

EUROPEAN FOUNDATIONS IN TIMES OF CRISIS



Highlights from the Symposium on 'Responsible Leadership in Times of Change' hosted by Banque de Luxembourg on 9 October 2009



PLUS

Development of the Luxembourg philanthropy initiative
Case studies from European foundations on how they are responding to the crisis
Interviews with Jacques Santer, Diego Hidalgo Schnur, Craig Kennedy, and others



CONTENTS



Centre Culturel de Rencontre Abbaye de Neumünster, where the symposium was held.

1 Developing philanthropy in Luxembourg

The history of the Luxembourg philanthropy initiative so far, from the day when Banque de Luxembourg started offering philanthropy services. Including interviews with:

- ▶ Jacques Santer ▶ Philippe Depoorter ▶ Tonika Hirdman
- ▶ Pierre Bley ▶ Henri Reiter

6 Highlights of the symposium

Including reports from the workshops and interviews with:

- ▶ Guy Wagner ▶ Katharine Hopper ▶ Jean Boghossian

18 Interview with Diego Hidalgo Schnur

20 Views from the advisers

What changes in their clients' behaviour and preoccupations have they noticed, *Alliance* asked a group of philanthropy advisers

22 European foundations' responses to the economic crisis

Themes emerging from a set of case studies of European foundations, looking at how the crisis has affected them and what measures they have taken to deal with its consequences

32 Interview with Craig Kennedy

INTERVIEW WITH JACQUES SANTER FORMER PRIME MINISTER OF LUXEMBOURG AND PRESIDENT OF THE EUROPEAN COMMISSION

“There’s a long way to go, and there are many hurdles to overcome. Nevertheless, I think we are on the right track.”

You are undoubtedly the first champion of this movement towards philanthropy in Luxembourg. How did you get involved?

It was really the initiative of Banque de Luxembourg. They approached me both as former prime minister and president of the European Commission and as someone still active in foundations in Luxembourg, because they were aware of untapped potential for foundations here in Luxembourg. Though our official development aid is one of the highest in Europe, the legal framework for philanthropy went back to 1928 and was simply out of date.

What was your role?

To lobby the government! The prime minister, my successor, was very positive and constructive. Of course he knew us very well, he was my former secretary of state. Straight after the first symposium, he began drawing up ideas; in May, just a month later, he proposed them to parliament. By December, we had the new legislation for foundations, and on 2 January 2009 Fondation de Luxembourg was set up. What was also very important for us was that we joined

Transnational Giving Europe in June last year, and this July we acted on the recent European Court of Justice ruling, extending tax incentives for Luxembourg resident taxpayers if they give to recognized public benefit organizations based in other EU countries.

You must be extremely pleased with the progress?

Yes, I am. I must say that the initiative from Banque de Luxembourg is remarkable. It is very unusual for a private bank to be so engaged in the development of an idea like this.

What do you hope will come out of the coming symposium?

This symposium is really to take stock of what is going on and how to react to some major challenges coming up from the financial crisis. So it’s much more to do with the technical aspects of running a foundation and trying to plan for meeting those challenges.

What is your vision for the future of philanthropy in Luxembourg?

We have to be quite modest. We have developed new ideas for the Luxembourg situation and I hope that will bring us into step with the countries surrounding us. The new government has also stressed that philanthropy should become one of the major pillars of the financial sphere here in Luxembourg. So there’s a long way to go, and there are many hurdles to overcome. Nevertheless, I think we are on the right track.



DEVELOPING PHILANTHROPY IN LUXEMBOURG

In April 2008, Banque de Luxembourg convened a symposium entitled 'Seizing the Initiative for Philanthropy in Luxembourg', with the aim of systematically fostering the development of philanthropy in the country. Since starting to offer philanthropy advice to its clients around six months earlier, explains Philippe Depoorter, the Bank's head of Philanthropy Practice, the Bank had become increasingly aware both of the opportunities to develop philanthropy in Luxembourg and of the need to improve the environment for it. Though the symposium was the first visible step towards this goal, there was activity behind the scenes even before it took place. First, Jacques Santer, former prime minister of Luxembourg and president of the European Commission, was drafted in as a willing champion for the initiative. Second, FSG Social Impact Advisors were commissioned to draft a white paper for presentation to the Luxembourg government on recommended next steps.

The white paper came up with three main recommendations for the development of philanthropy in Luxembourg:

- ▶ a better legal and fiscal environment;
- ▶ establishment of an 'umbrella foundation' along the lines of the UK's Charities Aid Foundation or Belgium's King Baudouin Foundation;
- ▶ getting the public even more involved.

Remarkably, the first two of these had been achieved within nine months of the first symposium.

The symposium itself was clearly a success, attended by Banque de Luxembourg clients and friends, government departments and authorities, interested professionals (lawyers, investment bankers), foundations, Luxembourg NGOs, private donors and companies. Speakers included Luxembourg prime minister Jean-Claude Juncker, Jacques Santer, representatives from philanthropy advisers wise partnership, FSG Social Impact Advisors and New Philanthropy Capital, and from King Baudouin Foundation and Fondation de France.

The contribution of Jean-Claude Juncker was particularly significant. He spoke of the need to develop a philanthropy policy for the country and a number of significant changes to the tax treatment of philanthropy, subsequently ratified by the government of Luxembourg in December. The effect of these was that the size of donation that individuals can claim relief on has doubled, and restrictions on cross-border giving have been relaxed considerably.

From that point, the whole initiative has moved very quickly, as a glance at the timetable of events confirms. The first symposium took place on 23 April 2008. On 22 May, proposals for reform were put to parliament. On 19 December, new legislation was enacted and on 2 January 2009 Fondation de Luxembourg was established. As Tonika Hirdman, CEO of the new foundation, commented: 'One

thing that has struck me as a very positive thing for Luxembourg is the speed with which they managed to move from decision to action and the energy and dynamics that that creates. That's very, very useful.'

Fondation de Luxembourg is a joint initiative of the Luxembourg government and the charity Oeuvre Nationale de Secours Grande-Duchesse Charlotte. Its aims are to inform philanthropists, further a culture of giving, and develop links between donors and charities that need their involvement.

Luxembourg was further integrated into the mainstream of European giving when, in June this year, the foundation joined the Transnational Giving Europe (TGE) network. This allows donors

from Luxembourg to make tax-effective gifts to public benefit organizations in other TGE countries – this is done through Fondation de Luxembourg and the home foundation in the other country – and allowing Luxembourg organizations to raise funds tax-effectively in other member countries. In July, the Luxembourg government went a step further, extending tax incentives for Luxembourg resident taxpayers if they give to recognized public benefit organizations based in other EU countries, on compliance with relatively simple and straightforward procedures.

In a very short time, a complete platform for developing philanthropy in the country had been created. As Etienne Eichenberger of wise partnership, which has been involved in the process



INTERVIEW WITH PHILIPPE DEPOORTER

HEAD OF PHILANTHROPY PRACTICE, BANQUE DE LUXEMBOURG

“Luxembourg is both international and fast-moving, and these are strengths it can bring to the philanthropy world.”

Are you the person behind this philanthropy initiative?

Yes, myself but first of all the Bank. We started this initiative ‘two years ago and our intention was to promote philanthropy as a whole, but especially the involvement of the private sector in philanthropy. So we decided to organize the first symposium (April 2008) and asked FSG to prepare a paper about good practice in Europe and compare it to what’s happening in Luxembourg. Three important recommendations came out of the report: that Luxembourg should have a kind of umbrella foundation, like the Charities Aid Foundation or King Baudouin Foundation; that we should improve the legal and fiscal environment; and that we should involve the public and make clear to them what their role is. In order to give the initiative a national impact, we asked the former prime minister and president of the European Commission, Jacques Santer, to head it.

The current prime minister, Jean-Claude Juncker, was also very interested in the project. He came to the symposium, and his support was crucial. Within eight months of the symposium, the law was changed. There’s a lot to be done but the fiscal environment has become much more favourable and Fondation de Luxembourg has been created.

When did Banque de Luxembourg start offering philanthropy services?

A little over two years ago. I met Etienne Eichenberger in Geneva at a seminar about philanthropy and financial services, and I discovered a whole industry – I hate this word – around philanthropy in banks in Switzerland. My

The first symposium.



and has helped Banque de Luxembourg develop its philanthropy services, remarks, 'the leadership is there, the resources are there and the legal framework is there.'

Clearly, leadership will be crucial to enable philanthropy to cope with difficult times. Banque de Luxembourg therefore convened the Symposium on 'Responsible Leadership in Times of Change' on 9 October 2009 to provide an opportunity for CEOs and active trustees from leading European foundations to exchange experiences, learn from each other, and lay the groundwork for working effectively in the aftermath of the crisis.

Philanthropy in Luxembourg had a normal pregnancy and an easy birth, quipped Jacques Santer at the opening of the symposium. Now it needs to

develop, to start walking, and to have childhood diseases.

These have not been far to seek, given that the development of philanthropy in Luxembourg has taken place against the backdrop of the financial crisis. Most foundations have seen their assets dwindle, while the organizations they support are experiencing increased demands on them along with fewer resources. Philanthropy, along with every other sector of the economy, has been forced on to the back foot. How can and should it respond to the changed circumstances? This *Alliance* supplement presents highlights of the recent symposium, plus interviews with many of the key participants and case studies from a selection of European foundations showing how they have responded to the crisis. ■

idea was to transpose it to Luxembourg, as we are a financial centre as well.

For a long time, the Bank had been an active player in the sponsoring scene in Luxembourg – we sponsored cultural and social projects and so on. So that year, instead of financing one more cultural or social project, we decided we'd try to act on the systemic level and to develop philanthropy as such. And that's what we are trying to do.

And was it at the same time that you started offering advice on philanthropy to bank clients?

Yes, the two things were related. As we started to offer the services to our clients, we saw the need to try to create a better environment to develop that activity, too. When I started to advise clients, I sometimes found myself having to go to Brussels or to Paris with Luxembourgers to make it possible for them to do something in Luxembourg. For instance, I had to go to France to Fondation de France or to Brussels to King Baudouin Foundation to create a sheltered fund, because it was not possible here at the time. Now we are also members of the TGE – Transnational Giving Europe – so everything has become easier suddenly.

Now there's a structure in place, do you think it's already having an effect on philanthropy in Luxembourg?

It's starting to change but there's one thing still missing. Luxembourg is a rich country with a strong welfare state, so it's not in the culture of Luxembourgers to think that they need to contribute to the development of the community. That's really something that we've got to explain to them. The generosity is there and all of them are ready to give, but it's about knowing what to finance

and where the needs are. That could be one of the roles of Fondation de Luxembourg.

How do you hope the latest symposium will move things forward?

This new symposium is about us relating to the Bank's second activity around philanthropy. The first one was about helping to change the environment, to develop private initiatives; this one is more related to the Bank's asset management activity. We already have a lot of clients in the foundation world and we felt that, being involved in this field, we had to create momentum around this financial crisis and, in that way, to continue the effort of developing philanthropy in Luxembourg.

Luxembourg's such a small country. Is it surprising to find yourself in potentially a leadership position?

The country always had, if not a leadership position, a kind of facilitator role because it's small, because everyone speaks several languages, and because we had this tradition of trying to get people together. When you are a small country, when you have no internal market for finance, when you have few foundations, you have to look outside, it's a natural tendency. Luxembourg is both international – 40 to 45 per cent of the population comes from outside – and fast-moving, and these are strengths it can bring to the philanthropy world.

Yes, the speed at which it happened after the first symposium was impressive.

For that, we are very thankful to the government and to the engagement of a few key people in Luxembourg.

For more information www.philanthropie.lu

INTERVIEW WITH TONIKA HIRDMAN

CEO, FONDATION DE LUXEMBOURG

“The bank has the first contact with a client . . . Once they see that there is an opportunity for creating a sheltered foundation, they introduce the client to us and we take it from there.”

What are the aims of the foundation?

To encourage philanthropy in general and to fill the gap between the financial centre of Luxembourg and the beneficiary world. The foundation can bridge the gap and help donors make the right choices in line with their interests, whether local or international.

A lot of bank clients would like advice on their giving, but the financial advisers rarely bring up the subject, because they don't have the knowledge. One of our roles is to provide expertise to donors who would like to become engaged but who are not sure how to go about it. The other is to structure their giving by creating a sheltered foundation, as we call it. It's a simplified way to achieve the same advantages as a public utility foundation.

What will be the foundation's relationship with Banque de Luxembourg? And with other banks?

Banque de Luxembourg is an example in their sector. We work closely with them and with the other banks active in Luxembourg. They have the first contact with a client who is looking for philanthropy advice. Once they see that there is an opportunity for creating a sheltered foundation, they introduce the client to us and we take it from there.

