



Philanthropy: What's in it for Belgium?

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What do we mean by “Philanthropy” ?

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TO ILLUSTRATE:

Warren Buffet strategically decided to give €21 billion of his fortune to the Bill and Melinda Gates Foundation (instead of starting up his own Foundation) and became one of the three Trustees of the Foundation.

Joseph Rowntree established the JR Foundation in 1904 to tackle the root causes of poverty and social exclusion in the UK. Today, the foundation spends almost €14.4 million a year on its research and development programmes.

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When the provision of a service or good has a strong public good nature:

EX: The Energy Foundation (US/China)

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What is a public “good”? In 1993, RTMARK channeled \$8000 to the Barbie Liberation Organization, which used the investment to switch the voice-boxes of three hundred Barbie™ and G.I. Joe™ dolls.



“Let’s plan a wedding!”



“Vengeance is mine!”

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What gets funded? Ruth Lily pledged at least €71 million to Poetry, a financially strapped literary magazine. While this may be a good cause, many could legitimately question whether it was the best use of €71 million.



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TO ILLUSTRATE:
What gets funded?

As a serious intervention, it may direct harm to lives: At the end of the 19th century, a wealthy philanthropist financed Rear Admiral Roberty Peary’s project of bringing 6 eskimos from Greenland to NY for research purposes. 5 died of pneumonia within three months.



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Accountability for delivering results is not imposed by external pressures of customers, competitors or marketplace dynamics: Most foundations are established in perpetuity, unlike businesses they literally cannot fail.

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Crowding-out of government? In President Bush’s budget for FY 2007, the administration justified cuts in the small schools programme by citing the availability of funds for the same purpose from the Bill and Melinda Gates Foundation

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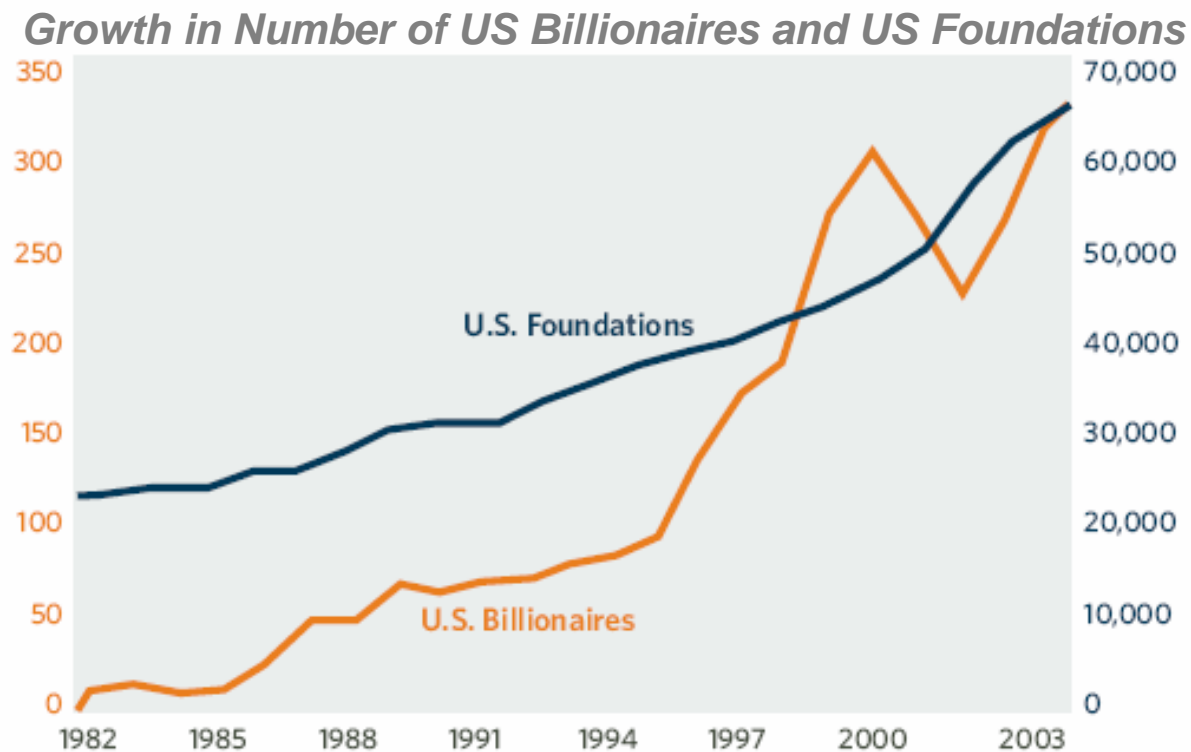
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Source: Foundation Centre, Forbes (2005)

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Charitable giving in 2006 amounted to over €201 billion globally, a historic high: To help put this into perspective, notice that total general government expenditure in Belgium in 2006 was just about $\frac{3}{4}$ of that amount (Eurostat, 2007)

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TO ILLUSTRATE:

When the Scottish physician Alexander Fleming discovered that mould seemed to kill bacteria, he needed money to develop and refine the first dose of penicillin that patients could safely take. Neither his government nor private industry would give him the funds. In the late 1930s, Fleming received funding from John D. Rockefeller.

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TO ILLUSTRATE:

Alexander Fleming - John D. Rockefeller – Pharmaceutical industry.

