

Speech to Philanthropy New Zealand Funders Forum
The role of the Philanthropic sector: opportunities and challenges

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Jennifer Gill

Its great to have a fellow philanthrocrat here, hailing from another Commonwealth country, where philanthropic linkages are strengthening and with whom dialogue is becoming increasingly important as we shape our ideas here in Aotearoa about the role of philanthropy. Bob's discussion on the Muttart Consultation Process was very interesting, not least because the discussions were initiated and led by a foundation. This is a challenge to us in the philanthropic sector here: are there issues where we could act as broker in discussions between the government and the voluntary sector?

I was also interested in Bob's comments on the lack of **Trust** in the relationship between the Government and the not-for-profit sector. I think he is right and I think its time for dialogue in this country, a tri-partite dialogue between central (and also local) government, philanthropic trusts and foundations and the not-for-profit sector.

The reality for all philanthropic funders in this country is that we cannot meet all of the expectations of the communities that we serve. Currently the ASB Trusts have over \$100 million in applications on our table in the sport and recreation sector alone. Although we have an annual budget of \$50 million only 10-15% of our funds will be made available for this type of project.

When you discuss with a philanthropist why they give away their money it is indeed always to "do good". To improve the lot of others less fortunate than themselves or to enrich the life lives of others in their community.

Role of Philanthropy

Before I can discuss the opportunities and the challenges that we face as a sector, I want to discuss the role of philanthropy in society.

In the November 1999 edition of the Harvard Business Review. Michael Porter and Mark K Kramer wrote an article entitled: *Philanthropy's New Agenda: Creating Value*¹. In it Porter and Kramer argue:

Grant-giving foundations are intermediaries between the individual donors who fund them and the various social enterprises that they, in turn, support. But if foundations serve only as passive middlemen, as mere conduits for giving then they fall far short of their potential and of society's high expectations.

Foundations can and should lead social progress. They have the potential to make more effective use of scarce resources than either individual donors or the government. Free from political pressures, foundations can explore new solutions to social problems with an independence that governments can never have. And,

compared with individual donors foundations have the scale, the time horizon, and the professional management to create benefits for society more effectively”².

- Are we acting as “passive middle men”?
- Are we leading social progress?
- Are we making effective use of our scarce resources?
- Are we exploring new solutions to social programmes?
- Are we creating benefits for society?

I have other questions for my fellow philanthrocrats and the boards they serve.

- How well do you know the needs of your community?
- Are you prepared to enter into dialogue with government about the impossible level of the call on your funds?
- Are you using your limited funds in the most effective manner possible?

Philanthropy as a catalyst for social change

Philanthropy in its broadest sense is one of the basic tenets of democratic society. Totalitarian regimes, of the left and right must close down dissent, stifle innovation and one of the ways in which they do that is to close down the voluntary sector and to leave no room for philanthropy.

The role of philanthropy, in my view is not to fund social services but to provide the venture capital of social change in democratic societies...thus building social capital in our communities.

Trusts and Foundations can focus on and address the issues that the government and the private sector are either unwilling or unable to address... but having identified the issues of concern we must at some point enter into a dialogue with government about them. There is no point in talking to ourselves. We have to accept though that the government will not always pick up on our ideas.

Sir Roy McKenzie gave the some of first grants to

- Women’s refuge
- Hospice
- Kohanga Reo
- Social workers in schools
- Disabled sports
- The Queen Elizabeth II Trust
- New Zealand’s first hands-on museum for children: Capital Discovery Place
- Outward Bound
- The New Zealand Sign Language Dictionary

What I have to say today may not be good news for many service providers in the voluntary welfare sector, as philanthropy has a much broader brief than health and social services. Trusts and foundations in New Zealand are major players in the arts, in heritage, in conservation, in education, in sport and recreation...

