China Christian 4

Li Jing / Christoph Stückelberger

Philanthropy and Foundation Management

A Guide to Philanthropy in Europe and China

Kingdom business college 圣商学院

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LIST OF ABBREVIATIONS

AVPN	the Asian Venture Philanthropy Network
CCTV	China Central Television
CEPS	Centre for Philanthropy Studies
CFC	China Foundation Center
CNPC	China National Petroleum Corporation
CSRs	Corporate Social Responsibilities
DAFNE	Donors and Foundations Networks in Europe
EFC	European Foundation Centre
EVPA	European Venture Philanthropy Association
GAF	Geneva Agape Foundation
GE	Globethics.net
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
HNW	High Net-worth
HNWIs	High Net-worth Individuals
IPO	Initial Public Offering
MI	Mission Investing
MRI	Mission-Related Investing
NGOs	Non-Governmental Organization
NPC	National People's Congress (China)
NPO	Non-Profit Organization
RMB	Renminbi (Currency of China)
SASAC	State-owned Assets Supervision and Administration Commission (China)
SMART	Specific, Measurable, Achievable, Realistic and Time-bound
SOE	State-Owned-Enterprise
SRI	Socially Responsible Investing

SWOT	Strengths, Weaknesses, Opportunities and Threats
U.K.	United Kingdom
U.S.	Unites States
Wings	Worldwide Initiatives for Grant-maker Supports

INTRODUCTION

This book provides a guide on the philanthropy landscape and current developments in Europe, Switzerland and China. It is a comparative study on the overall European and Chinese philanthropy and foundations sectors, their characteristics and their recent development trends on the new global entrepreneurial philanthropy models. We have also given a particular reference to Swiss philanthropy structures. Switzerland is a country with long standing traditions and a largely developed philanthropy sector.

In the second part, it is designed as a practical working tool on foundations management. It aims at helping philanthropists to shape their aspirations whilst guiding foundation managers in their strategic thinking and governance. It should help individuals and organizations to find their own answers. The book also includes recommendations on the foundations management. There is no single true path to philanthropy and foundations management; it varies by culture and country. Nonetheless, in this guide, we intend to give the readers and practitioners an overall introduction on philanthropy and foundations management.

Chapter 1 introduces a few basic *terminologies*.

Chapter 2 on *philanthropy in Europe* adopts an inter-disciplinary approach through quantitative and qualitative data analyses, countries case studies, with the objective of giving the readers an overview of philanthropy in Europe. Measurement, characteristics and trends of the ten selected European countries have been dealt with from the perspectives of individual giving and foundations sector, the fiscal environment and new impetus in those countries for European philanthropy have also been discussed.

In Chapter 3 the features of *Swiss philanthropy* are introduced, in which the Swiss philanthropic tradition, recent initiatives and legal environment have been particularly addressed. A special characteristic of Swiss philanthropy is the integration of philanthropy with wealth management, linked to the large private banking in Switzerland.

In Chapter 4, we provide an overview of *philanthropy and foundations sector in China*. The origins and characteristics of Chinese philanthropy are analysed from religious, philosophic and cultural perspectives. We then summarize the modern Chinese philanthropy, and discuss the factors which affect China's modern philanthropic causes, including its political, economic and social structures and systems, the regulations and rule of laws on start-up funds and taxability for non-profit organizations. Chinese contemporary philanthropy learns from its own history as from American[1] and European philanthropy. We also deal with the issues of philanthropy and social reforms, the recent civil engagement and corporate social responsibilities developments as well as China's new philanthropy law. Finally, this study reviews China's new development trend in the philanthropy sector and how the sector is evolving and being put on a broader map, to achieving a meaningful impact.

In the modern globalized world and with the shift of wealth to Asia and BRICs countries (BRIC countries being rather economically unstable), encouraging new developments of philanthropy arise not only in China, but in many Asian countries, but also in *South America* and *Afri-*

[1] E.g. the book in Chinese of Zi Zhang Yun, *The Responsibility of Wealth and Evolution of Capitalism. Revelation of a Century of American Philanthropy*, Shanghai: SIPC Publisher, 2015.

ca. More and more African billionaires create foundations.[2]

In Chapter 5, the focus is on the public benefit *foundations management*, in which the visions, values and principles for any public benefit foundation are the fundamentals; then, we emphasize the governance and strategic management and the importance of accountability and financial management. Finally, all foundations, in order to achieve their missions and impacts, they need to focus on their action plans, in which they need to firstly develop their programmes in line with their objectives., Once the programmes are developed, they need to optimally manage those programmes/projects, thus to fulfil their missions and objectives whilst achieving credibility, recognition as well as outreach. The last, in today's modern communication and multi-media era, for any foundation, it is extremely vital to look into the communication and advocacy area, either through their own website, networks including multi-media or through organizing events/conferences. These focuses would allow a foundation not only to dissimilate its values, missions, but also to earn advocacy from the public, thus to achieving the fund-raising and far-reaching impact.

We as authors express our special thanks to the Kingdom Business College KBC in Beijing and Prof. Dr. Cui Wantian from China for their support for this study! We thank Globethics.net for publishing it in its China Christian publication series (www.globethics.net/publications) and the Geneva Agape Foundation for promoting the dialogue and co-operation between European and Chinese philanthropic institutions and persons in training, research and projects (www.gafoundation.world).

Dr. Jing LI, Prof. Dr. Christoph Stückelberger

Geneva, 1 July 2017

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[2] See Tade Akin Aina/ Bhekinkosi Moyo (Eds), *Giving to Help, Helping to Give. The Context and Politics of African Philanthropy,* Dakar: Trust Africa/Amalion Publishing 2013.

1

TERMINOLOGIES

1.1 Definition of ‘Philanthropy’

The term ‘philanthropy’ is generally used to describe any private voluntary action for the public good. It can encompass donations and investments of time, money, expertise, connections, and many other types of contribution of assets.[3] In this handbook, ‘philanthropy’ is defined as any type of not-for-profit engagement by both individual donors and grant-making foundations.

1.2 Charity, Philanthropy and Diakonia

1.2.1 Charity

Charity, Latin *caritas*, means benevolence. It is a key term in Christian faith and theology. In the New Testament, the two-part commandment is the most famous core of charity: ‘Love God’ and ‘Love your neighbour as yourself’ (Mk 12:31). It is in fact a three-part commandment with the balance of the triangle of God, the other and oneself. Charity is a value for society and a virtue[4] for personal behaviour. Thomas Aquinas understood it as ‘the friendship of man for God’,

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[3] *Advancing Philanthropy in Switzerland: A Vision for a Cooperative and Recognized Philanthropic Sector*, published by Lombard Odier Darier Hentsch, Geneva, June 2010.

[4] See https://en.wikipedia.org/wiki/Charity_(virtue)

which ‘unites us to God’, and as ‘the most excellent of the virtues’ (ibid). Further, Aquinas holds that ‘the habit of charity extends not only to the love of God, but also to the love of our neighbour’. Charity is based on Gods’ love (Greek word agape, Αγάπη), meaning an unconditional love for others.

There are multiple meanings of the word ‘love’ in modern languages: sexual love, emotional love, friendship etc. In the Greek New Testament, there are different words for these dimensions: ‘*Eros*’ as erotic and sexual love, ‘*philia*’ as friendship and ‘*agape*’ as caring, benevolence, holistic support of the other up to the unity with the other as well as the profound acceptance of oneself. This love as *caritas* is divine energy residing in the *will* rather than emotions or sympathy, regardless of what emotions it stirs up. Thus, from Christianity’s point of view, *charity* has two parts: love of God and love of people, which includes both love of one's neighbour and oneself. ‘Charity’ is part of the Christian triple ‘faith, hope and charity’.[5]

Fig. 1: Illustration of charity

[5] Illustrations Left: Needham, Geo C., Street Arabs and Gutter Snipes, 1884. Right: Good Samaritan, Erlöserkirche Stuttgart. Artist Ulrich Hernn, Photo Ch. Stückelberger.

Charity, compared to philanthropy, is today understood as emotion-driven giving and sharing with the needy. This is a more superficial understanding than the original meaning of the word.

1.2.2 Philanthropy

Philanthropy (from Greek φιλανθρωπία) is etymologically composed of ‘philos’/‘philia’ (φίλος, friend/friendship) and ‘anthropos’ (ἄνθρωπος, ‘human being). ‘Philanthropist’ can be translated as ‘friend of humans’, ‘philanthropy’ as ‘love of humans’ or ‘love of humanity’ in the sense of caring, nourishing, developing and enhancing ‘what it is to be human’ on both the side of the benefactors (by identifying and exercising their values in giving and volunteering) and beneficiaries (by benefiting). The most conventional modern definition is ‘private initiatives, for public good, focusing on quality of life’. This combines the social scientific aspect developed in the 20th century with the original humanistic tradition, and serves to contrast philanthropy with business (private initiatives for private good, focusing on material prosperity) and *government* (public initiatives for public good, focusing on law and order).[6]

1.2.3 Diakonia

‘*Diakonia*’—from the Greek word diakonein (to serve)—is the Christian term for service for others. The focus is on the needy in a community and in society in general. ‘Diakonia as Christian Social Practice’ [7] includes all practical activities for the improvement of lives. It encompasses individual charity as well as large programmes for social justice.

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[6] *Wikipedia* on ‘Philanthropy’.

[7] Stephanie Dietrich, Knud Jorgensen, Kari Karsrud Korslien, Kjell Nordstokke (Eds), Diakonia as Christian Social Practice. An Introduction, Oxford: Oxford Center for Mission Studies 2014.

Services in health, education and poverty reduction have been the classical fields of Diakonia since the first years of Christianity. Throughout the past 2000 years, education and health services have been to a large extent promoted and delivered by churches and Christian organisations. Diakonia is no more just ‘acting for’ in terms of supporting the weaker, but means ‘working with’ and empowering[8] the weak to take their life in to their own hands and become independent from charitable support (empowerment approach). Diakonia is also engaged in peacekeeping and reconciliation[9] in order to eradicate the root causes of violence, terrorism and war. Diakonia became also a Christian term for development work[10]. An example is the large German protestant development organisation Bread for the World, which is part of the institution called ‘Evangelisches Werk für Diakonie und Entwicklung’ (Protestant Service for Diakonia and Development) which includes Diakonia inside the country, international development work, international disaster relief, interchurch help and advocacy. All this means that advocacy for structural change, rights of the weaker (rights-based approach), legislation (e.g. for a social security system in a social welfare state) and international conventions (e.g. for rights of children, right to food and water) became integral part of the modern understanding of Diakonia. Since two decades, the term Diakonia is enlarged from human to non-human beings while speaking of ‘Diakonia for all creatures’. [11]

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[8] Carlos Emilio Ham Stanard, *Empowering Diakonia: A model for Service and Transformation in the Ecumenical Movement and Local Congregations*, Amsterdam: Free University 2015.

[9] Lutheran World Federation, *Diakonia in Context. Transformation, Reconciliation, Empowerment*, Geneva: LWF 2009.

[10] Kenneth Mtata (Ed), *Religion: Help or Hindrance to Development?*, Leibzig: Lutheran World Federation/EVA 2013.

[11] For a historical overview in Switzerland see Christoph Stückelberger, *Social Ethics and Diakonia. Ethische, ekklesiologische und ökonomische Herausforde-*

The deacon (diakonos)—literally, 'the servant'—became the term for the professional social workers in the church. In some countries, Christian social services are very limited by regulations or lack of financial and institutional means. In other countries, Christian diaconal institutions are among the largest in the modern social welfare state. In Germany, the churches with their diaconal institutions such as hospitals, kindergartens, schools, clinics, youth and retirement programmes etc. are the second largest employer with 1.3 million employees, after the state as the largest employer![12]

In view of the above, although there are different definitions on the three terms, in this handbook, we propose that:

1. '*Charity*' means rather a one-off gift or action to solve somebody's or a group of people's immediate needs.
2. '*Philanthropy*' is considered to be more of an approach or philosophy as to how to make the world a better place to live in and how to improve the living circumstances of all the less privileged over a longer period of time.
3. '*Diakonia*' means a holistic approach for services for and with the needy for their empowerment, for peace and sustainable development.

In historical and geographical comparison, the terms philanthropy, charity and diakonia show the modification of meanings over time and on contents[13]: Whereas *charity* was a very positive word of benevolence

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rungen der diakonischen Arbeit in der Schweiz, in Christoph Stückelberger, Global Ethics Applied, Vol 3, Geneva: Globethics.net 2016, 138-158.

[12] https://arbeits-abc.de/arbeitgeber-kirche-13-millionen-mitarbeiter-im-zeichen-des-kreuzes/

[13] Interesting developments can be seen on google trends. Comparison of terms over time and regions can be searched. The limitation is that it is based on big data analysis of only online use of the terms. See on these three terms

and love for centuries, it has a rather negative connotation of paternalism and individualistic giving and is today less used than philanthropy, but still word-wide used. *Philanthropy* on the other side was rarely used, but became a common term of the private “aid-industry” in the last decade and mainly used in USA, India and in the last decade also Europe. Diakonia is a very old term for Christian “charity”, used since 2000 years, but today rarely used and mainly in Central and Northern Europe, USA, Russia and in churches.

1.2.4 Values

The different terms show that values (benchmarks) and virtues (individual behaviour) are to some extent in common in all three terms and concepts, but to some extent also different or with different priorities.

Values (non-exhaustive list)	**Virtues (non-exhaustive list)**
• Benevolence	• *Honesty*
• Love	• *Compassion*
• Caring	• *Transparency*
• Fairness	• *Accountability*
• Justice	• *Integrity*
• Empowerment	• *Empathy*
• Sustainability	• *Respect*
• Peace/reconciliation	• *Responsibility*

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https://trends.google.com/trends/explore?date=all&q=philanthropy,charity,diakonia.

Values and virtues influence to a great extent the structure, goals and praxis of a philanthropic entity and activity:

- they define what success for the philanthropy work looks like;
- they signal to others what philanthropy is trying to achieve; and
- they help to focus philanthropic activities on what is most important.

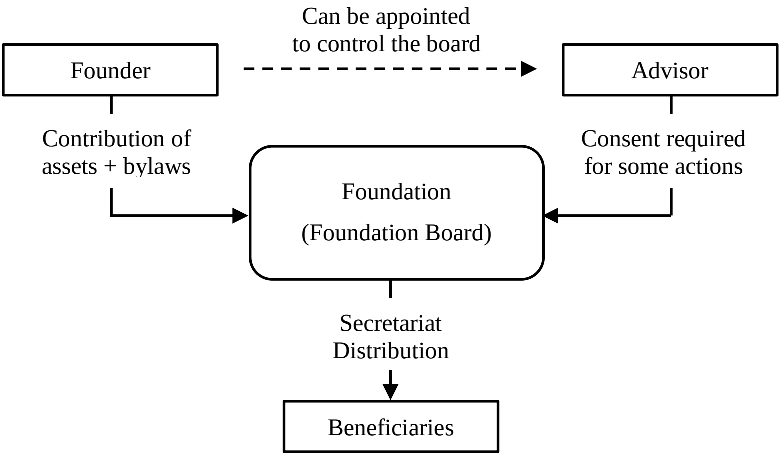
1.3 Foundations

1.3.1 The Term ‘Foundation’

A foundation is a non-profit legal entity. The legal forms are regulated by national or provincial laws and differ by country and tradition. In most jurisdictions, foundations require stronger criteria in terms of governance, transparency and state control than non-profit associations or for-profit companies or cooperatives. Foundations in most countries are tax-exempt t as they serve the common good and society and not for profit of the owners or donors of the foundation. Foundations have no shareholders like companies and normally no members like an association, but they need to have a governing body, normally called Board. This Board can be very small with a minimum of three persons (e.g. of the Founder with family members) or very large when it comes to global foundations or semi-public foundations (foundations established by a state unit such as a ministry of the government).[14]

[14] *Ibid.*

Chart 1.1 A Typical Family Foundation[15]



This type of serving for private purposes foundation is typically endowed by an individual or family. According to the European Foundation Centre (EFC), 'private benefit foundations are those that pursue private purposes, such as the advancement of one family, relatives of the founder, trust funds for the education of the founder's children, etc.' It is in this context, the terms 'public benefit foundation' and 'private benefit foundation' have come into practice.

There are three main types of Foundations: 1. Grant-making foundations, 2. Grant-seeking foundations and 3. A combination of both.[16] More about it below in chapter 5.4. Foundations as not-for-profit are not allowed to pay back to founders or donors what was given as donation. This became very strict, especially to avoid any form of money laundering through tax-free foundations.

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[15] 'Family Foundations', Family Office Services Switzerland (FOSS). Available at: http://www.switzerland-family-office.com/foundation.html

[16] McGill, Lawrence T., 'Number of Registered Public Benefit Foundations in Europe Exceeds 141,000', (Foundation Center, 2015), 1.

1.3.2 The Term 'Public Benefit Foundation'

A generally accepted definition for the term 'Public-benefit Foundation' refers to those *private, independent organisations who work for the public good, and whose activities are intended to benefit the public.*[17] The 'Public-benefit foundations' are asset-based and purpose-driven.

In this handbook, we take the definition of EFC on the term 'Public Benefit Foundation', which is widely accepted by the foundations sector in Europe. Based on the articles of the EFC's 'Model Law for Public Benefit Foundations in Europe' which were identified and agreed upon by experts and actors in the field among the EFC memberships, and *Comparative Highlights of Foundation Laws: The Operating Environment for Foundations in Europe* published by EFC in 2015, we propose that foundations are to be considered as *'Public Benefit Foundations'* if they meet the following five criteria:

1. They are independent, separately-constituted non-profit bodies
2. They have no shareholders
3. They have their own established and reliable source of income, usually but not exclusively from an endowment
4. They have their own governing board
5. They distribute their financial resources for educational, cultural, religious, social or other public benefit purposes, either by…
    - Supporting associations, charities, and educational institutions or individuals; or
    - Operating their own programmes.[18]

During the past decades, almost all countries require foundations to possess a minimum level of assets as a condition of establishment (e.g. in Switzerland CHF 50,000 Foundation capital). Traditionally, many

[17] *Ibid.*, 3; also on EFC website.

[18] Please also refer McGill, Lawrence T., *op. cit.*, 3.

countries have also required foundations to hold additional capital to ensure that they have sufficient funds to pursue their stated purpose. In some cases, this takes the form of an *endowment* that is large enough to allow the foundation to operate its charitable programmes with support drawn largely (or entirely) from the interest income generated each year by the endowment.

According to the report *Comparative Foundation Laws in Europe*[19] "New forms of foundations, with new forms of income generation, have developed and it is becoming more important for the foundation to have *reliable mechanisms* in place to ensure that it has adequate financial resources to pursue its public benefit purposes rather than to have a fixed amount of static capital at the moment of establishment."[20] On the fundraising implications see chapter 5.4.

It has become a trend that the philanthropists set up their own foundations instead of spending to existing philanthropic institutions such as development organisations, youth, cancer, health, cultural or research institutions. The advantage is full control and ownership, but it includes also higher risks of failures since philanthropy as fruit of family business needs also family business governance.[21] Often is it more efficient and professional to find an existing foundation or organization, which is able to assist in realizing their particular philanthropic wishes. The reason for this is simple: setting up a long-term philanthropic project, such as an agricultural development project in Africa, a green energy project in China, or an educational project in India's isolated poor regions, requires a different set of expertise which involves the issues such as setting philanthropic objectives, formulating a giving strategy, presentation of strategy initiatives, technical advice, projects and operational man-

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[19] European Foundation Sector Report 2015.

[20] McGill, Lawrence T., *op. cit.*, 3-4. See also www.swissfoundations.ch

[21] See the helpful handbook of the International Finance Corporation, *IFC Family Business Governance Handbook*, Washington: IFC, 2008.

agement, etc. Family offices share their experience in supporting donors in managing their wealth: "Even a smaller philanthropic project could prove quite difficult to manage once it has been set up. It would therefore be very useful if this handbook can support a practitioner in managing and monitoring the projects or helping a philanthropist in formulating his or her philanthropic project. As you might well imagine, setting up a more sizable, new philanthropic institution, to which external parties may also donate in the future, is a challenge that certainly needs knowledge in this sector, which is often referred as the third sector apart from the private and public sectors." [22]

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[22] Family Office Services Switzerland, https://www.switzerland-family-office.com/charity-philanthropy.html.

2

PHILANTHROPY IN EUROPE AN OVERVIEW

2.1 The World's Major Foundations Associations

Over the last two to three decades[23], the number of foundations in the world has increased rapidly. To cope with this flourishing philanthropy sector, several major foundations associations have been established in Europe and in the United States (U.S.). The most renowned foundations associations in the world are: European Foundation Centre (EFC), EFC's Donors and Foundations Networks in Europe (DAFNE), Foundation Center in New York and Wings (Worldwide Initiatives for Grant-maker Supports) based in Sao Paulo of Brazil.

2.1.1 The European Foundation Centre (EFC)

According to the European Foundation Centre (EFC), with over 25 years of experience and an initial group of seven founding members grew to more than 200 members organizations today. "The EFC is the platform for and champion of institutional philanthropy – with a focus on Europe, but also with an eye to the global philanthropy landscape."[24]

[23] For this chapter we especially acknowledge sources and data provided from *Observatoire de la Fondation de France, and Fondation 1796* (Lombard Odier Darier Hentsch).

[24] www.efc.be.

The EFC is headquartered in Brussels, Belgium; it supports its members in their work - both individually and collectively, to foster positive social change in Europe and beyond.

The EFC analyses trends and issues within the sector and explores the wider context in which foundations operate. The EFC also analyses EU policy and regulatory frameworks in order to promote issues and influence policy from this perspective. The EFC's work is guided by three key questions: What is the role of foundations in building trust in society? How do foundations contribute to improving policy solutions and their implementation? How the foundations to work together to advance the well-being of sector? In view of the above role having played by the EFC, this has given the EFC as an organisation whose analyses and findings as the 'helicopter view' of the sector; whose publications are widely used as the references for the foundations studies.[25]

Overview of major foundation networks[26]

[25] http://www.efc.be/about/at-a-glance/.

