten years, we hope our participants will be building and running successful social enterprises. In the mean time though, we are aware that social investors can't wait that long. Finding and developing credible, compassionate and committed senior leaders is a pressing issue now and so many will be imported from elsewhere. This will not be an easy undertaking. Above all, it will require humility on all sides.

So, as members of the social enterprise movement, social investors or philanthropists, what do we need to do to help find and develop the senior leaders we need both now and in future?

- Stop talking about social entrepreneurs and social entrepreneurship and start talking about social enterprises. We need to focus on growing sustainable and successful organisations
- Avoid importing paradigms wholesale, be they from business, charity or the public sector. If social enterprise is to fulfil its promise we need to recognise it is qualitatively different

- Develop a talent mindset so we value attracting, developing and progressing the very best at all levels
- Celebrate leaders and their colleagues who successfully build and run (and not only start) social enterprises
- Think and act beyond your own organisation – system change requires leaders with wide horizons

If we don't succeed in attracting and retaining the world's best talent, social enterprise will remain an interesting but ultimately quaint relation of its cousins in the worlds of big business, charity and the public sector. But if we succeed in taking a more rigorous and pro-active approach to talent, we can help social enterprises deliver on their incredible potential.

¹ http://blogs.hbr.org/cs/2013/02/want_to_use_business_to_make_a.html



Tom Rippin Tom is the founder and CEO of *On Purpose*, a social enterprise leadership programme that kick-starts purpose-driven careers for high-calibre talent.

Tom will be facilitating a session at the 9th Annual EVPA Conference in Geneva (26-27 November 2013) on talent and social investment on the afternoon of 27 November. To register for the conference go to <http://evpa.eu.com/annual-conference-2013>



European Venture Philanthropy Association: annual conference

Don't forget to register for the 9th annual conference of the European Venture Philanthropy Association (EVPA) which takes place 26 & 27 November 2013 in Geneva. The theme is **Responsible Leadership: Inspire & Act**. The two-day conference is an opportunity for European based philanthropists and professionals to network, exchange ideas, share tools and be inspired.

To register: www.evpa.eu.com/annual-conference-2013/registration.

@Stanford Philanthropy

by **Charles Keidan**

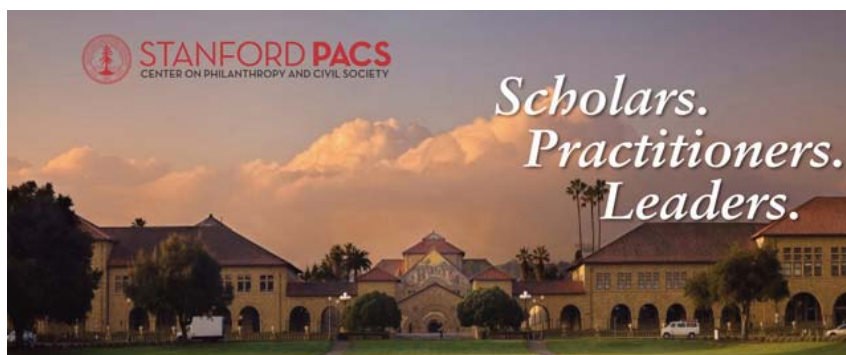
Two days after arriving at Stanford University, I found my way to the School of Education by the clock tower at the heart of campus. As a visiting practitioner I was there to co-teach a course on ‘Theories of Civil Society, Philanthropy and the Nonprofit Sector’ with Bruce Sievers a Visiting Scholar and Lecturer and former head of the Walter and Elie Haas Fund.

Since its inception 11 years ago the course, offered by the Center on Philanthropy and Civil Society, has become a forerunner in the emerging field of philanthropy education. It combines historical and theoretical analysis of philanthropy, including the origins of modern European civil society, with experiential grant making. Remarkably, students receive \$100,000 to distribute to local nonprofits from the Texas based ‘Once Upon a Time Foundation’.

Following nearly a decade as Chief Executive of the Pears Foundation in London the prospect of facing a classroom full of enquiring undergraduates, rather than hard-nosed fundraisers, on a sunny morning on the beautiful Stanford campus, was one of the more enjoyable culture shocks I have experienced.

What stood out?

Two things immediately caught my attention. First, the composition and previous experience of students were varied. The students were from a wide range of disciplines including political science, ethics and – curiously – human biology. Whilst this exemplifies the American college system it also symbolises the amorphous and interdisciplinary nature of philanthropy. The debate about whether philanthropy



is rooted in the arts or sciences, business or humanities and especially whether it is something to promote or study, are some of the big and unresolved questions in philanthropy education. At the Pears Foundation, I had grappled with these questions in the context of our Business Schools Partnership and the school based Youth and Philanthropy initiative.

Interestingly, all the students had previous engagement with the nonprofit sector: almost entirely as volunteers and fundraisers rather than donors. So for the students, the opportunity to assume the role of philanthropist proved paradigm shifting.

