

Passion, Pragmatism, Possibilities

Philanthropy New Zealand Conference, 2009

All Weather Philanthropy

Keynote Address by Bruce Bonyhady¹

18 March, 2009

¹ This presentation was made by Bruce Bonyhady, President Philanthropy Australia and Chairman ANZ Trustees Limited

Thank you very much for your very warm welcome this morning. It is a great pleasure to be here.

May I also thank those of you who have expressed your deep concern and offered support to the victims of the recent Victorian bushfires. The fires have been traumatic for many people and the scars in the communities that have been so tragically affected will take a long time to heal.

Last October, Philanthropy Australia held its conference. It was entitled *Passion and Purpose*, which resonates with the themes for this conference of *Passion, Pragmatism and Possibilities*. Many of you were there and may I again thank those who attended, because your experience, knowledge and insights contributed to a much richer Australian conference.

Today and tomorrow I hope that with my Australian colleagues we will reciprocate by making this conference much more stimulating and diverse and that, together, we can contribute to more effective philanthropy on both sides of the Tasman. I am certainly looking forward to the discussions over the next two days.

I concluded my presentation to the Philanthropy Australia conference by saying:

“While giving in times of prosperity is rewarding, philanthropy in lean times is even more vital. We have the chance to harness our passion and purpose and to make this the opening of a new chapter in [Australia's] philanthropic history, one in which our response to crisis is not to hold back or to stifle innovation but to find new and creative ways to navigate through difficult economic and social circumstances with courage, wisdom, passion and purpose.”²

Today, I would like to return to the conclusions I reached last October, by beginning with some brief comments on the history of philanthropy and especially philanthropy in the

² B P Bonyhady, *The Future of Australian Philanthropy*, October 2008

1930s. I will then examine the key forces affecting philanthropy because as these forces change, so philanthropy needs to reprioritise and refocus its efforts. Finally I will draw these ideas together by suggesting some principles that might help to guide foundations in the times ahead. To help give added focus to the way forward I have termed these guidelines *All Weather Philanthropy*.

A Very Brief History of Philanthropy

The first great wave of Western organised philanthropy began in England in the early 17th century. Since then each period of great wealth creation has led to strong growth in philanthropy. Each time the growth has provided the scope for philanthropic experimentation and, then, sudden turmoil has caused philanthropy to reign back its experimentation and focus on “charity”.

The last great philanthropic cycle occurred in the early 20th century and was led by the United States. In 1901, Andrew Carnegie, who had made a fortune manufacturing steel for the railways, became an early proponent of challenge grants. He provided libraries for towns which were prepared to share their construction costs and ongoing maintenance. In 1907 John D. Rockefeller established his philanthropy, based on scientific and business principles, as he sought to improve public health and education. During this period the community foundation movement was also born.

Then in 1929 the economic bubble burst as the stock market crashed, signalling the start of the Great Depression. The social safety net in the US, which has never been strong, could not cope with sharp rises in unemployment and foundations such as Rockefeller ended their experimentation, by providing charity and supporting job creation schemes.

At that time, the assets of the Rockefeller Foundation, were largely invested in bonds and held no investments in private equity or other very high growth assets. This was typical for period both in the US and other countries. For example, trustee legislation in the UK,

Australia and New Zealand then restricted foundations' investments to government bonds and other fixed interest securities.

In contrast, today, foundations' investments are not constrained by regulation and most foundations have high exposures to equities, private equity, infrastructure, and property. Governments' social policies are also much more developed with a much sounder social safety net than in the Great Depression or earlier times.

Consequently in setting a course for philanthropy through the current cycle, foundations face some new choices and conditions. There is therefore a need for some new thinking and analysis, which should be framed by the key forces shaping philanthropy.

The Forces Shaping Philanthropy

Until late 2007 the key driving force behind global philanthropy was the tailwind generated by very strong economic growth and steeply rising equity markets. It is less than three years since Warren Buffet announced that he would be giving 85 per cent of his fortune, which was then valued at US\$44 billion, to the Bill and Melinda Gates Foundation. At the time his gift was heralded as the extension of a new Golden Age of Philanthropy. With the benefit of hindsight, it was a prescient sign from one of the world's most astute investors that markets were close to peaking.

Now it is clear that much of the economic growth of recent years and rising markets were due to excessive leverage, much of which was funded by banks. Many banks in the US, UK and other parts of Europe have wiped out their shareholders' funds due to their imprudent lending practices. Today the survival of what were some of the world's largest banks and the security of their depositors' balances are dependent on governments for funding support, new equity injections and taking toxic loans off their balance sheets.