Carnegie UK Trust (°1913), with a budget of a tiny €2 Million has radically transformed the way in which aging is seen in the UK and was a major factor in the creation of a government programme entitled Better Government for Older People.

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Carnegie UK Trust (°1913) - Better Government for Older People.

Ashoka (°1980), founded by Bill Drayton, started with an annual budget of \$50,000 which has now grown to nearly \$30 million in 2006. Ashoka named, created and pioneered the global field of social entrepreneurship. It established programs in over 60 countries and supports the work of over 1800 Fellows.

What is special about “Philanthropy”?

- ➔ **Philanthropic organisations are often *innovative* in terms of how they are *organised* and how they *spend their money*.**

Innovative Organizational Form EX 1: Google.org

- ➔ In advance of Google's initial public offering in August 2004, Mr. Page and Mr. Brin (founders of Google) told potential investors that they planned to set aside 1% of the company's stock and 1% of profits for philanthropy

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- Allowing it to fund start-up companies, form partnerships with venture capitalists and even lobby Congress.
- Plans to invest €125 million over the next 2 years to e.g. develop an ultra-fuel efficient plug-in hybrid car engine that runs on ethanol, electricity and gasoline.

Innovative Organizational Form EX 2: Mo Ibrahim Foundation

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- Recipient must in exchange leave office when his/her term ends, be a role model, with the resources use his/her experience to help society.

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- First winner announced 2 days ago (Oct 22, 2007: *Joaquim Chissano*, Mozambique's second president and a crucial figure in ending that nation's 16-year civil war.





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What's in it for Belgium ?

1. Scope for “Philanthropy market” design innovations

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TO ILLUSTRATE:

It is virtually impossible to obtain a full overview of philanthropic activity in Belgium: whether you search in Flemish or in French matters at ‘*Belgisch Staatsblad/Moniteur Belge*’ 308 newly founded organisations with ‘*foundation/stichting*’ in name since 2003 ... of those, only 55% have adopted the status ‘private stichting/fondation privée’ or ‘stichting van openbaar nut/fondation d’utilité publique

Existing initiatives are piecemeal: European Foundation Centre (7 Belgian members), Belgisch Netwerk van Stichtingen (65 members), Koning Boudwijnstichting/Fondation Roi Baudoin and Centrum voor Filantropie (they manage over 150 funds).

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Also, at the level of individual organisations, the picture is not very clear either – difficult to find comprehensive information: We ordered the 308 chronologically according to date of initiation, and randomly investigated every 10th organisation (this method guarantees randomness) -> sample of 29

-20 out of 25 for which info was found were *operating* organizations

- 10 out of 19 for which info was found were *grant-making* organizations (5 do both); *In tune with cross-country study by Anheier (2001)*

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For social entrepreneurs who seek philanthropic finance, it is again not clear where to turn to, how to find a good ‘match’ with a philanthropist’s ambitions and how to proceed.

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- ➔ Philanthropy market in Belgium today is remarkably obscure and hence is loosing efficiency gains from open market competition.
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- Philanthropy market in Belgium today is remarkably obscure and hence is loosing efficiency gains from open market competition.
- Therefore, why not *design such a market?* -- A new, transparent and efficient market that lets philanthropists connect with innovative, social entrepreneurs as well as potential partners (and vice-versa)
- Building on relevant, compelling examples of new markets: e-bay, Kiva.org, cellbazaar.com, globalgiving.com ...

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TRADITIONAL APPROACHES:

Donors fund strategies brought to them by nonprofits.

Donors make gifts.

Donors set general goals.

Money is the resource, grant is the tool.

Philanthropy corrects for the market, but the market is part of the problem.

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INNOVATIVE APPROACHES:

Donors have great strategies and fund great strategies.

Donors make investments, award contracts, and make gifts.

Donors set specific targets.

Influence is the resource, money is the tool.

Philanthropy connects to the market, because the market is part of the solution.

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- ➔ Using mechanisms that motivate finance recipients to collaborate, rely on their know-how to help screen candidates and motivate innovation (see *collective contract idea*).

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Collective Contract Idea (Huysentruyt, 2007): How does it work?

Candidates must submit their requests for funding in pairs (or groups of three). They each have their own project proposal.

Donors can mandate that say one of the team members is ‘new’ (has never received funding from them before). Donors thus rely on insider-knowledge amongst entrepreneurs to spot innovative solutions to problems.

And future finance depends on individual as well as group success, which creates incentives for team members to screen each other (be careful about who to join up with) and once the projects are under way to collaborate.

In an environment where people don’t know much about each others’ efforts (duplication of effort), this mechanism forces candidates to look around and find out about other organisations active in their field.

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- Therefore, why not experiment more with how one disburses money and influences recipients' incentives?
- Using mechanisms that motivate finance recipients to collaborate, rely on their know-how to help screen candidates and motivate innovation (see *collective contract idea*) or that strategically incite positive spill-over effects (see *goat-giving idea* or the *Pay it Forward Foundation*)

3. What's in it for Belgian government and business?

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- **Win-Win strategies:** Government recognizes the distinctive role that philanthropy can play as major agents and sources of creativity and innovation, and strategically seeks to exploit synergies.
- **Corporate Social Responsibility 2.0:** Smart investment of business resources, investment (not simply charity) that makes business sense and is in alignment with strategies of philanthropists.