Second, I wondered whether giving students \$100,000 to distribute to nonprofits was a good idea. Why? The process is fraught with hazard, both moral and practical, and required careful oversight. For example, donating large sums of money can confer significant power over a nonprofit, and the logistical challenges of creating a functional, student-driven grants process within a 10 week term are also significant. But, done carefully, such a programme can offer significant educational benefits. This programme works because it is based on three interlinking components: it is grounded in historical and theoretical texts about philanthropy; it is linked to reality through regular guest speakers, including the donor; and, perhaps the most important element, it is practical: the grant-making forced students to make real funding decisions based on philosophical reflection, utilitarian reasoning and opportunity cost.

Each component runs alongside the other, thus increasing the potential to create a transformative pedagogical experience.

What about beyond the classroom?

My Stanford experience provided a remarkable window into the world of contemporary American philanthropy and in particular that of the philanthropists of Silicon Valley.

You do not have to look far to see their influence. Nearly every building on the Stanford campus is named after a donor, including many recognising the substantial contribution of the Arrillaga family. Notably, Laura Arrillaga-Andreessen, author of *Philanthropy 2.0*, and founder and chair of Stanford's Center on Philanthropy and Civil Society. Last year, Stanford University raised more money than any charity in the world, approximately \$1 billion, and the imposing Arrillaga Alumni Center surely played a big part in that success.

The University's endowment is almost \$17 billion, second only to Harvard and Yale, and its board comprises philanthropic luminaries such as Jeff Raikes, CEO of the Gates Foundation. There is a two-way street as Stanford's President sits on the board of Google whose founders also count among the university's alumni and donors. It is not only the buildings, which are philanthropically funded, but so are the trees - palm trees actually, if the campus myths are to be believed.

So what are we to make of this white-hot cauldron of silicon philanthropy?

On one level, it provides a living embodiment of what the students learned on the course: the vibrant power of civil society, the Tocquevillian ideal of American associational life, geared towards generating public goods.

But is there another side? In recent years *The New Yorker* has devoted several major articles probing, some would say knocking, this West Coast phenomenon. Whilst this could be simply East versus

West Coast rivalry, the criticism goes well past palm tree philanthropy posing questions such as whether the cult of hi-tech 'solutionism' – the belief that every problem has a technology based solution – and its application by philanthropists, can address intractable social issues. *The New Yorker* pieces deliver a sharp prick into the Silicon Valley bubble, and they were often discussed during my time at Stanford.

Alongside this critique, other battles are looming which may change the size and scope of the American nonprofit sector. Early in 2013, the US Internal Revenue Service (IRS), which regulates and confers nonprofit status and lucrative tax benefits to 501(c)(3)'s and (c)(4)'s, was accused of political meddling in the way it determined nonprofit status. It is alleged to have rooted out, or at least subjected to greater scrutiny, those applicants with the words 'tea party' and 'patriot' in their titles. The backlash

The Stanford campus proved to be a great vantage point onto the world of American philanthropy. And if that was not enough, back in the classroom, there was always plenty of grading. Having now returned to the UK, one clear lesson is the potential to develop philanthropy education in Europe. The beginnings have already been established with courses on philanthropy at Cass Business School, Kent University and SciencePo amongst others. My aspiration is to build on these initiatives to make high quality philanthropy education the norm rather than exception at universities across Europe.

This is an exciting challenge and one I hope to combine with further research on political theories of philanthropy, teaching and consulting. Over time, these efforts will broaden and deepen our understanding of this age old, but still mercurial, subject.



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The Commercial Evolution of Microfinance Institutions

– From Donor Dependence

by **Ira W. Lieberman**



BILL & MELINDA
GATES foundation

Microfinance is amongst the premier social or as currently termed impact investment sectors.

In the sector's early years, 1980s to the mid-90s, if people knew anything of the microfinance sector, they knew of Grameen Bank (Bangladesh). Insiders knew of Grameen Bank, Bank Rakyat Indonesia (BRI), and Banco Sol (Bolivia). Apart from these institutions, most microfinance institutions (MFIs) were small non-governmental institutions (NGOs), regionally focused within a given country. They primarily provided working capital loans to the working poor, and, with the exception of BRI, none mobilized deposits to any scale.¹

Microfinance seeks to provide financial services for that segment of the population in the developing world and in transition economies that generally lacks access to formal financial services. This population is often called the underserved. These are primarily the working poor, many of whom live on US\$2 dollars a day in poorer developing countries, such as in Africa, Bangladesh, Cambodia, India, Peru, Bolivia and Mexico as examples.

