

IN 15 MINUTES



PHILANTHROPY: A BOOMING INDUSTRY

Philanthropy means “for the love of humanity” in Ancient Greek, and today it implies the active effort to promote human welfare. While the world around us often appears dominated by less benevolent human instincts, philanthropic giving has never been so great. Here we provide an overview of this rapidly growing industry and its future trends.

AID AND PHILANTHROPY

Aid is what states are involved in, and many have a target of 1% of GDP as first suggested by the World Council of Churches during the 1960s. A UN resolution in 1970 formulated the target in terms of 0.7% of donor country Gross National Product, GNP, revised in 1993 to 0.7% of Gross National Income, or GNI. The OECD found in 2018¹ that 30 countries had devoted USD 462 billion between 2013 and 2015 to this end. Private foundations active in the field of development assistance contributed just over 5% of the official aid over the same period, that is close to USD 24 billion or USD 8 billion per year. This field is dominated by the Bill and Melinda Gates Foundation – the world of philanthropy’s most brilliantly shining light – which contributed

almost half of this amount. No more than 20 foundations generated over 80% of this type of donations, and 75% of all such donations are from US foundations.

GLOBAL PHILANTHROPIC GIVING

Private giving takes many forms. The Charities Aid Foundation produces the World Giving Index annually, and the top 10 countries in 2018 are found in Table 1. The index covers 146 countries and the data for the 2018 edition was collected throughout 2017. This organisation considers three types of giving: helping a stranger, donating money, and volunteering. The mix of countries at the top in this ranking shows that giving is not something that is reserved to rich countries or wealthy persons.

TABLE 1: TOP 10 COUNTRIES IN THE WORLD GIVING INDEX, 2018, %

	CAF WORLD Giving Index ranking	CAF WORLD Giving Index score	Helping a Stranger, %	Donating Money, %	Volunteering Time, %
Indonesia	1	59	46	78	53
Australia	2	59	65	71	40
New Zealand	3	58	66	68	40
United States	4	58	72	61	39
Ireland	5	56	64	64	40
United Kingdom	6	55	63	68	33
Singapore	7	54	67	58	39
Kenya	8	54	72	46	45
Myanmar	9	54	40	88	34
Bahrain	10	53	74	53	33

Source: Charities Aid Foundation, October 2018, Indosuez Wealth Management

1 - “Private Philanthropy for Development”, OECD, May 2018.

As regards donating money, Myanmar and Indonesia rank higher than many developed countries in terms of the percentage share of the population making such donations. However, in absolute terms, India comes first and the US second (Table 2).

TABLE 2: TOP 10 COUNTRIES IN THE WORLD GIVING INDEX IN TERMS OF DONATING MONEY 2018

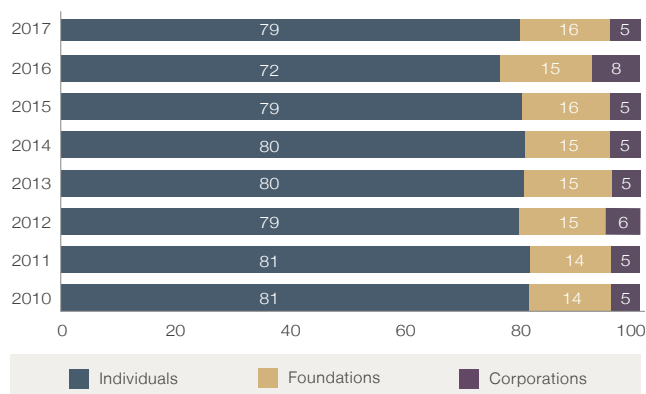
	Ranking	People, % of total
Myanmar	1	88
Indonesia	2	78
Australia	3	71
United Kingdom	4	68
New Zealand	5	68
Netherlands	6	66
Norway	7	65
Iceland	8	65
Ireland	9	64
Malta	10	64

	Ranking	People, million
India	1	191
United States	2	158
China	3	156
Indonesia	4	144
Germany	5	39
United Kingdom	6	37
Nigeria	7	36
Pakistan	8	34
Myanmar	9	33
Iran	10	32