For more information www.fdlux.lu

**What has happened in your first seven or eight months?**

We have focused mainly on setting up the organization. In July, we became operational and, as planned, we received our first clients. Three sheltered foundations have now been established. Our target is first of all residents of Luxembourg, secondly European philanthropists with cross-border needs.

Do you help your clients make their giving more effective?

That's an area where I feel we can really add value. When we set up a foundation for a client, we also establish a managing board. Most often donors have some ideas and interests, but sometimes they haven't found their project. So we try to get as clear a picture as possible of what they want to support. If a donor has made grants in a country or area already, we will help them professionalize their giving, structure it a bit more.

What do you hope to achieve in the next few years?

I hope that Fondation de Luxembourg can be a real platform for philanthropy in Luxembourg, but one that can also serve cross-border philanthropists. What makes Luxembourg attractive for European philanthropists is its central position, the stability of the political climate, and perhaps most important its concentration of experts in cross-border fiscal, legal and financial matters. Above all, I think we can help channel funds to where they are needed in a more efficient way than has been the case so far.

INTERVIEW WITH PIERRE BLEY CHAIRMAN OF THE BOARD, ONS

“The symposium is a perfect reflection of Luxembourg's traditional role as host and a forum for debate.”

The Oeuvre Nationale de Secours Grande-Duchesse Charlotte (ONS) is a historical key player in Luxembourg. What is your opinion of the recent developments on the philanthropy landscape?

We are extremely proud of the dynamism that has sprung up in Luxembourg since the symposium in April 2008. The expression of generosity from our fellow citizens is now fully supported by the new legal and fiscal framework. The rise of new philanthropy players alongside ONS is an exciting development.

Talking of new players, doesn't the creation of Fondation de Luxembourg represent a threat for ONS?

On the contrary. ONS is one of the founders of Fondation de Luxembourg and it was totally natural, in keeping with our role to take action across the board for Luxembourg, to finance the launch of this important organization.

We are under no circumstances 'competitors' – our roles are highly complementary, in fact. In these difficult times, beneficiaries appreciate the presence of both organizations.

What is your feeling about the recent symposium as an exchange between European foundations in times of crisis?

The symposium is a perfect reflection of Luxembourg's traditional role as host and a forum for debate. Once again, the Grand Duchy's international outlook has been instrumental in bringing together participants from over 20 European countries and creating a melting pot for fundamental reflection on our common problems. Foundations are going through a difficult time, and the symposium provided them with the opportunity to get together and talk at a time when the temptation is often to withdraw into oneself.



INTERVIEW WITH HENRI REITER AND ANNE CANEL

“Creating a dedicated service for foundations and providing our asset management and investment fund expertise is a natural dovetailing of our business and our social commitment.”

What can a private bank bring to the world of philanthropy? Here, Henri Reiter, director at Banque de Luxembourg, and Anne Canel, philanthropy adviser, talk about what led the Bank into providing specialist advice services to foundations, how it benefits the Bank, and how it led to a wider involvement in developing philanthropy in Luxembourg.

Why does Banque de Luxembourg offer dedicated services for foundations?

HR We have been working with foundations for many years in many fields.

AC Banque de Luxembourg has always aligned its business strategy with that of Luxembourg's financial centre. It seems to us that the concentration of expertise in Luxembourg could be used to respond to the needs and take up the challenges of philanthropy, in the broadest sense of the word.

What is your conception of asset management for foundations?

HR Asset management is a pillar of the financial centre of Luxembourg – and of our bank. We don't have a 'miracle' solution for foundations. We help foundations strike a balance between preserving their endowment and generating a better return in order to accomplish their missions by giving priority to long-term performance consistency over short-term gains. We can also help foundations plan their schedules of revenue from capital to match the liquidity needs of their social initiatives.

How does your investment fund expertise serve the interests of foundations?

HR Luxembourg is the leading European centre for investment funds. Twenty-five per cent of funds in all categories, and nearly 30 per cent of European mutual funds, are created in Luxembourg . . . But beyond the quantity, it is the diversity and flexibility of the structures that should be of interest to foundations. Two new vehicles, unique to Luxembourg – the SIF and the SICAR – would appear to be particularly relevant since they are ideal for financing social projects. Luxembourg is keenly attuned to investments that are not focused solely on performance but also have a responsible dimension, such as microfinance and SRI funds. We can now offer our own SRI fund, BL-Horizon, which is authenticated by Forum Ethibel and Vigeo.

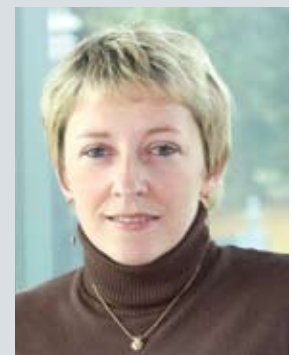
AC The many enquiries and project proposals from players in the social finance arena remind us that microfinance and social venture capital are new areas in which Luxembourg – and Banque de Luxembourg – are well positioned to provide responses. Philanthropy is multi-faceted; so too are the financing and asset management solutions required.

What is the background to the current symposium and the Bank's role in it?

AC Our expertise in asset management and the challenges faced by many of our clients in the foundation arena prompted us to initiate discussions on a European level about the governance, financial management and missions of foundations, culminating in the symposium. In addition, our specific expertise in philanthropy, and our contribution to boosting the philanthropy movement in Luxembourg, mean that we are well positioned to organize this kind of event.

Did you ever consider setting up a foundation within the Bank?

AC We don't want to have a foundation within the Bank itself. Many companies that have foundations become schizophrenic, with the foundation acting in one way and the company in a completely different way. The best corporate foundations are those that become very independent and this brings problems of its own because, ultimately, it's the company that finances the foundation and companies are not used to allowing such a degree of independence in something they are financing. So as long as we manage to be authentic in what we are doing, and to be good at what we are doing on the business side, that's a frontier that we would like to keep.



HIGHLIGHTS OF THE SYMPOSIUM

CAROLINE HARTNELL

'Despite the financial crisis over the last year and its effects on the economy and on all sectors of society . . . there has been no real attempt in a European setting to have a high-level discussion of what it means for the leadership of foundations and for foundation development.' So said Luc Tayart de Borms of King Baudouin Foundation a few weeks before the symposium. The Symposium on 'Responsible Leadership in Times of Change', hosted by Banque de Luxembourg on 9 October, aimed to fill this gap. One of the questions Luc Tayart was interested in was the governance of foundation endowments. 'None of the experts, inside or outside foundations, seem to have answers at the moment.' This was just one of the issues discussed by the 200 people from 25 countries, mainly foundation trustees and CEOs, who came to share experiences and hear new ideas.

For me one of the strongest messages that came out of this conference was that when it comes to a crisis like the present one, it is often what foundations did before the crisis that will make the difference to how well they survive it. This was well summed up by Gerry Salole of the European Foundation Centre, speaking at a superb opening plenary, who said: 'You only discover who's been swimming naked when the tide goes out.'

This reflects a widespread concern that as a result of the crisis foundations' role in society will be questioned and they may be found wanting. The discussions at the symposium could be seen as focusing on the different ways in which foundations might be found to be swimming naked, and the various strategies they could adopt to ensure they appear convincingly clothed in future.

Legitimacy

Legitimacy is a key issue for European foundations. In most European countries foundations enjoy some tax benefits; one obvious question is whether these constitute a good use of public money.

But it's not just a question of tax benefits, as Gerry Salole emphasized. European philanthropy is robust, he said. Research around the European Foundation Statute shows that the foundation sector in Europe is actually bigger than that in the US. But we need to think about the policy aspects, he said, not just tax: 'How can foundations and governments work together? We don't recognize our strengths when they are staring us in the face.'

If foundations are to be taken seriously by government and business as partners, they need to show they are serious players. 'The main threat to foundations from the crisis,' warned Marta Rey of the University of A Coruña (Spain) in an article in the September issue of *Alliance*, 'comes from not

Event	Symposium on 'Responsible Leadership in Times of Change'
Date	9 October 2009
Venue	Luxembourg
Organizer	Banque de Luxembourg

It is often what foundations did before the crisis that will make the difference to how well they survive it.

A HISTORICAL PERSPECTIVE

PIERO GASTALDO, COMPAGNIA DI SAN PAOLO

“I never thought I’d attend a conference and learn something about Pliny the Younger. Thank you, Piero.”
David Carrington

Looking at history is a way of reframing our future, giving us perspective, said Piero Gastaldo. Foundations have survived far graver crises than we now face—the fall of the Roman Empire, the Black Death, the French Revolution. This fascinating journey into the past took us back to Roman times, when philanthropists built theatres, made donations to temples, and supported their cities as a matter of civic pride.

Roman discussions about philanthropy also seem to have been very reminiscent of today’s. Cicero wrote about the need for philanthropy to be appropriate and the dangers of creating dependency. Pliny the Younger seems even to have offered what was in effect a matching grant to a group of parents concerned about the lack of schools in their area. In fact, he wrote, he would have provided all the money himself but he felt it was better for the parents to be actively involved.

Gastaldo’s historical tour de force took us through the emergence of Christianity, and of the notion that god himself was the legal owner of foundations (Italian bequests in the Middle Ages explicitly left money to god as a way of showing the money was there in the long term for the relief of the poor); the establishment of foundation-supported ‘hospitals’ as places of refuge for pilgrims and migrants; the emergence of the link between philanthropy and banking in the 15th and 16th centuries; and the growth of large-scale urban poverty. While modern philanthropy, especially in the US, focuses on heroic individuals, European history has a strong collective dimension, he pointed out; it is the history of associations of people pooling resources.



Gerry Salole speaking at the opening plenary.

being able to respond to this tough question the day after: where were foundations when we needed them the most? There is a risk that foundations will be perceived as selfish and paralysed entities, socially irrelevant organizations that were worried mostly about their own immediate survival rather than the problems of the stakeholders they were supposed to serve.’

Luc Tayart made a similar point in Luxembourg. ‘We need to show that foundations are not a luxury product,’ he said, ‘that we are acting responsibly, that we are looking at our missions and not just our endowments. This needs to frame the way we approach this crisis.’

Northern Rock Foundation is one foundation that has faced a real possibility of closing down altogether, as described by former director Fiona Ellis on p 23 of this supplement. In the end it survived, though with a vastly reduced budget. Speaking at the opening plenary, Ellis attributed its survival to ‘a combination of rigorous thinking, a strong track record, excellent staff and trustees, loyal grant-holders and much good luck’. You can’t plan for good luck, but you can plan for the other things. A good reputation is a priceless asset when times are hard.

Piero Gastaldo of Compagnia di San Paolo, also speaking at the opening plenary, put the issue into a historical context. ‘The crises foundations have not survived have been deep political crises,’ he said, ‘such as Nazism and the Napoleonic era. In order to cope with political crises, we need to work on legitimacy and transparency. By working with other sectors, we can establish our role in European societies.’ ▶

Focus on mission

One way of ensuring legitimacy is to make sure that the mission of the foundation is clear. When looking at the role of foundation trustees, there was a strong feeling among symposium participants that trustees need to focus less on technicalities and more on basic values and beliefs. Ensuring that the values of the foundation are clear was widely seen as their main responsibility. Robert Dufton of the Paul Hamlyn Foundation (UK) went so far as to suggest that trustees should be spending three-quarters of their time on core values.

Beatrice de Durfort, of the French Centre for Foundations, talking to me after the conference, put it very forcefully. 'It's all about mission,' she said. 'Meeting their mission is the only thing that's expected of foundations. All the other things are side issues.'

The focus on mission leads naturally to transparency. There is no point in defining your

mission if no one knows what it is. It is therefore crucial that foundations should communicate clearly to the public what they stand for and what they are trying to achieve – as well as being transparent about the finances and other aspects of the running of the foundation.

Doing more with less

This was an expression that came up again and again during the symposium. On average, European foundations' assets have dropped in value by about 15–20 per cent, while the organizations they support are facing increased demands on them. So how do you do more with less? This gave rise to a lot of discussion, covering a great range of things, for example:

- ▶ *Non-financial ways of supporting causes and organizations* Suggestions here included developing the advocacy and agenda-setting role of foundations, either directly or indirectly by funding advocacy non-profits; bringing grantees together to share knowledge and experience; brokering other funding for their grantees; and helping them become more confident about using funding more creatively, including loans and guarantees. Strengthening their grantees' ability to deal with financial shocks is one of the strategies used by One Foundation (Ireland). Another is encouraging mergers and alliances by bringing together grantees within each programme area.
- ▶ *Increased collaboration* This includes cooperating more with other foundations and working more with other sectors, particularly government (see below).
- ▶ *Innovative funding methods* Luciano Balbo of Oltre Venture, Italy's first venture philanthropy fund, was one who talked about 'different financial tools' being needed to address new financial needs and new



BEATRICE DE DURFORT FRENCH CENTRE OF FOUNDATIONS

It's all about mission; meeting their mission is the only thing that's expected of foundations.

