



## Global Philanthropy: Why Western Models May Not Work Everywhere

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Warren Buffett and William Gates are targeting billionaires: They want the world's wealthy to contribute at least 50% of their fortunes to charity by joining a global initiative called the Giving Pledge. By the end of April, the 69 donors who had signed up so far included Larry Ellison, David Rockefeller, Ted Turner and Mark Zuckerberg. In India, there are none. When Buffett and Gates were visiting the country in March this year to push their cause, G.M. Rao, infrastructure tycoon and head of the GMR Group, announced that he was donating US\$340 million -- his personal share in the business -- to charity. But he clarified it had nothing to do with the visiting duo. In China, which Buffett and Gates had visited in September 2010, billionaire philanthropist Chen Guangbiao said he would donate not half but all of his personal wealth to charity. According to a Reuters report, he had convinced 100 other Chinese businessmen to do the same. Still, seven months later, none of their names are on the Pledge. "[Buffett and Gates] don't understand China," says [Feng Gang](#), professor of sociology at the Zhejiang University in Hangzhou. Adds Harsh Goenka, chairman of the Mumbai-based RPG Enterprises: "[In India,] our charity is not about writing fat checks."



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Following their trips to the two fastest-growing economies in the world -- India and China -- the two billionaire philanthropists seem to have realized that in charitable giving, one size does not fit all. "A number of people have shown interest in knowing more about what we are doing in the U.S., but it doesn't mean that it should be done the same way in India," Buffett told India Knowledge@Wharton in Bangalore. "You have your own culture, your own history. All we are here to do is talk about what we have been doing. When we were in China, we met around 50 to 60 billionaires, and I was astounded, frankly, that one after the other they stood up and talked about the same things that people talk about in the U.S. -- their families, their business, their hopes, their fears, everything. When people talk to each other, they learn. We can all learn from each other." Added Gates, who spoke to the media in New Delhi: "Each country should decide what model of philanthropy makes sense to them."

### A Difference in Culture

Their circumspection was understandable. The Giving Pledge has been promoted heavily by the media, but some of the country's wealthiest businessmen ignored the meetings in India. Mukesh Ambani, who is currently the richest Indian, went to watch cricket instead of attending. Others were openly critical. "Philanthropy in the first world and in the third world are two different things," Yusuf Hamied, chairman and managing director of pharmaceutical company Cipla, told *The Economic Times*. Industrialist Ajay Piramal, who sold Piramal Healthcare to U.S.-based Abbott in a deal worth US\$3.72 billion, wrote in morning newspaper *DNA*: "In India, a lot of people don't want to talk about the good (philanthropic) work they are doing. In a way that is the dilemma we ourselves are facing: whether to talk about it or not. But then, we were told [by Buffett and Gates] that we should talk about it. People are looking for role models. So, now I've started talking about the work we do, which I haven't really done earlier."

In China, Feng feels that Gates and Buffett came without doing their homework. "China has two issues in terms of philanthropy," he says. "First, all of China's philanthropy organizations are managed by a few government-related agencies. No institutions can receive any donation without certain approvals. And private organizations in philanthropy are not allowed to operate. Second, with several corruption scandals, many entrepreneurs have serious concerns about the credibility of these agencies; they would rather donate on a one-to-one basis. The foremost challenge for China's philanthropy is to open it to private

organizations, with the government playing a management role, and to build up trust among different parties."

But this new, very public style of philanthropy represented by Gates and Buffett has attracted some criticism in the West, too. *Businessweek* points out that Buffett, who "is one of America's greatest misers in life, will probably become one of its greatest philanthropists in death." However, that may not be so unusual, some observers note. Says Arpan Sheth, partner at Bain & Company: "Even the great philanthropists -- John D. Rockefeller, Andrew Carnegie and J.P. Morgan -- did not give away their riches until toward the end of their lives." Wipro chairman Azim Premji, who made India's largest philanthropic donation of US\$2 billion in December 2010, is well known for his parsimony. He supposedly keeps tabs on the consumption of tissue paper in the office. And China's Chen Guangbiao, reports the BBC, does not give money to his siblings. His sister earns US\$270 a month washing dishes in a hotel and his brother earns slightly more as a security guard.