Source: Charities Aid Foundation, Indosuez Wealth Management

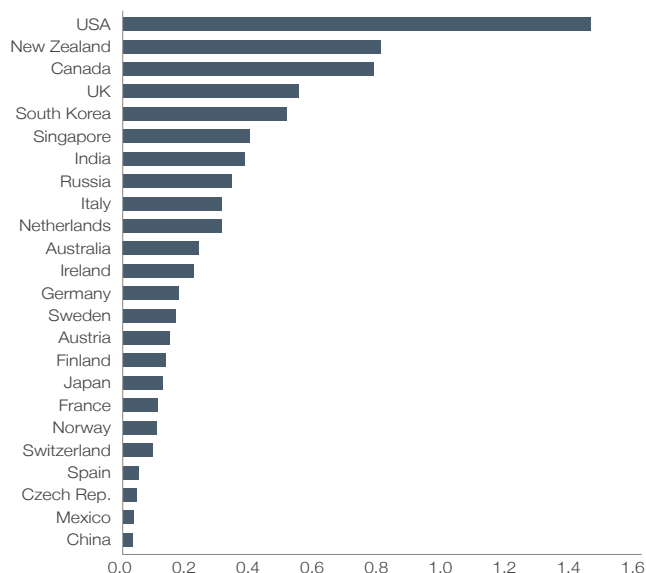
Most monetary donations are made by individuals to charitable organisations (Chart 1). In the US, nearly 80% of all donations to charities in 2017 were made by individuals, followed by foundations at 16%, and corporations at 5%. While individual donations might not be very large², they do add up as can be seen in Chart 2. In the US, such donations amount to 1.4% of GDP. In 2017, Americans (including individuals, foundations, and corporations), gave USD 410 billion to charities. Over the past 40 years, charitable giving in the US has grown by 3% per year on average with the exception of the global financial crisis 2008/2009 (Chart 3).

CHART 1: ANNUAL GIVING TO CHARITIES IN THE US BY DONOR TYPE, %



Source: Giving USA Foundation, Indosuez Wealth Management

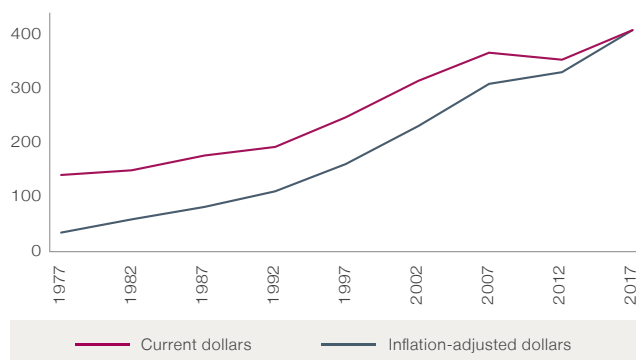
CHART 2: DONATIONS BY INDIVIDUALS TO NON-PROFIT ORGANISATIONS, % OF GDP, 2016



Giving by individuals excludes giving by foundations and corporations.

Source: Charities Aid Foundation, Indosuez Wealth Management

CHART 3: US TOTAL ANNUAL CHARITABLE GIVING, USD BILLION



Total Giving includes individuals, foundations and corporations.

Inflation-adjusted dollars: 2017 = USD 100

Source: Giving USA Foundation, Indosuez Wealth Management

2 - Giving from high-net-worth households (net worth in excess of USD 1 million) was USD 29'000 on average in 2017, while general households' average donation was USD 2'500, according to Lilly Family School of Philanthropy.

FOUNDATIONS

Individuals or families seeking to devote significantly larger sums to a charitable endeavour often resort to foundations as the structure of choice. A report by Paula D. Johnson of the Harvard Kennedy School and in association with UBS³ identified 260'000 foundations in 38 countries in 2018. Most of these foundations, 44%, were established over the past 100 years, and 72% saw the light of day in the past 25 years. Over 90% of the foundations covered are classified as independent or family foundations. Independent foundations dominate the US and European landscape with shares of total foundations of 96% and 87% respectively. Latin America sees more corporate foundations, 50% of the total. In the United Arab Emirates and in China government-linked foundations are common, representing 73% and 38% of the total respectively. Government-linked foundations in the western world tend to be community foundations, and the Harvard study identifies 1'800 such foundations around the globe.



Foundations can be either resource-giving or resource-receiving, or both. Generally, philanthropic foundations receive funding from the founder or founders, but they can also raise money from other sources. In the US, however, foundations with multiple revenue sources are usually public charities (resource-receiving), and legally separate from foundations (resource-giving). It must be noted though that as a strategy in favour of maximising impact and reach, multiplying the sources of revenue is usually advantageous.