What is the thing that has most struck you about the conference?

I think it's really important to see how others are doing when you're in the middle of a stream. It's also important to work out how to develop new ways to deliver the real mission of the foundation. It's all about mission; meeting their mission is the only thing that's expected of foundations. All the other things are side issues.

There's one thing I was disappointed about. I think the crisis goes far beyond economics. It's about something much deeper, about our understanding of the world. I think our societies are extremely technical. We are all good at our own range of activities but

we haven't yet learnt how to cross with other activities. It's interesting how many foundation leaders feel they should be merging or trying to find ways to cooperate with other foundations that are tackling the same problems in a different way. So for me the crisis is not just about finances. In France, we haven't had major disasters among foundations. The crisis is really elsewhere.



models such as developing microfinance, lending money for start-ups, and hybrid organizations to meet needs that cannot be met by grants.

- ▶ *Providing organizational funding* Rien van Gendt, introducing a session on 'New options being tested', referred to the 'project carousel' and said it was 'criminal' that more foundations don't support organizational funding. 'Would a pharmaceutical company develop a drug and after three years put the drug on the shelf and fund another drug?' he asked.
- ▶ *Reducing operating costs* Suggestions include creative use of IT and sharing back office functions such as payroll.
- ▶ *Reducing the costs imposed on the non-profits they support* For example, foundations could share due diligence or simplify reporting requirements, especially where non-profits receive grants from several foundations.
- ▶ *Mission-related investment.*



WORKSHOP ON FOUNDATION ROLE AND IMPACT

ANGELA DE SANTIAGO OF YOUNPHIL.COM REPORTING

When asked how foundations can create a lasting impact, workshop participants acknowledged that they should more and more seek to work in conjunction with governments.

The big issues

- ▶ Foundation spending
- ▶ Crisis management
- ▶ Achieving a lasting impact

In his very interesting introduction to the workshop, Pier Mario Vello of Fondazione Cariplo challenged foundations to think about how they can define new management behaviour in an extremely fast-moving environment, while preserving the values and sustainability of their organizations. He emphasized that one should never underestimate the power of ideas to bring change nor be afraid to question established rules. 'With a €7 billion endowment for Fondazione Cariplo, people thought that I was mad when I said we should be spending less in our programmes.'

He is convinced, however, that it is not by spending more but by spending more efficiently, and possibly partnering with other foundations or stakeholders, that innovative strategies can emerge and programme sustainability be preserved. At the same time, a foundation should stick to its core values and mission. The foundation that does this, and knows itself thoroughly, can take some risks and innovate.

On the question of spending in the next months, foundation representatives agreed that they will not reduce their grantmaking but will most likely have to draw on their reserves, as they have done this

year. Etienne Eichenberger of wise partnership, the workshop's facilitator, reminded participants that, for instance, foundation spending has been down by 10 per cent in the UK in the last months. Some recognized then that 2010 may be more difficult than expected.

On crisis management, participants stressed the need to help create change in many different ways other than just by spending, and particularly to develop the advocacy and agenda-setting role of foundations, either directly or indirectly by funding advocacy non-profits.

Finally, when asked how foundations can create a lasting impact, workshop participants acknowledged that they should more and more seek to work in conjunction with governments. Jean-Lou Siweck, adviser to the prime minister, closed the discussions by encouraging foundations to come up with innovation, best practices and new ideas that governments would most likely learn from and support.

Etienne Eichenberger (left) and Pier Mario Vello



Some foundations are actually increasing funding, even when their assets are down, and refocusing on the poor, those most suffering in the crisis. Some are even considering whether they should consider spending down rather than existing in perpetuity. In other words, all options are open. Much of this discussion took place in the three concurrent workshops, on foundation governance, role and impact, and financial management. Reports on each of these are included on page 9 and on the following pages.

Managing assets

A crucial issue here, which will inevitably frame any discussion of this topic, is how long the crisis is likely to last. Is the recession almost over, as some of the more optimistic economic pundits suggest? Guy Wagner of Banque de Luxembourg, the final speaker at the morning plenary, presented a less rosy view. In short: we should not assume the economic crisis is over.

Michael Göring of Zeit Stiftung (Germany) gave a good example of long-term financial planning to secure future grantmaking. When the foundation made a five-year commitment to the German Historical Institute Moscow, they put the whole amount for the five years aside, placing it all in bank accounts, with no stock market investments. ▶



THE ECONOMIST'S PERSPECTIVE

GUY WAGNER, BANQUE DE LUXEMBOURG

I don't think that we should focus too much on recovery at the present time.

What is your assessment of the current economic situation?

Over the last 30 years, the global economy has been driven by the American economy, itself fuelled by the consumption of American households. Given the situation in the US, this model seems to have run its course. It's time to find a new driver for the global economy. Eventually, Asia will certainly be able to play this role, but that will take time. I don't think that we should focus too much on recovery at the present time.

What does this mean for foundations?

Interest rates are likely to remain low for quite some time. Ten-year government bonds are currently yielding 3.3 per cent. If a foundation wants to limit its risks and not jeopardize its endowment, that is the type of return it can expect. Protecting capital and aiming for a return of 5 per cent is just impossible to promise.



How should foundations manage their assets?

Foundations that currently concentrate on generating income in the short term need to start thinking from a long-term perspective. The foundations we advise discuss their requirements in terms of their operating budget. Our role is to generate this set amount of income, often through a money market and/or bond portfolio, before considering other types of investment focusing on higher performance.



RIEN VAN GENDT DUTCH ASSOCIATION OF FOUNDATIONS

“What really struck me is that the crisis is not over and foundations should realize they are in for a protracted period of economic problems.”

What did you learn from Guy Wagner's presentation on the economic situation this morning?

What really struck me is that the crisis is not over and foundations should realize they are in for a protracted period of economic problems. The most important thing is that the vulnerability is so high. If you look at increasing government debt levels, as demonstrated by Guy Wagner, we are in for problems of inflation in the future. And foundations now have somehow to put the emphasis on preserving what they have and to look at the risk they are running and their liquidity. So those are the three elements that I took away from this morning: preservation, risk and liquidity.



WORKSHOP ON FOUNDATION FINANCIAL MANAGEMENT
CAROLINE HARTNELL OF ALLIANCE REPORTING

The clearest message to come out of this workshop was that the crisis presents a 'now or never' opportunity for mission related/connected investment (MRI).

The big issues

- ▶ Mission-related investment
- ▶ Reducing operating costs
- ▶ Extending the 'toolkit'

The clearest message to come out of this workshop, facilitated by UK consultant David Carrington (pictured below), was that the crisis presents a 'now or never' opportunity for mission related/connected investment (MRI). With very low returns on mainstream investments, MRI is more attractive than ever. Now is the time for foundation leaders to make the case for aligning investment strategies more closely with the values and aims of their foundations.



The CANOPUS Foundation makes a powerful case for MRI. It has suffered only marginal losses, all from Lehman holdings, explained founder Peter Heller, because it is mainly invested in solar and wind power – investments that are both in line with mission and more profitable than conventional investment products.

Deciding to change their investment strategy may be easier for founder-driven foundations like CANOPUS than for endowed foundations, where trustees may

feel they have to be more cautious with foundation money and investment managers are rarely willing to explore alternative investments. Against this, it was suggested that having a clear investment statute, setting out clear investment goals, could remove this difficulty.

Another question addressed by the workshop was whether foundations could reduce their own operating costs and the costs they impose on grantees. In general workshop participants expressed a willingness to look for ways to bring costs down, for example through sharing back office functions or more creative use of IT. Collaboration – a word that echoed throughout the day – was central here. Could foundations 'piggyback' on the due diligence done by other foundations, or adopt common reporting requirements for organizations supported by several funders?

Finally, the workshop looked at extending the 'toolkit'. Are foundations starting to explore using loans and underwriting as well as grants to support their chosen causes? Again, foundations seem increasingly willing to look at this. Even if making loans is a step too far for some, there was widespread interest in supporting the development of specialist intermediaries and helping NGOs become more confident about using funding more creatively. One obstacle to making loans is lack of skills: while foundation staff are used to assessing likely social impact, financial impact is another matter. Foundations are also actively exploring ways to extend the range of non-financial support, for example brokering other grants for their grantees and bringing grantees together to share knowledge.

WORKSHOP ON FOUNDATION GOVERNANCE

NOÉMIE WIROTH OF YOUPHIL.COM REPORTING

The challenge for the board in times of change is to be both fire, showing leadership and taking appropriate risks, and water, setting a conservative asset management agenda.

The big issues

- ▶ Relationships within the board and between the board and its different stakeholders
- ▶ The role of the board in asset management

The fiduciary duties of boards were widely discussed in this session, facilitated by Volker Then of the Centre for Social Investment at the University of Heidelberg (pictured below). Of the many ideas that emerged from the discussions, two in particular seemed to interest the foundations attending the session: the relationships between the board and its different stakeholders and the board's options for assuring sound asset management.

Bernhard Lorentz of Stiftung Mercator GmbH opened the session with the view that foundations should see in the crisis a strategic opportunity to start thinking about their leadership, about their impact beyond money. He spoke of 'becoming a change agent', and the implications this has for boards and foundation leadership. It would require, he said, 'a real strategic view of how to be an efficient player in the non-funding area, to learn how to cooperate with other actors from the non-profit sector or government...'

Mission-related investment

Thinking about mission-related investment is clearly part of thinking about managing assets. The increased interest in this area also relates to the need to do more with less, to use resources better. The crisis represents a wonderful opportunity to kickstart this too long neglected area.

Mission-related investment has been a subject of debate for many years. Well-known thinker Jed Emerson suggested in 2002 that 'we're working with the

wrong end of the horse if we focus too much on what comes out of foundations', ie grants. Grants are the wrong end because for an endowed foundation they typically account for only 5 per cent of the value of the total assets – and that's in the US, where there is a mandatory annual payout. 'For the philanthropic farmer,' said Emerson, 'the question is: How do we

But these are not the only stakeholders the board should take into account. Some participants underlined that the board should always maintain a certain dynamism within the foundation and between the foundation and all of its stakeholders. It should focus less on technicalities and more on core values, in order to allow good communication around those values, both internally, to ensure a good transition between generations of managers, and externally, for the general public.

Regarding asset management, the problems faced by small and medium-sized foundations were mentioned by Stefan Stolte of Stifterverband für die Deutsche Wissenschaft. 'They often don't have the internal competences to validate decisions that are taken externally,' he said. He explained the benefits of the umbrella foundation (he is a representative of one), but other options were reviewed during the discussions, including merging, in order to reinforce the inside skills and pooling functions. Italian foundations' outsourcing of their asset management to a common investment office provides a good example of the latter.

In the end, as one participant said, summing up the debate at his table, the challenge for the board in times of change is to be both fire, showing leadership and taking appropriate risks, and water, setting a conservative asset management agenda.

best manage the *total* assets of the foundation in order to maximize its value as a resource?'

The Luxembourg conference confirmed what was already becoming clear: that the time has come for mission-related investment. With very low returns on mainstream investments, mission-related investment is more attractive than ever. The crisis presents a 'now or never' opportunity, said philanthropy consultant David Carrington in the financial management workshop.

One obstacle to foundations' starting to explore mission-related investment is the fact that the investment managers they employ to advise them are extremely reluctant to explore this area at all. Luc Tayart suggested that foundations have been relying on experts too much. Foundation trustees now need to take matters more into their own hands and insist that investment managers give them the advice they are looking for.

CANOPUS Foundation, as mentioned on p 11, is already mainly investing in wind and solar power. Another that is moving in this direction is



PIER MARIO VELLO FONDAZIONE CARIPLO

The future is more linked work between foundations.

What is the thing that has most struck you about the conference?

