# KNOWLEDGE CONNECT

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## FROM THE EDITORS

### Philanthropy: Impact over intentions

In global philanthropy today we are seeing the emergence of a generation of philanthropists who value impact and effectiveness over intentions. These philanthropists are beginning to demand rigorous evidence bases to underpin their investment allocation decisions. And in doing so, they confront the problem of the gap between the theory of social impact measurement and the enormous practical difficulties in measuring social value in the real world setting. In this edition of Knowledge Connect, we examine the principal global forces guiding these changes in emphasis and link them to local Australian expressions.

This is a fast-moving field. Knowledge is being created in many places outside the traditional university setting. Foundations and philanthropists themselves, the consultants who advise them and the wealth management industry are all contributors to the knowledge base, often in dialogue with academic partners. Dissemination of this new understanding seems to be proliferating amongst philanthropists, but in Australia this is happening less among the not-for-profits and social enterprises that they fund. We hope that this edition will provide a taste and an overview of the big themes and trends, global and national, in the field of philanthropy so that not-for-profits (NFPs) and others in the community sector can locate their own practice in this new world of expectations.

'Impact over intentions' summarises the attitude of philanthropists described in the book 'Philanthrocapitalism'. Under this theme we also review Four Revolutions in Global Philanthropy which identifies four key developments in the transformation of the market for social good creation.

While there is a long way to go, we also showcase Giving Well, a website that rigorously analyses charities and compares their capacity to save and change lives. These are but tentative steps toward robust comparison. This edition also reviews *A Transformational Role – Donor and Charity Perspectives on Major Giving in Australia* which gives voice to the perceptions and concerns of both philanthropists and fundraisers. Why do people give money? A review of over 500 scholarly articles distills reasons for giving to a set of eight explanations. We also explore the policy levers being used to encourage broad-based giving using the recently released UK Giving White Paper. Finally, we examine the globalisation of wealth and review the latest World-wealth-report-2011 for insights on trends of where the wealth is and the implications of the changing distribution of wealth for global philanthropy.

**Elena Douglas and Paul Flatau, CSI (UWA)**

**Guest Editors, *Knowledge Connect***

## In this Issue




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GUEST EDITORS: Elena Douglas and Paul Flatau

# 1. Four Revolutions in Global Philanthropy

**By Maximilian Martin, Impact Economy, Working Papers Vol. 1 2011**

This paper identifies four key developments in the transformation of the social capital market from an inefficient form, where the funding of services is strongly relationship-driven and centred around grants and fundraising, to a more efficient market which allocates funds according to value (social change and demonstrated impact). It is written by a founder of UBS Philanthropy Advisory Services, Maximilian Martin, who has been an active participant in the development of global philanthropic culture and practices for several decades. UBS Philanthropy Advisory Services was one of the first investment-bank-housed specialist services in this area.

Martin argues that grants and fundraising, the traditional forms of funding of social activity, are not only expensive but are short-term in focus, meeting current service provision needs alone. Transaction costs in grant funding are also stifling. He cites US research which suggests that the cost of grants and fundraising is ten times higher than the cost of stock market allocations. As a result, he suggests, 'non-profit organizations enjoy insufficient flexibility to adapt, change and invest in their workforce or infrastructure' (p.5).

The four revolutions presented in the paper are:

(1) Amplifying social entrepreneurship through synthetic social business;
(2) From microfinance to inclusive financial services;
(3) From development assistance to base-of-the-pyramid investments;
(4) From classical grantmaking to entrepreneurial internalization of externalities.

The first revolution to be considered is the move from individual social entrepreneurship to synthetic social business. This analysis responds to the problems of supply-side constraints in the number of social entrepreneurs our societies produce – not enough of these charismatic individuals exist to meet the demand for their services. So what can be done?

