

Philanthropy New Zealand Conference

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Plenary Address: Income Down, Demand Up - how do you respond in a crisis? Spend up, spend down- what's the tipping point?

"If you take a longer time frame, such as five to ten years, I am optimistic these problems will be behind us". Bill Gates

Introduction

During the "Great Depression" of the 1930s my grandmother took her only child, my ten year old father, by the hand. They each picked up a suitcase and they walked out of the house that my Grandfather, a skilled carpenter and veteran of the first World War, had built for his family in the small country town of Papakura. She left the keys in the door.

My grandfather had just died, of a war related illness, and my grandmother couldn't pay the mortgage.

When as small child I was told this story I asked her "what happened to all your things?" As a ten year old I did not understand the complexities of mortgages, the role of banks and lending money, but I did understand that leaving the house, built by her husband, was the most traumatic thing that had ever happened to her and that she never recovered either financially or emotionally.

Very few people in this room remember the financial crash that preceded the "great" depression; even fewer of us thought that we would experience one in our life time.

The 1914-18 War was called the "Great War" until the 1940s and then it became known as World War 1. I wonder if the depression of the 1930s

currently known as the “great depression” may also in time be re-named the “first”, as the effects of the collapse of the world’s financial institutions are felt wider and deeper than any of us can anticipate or imagine.

What are the implications for philanthropy in New Zealand as we enter a new world order? Stephen Topliss an economist with BNZ said in a recent presentation to the New Zealand Community Trusts, that the return to “normal” will be a while away and that “normal”, once it returns it wont be the “normal” we have known for the past two decades.

What do we know?

Last year’s economic losses were greater than during other recent periods of economic turmoil. The IMF have recently reported that the Global Economy is shrinking for the first time since the second World War.

*The Alliance*¹ reported on a recent Council on Foundations survey of its members, in its March 2009 edition. This survey found that in the US family, independent and public foundations have experienced an average 28 percent decline in the value of their assets over the past year.

Even more pessimistically the Alliance reports in the same article that the *Commonfund*² which follows the performance of the endowments of both universities and foundations in the US, is predicting that endowments will have fallen by 23 percent in the first quarter of 2009 alone.

What is happening in the UK?

A survey conducted by the Association of Charitable Foundations in December 2008 revealed.

- That the value of the endowments of many but not all trusts and foundations has fallen
- That the value of investments held by non-profits is also most likely to have fallen
- Levels of corporate philanthropy, world wide are likely to fall
- Government revenue through taxation will fall as will rates income for local authorities, this is likely to flow through to social spending
- Giving by individuals may decrease but there is some international evidence that at times of recession” faith-based” giving actually increases
- Falls in property values may lead to a decline in the value of future endowments and legacies
- More people will be in need as the credit crunch bites and unemployment rises

¹ Alliance Vol 14 Number 1 March 2009

² www.commonfund.org

What is happening in New Zealand?

Recently Philanthropy New Zealand surveyed its members. It was an online survey of 210 non-government funders, members and non-members of PNZ. We had a 25 percent response rate.

Responses were received from all sectors including:

- Private and family foundations
- Community trusts
- Energy trusts
- Gaming trusts
- Licensing trusts
- Corporate foundations
- Community foundations
- Lottery Grants Board

Survey did not include trustee companies who manage multiple trusts and bequests.

The survey did not seek quantum in monetary terms.

Some funders are experiencing significant challenges in the return on investment, although 65 percent of those who responded reported a positive return on their investments for the nine-month period to 31 December 2008

Thirty five percent reported a negative return.

How will this impact on grants and donations to the community?

- 51 percent expected budgets to decrease in the short term
- 43 percent expected budgets to remain the same
- 6 percent expected their budget to increase

In the longer term, remembering that these responses were filed in February 2008, most respondents expected their budgets to increase.

One issue that emerged for those funders who still expected to be able to fund at pre-2009 levels was the anticipated impact on them of other funders having less available for support for the community, this includes both government and non-government funders.

What strategies are New Zealand philanthropic funders adopting?

- 47 percent say their grant making levels will stay the same
- 4 percent may stop making grants
- 47 percent may make fewer grants

Thirty three percent say they may make the same number of grants but expect them to be of a lower value.

Twenty percent are currently re-examining their granting guidelines, for the example a number have already made the decision not to fund capital works. Thirty-one percent have stated that they may need to change their grant making guidelines in future. What is not clear is whether this is related to ongoing internal work on strategy, or whether it is a consequence of the economic meltdown.

Twenty four percent have actively communicated the changes they are making to the community, a surprising seventy four percent have not yet communicated any changes as they are still revising budgets and figuring out the logistics of how and what to communicate.

As a country New Zealand is still seeing acts of philanthropy and generosity.

The New Zealand Herald on Saturday 28 February reported that the 4,000 piece, \$50 million art collection of businessman James Wallace, managed by the James Wallace Arts Trust, will be housed in the Pah Homestead in Monte Cecelia Park, Mt Roskill.