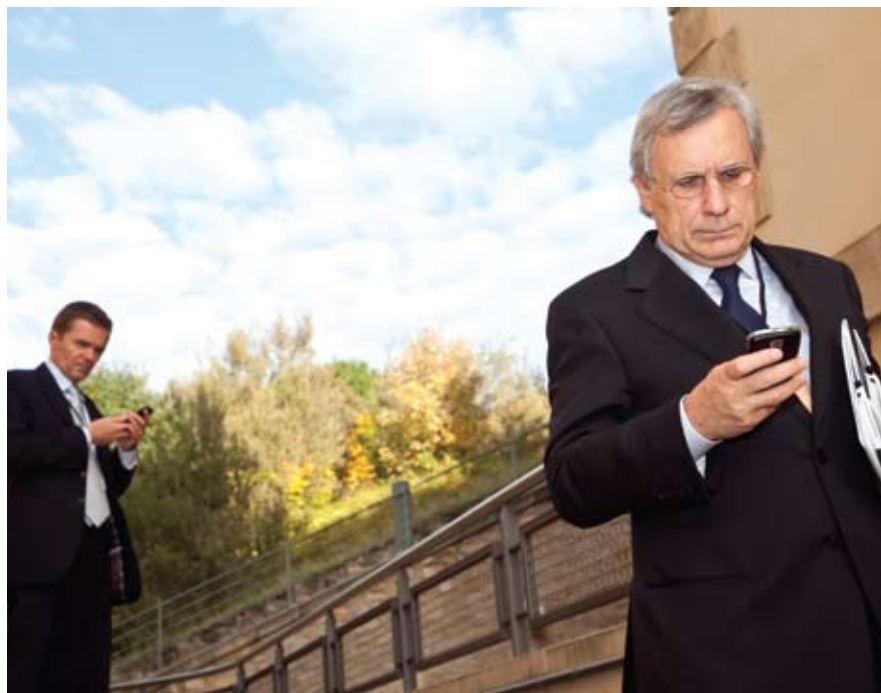
The lack of cooperation among foundations. The first step should be benchmarking and knowledge sharing. By benchmarking I mean comparison of the methodology, the approach, the values, the results – so foundations can compare each other's performance. So you don't have to operate a specific philanthropic programme. From this springboard you can start on a common philanthropic project – in developing countries, or in the educational field, for example. This is more challenging of course, but it is starting to happen. In Africa Cariplo is working with other foundations, in Malawi, Senegal and north Uganda, while we are working with Bertelsmann on education and exchanging knowledge. So there are examples, but the future is more linked work between foundations.



the Dutch Fund 1818, which now has 5 per cent of its assets in MRI (see also p 29) and the remaining 95 per cent in sustainable investments. For them, finding suitable investments is a problem, according to fund director Boudjewin de Blij. Most of its grantee organizations are not ready to consider MRI, so Fund 1818 is employing consultants to help them deliver business plans.

Collaboration with other foundations

The words that I heard almost more than any others in Luxembourg were collaboration and cooperation. Foundations have often encouraged the charities they support to cooperate, even to merge, but they have been more reluctant to do so themselves. Foundations tend to be very focused on their own identity, their own brand, but this does seem to be changing. ‘‘Merger’’ is quite a frightening word,’ admitted David Carrington, ‘but there are many things short of merger that don’t threaten identity and entity.’ The idea of sharing back office functions has already been touched on, but there are other possibilities. ‘The first step should be benchmarking and knowledge sharing,’ said Pier Mario Vello of Fondazione Cariplo. ‘From this springboard you can start on a common philanthropic project.’ ▶



Working with government

Pier Mario Vello's examples of collaboration both involve working with other foundations. Another option is working with government, as highlighted by Luc Tayart in one of two afternoon plenaries, this one on 'New structures being explored', facilitated by David Carrington. 'Relationships with government are very important,' said Tayart. 'Governments are not the enemy, them and us. If we are there to solve problems, not just cases, you have to think about government. When tackling problems, we need to look at all stakeholders, and one of these is the government. This is not a threat to our independence.' This is emphatically not a matter of substituting for government, he emphasized. 'The idea that governments are retreating and foundations need to step in is complete rubbish. We are a tiny sector and we can't fill gaps. In the European space this is a non-issue.' ►

COLIN MCCREA ATLANTIC PHILANTHROPIES

“When there's a social problem in America, they look to the private sector to solve the problem. In Europe, we think that's the government's problem.”

Have you noticed any big differences to the way US and European foundations are responding to the crisis?

The crisis has brought to the forefront the different way in which foundations in America and Europe operate. When there's a social problem in America, they look to the private sector, ie private foundations and the general public, to solve the problem. In Europe, we think that's the government's problem. That's a huge difference. If there's a problem with say school meals not being up to scratch, in Europe we'd say the government should put it right. In the US they'd look to foundations or the public around the school to provide money.

This manifests itself in the issue about working with government: should we work with government or against it? In America, they tend to support influencing through grassroots mobilization, building upwards. In Europe, we tend to influence government through policy-making. We have an agenda, and we work with grantees who share our agenda.



THE BENEFICIARY'S PERSPECTIVE KATHARINE HOPPER, OXFAM GB

“I must say that I was very pleased to see how willing the foundations are to work with partners to develop joint solutions.”

Why did you come to this symposium?

Oxfam was interested in attending the symposium to get a sense of the impact of the financial crisis on foundations. Building successful relationships with grantmakers is about understanding their priorities, engaging and inspiring them, and demonstrating the impact their support has on the communities we seek to assist, both in the immediate circumstances and in relation to our longer-term, and unashamedly ambitious, aim to overcome poverty and suffering.

In the end, isn't this the reason we're all here? To support and help those who are poor and vulnerable. From this point of view, it has been very reassuring to hear that, despite the difficult financial situation, foundations are very committed to their respective missions and values, and to sustaining their level of giving.

What else did you learn?

It's interesting to see the different ways in which foundations are facing the challenge. I attended the workshop on the role and impact of foundations. Some explained they had decided to narrow their focus, while

others were looking at their own efficiency, which was leading some foundations to make a smaller number of larger, more flexible grants. It's been very helpful to gain some understanding of how and why such decisions are taken. I must say that I was very pleased to see how willing the foundations are to work with partners to develop joint solutions.

Social investment has been widely discussed. Where does Oxfam stand on this topic?

Oxfam has been working on this for quite some time. There is of course microcredit, but recently we have begun looking at the 'missing middle', or the area between microcredit and investment available from the international markets. So we launched the Enterprise Development Programme, a business-based approach to poverty reduction. This offers a mix of grants and loans, along with business know-how, to carefully selected small and medium-sized enterprises in the developing world. (For more on Oxfam's Enterprise Development Programme, see the December issue of *Alliance*.)



Interview by
Noémie Wiroth
of Youphil.com

THE DONOR PERSPECTIVE *JEAN BOGHOSSIAN* CO-FOUNDER OF THE BOGHOSSIAN FOUNDATION

Our strategy remains unchanged. The only thing is that if we have less money, we will do less as we wait for things to get back to normal again.

What inspired your philanthropy vocation?

My family is originally from Armenia. My grandfather witnessed the genocide and afterwards he emigrated to Syria. I was born in Alep and grew up in Lebanon, where I spent an idyllic youth. In 1975, the civil war broke out in Lebanon. It was the worst of all kinds of wars . . . everyone was attacking everyone else. We couldn't continue to live there and we decided to leave for Belgium. When Armenia was hit by a massive earthquake in 1989, we started conducting humanitarian actions in the country. And since then every year we have organized a whole range of projects, from an orphanage to summer camps and even a water supply project that has improved the lives of 30,000 people.

What prompted your decision to set up a foundation?

It seemed completely natural for us to share our gains with those around us. And after around 20 years of managing humanitarian projects, we wanted to consolidate our efforts. We believed that we could bring things to another level. Thanks to our foundation, we have been able to help to forge links not only between the East and the West, but also between the East and the East through the West. My family has been through some very tough times, many wars. Because of this experience and because we have had the chance to live in a peaceful country like Belgium, we believe that everyone should have that chance for serenity and opportunity for culture.

What is your reason for attending the symposium?

I wanted to find out what was going on in other foundations. We began acting in the humanitarian sphere around 20 years ago in Armenia, but it was only a short while ago that we formally organized our activities into a foundation. This is the first time that I have attended a meeting devoted to foundations. I have learnt a lot at the event, I've met a lot of different foundations and shared experiences.

Which talk stands out in your mind?

Guy Wagner, Banque de Luxembourg's chief economist, made a most interesting speech about the history of economic crises, explaining the rise and fall of interest rates, inflation, budget deficits, etc.

It is interesting to note how economic cycles repeat themselves, and having this perspective on the past helps us to avoid making the same mistakes. There are lessons to be learnt from crises.

On that subject, how has the crisis affected your foundation?

Everyone has been affected – including ourselves! Luckily, we invest in diamonds and jewellery. We also have a real-estate business and are very involved in contemporary art. Of course, we have less money in the banks. We are a family foundation that doesn't have a big structure for managing its funds. The foundation's founders (my brother Albert, my father and myself) manage the foundation's money. The money we give to our projects comes mainly from profits generated by our business interests.

Do you think that foundations now need to adopt corporate management techniques?

I believe that foundations must generate cash flow like a business to be able to spend it on humanitarian efforts. In our case, we are currently thinking of setting up a financial department. The most important thing is that the spirit of the founders is respected by the next generations.

Is the crisis an opportunity for change, to review your strategy?

No, our strategy remains unchanged. The only thing is that if we have less money, we will do less as we wait for things to get back to normal again.

Interview by
Elodie Vialle of
Youghil.com



What wasn't discussed

One topic that didn't come up as much as I would have expected was measuring impact – possibly the issue that seems to have preoccupied foundations more than any other in recent years. It also seemed like the logical next step for the discussion in Luxembourg. If you have made clear, as an organization, what your mission is and what you are trying to achieve, surely you want to establish how you are doing, what you are actually achieving.

There was certainly talk of using new approaches to achieve greater impact. Victoria Hornby of Sainsbury Family Charitable Trusts, for example, talked about achieving greater impact in East Africa, where they have been funding agricultural development for years, by setting up a new £13 million fund to support dissemination of agricultural techniques. They are also looking to set up a sustainable financial institution to support families with disabled children in the UK, of whom a vast proportion are living in poverty. But talk of how to measure the impact was surprisingly lacking.

A final thought

The conference ended with an interesting speech by Spanish philanthropist and entrepreneur Diego Hidalgo Schnur (see interview on p 18) and some reflections on the day from journalist Jean-Marie Colombani, co-founder of Youphil.com (opposite).

For my own summing up, I will go back to the opening plenary. A foundation that ensures that its mission and values are clear, and clearly communicated; that thinks constantly about how to do more with less; that is open to ideas for cooperating with other foundations; that is perhaps considering a move to mission-related investing – such a foundation can be 'many varied, ever-changing and eternal . . . unfixed, mutating, indestructible'. Quoted by Gerry Salole, clearly a master of the apt quote, this comes from *Harry Potter and the Half Blood Prince*; for those who know the Harry Potter books, it is Snape talking about the dark arts. It could also apply to the foundation that makes sure it is not 'swimming naked' – to hark back to Salole's earlier saying, quoted at the very beginning of this article. ■

ROBERT DUFTON PAUL HAMLYN FOUNDATION

We intend to exist in perpetuity and we therefore want to see the best possible environment for philanthropy.

Why are you supporting this symposium as a champion?

One of the supporting strategic aims of the Paul Hamlyn Foundation is to support the development of philanthropy. The reason for this is that we intend to exist in perpetuity and we therefore want to see the best possible environment for philanthropy. We think it's very important that new foundations are created and that the role of foundations is well understood and respected. We want to make sure that the legislation and public attitudes remain supportive of the existence of foundations. This will ensure the conditions are right for the Paul Hamlyn Foundation to operate in.



BEATE ECKHARDT SWISS FOUNDATIONS

I think it's so important to share transnational experiences.

Why were you a champion for this symposium?

I support this symposium because I think it's so important to share transnational experiences. We in Switzerland mainly work with our Swiss colleagues, and I think that's the situation in other countries too. It brings good synergies to the sector, and our members have much to gain, if we can share experiences among different countries.



REFLECTIONS ON THE SYMPOSIUM JEAN-MARIE COLOMBANI

“The risk is that foundations focus so much on short-term objectives that they lose sight of the importance of looking to the longer term. This was a key theme on the day, ”

We are experiencing the economic and financial impact of a crisis that could last many years – or out of which we may just be starting to emerge . . . Whatever the case, the crisis has had a far-reaching impact on all sectors; but there is one that is not often mentioned by the media or the public – and that's the foundation sector. They too have been affected. Recently, around 200 foundation representatives from more than 20 countries came together to discuss their future at a conference organized by Banque de Luxembourg.

Foundations are first and foremost asking about their short-term future. How to keep the impact of the crisis at bay? What solutions need to be put in place immediately? Many ideas were discussed: cost reduction, partnerships and alliances, review of investment strategies, refocusing on victims of the crisis and on core values, the necessity for more effective resource allocation, better risk analysis – but also the need for the sector to work together more closely, to share information and expertise.

However, the risk is that foundations focus so much on short-term objectives that they lose sight of the importance of looking to the longer term. This was a key theme on the day, especially because foundations are themselves engaged in long-term project financing.

In my opinion, two major consequences of the crisis underpinned the discussions of the roles of foundations in the medium to long term. The first is the growing importance of corporate social responsibility (CSR). The crisis has pushed CSR to the top of the agenda. Even if many companies will be tempted to go back to their old ways prior to the crisis, public demands in this area will not wane, pressure will remain strong, and the corporate world will have to balance financial results with CSR. CSR offers foundations a way of expanding their scope of involvement and an opportunity for new partnerships with companies.

