

# Why philanthropy?

## A call for family philanthropy to fund innovation

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March 2021

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### WHY PHILANTHROPY? <sup>i</sup>

#### Deliberate support for humanity

The past decade has seen a significant rise in philanthropy, with more donors willing to put money and effort into making the most of their giving.<sup>ii</sup> Many are at the point of thinking about how their wealth can make a difference improving the lives of others - beyond their immediate family and heirs.

Put simply, philanthropy is the love and support for humanity. It is vast and complex in its nature as it responds to the complicated issues in our modern society that is overshooting its limits. But at its best, philanthropy grants money and other private resources to those working to make some kind of difference in the world – it seeks positive social and environmental change without any expectation of personal gain.

Charity is distinct in that it often refers to *alleviating the suffering caused* by social-environmental problems – typically a short-term, reactive response to an immediate problem or issue, whereas philanthropy seeks to go deeper to focus on helping *eliminate the underlying social-environmental issue*. It has an intentional focus on the impact it seeks to deliver, and it typically takes a more informed and targeted approach in addition to a commitment to longer term funding.



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## Reasons for giving

The reasons to give will vary, but the community need for philanthropy remains. They can include intent to solve pressing social problems, to act on a religious, cultural or philosophical belief of responsibility to help the less fortunate, to reinforce inter-generational family values, to achieve recognition, or merely to give greater personal meaning. For whatever the reason to engage in philanthropy, the case to give towards our shared humanity has never been stronger.

We live in a world that, for all its goodness, is increasingly unequal, unstable, and unsustainable. Governments, including in New Zealand with its moderately active welfare state, are struggling to meet traditional responsibilities to their citizens, as well as to those most in need abroad.

In stating the case for supporting charities and other non-government organisations before the heightened context of the COVID-19 pandemic, President Bill Clinton observed:

*There is plenty of evidence that more effective government can produce higher incomes, better living conditions, more social justice, and cleaner environment across the board. BUT in many areas, regardless of the quality of government, a critical difference is being made by citizens working as individuals, in businesses [with purpose], and through non-governmental non-profit organisations.<sup>iii</sup>*

In particular, non-governmental organisations join people together to advance the public good and often have greater capacity and flexibility to innovate in the delivery of services than government departments. These organisations provide vital services and support our society in those areas that are not well served by individuals alone, immediate family, government, or the markets.

## COVID-19 case to give in 2021

Since the outbreak of COVID-19 in New Zealand, there have been many examples of generosity in serving families, whanau, workplaces, and communities.<sup>iv</sup> As the disruptions of COVID-19 continue, there remains the case for additional support for our non-profit organisations and the people they serve. The Centre for Social Impact and Hui E! have reported on the funding shortfall of many New Zealand charities and other non-profits.<sup>v</sup> In addition to lost income streams, non-profits have faced financial uncertainty, immense pressure on operating costs (staffing, IT infrastructure, rent), and the challenge of balancing and maintaining a level of service on reduced revenue.<sup>vi</sup>

While demand for many community services increased, total annual giving in 2020 did not. Charities will be even more challenged in 2021 to manage the gap between income and expenditure.

Individuals, trusts, and charities give around \$3.8 billion per annum to New Zealand causes. In our final outlook for annual giving to 31 December 2020 we estimated total giving for 2020 remained flat relative to the 2019 giving level against a normal growth rate of 4.4% pa. More concerning, for 2021 we estimate there will be a drop of 12-15%, reducing total annual giving for 2021 to at least \$3.34 billion and taking New Zealand's giving levels back to those from 2015.<sup>vii</sup>

Even in less turbulent times, philanthropic support is critical to resourcing a wide range of organisations that provide vital services tying together the fabric of our society. The greater need is emphasised now.

## Philanthropy is society's risk capital

Despite the pleasing \$3.8b figure, the overall size of philanthropy in New Zealand is relatively small. Individuals giving to charity comprises only 0.79% of the country's gross domestic product (GDP).<sup>viii</sup> Whilst this, as a share of GDP, is the second highest internationally (behind US's 1.44%), there are still some who would question whether philanthropic giving is large enough to make a difference, even where there is collaboration amongst funders. Compared to our government's spending on, say, education, health and social welfare services, philanthropy's share remains very small.

The accomplishments of philanthropy however can still be significant. Philanthropic dollars are often said to be society's "risk capital" - validating and supporting ideas that are considered beyond the mainstream of government commitments or commercial investment.

