

RIEN VAN GENDT LECTURE 2016

Foundations and Society: Sliding Panels

Fonds 1818

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Introduction

Rien Van Gendt is a phenomenon.

We, at Fonds 1818, got to experience that closely. For nine years he was a member of our governing board. He played an important role as chair of our Investment Committee. He was responsible for shaping the diversification of our investment policy. Under his guidance the foundation started with socially responsible investments. Rien did not limit himself to “accounting” or “financing”. At Fonds 1818 he was committed with heart and soul to philanthropy, which in the Netherlands is still not a very well-known concept. Like no other he argued for philanthropy’s value in society.

Rien left the Fonds 1818 Board at the end of 2015 as his tenure came to an end. The Board decided to offer him a biennial lecture – called the Rien Van Gendt lecture. This lecture will always address the societal value of philanthropy in its broadest sense. Naturally we invited Rien Van Gendt himself to kick off this series of lectures. In the autumn of 2018 this event will be organised a second time with another outstanding speaker.

I have always appreciated Rien’s contributions in our board meetings. I hope you will do so too.

Jan Schinkelshoek
President of the Board 1818

Foundations and Society: Sliding Panels

Changing role of foundations in society

In my presentation, I will examine the role and position of foundations in society, and the changes I have detected in this respect. I will concentrate on private foundations, which include many different types: family foundations, corporate foundations, lottery foundations and community foundations. I will not be looking at other manifestations of philanthropy, such as private donations or corporate social responsibility.

We usually equate foundations with grants, with donations. But nowadays, foundations are taking on another role, namely that of determining the content of public and political debate (examples: Adessium Foundation in relation to the Panama Papers; Bernard van Leer Foundation in relation to child abuse through the children's TV programme 'Klokhuis'). This is about 'agenda setting'. Foundations can also act as 'convenors', bringing together the various social parties considered relevant to solve a particular problem (example: Major Alliance: helping the children of refugees to come to terms with trauma, whereby foundations consult with municipal health services, mental health services, the corporate sector, paediatricians, central government, the Central Agency for the Reception of Asylum Seekers and municipal authorities). Foundations can be 'knowledge institutes' with experiential knowledge (example: Fonds 1818:

reinforcing the power of local social organisations with a programme entitled 'door de bocht helpen' (= help rounding the bend); Fonds 1818 is also a knowledge institute that operates in the field of Mission Related Investments (MRI); VandenEnde Foundation and the Prins Bernhard Culture Fund have knowledge of cultural entrepreneurship). Foundations sometimes play the role of 'advocate' (example: European Cultural Foundation 'advocates' the idea that culture contributes to cohesion within a divided Europe). Foundations can serve to challenge politics (example: Start Foundation in relation to the question: can refugees without a residence permit do an internship if they are attending school?) And finally, foundations can influence debate (example: Network of European Foundations for Innovative Cooperation in relation to the topic religion and democracy). In short, apart from being organisations that provide funding, foundations can also serve as gamechangers in society.

In addition to the various roles that foundations assume, they are also interested in raising broader, more complex issues: Sustainable Development Goals, healthy ageing, migration, the informed society.

To be more explicit, the development we are currently witnessing takes foundations away from the role of funding a swing in the local park, via funding the park as a social investment using public and private money, to funding the park as a meeting place for parents from different cultures, thereby contributing to social integration. It is a transition from charity to strategic philanthropy.

Factors that are increasing the importance of foundations

First, we have a government that is more inclined to take a back seat; it makes cuts in the hope that foundations will step in and make up the shortfall. This is a complex problem. Take Fonds 1818. The foundation obviously wants to uphold good relations with its municipality during the regular discussions it holds with the official and political authorities in The Hague, including with the Mayor. I have to admire Boudewijn de Blij (Executive Director of Fonds 1818) for his stance during these discussions: 'If the municipality cuts its funding to an organisation because it assumes that Fonds 1818 will step in, we pull the plug on the partnership.' Strong words, and with good reason: we are not here simply to subsidise local government budget cuts. But how does this work in practice? The municipality of The Hague decided to close a number of libraries; we had to decide whether to step in. Our initial reaction was: 'no way'. But then we realised that it was not only libraries that would be closing, but also the youth clubs and community centres in the city. The municipality was actually closing meeting places at a time when we were trying to promote integration and mutual understanding. As it happens, this latter aspect is an important part of the mission of Fonds 1818. In this particular case, should we have stayed with our original position: we will not step in and make up the

shortfall left by government? Would it be true to say that we never fund anything that used to be funded by government? No, it wouldn't. This shows the complexity of this matter and how easy it is to cling to the principle of 'not filling the gaps left by the government'. Sometimes, we have to learn to step beyond our own ego. This is exactly what Boudewijn and the staff at Fonds 1818 (authorised by us, the Board) did. We took over the funding of the public library function, but we didn't continue the traditional format. Instead, we did it on our terms. We deployed IT, not necessarily using qualified staff and not necessarily in the existing library buildings.