The second is the changing role of the state. Over the past few months, governments have made massive injections of cash into the economy and embarked on huge recovery plans that have allowed us to envisage the end of the crisis. While government resources are on a completely different level from the kinds of resources that foundations can mobilize, public policies will continue to call increasingly on private initiatives, especially when immediate action or specific expertise is needed. So how should foundations reconfigure their strategies and missions and work more closely with public authorities to ensure the long-term impact of their actions and improve their efficiency? From this point of view, Europe's long-standing experience with public-private partnerships is a definite asset.

Jean-Marie Colombani is co-founder of Youphil.com, France.



And so we come to the political role of foundations, to their non-financial impact, and in particular their role as lobbyists . . . Here, there is also an opportunity for foundations to be more involved in managing and operating projects beyond grantmaking. Both developments could see foundations take on the profile of an NGO. The advantages of NGOs are that they are stakeholders in national and international political life and their impact on the ground is strengthened by the fact that they take a stance in battles of opinion. But this shift also implies a higher public profile and a risk of political fragility, which is a risk that many foundations may not want to take.

The fundamental question for the medium term is how to preserve foundations' identity and core values while seizing the new opportunities thrown up by the crisis. This question ties in with the history of foundations, which – as Piero Gastaldo of *Compania di San Paolo* reminded us – have been, since the start of their history under the Roman Empire, sensitive and even 'soluble' in political crises but highly resistant to economic crises. From what I have seen, this is still true today: foundations adapt, will continue to adapt, and will remain a permanent fixture on the landscape.

INTERVIEW

DIEGO HIDALGO SCHNUR

In 2008, Diego Hidalgo Schnur was awarded the Raymond Georis Prize for his contribution to European philanthropy. He has set up a number of foundations, he is a standard bearer of democracy, he co-founded the newspaper *El País*, he is author of a number of books . . . 'It's quite difficult to summarize your career in a few words! How would you present yourself?' Noémie Wiroth and Elodie Vialle of Youphil.com asked him.



“I got an unexpected inheritance of about \$10 million when I was in my twenties. What could I do with that money? Spend it with Hollywood actresses?”

It's true that I have changed direction many times in my life. However, underlying all of my endeavours has been the desire to do good and help people, values I inherited from my parents. In Spain, the word has a rather pejorative connotation, but I suppose you could say that I am a philanthropist. I'm also the shame of the Harvard Business School where I studied: every time I tried to make money I lost it . . . and every time I made an altruistic investment, I made money! I also hope that I am a good father and grandfather. When you have children, you worry about their future – and the future of the world.

How did you become a philanthropist?

You're a philanthropist when you have a passion . . . and when you have the means! I got an unexpected inheritance of about \$10 million when I was in my twenties. What could I do with that money? Spend it with Hollywood actresses or buy luxury boats or houses? Invest it as I had learnt at the Harvard Business School and hope to be a rich man when I'm in my eighties? None of that appealed to me and I decided to do something socially responsible to improve the world.

I had seen tremendous poverty around the world while working for the World Bank, where I was the division chief responsible for 45 countries in Sub-Saharan Africa. Even if there was poverty in Brazil or India, I felt that my money would be better used in Africa and I created FRIDA, a project to which I gave almost my whole inheritance. FRIDA was designed to help the smallest and poorest African

countries by promoting profitable labour-intensive export-oriented activities and helping them to find markets. This was a project aiming to improve the world at the grassroots level, from the bottom upwards . . .

Thirty years after FRIDA, you set up FRIDE . . .

As you said, I was a co-founder of *El País*. When the group that published the newspaper went public, I became wealthy again . . . I thought then that rather than trying to change the world from bottom upwards, I wanted to do it from top down. I figured that changing the system had more potential impact. Poverty was still a major global issue, but I identified others I could fight against: a reversing trend in the consolidation of democracy, threats to peace and security from war and conflicts, terrorism, environmental problems and climate change, pandemics and threats to global health . . . I decided to focus on the '3 Ds' – democracy, development and dialogue – and created the think-tank FRIDE.

At that time, I had some rather powerful friends: the King of Spain, with whom I studied law; President Clinton; Mikhail Gorbachev, who asked me to be on the board of his foundation . . . Together with them and the Harvard Business School network, I figured that I could do something to change the system. The idea behind FRIDE is to bring together top experts to find solutions. This is how we came to organize the Summit on Democratic Transition and Consolidation in 2001, which resulted in the creation of the Club of Madrid. In 2005, we organized another

Diego Hidalgo Schnur is founder and president of the Foundation for International Relations and External Dialogue (FRIDE), Spain.

conference on terrorism after the War on Terror was launched by President Bush, surprisingly without having consulted experts on each of the root causes of terrorism. Both conferences were resounding successes and resulted in the adoption of profound changes in policy.

And yet your father made you promise not to go into politics!

It's true; my father was a centre-left deputy before becoming minister of defence in 1934. After being the darling of the political world, in 1936 both the republicans and the Franco supporters wanted rid of him. He was traumatized by this experience and forbade me to go into politics! I understood that his ban only concerned Spanish politics, and not international politics. Actually, I have never been involved in the national political landscape in Spain . . .

Why come to this symposium? What message do you want to get across?

As well as sharing my experience of being a philanthropist, I also want to offer advice and pass on bits of advice I have received from various personalities. The King of Spain once told me that it is no good identifying problems if you don't have solutions to offer. The founder of the magazine *Jeune Afrique*, Bechir Ben Yahmed, told me that in order to get big results you have to think big and risk being a bit of a megalomaniac. These are just some examples of the advice in my 'ten commandments' that I share with young people interested in engaging in philanthropy and that I use to guide my own decisions when selecting projects I want to support.

Can you explain a little bit about these lessons?

There is first a list of questions to ask yourself: is the problem you are seeking to remedy a priority and who is going to benefit from it? Do you have to think small or can you think big? What are the possibilities that the project can be replicated? What is your methodology? Who is going to help you? Have you studied your environment?

I also want to say: follow your passion – it's your comparative advantage over any other person or institution dealing with the issue – and give yourself the education and background you need to optimize how you deal with it. From time to time, check if someone is following you! If no one is, maybe your project isn't the right one. Do not 'fill space in the photo': the more space you leave for others, the more the chances of getting support from people who do want to appear in the media. Avoid wishful thinking. Evaluate the impact before the project but make

careful plans for implementation and follow up. For example, FRIDE and the action tanks subsequently created at its initiative (Club of Madrid, Toledo International Centre for Peace) have been useful and successful. I was deeply involved in their operation but I appointed somebody with experience, objectivity and good judgement to represent me as donor, to encourage the institutions to diversify their sources of funds so as to become self-sufficient, and to decide how and when to gradually separate from me.

The theme of today's symposium has been the crisis. How have your various organizations got through this year?

The world has changed a lot in the past ten years and many things that we thought were impossible are now possible. We can also view the crisis from the point of view that it allows the possibilities of new scenarios. It has also made foundations – including my own – less bureaucratic and more efficient as a result. We have assessed salaries, learnt to make the most of our resources, and re-examined our priorities to focus on the most urgent needs. In order to be able to continue down this road, my aim now is to boost synergies between my various organizations to make them even more efficient.

What are your next battles?

My aim is to continue to help make the world a better place. My family is a powerful driver behind my desire to stay involved. In the next few years, I would like to focus on two projects I feel very strongly about. The first one is EFE, Education For Employment Foundation, which helps improve the futures of youth in the Middle East and North Africa. The second is a rural development project in Los Santos de Maimona, the village where my father was born. Thanks to a number of initiatives that range from a school for cooks to a biofuel factory, we have managed to revive this poverty-stricken village. The project can be replicated anywhere, especially in developing countries, and it's a model I'd like to develop.

When we listen to you, we have the feeling that philanthropy is a family affair . . .

In the 19th century, my grandmother opened a spa to help people with rheumatism. My parents passed on the desire to get involved with people and help them. I am really proud of my daughter, who is director of DARA, an agency that evaluates humanitarian action, in which I'm also involved; and of my son, who is supporting the development of car pooling in Spain. All my children have inherited this desire to help others. It's true: for me, philanthropy is really a family affair. ■

VIEWS FROM THE ADVISERS

What changes in their clients' behaviour and preoccupations have they noticed as a result of the crisis, *Alliance* asked a group of philanthropy advisers and foundation consultants who were present at the Luxembourg symposium. This is what they said . . .

DAVID CARRINGTON INDEPENDENT CONSULTANT, UK

“It's much easier now to have a conversation about asset management and mission connected investment.”

There are two things – both very much in evidence in my workshop yesterday. One thing that has struck me has been a willingness on the part of foundations to look hard at the requirements imposed on the organizations they fund. Until perhaps the last year, foundations paid lipservice to the idea that they do impose transaction costs on these organizations, but now my impression is that they are recognizing how tough things are on the ground and are prepared to look both at the way they operate themselves and at the possibility of combining forces over reporting and looking for ways of reducing the burden on grantees.

The other thing is that it's much easier now to have a conversation about asset management and mission

connected investment. Trustees are questioning whether they should have been more active in their attitude towards the shares they own. My workshop yesterday had examples from many countries of boards of trustees who a year ago would not really have engaged in a conversation about their investment strategies and who are now doing so. And they are even feeling brave enough to be more demanding of their investment managers and becoming a bit more sceptical about the advice they have received. I hope that momentum will survive the possibly uncertain recovery of the markets, as demonstrated so graphically by Guy Wagner of Banque de Luxembourg.



FELICITAS VON PETER ACTIVE PHILANTHROPY, GERMANY

“There's an increasing interest in seeing where the money goes. There's also an increasing awareness that you can't tackle it all yourself.”

What we're seeing is quite encouraging. Number one, people are coming to us saying, 'we're seeing an increasing gap between rich and poor and we really need to give back and counterbalance the developments caused by the economic downturn.' The other thing they say is, 'we want to know more about what impact our money has.' So there's an increasing interest in seeing where the money goes. There's also an increasing awareness that you can't tackle it all yourself.

The other very interesting thing I've seen is that people are starting to embrace complexity. They realize that wherever they start, they can't just deal with one problem because any problem is interconnected with others. That's also driving the wish for collaboration. We work with entrepreneurial families, and they're not used to going out and actively researching other players in the field. Now they are wanting to know what others are doing, and that's a change. The awareness that

you need to think about what you do before you start has greatly increased.

Entrepreneurial families are also becoming more interested in the hybrid space – not just the grant-giving, charity side of things but how they can invest their money differently and get some financial return, however small. They are increasingly interested in social enterprise, social business.

Finally, some people are setting up small foundations with large annual budgets, so using the foundation as a sort of 'pass through' while the endowment basically covers running costs. This means they don't tie up too much money in the foundation. If you tie up a lot of capital and it yields 2 per cent, eternity is a long time and you haven't got much money to do things now. So small foundations with large pass-through budgets can be a very attractive model.



JUDITH SYMONDS INDEPENDENT CONSULTANT, FRANCE

“Yes, foundation endowments have diminished, but it isn’t a depressing picture.”



What I’m seeing among my clients is a greater focus on what they’re doing, which is very encouraging. A group of younger donors are really deciding they’re going to mobilize their funds and work together to address certain issues. They are realizing they need to be more strategic, to pool funds and work together – and that is beginning to happen. People are really feeling they can solve problems, it’s a new mentality.

They also feel they have a real mission to reach out and bring in new donors. They were doing this before, but I think the crisis has shaken up the sector in some ways. Yes, foundation endowments have diminished, but it isn’t a depressing picture. I think people’s attitude is to fight back and to show they have a responsibility and can change things still.

MARC PFITZER FSG SOCIAL IMPACT ADVISORS, SWITZERLAND AND USA

“Everyone is trying to figure out how to do more with less.”



In Europe I haven’t seen a big change from the past. In the US the number of requests we’ve had from foundations for a thorough evaluation of their portfolios, their strategies, is as high as in previous years if not higher. Everyone is trying to figure out how to do more with less. It’s bringing a lot of interesting conversations at board and management level, and then they’re reaching out to people who can help steer that debate and figure out what those priorities are.

MARTIN BROOKES NEW PHILANTHROPY CAPITAL, UK

“There is a genuine interest among some donors in looking at root causes.”



There are two changes I’ve noticed. First, donors are slowing down in their decision-making. They’re thinking a lot more before they decide to act. So it can take a lot longer to nurture a relationship with a donor before they take their first serious steps into philanthropy. The second change is that there is a genuine interest among some donors in looking at root causes. They’re saying that they should, as responsible philanthropists, be addressing some of the damage done by unemployment or household debt and other effects of the recession. So they’re responding to the situation more determinedly.