Government contracts with organisations in the community often only cover the basic service delivery leaving no surplus available for funding innovation or other risk-taking. As the steward of taxpayer dollars, the government is often, perhaps rightly, adverse to funding new innovations, and the nature of its bureaucratic thinking leads it away from risk taking, even in times of surplus. Hence philanthropy, whilst relatively small, is often the only source of funding that can be used by organisations to take risks.

Philanthropy is well placed to fund the try-out of new things, validate what is effective, and build a compelling case for government to invest in the expansion of any validated programme, however challenging the development of those partnerships can sometimes be.

This approach, in fact, is part of what made possible the breakthrough type of vaccine that will now be used to reduce the impact of COVID-19 infections. The Gates Foundation, one of the world's largest philanthropic funds, supported the work of the Hungarian-born biochemist Katalin Karikó in whose approach no one believed, but who is now poised to help curtail the pandemic.<sup>ix</sup>

A local example of philanthropic risk capital is the predator free work that the NEXT Foundation initially seeded and supported. NEXT is now in partnership with Department of Conservation to apply the eradication programmes that have been successful in trials to larger tracts of our conservation estate.

Alongside its role in providing risk capital for supporting innovation, the traditional case remains for philanthropy to step-up and provide support to the most vulnerable in our communities, as the welfare state in New Zealand has over time cut back in its support.<sup>x</sup>

Our community and energy trusts are a notable example of the traditional distributive approach of supporting in-the-community activities and projects. What is encouraging to see is that some now hold this approach alongside a reallocation of some of their granting budget to support innovative programmes over multiple years (Foundation North, Rātā Foundation, WEL Energy Trust, Trust Waikato, and Bay Trust).

In recent years another philanthropic option has emerged that goes beyond traditional grantmaking to leverage the power of markets to create change. Broadly defined as *impact investing*, it is the intent to invest capital to generate additional and measurable social impact in a way that also provides monetary returns – from return of principal alone to risk-adjusted market rate returns.<sup>xi</sup> Impact investing is still in its infancy but it has promise to be able to leverage and recycle philanthropic capital, for example in social housing, community infrastructure projects and as social enterprise.<sup>xii</sup> Impact investing is not a replacement for philanthropic contributions, but is another tool in helping organisations that are proven, and have the ability to repay, to grow.

## Best done in collaboration

Because of the increasing complexity, breadth and scale of the challenges needing to be addressed and the relatively small contributions of funders, philanthropy today is best undertaken with collective attitude and as a collaborative exercise with other funders, as well as programme implementors.

“A philanthropic funder by themselves can help a hungry child to have a full tummy when they go to school... but a philanthropic funder by themselves cannot solve the cause of children going to school hungry.”

*Sue McCabe, Chief Executive of Philanthropy New Zealand*

## CALLING FOR MORE FAMILY PHILANTHROPY TO FUND INNOVATION

### Actively support system change

While the traditional distributive approach in philanthropy continues to have its place, internationally high-profile leading private family foundations focus on systems change innovations as their primary role in the philanthropic spectrum.

In response to complex and seemingly intractable problems that threaten the well-being of communities and our physical environments, these family foundations have sought to understand the underlying conditions that perpetuate the problem of interest, and they are investing and acting to have an impact on key levers of change. These levers can include policies, practices, distribution of resources and power, as well as education.<sup>xiii</sup> Adopting this system perspective has been applied by foundations, for example, in challenging recidivism within criminal justice systems, educational disparities in the public education, and modern slavery in the global economy.

A systems approach has also been adopted by some of our leading family foundations here such as The Tindall Foundation, J R McKenzie Trust, Wayne Francis Trust, NEXT Foundation, Todd Foundation and Wilberforce Foundation. These are some of the most able and remain likely to still be the lead funders on innovations - particularly systems-change innovations.

The J R McKenzie Trust has, for example, recently documented and made publicly available contemporary dimensions of philanthropic practice relevant to New Zealand's bi-cultural context and family foundations that are supporting innovation.<sup>xiv</sup>

Whilst some community and energy trusts are supporting innovative programmes the responsibility for funding at this end of the philanthropic spectrum still rests on a few families and their relatively smaller private philanthropic organisations.<sup>xv</sup>

A key role and place for family foundations in the New Zealand philanthropic community is to actively support system change innovation, particularly in ways that others are not currently, and we can support and connect new families who have interest in directing their philanthropy in this way.

### Response to critique on big philanthropy

Few books have shaken the philanthropic world of this generation more than Anand Giridharadas' *Winners Take All* – a blistering critique of wealthy do-gooders.<sup>xvi</sup> He posits that international elites who pretentiously give away millions of dollars are actually just preserving the status quo that grants them power, and whose self-interest continues to dominate what they do, including their philanthropy at the expense of solving today's most pressing social and environmental problems.