[26] UBS Philanthropy Compass, Zurich 2014, 84. Free download: www.ubs.com/philanthropy

2.1.2 The Donors and Foundations Networks in Europe (DAFNE)

DAFNE is a network of 25 donors and foundations networks from across Europe, with a collective membership of over 7,500 foundations. According to DAFNE website, “DAFNE underpins individual activities of its members by encouraging dialogue and collaboration between the national associations. Each DAFNE member individually serves public benefit foundations and other donors at national level: their roles and services vary from country to country”. [27]

This very nature of the diversity among the DAFNE members themselves brings the opportunity of gaining different perspectives. Through DAFNE’s activities, each member learns from peers’ experiences, enriches themselves, and gets to know the wider European context. From this angle, the DAFNE somehow creates a mechanism and platform for wider collaboration among European associations themselves; exchanges know how between themselves; and creates a pool of knowledge at the level of the DAFNE network and among philanthropy support organisations.

As such, one can say that the DAFNE provides a collective voice for Foundations sector and supporting their membership Association in playing a representative role at the national level. The DAFNE also works with its two main strategic partners EFC and WINGS Foundation of the U.S., with intention of strengthening the voice and representation of the philanthropic sector at the both European and global levels.[28]

The DAFNE provides for:

- exchanging national experience
- networking opportunities and encouraging joint projects and initiatives

[27] http://www.dafne-online.eu.
[28] http://dafne-online.eu/about.

- promoting donor's best practices at EU level
- supporting advocacy effort at national, EU, and global levels
- defining common positions on legal and fiscal issues
- data collection, consolidation and analysis

2.1.3 Foundation Center of the U.S.

Foundation Center was established in 1956, is headquartered in New York of the U.S. According to the website of Foundation Center, it strives to be the leading source of information on global philanthropy. The Center aims to connect people through data, analysis, and training; it maintains not only the most comprehensive database on U.S. but also on global grant-makers. The Center now becomes a robust, accessible knowledge bank for the philanthropy sector. The Centers' three main activities are: research, education, and training programs which are intended for advancing knowledge on philanthropy at every level.

2.2 Historic Review of Philanthropy

Individual giving in all its forms is probably as old as human interaction. Fostered by the Judaeo-Christian tradition of charity, the Middle-Ages saw the birth of philanthropy. While the original dates of foundations in many European countries are also found in medieval times. In West, giving, private generosity, are associated with Anglo-Saxon and American culture, where attitudes towards wealth are relatively relaxed. Private initiatives of transferring a part of their wealth for the common good, are not only as an expression and act of their religious faith, but also often seen as an integral part of the individual's relationship with their community.[29] At the same time, Europe is a diverse continent and

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[29] Please refer 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015; also see, 'A Flourishing European Philanthropy Sector', (Fondation de France), June 2015. Very interesting is the

giving is conditioned by differences in history and culture, economic and political conditions, and taxation rules. During the second half of the 20th century, four different models of philanthropy within the European continent have evolved:

- the Anglo-Saxon model, where civil society organisations (CSOs) are seen as a counter-weight to government
- the Rhine model, which involves a form of 'social corporatism' with CSOs, is often contracted to the state
- the Mediterranean model, where the church is seen as responsible for charity
- the Scandinavian model, which is based on a strong welfare state, with a strong tradition of volunteering.

When the welfare state model was widespread in Europe after the World War II, particularly in Scandinavian countries, the states took responsibility not only for protecting citizens and developing infrastructure, but also in terms of healthcare, social security and education. Philanthropy focused on complementary areas such as culture and religion.[30] Over the last two to three decades, with the wealth creation, European philanthropy has been sustained and developed further; and it currently is redefining the role of private initiatives in the public arena.

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first presentation of the history of American philanthropy by a Chinese scholar: Zi Zhong Jun, *The Responsibility of Wealth and Evolution of Capitalism. Revelation of a Centruy's Development of American Philanthropy* (Book in Chinese), Shanghai: Shanghai Joint Publishing, 2015.

[30] *Ibid.*

2.3 Main Indicators of European and American Philanthropy

How does the European philanthropy, taken as a whole, bear comparison with its American counterpart?

If we compare data on the donor population and total individual giving amounts, Europe comes after the United States. In Europe, 44.3% of the population are donors and the total amount of giving is € 22.4 billion The total giving as a proportion of GDP is 0.2%. Whereas in the U.S. 95.4% are donors for the total amount of € 224 billion. The total giving as a proportion of GDP is 1.5%.[31] The donations have also to be seen in relation to the social welfare state: In Europe, citizens pay more taxes for well-developed social security and the need for private social services is therefore lower than in the U.S. where the social security is less developed and more private support is needed!

On the other hand, based on the newest data compiled by the DAFNE and the EFC and analysed by the Foundation Center in New York indicates that there are more than 141,000 registered 'public benefit foundations' in Europe, with combined annual expenditures of more than € 56 billion; whereas there are about 104,107 registered 'public benefit foundations' in the United States with annual expenditures of € 53.5 billion.

The below table is a summary of the major indicators for a comparative study of European and American philanthropy, in which we see that the total giving by foundations in nine European countries is equivalent to that of all American foundations (€ 56 billion for nine European countries €53.5 billion for the United States). In relative value (as a proportion of GDP), the European foundation sector is just as committed as its American counterpart (0.45%).

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[31] *Ibid.*

The below table also illustrates that the philanthropic wealth (total foundation assets) in the U.S. is much greater than in Europe, nevertheless, the foundation vitality index (expenditure-to-assets ratio) in Europe is much more dynamic 12.9% than that of the United States (8.6%). This can be explained by the fact that American foundations are largely capital appreciation or stock foundations, while the dominant and growing model in Europe is the foundation reliant on donation inflows.

Table 2.1 Comparative Indicators of European and American philanthropy

Main Indicators	**Europe**	**United States**
FOUNDATIONS		
Number (from 19 major European countries)	141,000	104,107
Total expenditure (from 13 European countries)	€ 56 billion	US$ 71 billion
Total assets (from 13 European countries)	€ 433 billion	US$ 823 billion
Vitality (expenditure-to-assets ratio)	12.9%	8.6%
Expenditure as proportion of GDP (9 European countries)	0.45%	0.45%
INDIVIDUAL GIVING		
% of population as donors (10 European countries)	44.3%	95.4%
Individual giving total (9 European countries)	€ 24.4 billion	US$ 229 billion
Proportion of giving to GDP	0.2%	1.5%

Source: 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015; also see, McGill, Lawrence T., 'Number of Registered Public Benefit Foundations in Europe Exceeds 141,000', (Foundation Center, 2015).

2.4 Measurement and Characteristics of the European Philanthropy

Methodology on studying European philanthropy is still in developing stage and is not yet standardised. Our objective in this Chapter is to give practitioners an overall picture on philanthropy, in particular on European philanthropy. In order to do so, we have chosen to adopt quantitative as well as qualitative data analyses methodology for the selected 10 European countries, namely: Netherlands, U.K., Germany, Switzerland, France, Poland, Italy, Belgium, Spain and Sweden, where philanthropy sector is relatively well-developed. Based on available data on these 10 countries, we discuss measurement, characteristics of European philanthropy from the two principal aspects of philanthropy: individual giving and the public-benefit foundations sector.

2.4.1 Individual Giving

Giving means choosing a cause, an organisation or a beneficiary. It means contributing to a private initiative for the good of the greatest number. But it also and above all means:

a. through the act of becoming a donor;
b. deciding what should be of 'general interest'; and,
c. is that possible to bring one's own personal vision to the definition of 'general interest' and its implementation?

Based on our research, behaviour of individual giving varies widely from one country to another, nevertheless, the priority causes for European individual giving behaviour is: international solidarity, social welfare and religion. The main causes supported in the different countries demonstrate different conceptions of solidarity. For example, "*in France, giving for national causes is dominant":* French donors, like the Spanish, donate primarily for their own most vulnerable compatriots (37% of donations). "*For the Germans, Belgians and Swiss, international and humanitarian aid is the priority":* 74% of total German donations, 61% of Belgian donations, and 43% of Swiss donations. "*In the Netherlands and United Kingdom, religion is the largest cause supported"* by individual philanthropy and the largest motivation.[32]

"All European states now recognise the role of private philanthropy in works that benefit the public interest, as demonstrated by the introduction of tax incentive mechanisms (Sweden was the last country to introduce such a mechanism in 2012). Tax breaks encourage people who are already donors to increase the amount of their gift, rather than promoting the emergence of new donors. The French deductibility system is particularly advantageous for donors, compared to neighbouring European countries. In several countries, a proportion of tax is directly allocated to religion or the charity sector. In Germany, the church tax (*Kirchensteuer*) is added to any tax due at a rate of 8 to 9% of the tax due to the State."[33]

For assessing philanthropy and comparing national situations, the number of donors and the percentage they represent in a country's population are the foremost useful indicators. The Chart 2.1 reveals which countries in Europe contribute the most in terms of their donor population as a whole. The data on individual donations includes the giving population as a percentage of the national population.

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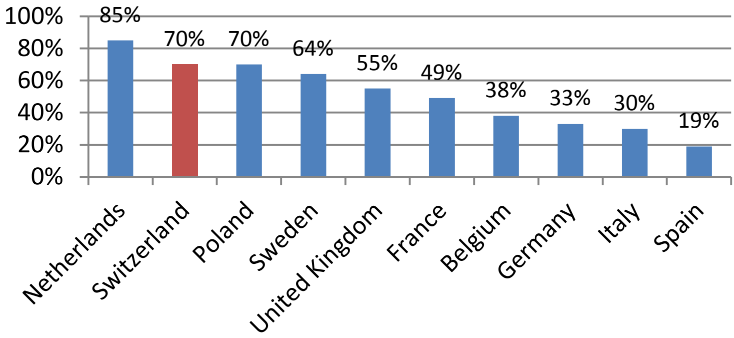
[32] 'A Flourishing European Philanthropy Sector', Fondation de France, June 2015.

[33] 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015.

Chart 2.1 Proportion of Donors by National Population in Europe

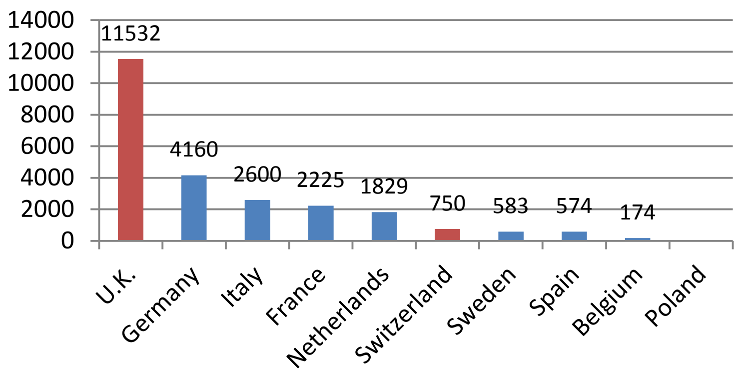


Source: 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015.

From the above Chart, we can see that the Netherlands, Switzerland, Poland and Sweden, four countries sit on the top in terms of proportion of donors to their respective national population. The Netherlands have a highest rate - 85% of its population being donors. Switzerland and Poland both are at the 2nd place with a rate of 70%; whereas Italy and Spain are at the rear. This indicates that people of northern European countries seem giving more compared to the countries of southern Europe. It gives an interesting insight that public in European countries feel more responsible for the common good, have more sense of social duty and willingness to support a particular cause.

The Chart 2.2 shows the breakdown of giving amount in 10 of each selected European countries (excluding Poland, for which data is not available). For all of the 9 European countries as a whole, philanthropy expressed in the form of individual giving amount totals more than € 24.4 billion.

Chart 2.2 Individual Giving Amounts (in million euros)



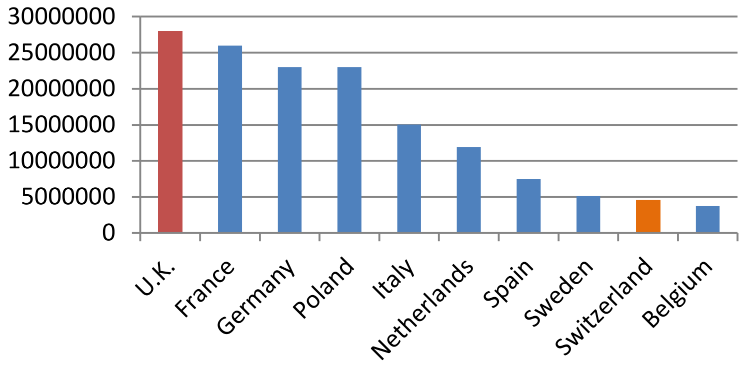
(N.B.: No data for Poland.)

Source: 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015.

From the Chart 2.2, we can see that U.K., Germany and Italy whose individual donors are recorded the most, in which U.K. contribute almost half of the European total giving amount.

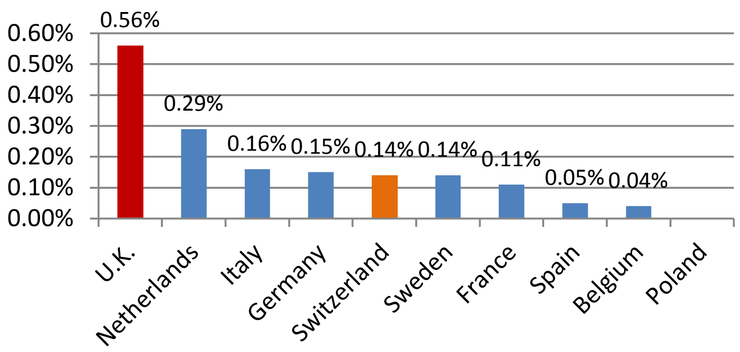
The estimated number of donors for each of these 10 European countries is illustrated in the Chart 2.3, in which we can see that U.K. "with an estimated donor population of almost 28 million ranking the first; while France has the second largest number of donors with an estimated donor population of more than 25 million. Germany and Poland are next, with roughly similar estimated donor numbers of around 23 million." (ibid) If we sum-up all the 10 countries, the total number of donors is about 149 million people, representing 44.3% of the total population. These estimations are based on self-declared data and might not be exact; nevertheless, these figures serve as the useful and indicative value for measurement and show the characteristics of European philanthropy.

Chart 2.3 Estimated Number of Donors



Source: Observatoire de la Fondation de France / CerPhi, April 2015.

Chart 2.4 Total Individula Giving as a Proportion of GDP for 10 European countries



(N.B.: No data available for Poland.)

Source: Observatoire de la Fondation de France / CerPhi, April 2015.

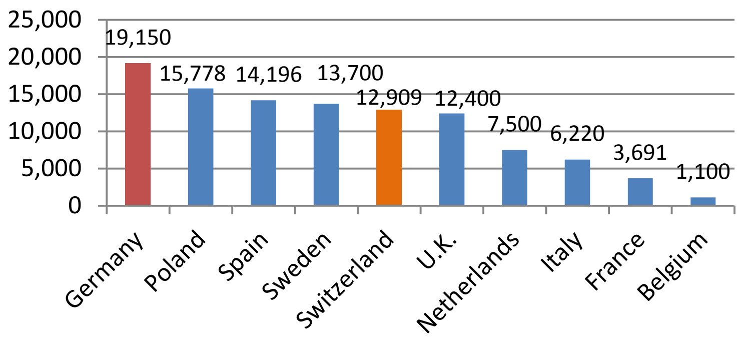
2.4.2 Remarkable Rise of Foundations in Europe

The traditional foundation model is usually based on permanent funding from significant investment assets, the income of which is sufficient to support long-term philanthropic activity. This type of large and stable endowment as financial resources to a public benefit cause through establishing a foundation is the usual case of funding origin of an American foundation and a larger European foundation. The existence of a large number of capital endowment foundations in the U.S. and Europe represent a country's wealth, and the level of dedication to the causes of social, cultural and common good. Nevertheless, this is not the only face of foundations in Europe. In addition to this traditional mechanism of funding through capital endowment, the two other phenomena in some European countries: 1) *national lotteries* – collect colossal sums of money (€500 million in the Netherlands, €800 million in U.K.)[34]; 2) fundraising events, crowd funding, are taking the pace which are redefining the activities of donating money in the philanthropy sector. These new methods of giving are contributing to the evolution of giving behaviours and trends in Europe which have stimulated the rise of foundations in Europe over the last two to three decades.

This boom of the fund and foundation sector in most of European countries for the last 30 years, shows the sign of that the philanthropic culture is continuing to make progress. It is also due to the result of changes in the legal and fiscal frameworks of most European countries. As a result, huge numbers of small foundations have been created, a trend seen in several countries, such as community foundations focusing on local fundraising, and foundations relying on incoming donations rather than capital, and so on. These smaller and young foundations of Europe are dynamic and define themselves more in terms of their actions than their assets. Consequently, often through mobilising resources other than the initial endowment and many other functions with donation inflows model—as opposed to the stock model predominated in the U.S., foundation numbers have increased rapidly everywhere in Europe.

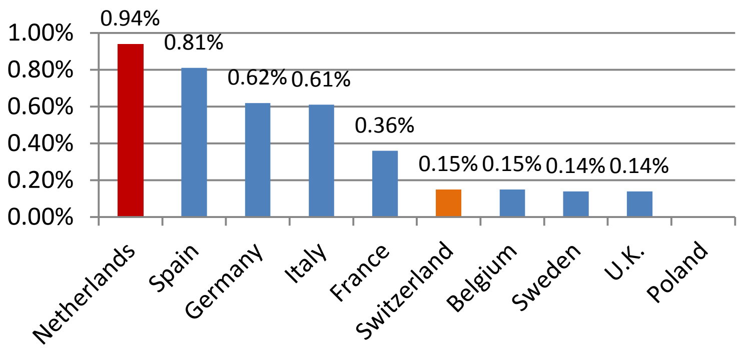
[34] *Ibid.*

Chart 2.5 Number of Foundations in 10 European Countries



Source: Observatoire de la Fondation de France / CerPhi, April 2015.

Chart 2.6 Foundation Expenditure as a Proportion of GDP for 10 European Countries



(N.B.: No data available for Poland.)

Source: Observatoire de la Fondation de France / CerPhi, April 2015.

The above two Charts are intended to measure development of the European foundation sector through number of foundations in 10 selected European countries and its economic weight in their respective economy. The Chart 2.6 illustrates foundation expenditure as a proportion of

GDP for each of selected 10 European countries. Looking at the both Chart 2.5 and the Chart 2.6, we see that the countries with the highest “ratio of philanthropic spending to GDP are the Netherlands, Germany and Italy, which were also ranked highly in terms of the ratio of total individual giving to GDP, and Spain, where conversely, the individual giving ratio is low” (ibid).

Beyond of remarkable rise of foundations in Europe from the perspectives of numbers, the economic weight in their respective national economy measured by foundation expenditure as a proportion of GDP, another characteristic of European foundations is that their vitality which can be measured through their expenditure-to-assets ratio in these 10 European countries.

If we look into the Chart 2.7, along with the Table 2.1, we can see that half the countries in Europe have a higher philanthropic vitality index than the United States. Belgium, Spain, France and Germany particularly stand out. From the Chart 2.7, the mathematic calculation of average of expenditure-to-assets ratio is 18.1% for these 9 European countries (no data for Poland), this ratio is more than two times higher than that of American foundations (8.6%)[35]. The high ratio of expenditure-to-assets in these countries implies that: generally speaking, European foundations operate more dynamically than their American counterparts. The reason to this high ratio of expenditure in Europe is largely due to the fact of that European philanthropists favour dynamic spending and fast social impact rather than the need for perpetuity. The result of changes to legal and fiscal frameworks of many European countries also promotes increasing number of European foundations and their high spending pattern. As a result, today, European foundations are characterised by their youth and dynamism, a sign that the philanthropic culture is continuing to make progress throughout Europe.

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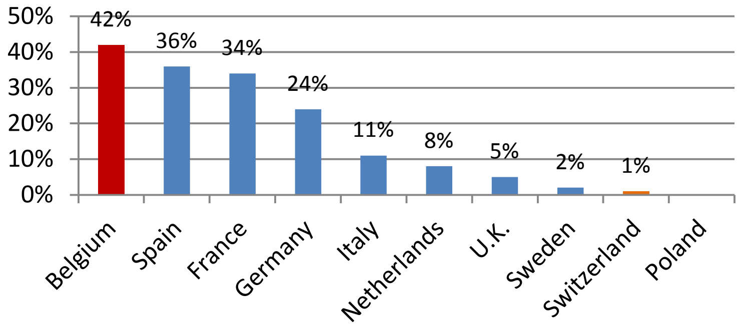
[35] See the Table 2.1.

Chart 2.7 Foundation Vitality in 10 European Countries (expenditure-to-assets ratio)



(N.B.: no data available for Poland.)

Source: Observatoire de la Fondation de France / CerPhi, April 2015.

Another characteristic of European foundation is that the existence of very large *corporate foundations*, this is the particular case in Germany. The operating model of German foundations is mainly through their corporate social responsibilities (CSRs) and grant- making activities, which account for one third of total foundation spending in Europe. In Italy, *savings bank foundations*, created in the 1990s, hold half of all Italian philanthropic assets, or 21% of the European total. Thus, one can say that European philanthropic capital is highly concentrated in German foundations and Italian *savings bank foundations*. At the other end of the spectrum, numerous foundations with very limited assets are also emerging everywhere in Europe, such as mainly through the creation of scientific cooperation, partnership and university foundations, with public subsidies making up a quarter of their resources. Created more recently, the hospital foundation is also part of this public-private partnership trend in philanthropic organisations.

2.5 Favourable Fiscal Frame for European Philanthropy

It is remarkable that the states in all the countries studied offer tax advantages to private donors, which shows the governments' recognition of private initiative and individual expression of commitment to the common good. The British government has introduced such a favourable fiscal system since the 1920s; Sweden, the last country to carry out tax breaks for charitable giving is in 2012.