I was asked recently whether donors like to fund social justice. I think wealthy donors do like to fund social justice but they just don’t like to call it that. It’s

not the sort of language that resonates with them. They understand root causes, they understand tackling underlying problems. So I think one has to tailor the language to what they understand. Frequently, their understanding comes with progressive engagement with the issues. So it’s almost a matter of learning through funding rather than of being a deep root causes kind of funder from the start.

As for effectiveness, and trying to do more with their money, I don’t think this has changed. New Philanthropy Capital is an organization that says effectiveness is our sort of obsession, and people who come to us are by definition more likely to be concerned about effectiveness and the impact of their donations than people who don’t come to us.

ETIENNE EICHENBERGER WISE PARTNERSHIP, SWITZERLAND

“They know they may have lost something but many others have lost much more. This is not the moment to give up.”



It’s a tricky question. We work with 15 families and it’s difficult to observe strong trends. One thing I do observe is that people have much less time – because of the demands of their businesses and other priorities. The scarce thing is time rather than financial resources – though financial resources will become an issue if the crisis continues for many years. But philanthropy remains a priority. In fact we’ve been convening people over whole weekends and they’ve all been willing to attend, so there’s a strong commitment and willingness to engage.

In general, the motivation for all generations to be involved in family giving remains strong. People are very sensitive not only to what they’re losing but also to what other people are losing. As has been pointed out many times today, the losers are the ones who were not here at the symposium and have no voice. The people we work with are sensitive to that and don’t want to reduce their commitment. They know they may have lost something but many others have lost much more. This is not the moment to give up.

EUROPEAN FOUNDATIONS' RESPONSES TO THE ECONOMIC CRISIS

ANDREW MILNER AND
CAROLINE HARTNELL

In advance of the October symposium, *Alliance* magazine commissioned a series of case studies from European foundations. What we wanted to find out was how the crisis had affected them and what measures they had taken, either to safeguard their own assets or to protect the organizations and causes they support. These 'case studies' are the stories of European foundations' responses to date. They show a determination not only to stand by their existing grantees but also to extend their reach to other groups and individuals feeling the worst effects of the crisis. For many, the crisis has also precipitated new ways of working and has brought home the need for concerted action if the most effective results are to be achieved.

The general story is one of losses sustained and damage limitation tactics adopted, and of foundations trying, as far as possible, to ensure that the losses do not affect the operation of the projects they support.

This article looks at some of the threads emerging from this set of case studies and quotes liberally from them. The case studies are all reproduced in full on the *Alliance* website at www.alliancemagazine.org.

The general story is one of losses sustained and damage limitation tactics adopted, and of foundations trying, as far as possible, to ensure that the losses do not affect the operation of the projects they support.

How the crisis has affected foundation assets

The asset values of European foundations have dropped 15–20 per cent on average; some have lost as much as half the previous value of their endowment. Among those contributing case studies, Emilio Rui Vilar, president of the Calouste Gulbenkian Foundation, reports that the foundation's balance sheet for 2008 shows 'a decrease in value of total assets of €380.8 million (12.2 per cent) over the year', while Luc Tayart de Borms, King Baudouin Foundation managing director, reports that by the end of 2008 'we had lost 30 per cent of the market value of our endowment'.

However, he adds, there is a longer view that needs to be taken into account: 'Since 1988, our annual return has been 5.6 per cent and we have spent about €5 million per year – or €100 million overall – from our endowment. So the "snapshot" shows that we have lost 30 per cent, but the "film" demonstrates that our annual return is steady at 5.6 per cent.'

None were as directly in the firing line as the UK's Northern Rock Foundation, established when former building society Northern Rock demutualized in 1997 and became a bank, and the foundation's sole funder. Northern Rock was the first casualty among European banks. 'Between September and Christmas,' recalls Fiona Ellis, former CEO of the foundation, 'it looked possible that we might receive no further funds, and the trustees considered options for winding down the foundation.'

COPING WITH A CRISIS: THE NORTHERN ROCK FOUNDATION (UK)

FIONA ELLIS, FORMER CEO

“At this point we made a brave and serious decision. We decided to cut programmes instead of budgets.”

Our planning was hampered by lack of knowledge: was this a single-year phenomenon or something more long-term and damaging? Moreover, we knew that any action we took would be misinterpreted by the press and read for indications of the health of the bank. We were making decisions under a microscope with a distorting lens.

As more information emerged in the next weeks, we decided to revise our budget for the rest of 2007. We abandoned our proposed move to a new building. We had set aside substantial funds for new special initiatives; those were cancelled, with one exception, which was considered both too important and too far advanced. This went ahead with a commitment for three instead of five years and a promise of review. We cut back any of our own initiatives that would not have immediate consequences for organizations – for example, we effectively put on hold our rolling programme of professional development for local charities and gave notice that the 2008 training

budget, if there was one, was likely to be substantially reduced. Planned follow-up grants for long-running initiatives were indefinitely postponed. All flexible funds disappeared. We reduced the grant programme budgets, though not drastically.

Between September and Christmas it looked possible that we might receive no further funds and the trustees considered options for winding down the foundation (I stress that this was always seen as possible, not inevitable). . . . By December, we had agreed to reduce the grants budget for 2008 to £7 million with a promise to review it if any further funds became available.

At this point we made a brave and serious decision. We had always believed that larger grants that achieved their purpose were better than small, inadequate ones. So we decided to cut programmes instead of budgets. We assessed each programme in terms of who else was working in the area; how long it had been running and how effectively; and what the effects of a cut would be on organizations and beneficiaries. The decisions were difficult and imperfect – as any decisions would have been. On this basis, we closed four out of seven grant programmes. All of this was communicated as widely, as clearly and as quickly as possible.

By Christmas, having reduced budgets and grant programmes, we accepted that we could not continue as before so we prepared to reduce staff numbers.



Surviving the shock . . .

This was the extreme case, and even here, as a result of government intervention, the foundation continues as a going concern, ‘albeit in reduced form’.

Many foundations have emerged – if they, and we, can be said to have emerged – from the crisis with less damage than might have been expected (in one case, that of Germany’s Mercator Foundation, the 2009 grantmaking budget has increased, according to its president, Bernhard Lorentz, by 50 per cent over 2008). According to Artur Taevere, former director of Estonia’s Good Deed Foundation, ‘we are very lucky that we have not lost a single major donor in the past 12 months. But many have reduced their philanthropic commitments, though interestingly some of them have increased the time (and professional skills) they are investing in our portfolio organizations. Against this background, engaging new supporters takes two or three times the effort that it used to.’

‘The financial crisis has hurt Fund 1818 [the Netherlands] but . . . the damage is not much more or less than to other endowed funds. Mission-related investment has helped to diversify and thus further strengthen our portfolio,’ concludes executive director Boudewijn de Blij.

Animato, a Swiss foundation that funds young musicians, ‘has been relatively immune to the effects of the crisis, largely,’ says Peter Spinnler, its CEO and founder, ‘because of our relatively conservative investment policy.’ Also unscathed, by and large, is Fondation Ensemble in France. ‘For the time being, the resources of our foundation have not suffered,’ says Jacqueline Delia-Brémond, founder and vice-chair of the board of trustees. Note her opening words, however: ‘we are still in the middle of an economic and social crisis whose destructive power we cannot yet measure.’

“We are still in the middle of an economic and social crisis whose destructive power we cannot yet measure.”
Jacqueline Delia-Brémond

PLANNING FOR THE UNKNOWN: THE KING BAUDOIN FOUNDATION (BELGIUM)

LUC TAYART DE BORMS, MANAGING DIRECTOR

“We are waiting for the dust to settle before making any other investment decisions.”

Our philosophy concerning our endowment is that, as an investor in equity markets, we must ride the ups and downs of the real economy. If in the wake of the meltdown all foundations with significant equity positions had retreated to cash, they collectively would have brought global markets even closer to a complete implosion. We also believe that we have responsibilities to our donors and our beneficiaries. We do not consider our work a luxury only to be undertaken during the good times. When the financial crisis hit, we were faced with hard decisions – how best to manage our portfolio and streamline operations? . . . By the end of 2008, we had lost

30 per cent of the market value of our endowment. . . .

Against this backdrop, we took a 'no selling' approach, with the exception of some high-yield bonds, which comprise just 5 per cent of our portfolio, which we sold to create cash for the 2009–11 budget. The foundation still holds its equities, which have gone down in value but are expected to go up again. At the end of August we decided to add the asset class of buy-and-sell credit. We are waiting for the dust to settle before making any other investment decisions.



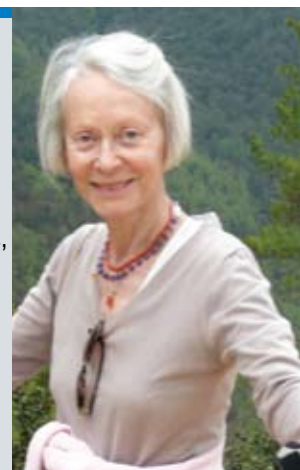
KEEPING THE BALANCE: FONDATION ENSEMBLE (FRANCE)

JACQUELINE DELIA-BRÉMOND, FOUNDER AND BOARD VICE-CHAIR

“We feel the most urgent need is to support useful projects first, rather than take risks on innovation.”

We have always felt that we had an obligation to use the foundation's funds in the best and safest way. That's why, since the beginning, we have set up a very rigorous review process for our two annual grant cycles. What has happened now is that money has become more scarce so our College of Experts, which reviews all grant proposals, is becoming more demanding in terms of the potential and efficiency of projects. I must admit that this cautious attitude makes it a little more difficult for innovative projects to go through, but we feel the most urgent need is to support useful projects first,

rather than take risks on innovation. Our main concern is for the grantees to meet their objectives. In addition, it is taking longer for the potential grantees to fund their proposals. Fondation Ensemble's policy is to work in partnership with other funders, not exceeding 50 per cent funding for a project overall, nor providing a grant until 75 per cent of the funds are in place. In the current situation the process is slower, as proposals are having more difficulty in finding other donors.



“Herein lies our major challenge for the coming years: how can we help soften the impact of the crisis among the most vulnerable in our society?”

Luc Tayart de Borms

Protecting the most vulnerable

Of course, foundations do not exist for their own sake. If many of the case study contributors are emerging from the crisis relatively unscathed, the same is not necessarily true of their beneficiaries – a fact of which they showed a keen awareness. As Luc Tayart de Borms puts it, 'our primary concern during the crisis is for the civil society actors with whom we work and all of those associations that are experiencing financial difficulties. Herein lies our major challenge for the coming years: how can we help soften the impact of the crisis among the most vulnerable in our society?'

Good Deed Foundation, as a supporter exclusively of social enterprises, might in theory expect its constituents to be better able to weather the storm,

as they have some income-earning capacity. However, expects Artur Taevere, they are still likely to be in for a tough time. As he says, if your clients are in financial difficulties, it is going to affect your income, too.

For Fondation Ensemble, says Jacqueline Delia-Brémond, the fact that money is tight means that its review process, already thorough, has become even more stringent: 'this cautious attitude makes it a little more difficult for innovative projects to go through, but we feel the most urgent need is to support useful projects first, rather than take risks on innovation.' Another side-effect is that since, as a matter of policy, Ensemble always works in partnership with other funders and requires 75 per cent of a project's funding to be in place before it

**WORKING WITH OTHERS TO SOFTEN THE BLOW:
FONDAZIONE CASSA DI RISPARMIO DI CUNEO (ITALY)**
FRANCO CHITTOLINA, *CENTRO STUDI* DIRECTOR

“We sought all possible opportunities for discussion with others involved in decisions and interventions related to the crisis.”

In order to concentrate all available local resources on coordinated and shared activities, we sought all possible opportunities for discussion with others involved in decisions and interventions related to the crisis, formulated innovative proposals and looked for new partnerships. Although launched before the crisis began, our so-called *Progetto Fiducia* (Confidence Project) was particularly significant here. It was launched in partnership with the Banca Regionale Europea and some of the local dioceses to offer soft loans for people experiencing temporary difficulty in meeting basic needs such as living expenses, rent and healthcare.

Another project involves making advance payments to temporarily unemployed workers of

subsidies . . . normally granted by the national social security body . . . but there is an average delay of four or five months. The advance payments helped ease the hardships these delays can cause. Finally, grants to local charity and solidarity institutions will help Italian and immigrant families to avoid serious deprivation. Next autumn, with the likelihood of increased unemployment owing to the failure of businesses, we can expect more requests for support from people without income or social protection. We are preparing an urgent and 'extraordinary' intervention which might be related to *Progetto Fiducia*.



Most foundations' first response to the worsening situation was to look at how they could make savings without reducing their grantmaking, with the attendant risk of damaging their grantees.

approves an investment, 'it is taking longer for the potential grantees to fund their proposals.'