Clients of MFIs are either self-employed or are micro-entrepreneurs that operate a micro-business.² Microfinance clients frequently live in urban slums or remote rural communities. Most of these people work in the informal sector, which in poorer countries may constitute up to 80% or more of employment. Poor people have various informal ways to secure financing: from family and friends, and from traditional financing schemes such as ROSCAs (rotational savings and credit associations) and from money lenders, who may charge over 10 % a month for loans. Money lenders can be

compared to pay day lenders in the UK and USA who often charge 300-400% per annum for their loans. Microfinance clients generally do not have access to formal finance institutions either for borrowing or savings, and these informal sources may not be able to provide financing in the amounts or with the timing needed.³

Microfinance refers to the provision of formal financial services to poor and low-income people. Microfinance refers not only to a range of credit products for business purposes, for consumption/income smoothing, and to fund social obligations, etc. but also to savings, money transfers, remittances, and insurance.⁴

While NGOs were the primary providers of microfinance during the 1980s and 90s, microfinance is now increasingly provided by commercial banks that have down-streamed into microfinance and by former NGOs that have transformed to become non-bank financial institutions or microfinance banks. There are still thousands of NGOs, cooperatives and credit unions that provide microfinance. Regulated MFIs, operating as commercial banks, are able to mobilize savings. This has two important advantages: first it lowers the cost of capital for MFIs, and second it provides a safe place for the poor to save. It turns out that the poor may need a safe place to save more than they need loans.⁵

Microcredit is often called character or cash-flow lending. It is expensive to deliver microfinance sustainably, a fact not necessarily intuitive to those outside the industry. To be sound, MFIs must operate directly in the poor communities they serve. They provide small loans with relatively short maturities and without any or with limited collateral. This means that MFI clients pay more for their money than interest rates quoted at commercial banks. However, the poor





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have virtually no access to commercial banks.

Increasingly, larger MFIs that have scaled up to 30,000 to 50,000 clients and there are many such MFIs, also provide other financial services, such as micro-insurance, remittances and money transfers, and loans for education and home improvement, some of which may require different terms with respect to maturity, interest rates and fees when compared with the short-term working capital loans that are the “bread and butter” of microfinance. Although these new offerings are still a relatively small part of the product base of most MFIs, the demand for them is growing.

MFIs have scaled-up dramatically over the last fifteen years with compound growth rates exceeding 30% on average. Presently some 122 MFIs serve 100,000 or more clients and several over a million clients. (see Appendix Tables 1 and 2)

Rural microfinance differs from urban microfinance. Rural clients might require loans to grow cash crops or raise animals to be sold for cash, rather than the standard small enterprise end use of traditional microfinance products. Rural areas are also less populated than urban areas, so the market for microfinance clients is less dense and, hence, more expensive to recruit and service.

Increasingly the industry talks not just about microfinance but about access to finance or financial inclusion. The latter might also mean small business loans, since MFIs increasingly reach up to service the owners of small as well as micro-businesses.

Technology is potentially a powerful driver of access to finance, especially for rural populations. In a select number of developing countries, the providers of mobile phones are working with commercial banks or large MFIs to bring cell-phone banking to the poor. For example, in Kenya, M-PESA (pesa means cash in Swahili) a product of Safaricom, Kenya’s largest mobile operator, has some 15 million clients primarily doing people-to-people money transfers.

While virtually all MFIs seek to be fully self-sufficient, covering their operating and financial costs,

commercial MFIs seek to be sustainable, generating a profit and a return on assets and equity adequate enough to attract commercial funders. For the most part, they do not rely on explicit subsidies. In addition to their efforts to operate on a sound financial basis, MFIs seek to maximize their outreach to the working poor, thus also creating a positive social impact. This dual role—operating self-sufficiently and also serving the poor—is called “managing the double bottom line.”

The international microfinance sector has been subsidized from the beginning by the donor community and a number of foundations. Donors have included a large number of multilateral and regional financial institutions: the World Bank, the Inter-American Development Bank, the Asian Development Bank, various U.N. agencies, and the development ministries and aid agencies of the United States, Canada, Japan, and virtually all European governments. They have supported microfinance and have provided an array of different subsidies. Foundations, such as the Ford Foundation, the Open Society Institute (Soros Foundation), Omidyar Foundation, the Bill & Melinda Gates Foundation, and the MasterCard Foundation have also supported international microfinance.

Social and religious based institutions such as CARE, Save the Children, Oxfam, Mercy Corps, and Catholic Relief Services, to name just a few of the many such institutions, also support microfinance. Over time, these institutions have operated their microfinance activities separately from social services delivery, reflecting the two way flow of resources in microfinance inherent in lending operations; the recipients (microfinance clients) receive loans and are expected to repay the loans, while the social service activities of these institutions are grant based.