ASSETS AND SPENDING

The global assets of the foundations surveyed in the Harvard study amount to USD 1.5 trillion of which 60% belong to US foundations and 37% to European foundations. Many foundations' assets are in the form of permanent and irrevocable endowments that are committed in perpetuity to charitable pursuits. A vast majority of independent and government-linked foundations in Europe and in the US have such endowments while the share is much lower in Latin America and in the Middle East. Corporate foundations, in contrast, tend to rely on annual company gifts. Hence, the total assets of foundations in countries where endowments are most common will be larger than where annual gifts are more common. In US dollar terms, US foundations hold assets to the height of USD 890 billion, followed by the Netherlands at USD 108 billion, and Germany at almost USD 93 billion. However, expressing these amounts in per cent of GDP, the Netherlands comes out on top with

14%, followed by Switzerland at 13.3% and by the US, a distant third at 4.8%. For a subsection of the foundations covered in the Harvard study, around 95'000 foundations, available data shows that a majority of these foundations, 59%, have assets up to USD 1 million and fewer than 1% of such foundations' assets exceeding USD 500 million.

Globally, foundations spend in excess of USD 150 billion per year⁴, with 94% of such expenditure taking place in Europe and in the US. The global average foundation spending is around USD 1 million per year. Somewhat counterintuitively, foundations in Mexico, Brazil, and Saudi Arabia spend the most on average, at USD 10 million, while Swiss foundations spend the least, at USD 185'000 on average. For the 18 countries for which an average spend rate is available, it amounts to 10.3% of assets. Spain sports the highest spend rate at 37%, followed by France at 34% and China at 33%. The US spend rate is a rather modest 9%, the Netherlands' is 7.5%, and Switzerland's is a meagre 3%, the same as India's.

Some countries have legal requirements on spend rates, including the US where a 5% rate is imposed, and the legal framework must have some influence on this outcome per country. The European Foundation Centre surveyed legal frameworks for foundations in 2011 and found that 11 countries impose distribution requirements of some sort while 19 do not, in a 30-country sample. France, for instance, does not impose such constraints but the country still distributes more than most. On the other hand, Switzerland has no formal requirements on distribution and one is tempted to think that this might have something to do with the low spend ratio in that country. Clearly, additional factors that influence the spend rate are the returns that are generated on the assets. These must generally speaking be under pressure given the low interest-rate environment currently. Some foundations might also justifiably seek to accumulate assets with a view to realise large projects in the future. However, in general, too conservative spend ratios can be considered to be diametrically opposed to the philanthropic impulse, and it is reasonable to expect that countries require a certain minimum spend ratio in return for the tax-exempt status of foundations.

WHAT FOUNDATIONS FOCUS ON

Education is the area that attracts the most funding from foundations globally and across all regions, and this to the height of 35% of spending⁵. Other prominent areas are human services and social welfare, health, and arts and culture, all with spending shares of around 20% of total, leaving some 5% for other priorities. Naturally, the focus of foundations reflect the sensitivities of the founder(s) and of the governing board. How a particular foundation's purpose is formulated can leave more or less room for evolution which is an important consideration for any perennial philanthropic endeavour. The Bill and Melinda Gates Foundation's factsheet states that it "works to help all people lead healthy, productive lives". This is a formulation that is likely to remain relevant for centuries to come, and to allow the foundation to adapt its actions to all sorts of future evolutions, including technological and social innovation as well as demographic and environmental change.

3, 4, 5 - Paula D. Johnson, "Global Philanthropy Report: Perspectives on the global foundation sector", Harvard Kennedy School and UBS, 2018.

HOW FOUNDATIONS ORGANISE THEIR ACTIONS

Based on available data⁶, foundations mostly run their own programmes. The significant preference for this type of action is likely related to the satisfaction gained by engaging directly in the projects to which the funds are directed. In addition, there is often a desire to measure the impact of the actions undertaken, and this is indeed easier to do when the foundation is running the programme itself. It must be said, though, that this can sometimes put unreasonable administrative and reporting demands on any entity receiving the support. It is important to measure the impact of one's actions but only so far as it enhances efficiency and effectiveness.

In Table 3 we show the distribution of the overlapping types of actions foundations engage in.