At the same time all of the major economies are shrinking rapidly, for the first time since the Second World War. In January the IMF slashed its forecast for growth, predicting

real GDP will fall in 2009 by 1.5 per cent in the US, 2 per cent in Europe and by 2.5 per cent in Japan. Since then the IMF has signalled it will be downgrading its forecasts further and the Managing Director of the IMF has forecast a “Great Recession”.³

In response to the rapid deterioration in the global economy the Reserve Banks of New Zealand and Australia have cut interest rates aggressively and official interest rates in both countries are now about 3 per cent. In both countries the banking systems are sound so, unlike many other countries, we are not in the midst of a banking crisis.

However, the Achilles Heels for New Zealand and Australia are the large current account deficits which require both countries to borrow offshore. As a result both New Zealand and Australia are very dependent on how the current banking crisis is resolved and if US and European banks now give priority to lending at home, New Zealand and Australia will be drawn deeper into the global recession by this new form of protectionism.

For the philanthropic sectors in New Zealand and Australia, the emerging recessions have major implications for all aspects of the work of foundations.

First, the philanthropic sector will provide an automatic stabiliser effect as the economic cycle continues to turn down. New wealth which was created in the economic upswing and has been transformed into foundations will be dispersed as the cycle weakens. I expect that this effect will be particularly pronounced here in New Zealand because of your Government’s foresight when it decided that the proceeds of the sale of the community banks should be invested in community trusts rather than spent.

Second, all foundation trustees will continue to face challenging investment decisions, as they seek to maintain and ideally grow foundations’ real incomes over time. Clearly, for most foundations, this will not be possible in the period ahead. However, asset management strategies will play a critical role in setting the funding parameters for all foundations.

³ Dominique Strauss-Kahn, Sydney Morning Herald, 11 March, 2009

As short term interest rates continue to fall, trustees will need to choose between income stability, on the one hand, and capital stability, on the other, as part of their asset allocation decisions. Investments in high grade short term fixed interest will provide capital stability, while offering only very low income returns. Longer term government bonds have offered some protection to portfolios up to now, but the risks of capital loss will escalate if markets anticipate that loose monetary policies and big budget deficits will lead to inflation. Equities which currently appear to be offering high yields will be vulnerable to dividend cuts and are likely to remain volatile as investor sentiment swings between optimism and renewed pessimism.

Good active managers will significantly outperform passive managers, but careful due diligence on all investment managers and stock selections will be essential. As those foundations which invested with Madoff and in CDOs have discovered to their great cost, not everything is at it may appear.

In the medium term, economic recovery, the need to generate the highest long term income and the perpetual nature of most foundations suggest that high equity and growth asset exposures will be optimal. Already markets are looking at credit data to see whether and when an upturn is likely to occur and this creates a potential trap for investors who become too pessimistic. Investing wisely will therefore require great vigilance and foresight.

Third, while economic recession will lead to increasing demands for philanthropic support, the funds from philanthropy are always small compared with potential needs and so excessive demand is never the main challenge for philanthropy. Rather, the challenge for philanthropy is to use its unique resources to create powerful multiplier effects in addition to the money it provides. It is for this reason that Philanthropy Australia has chosen to define philanthropy as:

The planned and structured giving of money, time, information, goods and services, voice and influence to improve the well-being of humanity and the community.

Harnessing these additional resources, which are only limited by our imagination, will be critical to successful philanthropy in the immediate future, as foundation incomes are cut.

Fourth, just as investment risks have risen, so have the risks of failure of non profit organisations. This implies the need for increased organisational due diligence, as well as project due diligence before committing any funds. However, this is not a reason to hold back. Foundations can and should take risks and it is through risk taking that philanthropy both differentiates itself from governments and provides the greatest community dividends.

Fifth, governments in all countries should be and are taking primary responsibility for reversing the recessionary and deflationary forces now at work. Official interest rates are now close to zero, some central banks have directly pumped money into their economies, government spending has been increased and taxes cut in many countries since the onset of the Global Financial Crisis. With governments providing such significant monetary and fiscal stimulus, it is not the role of philanthropy to bolster demand.

In addition the social security net in most countries, including New Zealand and Australia, will automatically support people who become unemployed or fall on hard times, as it is much more developed than it was during the Great Depression. Nevertheless, it is inevitable that some people will fall through the government's safety net and so foundations will face new demands for assistance which are both urgent and dire. In these circumstances philanthropy will respond spontaneously and generously. However, it is not philanthropy's role to play a major part in offsetting the immediate and short-term effects of the financial crisis.

Sixth, while recognising that each foundation will have its own criteria and priorities, the response of philanthropy to the emerging economic and financial events should be to maximise community benefits through its unique strengths. Philanthropy should therefore continue to be entrepreneurial, to have a high tolerance to risk, to be independent and pluralist, to utilise its deep bottom-up knowledge of communities and to create impact, leverage, innovation and new efficiencies.