Subsidies have been provided to institutions in the sector for a variety of purposes:

- As capital grants to expand the capital base of a sector that was predominantly populated by NGOs at that time;
- Loans, mostly on soft or concessional terms, to expand the portfolios of MFIs to assist increasing



outreach and in scaling up the sector;

- Support for capacity building; for example, to support technology absorption by MFIs in the form of management and financial reporting systems, and branchless banking, as well as training;
- Support to improve knowledge in the sector through, for example, the development of regional microfinance networks, publication of a series of short notes and technical papers by the Consultative Group to Assist the Poorest (CGAP)⁶ and others in the sector, the creation of various support institutions, such as an industry database available as a public good (the MicroBanking Bulletin, subsequently expanded to The Mix Market), and support for microfinance rating agencies to evaluate the performance of MFIs as they began to transform into commercial institutions.

By 2000 and thereafter, the private development arms of the multilateral, regional donors and bilateral donors such as the International Finance Corporation (World Bank), European Development Bank, European Investment Bank, the Multilateral Investment Fund (MIF) at the Inter-American Development Bank and a large number of bilateral agencies in Europe were providing loans and equity investments to MFIs at interest rates much closer to market rates than initial funding from donor agencies. In addition, microfinance investment funds, most of which were public-private investment vehicles, were providing increasing amounts of capital to the sector via both equity and loans.

Today, while donors continue to fund the sector, their role, relative to the size and needs of the sector, has diminished substantially. While still needed, funds for technical assistance to support capacity building on a concessional (grant) basis from donor agencies and foundations have become highly targeted to the poorer countries, such as those in Sub-Saharan Africa and Haiti, and are currently available in relatively small amounts. Foundations such as the Bill & Melinda Gates Foundation, the Open Society Institute (Soros Foundation), the MasterCard Foundation, and the Ford Foundation all continue to fund microfinance,

but their funding is focused largely on building capacity in the sector.

Since the mid-1990s, another layer of financial-service providers has entered the microfinance industry. It consists of international microfinance investment vehicles (MIVs) that provide intermediate term loans to, or make equity investments in MFIs. Starting in 1995 some 70 debt funds and 30 equity funds were created, many as a family of funds, and have assets in excess of US\$7.5 billion as of December 31, 2012.⁷

With the commercialization of the sector and its dramatic growth, have come problems and criticism of the sector. In a recent issue of this journal, Kurt Hoffman indicates that microfinance has failed to deliver on claims made by many of its adherents to alleviate poverty, “the direct extension of microfinance to the poor (120 million families have now received microloans) has not transmitted as the escape from poverty that its grand narrative implied.”⁸

Whilst it is generally well accepted that some highly acclaimed supporters of microfinance “over promised,” with respect to poverty alleviation, this has been well known in the field for many years now. Other criticisms of the sector also exist, for example that:

- commercialization with accompanying high interest rates drives some borrowers into over indebtedness and eventually bankruptcy⁹;
- commercial MFIs focus excessively or even exclusively on their financial performance and forget the double bottom line, social impact.

It should be noted that the industry has been acutely aware of these criticisms and has responded with a Smart Campaign to increase transparency and disclosure on effective interest rates and fees. Also the industry has increased its emphasis on the social rating of MFIs. In addition, even critics such as Banerjee and Duflo cited by Hoffman, recognize that microfinance has done some very good things for the working poor¹⁰:

- Microfinance allows families to run micro-businesses or supports self employment opportunities so that the family or individual can



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take care of basic needs such as food, health care and schooling for their children. Most clients of MFIs that I have met throughout the world have emphasized that their children were in school. I am convinced this benefit will be measurable in the next generation and not one I have heard discussed to-date;

- At a minimum microfinance allows families to smooth their cash flow, preventing families or individuals from falling into deeper poverty;
- Regulated MFIs are generally allowed to mobilize savings from the poor. It is the ability for the poor to save safely that may be the greatest benefit of microfinance and the only one that has been more widely discussed in the last ten years or so. In Africa savings accounts and savings amounts often exceed the number of borrowers and the size of the loan portfolio; and,¹¹
- MFIs that have reached scale and operate sustainably can begin to offer their clients a range of products which meet their needs, as opposed to the “plain vanilla” working capital loans that have been the staple of the sector from its beginnings. These include—education loans, housing rehabilitation loans, micro-insurance, money transfers, remittances and we can expect to increasingly see mobile banking.

In conclusion, microfinance and MFIs were largely supported by donors and foundations in the 1980s and 90s. By 2000, the momentum had shifted dramatically with many MFIs transforming to commercial vehicles. This has allowed the sector to scale-up. In 1995 the sector served some 10 million clients, while at present it is over 120 million clients and has extended throughout the developing and transition economies. Commercialisation has also allowed the sector to absorb substantial private capital. More importantly, commercialisation has opened the way for MFIs to provide a safe haven for the poor’s savings. Commercial MFIs are financed in a variety of ways, but mostly on commercial terms. Concessional funding from donors and foundations still support MFIs as NGOs, cooperatives and credit unions in a limited set of markets. Funding from foundations for capacity building is important but limited in amounts.