This work is a review of big philanthropy and particularly within the context of the United States. Giridharadas makes important and provocative appeals to hold big donors and major philanthropic institutions accountable in a democratic society where they wield disproportionate influence.<sup>xvii</sup>

While this increased scrutiny and critique of philanthropy is important for ensuring community accountability, it is targeting the most grievous unethical expressions of philanthropy. Unfortunately, the temptation for some has been to extend Giridharadas' judgments of big philanthropy to judgments about all philanthropy, and in doing so undermine the significant historical and social role philanthropy can, has, and should play in society.

We hold that organised philanthropy, done well locally and globally, still delivers a dramatic and inclusive impact in communities.<sup>xviii</sup>

### Stirred by passion, but outwardly focused and strategic

Philanthropy comes from the heart – from the love of humankind. It is deeply personal and circumstantial. The path that is right for each philanthropist is one they conceive and design to their own specific circumstances, ambitions, and values.

But love, passion and lofty goals will not alone warrant success. Without the capacity to move beyond passion to effective planning and execution, the philanthropist will be typically left with well-meaning efforts and confuse good intentions with real effects. Traps for the unwary grantor include: 'fuzzy headiness,' flying solo, under estimating and under investing in the cause, neglect of non-profit organisational capacity overhead, and accepting satisfactory under performance.<sup>xix</sup>

Similar to investing, in philanthropy you need a solid strategy to understand what works, what fails, and why. Whilst there are no simple steps, elaborate frameworks or trusted tools that a philanthropist can always rely on, Thomas Tierney and Joel Fleishman suggest that by asking the right questions – at the right time and in the right way - you are far more likely to give wisely and achieve the change you want to bring in the world.

These leaders in philanthropy suggest that in moving from charity to philanthropy you should engage in a process of rigorous inquiry around six separate but related questions: <sup>xx</sup>

- What are my values and beliefs?
- What is “success” and how can it be achieved?
- What am I accountable for?
- What will it take to get the job done?
- How do I work with grantees?
- Am I getting better?”

Thinking about these questions will help you chart the personal direction of your philanthropic journey and give it focus. It will also, we believe, help to change the odds of success in your favour through strategies that are based on evidence, rather than mere hope. Philanthropy is a powerful way to figure out what you, and possibly your wider family, want your wealth to stand for over the long term.

## Helping you in next steps

We can help you on your philanthropic journey and advise on how the financial assets you bring to it can be integrated into a broader investment strategy. To discuss how we might be able to work with you please contact your Adviser, or John Morrow, Head of Philanthropy for JBWere NZ, on 09 365 0825 or email him at [john.morrow@jbwere.co.nz](mailto:john.morrow@jbwere.co.nz)

## About the Author

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## About JBWere Philanthropic Services

The mission of the JBWere Philanthropic Services team is 'to inspire and support our clients to create lasting positive impact.'

We are the leading provider of services in New Zealand and Australia and serve a broad range of purpose-driven organisations, institutions, corporations, families and individuals (currently entrusted with more than \$10bn from our for-purpose clients in Australia and New Zealand).

We partner with our clients to support them in delivering on their mission, and fulfil our own, through:

- best practice governance;
- research, education and insight; and
- tailored strategic advice.

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<sup>i</sup> An abridged version of this article appeared in BNZ Private Word Quarterly (February, 2021) URL <https://blog.bnz.co.nz/2021/02/philanthropy-charting-your-own-personal-journey>

<sup>ii</sup> As we reported in February 2020 giving has grown 4.4% pa since 2010 to \$3.8 billion with strong trends being seen in high net wealth and structured philanthropy, over broad mass giving - McLeod, J., 2020. JBWere New Zealand Support Report 2020, developed in collaboration with Philanthropy New Zealand URL <https://www.jbwere.co.nz/latest-insights/philanthropy/the-new-zealand-support-report-february-2020/>. Whilst total giving is forecast to be down in 2021 from immediate prior years HNW capital growth is doing better than before, and based on ANZ most recent results season the dividend income is coming back, and we expect to see HNW philanthropy continuing to rise

<sup>iii</sup> Clinton, B., 2007. Giving: How Each of Us Can Change the World (Knopf)

<sup>iv</sup> PNZ Surveys, 2020. Moe, S. (Parry Field) 2020 Summaries of Cross Sector Community/Voluntary/Charity Calls

<sup>v</sup> 74% in the 2020 Time-to-Shine Survey supported by peak bodies Hui E, Volunteering NZ, The Centre of Social Impact and Philanthropy NZ. Time-to-Shine Survey Results Report, Aug 2020 URL <https://www.huie.org.nz/survey-2020/>