So a back-seat government is a factor that goes some way to explaining the increasing importance of foundations. Another related factor doesn't concern the diminished role being played by government, but rather the powerlessness of government resulting from political fragmentation. Governments are increasingly obliged to rely on the cooperation of growing numbers of political parties to create the majority needed to make formal decisions. They are finding it hard to formulate policy that meets the requirements of the complex issues facing us today, and have to form complicated coalitions to reach even more complicated compromises. And when a complicated compromise is reached, they realise that nobody actually owns that compromise. We can safely conclude that confidence in representative democracy is waning and that foundations are taking this opportunity to position themselves in this new context and the government itself is facilitating this move (example: The Charter as a partnership between government, the corporate sector and foundations in relation to the implementation of the Sustainable Development Goals).

The increasing importance of private funding for public objectives, i.e. the importance of foundations, is also evident in the fact that foundations are growing both in number and size. New types of foundations are joining the familiar family foundations and private foundations, among them corporate foundations (i.e. not Corporate Social Responsibility) and community foundations. All in all, foundations are becoming more visible. There is also heightened public, media and political interest in philanthropy. The growth and increased visibility of foundations is not only due to the more prominent role they have taken on, but also because they are contributing to a role that has itself become more significant. It's a chicken and egg argument, but growth in the sector and the importance of the sector are certainly reinforcing each other.

The importance of foundations in the context of social development is also growing, due to the shift from donation to investment. These days, foundations are more willing to think not only in terms of donations, but also in terms of promoting development through loans, financial participation in social capital and guarantees, and being a partner in social investments. This gives the significance of foundations in society an extra dimension. The MRIs of Fonds 1818 have undoubtedly contributed to boosting the role that this particular foundation plays within its own geographical area.

In short, various factors are raising the profile of the foundations' role in society. Society expects more of foundations, and foundations are keen to comply.

Before going into a number of factors that will always limit the role and significance of foundations (known as counterforces),

I'd like to comment on the fact that regardless of whether the part played by funds is growing or shrinking, the nature of philanthropy has changed. The Bernard van Leer Foundation was founded by will after the death of Bernard van Leer. These days, most foundations are established during their founder's lifetime. In fact as a result of this development, approximately half of the current endowed foundations in the Netherlands (in the region of 2,500) were established while the founder was still alive. The founders are therefore very much involved. They want to do more than provide funds; they also want to offer their expertise, their networks, and they want to be actively engaged. They've even come up with a term for it: 'venture philanthropy'. It sometimes reminds me of The Emperor's New Clothes, because I come across so many so-called traditional foundations, which are highly innovative without any sign of a living charismatic founder (example: Fonds 1818, Bernard van Leer Foundation). At the same time, I also see 'venture philanthropy' foundations that are run by founders who are still very much alive but keen to practise risk-avoidance. But I digress...

Let me return to my argument about the majority of foundations being established during the founder's lifetime.

Although I may be a slightly critical about making a distinction between traditional foundations and 'venture philanthropy', the fact that wealthy private individuals/entrepreneurs set up foundations has certainly contributed to the dynamics of the sector and its professional development.

Are there any disadvantages to this development? Yes. Let me mention two of them very briefly. The mentality of some entrepreneurs when it comes to solving social problems is: 'we'll fix it'. They have earned their wealth dynamically and now, in this new world of philanthropy, they are thinking in terms of exits, with all the dangers this entails. I'm told that venture capitalists