I expect that the next chapter in philanthropy's history will be different to the Great Depression and earlier economic and financial shocks, as foundations continue to strive to maximise their long term impact by:

- Identifying leaders, especially emerging leaders, in research and community organizations;
- Finding visionaries who are also practical and can deliver tangible results in tough times;
- Addressing causes rather than symptoms;
- Supporting organisational development and creating sustainable outcomes;
- Creating leverage and hence impact beyond the immediate area or project that has been funded;
- Facilitating the dissemination of outcomes, so that research findings and best practice ideas are quickly adopted and waste is minimized; and
- Building partnerships with other foundations, social investors, research groups, organisations and across sectors.

Seventh, philanthropy has a major role to play in sustaining, nurturing and building social cohesion and confidence. In 2000 Robert Putnam in his landmark study, *Bowling Alone: The Collapse and Revival of American Community*, concluded that the bonds holding the US community together had weakened. People were bowling alone, not in groups and at the time other social commentators suggested that the signs of declining social cohesion that Putnam observed in America were also evident in many other countries.

Since then the evidence about the strength of social cohesion in the United States has been mixed and, most recently, some commentators have seen the grassroots base to President Obama's successful election campaign as evidence that American citizens and particularly American young people are re-engaging around key social and political issues.

Closer to home, indeed in my State of Victoria, we have seen in recent weeks an extraordinary outpouring of community spirit, in the wake of the devastating bushfires, notwithstanding the Global Financial Crisis, factories being closed and people becoming unemployed. Over \$200 million has been donated to the Red Cross Bushfire Appeal. In every town, in every shopping centre, in big businesses and small, from the rich and the homeless funds have been donated. Suddenly, Australians have started bowling together again, drawn together by a sense of something bigger and more important, a renewed sense of connection and community.

At the same time history reminds us that economic and financial crises can sew the seeds of deep community division, as was seen in Europe after the Great Depression and, worryingly, is starting to reappear in some European countries today. Fear can be self-fulfilling, as President Franklin D Roosevelt famously remarked in his inauguration speech in 1932 when he said, "the only thing we have to fear is fear itself". So a critical role for philanthropy, especially at this time, must be to build community confidence, resilience and cohesion.

This conference, as was the Philanthropy Australia Conference, provides an occasion which enables us to connect, to draw collective strength and to combine our knowledge, experiences and judgements about the best course to plot for philanthropy. In doing so, there is an opportunity to set some clearer priorities and guidelines.

The idea that some priorities could be helpful arose in the wake of the Victorian Bushfires when I read the Council of Foundations guidelines for good disaster grant-

making, which sets out eight clear and very helpful principles⁴. Some of them, such as do no harm and think beyond the immediate crisis to the long term, clearly apply to optimising philanthropy's role in responding to the Global Financial Crisis.

Guidelines for All Weather Philanthropy: Passing through the Crisis

So let me put forward, as my pragmatic contribution to this conference, some possible guidelines for All Weather Philanthropy. In making these suggestions I am hoping to add some new energy and edge to the conversations that started in Sydney in October so that together we can build stronger philanthropic sectors on both sides of the Tasman.

First, philanthropy must always ensure that it does no harm. In the current environment, this implies neither over-stretching already strained organisations nor over-committing, because withdrawing from funding arrangements can leave non-profit partners with both an unfinished project and, possibly, the need to make staff redundant.

Second, philanthropy is built for running marathons, not sprints or relays, where projects are started and then abandoned or passed from one foundation to another.

Third, philanthropy should provide an automatic stabiliser effect through the economic cycle, as new wealth is transformed into perpetual foundations in the good times and then dispersed as the cycle weakens. However, it is the role of governments to manage demand through its fiscal and monetary policies and this is not the purpose of philanthropy.

Fourth, foundations should aim to at least maintain and ideally grow their real incomes over time and to maximise philanthropy's other resources – time, information, goods and services, voice and influence – because these additional attributes contribute to making philanthropy distinctive.

⁴ Council on Foundations, 2007, Disaster Grantmaking: A Practical Guide for Foundations and Corporations

Fifth, philanthropy should take carefully calculated risks, so as to be a source of innovation, creativity, leverage and sustained impact. In the current environment projects which create efficiencies as well as greater effectiveness and are supported by durable organisations should come to the fore.

Sixth, philanthropy should address underlying causes rather than symptoms, while never losing its generosity and compassion towards those people who fall through government safety nets through no fault of their own.

Finally, philanthropy must always act as a catalyst to sustain, nurture and build community confidence, resilience and cohesion. In doing so, it is essential in the current environment that we put aside our own fears and show leadership, courage and wisdom, so that the community can draw maximum strength from philanthropy.

Thank you.