² Porter and Kramer, Philanthropy’s New Agenda: Creating Value HARVARD BUSINESS REVIEW November December 1999

Changes in philanthropy

Philanthropy has changed vastly since 1985 when I first started working in philanthropy. In 1985 the J R McKenzie Trust was the largest trust in the country with an annual distribution of \$1.5 million each year. In 2006 the ASB Trusts alone will donate \$50 million in Auckland/Northland

In their 2002 Report entitled “Funding in New Zealand”³ David Robinson and Pat Hanley state that distribution from trusts in New Zealand totalled \$143 million per annum. This is a tiny amount of money compared total spending in this area estimated at \$1.6 billion. Robinson and Hanley estimated that \$1.2 billion of this constituted “fee for service”.

This huge differential in levels of funding means that the not-for-profit sector must engage with government about the adequacy of funding for the services that they deliver. There is a great disparity between the amounts of funding available per capita, by region and trust and foundations are dependent on investment income. Levels of income can fluctuate widely from year to year. Not-for-profits that become dependent on income from trusts and foundations will be sorely disappointed when there is a turn-down in investment markets.

The 1984 reforms saw a total change in the political, social and economic landscape in New Zealand. The reforms in health, welfare and education totally changed the governance, the management, service delivery and the funding of the voluntary sector.

One, of many, and immediate consequences of the 1984 reforms was a dramatic increase in the number and size of funding requests that trusts were facing. At the same time we saw the sale of the Trustee Savings Banks and the energy companies leading to a huge growth in statutory trusts and the philanthropic pool.

As a part of the public sector reforms government departments were encouraged to model their practices on the private sector. The not-for-profit sector was forced to move to a purchasing and contracting model that has totally changed the way that they carry out their business. Organisations that had once received annual un-tagged grants from government agencies were now being asked to enter into contracts for the provision of services. These contracts, however, may not supply the full the cost of service provision.

Ten years after the onset of the public sector reforms we had the spectre of the Community Funding Agency attempting to colonise the philanthropic sector by effectively suggesting to Philanthropy New Zealand that they could provide lists of groups who had been “approved” for funding and to whom the trusts were to be encouraged to direct their funds. From the CFA perspective it was a perfect match: the trusts would fill the gaps that government funding did not fill.....this conversation has never entirely gone away, but is entirely inappropriate.

³ Robinson, David and Hanley, Pat: Funding New Zealand 2002: Resource flows to the community non-profit sector in New Zealand, Social and Civic Policy Institute July 2002

Trusts and Foundations used to be able to once say; “We don’t fund things that can be regarded as a government responsibility”, but the social contract has changed. It is no longer clear what is a government responsibility and what is not. This is where we must have a dialogue and where we as a sector must be more strategic and more thoughtful about what we do and don’t fund.

Most New Zealanders would not want to go back to the pre-1984 New Zealand:

- In education; universities that now attract significant amounts of private and philanthropic funding, as well as generating revenue through national and international research contracts, and
- Schools that now have control over the size and shape of the development of buildings and facilities, along with the responsibility for funding them.
- In the Arts, Te Papa could not have been built by a government department, and
- Wellington’s “Cake Tin” would never have been built by the Wellington City Council alone....
- The New Zealand Symphony Orchestra is sponsored by Brierleys and
- Hospices raise more than fifty percent of their costs from the community, including from Trusts and foundations.

The last two decades have seen a significant growth in philanthropy in New Zealand through:

- the creation of the community and energy trusts
- the slow rise in family trusts and foundations, such as that recently announced by Gareth Morgan,
- significant community based fundraising for education
- individual philanthropists, particularly in the arts, most obviously demonstrated in Auckland.

Perhaps the voluntary social sector has fared less well in the past two decades. Some would argue that this sector is charged with picking up the pieces, and is now addressing some of the social fall-out of the reforms of the eighties.