The significance of this gift has been likened to Sir John Logan Campbell's gift to the nation of Cornwall Park in 1901.

Bill Gates is giving more. *The New Zealand Herald* a month earlier on 28 January reported that while the Bill and Melinda Gates Foundation lost 20 percent of the value of its assets last year the Foundation will increase its giving from 5 percent to 7 percent of its assets. Gates said: *The wealthy have a responsibility to help those who aren't this is especially true when constraints on others are so great. Otherwise, we will come out of the economic downturn in a world that is even more unequal, with greater inequalities in health and education, a few opportunities for people to improve their lives.*

What can we do?

Those of you who have heard me speak at other PNZ conferences will be aware that I have always advocated that the *role of philanthropy is to provide the venture capital of social change.*

My view on this has not changed....but is much harder to know how to do this.

Michael Alberg-Seberich, Executive Partner at *Active Philanthropy* wrote recently in the March issue of the *Alliance* that foundations should "focus on root causes and be willing to enter unknown territory": *Foundations are at their best when they are acting as pioneers, when they are willing to test and re-invent instead of as acting as a stop-gap for the state. Foundations and donors should trigger issues, develop solutions that can be adopted by others (including the state) and constantly evaluate where their "risk capital" can create the biggest social return. Admittedly, the higher risk of failure inherent in this approach has resulted in too many foundations playing it safe – and it*

is to be hoped that many more foundations realise that the ultimate accountability lies with the public (and the grantee), not their board. Internationally New Zealand has a unique philanthropic sector, dominated as it is by the 12 community trusts set up from the sale of the former trustee savings banks and the energy trusts established from the restructuring of New Zealand's electricity supply authorities.

When combined with gaming machine societies and the Lottery Grants Board these statutory bodies make up 84 percent of our sector leaving only 16 percent of grant making trusts and foundations constituted in a manner similar to the trust and foundations that my fellow speakers will be familiar with in Europe and Australia.

The challenge to us all, regardless of our philanthropic origins, in these times is to continue to assist our communities to find their own responses to the massive social impact that we all know is coming.

Family trusts represent the most unconstrained funds available to the community at this time. These trusts must continue to be responsive and reflexive. There may well be lessons along the way that community and other trusts can learn from family trusts and foundations at this time.

It was interesting to note that Stephen Tindall was, as far as I am aware, the only philanthropist invited to participate in the recent Prime Minister's Jobs Summit and he was invited for his role in business not philanthropy. However, true to form he has promised to establish a \$1 million job training initiative to boost funding for what Tindall termed "bottom-up training".

The important thing for us during the next decade is not to back-fill where central and local government once funded. *We can't, the sector simply does not have this capacity in boom times:* we know that total philanthropic funding in 2006-07 was estimated by Berl³ at \$742 million, however, MSD's total appropriation from the Crown for that period was in excess of \$1 billion.

Perhaps this is the real dawning of the new millennium, it wasn't a Y2K IT collapse, but, as is now evident, an inevitable economic collapse.

So if this is the new millennium what should we in philanthropy be doing? In thinking about this I know only one thing. This is going to be hard.

However, before you close the doors and sack all your staff: think about this: philanthropy is here for the long-term.

In such a young country as New Zealand we don't have trusts and foundations that go back to the middle ages, but we are a part of a legal and cultural tradition that goes back as far as the *Statute of Elizabeth* (otherwise known as the *Charitable Uses Act 1601*), which was passed in England to protect and prevent the misuse of charitable funds. Its purposes included:

³ Giving New Zealand, Philanthropic Funding 2006, Berl March 2007

- *repair of bridges, ports, havens, causeways, churches, sea banks, and highways*
- *marriage of poor maids*

Over our history individual philanthropists and their trusts and foundations have played an important role in supporting and providing seeding funds to significant innovative social movements including:

- art galleries and museums
- universities
- hospice
- women's refuge
- Outward Bound
- community owned enterprise
- Kohanga Reo

Many of us here are the staff and trustees of trusts and foundations that were established over 50 years ago. The entrepreneurs such as McKenzie, Todd and Sutherland had experienced hard times personally and that was one of the reasons that drove them to set aside a portion of their wealth to help others less fortunate than themselves.

More recently Stephen and Margaret Tindall and Wayne Francis, successful business people set up trusts and foundations with the intent to make life better for others.

Economists the world over agree on one thing: the world economy has seen events like this before. The recovery may be "L" shaped and deeper than we have experienced, but we are here for the long term.

Bill Gates in the *New Zealand Herald* article quoted earlier said: "if you take a longer time frame, such as five to ten years, I am optimistic these problems will be behind us".

The non-profit sector is hurting and will hurt even more before we get through this crisis, however, Charitable Trust law requires us to take account of the intergenerational effects of the decisions that we make.

Research with non-profits conducted by the Taproot Foundation in the US in November 2008 revealed the following:

- 76% expect demand for services to grow
- 70% have already experienced funding cut backs tied to the economic downturn
- 76% feel that their organisation is vulnerable at this time
- 92% wish they had greater help from external resources to help.