TABLE 3: FOUNDATIONS' ACTIONS, %

Action	% of Foundations using the mechanism
Internal Programmes	83
Grants	54
Scholarships	47
In-Kind Gifts	44
Equity Investments	16
Loans	11
Impact Investments	8

Source: Paula D. Johnson, « Global Philanthropy Report: Perspectives on the global foundation sector », Harvard Kennedy School and UBS, 2018, Indosuez Wealth Management

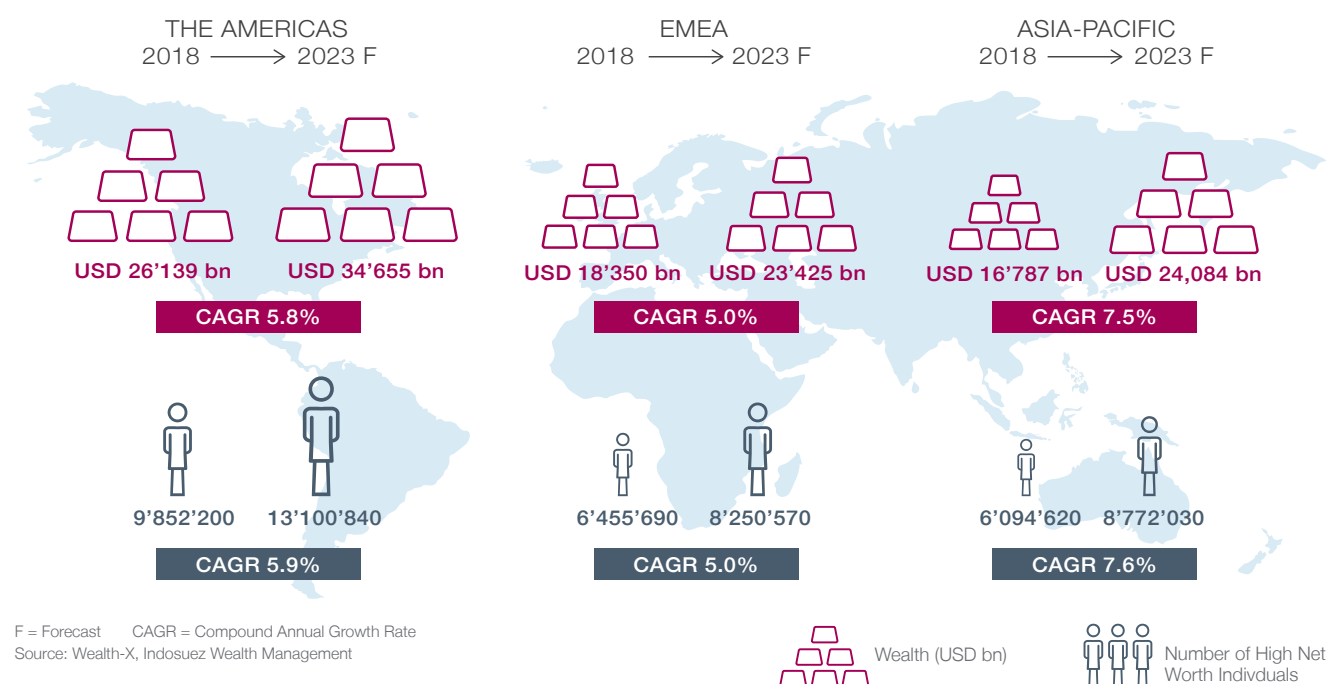
American foundations reported 100% grant-making to non-profit organisations. Foundations in the UK, Australia, and South Africa are also involved in grant-making to nearly the same level. Many foundations might eschew grant-making from a lack of societal trust. A way to address that, at least in part, can be to collaborate with other like-minded foundations. Globally, 42% of foundations do collaborate with other philanthropic institutions. Given that the average amount of assets that most foundations possess is quite small, collaborations are an obvious way to enhance the impact of the combined actions. Collaborations can take the form of peer learning, co-development, and co-funding. Some foundations pool their due-diligence efforts, for example.

GIVING POTENTIAL

The total wealth of 22.4 million high-net-worth individuals (HNWI) globally (individuals with net worth in excess USD 1 million) has increased almost fourfold over the past 20 years and reached USD 60 trillion in 2018 (Wealth-X). The value of billionaire assets soared from USD 5.2 trillion in 2012 to USD 8.9 trillion in 2017, primarily driven by 199 new entrepreneur billionaires including 89 Chinese entrepreneurs, according to a survey by PWC of 2,158 billionaires in 43 countries.

