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PHILANTHROPY

More may not be better

By Andrew Jack

With US donors alone giving away the record sum of nearly \$300bn last year, the trend seems bright for philanthropy. But more does not necessarily mean better.

The most striking philanthropic headline of 2006 was Warren Buffett's decision to hand most of his fortune to the Bill & Melinda Gates Foundation, in a move that is set effectively to double the endowment of the world's largest charity to \$70bn.

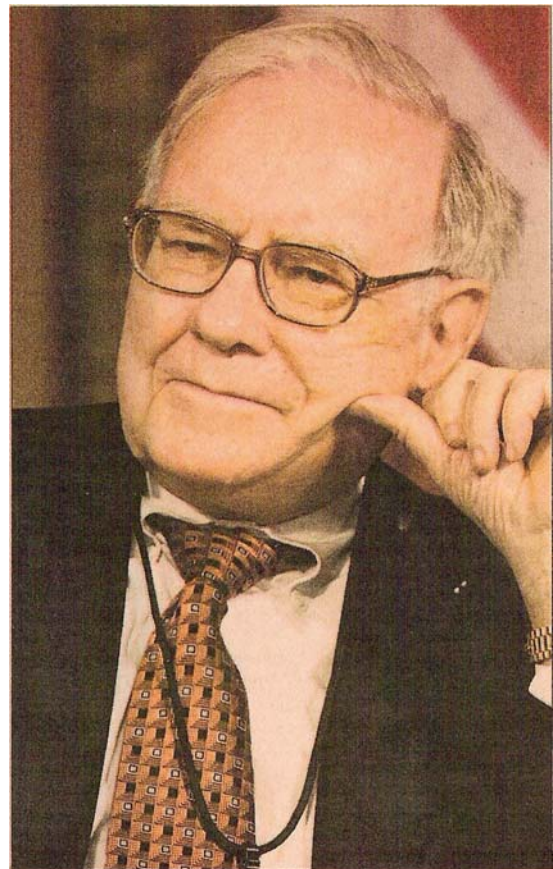
The positive aspects of the gift were clear. The gesture was selfless by not setting up his own foundation named after him; it "rewarded" an existing philanthropist who has set a trend for bold and rigorous initiatives; and it helped stir a broader debate about donations.

"His decision was exemplary," says Melissa Berman from Rockefeller Philanthropy Advisers. "It was a really major commitment, was about 'giving while living', and was focused on problem-solving."

The downsides were that there was little explanation around Mr Buffett's reasons and the timing of his gift, nor any justification for whether he – the ultimate portfolio investor – could have done better by spreading his largesse between a broader group of beneficiaries.

Furthermore, Mr Buffett has presented Mr Gates with an enormous challenge in trying to double annual grant-giving within three years, entailing the Foundation rapidly hiring extra staff – and fending off a substantial surge in demands for money.

At least Mr Buffett's gift came with the condition that the Gates Foundation should swiftly step up disbursements in response. Many other "donations" into endowments controlled by the rich have not always translated swiftly into significant extra payments to recipients.



Stirring debate: Warren Buffett

Chip Somodevilla/Getty Images

With an obligation in the US to disburse just 5 per cent of value each year in order to remain tax-exempt, endowments can shield themselves from payments to the government while doing little to provide benefit to others.

Indeed, the lack of transparency around some of the large philanthropic funds established by global business barons in recent months means it is difficult to judge how much good, if any, they are doing.

Not all such reticence is bad. Closer to Mr Gates's own home on the West Coast, more than a year after it was established, google.org, the search engine empire's philanthropy arm, has only just begun the cautious disbursement of its first few million dollars.

Yet rapid disbursement also brings its problems. A new generation of financiers has been keen to become actively involved in the organisations to which they give, raising the profile of results-oriented "venture philanthropy".

They bring important skills with their efforts to deliver results by measuring outcomes, lending expertise, and proposing new approaches such as providing loans or equity rather than simply conventional grant-giving, and considering for-profit solutions to social problems.

But Peter Wheeler, a former Goldman Sachs partner who co-founded New Philanthropy Capital to help donors identify and evaluate worthwhile causes, urges humility.

"Those of us who have been lucky enough to be rewarded disproportionately by the market for our dealmaking or stockpicking skills should assume that there is a lot that others can teach us when it comes to how to invest for maximum social impact," he says. "Sometimes I think we would do well to 'make innovation history' and show our support for what already works well."

Some of the best business management thinkers – from Michael Porter to Robert Kaplan – have been involved in recent years in compiling grids and evaluation frameworks designed to help quantify the often unquantifiable in the social sector.

A challenge is to avoid distorting the flows of money towards causes where results are easier to achieve, or where self-sustaining commercial solutions can ultimately emerge. Other trickier but just as worthy causes risk being sidelined in the process.

"There is an overblown idea of non-governmental organisations making a profit," says Mario Morino, founder of Venture Philanthropy Partners in Washington DC. "In some areas, it's possible, but in pure health and human services, such as homelessness, there is a reason why the market isn't there. The closer you get to the neighbourhood level, the more that's the case."

Even so, as Joe Fuller, the head of Monitor Group, the consultancy that is active in helping non-profit bodies, argues: "There are a lot of inefficiencies in the sector." He points to the need for help in developing organisations think strategically, expand, and even sometimes merge.

A final issue for the philanthropic sector is that while great focus is placed on a relatively small number of powerful individuals who give in the millions, the vast majority of donations are far more modest in scale. Greater thought needs to go into how to help channel such money most constructively.

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