Social entrepreneurs, using the definition used in Martin's paper, use market mechanisms to deliver a good or a service in a highly effective fashion to a marginalised or poor population that would not otherwise have access to a service of the same level. How do we produce more of them? The author works through incubation approaches and the development of enabling structures and businesses with a social purpose which may be seeded by philanthropists and don't rely on individuals but on structures and organisations created for the purpose. The incubation model and examples cited are yielding real fruit. Rather than wait for social entrepreneurs to emerge, this model takes training and train-the-trainer facilities into communities and develops the skills and aptitudes in the available talent, including how to run a sustainable business/social enterprise. Case studies presented include Aravind Eyecare and Ashoka University Faculty Institute.

The second revolution discussed is the move from micro-finance to more inclusive financial services. Micro-finance is the provision of capital to low-income individuals with an objective of economic empowerment and poverty alleviation. Micro-finance broadens access to capital at the bottom of the economic pyramid. Martin describes the fact that the poor are now slowly being offered a far wider range of financial services and also refers to the massive growth in microfinance investment vehicles. The World Bank estimates microfinance investment vehicles grew to over US$ 6.6 billion by 2009. All sorts of segments in this developing market are explored. A case study of Banco Compartamos is offered.

The third revolution is a move from development assistance to 'base of the pyramid' investing. The base of the pyramid refers to the gigantic market of four billion people with 'pent up demand' for a myriad of goods and services from consumer goods to education, health, housing and sanitation. Given the broader reach of markets and technology, this could represent a profound shift in the provision of public as well as wellbeing-enhancing goods of all types. The article explores the cases of the Rockefeller Foundation and its contribution to the Green Revolution through seeding innovation and technology transfer across the developing world and of Ignia Ventures in Mexico investing in business development capacity. This revolution is perhaps the one with the greatest implication. (Notice how quickly the term the 'developing world' is being replaced by 'emerging markets').

The final revolution Martin presents is from classical grant-making to entrepreneurial internalisation of externalities. To translate this economic jargon: 'externalities' are the outcomes of economic activity that individual firms or households do not count but that exist and are indirect by-products of their activity. Negative externalities such as pollution create adverse impacts for others but (before carbon taxes and trading) these costs are not counted as costs by firms and so output is higher than what it would otherwise be. Positive externalities on the other hand are external indirect benefits to others whose value is not considered in a firm's or household's decision making and so less is produced than is socially warranted.

So where do philanthropists fit in? Martin's contention here is that while grant-making will remain an important component of philanthropic activity because so many of the challenges of the 21st century cannot be tackled by markets alone, there is an important place for philanthropists to play a catalytic role in entrepreneurially identifying externalities that can be 'internalised' or taken on by groups that will be rewarded for doing so and thus creating a market for the internalisation of the externality. Think about the policy objectives in pricing carbon for example.

Martin sees philanthropists having the opportunity to identify cases where this can be done and then to encourage the development of functioning market places. He suggests the philanthropist's role should be temporary. He cites three cases: The Global Alliance for Vaccines and Immunization, the World Sanitation Financing Facility WSFF and the Social Impact Bond.

To read the full article see: [Four Revolutions in Global Philanthropy]

# 2. A Transformational Role: Donor and Charity Perspectives on Major Giving in Australia

**By Wendy Scaife, Katie McDonald and Susan Smyllie, Queensland University of Technology, The Australian Centre for Philanthropy and Nonprofit Studies, Feb 2011**

This excellent study is a rich exploration of why people make major gifts in Australia, their experiences of giving and those of the gift recipients. The study 'taps into the thoughts of nearly 50 Australians involved in major giving' and uses a qualitative, small group discussion research method. The project aims to 'give public voice to the perceptions, attitudes and concerns of Australians who have chosen to act philanthropically in a sizeable and ongoing way'. The study also provides a voice for fundraisers and gift recipients, providing a valuable insight into contemporary Australian experience from both sides of the encounter. The aim is to provide insight into ways this finance model, with its unique benefits to the community, can be improved.