always enter a room walking backwards so that they can see the exit before they go in. It doesn't work like that in the world of philanthropy. Realising social change is a matter of organic development rather than 'we'll fix it'. A second point that warrants special attention is that of the new, up-and-coming foundations that operate on the international stage with absolutely no idea or experience of contextual differences. They do not seem to realise that you can't simply transpose a solution or strategy from one country onto another; they have no concept of cultural sensitivity. Let me illustrate this point with an anecdote based on reality. There are huge differences between the Netherlands and Belgium in terms of cultural and national characteristics. If you are not aware of these differences, you can go horribly wrong. The difference in management style between a Dutch and a Belgian foundation is a prime example. In the Netherlands, it is common for the director of a foundation to plan extra time into a decision-making process to consult staff before changing a strategy or making far-reaching organisational changes. The atmosphere is usually informal. This participational approach with the aim of reaching consensus about vital decisions is held in high esteem by staff working in Dutch organisations. In fact some would say that the Dutch value consensus in the same way that people in other countries value sex. But a colleague working for a Belgian foundation once told me that asking staff to participate in making a vital decision simply does not work in Belgium. If a director in Belgium asks the staff for their opinion on a weighty problem, the reaction is usually: 'Oh help, the boss is confused, he's out of his depth, he doesn't know which way to steer the organisation'. In fact Belgian staff might even say: 'the future of the organisation is obviously at stake; we'd better start looking for another job'. That's how important culture is.

Factors limiting the importance of foundations

First of all, the sector and the amount of money involved will always be relatively small compared with the government and the level of public funding. We must not get above ourselves or cherish a secret desire to replace government in this respect. This is not a role that we can, or more importantly, would want to play. What sort of country would this be if public goals were financed solely (or almost solely) by private funding, and donors were able to say what the money should be spent on and how? However, we do respect 'donor intent', the will of the person giving, and quite rightly so. One of the unique features of a government is that it is accountable to the public for what it does. Activities and initiatives are the result of democratic processes. The unique feature of a private foundation on the other hand, is that there are no democratic processes governing what it does. Private foundations specialise in using this lack of democratic accountability to their advantage. Foundations are able to fund controversial public objectives that your average man on the street would never support, but which definitely cater to the diversity of preferences among the population. Foundations can play the wildcard, be innovative, facilitate social experiments and take risks. We can adopt the role of 'social venturing', because there is an adequate government to take care of the rest. To my mind, we can only realise strategic

philanthropy because we have a public sector, and because we are not too dominant. If the role of foundations were to become too prominent, we would be forced to introduce mechanisms that would destroy the very essence of why we do what we do. We would be forced to act like a government. The act of using private money for the public good would self-destruct; we would become victims of our own success, and find ourselves compelled to form a quasi-government. So all in all, it is better if the role of foundations remains reasonably limited. It is the only way to ensure that they can continue to support pluralism and focus on innovative, high-risk activities.

A second factor that limits our role is the fact that foundations do not provide structural funding to activities for general public benefit. Although I would like to see foundations funding projects for longer periods than they do at present (they tend to stick rigidly to a period of three or four years, mainly choosing sexy projects), and despite the fact that I would also like to see them funding the organisation behind the project (which usually means committing for a longer period), I do understand that we must continue to earmark money for innovative projects, from which we are free to withdraw. Thus, the role of foundations, however important it may be, will always be limited.

Another reason for the sliding panels and relatively limited role of foundations concerns the low-interest-bearing environment in which they operate. Expenditure levels of 3.5 to 4.5 percent of capital were par for the course until a few years ago, but this is no longer feasible. The Dutch Association of Foundations (FIN) regularly focuses attention on this important issue. To maintain their level of expenditure in a low-interest-bearing environment, foundations must either take more risks or, the more likely option,

reduce their spending. This assumes that they want to be there in perpetuity (i.e. want to continue their operation on the basis of realistic spending power). But this is not necessarily the case; some foundations are considering the possibility of setting themselves a time horizon. But the most direct effect of a low-interest-bearing environment is a drop in expenditure and as a result, in the importance of foundations.

And now we come to the final aspect that limits the role of foundations. This is known as the 'shrinking space of civil society'. In recent years, many countries, from China and India to Israel, Turkey and Hungary, have been undergoing developments whereby the government tries to silence social organisations, including foundations. This is not only making it difficult for non-profit organisations to operate freely in those countries, but also for foreign foundations (such as Dutch foundations) to transfer money into these countries. The atmosphere is tense and private foundations are seen as potential critics of the government, something that is not tolerated. The restrictions imposed by these countries (by means of permits, compulsory registration and complex administrative procedures) do not only mean that there is less money available to fund worthwhile activities on location, but also that foundations are at risk of self-censuring in order to remove the sting from their naturally critical attitude. But you would be wrong in thinking that the 'shrinking space' only exists in far-away countries (although I did mention Hungary). In the UK, for example, it recently became obvious that the Common Reporting Standard (CRS) of the OECD, which imposes strict administrative obligations on financial institutions, will also affect foundations. The UK tax administration (HMRC) considers foundations to be financial institutions. As a result, future recipients of donations made by foundations

will be treated as account holders. The 'shrinking space of civil society' is evident in the Netherlands too, prompted not by government but by the banking sector. Compliance rules imposed by banks make it difficult for organisations focusing on human rights in the Middle-East, for example, or refugees from the Middle-East, to open or keep an account.