<sup>vi</sup> Time-to-Shine Survey Results Report, Aug 2020 URL <https://www.huie.org.nz/survey-2020/>

<sup>vii</sup> McLeod, J., 2020-21. JBWere New Zealand Outlook for Giving 2020 and 2021

<sup>viii</sup> As last reported – CAF, 2016. Gross Domestic Philanthropy: An international analysis of GDP, tax and giving URL

<https://www.cafonline.org/docs/default-source/about-us-policy-and-campaigns/gross-domestic-philanthropy-feb-2016.pdf>

Reported locally at <https://www.stuff.co.nz/national/politics/76867512/new-zealand-ranked-the-second-most-charitable-country-in-the-world>

<sup>ix</sup> Husok, H., 2021. Why philanthropy was critical to developing COVID-19 vaccines: The Gates Foundation and other major donors can take risks that government and corporations cannot. URL

<https://www.dallasnews.com/opinion/commentary/2021/01/03/why-philanthropy-was-critical-to-developing-covid-vaccines/>

<sup>x</sup> For broader commentary on the landscape of philanthropy in New Zealand refer to Denizen piece by Margie Cooney (Oct 2019) URL <https://www.thedenizen.co.nz/culture/philanthropy/>

<sup>xi</sup> For an introduction to impact investing refer to briefs for funders by Rockefeller Philanthropy Advisers URL

<https://www.rockpa.org/guide/impact-investing-introduction/> and The Case Foundation <https://casefoundation.org/resource/short-guide-impact-investing/> Locally, refer to 'Overview of Impact Investing in Aotearoa' (Centre for Social Impact-FN, 2020).

Otherwise, refer to Global Impact Investing Network resources URL <https://theqiin.org/impact-investing/need-to-know/#what-is-impact-investing> and its NZ affiliate <https://www.impactinvestingnetwork.nz/>

<sup>xii</sup> For local examples refer to Cure Kids Ventures, Te Puna Hapori Fund, Community Finance (Salvation Army Bond), YouOwn, Purpose Capital, Impact Enterprise Fund, Soul Capital, NZ Green Investment Finance, and ACC Impact Investment Fund.

<sup>xiii</sup> For a discussion on systems change in the context of UK and North American philanthropy and four broad approaches to systems in philanthropy refer to Corner, J., 2019 Systems change and philanthropy (Alliance Magazine) URL

<https://www.alliancemagazine.org/feature/systems-change-and-philanthropy/>. For a good discussion of what system change is in the philanthropy sector in Canada refer Birney, A., Riddell, D., & Winn, L., 2018. Systems Change: A Field Building Convening. For a historical perspective and common stumbling blocks in taking a systems perspective refer to Seelos, C., Farley, S., & Rose, A. 2021 'Thou Shalt Nots' Systems Change (Stanford Social Innovation Review), and Seelos, C., 2018 "Mastering System Change" (Stanford Social Innovation Review).

<sup>xiv</sup> JR McKenzie Trust & Centre for Social Impact, 2019. The Philanthropic Landscape:

A Review of Trends and Contemporary Practices. URL <https://www.jrmckenzie.org.nz/resources/p/the-philanthropic-landscape>

<sup>xv</sup> For further commentary refer to Gray, T., Private Family Philanthropy In New Zealand – Where It Fits In? What It Does Best, URL <https://tindall.org.nz/private-family-philanthropy-in-new-zealand-where-it-fits-in-what-it-does-best/> (Trevor Gray, is the former long serving manager of The Tindall Foundation)

<sup>xvi</sup> Giridharadas, A., 2018. Winners Take All: The Elite Charade of Changing the World (Knopf)

<sup>xvii</sup> For a similar challenge on whether big philanthropy is actually a good thing in the US context refer Reich, R., 2018. Just Giving: Why Philanthropy Is Failing Democracy and How It Can Do Better (Princeton University Press)

<sup>xviii</sup> Moody, M. & Martin, T., 2020. Increasing critiques of (big) philanthropy

URL <https://johnsoncenter.org/blog/increasing-critiques-of-big-philanthropy/> In New Zealand public criticism of philanthropy has not been as intense, perhaps driven, suggests Sue McCabe, Head of Philanthropy New Zealand, by an ongoing healthy self-criticism in the sector

<sup>xix</sup> Tierney, T. & Fleishman, J., 2011. Give Smart: Philanthropy that Gets Results (Public Affairs)

<sup>xx</sup> Tierney, T. & Fleishman, J., 2011.