Major gifts in this study are defined as those over $10,000, a surprisingly low number but one which is a relevant threshold in the Australian context. It highlights the fact that, as the study suggests, 'major giving is not the norm here'. The report recommends that changes are needed to our major gifts 'system', including from our non-profit boards and fundraisers.

The report seeks to illuminate the minds and hearts of 'deliberative givers' and their expectations and requirements. 'Evidence from the study and elsewhere says larger gifts transform those who ask, who give, and even their children and future generations'. The issue of public, known-donor giving, and the costs of Australia's code of 'quiet giving' are examined.

Key findings are outlined in six sections: Defining major gifts; Influential major gift contexts; Donor characteristics; Fundraiser characteristics; Donor decision-making; Communications aspects of the major gift experience.

The key messages of the report highlight eleven critical issues:
*1. Major wealth: major generosity*. The generous impulse is intact in some parts of affluent Australia – albeit not all of it.

2. *Major wealth: minor givers*. Many wealthy Australians are perceived by their peers to not be giving, or to be giving significantly less than they might readily be able to give.

3. *Major giving: major potential in Australia*. Particularly measured against the numbers of Australians who could make major gifts, respondents highlight great unrealised potential as a funding model for community need.

4. *Major question mark*: is there an Australian culture of giving? Some respondents affirm an Australian culture of giving, particularly major giving, exists but when probed to describe it few respondents are forthcoming except so say that it very often has a code of quiet giving.

5. *Major giving: deliberate choice*. Many respondents report that giving for them is embedded in living a life that is financially advantaged. It is also closely aligned with their values and their self-concept: major giving is part of who they are, a life choice. It is not something done because it is expected: it is a conscious choice.

*6. Major giving: major decisions but no single path.* The data does not suggest that the decision-making in major giving is a linear process. Rather, it is a complex and interrelated set of cultural factors, personal interests, values and peer encounters.

*7. Major givers: outcome hungry.* Major giving differs from smaller giving, being more about investment than support.

8. *Boards: major role but major disappointment.* Donors look to boards but often perceive nonprofits as poorly led, unaccountable and ineffective. Fundraisers see boards as low in understanding of how to resource and support major giving.

9. *Major investment yielding major results, but the context is anti-investment.* Investing in major gift seeking capacity often generates high returns, respondents report. However, contextually, community understanding of investing in fundraising is low and anti-spending.

10. *Major government role.* As in other nations, what philanthropy injects in the Australian community is unique and quite distinct from government. Government's role, respondents say, is structural – there to facilitate and encourage philanthropy through various levers.

11. *Major fundraiser role*. The very strong pattern from experienced fundraisers in highlighting passion and integrity as the heart of the role suggests an attitude more akin to philanthropy and philanthropists than many major givers perhaps realise.

To read the full article see: *A Transformational Role – Donor and Charity Perspectives on Major Giving in Australia*

# 3. Website to watch

## GiveWell - more change for your dollar

I saw this website when it was first launched in 2006 and I've watched its development ever since. It was created by some (twenty-something i.e., Gen Y) refugees from the hedge fund industry who wanted to apply their tools of investment analysis, investigation and comparison to charities and to saving lives. When they started, they made assumptions that were flawed and ran into all sorts of difficulties but what I found remarkable was that they were completely transparent about their failings through it all. They have a section, Our shortcomings, which archives all their mea culpa's and apologies. They learnt on the job and the transparency is a credit to them and mirrors the transparency they want to see develop in the charitable sector if it is to live up to its promise and intentions of saving and improving lives.

So what is GiveWell? It's an independent, nonprofit charity evaluator. They describe themselves as finding 'outstanding giving opportunities and publish the full details of our analysis to help donors decide where to give'. Their point of difference is that unlike existing evaluators, 'which focus solely on financials, assessing administrative or fundraising costs, we focus on how well programs actually work – i.e. their effects on the people they serve'.