There are two types of *Tax incentives* mechanism exist in Europe:

1. *Tax deduction:* the gift amount is deducted from taxable income. This is the mechanism used in the United Kingdom, Switzerland, Germany, Italy (although variants exist depending on the type of beneficiary), the Netherlands, Poland and Sweden. The deduction has an upper limit which varies according to the country. The United Kingdom has a special tax deduction system through its Gift Aid and Payroll Giving mechanisms.
2. *Tax reduction:* a tax credit is granted, the amount of which is proportional to the donation. This is the mechanism used in Belgium, France and Spain. France has the highest rate (66% of the donation amount, compared with 45% in Belgium and 25% in Spain) and the highest upper limit (20% of taxable income, compared with 10% in Belgium and Spain).

It is difficult to compare these tax incentive mechanisms, especially where tax deduction and not reduction is involved. Nonetheless, these tax incentive mechanisms appear to have influenced the size of gifts made by individuals, it is not the isuue of whether to give or not give. In Switzerland, many cantons collect a church tax; in some cases, this is a percentage of the tax already owing, and sometimes an additional tax.

As most of European governments encourage private generosity and giving through tax incentives, the governments recognise the need of structured and independent private initiatives and the role of civil society in which the foundations sector can particularly play. Consequently, nowadays, the European governments see foundations, associations, federations, etc. civil society organizations no longer as forming a kind of opposition force or a threat to them; instead see them as important and complementary sector for serving the public interests. Many of foundations in Europe are taking responsibility for missions of public interests and social works, which the states cannot finance sufficiently or effectively at the long-term.

In addition to the favourable fiscal environment for encouraging individual giving and contexts discussed above, internal changes in the foundation sector starting with the foundation statute itself, also explain the recent boom in the number of foundations in several European countries.

For example, in France the introduction of new tax incentives for the foundations sector, namely the creation of new legal forms - the endowment fund in 2008, has resulted in the explosion in the number of foundations. This fund is characterised by its administrative flexibility with initially no start-up capital requirement, now amended to a low minimum threshold, and has led to the creation of more than 600 funds in the two years. Like endowment funds, *Treuhandstiftung* in Germany have experienced similar success. The creation of fund does not require legal approval from the authorities, and this is often a first step in the philanthropic strategy of their founders, before the creation of a more traditional foundation. Similarly in Belgium, the already rapid growth of the sector has gained further momentum since 2002, which was due to a new act governing the sector came into force, giving legal recognition to foundations. In Spain, changes were introduced in two decisive years, 1994 and 2003, these modified legal framework and measures have affected the further development of the sector.[36]

All in all, the philanthropic sector in Europe is explained largely through individual giving behaviour and the variety of foundation models existing in different European country as well as the ways in which philanthropic wealth is viewed. We have adopted the quantitative and qualitative methodology in analysing and measuring philanthropy in Europe from the perspectives of individual giving and foundations sector, and have discussed their characteristics and the tax environment for the growth of European philanthropy. We found that although each country has its own specific features of the philanthropy sector through the introduction of new legal framework, the lack of a requirement for an initial endowment, and expenditure incentives (Spanish foundations are required to spend 70% of their net annual resources) encouraged by their respective state, the dynamism and the vitality are European foundations' common characteristic. This dynamism is viewed not only from the remarkable rise of foundations number, but also from the fact of that those young and active European foundations define themselves primarily in terms of their actions rather than their assets.

2.6 New Trends: Entrepreneurial Philanthropy Models

The big challenge that European philanthropy sector is facing is how to increase the amount of capital in view of many small organizations' struggling to survive. For most of European philanthropy organizations, in order to have an impact, the size of individual grants, loans, or equity may need to be in the millions of euros, thus to give the grantee the

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[36] 'An Overview of Philanthropy in Europe', (Observatoire de la Fondation de France / CerPhi), April 2015.

breathing space it needs. The merry-go-round of fundraising is becoming more and more difficult for supporting existence of many European foundations. In this context, the global recession is both an opportunity and a threat. On one hand, it is creating a demand for innovative solutions that favours the entrepreneurial philanthropy. While the economic and social crisis is deepening social problems, governments on austerity drives are slashing their spending. The European philanthropists are looking into different philanthropy models that could help social-purpose organizations become robust enough to survive and even thrive in this difficult funding climate. The threat is that the recession is making raising funds for existing non-endowed philanthropy organizations and foundations becoming even harder and that halts their growth.

2.6.1 Driving Forces for Innovation in Philanthropy

In an environment where innovation is unquestioningly seen as obligatory, it is wise to take a more balanced approach. As today, individual philanthropists became more experienced and sophisticated; they recognised the need to address root causes of social issues, not merely to treat the symptoms. Given the scarcity of philanthropic resources, a new generation of philanthropists realised that philanthropy should be a form of *risk capital* to fund innovation and to prove their concepts, rather than continuously underwriting programmes that did not address underlying issues with a compelling theory of change. The call for innovation in philanthropy came especially from wealth managers, private and public banks. Many American and European including Swiss wealth management firms and banks opened their offices in Asia and proposed to their High Net-Worth Clients new approaches.[37]

Innovation is usually described as the 'specific tool of entrepreneurs…by which they exploit change as an opportunity…' More recently, it has been recognized that innovation also happens outside the busi-

[37] From Switzerland e.g. UBS, Crédit Suisse, Lombard et Odier.

ness world—in the public and social sectors. "These sectors, too, have their entrepreneurs and intrapreneurs (change agents operating within existing organisations) who pursue innovative change across all stages of organisational life cycle—whether in new organisations, growing or established ones."[38] It is widely accepted that innovation 'doesn't happen automatically. It is driven by entrepreneurship —a potent mixture of vision, passion, energy, enthusiasm, insight, judgment and plain hard work which enables good ideas to become a reality'.[39] A key question is also, which innovation is ethically positive and when it can turn to be negative. Not every innovation is positive. To develop a cruel cluster bomb may be innovative, but not ethical.[40]

The contemporary economists interpret innovation as a cyclical process of 'creative destruction' where old ideas, models and rules are destroyed while new ones are established in the search for profitability. It is generally accepted that *creating value* is the underlying purpose for innovation. Turning to philanthropy, Porter and Kramer in their 1999 Harvard Business Review article framed the new agenda for grant-making foundations to be value creators, not passive intermediaries between individual donors and the non-profits or social enterprises that receive their funding.[41]

As it is widely believed that entrepreneurs and intrapreneurs are the primary agents of innovation, are there any entrepreneurs in philanthropy who stimulate the innovation journey in the sector? Rob and Tan

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[38] J. Rob, P. Tan et al. *Innovation in Asian Philanthropy: Entrepreneurial Social Finance in Asia* (Asia Centre for Social Entrepreneurship and Philanthropy, National University of Singapore, 2013), 28f.

[39] *Ibid*.

[40] See Jean-Claude Bastos de Morais/ Christoph Stückelberger, *Innovation Ethics. African and Global Perspectives*, Globethics.net: Geneva 2014 (download for free : www.globethics.net/publications).

[41] Porter, M., Kramer, M., *Philanthropy's New Agenda: Creating Value*. Harvard Business Review, Boston, 1999.

view the stimuli for philanthropic innovation to be broadly themed around interconnected frustrations and opportunities as summarised in the following table. The perception of philanthropy is a single- and isolated- issue of giving, is not long being effective in today's world of complex and integration. In order to create values and to achieve sustainable and beneficial impact, the philanthropy sector is called to be well-informed, to work collaboratively and to be able to face to the challenges due to an ever globalised world.[42] A new word -'philanthrocapitalism' has come to exist lately to articulate philanthropy's challenge since the industrial revolution—to utilise business acumen in pursuit of the common good.

Table 2.2: Stimuli for Innovation in Philanthropy[43]

Frustration	Opportunity
➢ Discontent with the status quo in philanthropy. ➢ Desire for greater sustained social impact. ➢ Awareness that resources are used inefficiently. ➢ A disconnect between business and philanthropy sectors. ➢ Social issues are too complex for single interventions.	● Philanthropy is a globalising sector. ● Business entrepreneurs are creating wealth and are searching for models of philanthropy that have impact and connect with business approaches. ● New generation of family-based philanthropists are reviewing traditional giving. ● An increasing pool of professional talent seeking to volunteer. ● Social entrepreneurship and hybrid organisational models are becoming mainstream offering philanthropy beyond grant making.

[42] J. Rob, P. Tan et al, op.cit, 29.
[43] *Ibid.*

Source: Rob, J., Tan, P. et al., Innovation in Asian Philanthropy: Entrepreneurial Social Finance in Asia (Asia Centre for Social Entrepreneurship and Philanthropy, National University of Singapore, 2013), p.29.

2.6.2 Venture Philanthropy

Venture philanthropy is a composite of the terms 'Venture Capital' (off-exchange participation in risk bearing ventures) and 'Philanthropy' (private voluntary action with a charitable purpose); it takes concepts and techniques from venture capital finance and business management and applies them to achieving philanthropic goals.[44]

Philanthropic objectives can be attained not only through donations, but also, for example, through the issuing of loans or allowing for participation in the equity held by charitable organisations. There is no single global definition of venture philanthropy, and its definition has evolved over the years along with its practice.

Venture philanthropy was firstly developed in the U.S. and was attributed to the American philanthropist, John D. Rockefeller III, who, described the need for a more 'adventurous' approach to funding unpopular social causes. Thirty years later, *New Economy* philanthropists and academics foresaw the need for a reformed, energised and more entrepreneurial culture of giving. [45] In the late 1990s, a rush of Silicon Valley's newly wealthy dot-com entrepreneurs became closely associated with the growing venture philanthropy movement, keen to apply commercial innovation to their grant-making.

In Europe, venture philanthropy started during the early 2000s in the private equity and venture capital world of U.K., venture philanthropy then seeped into foundations sector across Europe. In 2004, the European Venture Philanthropy Association (EVPA) was established by indi-

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[44] Forbes via NBC News: "Venture philanthropy' is new buzz in business: Buffett, Gates not the only tycoons reshaping world of charitable giving", 6/26/2006.

[45] J. Rob, P. Tan et al., *op.cit.*, 39.

viduals from the private equity industry, they were looking for a model of giving that was more effective and aligned with their professional expertise as investment experts.[46] The EVPA was initially conceived as an informal network to encourage philanthropy in the private equity community, but it quickly gained support from more traditional grant-makers, professional service firms, and the private equity industry bodies. During the last decade, as governments and corporations begin to inject significant capital into the field, venture philanthropy has spread into the foundations sector and social enterprises. With the growth in popularity and practice of social enterprise in Europe, and the fit between social entrepreneurs' demand and what venture philanthropy can offer, European venture philanthropy is now on the verge of growing from a noisy niche into an integral part of the broad philanthropic and socially responsible investment field.[47] By 2010 there were an estimated 48 venture philanthropy funds operating in 17 European countries. The EVPA's state-of-the-industry report in 2012 claimed that one billion Euros ($1.3 billion) had been invested by entrepreneurial philanthropy funds in Europe since beginning their operations. The figure combines financial support and estimated value of non-financial services donated as an integral part of the investment process.[48]

Venture philanthropy is believed to grow in Europe, although it may not necessarily be under the banner of *venture philanthropy*. We have observed that many of traditional foundations, corporate philanthropy, public policy initiatives, and impact investors are undertaking the programs and projects consciously and unconsciously through applying venture philanthropy concepts into the actual operations. This implies

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[46] *Ibid.*

[47] See the very interesting study Buckland, L, Hehenberger, L et al., *The Growth of European Venture Philanthropy*, Stanford Social Innovation Review, Summer 2013, 4, 34.

[48] J. Rob, P. Tan et al., *op.cit.*, 39.

that venture philanthropy may assume a different character in the practical works. One of the differences that already emerged is that venture philanthropy in Europe is much more diverse than it is in the United States. Instead of relying on the traditional social democratic or welfare model of funding and operating social services, governments throughout Europe are now actively experimenting with models based on social enterprises and social entrepreneurs. These new government approaches, combined with the growth of private venture philanthropy, may set the stage for significant changes in the European social landscape.

In spite of that, the practice of venture philanthropy differs quite substantially from organization to organization, has taken on *different forms in different countries*, each with its own unique set of laws, institutions, culture, and history, a set of important characteristics distinguishing European venture philanthropy from other types of philanthropy and social investment can be identified as below[49]:

- *High engagement:* the venture philanthropists are closely working with, and supervising the supported organization's management.
- *Organizational capacity building: by funding core operating costs rather than individual projects* with intention of building the operational capacity of the supported organizations.
- *Tailored financing:* through using a range of financing mechanisms, such as grants, debt, and equity, etc., *tailored to the needs of the supported organization.*
- *Non-financial support: providing value-added services such as strategic planning to strengthen management.*
- *Involvement of networks:* through granting investees the access to networks of the venture philanthropists, that are often needed by the investees

[49] Buckland, L. et al, *op.cit*, 34.

- *Multi-year support:* injecting the "seeds" fund for a limited three to five years' period of time, then to exit when the supported organizations are financially or operationally sustainable.
- *Performance measurement:* the venture philanthropists emphasize on *good business planning, measurable outcomes, achievement of milestones, and financial accountability and transparency* of the supported organizations.

This set of characteristics defines who are venture philanthropists in Europe regardless of *the financial tools used (grant, loan, or equity) or the type of organization financed (non-profit or for-profit.* From this perspective, we can conclude that *social investors and pure grant-makers are both venture philanthropists in European terminology* as far as they are highly engaged with their investees and they perceive the social impact more important than the financial returns. These and similar activities across the European continent suggest that the future for European venture philanthropy is bright.

2.6.3 Social Entrepreneurship and Impact Investing

The steadily growing global phenomenon of social entrepreneurship has caused one of the most significant shifts in philanthropy over the last fifty years. Social entrepreneurs and their associated ventures are challenging the old paradigm whereby the grant-making programmes of philanthropy organisations funded the project costs of charities through a reactive application process. The rise of social entrepreneurship coalesces with a new generation of philanthropists, many of whom are entrepreneurs wanting to connect their business acumen to their aspirations for charitable giving. They are younger than their predecessors, wanting to give while still developing their careers, many wanting to engage actively rather than give passively. They often question the effectiveness of more traditional charitable giving and speak more readily of 'impact' and 'outcome.' Younger professionals, perhaps reflecting a broader reevaluation of the nature of financial security, personal motivation and responsibility to society, want to engage in charitable work with their volunteered skills.

This new generation of philanthropists ask ‘how can we best fulfil our mission objectives by responding to the innovations of social entrepreneurs?’ In the new paradigm, the social entrepreneurship movement across America, Europe and Asia, comes at a time when the new generation of entrepreneurial philanthropist, often wealth creators and investors, look to give while professionally actively engaged.

The phenomenon of social entrepreneurship has evolved further with the recent turmoil on the global financial markets, which has lead grant making foundations to review their fund-giving policies. As yields and returns have been decreasing due to the global financial crisis started in 2008, for the last 10 years, there is an increasing need for social investment and giving strategies that could support the effective implementation of a social organization’s mission. *Mission Investing (MI), also known as Mission-Related Investing (MRI),* were called on as MI or MRI offers the possibility of that an organization can pursue its mission while the assets are kept invested. *The concept of incorporating the funding strategy in the investment policy therefore aims to reduce the dependence on financial returns.*

As MI comes into the existence under the global financial uncertainty and instability, it has become an umbrella term that incorporates and overlaps with various value-based investment concepts, such as Socially Responsible Investing (SRI), Impact Investing. These instruments along with the empirical coverage of the practical implementation of MI are still in the developing stage. In the recent years, there were the increasing interests from the foundations sector and financial services providers on these concepts and their empirical applications, an academic examination of MI and the related concepts are crucial.

As there is an unexpected large gap between the Foundations' quest to being drivers and initiators of social innovation and actually realising the concept and dealing with the process of social innovation, lately, it has become possible to critically question the role of Foundations as social innovators. The functions of foundations in society and their role in the welfare state are also often questioned by the critics. It is suggested that the prerequisites for a foundation's strategy is that it should help to effectively initiate and support social innovations.

It was under this context, the concept of 'impact investing' has been widely spread in the recent years after its first usage in 2008. The rise of 'impact investing' has been like a striking trend that has been well promoted globally. Pure philanthropy is a one-way flow of donation or capital which is always constrained. "The promise of impact investing is to create social value by investing in socially-focused enterprises with sustainable business models, which, when successful, preserve capital and even offer a return on investment. Returns are reinvested in new ventures, and create a virtuous cycle of socially-minded investment".[50] In 2009, the Global Impact Investing Network (GIIN) was launched by JP Morgan, Rockefeller Foundation and USAID as the impact investing movement's advocacy. The same year, Monitor Institute published its report on 'investing with social and environmental impact.' Over the next three years followed several quantitative analyses predicting the astronomic potential of the impact investing market. The 2011 report from JP Morgan and GIIN estimated $4 billion of potential impact investments for the following year and up to $1 trillion in the coming decade [51], a figure supported by Credit Suisse in 2012.[52]

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[50] See J. Rob & P. Tan, *op.cit.*, 39.

[51] O'Donohoe, N., Leijonhurfvnd, et al., *Impact Investments: An Emerging Asset Class*, J.P. Morgan Global Research, 2010, available at www.morganmarkets.com.

[52] Clark, C., Emerson, J., et al., *Investing for Impact*, Credit Suisse Research Institute, Zurich, 2012.

Until today, although entrepreneurial philanthropists have been limited in term of using their capital into venture philanthropy, they are leveraging their resources through spreading their practices into other types of organizations where larger-scale capital exists in helping venture philanthropists in their efforts to increase impact investing. This approach lends strength to venture philanthropy – it is a hybrid practice, with a great potential for cross-sector collaboration. Promisingly, we are already witnessing some of the effects of venture philanthropy's role as a catalyst in Europe. In the United Kingdom, where European venture philanthropy started, venture philanthropy has gone the mainstream among foundations. Although many foundations do not use the term venture philanthropy, they increasingly support non-profit organizations and social enterprises over multiple years. Among large foundations in Europe, many of them are corporate foundations which promote and engage in social responsibility programs and projects. To a certain extent, this has become embedded in European corporate business culture. As a result, an increasing number of European corporate foundations have poured a large amount of funds into social-sector organizations. Corporate philanthropy in leading corporate foundations such as BMW, Vodafone, and Shell, are the major practitioners in Venture philanthropy.[53] Another example is the social impact bond, a financial instrument pioneered in the United Kingdom that is used to fund programs that save the government money. The investors of the first social impact bond in Peterborough prison included 17 individuals and foundations, not surprisingly including EVPA members such as Esmée Fairbairn Foundation that have previously invested in venture philanthropy funds.[54]

European governments are increasingly recognizing the potential of social enterprise and social investment and are starting to provide much-

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[53] Buckland, L., Hehenberger, L et al., *The Growth of European Venture Philanthropy*, Stanford Social Innovation Review, Summer 2013, 39.
[54] *Ibid.*

needed capital for intermediaries. The UK's Big Society Capital, for example, is capitalized with up to £600 million from dormant accounts and high-street banks to develop 'socially orientated investment organizations.' The European Investment Fund is launching a fund of funds to invest in 'social entrepreneurship funds.' And the European Single Market Act, adopted in April 2011, includes the launch of the Social Business Initiative that notably makes access to funding for social businesses a priority.[55] From this perspective, we can say that the burgeoning number of social enterprises in Europe presents a growing opportunity for venture philanthropy investment.

In response to the growing social entrepreneurship movement, entrepreneurial expressions of philanthropy—along the whole spectrum from venture philanthropy to impact investing—are also developing in Asia. These models offer to engage a new generation of entrepreneur-investor philanthropists who find these models aligned to their business acumen, who feel more personally fulfilled by personal engagement, and who are focused on outcomes that offer significant social transformation. From our research, we found that entrepreneurial philanthropy is gaining in popularity in Asia, particularly amongst entrepreneurs and investment professionals. Today in Asia, especially in China, the term - angel investing – "for helping small ventures grow to a stage where they can attract venture capital or private equity investment"[56] has become a well- known concept in the philanthropy industry. In the commercial sector, it appears that there are more angel investors who purchase equity in such venture and work closely with the entrepreneurs in developing their business. This type of approach and practice is well suited to small social enterprises, which need business advice and capital expansion. We believe that with this trend, an increasing number of social enterprises will be able to largely benefit from wider use of impact angel

[55] *Ibid.*

[56] J. Rob & P. Tan, *op.cit*., 39.

investment; in return, it would lead to finding more impact investors and fuel the next stage of growth for both social enterprises and impact angel investing in Asia.

In describing the venture philanthropy and impact investment models, we found that over the last decade, business entrepreneurs direct their philanthropy, naturally and intuitively, by adapting venture philanthropy and impact investing models to serve social entrepreneurs. The social entrepreneurship and philanthropy mutually support each other's development. The rise of entrepreneurial approaches to solving social and environmental problems, the availability of new hybrid forms of social organisation and the appearance of a new generation of entrepreneurial philanthropists create a perfect recipe for innovation. Giving circles, where individuals pool their capital, skills and collaborate in support of non-profit organisations, are widespread in the U.S. and Europe and, have been imaginatively-adapted in Asia. While these phenomena are broadly global, they are acting out with particular energy across Asia. *Avantage Ventures* estimates the potential demand for impact investing in Asia alone to be as much as $74 billion in the 10 years to 2020.[57] The entrepreneurial philanthropy models are catalysing collaborations between the government, philanthropic, and social sectors. The number of funds and organizations devoted to this approach is increasing, as is the amount of money invested.