"As conspicuous consumption approached its height in 2006, those spending big had created the perfect offset: conspicuous charity," says the World Wealth Report 2011, authored by Citi and Knight Frank Worldwide. "Today, high-visibility charity auctions are viewed as pre-credit-crunch relics, their ostentatiousness exposed. But this was the showiest, not the smartest, way of giving."

### Unnecessary Hard Sell

"While I commend [Buffett and Gates's] philanthropy, what remains amazingly inexplicable is their reason to 'sell' this idea to others," says Devdutt Pattanaik, chief belief officer of the Future Group, India's largest retail chain. "I guess it stems from their fear of mortality. To 'convert' is not an Indian thing. Those who are charitable are charitable, and those who don't want to be are not."

Pattanaik notes that all the publicity surrounding the Pledge may well be changing Indian thinking. "In India, the idea is that anyone can be generous. In the epics, there are references to the poorest of the poor and even animals displaying acts of generosity. With the Western discourse coming in, the idea is increasingly becoming that the 'rich have to be generous.' This notion that charity and generosity are functions of wealth, and not personal evolution, is the trend that is increasingly evident. There is a move to coerce people into being charitable. The focus is tragically behavioral, not belief-driven."

Many agree that this is one of the key changes in philanthropy over the past few years. And it is not particularly welcome. "My research suggests that philanthropy is typically driven by a combination of self-interested motives -- the desire to advance one's own interests, such as by protecting and promoting a positive image, reputation and identity -- and prosocial motives, the desire to do good based on values of concern for others and responsibility," says [Adam M. Grant](#), professor of management at Wharton. "Accounting for only one set of motives provides an incomplete picture of the motives behind philanthropy: Donors aim to both 'look good' and 'do good.'"

Sheth of Bain doesn't think that the "look good" legion is limited to the U.S. "How is giving quietly unique to India?" he asks. "I don't think everyone in the U.S. says: 'I gave money, I gave, I gave, I gave.' People give quietly everywhere, and there are some people who give unquietly. I don't think there is a lot more publicity associated with giving in the U.S." Ramesh Mangaleswaran, director at McKinsey & Company's Chennai office and leader of its social sector practice in Asia, believes that some amount of publicity is necessary. "Indian philanthropy lags behind due to nascent intermediaries, fragmented clients and an absence of visible role models in giving," he says.

Also, even as the big donors are basking in the limelight, it is fast becoming the age of the small donor. The Internet and social media are responsible for this. First, information flows are much faster. Secondly, it is much easier to give online and through similar vehicles. "Internet donations are growing substantially," says Mathew Cherian, CEO of HelpAge India. According to the 2011 Index of Global Philanthropy and Remittances released by the Hudson Institute on May 12: "Social entrepreneurship and impact investing are the trends to watch in 2011." (The Washington-based Hudson Institute is a platform to create awareness among opinion leaders.)

"Changes in strategy as well as operations have brought in an appreciable and needed change -- that of merging practical realities and providing an objective, impact-driven outlook to the ideal-led and

emotion-driven agenda for development change," says Sudhir Singh Dungarpur, KPMG partner (development sector practice). "The inclusion of professionals into the governance and management of philanthropists has not only contributed to making development programming objective in its perspective, but has also resulted in grant-making becoming more responsible. [Fundraisers] now increasingly emphasize an approach that not only focuses on the desired outcomes in the medium term, but also on the achievement of interim short-term outputs. The majority of such donors are now following milestone-contingent funding of development programs, a concept borrowed from the corporate sector." Adds Grant of Wharton: "One important trend among both corporate and individual donors is a shift toward managing philanthropy in portfolios, much like stocks, with diversified risks and anticipated returns."

## The Fruits of Technology

Professionalism and targeted philanthropy are one side of the coin. The other is technology and the benefits that it brings. The Hudson report offers the example of the January 2010 Haiti earthquake, in which an estimated 230,000 people were killed. "The response was faster than ever thanks to text messaging technology, which allowed the Red Cross to raise an unprecedented US\$32 million with US\$10 donations sent via text message," says the report. In the numbers lies another trend: More people are donating, but the amounts are getting smaller. The average size of online donations has decreased from US\$86 in 2007 to US\$71 in 2008, but the number of online donations increased 43%. Cherian of HelpAge says the average donation he gets is US\$30, most of it from India.