We all know how complex and challenging this impact measurement is and so hats off to them. It is surely a model which will grow in importance in global philanthropy. The rationale for GiveWell is that even in the US, land of 'billanthropy' or the sport of billionaires, individual donors give more than 100 times each year what the Gates Foundation spends. And individuals are not provided with any quality information on outcomes in making these choices. GiveWell's mission is to 'create a global, public, open conversation about how best to help people'.

To view the website: www.Givewell.org

## 4. A Literature Review of Empirical Studies in Philanthropy: Eight Mechanisms That Drive Charitable Giving

**By Rene Bekkers and Pamala Wiepking, Nonprofit and Voluntary Sector Quarterly, Sept 10 2010**

There is now a large academic literature on philanthropy and giving. Organising this literature is no easy matter. But this was the task Bekkers and Wiepking set themselves in their wide-ranging and inter-disciplinary review of research on why people donate money to charitable organisations. The emphasis is on individual giving. There is little in the review covering corporate giving. The review covers around 500 papers and so provides a wealth of material for readers. And, not surprisingly, the density of the review at times overtakes the key themes being developed.

Bekkers and Wiepking distinguish between eight drivers and mechanisms of giving: (a) awareness of need; (b) solicitation; (c) costs and benefits; (d) altruism; (e) reputation; (f) psychological benefits; (g) values; and (h) efficacy.

An awareness of need is the first motivation of giving. Indeed, it can be viewed as the fundamental prerequisite of giving. You don't give if you don't perceive a need in the first place. So where does information come from on need and what sort of information is the most important? Information comes in all sorts of forms. First-hand experience of need and prior connections with those who are the beneficiaries of support programs funded by giving is emphasised in the research literature as increasing the subsequent chances of giving.

Solicitations are a second key mechanism of giving. The research evidence suggests that a significant proportion of all giving among members of the public is in response to being solicited to donate—around 85 per cent of giving was linked to solicitation in two studies. While this suggests a rich vein of potential funds to tap, the research evidence points to donor fatigue and diminishing returns and lower average contributions to increased solicitation.

As the authors point out, 'giving money costs money'. Economic studies suggest that this cost can be reduced by more generous tax treatment of giving. Reducing obstacles to giving will also increase levels of giving. On the flip side, raising benefits to giving will also increase the level of giving although the role of direct benefits is seen to be relatively minor and may be counter-productive in the long term, undermining the role of intrinsic motivations. Benefits to giving come in many different forms including special access to meetings, dinners and events.

Two further mechanisms impacting on giving behaviour are those of altruism, the concern for improving the lot of the final beneficiaries of the giving, and reputation, or the improved social standing of donors in the community.

The reputational effect of giving is the most studied of all drivers of giving. Giving improves social standing while not giving damages reputation. Giving rises the more visible it is; it rises, for example, in telethons when names are being read out and when visible symbols such as a pin, ribbon or wristband are used to signify that giving has taken place.

Social psychologists have studied the psychological benefits of giving in some detail. Neuropsychological studies show that giving activates areas in the brain linked to reward processing. Giving may alleviate feelings of guilt or produce a feeling of doing good, by acting in line with a particular self-image for example. Donors are motivated in their giving by sensing that they will feel good as a consequence of giving. One of the key research findings is that giving is not only the result of altruistic self-image but reinforces it. Giving becomes a self-reinforcing cumulative process.

Individual values are critical in the giving process. Bekkers and Wiepking suggest that 'philanthropy is a means to reach a desired state of affairs that is closer to one's view of the "ideal" world' (p.18). The ideal world in turn depends on one's value systems. Those who have pro-social values, are less materialistic, who endorse a moral principle of care and who value being devout are more likely to give than others.

Efficacy is the final motivation for giving identified by the authors. Donors who believe that their giving will be effective in achieving the specified goals of the organisation or project they are giving to will be more likely to give.