[57] Avantage Ventures, *Beyond the Margin*, Avantage Ventures, 2011. Available at *www.avantageventures.com.*

3

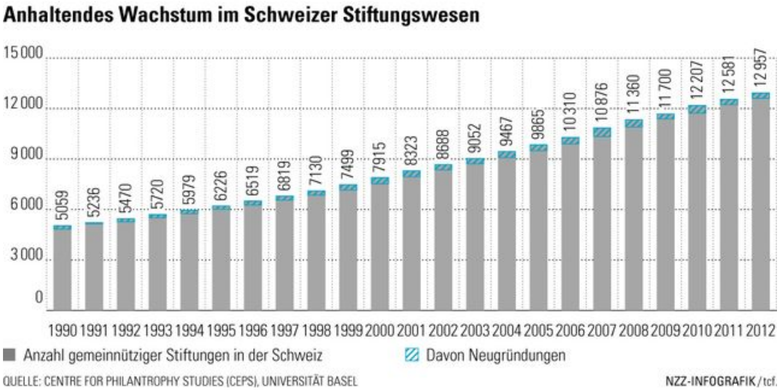
PHILANTHROPY IN SWITZERLAND: DYNAMIC

3.1 A Rich Tradition

Switzerland enjoys a rich philanthropy tradition. One of its oldest registered foundations, called *Inselspital*, was founded in 1354 in Bern; and, it is still operating today. In 1835, the Zürich foundation law was passed; in 1907 the federal law followed suit, making Switzerland as one of the most welcoming places for establishing a philanthropic foundation in Europe for most of the 20th century.[58] With more than 660 years tradition of foundations, there were 13'075 foundations in Swit-

[58] 'Summary: *Advancing Philanthropy in Switzerland—A Vision for a Cooperative and Recognized Philanthropic Sector* (Fondation 1796, Lombard Odier Darier Hentsch), Geneva June 2010; A handbook for foundations in Switzerland offers Elisa Bortoluzzi Dubach, *Stiftungen. Der Leitfaden für Gesuchsteller*, Frauenfeld: Huber 2007. A handbook for persons who want to create their own foundation or get an overview of foundation landscape: Sprecher, Thomas/ Egger, Philipp/ Schnurbein, Georg von, *Swiss Foundations Code 2015. Principles and Recommendations for the Establishment and Management of Grantmaking Foundations,* Basel: Heling Lichtenhahn, 2016; VZ Ratgeber, *Spenden und Stiften*. Alles Wichtige zu Spenden, Vermächtnissen und Stiftungen. Mit Tipps zur Nachlassplanung und zum Steuern sparen, Zürich: VZ Vermögenszentrum 2008. Key information is also available on www.swissfoundations.ch and on the fundraising platform www.fundraiso.ch.

zerland by 2015; among which 41.5% have been created since the year 2000![59] The Canton of Basel-City has the highest number of foundations: 45.7 foundations per 10,000 inhabitants.[60]



Source : CEPS/NZZ. www.fundraiso.ch

Today, Switzerland is considered as one of the most generous nations in Europe. Excluding church taxes, private giving recorded in the Swiss Confederation amounts to an estimated 1.2% of *annual disposable income*.[61] A Zurich-based spending-monitor agency revealed their survey conducted in 2008 that over two thirds of households give regularly; while a typical Swiss-German donates a double amount of a Swiss-Romand (400–500 CHF versus 200 CHF) per year, both are around four times of their nearest neighbours - Germany and France, respectively. Giving by established foundations also appears healthy overall. The Swiss foundations sector represents a large philanthropic

[59] www.swissfoundations.ch.

[60] Ibid.

[61] *Report: Advancing Philanthropy in Switzerland—A Vision for a Cooperative and Recognized Philanthropic Sector,* Fondation 1796, Lombard Odier Darier Hentsch, Geneva, June 2010.

resource with an estimated total asset of between 30 to 80 billion CHF.[62] The lack of exhaustive public data regarding Swiss foundations assets and activities as well as the bank secrecy tradition make any more precise estimation becoming hard to develop.

The Swiss foundations are mostly small, the sector is diverse, numerous and is growing in number. By the end of 2015, there are 13’075 public-benefit foundations in existence in Switzerland, implying one foundation per 620 Swiss inhabitants compared to 3’000 in the US and 5’000 in Germany. Among 13’075 Swiss foundations, around 3’000 are operating foundations, and an estimated 3’000 are inactive, the rest of more than 6’000 are active grant-making foundations. Among these Swiss foundations, around 3,000 are registered at the federal level, and this number is growing faster than cantonal-level registered foundations (6% vs. 2% annual rate). [63] Half of federally registered foundations give internationally. Most foundations stay small: at least 50% of foundations have assets of less than CHF 2 million, more than 36% started with assets of less than CHF 1 million, and 1/6 with assets of less than CHF 250’000. 80% of the foundations in Switzerland have no employed staff![64]

The *thematic focus* areas of Swiss foundations roughly are: 30–40% of foundations fund social issues, 25–30% fund art & culture, 13–20% fund education and science/research, and 6–9% fund health, there is no comprehensive and exact data available on the actual amount of annual giving to each focus area.

Apart from private giving and giving by established foundations, *Swiss companies* are also highly engaged in philanthropic activities. “More than three quarters engage in corporate citizenship (giving and/or employee volunteering)—among larger companies, with more than

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[62] *Ibid.*

[63] *Ibid.*

[64] https://www.fundraiso.ch/stiftungen-schweiz/.

1,000 employees, this figure rises to 93%. Switzerland hosts a number of world business leaders in corporate philanthropy, including the efforts of many private banks. Moreover, corporate engagement looks set to expand further: based on *Corporate Citizenship Survey*, 95% of companies intend to maintain or increase their Corporate Social Responsibility activity."[65]

3.2 Recent Developments

Numerous efforts have been made for developing the scale and impact of philanthropy sector in Switzerland over the last more than 10 years. The establishments of proFonds and SwissFoundations are marking efforts of consolidating and better structuring the sector. The most of indigenous Swiss foundations are members of proFonds and/or SwissFoundations implying that the scale of Swiss philanthropy sector is developing through the well-organized platforms and networks. The foundation law reforms of 2006 and 2008, and the recent pending reforms inspired by the motion Luginbühl, as well as the creation of the research Centre for Philanthropy Studies (CEPS) at the University of Basel, etc., are the most recent initiatives and developments for catalysing philanthropy sector in Switzerland. In addition, the landmark Swiss Foundation Code, firstly published in 2005—the first of its kind in Europe, then edited in 2009 further enriched in its third edition in 2015 - reveals that the Swiss foundation sector is becoming a structured, recognized sector. The below snapshots are detailed recent developments which give a good landscape of current Swiss philanthropic sector.

[65] Wehner, Theo, *Corporate Citizenship Survey* (ETH), 2009.

Table 3.1 Recent Developments of the Swiss Philanthropy Sector[66]

A) Selected Information Sources and Tools in Switzerland
Identifying hinders in a certain geography: Basel *FoundationFinder* is a public interest association based in Basel founded in March 2009 with the goal of connecting those that are seeking grants and those that make grants. It is funded by the 'Präsidialdepartement' of the canton Basel Stadt and by Gesellschaft für das Gute und Gemeinnützige, GGG Basel. FoundationFinder is also supported on content by the Centre for Philanthropy Studies (CEPS). Under www.foundationfinder.ch the public can access information about which funders are funding in their interest area. Information is based on publicly available sources and funders can log in and access/augment their specific information. Currently, the database has 800 funders in it, including those in Basel as well as members of SwissFoundations. *This type of database is a first step in allowing foundations and other types of funders to find cooperation partners.*
Identifying actors in a certain theme: Culture *culturalpromotion.ch* is an address database for people active in the field of art and culture. It contains addresses of private and public cultural promotion (former 'Handbuch der öfentlichen und privaten Kulturförderng in der Schweiz') as well as addresses concerned with cultural networking and communication (e.g. stages, festivals, museums, press and studios). The aim of culturalpromotion.ch is to create an interface between culture-promoting organizations and people involved in the cultural sector. Partners include Schweizer Buchhändlerund Verleger-Verband (SBVV), Association Suisse des Diffuseurs, Editeurs et Libraires (ASDEL), Migros culture percentage,

[66] Source: *Report: Advancing Philanthropy in Switzerland—A Vision for a Co-operative and Recognized Philanthropic Sector,* Fondation 1796, Lombard Odier Darier Hentsch, Geneva, June 2010, 35-37.

Kulturbüro Zurich, Pragma Music and SwissFoundations. Initially operated by the Swiss cultural Office, the updating of the information has been transitioned to be based on feedback from users. The directory contains today more than 5,000 addresses and 4,000 registered users.

This example shows that it is possible to capture a whole thematic sector in an online database.

Providing a tool-kit: Cooperation among nonprofits and corporations

The *Philias Humagora Online Partnership Guide* includes resources, tools, and best practices, available in both French and German, related to partnerships between corporations and nonprofits organizations.

This type of tool-kit could be created on the topic of cooperation among foundations.

B) Selected Platforms for Knowledge Sharing and Peer Learning in Switzerland

Interfacing with peers on certain themes:

SwissFoundations was initiated in 2001 to improve the image and the development possibilities of grant-making foundations in Switzerland. SwissFoundations mobilizes in favour of transparency, professionalism, and the effective use of foundation means in the Swiss foundations field. Its 65 current members are all grant-making foundations, providing support on various thematic domains, in Switzerland and abroad. SwissFoundations members interact in thematic working groups, including social; culture; education; research; in-novation; and environment.

The thematic working groups are a strong platform for thematic networks that allow foundations to engage with each other on themes.

Interfacing with grant-making and operating foundation peers:

With a membership of 300 grant-making and operating foundations, associations and private members, *proFonds,* established 20 years ago, seeks to improve the conditions for philanthropic and social engagement with authorities and the political sphere, and to enable knowledge and information exchange among foundations. Cooperation among foundations and other types

of funders was a key topic at the 2009 annual Swiss Foundation Day of proFonds. *ProFonds provides an opportunity for dialogue, learning, and action related to cross-sectoral cooperation.*
Building cross-sectoral bridges around tactics and themes: Founded in 2006, the *Philanthropy Roundtables* in Zürich and Geneva connect select actors from the nonprofit, business, and government sectors for knowledge exchange. Recent topics have included: poverty, media and philanthropy, project selection, role of banks, taxes, and evaluation. These local discussion platforms are fertile ground for seeding cooperation among foundations and other types of funders.
Building a foundation project directory: The *Stiftungsforum* is a lobbying, networking and information exchange platform for handers. It is building a Foundation database that connects hinders and projects to help enable coordination and collaboration. *This database is a great way to connect funders.*
Engaging with peers on both theme and geography: AGFA, the *Association de Geneve des Fondations Académiques*, is an existing example of thematic funder cooperation. The members of AGFA are all focused on the academic sector, and from the Geneva area. *This network can be a platform for local/regional thematic cooperation.*
Meeting with peers of similar interests: *Wise—Philanthropy Advisors* accompanies donors and their families in fulfilling their philanthropic aspirations. To enable peer learning wise brought together six families of entrepreneurs from all over Europe in 2009 to share their experiences in terms of philanthropy. By bringing several generations to the table, everyone was able to create connections and exchange perspectives *These types of venues enable philanthropists to form partnerships*

C) Selected Jointly Funded Projects and Initiatives in Switzerland
An academic centre on philanthropy: The *Centre for Philanthropy Studies* (CEPS) at the University of Basel is an interdisciplinary research and further education centre of the Swiss Foundation System. CEPS was established in 2008 by SwissFoundations with initial funding from: AVINA Stiftung, Christoph Merlin Stiftung, Ernst Göhner Stiftung, Gebert Rüf Stiftung, Gesellschaft für das Gute and Gemeinnützige GGG Basel and Sophie und Karl Binding Stiftung. *This is an excellent example of (funders coming together to create a lasting institution that benefits the entire field.*
A fund for innovation: Funded by Gebert Rüf Stiftung, Ernst Göhner Stiftung, Opo Stiftung, and AVINA Stiftung, *venture kick* aims for an early detection and promotion of promising business ideas at Swiss universities and schools of higher education with the goal of doubling the number of spin-offs by accelerating the founding process and by making startups attractive for professional investors. venture kick's track record since the initiative was launched in the fall of 2007 is impressive: more than CHF 4 million in start capital, over too start-up projects financed, close to CHF 35 million in financing volumes and more than 400 jobs created. *This is an innovative example of funders pooling resources to build a dynamic, stand-alone thematic fund.*
A site for connecting young and old: A partnership of the Schweizerische Gemeinnützige Gesellschaft (SGG) and Pascale Bruderer Wyss, President of the National Council, *Intergeneration* is an online platform for posting and finding projects that encourage communication and interaction between generations. Support came from several actors, including infoclick.ch and Pro Senectute. *This is a compelling example of the government partnering with the philanthropic sector to achieve a political priority.*

A cross-sectoral support group for a critical cause The ICRC and a group of selected Swiss companies and foundations have set up a *Corporate Support Group*, establishing an innovative and long-term partnership. The members of the Corporate Support Group have committed themselves to supporting the ICRC's humanitarian work in the years ahead. *This is an example of private corporate foundations coming together to support an organization through funding and know-how.*
A public-private partnership around child protection: Announced in 2008*, PPP-Programme National pout la Protection de l'Enfant* will be a nation-wide initiative around child protection, led by the Federal Social Insurance Office and two private foundations: UBS Optimus Foundation and the Oak Foundation. *This is a groundbreaking example of a public-private partnership on a critical national topic.*

D) Overview of Selected Umbrella Foundations in Switzerland

Established in 1972, the *Limmat Stiftung* aims to be a bridge between rich and poor, North and South, between donors and needy beneficiaries. The foundation is active both in Switzerland and abroad, endeavouring to stimulate, encourage and support initiatives which serve the common good. It realizes its own projects and collaborates with individuals and/or institutions on other undertakings to achieve mutually desirable ends through 40–50 projects per year.
Since 2000 the *Ruetli Endowment* has been dedicated to supporting nonprofit activity on behalf of its donors by evaluating requests, arranging payments to the applicants and monitoring project developments in order to relieve the donor, if so desired, of the administrative tasks involved.
Stiftung Corymbo, founded in 2002, offers donors the opportunity to develop their charitable ideas without creating unnecessary administrative and organizational costs. The broadly defined statute of this foundation allows the different charitable funds to be grouped under one administrative umbrella in

the areas of social services, health, education, environmental culture, arts and sciences.
Three foundations supported by Credit Suisse (founded between 2000 and 2003 offer clients the opportunity to make a charitable commitment: • *Accentus*: social/human itarian issues, science and research, education, culture, environmental issues, and medicine • *Empiris*: research, science, and education • *Symphasis*: social welfare, preservation of nature, the environment, endangered species and wildlife, recreational and disabled sports, youth and seniors' sports, and culture.
Founded in 2006, *Stiftung Succursus* allows donors to realize their philanthropic goals without having to start their own foundation. Current fund topics of the foundation include: alternative energy, vacation, churches, financing for job seekers.
The goal of the *Swiss Philanthropy Foundation*, founded in 2006, is to promote the development of philanthropy by supporting organizations or projects of general interest, for example, in the fields of humanitarian aid, social or medical assistance, the protection of the environment, and culture. The foundation offers sheltered funds, and the ability to donate in Europe.
Fondation des Fondateurs, founded in 2007, is an independent, charitable umbrella foundation that offers private donors with small, medium-sized and large volumes of funds the opportunity to make grants efficiently, cost-effectively, and professionally in support of causes and initiatives they favour. Current funds include the Lori and Karl Lutz Fund to remove obstacles in the way of girls' and women’s education, and the venture kick Fund, described on the prior page.
Fondation Philanthropia is an umbrella foundation created in 2008 by the Firm of private bankers Lombard Odier Darier Hentsch & Cie to facilitate the philanthropic engagement of its clients and help prevent unnecessary fragmentation in the field. It offers a range of services from donor-advised funds to thematic giving allowing for pooling of donor resources in the areas

of scientific and medical research, culture and education, social and humanitarian causes and the environment and sustainable development.

3.3 Legal Frame

The legal environment is particularly favourable for Swiss foundations. The formation and registration of a foundation in Switzerland is quite simple. It requires only a founding document that includes a defined purpose and it does not necessarily have to be for public benefit; then with the founding document, it only needs to proceed to be listed on the Register of Commerce of its domicile canton. Moreover, the required capital for founding a foundation is only CHF 50’000 for foundations that register at the federal level; and only CHF 10’000 for those register at the cantonal level.[67] The foundation types in Switzerland are various. Apart from public-benefit foundations, it can also be established as an ecclesiastical foundation for church-related institutions, almost no new permitted), a staff welfare foundation (pension fund of a company), or a corporate foundation—a foundation organized/established by a for-profit enterprise for non-profit purposes, etc. All this ease and variety might be a handicap as it contributes to the fragmentation of the sector and prevents foundations to realise their full potential.

Apart from simply setting-up and the variety of foundation types, Switzerland is also among the few countries in Europe that allows under certain conditions *foundations to be repurposed after having been established*. Only larger foundations are required to be audited annually. Data disclosure requirements are minimal. Under the current legislation, the Swiss authorities have limited powers of intervention and are perceived as reluctant to initiate sanctions against inactive foundations.[68]

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[67] Ibid.

[68] Ibid.

The Swiss Foundation Code is currently considered as the principle code of governance for non-profit and charitable organizations in Switzerland. This is a well-established, self-regulating instrument containing 29 recommendations, which has acquired an international reputation. The content is primarily addressed to donor foundations with the aim of offering assistance to foundation managers in their decision making and in encouraging them to do a 'good foundation management'[69]. The Code provides a set of references, hierarchical structure, transparency, balance of powers and efficiency. The Code aims to standardize governance of non-profit organizations in the form of typical behaviors of persons involved in foundations (especially, members of the foundation board). However, it aspires to be recognized as a kind of own guide to build trust rather than as a set strict rules and rigid instructions. The Code, together with its commentary operates in the field of law, but they must be considered as the interdisciplinary instruments rather than strict legal documents. The Code has no character of law; it only has complementary reference force where when the law is deficient.[70]

The Code is considered as directives to the sector on three essential points: first, the *Recommendation 7* deals with the remuneration for members of foundation board; then, the *Recommendation 11* deals with the rules of conflicts of interests; finally, the *Recommendation 21* discusses the investment strategy for foundation patrimony. This last theme has been playing an increasing supporting role with regard to the new developments in the sector such as venture philanthropy, the mission-based investment or sustainable and socially responsible investments (SRI).[71] The Code is well on track to having become a real Reference in

[69] Eckhardt, B., Jakob, D. et von Schnurbein, G., *Rapport sur les fondations en Suisse 2015,* ed. par Centre d'Etudes de la Philanthropie en Suisse CEPS à l'Université de Bâle/ Zentrum für Stiftungsrecht der Universität Zürich/ SwissFoundations, Basel 2015, 35 (translation from French by the authors).

[70] *Ibid.*

[71] *Ibid.*

practice and in scientific circles for the different actors of non-for-profit and charitable organizations.

In view of the above, we can conclude that although the legal environment for foundations sector in Switzerland is extremely generous with tax exemptions, start-up with little capital (endowments), no full audit required for small foundations, foundations can be repurposed, or inactive, etc., the Swiss Foundation Code serves as an instrumental governance guide to the sector, enabling the sector to operate in a most professional and responsible manner, establishing the sector itself with a good reputation both at home and at abroad. Comparing the Swiss Foundation Code with the Code of the European Foundation Centre (EFC), published in the fall 2014, it is clear that the former is a daring work. This good practice code is based on the current state of theoretical debate and practice of foundations, and it is written by renowned experts, namely, a lawyer, an economist, and a practitioner of the foundations sector. The EFC Code, to which the authors have also contributed, results from consensus among members of foundations themselves. It focuses not on the good practice, but on the reasonable concrete requirements imposed on foundations. The Code EFC places a relative lower bar as common denominator of their foundations members.[72]

3.4 Integrating Philanthropy with Wealth Management

Switzerland is the world's largest wealth management centre with 2 trillion USD assets under management at the end of 2014[73]; in other words, '25,0 percent of cross-border assets managed around the world are managed in Switzerland.'[74] 50% of assets under management come

[72] Eckhardt, B., Jakob, D. et von Schnurbein, G., *op cit.*, 37.

[73] www.deloitte.com, Press Release 1 Feb 2015.

[74] Swiss Bankers Association, http://www.swissbanking.org/en/financial-centre/key-figures/key-figures-2?set_language=en

from abroad. Among these high net-worth (HNW) individuals/families, some of them are Swiss natives; many of them are originally from all over of the world, who are attracted by the stable and favourable political, economic, social and legal systems of Switzerland, along with the Swiss tradition of banking secrecy. It is against this backdrop, the Swiss family offices and the wealth management of Swiss banks have not only come to exist, but have been flourishing.

3.4.1 Family Offices with Wealth Management

In Switzerland, a family office takes the two major forms: a single-family office or a multi-family office. A single-family office normally sets up as a privately-owned company that manages investment and trust for a single family. A multi-family office serves at least two wealth families, ranging from a couple to a hundred wealth families or more; its client base is in all sizes. Some bigger family offices only accept clients with a minimum amount of wealth; and others serve all families able and willing to pay their fees. In Switzerland, by 2013 there were about 70 single family offices and 400 multi-family offices;[75] it is expected that the number of family offices would increase further given the facts of that the number of wealthy individuals and families are increasing steadily worldwide, and Switzerland is reputed place for assets and wealth management.

A family office provides services and supports high net-worth individuals and wealthy families going far beyond traditional private banking services. It manages assets and portfolio of their wealthy clients, gives the legal and strategic advises and eventually having the power of placing their clients' assets with the aim of risk management and sustainable growth of their clients' wealth. One may find a family office anywhere in the world, particularly in Europe - mainly in Switzerland

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[75] Bar, A., Bader, D et al., *Single Family offices in Switzerland*, PLC Multi-Jurisdictional Guides, 2012/13, 45.

and London, and in the United States of America. Hong Kong, Singapore and other financial centres have also been the places in the past years, for providing assets and wealth management services.

In Switzerland, a family office, in particular a multi-family office, offers a wide range of services to their clients for safeguarding and increasing their wealth. Their services range from wealth planning, administration, asset management, asset consolidation, asset performance monitoring, philanthropy advises, charity services, tax and legal services, trusteeship, risk management, to caring for family members' education etc.. These services are either offered from in-house professionals and expertise; or cooperating with dedicated external partners including Swiss private banks.

One of the core activities of a family office is to manage wealth of HNW individuals/families in a profitable and risk mitigating manner. This explains why a family office normally spreading their HNW individuals/families' assets over several different banks and jurisdictions for reducing counterparty risk. One of a family office's main works is to coordinate with those private banks where they have spread their clients' assets, and to keep track of these assets' performance with consolidated summaries in a monthly or quarterly report.

The existence and core activities of a large number of family offices in Switzerland have greatly facilitated the growth of wealth/asset management of Swiss private banks.

