

NEW PHILANTHROPISTS IN EUROPE

Following the ‘Gates approach’?

Felicitas von Peter

In the philanthropic calendar, 2006 will probably be remembered as the year when Warren Buffett opened the Gates to an ‘era of new philanthropy’. The donation itself as well as the resulting size and importance of the Gates Foundation have greatly fuelled the debate about philanthropy among entrepreneurial families in Europe. What is remarkable about this discussion is that the so-called new philanthropists now immediately refer to the ‘Gates approach’ to philanthropy – which for them largely embodies the hands-on, results-oriented, business-like approach described by Matthew Bishop as ‘philanthrocapitalism’.



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In our work at the Forum for Active Philanthropy, a charitable information and advisory service for major European donors, we have seen a keen interest in new forms of giving such as venture philanthropy as well as new vehicles such as ‘umbrella’ foundations or giving circles. While the main impulse is still to set up their own foundation, a surprising number of donors have considered contributing to an existing foundation instead. With their business background, the ‘new’ philanthropists seem to be much more open to cooperation than ‘traditional’ philanthropists, and this could also pave the way for a range of promising partnerships between the NGO and the business sectors.

While the option of spending down is largely unheard of among existing European donors, it meets with a lot of interest in those who are introduced to it – donors particularly like it as a way to increase the amount of assets that can be put to good use. However, the inadequate legal framework in most European countries still makes it hard for donors to experiment with this and other new options for giving.

Who are these ‘new’ philanthropists?

At the Forum for Active Philanthropy, we work mostly with first generation entrepreneurs, as well as spouses from families that have often been involved in philanthropy for some time, but where the spouse now feels she (or sometimes he) would like to play a more active role. For the first generation

entrepreneurs, it is most important that their funds get invested ‘effectively’ and that they have a clear understanding of what is being done with their money. The spouses are often keen to consider all aspects of a problem before deciding which organization or projects to support.

We are also seeing that the intergenerational transfer of wealth has already started – €2.2 billion will be passed on over the next decade in Germany alone – and there is great interest in philanthropy among the next generation. However, among this age group, it is mostly seen as being connected with other questions about the position of the young within their family and society at large: what is my role in the family and family foundation? What is my responsibility towards society? How can I contribute to social change? How do I create a philanthropic legacy?

Distrust of the state and major NGOs

The new philanthropists are often motivated to give because they realize that the state cannot fulfil its traditional role, especially in the areas of welfare, education and health. Some even argue that the state needs to withdraw even more from these fields to open up a greater space for private action – which in countries such as Germany is certainly true. However, many donors are willing to cooperate with state agencies on a local or regional level, and in effect often step in when projects can’t get state funding any more. While these donors are often hoping to develop ‘model solutions’ that will then be replicated by the state or other actors, few are interested in the debate about the role of private philanthropy versus the state, or acknowledge the limits of private contributions compared with state funding.

Among the new philanthropists, there is also a widespread suspicion of major NGOs. As a result, many still choose to create new organizations: ‘I set up a foundation as I didn’t want to fund the big organizations with large administrative costs where you never know what happens with the money you donate,’ a Swiss donor said. As the need to focus resources by collaborating is widely acknowledged in the NGO sector, (voluntary) guidelines for transparency and accountability of existing foundations and NGOs (and their thorough implementation across the sector!) are crucial if we want to leverage our resources. Large NGOs should also do more to highlight their comparative strengths, and the different options donors have to work with them while keeping or developing their own personal profile.

Tax incentives for getting started

While the debate about the importance of tax incentives for the size of personal philanthropy is still ongoing, one issue emerges very clearly from conversations with European donors: tax incentives are important for getting started. Once a donor has gathered some experience with his or her personal giving, tax issues become less important, but they are a major decision factor for those who are considering whether and how much to give. 'If the German government increases tax-deductibility to 20 per cent of annual income, I will double my donations to take advantage of that,'¹ said one donor. 'We have already discussed with our children that as soon as the law is passed, they will each set up their own foundation, so they can start getting experience of what they want to do,' added another.

Many wealthy families in countries with high income tax feel that they are already contributing considerable amounts through taxes, and would therefore welcome additional tax deductions for their charitable contributions. In Germany, the last weeks have shown that the proposed increase in tax deductions is a step in the right direction. However, charitable legislation across Europe is often at odds with the new philanthropy and needs to be reformed – and ultimately we need one European charitable law rather than numerous national laws.

Philanthropy begins at home

For many donors in Europe, philanthropy still begins at home. For a few, home means becoming active on a national or international level. For most, it starts with a regional or even local engagement. However, as Theresa Lloyd has pointed out in *Alliance*, several studies have documented that while people start giving mainly in their own community, in time their giving becomes wider. It's not just since Buffett hit the philanthropic headlines that European donors have been interested in learning from practices developed elsewhere – often the US, but increasingly also the UK. And many philanthropists are more and more interested in combining local or regional funding with international giving.

A little later in the conversation, we mentioned some examples where foundations had taken risks in the hope of increasing the impact of their projects. 'Oh, but risk-taking is not for us,' the couple replied. 'We're here because we want to be sure that everything we do works out the way we intended.'

Better safe than sorry

'We want to think about the way we give, about the range of projects as well as how we work,' a couple from Spain said. 'How could we achieve more with our money? How could we combine giving locally with giving in the less developed world? And what role could our foundation play in the medium and long term?' A little later in the conversation, we mentioned some examples where foundations had taken risks in the hope of increasing the impact of their projects. 'Oh, but risk-taking is not for us,' the couple replied. 'We're here because we want to be sure that everything we do works out the way we intended.'

This quote illustrates a recurring theme among European philanthropists: far too many new donors follow well-trodden paths and either step into a void left by government or emulate projects that have already been tried (maybe slightly differently) by others. While there is hope that this might change with growing experience and personal involvement, established philanthropy needs to do a lot more to provide new philanthropists with models of the risk-taking approach and learning organization that are one of the pillars of effective philanthropy.

Spreading the gospel

Despite the buzz about the 'new age' in philanthropy, we still have a long way to go in expanding the field of those who embrace the new approach to giving. 'I give to our local church, I help some people individually – but I don't believe that you can really change the fate of the poor, especially in countries where the political situation can destroy all your efforts overnight,' commented a banker from the UK when asked about his philanthropic involvement.

The emergence of philanthrocapitalism creates enormous opportunities for increasing the size and effectiveness of the NGO sector. The potential of peer-to-peer marketing to raise the bar is illustrated by a donor who, after years of writing cheques, started to review her giving strategy and in the process became heavily involved in her philanthropy. 'Then I realized that €70,000 were still needed to fund all the projects I had on my shortlist for this year. But I didn't want to slow down due to a lack of funds,' she said. Determined, the donor found a solution to the dilemma. 'I asked a friend, who was so bowled over by what I told her, and the way I explained to her what we were doing and why, that she immediately gave me the money. And she now also wants to become involved in the project.' @

¹ The German minister of finance has announced proposals for a reform of German charitable law, including more than doubling the amount that donors can use (tax-free) to start a foundation, and increasing tax-deductibility from 5 per cent for educational and 10 per cent for scientific donations to 20 per cent for all tax-exempt purposes.