The full article is available to subscribers here

## 5. Giving White Paper

**UK Cabinet Office, May 2011**

Earlier this year the UK Government released a White Paper called simply *Giving*. The motivation for the White Paper was twofold: first, the available evidence suggested a flat-lining of giving in the UK both in terms of time and money; second, a belief that government can stimulate a 'step change' in giving by making it easier and more compelling to give; and better supporting those organisations in need of increased funding so they are better able to source funds and utilise those funds effectively.

What measures are proposed in the White Paper to achieve an increase in giving in the UK?

First, new tax incentives and matching government funds for giving to specific programs. As the report notes, 'while donors do not generally give to benefit from tax breaks, the right fiscal measures can incentivise greater and more sustained giving' (p. 25). The 2011 UK Budget included a measure to reduce the rate of inheritance tax from 40% to 36% for estates leaving

10% or more to charity. The Budget Papers forecast an increase of £600 million over the lifetime of the Budget for this measure.

Providing matching government funds for private giving is another measure designed to support giving initiatives. An example cited is that of the Evening Standard Dispossessed Fund which was established to assist Londoners exit poverty. The UK Government contributed £2 million in two tranches to match funding from other sources.

Another approach highlighted in the Giving White Paper to encouraging giving is for government to celebrate giving, undertaking information campaigns to support giving particularly in schools and for government itself to lead by example through ministers and the civil service giving time for causes. A number of school-based programs have been supported by government including Giving Nation and Go-Givers (programs involving school students volunteering time to work with community projects and to raise money for community programs). The UK Government is also supporting payroll giving programs.

A third major area of support described in the Giving White Paper involves government investing in community organisations so that they are in a better position to seek and support giving options. The White Paper also refers to initiatives surrounding the provision of government physical and web space to assist organisations.

To read the complete paper see The Giving White Paper.

# 6. World Wealth Report 2011

**By Cap Gemini and Merrill Lynch Wealth Management, 22 June 2011**

We have reached a tipping point moment in the geography of global prosperity. There are now more millionaires in the Asia Pacific (which includes Australia) than there are in Europe. With this shift in wealth distribution comes the mantle of responsibility for reinvestment in community, culture and philanthropy more generally. Australia finds itself the society with the most developed civil society and philanthropic architecture in the region however far behind the US we know ourselves to be.

This report tracks the world's high net worth individuals (HNWIs, defined as those with investible assets of US$1m or more excluding primary residence, collectibles, consumables and consumer durables) and offers key insights into where the wealth is and the growth of HNWIs.

Shifts in wealth have implications for global philanthropy: from the urgency to develop the 'ecology for philanthropy' in new regions to new times tailored to a new generation of potential major donors.

First, what are the key statistics:

- The HNWI community grew by more than 9.7% in 2010 to control over $42.7 trillion, surpassing pre-GFC levels
- The population of HNWIs in the Asia-Pacific is now 3.3 million individuals, trailing only the US, for the first time a larger pool of people than in Europe
- US HNWI wealth totalled $11.8 trillion compared to Asia Pacific US$10.8 trillion and Europe US$10.2 trillion
- 53% of the world's HNWIs reside in the US, Germany or Japan
- Australia has the 9th largest number of HNWIs
- 27% of global HNWIs are female (37% in the US and 24% in the Asia Pacific)
- 17% of global HNWIs are under 45 but 41% in Asia Pacific are under 45. This result is influenced by Japan where 8% are under 45. Excluding Japan, the majority of HNWIs in the Asia Pacific are under 45
- Ultra-HNWIs (defined as those having investible assets of US$30m or more) account for 36.1% of global wealth and represent 0.9% of the global population.

These shifts in the geography and demography of wealth highlight the importance of understanding the sociology of giving and pro-social behaviour in different cultural contexts. It may mean a greater role for Australian organisations given our more developed civil society and community benefit sector. It is time for us to explore expanding our services and reach into the Asia Pacific. A bold new world awaits.