Swiss private banks normally manage HNW clients' assets/wealth via a discretionary mandate or act as investment advisors:

- *A discretionary mandate,* also called portfolio management implies that the account-holder agrees beforehand with his/her bank on his/her own risk for allowing the bank to make all investment decisions on his/her behalf.
- Acting as an *investment advisor,* it means that the bank only acts as the custodian of a client's assets; and the bank regularly makes

investment suggestions to the client. It is the account-holder, or the family office makes the investment decisions and thus is primarily responsible for the performance and result on his/her own. The bank only performs as an investment advisor and a custodian of the client's assets.[76]

3.4.2 Integrating Philanthropic Services with Wealth Management

In recent years, many large family offices and leading private banks in Switzerland have started to include philanthropy and charity services into their business activities. We also see a growing number of non-for profit social enterprises whose main activities are providing charity or philanthropy advisory and impact investing consultancy services to wealthy families and individuals.

Given the trend of that an increasing number of HNW individuals/families are becoming more interested in involvement into the charity and philanthropy cause. They often have lacked the knowledge and know-how on how they can be engaged into the sector for achieving results and impact wished. Although today a nascent and growing pool of advisors exists in the philanthropy and charity sector, many of HNW individuals and families still find that it is much simple for them to just ask information and guidance from their wealth mangers. In order to serve their clients well, the Swiss family offices and private banks have naturally wanted to adapt themselves into philanthropic advisory services which seem having become more and more important every year. As a result, the philanthropy advisory services as the specialized knowledge and in-house experience have been developed, and being closely integrated with the wealth management in the Swiss family offices and Swiss private banks. This phenomenon has been developed as

[76] Family Office Services Switzerland (FOSS), chapter on Wealth Management.

such to an extent that there are a few family offices and banks having their own charitable foundations in which their clients can participate.

Not only the Swiss family offices sector is engaging in having their own charitable foundations, a number of Swiss private banks also are maintaining their foundations through umbrella foundations structure. For example, Fondation Philanthropia is an umbrella foundation created by Lombard Odier—a renowned Swiss private bank for its HNW clients in 2008. Fondation Philanthropia[77] aims to reduce the administrative burden and costs associated with an independent foundation and to ensure donations are closely monitored and have an enduring impact desired by its clients. Fondation Philanthropia also provides support to an area of activity or to specific projects, in clients' own names or anonymously, on clients own or together with other donors, via participation in a thematic fund, or by setting up a personal fund. UBS bank's Philanthropy and Sustainable Investing Team has also been very active in providing philanthropy advisory services.

Taken as a whole, the practice of philanthropy in Switzerland has changed over the last two decades. Many HNW donors are no longer considering the philanthropy/charity act as a matter of simply signing a check. They now see philanthropy as a cause in which they want to engage in earlier in their lives and to focus on a specific project or cause with the clear and measurable objectives. These new generation philanthropists have also new expectations such as involving their family members across generations into their philanthropic initiatives. Keeping this in mind, the services and activities of the Swiss family offices and the Swiss private banks have captured this demand through integrating philanthropy advisory services into wealth management, thus marking a special characteristic of Swiss philanthropy.

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[77] http://www.fondationphilanthropia.org/

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PHILANTHROPY IN CHINA: FAST GROWING

It has been widely accepted that earthquakes in China, notably in Wenchuan, Sichuan province in 2008 and 2014 in Yunnan, have marked the recovery and acceleration of China's contemporary charity and philanthropy causes, which are internally driven by its citizen's common social consciousness and common social responsibility.

These have happened at a time with China's further opening to the outside world, the famous American entrepreneurs, philanthropist Warren Buffett and Bill Gates came to Beijing to invite 50 Chinese tycoons in September 29, 2010 to participate in a 'charity dinner', causing a sensation. In this remarkable dinner, the entrepreneurs from the two different cultures and traditions and their different perceptions on the concept of philanthropy have led to the exchanges, but also to the collisions, which have had a wide range of effects in the Chinese society and media.

Under the above circumstances, no-surprisingly, the theme 'China charity and philanthropy' has become a hot subject of the current social science research both domestically and internationally.

4.1 The Origin and Characteristics of the Chinese Philanthropy

Philanthropy in China are rooted and originated in its traditional culture. If one examines the Chinese history more closely, the religious, philosophical and human-nature factors analyses are the key elements of cultural motivation in Chinese traditional philanthropy.[78]

4.1.1 Religious and Philosophical Factors

Philanthropy is a voluntary act of human moral behaviour, from people's heart. Among the reasons why people donate wealth, religion is a major factor. In the West, it's widely believed that 'religion is the mother of philanthropy'—both from the ideology and occurring process itself. It is true that most of the world's religions, in their doctrines, encourage philanthropic donations, especially *Christian* precepts and mottos on charitable giving, such as the famous 'one-tenth donations' (with its Jews roots in the Old Testament), which stipulate that Christians should derive from their personal income of one-tenth for charitable giving. It is an act of sharing the abundant gifts which God gives and as such it is an expression of thankfulness to God for his generosity and blessing of life. Many Christians are strictly abided by this commandment. Hence, one can say that Christian doctrines have directly promoted the development of philanthropy in the western culture. [79]

Tao Te Ching (*道德经*, in Mandarin *pinyin*: *Dao De Jing),* is a compact book containing teachings and writings attributed to Laozi (老子, or *Lao Tzu*) and Zhuangzi (庄子). *Tao Te Ching* is considered as the origin and keystone work of the *Taois*t tradition which goes back at least to the

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[78] See also Liu Baocheng/ Zhang Mengsha, *Philanthropy in China. Report of Concepts, History, Drivers, Institutions,* Globethics.net China Ethics Series No.7, Geneva: Globethics.net, 2017, 31-37; http://www.globethics.net/china-ethics-series

[79] See also chapter 1.2 above on charity, philanthropy and diaconia.

4th century B.C. Over several the Chinese dynasties, *Taoism* had become a Chinese indigenous religion with profound philosophical and ritual tradition which emphasizes *living in harmony with the Tao* (道, or *Dao*, literally 'Way'). The *Tao* is a fundamental idea in most Chinese philosophical schools; in *Taoism*, it denotes *the principle of Tao* - that is *the source, pattern and substance of everything that exists.* The root of *Taoism* (Daoism) drew its cosmological notion from the School of *Yinyang* (Naturalists), which expounds a philosophical system about how to keep human behaviour in accordance with the alternating cycles of nature; and, it was deeply influenced by one of the oldest texts - *Yijing (易经).*

The Taoist *Three Treasures* or *Three Jewels* (三宝) comprise the basic virtues of *ci* (慈, usually translated as *compassion*). Taoism advocated 'accumulating the virtues, being compassion in the material' (积功累德、慈心于物)[80]; and considered 'giving the extra material to the needy' (损有余而补不足)[81] as the basic principle of philanthropic ethics. Taoism fiercely criticized social injustice of 'taking away the material from the needy for the rich' (损不足以奉有余)[82]; and pursued the rich to accumulate the virtues and to do public good, thus to be able 'to optimally relocate the extra material to serve the world' (能有余以奉天下)[83]. Taoism considers the philanthropy as an important criterion for dealing with interpersonal relationships, and advocates people 'to be mercy to the criminals, to be grateful to the philanthropists, to help those in the urgent needy, to save those in the danger' (悯人之凶，乐人之善，济人之急，救人之危)[84].

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80 《太上感应篇》。

81 **《老子》七十七章。**

82 *Ibid*.

83 *Ibid.*

84 《太上感应篇》。

While *Buddhism* is from India, its philanthropic ethical thought is based on the ‘theory of karma’ and, in which the core is the spirit of mercy. Buddhism believes that ‘what goes around comes around’ (善有善报，恶有恶报). In this moral preaching, many people stay away from evil for good; as such, the theory of karma has become the spiritual pillar of the Chinese people's moral and ethical values. The so-called spirit of mercy is to be kindness and compassion for others, to give love and material to others. The above discussed Taoism thoughts and Buddhism values have influenced the Chinese people for thousands of years throughout the ancient dynasties until the contemporary and modern China, which have had the significant impact on the Chinese people. Today, among the Chinese new generation of philanthropists, they are mostly Taoism and Buddhism believers. Thus, one can conclude that the religious and philosophical factors have been the major traditional cultural motivations in forming the Chinese philanthropy.

4.1.2 Human-Nature Factors

Mencius (孟子; 372–289 B.C.), a representative of Chinese Confucianism, proposed the theory of ‘goodness of man’ from the standpoint of natural morality, and explained how charity and philanthropy were possible. While Confucius himself did not explicitly focus on the subject of human nature, Mencius mentioned the inherent goodness of the individual (性本善). Menzius blamed society that it does not have a positive ethical influence and that society causes bad moral character of human individuals. He believes that people are born with the «four-good natures/sprouts» (四个善端), that is «natural heart of compassion and mercy», «natural sense of shame», «natural heart of politeness and courtesy», «natural sense of right and wrong» (恻隐之心、羞恶之心、辞让之心、是非之心)[85]. After the further expansion of ‘four-good natures/sprouts’ by the later thinkers, it becomes ‘benevolent, righteous-

[85] 孟子·公孙丑上

ness, liturgy and wisdom,' ('仁义礼智') - the *Four Virtues.* Among these four virtues, "natural heart of compassion and mercy" or sympathy is considered as the deepest driving force of philanthropy.

In the history of China, a large number of business groups, considered the Confucian ethics as their own life creed, and applied those ethical thought into their actions. They were regarded as the 'Confucian Merchants' in the Chinese history. Zhang Qian (張騫; 200–113 B.C.) is an outstanding representative of Confucian Merchant in the dynasties era of China. He built the child-care center, the nursing home, the deaf and dumb school and the center for homelessness in his home town, becoming a famous philanthropist in the Chinese history. He often quoted the Confucian classics to prove his point of view and harboured the Confucian's 'compassion' thought through practicing the Confucian's spirit and doctrine of 'benevolent means loving people', 'people are my compatriots'.

4.1.3 Cultural Characteristics of Chinese Traditional Philanthropy

China has more than five thousand years of history; in its long civilization development process, China has formed its own unique characteristics of culture. These cultural characteristics not only have had a profound impact on the motivation of Chinese philanthropy, but also have become the cultural basis of Chinese philanthropy itself. The pre-Qin period was the period of Chinese ancient culture's 'Hundred Schools of Thoughts' contending period. The dispute between Confucianism and Mohism (Mozi, Chinese: 墨子; 470–391 B.C.), had a great influence on the formation of Chinese philanthropic ethics. Nonetheless, looking from the perspective of over thousands of years of development course of Chinese philanthropic ethics and from the previous discussions, we had seen that three major schools of Chinese philanthropic ethics, Confucianism, Taoism and Buddhism were the most influential ones during the development of ancient Chinese society.

After the Song Dynasty, the philanthropic ethic thoughts of the three schools absorbed and recognized each other and formed more consensus. The confluence of Confucianism, Taoism, Buddhism and other indigenous philosophies has left deep footprint on Chinese perception and practice of philanthropy which can be summarized as: benevolence, kindness and compassion, encouraging mutual assistance and charitable giving, and, proposing people-oriented governance. However, Confucianism has been serving as the mainstream value, its philanthropic ethic thought, represents the national value, has dominated the Chinese society until today. The core of Confucius ethics is: 'benevolence' (*Ren*, 仁). But what it is 'benevolence'? Confucius clearly stated that: 'benevolence' is 'love'; the basic principle of benevolence love (*Ren Ai*, 仁爱) is to deciding on the 'degree of love', which is based on the distance between the kinship. According to Confucius, first of all, 'love relatives'(*Ai Qin*, 爱亲), that is kinship love being placed at the top layer of benevolence love. The second layer, it is the 'universal love of the public,' or 'pan-loving public', here it only involves the relationship between the clan members; in essence, it is the love towards the entire clan. In short, the Confucian's 'theory of benevolence' has indissoluble bonds with the patriarchal kinship, which adheres to the affinity to the blood link and divides the 'benevolence' layers according to blood linkage levels. The whole Chinese social structure preserved the clan system with the blood as the link, which is the basis of studying the origin and the characteristic of the Chinese ethical thought. Confucian ethical doctrine clearly reflects this feature.

Mencius faithfully inherited the benevolent thought of Confucius and put forward the path of 'benevolence and love', which is based on the patriarchal kinship. Mencius rationalized benevolence as the explicit underpinnings of sympathy, an inherent part of human nature. In contrast to Buddhism which focuses on spiritual practices for the attainment of nirvana, Confucianism as a philosophy is not satisfied with self-discipline and perfection. Its doctrine ‘inner holiness and outer prowess’ requests people striving for worldly achievement, including altruistic deeds that would bring honour to the family.

Mozi (Mohism) tried to replace what he considered to be the long-entrenched Chinese over-attachment to family and clan structures with the concept of ‘impartial caring’ or ‘universal love’ (兼愛, *Jian Ai*). In this, he argued directly against Confucians who had argued that it was natural and correct for people to care about different people in different degrees. Mozi, in contrast, argued that people in principle should care for all people equally, a notion that philosophers in other schools found absurd, as they interpreted this notion as implying no special amount of care or duty towards one's parents and family. Others would claim that Mohism shares more with the central ideas of Christianity, especially in terms of the idea of ‘universal love’ (in Greek, ‘agape‘). The core of Mozi's ethic thought is ‘universal love’, which advocates ‘love has no difference’; while Confucianism advocates ‘love has differential’ (爱有差等). Mozi asked people not to distinguish between me and others; do not distinguish between love and affection in love with each other, with a strong idealistic color, which were not accepted by the ancient China, thus Mohism’s philanthropy ethics were silent for thousands of years. In contrary, Confucian’s theory of benevolence occupies the mainstream of the Chinese philanthropy ethics and has penetrated into all aspects of the Chinese social life. In the philanthropy ethics, the Chinese people more accept the ‘love has differential’ concept.

4.1.4 Secular Characteristics of Chinese Philanthropy

As the benevolence has been the cultural tradition of the Chinese society since Confucius time, the ancient rulers had frequently adopted the benevolent policies for maintaining sustainability of their rules. As early as the pre-Qin Dynasty, the ancient Chinese despotic empires often dealt with famines, poverties, health cares and other social issues. For instance, the granary system was established as a precaution against natural disasters and a stabilizer of food prices. The surplus grain was stored during harvest years and dispensed in case of catastrophe. Besides, the official institutions, such as poorhouses and sanatoriums were built to provide accommodations and medical treatments for the homeless, the sick and those who had no kith and kin.[86]

Around the late Ming and the early Qing Dynasty, folk philanthropic organizations burgeoned owing to the prosperity of commodity economy and the prevalence of morality books. These organizations were independently sponsored and administrated by the populace, rather than the ancient governments. With abundant funds, philanthropic activities were conducted more frequently, and extensive strata including local gentries, merchants and plebeians were engaged in aiding the elderly, orphans, widows and others in need.[87]

After the outbreak of the Opium War in 1840, China was turned into a semi-feudal and semi-colonial society, and had undergone the radical changes in socio-economic, political and cultural areas. In spite of the humiliation inflicted upon the Chinese nation, the western colonists during the semi-colonial period after the Opium War, brought into China organized church activities, media and the concept of social organizations when the Chinese last dynasty was faltering. The Democratic Revolution led by Dr. Sun Yat-sen witnessed a climax in philanthropy when overseas Chinese mobilized generous support to promising social organizations to overthrow the tumbling Qing Dynasty. Chinese philanthropy manifested new features during this period with the influence of the

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[86] Liu Baocheng, Zhang Mengsha, *Philanthropy in China,* Geneva: Globethics.net, 2017), 13.

[87] Liu Baocheng, Zhang Mengsha, *Op. cit.*, 14

western value, which was largely spread via the missionaries, foreign newspapers, and progressive intellectuals returned from overseas.

Still throughout the Chinese ancient and contemporary history, apart from the cultural characteristics discussed previously, Chinese philanthropy is largely secular, suggesting that the despotic empires in succession, later on the republic state as well as individuals can get involved. These characteristics mark the significant differences between the Western and Chinese philanthropy. While western philanthropy is derived from religions; the Chinese philanthropic activities lead and conducted either by the centrally governed disaster or poverty relief programs, or by local gentries, merchants and plebeians. Philanthropy in a mutant formula largely confined within kindred relations as a matter of expediency. This secular characteristic might explain the main reason of that although the Chinese philanthropy might not be short in numbers recorded; it was unable to parallel its counterpart in Europe either in magnitude or consistency.

4.1.5 Christian Characteristics of Chinese Philanthropy

Christianity in China is very rooted in its history and culture. In the form of churches—and always linked with social, diaconal and educative services—appeared in several periods:

1. *In ancient times Christianity in China was alive in three periods*: in Nestorianism during Tang Dynasty (618–907 AD), with the Catholic Mission during Yuan Dynasty in the 13th century, mainly concentrated on the Mongolian area, and through the Jesuit Mission in the Ming Dynasty in the 16th Century with the famous missionary Matteo Ricci.[88] Each time it has disappeared with the fall of the dynasty.

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[88] Aiming Wang, *Church in China: Faith, Ethics, Structure. The Heritage of the Reformation for the Future of the Church in China,* Bern: Peter Lang, 2009, 479-484. Free download: www.globethics.net, library.

2. During the *missionary period 1807–1949*, almost all protestant denominational churches have been present in China[89]. In addition, many free churches and Pietist movements like ‘little flock’ grew up. Protestant missionaries set up thirteen universities and catholic missionaries three universities. They all are still, now as state universities, among the top universities of the country. In addition to education, many hospitals, health and social services have been built, financed by donations of Christians inside and outside China. Philanthropy was present in all these efforts.[90]
3. *During the Maoist period 1949–1978*, Christianity was largely oppressed, 5000 foreign missionaries had to leave the country in 1950, churches were destroyed or the buildings used for other purposes. The Three-Self Patriotic Movement, TSPM established in 1951, among others by Y.T. Wu, through the State Administration for Religious Affairs SARA, emphasized then the independency and autonomy of Christians from foreign funding, personal and influence through ‘self-governance, self-support and self-propagation’ (three Self). A key leader of these efforts was Bishop K.H. Ting, president of the post-denominational (united, protestant) China Christian Council CCC, founded in 1980. He was also a long time, 1989–2008, vice-chairman of the Chinese People’s Political Consultative Conference and member of the National People’s Congress. He continued to emphasise the social responsibilities of Christians.[91]

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[89] Ibid, 487-498. Also Christopher Tang, *The First Hundred Years of Protestant Mission in China*, Hong Kong: Taosheng Publishing House, 2001.

[90] A study on Canton (in Chinese): *The Christian Philanthropy Enterprise in Canton from the Last Qing Dynasty to the Republic China (1900-1949*, Master Thesis, 2005. Free download: www.globethics.net, library.

[91] See the collection of his speeches: K.H. Ting: *Love Never Ends*, Nanjing: Amity Printing, 2000, e.g. 311-135: ‘Love that Loves to the End’.

4. *Since the open-door policy 1978*, initiated by Deng Xiaoping by opening china for foreign businesses, the number of Christians in China grew rapidly and in parallel, the social services and philanthropic activities became step by step very important. Bishop K.H. Ting with others founded as early as 1985 (!) the Amity Foundation[92] as the development and charity organisation of the China Christian Council CCC. It is the oldest Christian foundation for social services in modern China and one of the first Chinese NGOs established following China's Reform and Opening. It celebrated its 30th anniversary in Nanjing in 2015.

In China as in most countries around the world, religious believers donate more and more often than non-believers. A survey in China showed that 56% of Buddhists, 54% of Christians, 61% of Muslim and 44% of Folk-religion believers regularly spend. In terms of number of donations per year and total amount spent per person, Christians are on top.[93] In 2015, Amity Foundation alone raised donations of 150 Mio RMB, 76% coming from donations in Mainland China, 7% from Hong Kong and (only) 17% from Europe and US.[94] They support programmes in community development (rural and urban), health and disaster management, education, orphanages, education and philanthropy trainings. In 2016, Amity Foundation established, as part of the internationalisation strategy, a liaison office in the UN-city Geneva in Switzerland, in cooperation with the Chinese-initiated Geneva Agape Foundation GAF[95].

[92] www.amityfoundation.org.

[93] Figures based on studies of Prof. Gao Shining, CASS Beijing, presented in Geneva/Switzerland during an international conference, April 2014. Older study e.g. *Whalen Lai, Chinese Buddhist and Christian Charities: A Comparative History*, Buddhist-Christian Studies, Vol. 12, 1992, 5-33.

[94] www.amityfoundation.org/eng/facts-figures.

[95] www.gafoundation.world.

4.2 Current Chinese Philanthropy and Foundations Landscape

4.2.1 Modern Chinese Philanthropy and the Social Reforms

When the People's Republic of China was founded in 1949, China has entered into a new era, called a socialist-communism system era. This new system is characterized by centrally planned economy in which the central government planned and commanded all natural and production resources. The economic outcome was also allocated and distributed by the central government to the local government, then to each unit (单位) where the individual Chinese people belonged to. Each unit took care of their people from housing to medical care, from allocating rare food resources to their retirement allowances. Private property was not allowed, all the property, natural resources and production assets belonged to the socialist superstructure. For nearly three decades after the onset of People's Republic of China, there was neither incentive nor need for individuals to engage in philanthropic activities. Philanthropy or charity, perceived as the ideology of feudalism and capitalism, was completely excluded. Philanthropic activities voluntarily initiated by the social forces before 1949 had also been wiped out during that period of time.

"It was not until the early 1980s, the Chinese philanthropy was revived in the wake of the reform and opening up policy. The planned economy was superseded by the socialist market mechanism, contributing to not merely economic growth but also wealth discrepancy. The fiscal expenditure of social security might be insufficient, private capital could fill the gap. Under such circumstances, a batch of foundations were founded, including China Children and Teenagers' Foundation established in 1981, China Soong Ching Ling Foundation in 1982, China Foundation for Disabled Persons in 1984, the Amity Foundation in 1985, China Women's Development Foundation in 1988, China Youth

Development Foundation in 1989, China Foundation for Poverty Alleviation in 1989. Besides, the Red Cross Society of China expanded to over 87,000 branches in about 30 provinces by 1989 and extended the range of philanthropic activities to blood donation, medical training, humanitarian aid offering and so forth." [96] However, most of these organizations were virtually backed by specific government departments, due to the dormant consciousness of philanthropy.