Extrapolating from the Hudson report we can get some idea of where philanthropic money is coming from and where it is going to. The U.S. led the 2009 Official Development Assistance (ODA) table with a contribution of US\$28.83 billion. Others in the top five were France (US\$12.60 billion), Germany (US\$12.08 billion), the U.K. (US\$11.49 billion) and Japan (US\$9.47 billion). The highlight of the year was South Korea's official transition from aid recipient to donor. The country was admitted into the OECD Development Assistance Committee (DAC) as its 23rd member country in January 2010, becoming the first former aid recipient to join the DAC.

Countries like India may similarly switch sides soon, marking another major change. Earlier this year, there were protests about continued U.K. aid to India. The British government gives about US\$450 million in development aid to India annually. Tory MPs protested that a Britain in recession could not afford this amount, particularly as India is one of the world's fastest-growing economies. Three years ago, it entered the middle income group, according to U.N. classification.

Inevitably, the geographical trends in aid will change, experts note. This is already visible in foundation money, another big component of philanthropy. The U.S. can be considered a proxy for world giving. In 2009, ODA accounted for 13% of the net economic engagement with developing countries. U.S. private philanthropy at US\$37.5 billion accounted for 17%. Two other components included in net economic engagement are remittances (40%) and U.S. private capital flows (31%). These are Hudson figures. Most of the grants (64%) were multiregional. Of the remaining 36%, the lion's share went to sub-Saharan Africa (18%), followed by Asia and the Pacific (11%), Latin America and the Caribbean (6%), Europe and Central Asia (0.5%) and North Africa and West Asia (0.5%).

Foundation money went to health and medical services (55% of grant dollars), democracy and governance (22%), economic growth and trade (including environmental grants -- 16%), education (4%), disaster relief and refugees (1%) and others (2%). According to the Giving in Numbers report of the Committee Encouraging Corporate Philanthropy (CECP), the typical program area allocations in 2009 were: health and social services (29%), education (26%), and community and economic development (14%); others accounted for 31%.

The CECP, as its name suggests, looks at companies, and its latest report notes specific trends. First, *Fortune 100* companies are spending more on community and economic development; their allocation to other areas fell uniformly across the board. Non-*Fortune 100* companies actually showed a decline in community spending. Second, the cash component of giving dropped significantly. Despite the economic recession, overall giving went up marginally, bolstered by a 16% increase in non-cash giving. These are products and professional services for which nonprofits would otherwise have to pay.

## Arrival of the Go-givers

There is another way in which charity today is not defined by money alone. According to a November 2010 Barclays Wealth report titled, "Global Giving: The Culture of Philanthropy," there is a new breed of "go givers" who want to contribute their time, too. The wealthy in Ireland and India were found to be most generous with their time. "The days of simply writing a check and walking away are fading fast," says the report.

These are macro changes. Different countries have different cultures and they have been transforming in different ways. Look at the BRICs (Brazil, Russia, India, China), for example. "None of the BRIC countries use the tax route to encourage giving," says the Hudson report. This is an important aspect. "The U.S. has a huge inheritance tax," says Sheth of Bain. "So there's a lot of motivation to give the money away. You give 40% to Uncle Sam anyway, so might as well give it to charity. Australia doesn't have that, India doesn't have that, and in Australia, the givings are very low." According to Sheth, philanthropic giving in India leads that of other developing nations but lags developed nations. Charity contribution as a percentage of GDP is 2.2 for the U.S., 1.3 for the U.K., 1.2 for Canada, 0.6 for India, 0.3 for Brazil and 0.1 for China.

"Inheritance taxes are an important aspect of any egalitarian society as it attempts to provide a level playing field to those not born in rich homes," says GiveIndia, which CEO Dhaval Udani describes as a donation platform that allows individuals to support a cause of their choice. "The tax system here probably doesn't encourage philanthropy as much as it does in the U.S.," Gates said in Delhi. Ask any Indian industrialist and he'll disagree. Says Godrej Group chief Adi Godrej: "If you have things like estate duty [inheritance tax], it actually cuts down on philanthropy. It would have a very strong negative effect. The government should not be directing philanthropy." Mangaleswaran of McKinsey is also doubtful if changing the laws will achieve anything. "Tax deductions for donations do provide additional incentives for givers, but tax regimes alone are not sufficient to either motivate or discourage giving," he says.