First responses

Most foundations' first response to the worsening situation was to look at how they could make savings without reducing their grantmaking, with the attendant risk of damaging their grantees. King Baudouin Foundation *did* make some cuts in project funding, but most of its saving was achieved by 'having less "free money" (our budget for responsive grants and exceptional support), and partly by making staff cuts – of about 10 per cent. Our permanent staff has been reduced from 58 to 52 as a result of case-by-case considerations and early retirement initiatives. Staff did not receive a pay rise in 2009 and management took a small cut in remuneration.'

'When the gravity of the crisis became evident,' says Emilio Rui Vilar, 'our reaction at Gulbenkian was twofold: not only did we adopt more prudent investment and expenditure policies but we also began seeking direct inputs from non-profit organizations that were experiencing a shortfall in support because of the crisis, just at a time when the demand for their services and goods was increasing.'

Fondazione Cassa di Risparmio di Cuneo similarly began to take careful soundings on the wider effects of the crisis. Cuneo is traditionally one of the most affluent parts of Italy, says Franco Chittolina of the foundation's *Centro studi*, but even here the crisis has

begun to bite in the shape of business closures and consequent increases in unemployment. Beginning in early 2009, the *Centro studi* 'systematically collected data, figures and information on the trends at European, national and local level. This exercise . . . progressively highlighted the extent of the crisis and all the unexpected challenges it throws up, particularly at local level, and with a totally unpredictable duration.' In response, it has pursued its *Progetto Fiducia* (see above) and has instituted a system of advance payments for the newly unemployed to tide them over until state support is forthcoming.

Again, the most extreme case is offered by the Northern Rock Foundation. As we have seen, when reducing the budget and closing four out of seven grants programmes still wasn't enough, further steps were needed. 'We accepted that we could not continue as before so we prepared to reduce staff numbers,' recalls Fiona Ellis. These difficult decisions were taken with great reluctance and implemented as sensitively as possible. The decision to cut programmes rather than budgets was made on the basis of the foundation's belief that 'larger grants that achieved their purpose were better than small, inadequate ones . . . The decisions were difficult and imperfect – as any decisions would have been.'

A 'contrarian' approach

Peter Spinnler feels that the Animato Foundation's relatively smooth passage through the crisis gives

A CONTRARIAN APPROACH: ANIMATO FOUNDATION (SWITZERLAND)

PETER SPINNLER, FOUNDER AND CEO

“There is a general desire to be ‘contrarian’, that is, to spend more than in the past in order to compensate for reduced contributions from government and companies.”

The negative impact for foundations of the financial crisis was really brought home to me . . . by the news on 25 December 2008 that the Elie Wiesel Foundation had lost practically all its assets, which were invested in Madoff vehicles. This also triggered a growing collective awareness among Swiss philanthropic foundations, as a result of which there began an internal discussion within Swiss Foundations, the association of Swiss grantmaking foundations.



We have been engaged in a wider debate ever since. Legal and practical constraints notwithstanding, there is a general desire to be ‘contrarian’, that is, to spend more than in the past in order to compensate for reduced contributions from government and companies. Most Swiss trustee boards feel a particular obligation towards their beneficiaries in respect of ongoing projects and committed financial support. Many well-known Swiss foundations have announced the unlimited continuation of their philanthropic activity, showing their determination not to disappoint beneficiaries or tarnish their good reputation as a reliable partner.



Philharmonic Orchestra of Animato Foundation playing in the ‘Mozarteum’ in Salzburg in November 2008, with Howard Griffiths conducting.

them a greater responsibility, particularly as funding for the arts has, not surprisingly, been hard hit. (Animato’s main focus is sponsoring young musicians.) In fact, he says, there is a determination among Swiss foundations in general to be ‘contrarian . . . to spend more than in the past in order to compensate for reduced contributions from government and companies . . . legal and practical constraints notwithstanding’.

Despite its reduced budget, King Baudouin Foundation has also decided to be ‘anticyclical’, says Luc Tayart de Borms. ‘We dedicated an extra €450,000, on top of the agreed 2009 budget, to a new “crisis project” tackling the issues of unemployment and training for young people in Belgium, particularly those from migrant backgrounds, along with a lecture series featuring speakers with new ideas – and new inspiring paradigms – on shaping the future.’

Investing in the teeth of the crisis

Perhaps the most striking example of the contrarian approach, however, is that of the Private Equity Foundation. Initially working in the UK, where it is based, the foundation decided to broaden the scope of its investments, since most of the 70-odd firms backing it also worked throughout Europe. In 2008, despite the deteriorating financial situation, PEF, in partnership with Active Philanthropy in Berlin, made its first investment in the Hamburger Hauptschulmodell, a charity that coaches mainly socially disadvantaged students in Hamburg to increase their chances of getting an apprenticeship. According to its CEO, Michael Goedeke, ‘seeing the stock market crash, you are glad to see a foundation

BREAKING NEW GROUND IN ADVERSE CIRCUMSTANCES: PRIVATE EQUITY FOUNDATION (UK)

MICHAEL ALBERG-SEBERICH, EXECUTIVE PARTNER, ACTIVE PHILANTHROPY

“The financial crisis was seen as an opportunity to underline PEF’s commitment to NEET students.”

When the financial crisis hit, PEF’s backers were not exempt. However, although PEF’s 2008–09 fundraising run was affected, it proved more resilient than many had thought possible and the board continued in its search for new investments in Germany. The financial crisis was seen as an opportunity to underline PEF’s commitment to NEET students [young people not in education, employment or training]. For me, this active stand was not always easy. While many charities in Germany initially responded enthusiastically to the new player in the field, they became unsure when they realized that the money originated in the private equity industry which, as part of the financial system, had been affected by the crisis. Other charitable organizations had doubts about whether such an industry foundation could actually be reliable and a long-term supporter.



THE PAIS SOLIDARIO INITIATIVE – CALOUSTE GULBENKIAN FOUNDATION (PORTUGAL) EMILIO RUI VILAR, PRESIDENT

“Such campaigns are rare in Portugal, but . . . our credibility and experience have helped to launch a collaborative funding initiative.”

To help tackle the rise in poverty that has been affecting families in Portugal, we brought together a group of institutions and well-known individuals to launch a national campaign, *País Solidário* (Charity Country), to raise funds for the most disadvantaged. The specific target of this campaign are the ‘new poor’, people who have suddenly lost their jobs but are not covered by public welfare mechanisms. We felt it was crucial to promote a quick and flexible response if we were to meet the basic needs of this group. Such campaigns are rare in Portugal, but we played a convening role and our credibility and experience have helped to launch a collaborative funding initiative that will give confidence to potential donors.



The promoters of *País Solidário* together contributed €1 million as initial funding. Our goal now is to multiply this start-up amount during 2009 by calling on other institutions and the general public to contribute. As of July, the amount raised was around €1.4 million.

PLANNING FOR THE LONG TERM: MERCATOR FOUNDATION (GERMANY)

BERNHARD LORENTZ, PRESIDENT

“This involves more than just financial commitment – we also contribute our networks, our knowledge and our reputation.”

Since the financial crisis, we are receiving more enquiries: from partners in existing projects, from private and public sector institutions and organizations with whom we have not yet worked, and also from other foundations. In reaching decisions about new projects, our new strategy gives us essential orientation. In terms of content, we are concentrating increasingly on our interdisciplinary clusters of integration, climate change and cultural education. We select new projects in line with the long-term objectives of social change, and we

see ourselves as a socio-political actor. This involves more than just financial commitment – we also contribute our networks, our knowledge and our reputation. We want to make sure that our work is also always perceived and understood as a long-term investment in the processes of social reform.



going ahead with an investment. This is especially true if the funding comes from a new player in the field.’ Two further investments have followed since.

Gulbenkian’s initial response, says Emilio Rui Vilar, was to ‘prioritize maintaining levels of funding for grantmaking/operating activities, so we reduced running costs and investment expenditure’. Like King Baudouin Foundation and Fondazione Cassa di Risparmio di Cuneo, they also decided to pay particular attention to urgent cases thrown up by the crisis, giving priority to tackling new or worsened incidences of poverty. ‘To some extent, we have adopted a back-to-basics approach on the grantmaking side to meet the most pressing needs such as employment, shelter, education and food.’

An example of this has been a new collaborative drive in the shape of *País Solidário* (Charity Country),

which involves a number of Portuguese organizations and individuals in raising funds for the ‘new poor’.

Using the full range of foundation assets

Such joint initiatives are rare in Portugal, as Emilio Rui Vilar points out, and this highlights something else that the crisis has brought out: an awareness of the need to look for other ways to make foundations’ influence, as well as their material resources, work harder.

Many of the case study organizations had already begun or were considering a greater degree of cooperation with others before the crisis. For Bernhard Lorentz of the Mercator Foundation, in fact, this is the silver lining to the crisis. ‘While radical cuts are and will be made in many areas,’ he argues, ‘it is possible at the same time to push for

“From experience in Switzerland we have learned that arranging a successful cooperation among foundations is a challenging task.”

Peter Spinnler

fundamental political and social reforms and to form new coalitions. I believe the crisis will stimulate, for instance, greater use of private-public partnerships and cooperation agreements.’ We have already noted the Swiss example of seeking closer cooperation, though Peter Spinnler of the Animato Foundation, while exploring the idea, sees possible drawbacks, too. For one thing, he is wary of what he calls the ‘big brother syndrome’ (larger foundations swallowing smaller ones); for another, ‘from experience in Switzerland we have learned that arranging a successful cooperation among foundations is a challenging task’.

Fondazione Cassa di Risparmio di Cuneo has also actively begun to look for new partnerships as a way of maximizing its influence at a difficult time and reaching out to those who are bearing the brunt of

the crisis. A good example (though launched before the crisis) is its *Progetto Fiducia* (Confidence Project), ‘launched in partnership with the Banca Regionale Europea and some of the local dioceses to offer soft loans for people experiencing temporary difficulty in meeting basic needs such as living expenses, rent and healthcare’.

Ireland’s One Foundation has begun, as a matter of policy, to encourage cooperation among grantees, promoting, where appropriate, mergers or alliances ‘within our portfolio or outside it’. However, adds co-founder Deirdre Mortell, ‘we are clear that mergers are a good idea only where they advance a mission, as well as saving costs’.

‘Foundations have more than financial resources to draw on,’ Bernhard Lorentz points out, ‘and in times of financial crisis we need to make more

SUPPORTING NGOS BY OTHER MEANS: BIP BIP FOUNDATION (SPAIN) MAY ESCOBAR, CEO

“In a crisis context, we found that *microvoluntarios* was THE solution for all parties involved.”

We thought about a digital space where NGOs and volunteers could communicate. The result was a web space called *microvoluntarios*. NGOs publish their needs in the shape of ‘micro-tasks’, describing exactly the request (description, skills required, difficulty level, deadline, etc). The ‘microvolunteers’ then choose the task according to their skills and qualifications, the NGO’s activity and how much time they’ve got. A micro-task cannot exceed two hours and might even be as short as 15 minutes – the time it takes to have a cup of coffee . . .

The main problem was that we didn’t have money to finance the project, so we started to offer a customized

version of the web portal to companies as part of their CSR policy. In a crisis context, we found that *microvoluntarios* was THE solution for all parties involved. Instead of giving money, the companies pay for the customization of the tool and give their employees’ time. It creates a good image for them and their employees and helps to give continuity to their CSR effort. The NGO gets a very valuable service from a highly qualified person. For Bip Bip Foundation, it helps reduce the cost of a project which is both very valuable in terms of fulfilling its mission and provides a valuable means of support for NGOs during the crisis.



AN OPPORTUNITY FOR SOCIAL ENTREPRENEURSHIP: GOOD DEED FOUNDATION (ESTONIA)

ARTUR TAEVERE, FOUNDER AND FORMER DIRECTOR

“The crisis does provide us with a great opportunity to accelerate the development of the field of social entrepreneurship in Estonia.”

On the positive side, the crisis does provide us with a great opportunity to accelerate the development of the field of social entrepreneurship in Estonia in the next three to five years . . . recruiting and developing the talent is easier in the current economic climate. For the past five or six years, the talent pool available to social enterprises has not been nearly as broad as we would have liked. A couple of industries that were enjoying tremendous growth – notably, financial services, real estate and retail – offered very competitive salaries and benefits to their employees. And these, quite simply, attracted a large proportion of talent. We

could realistically recruit people from among the 20 per cent of the workforce for whom having meaning in their lives was more important than earning the highest possible salary. Now this is changing. Many talented professionals have lost their jobs, and are either looking for work or starting up their own business (or social) ventures. If they feel social enterprises can offer them a meaningful job and a competitive salary, even if it is 20–30 per cent lower than what they earned previously, this allows us to recruit from a broader pool of candidates and thereby strengthen our organizations.



creative use of these other resources.' Emilio Rui Vilar confirms this in respect of *País Solidário*. The initiative, novel though it was, was given buoyancy by Gulbenkian's participation: 'we played a convening role and our credibility and experience have helped to launch a collaborative funding initiative that will give confidence to potential donors.'