With Deng Xiaoping's open-door policy since 1978 and China's fast economic growth from 1980s to early 2000s, a few social problems of all time have become the major concerns in China's social and political life. One of the major issues is that the haze weather caused by air pollution mainly due to the rapid expansion of heavy industries, has become the basic concerns to the residents in Beijing and in many northern cities. These problems cannot be resolved by the government alone; it requires a strong and responsible citizen's society. Under such social request, China's modern philanthropy sector starts to grow to having become a significant part of China's social reforms. China's modern philanthropic society has been actively engaging in the advocacy of environmental protection, apart from participating into the rural education, health and cultural, art activities. From this perspective, China's modern philanthropy is playing a prominent role; it eases social contradictions, and at the same time promotes and leads social constructions, as well as combines morality and social ethics with new economic development. Thus, one can say that the modern Chinese philanthropy's positive social impact is enormous; it's one of driving force for China's on-going social reforms.

Chinese entrepreneurs after the fierce struggle in the business world have accumulated enormous wealth under the current Chinese socialist market economy environment. Family enterprises are increasingly becoming the major force of China's economic development. Until July 31,

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[96] Liu Baocheng, Zhang Mengsha, *op.cit.*, 15-16.

2014, out of 2,528 A-share listed companies, 1,485 of them are private companies. Out of these listed private enterprises, 747 of them are family enterprises, accounting for 50.3% of listed companies.[97] In 2014, the number of Chinese multimillionaires has reached 109 million, while the billionaires are 67,000.[98] From our observations, these extra rich entrepreneurs, especially the billionaires, with traditional Chinese cultural backgrounds are more willing to devote their love and contributions to people of the same ethnic group, fellow citizens and fellow citizens who are originally from the same villages or towns.

In short, China has long been a natural economic 'acquaintance society', for those extra wealthy entrepreneurs, during their own life time, how to handle their wealth, have become an unavoidable issue to deal with. They are deeply influenced by the ethical concept of 'love has differential' (爱有差等), which is based on the patriarchal blood relationship in the traditional culture, and have formed their own philanthropic motivations which are different from the western entrepreneur.

Being thankful is another important feature of modern Chinese entrepreneurs' philanthropic culture. There is no much controversy from the ancient until modern time that philanthropic ethics are originated in compassion. But in actual philanthropic practices, Chinese entrepreneurs and foreign entrepreneurs are different. Chinese charitable activities emphasize gratitude, pay more attention to brotherhood. The Chinese Confucian culture emphasizes on 'gratitude', and even advocated 'to be grateful with a spring for a helpful drip of water' (滴水之恩，涌泉相报). For those who are ungrateful, are severely condemned in the Chinese culture. Many entrepreneurs, in their growth process, or the most difficult time of entrepreneurship, have received help from others. When they become successful and famous, it is bound to thank the soci-

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[97] '2014 家族企业传承主题论坛：话传承心得，谋长青之道', http://he.ce.cn/gd/201412/01

[98] *Ibid.*

ety and others. In their view: a) charitable giving is the expression of this gratitude; b) being thankful is the basic ethical consciousness of human society; c) charitable giving and gratitude are the two-ways flow of human feelings. We conclude that thankfulness and gratitude is being one of the second important factors in stimulating Chinese entrepreneurs' philanthropic enthusiasm apart from the kinship and community-oriented cultural philanthropic motivation.

Third, the Confucian concept of being an ethical profit-seeker is the spiritual motivation of Chinese entrepreneurial philanthropic ethics. For thousands of years, the debate of being fair, and ethical whilst being profitable as a significant theoretical proposition has been the focus of attention from various schools until today. In the relationship between morality and interests, Confucianism formed a complete theory of justice and benefit. In particular, Confucius's view of justice and benefit is appreciated and honored by many Chinese entrepreneurs. Confucius believed that in the relationship between ethic and profit 'a gentleman is a righteous man; and a small man is a profiteer', but he added: 'richness and nobleness are people's desires, but must get them with ethical ways'. The descendants have summarized meaning of this sentence is as 'a gentleman loves money, but to get it in an ethical way' (君子爱财，取之有道). This has won the universal praise among the Chinese entrepreneurial groups, resulting in a far-reaching historical impact. In short, Confucius's view of between ethic and profit, ethic stands in the first; but ethic and profit under certain conditions can be unified.

In Chinese history, there is the title, called 'Confucius entrepreneurs' (儒商). The so-called Confucius entrepreneurs, means on one hand having the Confucian moral and intelligence; on the other hand, having businessmen's wealth and success. In other words, Confucian entrepreneurs achieve a good combination in the pursuit of material interests with morality. Such entrepreneur is both the business elite, and the model of morality. Confucius entrepreneurs are managing business with integrity, having a higher cultural quality, at the same time having a great ambition and a sense of crisis and salvation. From this sense, the Confucius entrepreneurs are considered as the synonym of philanthropists in the Chinese business culture. During these nearly fourty years of reform and opening up, the tide of market economy has given the birth of modern Chinese entrepreneurs' groups. They are not only the backbone of economic development, but also the backbone of the development of modern Chinese philanthropy in which Confucian ethics are the spiritual impetus in guiding their commitments to the development of China's modern philanthropic activities.

4.2.2 Social Engagement of Wealthy Chinese

Dynamic economic development, increasing social gaps and environmental problems have been the main factors in stimulating the rapid growth of the modern philanthropy in today's China. In the face of the widening gap between the rich and the poor, the role of charity as a third means of distribution in social life is being highlighted. Charity is an effective way to realize solidarity of the Chinese people, social fairness and justice under China's new market economy. The evolution of Chinese philanthropy is manifested in the change from planning charity to civil philanthropy. In 2007, charitable giving nationally rose from $6 billion to $13.8 billion in 2011. The earthquakes in China, notably in 2008 in Sichuan and 2014 in Yunnan, have led to huge outpourings of donations from the Chinese people across the whole nation, which are strong demonstrations of the massive civil engagement. According to *China Youth Daily*, by the end of April 2009, RMB 76.7 billion (then US$11.2 billion) had been donated to the Sichuan earthquake relief efforts. In the case of the Yunnan earthquake, the Red Cross Society of

China had received a total RMB 72.5 million (US$11.7 million) five days after the earthquake.[99]

In recent years, some well-known domestic entrepreneurs have joined the ranks of charity. They have become the symbol of civil engagement and social civilization development in China's modern philanthropy sector. "A boom in private foundations, led by the richest and most influential people in China such as the top ten Chinese billionaires and former Premier Zhu Rongji, has brought new blood to the philanthropy sector."[100]

The civil engagement can also be seen from the concept of social entrepreneurship which came to China since 2004. With the growth of the philanthropic sector, more "resources such as seed fund or patient capital are available for social enterprises in their early stages. The most successful social enterprises in China were launched and bloomed before the philanthropy boom. Many foundations, including newly established private foundations, are reluctant to support grassroots activities because it seems to be too much work for a limited impact by small organizations."[101]

Starting from 2014, China's record for philanthropic giving has improved significantly. Jack Ma and his Alibaba co-founder Joe Tsai, are the top one on the list of China's philanthropists through establishing a charitable foundation focused on pollution, the environment and health, which is funded by 2% of Alibaba's equity. With the company's astonishing Initial Public Offering (IPO), it puts the charity's fund in the billions of dollars.[102] During the year of 2015, several charity foundations were set up by a few of second-generation of 'rich' and well-

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[99] Russell Chris, Zhang Milo, 'The State of Philanthropy in China', *CKGSB Knowledge*, Beijing, May 18, 2015.

[100] Li, Fan, Time for a Philanthropy Revolution in China, Dec. 2013, Skoll Foundation Archives.

[101] *Ibid.*

[102] Russell, Chris, op.cit.

known art & media personalities. Among which, Lao Niu Brother & Sister Foundation (老牛兄妹基金会 - also referred to as the China Edition of Rockefeller Foundation) is the one of the most well-known. The famous media figure—China's philanthropist ambassador Yang Lan (杨澜)'s Sunshine Culture Foundation (阳光文化基金会) is also the well reported one in China's philanthropy media. "The Chinese society is at a transition point, and philanthropy has a unique role to play to create and accumulate social wealth. Philanthropic leaders need to take the initiative and modernize philanthropy culture by motivating and empowering the majority of Chinese to become part of the solution. Philanthropy in China needs to shift from a rich man's club to civil engagement, and to move beyond mercy money to promoting positive social change."[103]

4.2.3 Corporate Social Responsibility and Entrepreneurs' Philanthropy

On the international stage, the development of China's charity can improve Chinese enterprises standards in terms of social responsibility as the major influential transnational companies have taken socially conscious programs and promoted philanthropic ideas. China's philanthropy has been definitely contributing to the healthy development of global social innovations. In most cases, and not only for Chinese companies, *corporate social responsibility (CSR) is interpreted as corporate philanthropy.* "The core characteristic of CSR is not about how to spend money but, rather, about how to make money in a sustainable and responsible manner. The days when organizations focused solely on becoming the country's most profitable, are long gone. Today, leading Chinese companies seek to become some of the world's most reputable and pre-eminent brands. And view CSR as a critical part of their transformation. During face-to-face interviews carried out by the United Nations Global Compact, some Chinese business leaders echoed this

[103] Li, Fan, op.cit.

sentiment, saying that being on the Fortune 500 list is not sufficient in maintaining competitiveness in global markets and that their companies must evolve, particularly in the area of CSR, if they are to achieve their lofty goals."[104] A number of companies have started to view CSR as something more than just making donations, publicity opportunities and/or risk control. These firms are beginning to understand CSR's role and value in achieving a 'triple win' for business, society and the environment.

Apart from various institutional pressures (government, industry, communities, media, NGOs, and unions), the other main driving forces for China's CSR development are: to ease national employment pressures; to save China from environmental catastrophe; and to adopt with Chinese companies' global expansion. A growing number of Chinese companies are expanding their business operations into overseas markets. As part of this process, they are being exposed to more developed approaches to CSR. In many cases, they are also under growing pressure from global business partners and other stakeholders to improve their CSR performance. "CSR is widely seen as the way to help companies operate responsibly and in an environmentally sustainable way. Positive performance in these areas in return for consumer and local community support, or a 'social licence', is viewed as an informal contract between companies and local stakeholders.[105]

The two Charts below are the illustrations of the recent online surveys co-conducted by CSR Asia and Embassy of Sweden in Beijing. We have noted that in some regions, local governments have established specific targets and standards for energy saving and reduction of emissions. Companies which fail to comply have had their operations sus-

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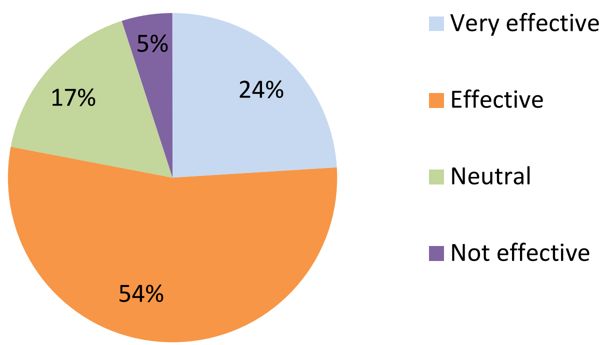
[104] Liu Meng (China Representative, United Nations Global Compact), *Is corporate social responsibility China's secret weapon?* 17 March, 2015, https://www.weforum.org/agenda/2015/03.

[105] *Ibid.*

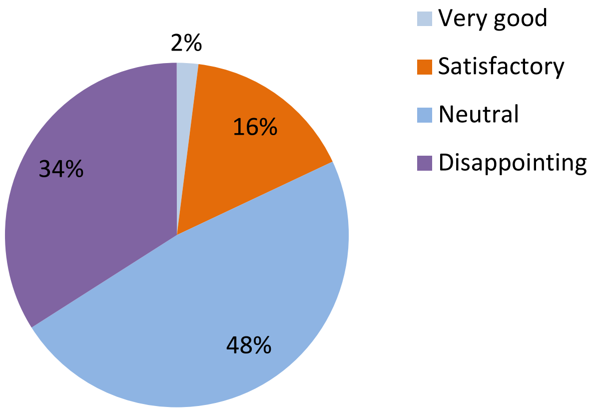
pended. Against this backdrop, many of influential Chinese multinational companies have been diversifying their business activities into the green energy sector, which is not only viewed as a part of their CSR approach, but also as a part of their strategic movements. With the growing presence and influence of Chinese companies abroad, some leading State-Owned-Enterprises (SOEs)—including Sinosteel, Sinopec, China Minmetals and China National Petroleum Corporation (CNPC)—have begun to disclose publicly their social investment and impact in Africa through their CSR reports with dedicated efforts to address and showcase sustainability activities in the region.

Chart 5.1 : To what extent has CSR been effective in addressing social/environmental issues in China



Source: 'A Study on Corporate Social Responsibility Development and Trends in China,' (CSR Asia & Embassy of Sweden, Beijing), 2015.

Chart 5.2: Current state of satisfaction with level of CSR development



Source: 'A Study on Corporate Social Responsibility Development and Trends in China,' (CSR Asia & Embassy of Sweden, Beijing), 2015.

According our observation and confirmed by Liu Meng "the concept of CSR has been well supported by the Chinese government. The turning point came on 1 January 2006, when Chinese corporate law was revised to include formally the concept of CSR in legislation. In the same year, the State Grid Corporation of China issued the first-ever CSR report by a Chinese State Owned-Enterprise (SOE)"[106]. Nonetheless, China wanted to create its own CSR definition and guidelines that embedded its unique economic situation and business culture. In 2008, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued an important policy directive on *Guidelines to the State-owned Enterprises Directly Managed under the Central Government on Fulfilling Corporate Social Responsibilities*. "In 2009, during a meeting with the leaders of (SOEs), SASAC mandated that all SOEs under their management set up a CSR mechanism within their governance structures. SASAC further mandated that all SOEs

[106] Ibid.

under its supervision publish their first CSR report by the end of 2012 if they have not done so. This policy and the subsequent momentum led to the release of more than 1,600 Chinese sustainability reports. Half of these reports were from SOEs or listed companies and represented a significant jump compared to the 22 CSR reports from China between 1999 and 2005."[107] SynTao, a Chinese Beijing-based consultancy firm specialised on CSR, offers an online directory with 6000 CSR Reports[108], searchable in Chinese. CSR stands here for Corporate Sustainability Reports as well as for Corporate Social Responsibility. In February 2016, Globethics.net Foundation based in Geneva in cooperation with China's SynTao, released the online directory of 6,000 sustainability reports fully searchable in English.[109]

"Today, SASAC is exploring how to build an internal system to evaluate the CSR performance of its member companies. This includes, for example, how a company's impact on the environment will affect its top leaders' remuneration, and setting incentives to serve as a next step to enhance corporate sustainability and global competitiveness."[110]

The following expectations regarding the future development of CSR in China emerged from our research:

- The government is expected to strengthen enforcement of legislation and regulations, especially in the areas of environmental pollution controls, working conditions and anti-corruption.
- Traditional media is expected to expand its CSR reporting scope beyond its current emphasis on corporate philanthropy.
- More engagement and collaborative initiatives are expected to be developed within and among different stakeholder groups, in-

[107] *Ibid.*
[108] www.syntao.com.
[109] http://www.globethics.net/library/collections/chinese-csr-reports.
[110] Liu Meng, op.cit.

cluding strategic long-term partnerships between government, businesses and civil society.

- Large international companies are expected to work more closely with their Chinese partners on CSR-related issues, providing broad support through sharing professional knowledge and best practices with the aim of developing mutually beneficial long-term business relationships.
- There is growing consideration of how CSR can be more effectively implemented through its incorporation into the management structures and the development of action plans with concrete targets and performance indicators.

In sum, like many of their Western counterparts, Chinese companies faced a variety of governmental, societal and market pressures that prompted their CSR journey. However, perhaps more than their competitors, many Chinese companies see their futures as inextricably linked to their CSR performance and have begun viewing it as a potential competitive edge. From this perspective, we believe that China will become a leader, not a follower in CSR domain. Until today, there are more than 400 Chinese companies which are the members of United Nations Global Compact; this number is deemed to increase according to our forecast.

4.3 New Developments

4.3.1 Boom of Foundations

The Ministry of Civil Affairs of China classifies the Chinese civil organizations into three types: social organizations, private non-enterprise units, and foundations. The foundations sector is one category of the Chinese civil organizations. According to the China's official definition, social organizations are 'non-profit civil organizations voluntarily established by Chinese citizens for the realization of a common desire of the membership in accordance with their articles of association'.[111]

Before 1980s, there were no modern philanthropic organizations in China. Starting from early 1980s, some charitable and philanthropic organizations emerged but these efforts were mainly led by the government. Since 2004, with the new *Regulations on the Administration of Foundations* coming into effect, private sector can finally participate in the development of philanthropy and charity field. The promulgation of *Regulations on the Administration of Foundations* was thus a milestone in that a new sort of foundation - private fund-raising foundations was introduced, given the fact of that the most foundations at that time were sponsored by the government. There is a very strict definition of foundations under China's 2004 *Regulation on the Administration of Foundations*. Under this law, there are two major categories of foundations: public fund-raising foundations and private fund-raising foundations (referring to those, not permitted to raise funds from the public).[112]

Due to sponsorship from the government, public fund-raising foundations established prior to 2004 were generally endowed with more initial capital, in fact doubled that of private fund-raising foundations. But the situation was reversed as for those set up after 2004, when more enterprises engaged in philanthropy via corporate foundations with a large amount of initial capital. Thus, the *Regulation* of 2004 encouraged individuals and enterprises to enter the philanthropic sector by liberalizing the flow of private capital through raising private funds. Still, during this period, the restrictions on activities and the issue of tax exemption were some of the challenges facing to the Chinese foundations. Another challenging area for Chinese foundations was running of their own programmes, and meeting transparency standard.

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[111] *Regulations on the Registration and Administration of Social Organizations (1998)*, Article 2.

[112] *Regulations on the Administration of Foundations (2004)*, Article 3.

It was against this backdrop, initiated by 35 influential Chinese foundations, China Foundation Center (CFC), a non-profit supporting organization was established in 2010. According to China Central Television (CCTV) news report, CFC is hoping to keep up pressure on charitable foundations through the *China Foundation Transparency Index*, which ranks Chinese foundations against a checklist of 60 'transparency' indicators based on publicly disclosed information about the foundations' activities, finance and governance. The CFC mission is to bring *transparency and trust* to philanthropic markets through access to the highest quality data, news, and analytics to enhance the social impact of philanthropy.[113]

The below Chart shows that since 2009 the number of charitable organizations and the amount of donations have increased year by year; the types of charitable/social organizations have been varied as well, such as grassroots organizations, private non-enterprise units and corporate foundations. With a mass of social organizations having coming into being since 2009, the numbers of foundations have seen a rapid growth particularly in private fund-raising foundations, which count for around two-third of the total number of foundations in the country. By October 2016, the number of Chinese foundations has reached 5,219 in total.

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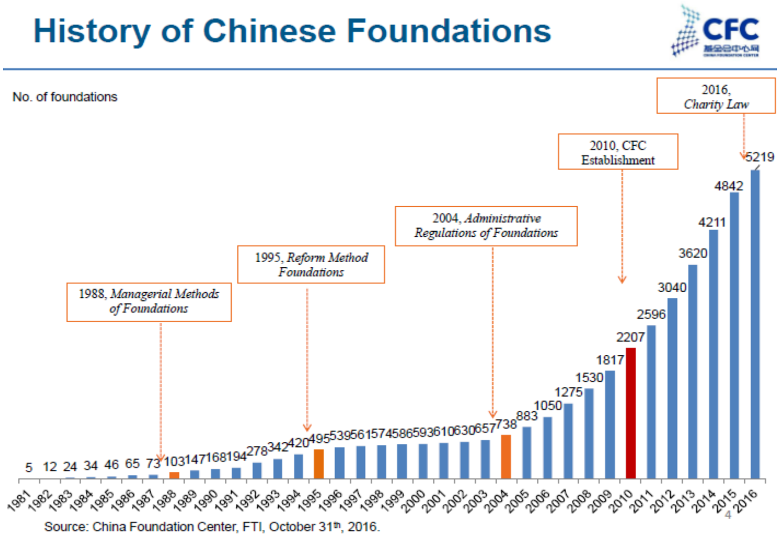
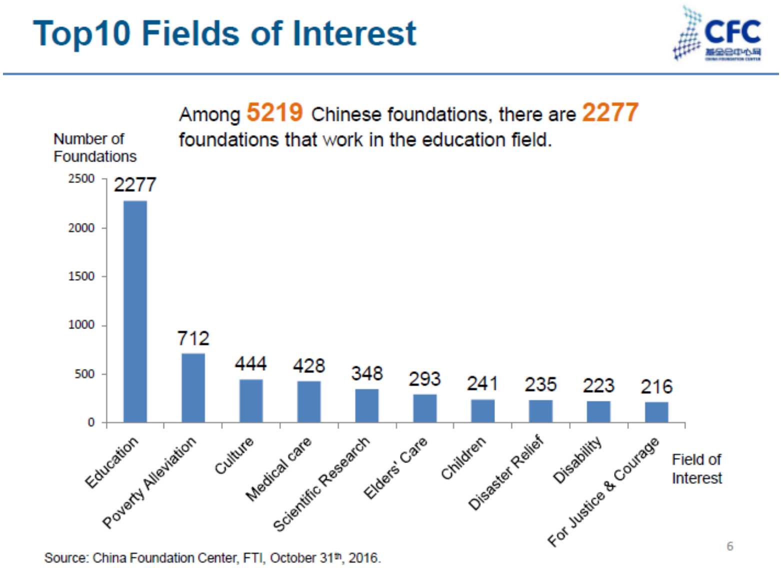
[113] Please refer to CFC website.