## Suffocating Laws

KPMG's Dungarpur says it is not so much the tax laws as other laws that inhibit philanthropy in India. "There is no single body of law that governs all classes of charitable organizations," he notes. "In addition, organizations intending to obtain funding from overseas also need to comply with the Foreign Contribution (Regulation) Act of 1976. Obtaining the registrations under all the applicable acts often tends to drag on for months. The regulatory compliances together with the red-tape and bureaucratic procedures collectively act as a hindrance for many genuine organizations engaged in philanthropy or charity."

Although none of the BRIC nations have estate duty, they have other differences. In China, there has been a long tradition of philanthropy. But under the Communist regime it was frowned upon; it was seen as a sign that the state had failed. It is only today that charity is regaining its credibility. In Russia, oligarch Vladimir Potanin has also announced he will leave his billions for charity, though he, too, has found no need to join the Giving Pledge. According to analysts, philanthropy in Russia suffers from a lack of trust. In Brazil, charity is moving out of the shadow of the church. "Brazilian philanthropy is experiencing a paradigm shift from charity to social investment," Marcos Kisil, president of Instituto para o Desenvolvimento do Investimento Social, told *Philanthropy UK*. "The way that inequality is being addressed in Brazilian society is changing, as philanthropists begin to work more with the causes of social problems and not just the effects."

Dungarpur of KPMG offers a perspective on the changes in India. "Indian philanthropy has been a traditional phenomenon, deep-rooted in pan-religious beliefs of welfare-giving, primarily within one's community," he says. "What we are now witnessing is the beginning of what might be termed a philanthro-capital movement, as corporate wealth in the country grows. While certain companies have traditionally been known for their giving, in the past couple of years we have seen some ultra high net worth entrepreneurs publicly declare their commitment to philanthropic giving. Most of these people are 'second-generation wealth'; their security and comfort level around personal wealth is generally higher than among first-generation wealth owners who are now predominant in India. The latter are still very much in the mind-set of wealth generation [not distribution]. However, we are likely to see the creation of more first-generation philanthropists in India as philanthropy becomes more fashionable, which is likely

to happen as personal wealth in the country continues to increase." Sheth of Bain agrees. "The evolution of philanthropy in India tracks the evolution of economic reforms," he says. "Since 1991 [when the reforms started], there has been a significant amount of accelerated wealth creation in India. The landscape of philanthropy is continuing to evolve. It tracks the creation of wealth in India. In the U.S., large-scale philanthropy lagged large-scale wealth creation by a number of decades. I think a similar pattern will emerge in India."

That might iron out some of India's philanthropy anomalies. For example, in India, individuals and corporations contribute only 10% of giving. (In the U.S. it is 75%, in the U.K. 34% and in China 9%.) The balance of the philanthropy dollars comes from foreign organizations and the government. In fact, nearly 65% is donated by India's central and state governments with a focus on disaster relief. Says Mangaleswaran of McKinsey: "A good number of corporations do not donate on a large scale, either due to absence of a strategy for giving or not having an appropriate vehicle for effective philanthropy."

The figure for China is understandable. "The Chinese have different concepts from the West on the distinction between personal wealth and social wealth," says Feng of Zhejiang University. "The latter is perceived as government wealth. So this mindset has a big impact on how people look at philanthropy."

China is changing. So is India. As the two fastest-growing economies in the world, they are set to make their mark in more ways than one and in more areas than one. When a tsunami struck the Pacific in December 2004 and 10,000 people died in south India, the Indian government refused international aid, saying it could manage on its own. Money came pouring in, however, from its own citizens. "The momentum of philanthropy is gathering pace very strongly in India," says Godrej.

### **The For-profit Brigade**

Dungarpur points to another trend -- the arrival of the for-profit philanthropist. This is a concept being pushed by Google and eBay founder Pierre Omidyar. "[The] benefits might be more rigor in terms of monitoring and evaluating impact and determining the value-for-money of an investment, and greater accountability of spend," says Dungarpur. But in India, where several borrowers unable to pay back loans from for-profit microfinance institutions have been driven to suicide, this has very little chance of taking off. Says Cherian of HelpAge: "For-profit philanthropy will not work. It will go the microfinance way."

"Philanthropy is a tough call," said Buffett in Bangalore. "The market system does not give you feedback on philanthropy like it does in business." If your restaurant is not working, he noted, you fire the cook. But in a charity project, people might keep on eating the same stale bread for years because they have never seen cake. "You do your best," Buffett added. "It takes a long time before you know if you are doing the right thing. It's much more difficult than business."

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