Globally, the number of high-net-worth individuals is expected to grow by between some 5% to 8% each year in all regions over the 2018 to 2023 horizon (Chart 4). The Asia-Pacific region is forecast to experience the strongest growth in both the number of high-net-worth individuals and in their combined wealth. The region's HNWI population is projected to increase at a compound annual growth rate of 7.6% over the next five years, with total net worth trailing slightly at 7.5%. At some point in 2020–2021, the HNWI population of the region will likely overtake that of EMEA (Europe, Middle East and Africa).

CHART 4: WEALTH AND NUMBER OF HIGH-NET-WORTH INDIVIDUALS

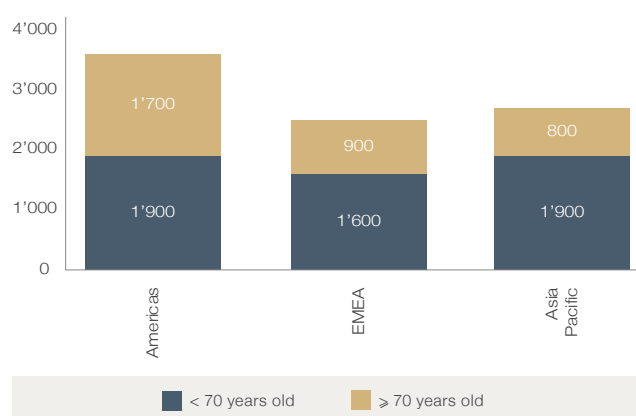


6 - Paula D. Johnson, "Global Philanthropy Report: Perspectives on the global foundation sector", Harvard Kennedy School and UBS, 2018.

The coming ten years could well be a golden era for philanthropy because an unprecedented amount of wealth is set to pass from successful entrepreneurs to their heirs – and to philanthropy. Attitudes to giving are being shaped by mega-donors who donate the majority of their wealth to charity rather than passing it on to their children. The Giving Pledge, set up by Bill and Melinda Gates and Warren Buffet, now has 189 signatories from 22 countries. The pledge does not involve pooling money to support a particular set of causes but it asks individuals to donate the majority of their wealth to philanthropic causes or charitable organisations either during their lifetime or in their last will and testament. The estimated total commitments could reach USD 600 billion by 2022 (Wealth-X).

During the five-year period of 2012-2017, the sum passed by billionaires to beneficiaries grew by an average of 17% per year, to reach USD 189 billion in 2017 of which 56% are in the Americas, 28% in EMEA (Europe, Middle East, and Africa) and 16% in the Asia-Pacific region. Over the next two decades, the estimated wealth transition could be USD 3.4 trillion worldwide which is around 40% of current total billionaire wealth, based on 701 billionaires over the age of 70 (PWC). By region, the wealth transition will occur mostly in the US, Europe and a few mature Asian economies including Hong Kong (Chart 5). In China, many billionaire entrepreneurs are still relatively young, in their 40s to 50s.

CHART 5: WEALTH OF BILLIONAIRES OVER 70 YEARS OLD BY REGION IN 2017, USD BILLION



EMEA: Europe, Middle East, and Africa
Source: PWC/UBS, Indosuez Wealth Management

Personal fortunes are a relatively new phenomenon in China, but China will be among the fastest-growing high-net-worth countries. We note, for instance, that between 2016 and 2018, 50 Chinese companies reached unicorn status, i.e. a start-up valued at more than one billion US dollars, just behind the 62 such firms found in the US.

For an idea of the scale of donations, 35 of China's most prominent philanthropists have donated more than RMB 100 million each (USD 12.8 million; China's Charitable Donations Report 2016). In 2014, Harvard University received the largest single donation in its history with a USD 350 million pledge to support the School of Public Health by a Hong Kong Chinese family.

Demographics could also support philanthropic giving. While a study conducted by the University of Gothenburg in Sweden showed that older adults have more positive emotional reactions towards monetary donations than younger adults, much hope is pinned on the younger generations. Younger philanthropists could also potentially change the face of the industry as they reportedly tend to prefer engagements with multiple organisations, are more involved in their communities, and donate via digital channels. In the US, there were 71 million Millennials in 2016 and this group is expected to grow to 73 million in 2019, surpassing the Baby Boomers, according to the US Census Bureau.