I am certain that the same trends would have emerged from a similar survey in New Zealand.

So we come to the question what is our role?

Things to think about:

- Hold on to your vision and values
- Think strategically about your role: resist co-option
- Support new and innovative community responses to community issues
- Review your won costs and overheads, but don't destroy your own intellectual capital in the process
- Continue funding where you can, but accept that you can never be all things to all people
- Identify key organisations, aligned with your mission, and consider ways to strengthen and support them
- Look at other ways of supporting the community sector such as capacity building, community economic development, social enterprise, loans for capital projects
- Build on your own intellectual capital: A US\$50,000 *Arts in Crisis* fund is being offered by the John F Kennedy Centre for the Performing Arts in Washington, DC. The fund will covering how to raise money, build effective boards, improving budgeting and marketing
- Be more flexible, loosen restrictions on grants
- Collaborate with other funders
- Advocate with central and local government, for example how can we harness the nine-day fortnight proposal to work for the non profit sector?
- Invest where there are multiple returns eg retrofitting of low income houses has environmental, health and employment outcomes
- Take advantage of the increase in tax deductions for donations both to the sector and in terms of encouraging the establishment of new trusts and foundations

The New Zealand Institute is predicting that unemployment may rise over 11%. Our experience tells us that when unemployment rises Maori and Pasifika communities are always the most severely effected, with some commentators suggesting that unemployment in these communities may rise as high as 30%. What will our response as philanthropic funders be to this? This may well be our biggest challenge as a nation.

What is happening in the world of investment?

New Zealand's Reserve Bank Governor, Allan Bollard has been widely reported as describing the current world economic situation as *the largest destruction of wealth the world has ever seen*

The Chronicle of Philanthropy reported on 12/2/09 that:
a substantial portion of foundations are making changes in their investment managers, their diversification and the aggressiveness of their investment strategies. They are also seeking to reduce the rate of investment fees tied to their portfolio.

Foundations with largest investments were the hardest hit in the US. This may be the same in New Zealand.

It's interesting to think about who may not have been impacted. It's a great time to own a bank or a chain of retail stores that aim at the lower end of the retail market.

Small and flexible family trusts where fund managers have focussed on boutique investments sometimes adopting less conventional strategies may have weathered the storm better, so far, than those who adopted more conventional investment strategies over the past twelve months.

Foundations in the US are increasingly looking at social investment. This is investment where capital is actively placed in businesses and funds that generate social and or environmental good, onphilanthropy⁴ reports that although this form of investment has *long suffered from the assumption that doing good involves a huge sacrifice of return...*, the current market, however, is proving this assumption to be false. *Amid staggering losses in mainstream investments, mission-driven investments stand proud with a solid track record for having produced modest—but consistent—returns with only moderate risk. As a result, doing good is looking more attractive.*

There are many more types of capital than just that which we invest in the financial markets. I alluded earlier to our own intellectual capital, both as organisations and as a sector as a whole. We have huge and significant knowledge about the communities we serve and we have a degree of independence from both government and the sector that can and should be harnessed for the national good.

Bowling Alone was Robert Putman's hugely influential book, first published in 2000⁵, in it he traced the loss of "social capital" in American society using the decline in membership of bowling teams as a metaphor for a decline in social cohesion.

None of us feel comfortable at the social dis-ease that we are witnessing in contemporary New Zealand society. Could it be that this huge and unprecedented economic upheaval might provide us as a country to move away from a focus on investment capital, in the narrow sense of the word, as we rebuild our economy can we also look at how we can rebuild some of our lost social capital?

There is a Chinese proverb: Change equals opportunity. Can we harness the challenges of this time to regain some of community cohesion that may have been lost over the past few decades?

⁴ www.onphilanthropy.com

⁵ Putnam, Robert: *Bowling Alone*, New York, Simon and Schuster, 2000

Closing remarks

As I was writing this presentation on Sunday 1 March 2009, Chris Laidlaw speaking on National Radio paid tribute to “*one of the greatest philanthropists of country*”. Ian Prior, a close friend and contemporary of Sir Roy McKenzie, died on 17 February 2009 aged 85 years. A doctor and a Fulbright scholar, Ian was an environmentalist long before it was fashionable to be one, a sportsman, an activist for improved health outcomes for Maori and Pacific Islanders, a supporter of the arts, campaigner against nuclear war. He criticised the dawn raids and was a leader in the save Manapouri campaign.

The obituary published on 25th February in *The DominionPost* for this man concluded: *the generosity of Ian and Elespie Prior is not well known. The Willi Fels Trust has been the vehicle for several of their philanthropic projects. A tiny credit line in a programme note or a brief word at an opening soiree is the preferred public acknowledgment.*

That is the way of New Zealand philanthropy. We give quietly, without seeking recognition, philanthropists will continue to do this despite and perhaps because of the world economic crisis.