1 Grameen Bank did initially require compulsory deposits as part of its lending methodology. This provided some collateral for loan repayment and also encouraged the borrower to save. With Grameen II, this requirement was dropped.

2 Micro-businesses in the developing world are defined as having 10 or fewer employees. In fact few have paid employees; most are family operated businesses.

3 Daryl Collins, Jonathan Murdoch, Stuart Rutherford and Orlanda Ruthven, Portfolios of the Poor: How the World’s Poor Live on \$2 a Day (New Jersey: Princeton University Press, 2009) spells out in some detail the diverse sources of financing for the poor and how they manage their cash flow on US\$2 a day or less. An average of US\$2 dollars a day may mean no cash flow some days and more on other days, so cash-flow management, including safe savings through MFIs may, in fact, be more important to these individuals than loans.

4 This definition borrows from Robert P. Christen, Kate Lauer, Timothy Lyman, and Richard Rosenberg, A Guide to Regulation and Supervision of Microfinance, Microfinance Consensus Guidelines (CGAP, Public Comment Version, April 1 2011), 10.

5 See Stuart Rutherford, The Poor and Their Money (U.K.: Practical Action Publishing, 2009) which discusses the importance of safe savings for the poor. Marguerite Robinson has also written a seminal work in two volumes to date. Volume I discusses the importance of savings for the poor, and Volume II, focused on Indonesia, extensively discusses Bank Rakyat’s Uni Desa system, which mobilizes savings from the working poor in over 3,000 villages throughout the country.. Marguerite S. Robinson, The Microfinance Revolution: Sustainable Finance for the Poor (World Bank and the Open Society Institute, 2001).

6 CGAP is a multi-donor forum focused on microfinance. It was founded in 1995. The CGAP Secretariat is housed in the World Bank and operates de-facto as the

world secretariat for microfinance. Starting by nine donors in May 1995, two years later there were 26 donor members plus the Ford Foundation. CGAP has operated as the primary knowledge source for the sector and also created The MIX Market a data base on MFIs throughout the world. In its early years, from 1995-1999, CGAP provided capacity building grants to MFIs throughout the developing world that were seeking to become sustainable.

7 MicroRate, Annual Report 2012 on MIVs reflects reporting of 103 MIVs representing an estimated 93% of the sector.

8 Kurt Hoffman, “Giving Can Save the World or Not,” Philanthropy Impact, Issue 1 Spring 2013. Hoffman cites two highly respected economists from MIT, A. Banerjee and E. Duflo (2012) Poor Economics, “Microcredit and other ways to help tiny businesses still have an important role to play in the lives of the poor, because tiny businesses remain the only way many poor can manage to survive. But we are kidding ourselves if we think they can pave the way for a mass exit from poverty.”

9 See Luis Vlada and Scott Gaul, “The Tipping Point: Over-Indebtedness and Investment in Microfinance.” The Microbanking Bulletin, February 2012 and Damet Liv, “Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-Depth Investigation of Saturated Areas,” Cambodia Institute of Development Study March 2013.

10 See also David Roodman, Due Diligence, Center for Global Development, Washington D.C., 2012 for an extensive analysis of the pluses and minuses of microfinance.

11 See Stuart Rutherford, The Poor and Their Money, Opus Cited and Marguerite Robinson, The Microfinance Revolution, opus cited for extensive discussions on the benefits of savings.



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Why Inequality And Climate Change Are Moving To A Community Near You And What We Need To Do About It

by Kurt Hoffman

Since 2007, compelling evidence has steadily emerged that not only are inequality and global climate change growing in intensity, but also these two phenomena are metastasizing into systemic threats to our well-being and that of our children and children's children

However, there is little evidence that the majority of private donors (of all income levels), charities and advisors constituting the philanthropy community – whose publicly understood mission, after all, is to help society tackle its most pressing problems – as yet feel compelled to reorient their efforts and resources towards addressing what are probably the two most serious societal issues the world faces. In this commentary I explore select lines of thinking and action that could help the philanthropy community complement its well-intentioned but complacent pursuit of its preferred litany of social ills and take on the more pervasively disruptive challenges of inequality and climate change.