PONDERING SETTING UP A PHILANTHROPIC FOUNDATION?

While institutional incentives in operating a philanthropic organisation and tax incentives vary across countries, they remain the driving force for individual giving. Having said that, a private foundation can facilitate more consistent giving than individual giving, and prove more effective in its endeavour.

The amount of tax deductibility varies between countries, as stated, and also depends on the donor's adjusted gross income and the types of contributions made, including cash, property, shares, etc.

Furthermore, a private foundation can pay a reasonable compensation for family members and reimburse related expenses in carrying out the foundation's activities such as administrative staff and travel expenses for family members to attend board meetings and site visits. A private foundation can own almost any type of asset including partnership interests, real estate, jewellery, art, etc. However, obviously, foundations are not allowed to use foundation funds for personal benefit.

The disadvantages of setting up a private foundation involve the initial legal fees, recurrent accounting fees, tax filing costs, as well as annual excise tax in some countries, in addition to ongoing administrative costs.

Regarding the choice of where to set up a foundation, the Indiana University Lilly Family School of Philanthropy carried out a study on 79 major economies based on five criteria:

- Ease of operating philanthropic organisations;
- Tax-incentives;
- Cross-border flows;
- Political environment;
- Social-cultural environment.

By region, the US and Canada receive the highest score. North and Western Europe and Oceania are also more favourable than Latin America, Eastern and Southern Europe. In Spain, for instance, tax deduction are capped at 10% of taxable income, making that country's legislation less favourable than in many other European countries.

There are many factors to consider when setting up a foundation, and the success of the endeavour will be directly linked to the depth of the analysis performed in the conception phase. We therefore now turn to a professional in the field of philanthropy for some valuable insights.

INTERVIEW



A conversation with Nathalie Fontana, Director of Philanthropy, EPFL (Switzerland) who participates in a personal capacity and all views expressed are her own and do not necessarily represent those of EPFL.

Indosuez Wealth Management: Nathalie, could you please tell us about what you do?

Nathalie Fontana: I manage the philanthropic giving in favour of our University and its educational and scientific research mission. We have the luxury of not being reliant on donations for the survival of our institution, but donations allow us to aim higher and better, to implement larger projects faster, and that is important. My work is all about people; bringing people together in order to produce life-changing positive impact. Most of all it is about trust - I love it.

IWM: What would you point out to those interested in setting up a foundation as things to consider?

NF: Philanthropy is growing rapidly and more and more new kinds of donors are joining the industry, bringing with them new catch words and attitudes. I would urge donors to focus more on what they really seek to achieve, rather than falling for the temptation of jumping on the bandwagon and enter a crowded field. Potential donors should spend time doing research before taking any action. What is the field that you wish to contribute to? What are the efforts already underway in that field? In what way can what you do make a difference? It is great to want to contribute to cancer research, for example, but there are already so many active participants in this field that it might be better to make a donation to one of those, rather than setting up a foundation that might struggle to make a meaningful addition to the endeavour. If, after having done the proper research, you still think a foundation is the right way to go, I would suggest analysing the size of the endowment. From my personal point of view, I would say that a minimum size for a foundation is probably CHF 5 million. I would also suggest spending time to get the mission of the foundation expressed in the right way. The broader and the more generic, as opposed to specific, the mission is, the better chances the foundation has to remain relevant in a changing world.

IWM: Can you tell us about any real world experiences in this context?

NF: Yes, I recently met a foundation which struggled to find projects to fund that matched the rather narrowly expressed mission of the foundation. Changing the wording of the mission of a foundation can be complicated, certainly in Switzerland. In the end the foundation was liquidated and the founder opted to donate to other philanthropic organisations directly. So, you see, sometimes these issues prevent foundations from taking

action and spending money. Switzerland is an international hub for foundations, and in 2017 we had over 13'000 foundations for a population of 8 million people, compared to perhaps some 30'000 foundations for a population of 66 million people in the UK for instance. But Swiss foundations have a low average spending rate and it is possible that this is somewhat related to mission statements that have become obsolete, leaving assets immobilised in bank accounts. That is a big shame.

IWM: With so many foundations, what is the size of their combined assets?