Not-for-profit sector service providers are facing a number of issues that must be addressed, many of which were raised in the 2001 report of the Community and Voluntary Sector Working Party. Five years later these issues are still on the table:

- Low levels of investment in infrastructure in the sector
- Lack of stability and sustainability of government funding
- “Contracting for service, which threatens and ignores the wider role of voluntary organisations in a civil society”⁴
- Gap between levels of government funding and the actual cost of providing services
- Competition from other not-for-profit agencies, from for profit providers, and from nominally “charitable” services provided by statutory bodies such TLAs, DHBs and government departments and ministries

⁴ Report of the Community-Government Relationship Steering Group p 62

In 2001 the Government acknowledged these issues and the Prime Minister and the Minister Responsible for the Community and Voluntary Sector signed the *Statement of Government Intentions for an improved Community-Government relationship*. In this document the government made the following commitment:

Government funding to community organisations

Government acknowledges the valuable contribution made by community, voluntary and iwi/Maori organisations to the achievement of shared social, cultural, environmental and economic goals. Government agencies will, together with the community sector, undertake a programme of work to address concerns about funding arrangements, effectiveness, compliance costs and related matters.

Launching the Statement Helen Clark said “The Statement demonstrates government's commitment to creating an environment where community organisations are treated with respect, and will make it easier for organisations to work with government.

"In health, social services, environment, arts and culture, sport and recreation and many other areas the work of the community sector makes a significant contribution to New Zealand society.

"Over one million New Zealanders undertake some form of voluntary work in their communities and over \$1.3 billion of taxpayer and other funds is invested annually in the services provided by community sector organisations. It is vital that these organisations and government have a positive working relationship."

The voluntary sector is looking for a dialogue with government, so are Trusts and Foundations.

But philanthropic funders have different issues from the voluntary welfare sector service delivers. One question it is important to ask is what defines government funding to the voluntary sector? This expenditure is estimated in the billions....but we need a definition of what constitutes funding to the voluntary sector and what constitutes a “fee for service” on behalf of government.

Numerous government departments have relationships with non-government agencies these include: Department of Internal Affairs, Ministry for Social Development, Ministry of Economic Development, Ministry for Culture and Heritage, Ministry of Health, Ministry of Education, New Zealand Police, Ministries of Justice and Corrections. Apart from Treasury, IRD and Customs virtually every arm of government would have some relationship with the broader voluntary sector. This relationship is important and the issues are complex.

Increasingly the ASB Trusts and other community trusts are prepared to fund in partnership with central and local government:

- Kaikoura Island and Chelsea Park purchases
- Auckland City Art gallery.
- Southland tertiary education initiative

Philanthropy can provide the social capital of social change. In the business world investors know that entrepreneurs require money and they take risks. Sometimes they

lose and sometimes they win. Losing doesn't stop you trying again. And, winning may bring you huge returns. Stephen Tindall knows this well. He was recently reported in the New Zealand Herald shrugging off a loss of \$55,000 in a failed venture capital project. Currently he is investing in a programme for social entrepreneurs.....

Trusts and Foundations like ours are getting to the point where we may refuse to fund the component of the budgets of social service organisations where there is a shortfall in the funding of a contract for service delivery... we have to some extent already "called the bluff" in the health and education sectors...not funding teacher and teacher aid salaries... not funding the delivery of health care in public hospitals.

I believe that the role of philanthropic funders is to:

- Focus on the root causes of social issues rather than attempting to meet immediate needs
- Support innovation rather than attempting to support ongoing programmes
- Use the philanthropic dollar as leverage
- Help good ideas to get a start rather than funding tried and true approaches to current social problems
- Identify where our funding can be most effective

Role blurring

Roles are blurred... and we are not always clear. The ASB Trusts will fund hospices but not public hospitals....the ASB Trusts will fund library books in schools but not computers.....we fund services for rape victims but not maternity services.

We as a sector need some in-depth thinking and analysis of our own funding role.

- Some of what we fund is an accident of history
- Is our funding decided by the postman, rather than by priorities in our communities?

Trusts and Foundations can be leaders in our communities precisely because we are not elected officers or public servants. We can provide a place where members of the community can bring their dreams, without having to measure their outputs. We can help the community to find new solutions to social problems while taking care that we are not swept up in emotion and rhetoric. We can provide the venture capital of social change that is so essential in a healthy democracy.

Jennifer Gill
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