The ranges of activities of these foundations are mainly in education, environment, science & technology, disaster relief and cultural exchange. A strong emphasis in Chinese philanthropy is placed on supporting the poor, by far, the biggest recipient of philanthropy donation is education sector, with the environment and healthcare the next two largest sectors. The below Chart indicates the sectorial distribution of the Chinese foundations, among 5,219 Chinese foundations, 2,277 of them work in the education field, followed by the poverty alleviation, culture and medical care fields.

In spite of the recent development, it is noticeable that public fund-raising foundations, no matter when they were established, enjoy more advantages in charitable fund-raising as they are exposed to a larger base of potential benefactors in terms of their experience, reputation and governance structure. The public tends to believe that the foundations with a longer history and the government sponsorship seem to be more competent and trust-worthy.



4.3.2 Putting Philanthropy on the Map

In the 21st century, China's GDP has been ranked the second in the world after the U.S., but the Charities Aid Foundation's 2014 World Giving Index shows that the Chinese mainland only ranked 128th among the list of 135 countries and regions; whereas the U.S. and Myanmar topped the list.[114] This is disproportionate to China's position and image in the international arena, particularly, in view of that China is home to the second-highest number of billionaire, behind only the U.S.

One of the principal reasons for the lack of charitable giving in China compared to the U.S. and other European countries is the issue of trust and transparency. The public has doubt if the funds were misused, this lack of trust is supported by the fact of that less than a third of registered charities met transparency and disclosure standards. Angered by scandals involving the China Red Cross and other large public founda-

[114] ‘环球一周民意调查话题榜’,《环球时报》, 2014 年 11 月 28 日。

tions, there is concern that donations would be misused or flow back to the government.

The lack of regulation is also another factor which hampers philanthropic causes in China. By law, charities are required to have significant start-up funds, and in practice many were not exempt from tax, there were neither clear rules about how funds to be used, their taxability, about conflict of interest. This improved substantially with the new charity law of 2016!

Thirdly, the charity sector was firmly a part of the State, currently is still in its infancy. The powerful and strong government that dominates the public sphere has been one of reason for lacking of civil society in China. The fourth, the desire of many of China's wealthy to keep a low file, not drawing attention to their riches also underpin China's significant philanthropic gestures.

There is a huge potential that philanthropy can and has to help to solve the social contradiction of the widening gap between rich and poor and to realize social harmony. The U.S. and European countries in the development of historical experience show that entrepreneurs are one key force for the development of philanthropy, entrepreneurs through charitable and entrepreneurial philanthropic activities contribute significantly for easing social problems and for promoting the development of national and social equalities.

In order to overcome the obstacles faced by Chinese philanthropy, especially by the companies whose main domain is social welfare, China needs not only to actively promote social advocacies and to change social concepts, but also to adjust the relevant systems and policies that link closely to social welfare enterprises, as the Chinese mass generally doesn't believe that charity can be combined with business, which can be accomplished through social innovations.

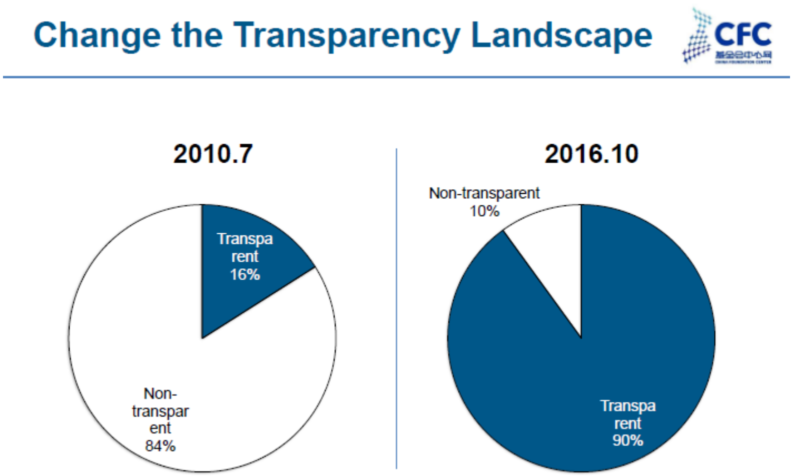
Since 2013, the Chinese government has begun to actively implement social reform. The government has announced to eliminate the double management systems on charitable organizations, which no longer requires these organizations to register under the competent unit system of the state. The State Council also decided to purchase services provided by some social organizations, which is interpreted as a meaningful public policy transformation. In the philanthropic field, many organizations started to pay attention to promote their own reforms and to explore innovations of various aspects. It's obvious that the benign interactions between the government and the society will make China's philanthropy contributing much more to the overall social reforms in China.

From our observation, in today's China, the general trend indicates the close integration of philanthropy and the social system reform. Setting up the modern social organizations system is one of the most significant part in the social system reform. At present, Chinese philanthropy is stepping into a new stage in pushing the social system reform forward, and in propelling social government organizations to be more open and transparent.

Today, the Chinese entrepreneurs face a great development period of philanthropy, the state is in the process of introducing laws and policies on the governance of philanthropy, supporting and standardizing the charitable activities of entrepreneurs. The establishment of the China Foundation Center (CFC) means the greater promotion of transparency and accountability among the Chinese foundations. The below Chart tells us the positive evolution of transparency in the Chinese foundations sector, from which we see that the percentage of transparency ratio has increased from 16% in July 2010 to 90% in October 2016 in just six years' time! This is enormously fast. From this indication, we can see that Chinese government along with its NPO sector aims at putting philanthropy on the map through increasing the sector's transparency and accountability.

4.3.3 The New China Philanthropy Law 2016 and Transparency

Another significant development is that China's National People's Congress (NPC) concluded on March 16th 2016, a new 'China Philanthropy Law' after having gone through several readings and revisions is approved and has been in effective since September 1st, 2016. This is one of the most prominent social reforms in the Chinese civil society sector. We believe that as long as China promotes a better system of laws and regulations, the philanthropy sector will pick up very quickly. People will also have a better understanding on running non-profit organizations (NPOs).



*A transparent foundation means that it annually discloses information about the management team, financial sheets, grants and donor listings to the public.

(Source: China Foundation Center, 2016)

In this great historical moment, modern Chinese entrepreneurs fully realize that this is the historical mission period for the development of philanthropy in China. During nearly forty years of reform and opening up, many entrepreneurs have accumulated enormous personal wealth and have reached their goals of success. How should they handle their wealth? Should wealth be left to the children (one child) or donated to charitable causes? In view of Chinese traditional culture, the relationship between parents and children is an extension of blood, parents hope leaving a certain amount of wealth to their children. This is understandable to ensure the necessities of children's lives. But as wealthy parents, they also should have compassion, care about the rest of the world's well-being. They should realize a transformation from being the ‘Confucius entrepreneur’ only inside China, to the global philanthropists through having a sense of social responsibility, through using their own wealth doing good for the community and having impact in the world. ‘Taken from the society, to give back to the society,’ - with this conscience, ‘Confucius entrepreneurs’ will be able to lead the Chinese modern philanthropy into the global philanthropy arena. In return, they will get more praise from the people all of world, their life will be more lustre…

“How can philanthropy in China develop so that it has a bigger and deeper impact?

Firstly, invest in people, not projects. Building hundred schools in rural areas is an admirable project, but it’s as more important and efficient to support people (social entrepreneurs) who have ideas about how to solve a problem from its roots. Second, philanthropy is not just about donating money. Geniuses at making money change when they enter the philanthropic world. Concerned about how the public will judge them, they are very cautious when thinking about ’investments’ versus ‘mercy money.’ Their talent, business experience and network can be more valuable. Third, take risks. ‘Don’t play it safe’. Philanthropists and foundations can fuel innovation because they are free to experiment to find the best solutions. Success in philanthropic giving is not making zero mistakes”[115], but in seeing proven innovations which will escalate the philanthropy sector.

4.3.4 Venture Philanthropy and Social Entrepreneurship

Nowadays, Chinese philanthropic organizations are relatively small; nonetheless, *impact investing* or impact investment, venture philanthropy have started to develop in today’s China albeit it is still at an early development stage. In fact, there is a recent trend of the Chinese philanthropists wanting to learn the different forms and tools from their European and American counterparts through the innovative process of adoption, adaptation and refinement for conducting their philanthropic activities in China. One of the most new concepts which are mostly demanded by the Chinese philanthropists as well as by other Asian countries’ philanthropists is: Venture Philanthropy.

With the modern practice of entrepreneurial philanthropy being such a recent phenomenon, it is perhaps surprising how much activities are apparent across Asia today, given that philanthropy in general is only just emerging in the region. There are no accurate data on the number of venture philanthropy and impacting investing funds active in Asia, although Asia Centre for Social Entrepreneurship and Philanthropy’s exercise in 2011 estimated 58 funds. The Asian Venture Philanthropy Network (AVPN) launched in 2012 now has 123 members. Of these, 42 are categorised as ‘Practicing Members’ (that is they qualify by virtue of ‘practicing either venture philanthropy or impact investing’ in Asia.[116] Since not all funds will become members of AVPN, this figure is a very conservative estimate of indigenous entrepreneurial philanthropy.

Philanthropy is rapidly developing throughout most of Asia, driven by an unprecedented growth in personal wealth. For the first time, Asia Pacific is home to the largest population of high net worth individuals

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[115] *Ibid.*

[116] See J. Rob & P. Tan, *op.cit.*, 40.

(HNWIs) of any regions; resulting from a 1.6 per cent expansion from 2010 to 3.37 million in 2011 (Europe has 3.2 million, North America, 3.35 million, with Latin America, Africa and the Middle East the remaining 1.1 million). Total HNWI wealth held by Asians in 2011 stood at $10.7 trillion.[117]

Angel-type investment is another entrepreneurial expression of philanthropy which is favoured by today's modern Chinese philanthropists. Angel investing, like all engaged models, is more than funding a good idea or a promising organisation. It involves a partnership of mutual responsibility and respect, and a clear alignment of interests. This Angel philanthropy provides a continuum of financing model for non-profits and social enterprises at all stages of their lifecycle. Impact angel investors complement the activities of enterprise philanthropists in helping social businesses in their early stages of development. Social entrepreneurship and its accompanying organisational forms—entrepreneurial non-profits, social enterprises and businesses that offer low cost goods and services to the mass poor—all offer new opportunities for creating social value in ways that differ from traditional charitable approaches.

The *social entrepreneurship* movement is a global phenomenon that has taken root across Asia including China, and comes at a time when a new generation of entrepreneurial philanthropists, often wealth creators and investors, look to give while professionally being active. These models offer to engage a new generation of entrepreneur-investor philanthropists who find these models aligned to their business acumen, who feel more personally fulfilled by personal engagement, and who are focused on outcomes that offer significant social transformation. We have seen business entrepreneurs direct their philanthropy, naturally and intuitively, by adapting venture philanthropy and impact investing models to serve social entrepreneurs in Asia. We predict that entrepreneurial philanthropy will gain in popularity in China as well as in Asia.

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[117] *Ibid.*, 21.

In conclusion, social innovation, in the Chinese context, reflects in three areas: government innovation, communist party innovation, and social innovation. Albeit the first two are the main battle fields which need a certain amount of time, the Chinese government and communist party have taken numerous legal and regulative measures in facilitating the growth of charity/philanthropy sector. The Chinese social innovation is currently in good development timing along with philanthropy and charity field as the best breakthrough point. For the Chinese social innovators and foresighted philanthropists, introducing business mind and corporate operating models into philanthropic organizations, can effectively expand their scale and systematic development, and turning those organizations to a standing point which will be able to leverage government and all kinds of social resources. As a matter of fact, the Chinese philanthropists are currently in the process of exploring all different forms of philanthropic initiatives just like the European and American philanthropists, among which, combining with social innovation concepts, 'impact investing', 'venture philanthropy', etc. are fully in the process of contributing in putting the Chinese philanthropy on the map…

5

FOUNDATIONS MANAGEMENT: GOVERNANCE, FUNDING, COMMUNICATION, ADVOCACY

Do good and do it well. This sentence shows that philanthropy needs good heart, good intentions and visions, but also good management. A good number of High Net-Worth Individuals (HNWI) discover after a long life of wealth accumulation and starting philanthropic activities: Spending money is even more difficult than earning money. It means: in order to have long term impact through philanthropy, professional management of programmes is needed as in professional activities in business, education or public administration. This chapter therefore aims at giving inputs and orientation on management tasks and instruments in philanthropy, more precisely on foundation management. The chapter is directly addressed to you as readers, as persons who plan to establish a foundation or get involved in foundation and project management.

Despite the lack of a common definition of ‘foundation’ across Europe, the *European Foundation Centre (EFC)*, in consultation with its members, was able to develop in 2001 a provisional definition of “public benefit foundations” that served as a basis for the one used in this book. The Definition of the EFC: Public benefit foundations are independent, separately-constituted non-profit bodies with their own established and reliable source of income, usually but not exclusively from an endowment, and their own governing board. They distribute their financial resources for educational, cultural, religious, social or other public benefit purposes, either by supporting associations, charities, educational institutions or individuals; or by operating their own programmes.[118]

In May 2014, DAFNE organized a conversation among its members to discuss and validate the EFC definition. At that meeting, DAFNE members unanimously agreed that the DAFNE/EFC definition was sufficient to allow ‘public benefit foundations’ to be counted in their countries. The organisation *SwissFoundations* is a partner member of EFC. They also adopt the above definition. In this Chapter, unless otherwise specified, we mean with ‘foundation’ a ‘public benefit foundation’. With ‘foundation management’ we mean ‘public benefit foundation management’.

5.1 Vision, Mission and Values

5.1.1 Questions on *What* do I want?

Whether you are just starting out or running a long-standing foundation, philanthropy is iterative. It is natural and essential to query, review or form the basis on which the foundation is run. This basis is: what are your/your foundation’s vision, values and principles? These vision, values and principles are mostly based on philanthropic aspiration. Pre-

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[118] http://dafne-online.eu/wp-content/uploads/2016/10/PBF-Report-2016-9-30-16.pdf, 3.

viously, we have discussed that the origin of the word ‘philanthropy’ in Greek is *philanthropia*, it means literally friend of the human being. Beyond the simple act of being charitable, modern philanthropy implies a strong desire to understand and resolve issues/problems, and a strong personal commitment to imparting positive change. Keeping this in mind, you/your foundation must enable to:

- “adapt your philanthropy to a changing environment
- improve your operations to optimize your impact
- stay true to your initial vision.”[119]

“What is a *vision?* For a philanthropist or a funder of a public benefit foundation, a vision describes what you want the world to look like. It is both idealistic and long term, and serves as an inspiration and motivation for driving.”[120] Forming your vision is the most crucial step for your philanthropy and your foundation, because it will lay the foundation for all further activities. Therefore, you as reader take your time and ask as many questions as possible, of yourself as well as of others when you prepare what kind of philanthropy you aim at doing.

The first question could be: *What do I want to achieve?* In almost every field of human activity, faced with such a wide range of possibilities, thoughtful and focused giving and activities can make life better.

You may already have a detailed vision of what you want to achieve through your philanthropy. Your desire to engage may be based on a particular experience, on an affinity to a country or a specific community or it may stem from your wish to continue to use your professional expertise in a social context. All this will help you to find a starting point and narrow down what you want to achieve.

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[119] UBS Philanthropy Compass, Zurich 2014, 34f. Free download: www.ubs.com/philanthropy.

[120] *Ibid, 21*

Your vision will be of central importance to your philanthropic journey and is the basis, *the foundation of your foundation*. "The best vision statements make a bold, clear-sighted statement about how things should be, while leaving room for innovation and evolution in how to achieve it."[121]

A mission statement is a concise description of an enduring purpose. Your mission statement will be crucial for explaining and sharing with others what you are doing. "It is the written manifestation of your intentions and enables you to check constantly if you are staying true to your course.

After having formed your vision, one should look into the following elements for the mission statement:

- *Aspirational*: describing how things should be, rather than as they are
- *Focused*: setting out the 'what,' 'where,' and 'whom' that will anchor efforts
- *Concise*: summing up intentions in a crisp and understandable way
- *Memorable*: catching the attention of potential partners, and inspiring their actions.[122]

The overall mission statement you set for yourself or your foundation will be closely related to your vision. The main difference between the two is that the mission is more concrete, possibly with a set time frame and an indication of how you will act. For example, the Amity Foundation's vision is: abundant lives, more justice, and a better world (让生命更丰盛，让社会更公正，让世界更美好). While its mission statement is: Abiding by principles of mutual respect and interfaith harmony, Amity builds friendship with people at home and abroad.

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[121] *Ibid, 24.*
[122] *Ibid.*

Through the promotion of holistic development and public welfare, Amity serves society, benefits the people, and contributes to world peace (在信仰互相尊重的原则下共同献策出力，开展同海内外的友好交往，发展我国的社会公益事业，促进社会发展，服务社会、造福人群，维护世界和平).

"Knowing what your motives and resources are as well as where you would like to focus them is all you need to start drafting your first mission statement. It will remain a working document for a long time; indeed, it will drive the entire planning of your philanthropy. So don't rush to it, and keep in mind that a vision statement is never fundamentally right or wrong."[123] It represents your choice!

Values are benchmarks of orientation of what is right and wrong and what 'ought' to be. Equality (e.g. Equal rights for all), Justice (e.g. fair treatment and fair distribution), Freedom (e.g. the power to decide and implement goals) Responsibility, Peace or Empowerment are such fundamental values. They are connected to each other. Each of these values, if isolated and maximised, turns into a non-value. E.g. maximised freedom turns to a wild-west anarchical type of society where the strongest wins and oppresses the others. But freedom balanced with equality and fairness sees the limit of one's freedom in the freedom of the other and therefore is community-oriented.

Values influence attitudes, behaviour, decisions and actions to a great extent. Priorities in decisions are an expression of priorities of values.[124] As Values are general benchmarks for individuals and communities/ institutions, virtues are benchmarks for personal behaviour:

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[123] *Ibid.*

[124] More on values: Christoph Stückelberger/ Cui Wantian et al, *Entrepreneurs with Christian Values. Training Handbook for 12 Modules*, Geneva: Globethics.net 2016; http://www.globethics.net/china-christian-series. Christoph Stückelberger, *Global Ethics Applied*, 4 volumes, Geneva: Globethics.net, 2016, especially vol. 1: *Global Ethics, Economic Ethics*; http://www.globethics.net/readers-series.

Respect, integrity, honesty, modesty etc. Virtues influence to a great extent the behaviour as vices, the negative side of virtues, do.[125]

For a foundation, clearly defining its values, permit itself to form the various actions. Values allow an organization to launch its common approach. Without values being clearly identified, a foundation/organization cannot move forward How it can develop its image, its reputation and its identity without values? Values represent the framework of actions for an organization.

The below diagram shows you through a process of self-reflection by drawing on your motivations and experiences, and your skills and resources to decide what issue you want to focus on, whom you want to help and where you want to act. "This process is one that can be very personal, often evoking difficult memories or experiences. It is one that also takes time in order to gain clarity on your motives and expectations, as well as to acquire the knowledge that allows you to make tangible, informed, decisions."[126]

Diagram 4.1 Forming Your Vision, Mission & Values

[125] 26 Values and Virtues are explained in a intercultural context in: Christoph Stückelberger/ Walter Fust/ Obiora Ike, *Global Ethics for Leadership. Values and Virtues for Life,* Geneva: Globethics.net 2016; http://www.globethics.net/global-series

[126] *Ibid, 21.*

"**What** issue will you focus on?

- Make progress on a **health** issue
- Address **environmental** concerns
- Promote **social justice**
- Expand **education** opportunities
- Support **arts and culture**
- Provide **disaster relief**
- Increase **social welfare**

Whom will you help?

- **Age group**, e.g. children, youth adults, elderly
- **Gender**, e.g. women/girls
- **Populations**, e.g. rural, immigrant, ethnic or religious community
- **Social economic communities**, e.g. the destitute, budding entrepreneurs, small business owners

Where will you act?

- At home or abroad?
- At what level? Global, regional country, community."

(Source: UBS Philanthropy Compass, Zurich 2014, 23.)[127]

5.1.2 Self-assessment of my Values and Resources

For a self-assessment of own values, the following table is useful. It can be used to get clarity for any kind of goals and decisions. Philanthropists as founders of foundations, as investors, as employees or as project implementers.[128]

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[127] Free download: www.ubs.com/philanthropy.

[128] From Christoph Stückelberger, *Responsible Leadership Handbook. For Staff and Boards*, Gobethics.net Praxis Series No.1, Geneva: Globethics.net 2014, 54-56; http://www.globethics.net/praxis-series

My Values, Virtues, Resources

My name: ....

My institution and function in the institution: ....

....

Values	My answers
Responsibility (response to power): What does it mean in my leadership role? What is its importance for me? How can I strength-en it?	
Justice/equity (in its various forms): What does it mean in my leadership role? What is its importance for me? How can I strength-en it?	
Solidarity (compassion and engagement): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Empowerment (enabling and strengthening personal competence): What does it mean in my leadership role? What is its im-portance for me? How can I strengthen it?	
Community/participation (recognising the dignity of each human being and integrat-ing their contribution): What does it mean in my leadership role? What is its im-portance for me? How can I strengthen it?	
Trust (relation despite uncertainty): What does it mean in my leadership role? What is its importance for me? How can I strength-en it?	
Transparency (openness/clarity and ac-countability): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	

Virtues	**My answers**
Integrity (honesty, openness, transparency): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Modesty (free from greed and arrogance): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Service (courage to serve the common good and common cause): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Forgiveness (being able to accept own mistakes and forgive others): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Empathy (ability to empathise and care for others): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Faithfulness (faithful to values and promises): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
Carefulness (prudence in the management of resources and people): What does it mean in my leadership role? What is its importance for me? How can I strengthen it?	
My Personal Resources	**My answers**
General: What are my various sources of energy and motivation? How can I attend to it?	

My safety nets: What are my safety nets/ relations in times of crisis and need for orientation in leadership? How can I improve them?	
My coach: Who is my personal coach, my pastor and 'auditor' for my leadership?	
My faith/spirituality: Is my faith/spirituality a source of energy and motivation? If yes, how? Which rituals? If not, why?	
My material resources: How can they be used for my values, virtues? Which portion for myself, my professional goals, my family, my philanthropic engagement?	