NF: In 2017, the combined assets of Swiss foundations was in the vicinity of CHF 100 billion, according to the Swiss Foundations Report 2018 (May 2018). That does indeed suggest a small average size and many of these foundations should arguably explore how best to leverage their actions, for instance by collaborating with other foundations. The issue is also that there are costs involved, firstly in setting up the foundation, and secondly in running it. You know, some large foundations have staff in the hundreds. Small foundations too need at least some staff, and they would do well to share some of these costs with others, in order to be able to allocate more of the donated money to the actual cause in question. Donors could also explore alternative structures, such as roof foundations which serve as a sort of umbrella organisation under which many smaller donors can pursue their activities perhaps more effectively and efficiently than on their own. Another thing that foundations have to manage is the requests that they might receive from beneficiaries such as ourselves. Often foundations are not organised to handle the administration of such requests and it is something to think about at the outset. Clearly, the better known a foundation becomes, the more requests they are likely to attract. A founder-run foundation might find themselves overwhelmed. Better then to plan from the outset for how all these tasks will be managed and to realise that funds will have to be allocated to this. Hence, a small foundation might find the costs rather prohibitive in relation to the funds left for actual giving. In essence, a foundation is like a start-up, and anybody venturing into that activity has to be prepared to run it as a business, with all the time, planning, administration, compliance, due-diligence, etc., that comes with the territory. I would advise against running a foundation as a hobby if the ultimate objective is actually impactful philanthropy.

IWM: As you sit on the receiving end, what are some key issues you might encounter in dealing with donors?

NF: Yes, you might not realise, but accepting donations is far from automatic. For an institution such as ours, any donation can represent a reputational risk for us. All potential donors are subjected to a screening and due-diligence process that involves my team, the legal department, and ultimately also the board and the President. Any red flags, such as the potential donor having been involved in a law suit, for example, can lead, after thorough investigation on our part which can also involve outside counsel, to the donation being rejected. Donors sometimes also place demands on reporting and access to our staff that can be considered unreasonable. Luckily, we have very clear processes that allow us to deal with these issues in a usually satisfactory manner for both us and the donor, but I would certainly caution donors against consuming too much of the resources of those they set out to help. Smaller organisations than ours which might have mostly volunteers on the ground and perhaps only a part-time employee, cannot be expected to deliver monthly or quarterly reporting, or host donors and their associates at events or frequent visits – there would be precious little time left to devote to the actual mission. We deliver annual reporting to our donors and try to reserve the time of our professors for their research mission.

IWM: But should donors not be demanding in terms of measuring the impact of their actions?

NF: Of course, but I think that this too is essentially a matter of being clear on the foundation's objectives from the outset. In that case, the actions to be taken and the organisations which should benefit would already be identified. It then boils down to a matter of trust – trust in the mission, and trust in the partners with whom to realise that mission. If you do not trust that the money you give will be well spent, perhaps you have not done sufficient prior research, and perhaps you have not picked the right partner.

IWM: What would you say is the best way to make a difference in the field of education?

NF: I would definitely say that scholarships is the most cost-effective way to donate in the educational field. Paying for an individual's education is immediately life-changing for that person, and having received such a gift from strangers, the student will emerge a different person. Funding a Chair is great too because it can help to strengthen the research profile of the institution. However, it requires a considerable donation and takes years to unfold fully.

IWM: Thank you Nathalie for taking the time to talk to us! Any final words?

NF: You are most welcome! Yes, I would like to end on the fact that giving is great and honourable, and it comes with great responsibility.

SUMMARY

- There are many ways of giving; primarily giving assistance, giving money, and volunteering time.
- Most monetary donations are made by individuals to charitable organisations.
- Individuals or families seeking to devote larger sums to a charitable endeavour, often resort to foundations as the structure of choice.
- In 2018, there were at least 260'000 foundations in 38 countries for which data exist.
- Over 70% of these were created in the past 25 years.
- The global assets of these foundations amount to USD 1.5 trillion of which 60% belong to US foundations and 37% to European foundations.
- Globally, foundations spend in excess of USD 150 billion per year.
- Education is the area that attracts the most funding from foundations globally and across all regions.
- The giving potential has increased almost fourfold over the past 20 years based on the wealth of 22.4 million high-net-worth individuals globally which reached USD 60 trillion in 2018.
- Over the next two decades, the estimated wealth transition could be USD 3.4 trillion worldwide which is around 40% of current total billionaire wealth, covering 701 billionaires over the age of 70.
- Where to set up a foundation depends on a number of criteria, including the legal, operating, political, and financial environment.
- The most foundation-friendly frameworks can be found in North America and Europe currently.

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