To read the full report see: World-wealth-report-2011

# 7. Book review: *Philanthro-capitalism: How the Rich Can Save the World*

**Book by Matthew Bishop and Michael Green, published by A & C Black, London, 2008. Paperback edition published 2010.**

**Reviewed by Elena Douglas**

In politics, most debates focus on two questions: *What are you going to do?* And *how much money are you going to spend on it?* Too little attention is given to what is often the most important question: *How are you going to do it?*
President Bill Clinton, Foreword to 2010 paperback edition

'Philanthrocapitalism', 'venture philanthropy', 'catalytic philanthropy', 'momentum philanthropy' are all new descriptions of an ancient practice – giving wealth in the service of humanity – now being combined with the mental models, frameworks and processes of the investment of financial capital.

Bishop and Green take us deep inside the world of the 'philanthropreneurs' whose mission is to transform philanthropy and the creation of social benefit and public goods just as they have disrupted other traditional markets. This is the world of Bill Gates, Warren Buffett and George Soros, with Bill Clinton as cheerleader. These are the plutocrats who have taken the 'gospel' of Andrew Carnegie to heart, and believe as he did "the day is not far distant when the man who dies leaving behind him millions of available wealth, which was free to him to administer during life, will pass away 'unwept, unhonoured and unsung,' no matter to what uses he leaves the dross which he cannot take with him. Of such as these the public verdict can be: the man who dies thus rich dies disgraced".

So the race is on by these givers to find the ways to spend at least half of their wealth before they die as the new pledge, which already has more than 70 billionaire adherents, requires. But just as Carnegie discovered and as did Aristotle two millennia before him, "To give money is an easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in everyman's power nor an easy matter."

'Philanthrocapitalism' acutely observes this new incarnation of a now century old theme. It takes us behind the scenes in the vast world of 70,000 plus foundations. It explains for us the new ecology of giving in the US where the art and science of philanthropy are practised at all levels of society from the middle-class up and in all regions of the country. Observers have often accounted for this phenomenon by noting the absence of an aristocracy or royalty which left philanthropy as the ticket to social elevation. It is certainly hip to be a philanthrocapitalist, or a 'celanthropist', celebrity-giver or cause-highlighter like Angelina Jolie.

Brickbats are also in order here as well. First published in hard back in 2008 in the middle of the GFC, some of the observations jarred with the reality. The promotion of the investment banking industry, for example, as a paragon of 'rigorous research underpinning investment decisions' was ripe for ridicule in 2008 as the sub-prime scandal unfolded. And the book never really grapples with the proper relationship between philanthropists and the State in public good provision. Global philanthropy is dwarfed by global spending by governments. In the US, the world centre for philanthropy, total giving is approximately USD300billion per year, compared to a total annual government budget spend of well over USD1 trillion. Philanthropy can inspire and catalyse activity by the State, but to think it will ever replace it is a plutocrat's pipe-dream which this book does little to dispel.

Many will be sceptical of the new world dawning as far afield as Australia of 'MBA-enabled executives in suits into the Birkenstock world of charity'. However there is no doubt that the trend to a far bigger role for different professional skills in all aspects of the giving, asking and investing philanthropic lifestyle will continue to gain momentum. As the authors put it, what the new generation of donors seek is 'the sort of transparency and accountability that exists in financial markets'. Of course, those of us on the ground know that we are a long way from having genuine, robust measures of 'social value' to enable real comparisons to be made. As happens from time to time in the investment world, the pitch gets ahead of the analysis, but we know we are moving in this direction, and fast.

As a window into the new ecology of philanthropy, especially for an Australian reader for whom this is likely to be a window into the future, this book can't be beaten.

(An interview with the authors, Bishop and Green, was the focus of a Knowledge Connect article in our first edition in Spring 2008 – see the article here)