Be Worried, Be Very Worried

There has been a 60% increase in income inequality, as measured by the GINI co-efficient, between 1979 and 2012; average wage rates for

low income families in 2012 were below those in 2000 (and have stagnated for almost all workers since 2005); and, the net property wealth of the bottom half of all UK wage earners has been reduced to near zero. While there are 470,000 Brits with annual pre-tax incomes above £100,000, there are 10 million earning a poverty wage of less than £15,000 per year – with the growth in future earnings of the former group expected to easily outpace the latter over the next decade.¹

Global data and scientific consensus suggest that the threat climate change poses to the well-being of the entire planet, including the UK, is growing unabated.² We appear irrevocably headed towards causing a global temperature rise more than 2° Celsius above 1995 levels (the rise so far is about 0.8° Celsius) and towards cumulatively pumping more than 565 Gigatons of CO₂ into the atmosphere (we are now past the 50% mark) within the next few decades. There is global political and scientific consensus that, if we exceed them, irreversible and massively disruptive immediate and longer-term environment related damage to our physical, economic and social infrastructure will inevitably be triggered. The bad news is that the environmental damage our current patterns of consumption have already caused, well before reaching the no turning back point, is way beyond what was expected.³ It is this accelerated intensification of the impacts of climate change that is now leading climate authorities, such as NASA scientist James Hansen, the planet's most prominent climatologist, to emphatically argue that the accepted global limits on temperature rise and CO₂ emissions are “actually a prescription for long-term disaster.”

Though the negative human impacts of climate change in both rich and poor countries will be felt by people of all income levels, they are invariably borne more intensively by the poorer, more vulnerable, segments of the population – whether it is nomadic farmers in the Sahel, or the lower income enclaves that are growing rapidly in tidal and coastal cities and communities in Europe and North America.⁴

Climate change is now a genuine, systemic threat to the long-term well-being of the entire UK population. We cannot marshal the same empirical case that inequality will inevitably move from being a warning of the potential for social and political turmoil to become a cause of genuine havoc to the established order. Yet it is clearly a driver in the recent political and social tumult in Italy, Spain, Ireland and Greece. Do we really need to wait for a popular uprising to brand current levels and trends in inequality a systemic, long term threat to well-being in the UK? This threat is already real for many. For example, 30% of children born to low income families in the last five years are expected to be poor all their lives and four out five wage earners in low income families will experience sustained unemployment sometime in their working lives; youth and long term unemployment are at record levels and expected to stay there. Even the “squeezed middle class” has suffered deep erosion in living standards (lower now than in 1995), with their household earnings forecast not to return to pre-recession levels for 15 years. As these depressing prospects about the future sink in and take root, average workers/households could well increasingly abandon hopes of achieving even the basic accoutrements of decent living standards in the future such as home ownership, reasonable levels of disposable income and expectations their children will be better off than they. The destabilizing potential (let alone the human and economic cost) of this situation should not be underestimated. Awareness of this future dimension of current inequality in the UK explains why concerns about “fairness” will increasingly permeate public debate about the future direction and management of our economy and society – a debate that cannot but at some point turn to the tax treatment and overall patterns of performance and effectiveness of Britain’s philanthropists and charities.⁵

So why don’t we care?

In contrast to the sharply edged, degenerative changes in our economic and environmental context over the last five to eight years, the UK giving public (at

all income levels) and most of our institutional philanthropies have hardly altered their charitable inclinations. According to the National Centre for Voluntary Organisations (NCVO) in its most recent survey of giving trends in the UK, since 2004/05 the distribution of overall donations across causes has remained relatively stable: inequality/poverty and climate change consistently attract well below 10% of all giving over that entire period. We have resolutely shown no inclination to substantively reallocate our charitable giving and social action away from the plethora of diverse good causes we typically support towards tackling the systemic threats to our well-being posed by rising inequality and intensifying climate change.

Yet as a community that has voluntarily donned the mantle of champion of the most vulnerable, righter of wrongs and protector of what’s good, the UK Philanthropy (Impact) community, whatever else we care about, should have a keen personal and professional interest in figuring out what more can be done to get all those concerned about public welfare to work together, and at scale, to solve the present and future threat posed to us all by the intensification of inequality and climate change. The strategic question is how to bring about this sea change in attitude and action.

More and better information does not seem to be the answer. As demonstrated by various public opinion polls such as the regular Guardian/ICM polls, a sizeable share of the UK public is well aware of the perils of climate change and the injustices associated with inequality and are supportive of doing much more, as a society, to address both of these challenges. We just seem to not want to act decisively on such instincts as individuals. More morality inspired exhortation and suasion are not likely to work either as proven by the decades-long failure of rich country based, “hair shirt” environmentalists pleading our children’s and the planet’s case for definitive personal action to halt climate change, and the disappointing experience of the last three or four years of largely government-funded arm twisting of the UK public to simply GIVE MORE (to any good cause) suggests.

Change the focus of the dialogue and the nature of the proposition

To get movement of charitable resource and effort allocation on the scale demanded by the seriousness of our inequality and climate change nemeses, we need to change entirely the focus of the “investment” or social

change proposition made to UK private donors whilst also reconfiguring the nature of the outcomes we are seeking. One step towards this goal is to make more real, immediate and positive the prospect that by working together we can make a difference to those of most immediate concern – our families, friends, colleagues and communities – by focusing on the fact that the impacts of these two large-scale, systemic threats in fact are usually most manifest within communities of which we are all a member. The efforts and experience of select civil society actors working with a community orientation/focus could point to a compelling alternative narrative that could secure significant new engagement by the UK philanthropy community in tackling inequality and climate change.