The Nutshuis, the former headquarters of the bank, 'can be seen as Fund 1818's first MRI'. It has been transformed into office space, which is rented out to NGOs.

Time rather than money

In Spain, Bip Bip Foundation's *microvoluntarios* project is particularly well attuned to the current climate, since its main currency is time, not money. As with most of Europe, Spain's third sector is always strapped for cash, says May Escobar, Bip Bip's CEO, and this has worsened during the crisis. *Microvoluntarios* matches NGOs with volunteers for very small, specific tasks. At the time of writing,

the project had 2,500 registered volunteers and 404 NGOs. Moreover, Bip Bip has also begun to offer the tool in a customized form to companies, allowing them to maintain their CSR commitments without making cash donations. Instead, they pay for the customization and donate their employees' time.

Artur Taevere also draws attention to the new pool of talent potentially available to the non-profit sector, which he sees as a positive aspect to the crisis. 'Recruiting and developing the talent is easier in the current economic climate,' he says, since many talented people have lost their jobs. He cites an example very close to home: when Good Deed Foundation advertised for a new managing director in March, there were 145 applicants. 'We interviewed 20... and found many that had a passion for social change as well as a strong background in non-profits or business.'



Coping with future shocks

We have seen the positive way in which this group of foundations have responded to the crisis. What steps have they taken to safeguard their assets against its recurrence or continuation? Very few, even among those who have suffered little or no damage, are in a position to ignore its effects on their financial position. Even for Mercator Foundation, whose grantmaking budget for 2009 has, as we have seen, increased, Bernhard Lorentz is clear that, 'as there would be fewer resources available generally, it is even more important to invest strategically and to achieve the maximum impact'.

Similarly, Peter Spinnler says, 'if I have given the impression that we at Animato are basically without financial problems, that is misleading.' His concerns 'are focused on two issues: the ever-increasing cost of

THE VIRTUES OF MISSION-RELATED INVESTING: FUND 1818, THE NETHERLANDS BOUDEWIJN DE BLIJ, EXECUTIVE DIRECTOR

“The financial crisis strengthened the appeal of this because the profit for society remains even if the financial profit evaporates.”

When shares really started to glide down the slope, our assets were over 25 per cent liquid, and not affected, which gave a reassuring feeling in most uncertain times. Despite this, during the crisis our capital shrank to just over €360 million. At the end of August 2009, it was again above €400 million.

While the transition to many forms of investment such as real estate, hedge funds and commodities was delayed because of the crisis, this did not apply to MRI. With MRI, two demands are combined: financial profit and profit to society. The financial crisis strengthened the appeal of this because the profit for society remains even if the financial profit evaporates.



PLANNING FOR EXIT WHEN OTHER OPTIONS ARE LIMITED: ONE FOUNDATION (IRELAND)

DEIRDRE MORTELL, CO-FOUNDER

“We know that the exit plans for our grantees that we have built so far are unlikely to hold.”

Our biggest challenge is to build exit plans for our grantees within four years – during a recession. We know that the exit plans that we have built so far are unlikely to hold as the assumptions we have based our plans on are under profound challenge. These included the assumption that state funding might ‘adopt’ the scale-up of services with proven outcomes, where they align with government policy, for example Big Brother Big Sister or family support services through Barnardos. We also assumed that

philanthropy would grow through this decade, whereas it is currently in a significant contraction. And we believed that the fundraising market would grow if we invested in the fundraising capacity and professionalism of our grantees, which we have done with significant funds. All of these exit plans make strategic sense, but are unlikely to be achieved within the four years of life that remain for One Foundation. We have not yet solved this problem and we may not be able to solve it fully.



the sponsoring cycles for young musicians and the current low level of interest rates, which makes it hard to reach a capital return of 4 per cent without lowering the quality of investments’. One way he sees of broadening Animato’s financial base is to approach other sponsors and other organizations with a view to collaboration (with the reservation noted above about the challenges to foundation cooperation).

Both King Baudouin Foundation and Fondation Ensemble have adopted a wait-and-see approach. ‘For now,’ says Jacqueline Delia-Brémond, ‘we don’t intend to make any drastic changes in our strategy.’

At the time of the crisis, Fund 1818 was in the middle of moving its assets into a more diversified and sustainable portfolio – fewer shares and bonds, real estate commodities, hedge funds and mission-related investments (MRI). Fund 1818 is continuing the MRI approach that it set in motion before the crisis, as it has served them well over the last months. It has proved ‘a very good way to find good investments and fulfil our mission at the same time’, says Boudewijn de Blij. ‘MRI has helped to diversify and thus further strengthen our portfolio.’

The case of the ‘spend-down’ fund

Among the ways considered by some case study writers to offset the effects of the crisis (or, in the case of the Northern Rock Foundation, to try to ensure its survival) has been conversion into a ‘spend-down’ fund. However, the crisis has posed a particular problem for ‘spend-down’ funds. As Deirdre Mortell observes, their investments are all relatively short-term, since One Foundation is due to spend out in 2013. Exit strategies are therefore key, and these have been based on assumptions that the crisis has

called into question: that the state might take on the scaling up of promising projects and that both philanthropy and the fundraising market would grow during the next decade.

One Foundation has taken a number of steps to try to safeguard its grantees. These include a tighter focus on its eight goals to be achieved by 2013. ‘We have cancelled plans for any grants that were not focused on those eight goals,’ says Mortell, while being determined ‘to maintain all existing core commitments and planned grant expenditure for whatever it takes to achieve this’. As with some of the other foundations, this has meant a certain amount of internal cost-cutting, which included ‘cutting board advisory fees by 50 per cent and managing cash very tightly indeed. This involved moving grant payments from annual to quarterly to ensure we could conserve our cash and stretch it as far as possible.’

‘In Ireland,’ she says, ‘we know we are in a recession, not just a financial crisis, so we will keep all decisions under review, as we know that fundraising, philanthropy and state funding have all taken savage cuts recently and are likely to drop again in 2010, creating a very tough financial environment for our grantees.’

Taking a different direction – investing in clean energy

One of the consequences of the crisis generally has been a distrust of the existing financial system, the long-term effects of which may be profound. The lesson that the CANOPUS Foundation has drawn from the crisis, says Peter Heller, is to ‘avoid – as far as possible – conventional financial products’,

“We have responsibilities to the communities we serve – in bad times as well as good.”
Luc Tayart de Borms

GREEN INVESTMENTS, REAL VALUE: CANOPUS FOUNDATION (GERMANY) PETER HELLER, FOUNDER

“This has given us a strong incentive to further pursue our asset management strategy aiming to avoid – as far as possible – conventional financial products.”

This blow [losing some money] has given us a strong incentive to further pursue our asset management strategy aiming to avoid – as far as possible – conventional financial products. Today CANOPUS and its related private equity company Forseo hold more than 40 per cent of their assets in European wind and solar parks as mission-related investments. These generate an average annual return of 6.5 per cent – net, as the foundation, a charitable entity under German law, is fully tax exempted.

Investments in solid sustainable energy projects provide a ‘real’ value which bank products cannot match today. If the hardware (eg wind turbines, solar

PV systems) is flawless and the developers have done a good job, the feed-in tariffs introduced by European governments provide a secured return for 20–25 years – and there is the environmental added value of producing clean energy and mitigating climate change.



preferring instead the ‘real’ financial value of investing in sustainable energy projects. He cites an example from CANOPUS’s portfolio of a €300,000 equity share in a fund that has invested in a range of solar installations in Spain which offers shareholders an annual return of 9 per cent, guaranteeing CANOPUS €27,000 year for the next 20 years.

So what is responsible leadership?

All of the accounts given by the foundation leaders that contributed case studies stress the need to look first to the welfare of their constituency, be these grantee organizations or the individuals and communities they serve. As Luc Tayart de Borms puts it, ‘we have responsibilities to the communities we serve – in bad times as well as good.’ Bernhard Lorentz of Mercator uses very similar words: ‘if the work of foundations is important in good times, it is even more so in bad times.’ Many participants more or less echo their sentiments. ‘We can confirm our commitment to the support of local development . . . so that the territory’s economic recovery at the end of this crisis will be as quick as possible,’ says Fondazione Cassa di Risparmio di Cuneo’s Franco Chittolina.

Moreover, while often finding themselves financially on the back foot, many foundations are concerned not only to maintain their support to existing grantees but also to try to offer what assistance they can to those most severely hit by the crisis – those who have lost homes and incomes and whose ability to meet basic needs is suddenly called in question.

Not all the news is bad, however. The crisis has led many to explore new ways of working and new forms

of cooperation that might produce better results than they could have achieved working alone.

Though her experience is different from that of the others in this story, perhaps the last word should go to Fiona Ellis of Northern Rock Foundation. Hardest hit among this group of foundations, and unable to extend its reach to the worst sufferers, Northern Rock’s actions nevertheless offer an object lesson in responsible conduct in difficult circumstances. Though its own existence was in question, it did what it could to support its grantees, only cutting when necessary and after careful consideration, even reinstating a programme when things looked up. She pays tribute to the staff and trustees: ‘most tasks of course fell to the staff team, but the chairman – who, like all charity chairmen, is a volunteer – willingly took on many additional responsibilities, ranging from liaison with the bank to media interviews and, later, behind-the-scenes discussions and information-seeking. This was a grim time but the foundation survived. I attribute its survival to a combination of rigorous thinking, a strong track record, excellent staff and trustees, loyal grant-holders and much good luck.’

“If the work of foundations is important in good times, it is even more so in bad times.”
Bernhard Lorentz

INTERVIEW

CRAIG KENNEDY

As president of the German Marshall Fund, based in the US but with a transatlantic remit and offices throughout Europe, Craig Kennedy is well placed to compare how American and European foundations have responded to the financial crisis – which is exactly what Noémie Wiroth of Youphil.com asked him.



I think European foundations came through this crisis in better shape, mainly because they had more careful investment policies.

Craig Kennedy is president of the German Marshall Fund of the United States.

A year after the beginning of the financial crisis, how do you perceive the respective situations of American and European foundations?

I think European foundations came through this crisis in better shape, mainly because they had more careful investment policies. When things fell apart, their aggressive asset management put US foundations in a more vulnerable position. US foundations also have a legal obligation to give away at least 5 per cent of their assets every year,

no matter what the situation is. They legally do not have much possibility of adjusting the amount of money they distribute. The last reason I can think of is that, in a time of crisis, there are more expectations of American foundations. The state is not such a safety net, they have more impact on communities, and they are expected to respond through different kinds of social services, food banks for example.

Are there any lessons Americans and European foundations could learn from each other?

As I said, US foundations are very focused on economic and social matters; they're used to shaping public policies by supporting initiatives that might have an impact on how the government acts, at a level of engagement that is not so common in Europe. Maybe that is something European foundations could look into.

As for American foundations, they could definitely learn from the more careful asset management of European foundations! But I think this lesson has been learned: US foundations have become much more vigilant in the way they screen their investments. In my foundation, our investment

committee used to meet every six months. Now it's every six weeks. We turned towards more careful and liquid investments and every new investment undergoes a level of review that's really unprecedented.

Speaking of your foundation, how was the German Marshall Fund affected by the crisis?

When the crisis started, we had an all-staff meeting and immediately decided to cut back on our spending. I reduced my salary and with many little things we managed to save half a million dollars in three weeks. Thanks to that, as for now, apart from slight reductions in some of our minor funding areas, all our programmes and grants have been maintained and we have kept all our staff. But we also made pretty significant changes. In fact, the crisis prompted us to rethink everything: how we spend our money, our management, our investments.

So you agree with the assumption that crisis can be an opportunity for change?

When everything is all right, people are afraid of change. In a time of crisis they're less reluctant. Some American foundations that weren't that much affected have used the crisis as a reason to focus more closely on how they are managed. I sense that many European foundations did that too, and they may have been more effective. European institutions tend to be more structured and bureaucratic; when the order to find efficiencies is given, real savings are the result.

What do you see ahead for foundations?

I think next year is going to be even harder. The economy has not fully recovered and we may be headed towards another bad patch, in the US and in Europe. Unlike after the 1987 crisis, we all assume that we're not going to return to interest rates of 10 per cent a year.

This crisis was a very humbling experience for US foundations: even if they offer a response in time of crisis, even if many are doing amazing things with communities, we have realized how limited our resources are compared to what the government can muster. The US Stimulus Bill – the government economic package – is almost a trillion dollars and the assets of the Gates Foundation are only 4 per cent of that. Even so, I think that if foundations show creativity, they can still seize great opportunities. ■