Importance of partnerships

If we combine the factors that serve to increase the importance of foundations with those that limit their importance, we arrive at the argument for creating partnerships, both between foundations themselves and between foundations and other social partners. Some partnerships evolve due to a reduction of money available for donations by foundations. This was the case after falls on the stock markets in 2008 and 2011. We also see foundations collaborating because they are taking on a challenge that would be impossible (or almost impossible) on their own. Example: the partnership between a number of Dutch funds, including Maagdenhuis and SKAN Fonds, in Central and Eastern Europe after the fall of the Berlin Wall in 1989. But in other cases, collaboration becomes necessary not because of a reduction of money available for donations, but because of too much money available for donations. Research currently being carried out in the USA is examining ways in which foundations can reserve more money by working together than they can by working individually. And guess what? The 'Pledge' made by Bill Gates and Warren Buffet (appealing to living American billionaires to invest at least half of their fortune in a foundation during their lifetime) has resulted in more than a hundred new foundations in the USA, each boasting capital of at least \$1 billion. The USA imposes compulsory expenditure of 5 percent as a condition for the

tax-free foundation status. This pressurises foundations into spending (\$10 million per working day for the Gates Foundation). Against this background, the research is examining partnerships as an instrument for reserving large amounts of money every year as philanthropic donations to major present-day issues, such as climate, poverty and migration. However, I think that for now, it would be better if partnerships were to develop based on the magnitude and/or complexity of certain social problems, rather than because of a surplus of money. As an example from the past, I mentioned the partnership of funds in the Netherlands working in Central and Eastern Europe, but migration and the refugee crisis form a more recent example. Foundations working within the Association of Foundations in the Netherlands (FIN) are doing excellent work helping refugees to integrate into our society and often pool their resources.

Partnerships do not only exist between foundations; they also exist between foundations and other social partners, such as companies and government. The Major Alliance is a great example of the willingness of foundations, government and the corporate sector in the Netherlands to join forces and work on complex problems, such as refugees and migration and providing a safe, healthy start for young children.

Despite changes in the world of foundations, certain essential features must be upheld

Philanthropy entails private money being spent on the public good so one of the essential features we must uphold is our independence. It goes without saying that this must be respected by the government. It would be truly devastating if the Dutch government – and it cannot be ruled out – were to abolish the tax deduction on gifts (to my mind an integral part of our civilisation), and replace this particular tax benefit for donating private money to public objectives for instance with a system whereby private donations are matched by government funding. At some point, the government would inevitably introduce conditions for providing these matching grants. The idea is reprehensible and strikes at the roots of civil society.

Fortunately, the philanthropic community in the Netherlands and Europe unites and swings into action if governments try to limit the independence of private foundations. The successful campaign mounted a few years ago by Italian and other European foundations through the European Commission is a good example. In Italy, Berlusconi wanted to give the government a say in the running of private foundations. Mass protests vented through the European Commission forced Berlusconi to withdraw his proposal.

But the government is not the only party that must respect the independence of foundations; we too must ensure that our independence remains high on the agenda. Or as the Americans put it: 'You are either at the table or on the menu'. This doesn't mean that we can't work with the government. On the contrary, this partnership can be very productive in areas where foundations aim to have an impact on the more complex issues affecting society. The activities of the Major Alliance I mentioned earlier are a good example. But foundations must also act as a thorn in the side of the government, a criticaster. This adds to pluralism in society. It means that we have to think carefully about when to work with the government and when to criticise. Independence is not just about taking a critical stance; it also involves a willingness to take risks in what we do and how we do it. We must be prepared to play the wildcard.

To keep pace with the sliding panels, we must ensure that our own accountability is a permanent item on our agenda.

Rien van Gendt

The Hague, 27 October 2016



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