The two-pronged starting point for our discussion is first that the equitable effectiveness of community-led approaches to social change is very well proven but only a very small minority of UK philanthropists and charities operate within that framework. And second, the evolved form of community-based analysis and intervention being pioneered by those advancing an “adaptive” approach to achieving “community resilience” are now generating compelling evidence that community-led social change should be much more broadly embraced by UK philanthropists and their advisers and the charities they support.⁶ Critically, the notion of building resilient and adaptive communities emphasizes the need to collectively build, as a matter of course, self-sustaining economic, social, cultural and

physical infrastructure and capacities. This means an adaptive community resilience framework is especially well suited to coping with the potentially transformative and disruptive challenges posed by inequality and climate change.

The path-breaking work on adaptive community resilience by some UK and US based actors⁷ is producing new constructs and new practice that massively broadens the applicability and social value of community resilience approaches beyond the narrow goal of how best to prepare for and survive sudden-onset physical and terrorist based disaster to tackling generic social policy and community development issues as well as the systemic challenges posed by inequality and climate change.

From this perspective, the most important insights and empirical evidence of positive outcomes/success emerging from the still evolving, but now internationally diverse, set of actors advancing adaptive community resilience fall under a number of related headings:

- *Resilient communities actively contribute to the ability of individuals and households to grow out of vulnerability and overcome adversity.* The evidence is growing from that when community resilience is present and individual members can engage, both the incidence and intensity of a whole panoply of individual and household-afflicting social problems is much lower than average AND a significant percentage of community members regularly graduate onto trajectories of sustainably



improving living standards and well-being that take them permanently out of harm's way.

- *Adaptive community resilience can be created and continually strengthened – from any starting point.* From those still relatively few situations where there have been planned (and subsequently documented) interventions to build a community's adaptive resilience capacities, it is clear this can be accomplished and a process of sustainable, continuous improvement embedded in the way the community manages itself. It is not just a matter of donors and stakeholders coming together to try to collectively solve intransigent social problems on behalf of the vulnerable (or help them survive disasters) but that all external and internal stakeholders collectively engage in a continuous process of investment in and improvement of forward-looking, social value creating mechanisms that will help its members permanently escape vulnerability.⁸
- *The elements of community resilience and the ways in which individuals and households interact with these need to be understood and strengthened from a systemic and holistic viewpoint.* The conceptual and analytical work being done under the umbrella of "adaptive community resilience" has impressively enhanced our understanding and the prospects for developing appropriate, effective and sustainable interventions. The work of the Young Foundation UK in developing its WARM (Well-Being and Resilience Measurement) tool for helping communities and supporters understand their underlying needs and capacities within an adaptive community resilience framework is particularly notable in this regard. This holistic map of key resilience elements shows resilience is made up of a number of durable and flexible cultural, educational, physical, financial and social resources whose strengthening needs to be the focus of collective investment by all stakeholders.⁹
- *Community "ownership" and leadership is the key to success.* It is now widely understood that community "ownership" and leadership is absolutely critical to success for any interventions designed to help a given population. We know that:
 - where local ownership of change processes exists, the appropriateness of interventions to real local needs is enhanced and thus their ultimate cost effectiveness is greatly improved;
 - community members will invest their own resources in the change effort, to a much greater

- extent than when externally controlled and fully funded "solutions" are imposed and, more importantly, they will be prepared to do all they can to achieve sustainable long term success;
- this response often brings forth additional investment and support from local businesses (and local subsidiaries of national/international private sector actors) and better off households, which expands the social change resources available;
- the size and character of the local social change "market" is also significantly expanded so that scale economies kick-in and other avenues of leverage are unlocked, such as beyond-local, social media conveyed "crowdsourcing" and "sharing economy innovations" and the creation of viable local capacities and mechanisms for influencing local and national policy.

A new way to roll the dice....

This framework for advancing "adaptive community resilience" adds up to a new engagement platform and a new outlook proposition for encouraging the philanthropy community to step up significantly its commitment to tackling inequality and climate change. It is a framework that is focused on investing alongside local communities and committed stakeholders in taking practical steps to solve problems that matter to all of us.

It advances a positive, essentially business-based case for solving major social problems by collective risk-sharing, value-adding investments in communities with which the public as donors and philanthropists as (likely impact or social) investors have strong connections. There would be good prospects that such support could be channelled into the launch (and eventually diffusion) of a sustainable business model for moving vulnerable communities permanently out of harm's way and improving the sustainability of the communities in which we reside.

What is on offer is not just a bundle of unconnected special pleadings by separate charities to donors to pour little bits of money into black holes of perennial social problems that seem never to be closed. An adaptive community resilience framework engages a proven, well-articulated win-win route for individual philanthropists and their advisors, the public and hard strapped charities to tackle the two biggest threats they and the wider UK society face to our well-being – inequality and climate change. We have only ourselves to save, or to blame if we don't start to act decisively to make a real and lasting difference to all our futures.



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1 For sources see, for example, data provided at www.poverty.org.uk, various recent low pay reports by the ONS, and salient publications by the Resolution Foundation such as *Squeezed Britain 2013* and of course scholarly and journalistic books on inequality by for example, Will Hutton, Stewart Lansley and Robert Reich.

2 There are many sources but the one used in this article is a landmark survey article by Bill McKibben in published in *The Rolling Stone*, 19 July 2012, "Global Warming's Terrifying New Maths".

3 For example according to McKibben 2012, a third of summer sea ice in the Arctic is gone, the oceans are 30 percent more acidic, and since warm air holds more water vapor than cold, the atmosphere over the oceans is a shocking five percent wetter, loading the dice for devastating floods.

4 See for example "Future Proofing Cities" a presentation by Simon Ratcliffe, DFID to ICLEI, Resilient Cities 2013 conference, 31st May 2013; Michael Bloomberg (2013) "Reshaping New York City's Future after Sandy" in *Rebound: Building a More Resilient World*, and reports on and by the "Asian Cities Climate Change Resilience Network" by the Rockefeller Foundation, 2013.

5 Bernard Collier (Chief Executive of Voluntary Action Westminster) fired the starting pistol on this evolution in the "why should the wealthy get tax relief on their charitable donations debate" when he argued in June 2012 that the Give it Back George 2012 tactics created the impression that sector leaders were more concerned to protect rich donors and their preferential tax regimes than to be working in the interests of the least well off. It is a short step for the public and the media to create a more compelling anti-philanthropist narrative by linking this point with their concerns about unfair tax arrangements for big corporates and wealthy individuals and increasingly common sentiment that the growing inequality in the UK (and US) cited in the main text have arisen in part because, according to Joseph Stiglitz, the dominant economic and political system seems "to give disproportionate voice to those at the top." See Joseph Stiglitz, *Vanity Fair*, May 2011, "Of the 1%, by the 1%, for the 1%".

6 See for example the evidence presented in Rockefeller Foundation (2013) *Rebound: Building a More Resilient World*, New York, New York.

7 For example, the Young Foundation, the Barrow Cadbury Trust, and the Transition Network in the UK, the Rockefeller and Bloomberg Foundations, and The Community and Regional Resilience Institute in the US and a number of progressive international development actors such as the UK's Practical Action, Farm Africa and the Humanitarian Futures Programme at King's College London.

8 A perspective well captured by this observation by the Young Foundation... "what we are interested in (as a catalyst of community resilience) is how does resilience play out in terms of attitudes, expectations and peer group pressures? How do local institutions influence the ability of communities to be resilient in the face of adversity? And what role do voluntary sector organisations play in building resilience in communities? These are important questions in times of public funding cuts, reduced services, high unemployment, rising inequality and increases in the cost of living.... What is clear is that community resilience will have an important part to play in protecting communities from the worst impacts of recession and helping them to overcome adversity and respond and adapt in such a way that brings about positive social change.... We need to ensure that the resources that enable communities to be resilient are not withdrawn and the areas that are most in need are targeted and supported as they adapt to change. Unless we act now the recovery will be much harder and slower and many communities will suffer the consequences for many years to come." See Young Foundation (2012) *Adapting to Change: the role of community resilience*, a study commissioned by the Barrow Cadbury Trust.

9 The WARM model and the Young Foundation's innovative approach to understanding and strengthening the adaptive resilience of vulnerable communities is contained in Young Foundation (2012)

On Friday 27 September 2013, the UN's Intergovernmental Panel on Climate Change found that Greenhouse gas emissions caused by human activity, such as the burning of fuels like coal were responsible for the majority of the 'unequivocal' global warming that occurred over the past 60 years. The report spelt out likely impacts and offered four scenarios for the future.

The full reports can be found <http://www.ipcc.ch>

Philanthropy Impact, launched in December 2012, incorporates the European Association for Philanthropy and Giving (EAPG), Philanthropy UK, and the Philanthropy Advisors Forum (PAF). It combines 27 years of sector knowledge and experience, creating a rich resource that helps make sense of and inspire philanthropy throughout the UK and beyond. We do this by:

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Jack and Ada Beattie Foundation
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London School of Economics
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European Venture Philanthropy Association: annual conference

Don't forget to register for the 9th annual conference of the European Venture Philanthropy Association (EVPA) which takes place 26 & 27 November 2013 in Geneva. The theme is **Responsible Leadership: Inspire & Act**. The two-day conference is an opportunity for European based philanthropists and professionals to network, exchange ideas, share tools and be inspired.

To register: www.evpa.eu.com/annual-conference-2013/registration.

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