5.2 Governance and Strategic Management

5.2.1 The Term 'Governance'

Governance refers to "all the processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organization or territory and whether through laws, norms, power or language. … It relates to *the processes of interaction and decision-making among the actors* involved in a collective problem that lead to the creation, reinforcement, or reproduction of social norms and institutions."[129]

[129] Wikipedia on '*Governance*'. https://en.wikipedia.org/wiki/Governance. More in *Swiss Foundation Code 2015. Principles and Recommendations for the Establishment and Management of Grant-making Foundations*, Basel, Helbing Lichtenhahn, 2016 (www.swissfoundationcode.ch); *Professionelles Management von Stiftungen. Ein Leitfaden für Stiftungspraktiker*, Basel: Helbing Lichtenhahn, 2007.

Whatever 'form' an entity may take, its "*governance* is the way the rules, norms and actions are produced, sustained, regulated and held accountable. The degree of formality depends on the internal rules of a given organization. … As such, governance may take many forms, driven by many different motivations and with many different results."[130] For instance, a non-profit organization such as a public benefit foundation, may be governed by a small board of directors and pursue more specific aims.

A foundation has a dual focus: achieving the organization's social mission and ensuring the organization is viable. "Both responsibilities relate to fiduciary responsibility that a board of trustees (sometimes called directors, or Board, or Management Committee - the terms are interchangeable) has with respect to the exercise of authority over the explicit actions the organization takes. Public trust and accountability is an essential aspect of organizational viability so it achieves the social mission in a way that is respected by those to whom the organization serves as well as the society in which it is located."[131]

When discussing governance in particular organisations, the quality of governance within the organisation is often compared to a standard of good governance. In the case of a non-profit organization or a foundation for example, "good governance relates to consistent management, cohesive policies, guidance, processes and decision-rights for a given area of responsibility, and proper oversight and accountability"[132].

The not-for-profit sector can profit a lot from good governance criteria and experiences in the public sector and the private business sec-

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[130] Wikipedia on Governance, *op.cit.*

[131] *Ibid.*

[132] *Ibid.*

tor.[133] But foundations also have their specificities which have to be considered.

5.2.2 Strategic Management

Up to now, you have formed your vision, mission and values through asking yourself questions about what kind of philanthropist you want to be: what, whom and where does your philanthropic activity or foundation want to focus on? What approach do you want to take? By now, developing a strategy, along with a set of management tools for fulfilling your mission and your goals, is the next step. "A *strategy* sets out what needs to happen for your goals to be reached, how those actions fit together, and where you will act"[134].

5.2.2.1 Developing a Strategy

For developing your strategy, the below steps and points are practical considerations. Let us refer again to the very helpful, practical guide of the large Swiss Global Bank UBS in its Philanthropy Compass[135]:

"Step 1: select goals and objectives

- What is your hypothesis of what is the specific issue you are trying to solve (used to develop your approach)?
- Based on your vision, what are your objectives? What exactly is it that you want to achieve?
- What impact do you want to have on these priorities? Which specific goals do you want to achieve?"

[133] E.g. Martin Hilb, *New Corporate Governance. Successful Board Management Tools*, Berlin: Springer, 2016 (5th edition).
[134] UBS Philanthropy Compass, Zurich 2014, 32.
[135] Ibid, 34f. Free download: www.ubs.com/philanthropy.

"Step 2: identify possible activities

- What will it take to solve the issues you have identified? What are the different ways that the issues could be addressed? What changes would need to take place?
- What are the available options to bring about these changes? What has worked well in the past?
- What resources are needed to carry out the necessary activities?
- Who else is working on this? Are there gaps which have not been addressed by other players?
- Are there opportunities for collaboration?"

"Step 3: choose your course of action

- Which of the various options identified in step 2 best fit your philanthropic approach?
- What can you be most helpful with given your resources, networks and expertise?
- What activities will you pursue?
- Whom should you collaborate with?
- How can you build on what others are doing?"

"Step 4: map your logical model

There are many competing names for what we call 'logical model', for example, 'logical framework' or 'logical chain'. The model includes a planning phase in which you set your goal and objectives and plan your activities. Those will be supported by the resources you can contribute. Thereafter in an evaluation phase you can look at your outputs (i.e. the results of your activities), the outcomes (which are your desired objectives) and the impact (your desired goal)."[136]

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[136] *Ibid.*

5.2.2.2 Organizational Structure and Human Resources Management

Choosing the board and right staff are particularly important if you want your philanthropy or your foundation to continue beyond your lifetime; or if your personal involvement is limited. In the case of that you have decided to setting up a foundation you will need to reflect on the governance and leadership structure: Board and staff. In most jurisdictions, a Board of directors is a legal requirement for a foundation. It has the final decision-making power and the responsibility and liability.

The *composition of the Board*[137] should be coherent with the objectives of the foundation (e.g. expertise of Board members), the geographical outreach and character of the foundation (e.g. only local members or an international Board) and most important the trust and relation to the founder and the other members in order to have enough unity, but also enough diversity (gender, age, background) which is also important for the reputation of the Board.

Concrete questions to ask for building a Board and select staff[138]:

"A) What is a board? Why is a board needed?

A board of foundation is a voluntary body that has a legal duty to oversee how a foundation is run and is a key element of governance. A board's core functions can be summarized as:

- mission oversight: ensuring that the activities of the foundation contribute to its mission;
- fiduciary oversight: ensuring that endowments are invested well, and the operation is run efficiently.

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[137] Martin Hilb, *New Corporate Governance. Successful Board Management Tools, Berlin: Springer, 2016 (5th edition), chapter 3.*

[138] UBS Philanthropy Compass, Zurich 2014, 61f. Free download: www.ubs.com/philanthropy.

A board may also get involved in implementing your foundation's vision (advice, advocacy, grant decisions, etc.). This depends on the nature of your philanthropy. In addition, you can have other bodies to provide advice such as an advisory board or a technical committee."

A diverse board (in terms of cultural background, gender, professional experience, relevant expertise) is a reservoir of ideas and innovation.

When setting up a board, we should pay attention to the following points:

- Setting a (renewable) fixed term for the board, e.g. 3 or 5 years or 2 years terms, renewable three times up to a maximum of eight years.
- Gives an opportunity to periodically reassess its composition, and to make changes as necessary.
- Make sure to identify potential conflicts of interests (A declaration of potential conflicts of interest signed by all Board and staff members annually becomes more and more a standard)[139].
- Determine the board's strategic role at the outset. Board members are most effective when given specific, defined roles that are adhered to. Agreeing on expectations ensures that tasks are efficiently executed.

B) Why might staff be needed?

(Paid) employees are staff who manage and implement activities in order to realize the foundation's vision and goals. There are three basic types of staff:

- "Administrative staff handles day-to-day operations (e.g., processing grant applications, taking board minutes, or fulfilling legal reporting requirements).

[139] See as example the Declaration on Conflicts of Interest of Globethics.net Foundation: http://www.globethics.net/ethical-profile.

- Program staff helps implement your philanthropic vision (e.g., evaluating grantees, managing projects, researches, etc.)"[140]
- Interns and volunteers are important for social organisations. They are normally non-remunerated and get remuneration of expenses or allowances for food and shelter. This depends on legislation of the respective countries and the policies of the foundation.

C) Hire a manager you trust and connect with

- "It is easy to under-estimate how engaged in the foundation you will want to be, even if you take a more hands-off role. Therefore, working together with a manager that shares your vision, whom you trust and relate well personally, is essential."[141] Depending on the legislation of the country, the founder, the chairperson and the manager of the foundation is allowed to be the same person, but for reasons of good governance and control of power, the separation of the position of the president and the director among two persons is the normal case and creates more trust and transparency.

D) Compensate staff appropriately

- It is natural to want to devote as much of your resources as you can to your philanthropy. However, to deliver effectively on your vision, the foundation will have to invest in order to attract well-qualified, high-calibre staff.

E) Consider outsourcing activities

- It is not always necessary to hire a new employee just because a job or a new project needs to be implemented. If the role is time-

[140] UBS Philanthropy Compass, *op.cit*., 61.
[141] *Ibid*, 64.

limited or self-contained, it may be more efficient to bring in an external partner."[142]

- Outsource the task to a partner organisation or work with volunteers who can be at the same time experts in the respective fields. Many retired specialists are offering their services and are looking for such opportunities. The Swiss development organisation Swisscontact, specialised in technical development projects, engages every year over 100 retired technical experts as volunteers through their 'Senior Expert Corps'[143].

To summarize, a board provides legally-mandated oversight for a foundation. The right board and staff can extend your capacity to pursue your vision, and increase your effectiveness. In doing so, the right board members and staff can share the workload, responsibilities, reduce risk, and contribute to the impact and success of your philanthropic activities.

5.2.2.3 SWOT —A Strategic Management Analysis Tool

A *SWOT analysis*[144] is a planning method to evaluate the S*trengths, Weaknesses, Opportunities and Threats* (SWOT) of a project or a business. A SWOT analysis can be carried out for all kind of projects, activities, institutions and planning processes. It is often used in strategic planning. It considers internal (strengths and weaknesses) and external (opportunities and threats) factors.

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[142] *Ibid.*

[143] Swisscontact: http://www.swisscontact.org/en/your-commitment/project-engagement/senior-expert-corps.html.

[144] See e.g. https://en.wikipedia.org/wiki/SWOT_analysis.

- *Strengths*: characteristics of a project or institution that give are an advantage over others.
- *Weaknesses*: characteristics of a project or institutions that are a disadvantage compared to others.
- *Opportunities*: external factors in society, market, research, media, networks etc. that could be used as an advantage.
- *Threats*: external factors and trends in society, market, research, media, networks etc. that could endanger the project or institution.

"Identification of SWOT is important because they can inform later steps in planning to achieve the objective. First, the decision makers should consider whether the objective is attainable, given the SWOT. If the objective is *not* attainable, they must select a different objective and repeat the process."[145]

[145] *Ibid.*

The SWOT analysis can be used effectively to build an organization's or personal strategy. Steps which are necessary to execute strategy-oriented analysis involve: identification of internal and external factors (using popular 2x2 matrix), selection and evaluation of the most important factors and identification of relations existing between internal and external features.

For instance: strong relations between strengths and opportunities can suggest good condition of an organization and allow using *aggressive* strategy. On the other hand, strong interaction between weaknesses and threats could be analysed as potential warning and advise for using *defensive* strategy.

A simple SWOT Analysis used in a foundation

Strengths and Weaknesses *Internal factors*	**Opportunities and Threats** *External factors*
• Human resources • Financial resources • Organizational resources • Physical resources • Internal advantages/ disadvantages of the Organization • Experiences • Expertise • Networks	• Trends (new research) • Cultural, political, economic and religious environment • Funding sources • Current events • Freedom or oppression of institutions in society • Foundation legislation

"The SWOT analysis has been utilized in not-for-profit foundations as a tool to identify positive and negative factors within organizations, communities, and the broader society that promote or inhibit successful implementation of social services and social change efforts. It is used as a preliminary resource, assessing strengths, weaknesses, opportunities, and threats in a community served by a non-profit or community organization.[146] This management tool is best used before developing goals and objectives for a program or a project design or implementing an organizing strategy.

5.3 Action Plans: Projects Development, Management, Accountability and Evaluation

From the previous section, we know that by selecting a vision and a strategy, a foundation or a philanthropist would have made important progress on narrowing down what he/she/it wants to do. There are still many decisions to be made in order to translate these approaches into actions.

5.3.1 Projects Development

When doing *programs* development, while keeping the vision and the overall strategy framework in mind, you should be clear about which of the specific needs and opportunities within your area of interests will you address? And which strategy will you pursue to reach your goals? Keeping this overall line in mind, a foundation leader or philanthropist needs to identify and develop what programs should you fund/run, how should you assess them and how can you find the right people and/or organizations/partners for managing and running those projects?

Programmes mean a larger entity of activities which is composed of different projects. A programme (as its *projects)* is a journey, not a destination; it is a path having a purpose and a limited period. It is therefore not obvious to assimilate the definition of a project as a permanent activity. Today, each Not-for-Profit Organisation (NPO) must be innovative in its operation and has its ability to adapt new needs, new challenges as well as new targets. Finding the right balance between stability, reliability, sustainability and innovation, is the real challenge for every NPO.

[146] https://en.wikipedia.org/wiki/SWOT_analysis.

Innovation and managing new projects involve the capability of asking the right questions, to meticulously prepare development of programs and the detailed planning of projects. The resources of an NPO are often uncertain, it is the responsibility of each manager to take care of, and not to endanger these resources; in other words, seeking to manage a project at best thus ensuring the sustainability of the organization. Managing an NPO as a whole requires an excellent picture of all activities conducted in each project. To prevent the proliferation of projects, it is useful to develop criteria to guide the choice of any new projects. Setting goals of each project is the fundamental. Objectives of each project should be identified as to be reachable with relevant strategies and measures of an NPO. One must define that in the short, medium and long term, what an organization intends to achieve through these projects. They must be expressed as concrete as possible so that you are able to assess the achievement of each project thereafter. You need to ask the following questions when you select a project:

- What objectives the project aims to achieve?
- What kind of needs the project meets?
- What problems the project seeks to address?

5.3.2 SMART Tool in Project Management

When selecting a project and properly formulating the objectives of a project, it is always advisable to use *SMART* tool and to respect what SMART really signifies in its acronym. The term stands for: *Specific - Measurable - Achievable - Realistic and Time-bound*. The formulation of a project should specifically integrate the following criteria:

- Define the content: what should we reach = what?
- Define the scope: what is the level of the goal = how much?
- Define the segment: which target group(s) should it reach out = to whom?

- Define the area: to what geographic area the objective must be reached = where?
- Define the time period: until when the objective(s) should be achieved = when?

In sum, no matter in what field (cultural, social, humanitarian, sport, religious etc.), any NPO engaged in any activity and project should always firstly ask the above questions before taking any commitments and actual actions. The action plans of programs and projects should be formulated through asking these questions and defining their corresponding answers. Without really understanding goals, purposes of a project, wasting time, energy, and any faults due to not having realized the importance of defining goals of a project/activity is a real strategic mistake. Every action must have its usefulness. The Donors today are very much concerned than ever about good use of their funds and about the capability of a project manager, before considering if it makes sense for them to give their financial commitment.

Once the projects are well defined as per the above process, it comes to the phases of planning and execution. While doing planning, we need to firstly set a framework, and to consider costs, revenues, risks, resources, methods, time, etc. factors; then start to execute and to put into actions of those projects. One should also take into consideration of progress reporting and assessment of results in each phase whilst diffusing results in each stage with the aim of ensuring each project being executed and progressed as intended and as planned.

5.3.3 Accountability and Evaluation

We look at the accountability for a foundation from the two perspectives: 1) financial accountability (accounts and balance sheet); 2) accountability towards its donors/financial partners in terms of impacts, results and achievements of a foundation.

5.3.3.1 Financial Accountability

Rigorous financial planning should enable any organizations to manage its daily operation at best, especially to avoid taking financial risks which excessively jeopardizes the organization as a whole. The strategy of an organization, and thought, should allow it to bring out:

- What goals it wants to achieve (objectives))
- What it wants to do over the next few years (main activities, milestones)
- For which target groups/beneficiaries (= to whom the activity is intended)
- Where, on which territory? (where the activity will be deployed

Setting these first strategic lines allow a foundation to closely look at related costs and revenues, in other words - financial accountability. As a pilot, it is better to ask a number of fundamental questions before take-off: firstly, need to define budgets for the next period (1, 3 or 5 years); then need to have a good understanding the interdependence between budget and accounting. A *budget* is a strategic tool to plan, coordinate, communicate, motivate, monitor and evaluate. It is a tool of strategic decision for anyone in charge of a project; it enables the development of future assumptions. *Accounting* is itself a tool of synthesis and analysis based on the past. It allows to visualize and establish a photograph of the past year and to analyse past results. Accounting, is required to meet legal obligations, has limits of the need of being well accurate. 'Integrated Reporting'[147] as a new reporting global reporting standard looks then not only at single figures but at the overall objectives, strategies and impact for the organisation, the beneficiaries, the society, the environment and above all on the values.

[147] See Integrated Reporting Initiative, www.integratedreporting.org. Globethics.net is a member of its International Integrated Reporting Council IIRC.

In summary: budgets represent the future while accounting is the past. The forecast is the role of budgets. Measuring achievements is the role of accounting by the establishment of a balance sheet, an income statement, monitoring of the treasury. It is necessary to be very careful never to do a 'cut and paste' from year to year. In order to perform financial management of a foundation in an accountable manner, its leader needs to respect a strict process between budgeting and accounting so that the interdependence of the two tools can be expressed optimally. In order to do so, the *following key steps* must be followed:

1. The regular gap analysis and establishment of comparison charts between budgeting and accounting.
2. The reconciliation comparison between budget and accounting should not be done only at the end of the year (balance sheet) but at very regular basis throughout the year, e.g. quarterly.
3. The 'controlling' or comparing between revenues and budgeted & realized expenditure should be conducted at least quarterly, and to observe the differences and/or overruns in a timely manner, thus to be able to respond at best possibly.
4. Do not be afraid of profit. There is often a confusion in understanding the term 'non-profit organization'. Indeed, for some notion of 'non-profit' means that the organization has no right and should not make a profit which is fundamentally wrong. Recall some basic principles: an entity type association, foundation, which would have generated during its financial year a surplus of income, may use this benefit as it sees fit. This is why it is more precise to call it 'not-for-profit organisation' instead of 'non-profit organisation'. Profit cannot be redistributed to donors like dividends in a private company—that is a condition for being tax-exempt as a foundation—but profit can be re-assigned entirely inside the organisation:

- for achieving the organization's mission

- for developing and expanding programs
- for building up its reserves
- for investments in order to generate income from foundation assets.

The leadership of a foundation will be in no way of receiving bonus or premium based on financial results. Nevertheless, the organization may and should make a profit. This profit ideally should use as a reserve, this will allow the organization to assume its financial responsibilities towards its beneficiaries even if when an exercise of a year is more difficult than another (i.e.: massive drop of donations, loss of a financial partner, etc.). In view of today's difficult and competitive environment in which each organization must daily confront with, it is considered by many donors that the creation of reserves has become a quasi-obligation for all non-profit organizations (NPOs) if it wants to survive. It is also suggested that a foundation should have a professional accountant to manage accounts whilst overseeing budgeting.

5.3.3.2 Results, Impacts and Evaluation

The impacts/results accountability can be perceived from the evaluation. Evaluation is a way of systematically gathering and reviewing information in order to learn and to evaluate the impacts of your programs/projects. It also means asking smart, timely questions about your philanthropic/your foundation's work in order to understand and increase your impact. Going through the *evaluation process,*

- "it allows you to understand more about the issues you seek to address
- it allows you to check whether your approach is having an impact
- it enables you to be more effective in how you act
- it helps you understand how to replicate and scale your successful initiatives

- it can demonstrate your credibility to other funders, government, society and donors
- it can provide supporting evidence for policy or advocacy work."[148]

Through the evaluation process, you can also learn what is working (and why), how are you progressing towards your goals, and whether the assumptions you made in your strategy are still true. When we say that a foundation can develop and learn from an evaluation, the following questions may be asked[149]:

"What type of questions should I ask?

- Are partners doing what they said they would do?
- Are things costing much more or much less than planned? Why?
- What does that mean for the work-plan?
- Are things going according to plan?
- Are you getting the results you hoped for?
- Why, or why not?
- How should you adapt or improve your way of working?
- Do the outcomes you are achieving seem to be having the desired effect?
- Are assumptions of your theory of change correct?
- How should you adapt or improve your strategy?"[150]

"Why do I need to know?

- To ensure that your resources are used efficiently, as you intended;
- To see whether things are unfolding as planned, and if you need to make changes to achieve your intended outcomes;

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[148] UBS Philanthropy Compass, Zurich 2014, 47. Free download: www.ubs.com/philanthropy.

[149] Ibid, 49.

[150] Ibid.

- To refine your strategy and theory of change, and to validate your work, so that others can build on it."[151]

"Where do I find the information (the means of verification)?

- Regular reports from partners/grantees;
- A simple, standardized process (e.g. quarterly report, regular phone call, etc.);
- Periodic questions to beneficiaries and/or other stakeholders;
- Some questions will need to be tailored to the specific initiative;
- Data collected via an evaluator—as internal or external evaluation, ;
- to include information from partners/grantees, other stakeholders and third parties;
- where appropriate, a baseline/framework should be set at the start of an initiative."

"What do I do with the answers when I get them?

- Guard against corruption;
- Demonstrate compliance with local laws;
- Ensure your money/other resources is being used wisely;
- Work with partners to improve implementation;
- Focus resources on the most impactful activities;
- Share process lessons;
- Refine your strategy and identify new opportunities;
- Demonstrate value to other donors and policymakers."[152]

Now through the evaluation, a foundation or a philanthropist will have known:

- if it/he/she is moving in the right direction;
- how to track progress; and,

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[151] Ibid.
[152] Ibid.

- how to measure the impacts/achievements.

Thus, one can say that through an evaluation process, a philanthropist or a foundation would be in a better position of meeting his/her/its impacts/results expectation.

5.4 Funding and Fundraising

5.4.1 Types of Foundations

Related to their *funding*, there are three main types of charity organisations in general and foundations specifically:

1. *Giving Foundations* have a large foundation capital, e.g. a) in form of a legacy given as an endowment fund to the foundation, b) as a mixture of such a foundation capital and additional yearly income from foundation activities such as business. Giving foundations use the annual net benefit of the capital and additional revenue for project support of the own organisation or donated to other organisations. Their income heavily depends on the financial market and on business achievements. With the financial crises since 2008, many foundations suffer from decreasing net income and had to cut their donations and own infrastructure. These foundations are either only little known in the public since they do not need to do public fundraising and marketing, or—as many foundations in the last ten years did—become known through their public invitation to submit funding support requests.
2. *Receiving Foundations* have only a small foundation capital (the minimum amount is required by law of the state where the foundation has its legal registration, e.g. in Switzerland CHF 50,000). A key part of their activities is fundraising: collecting funds from various sources (see below) for annual expenses for projects and

administration and to build reserves for a sustainable development. Their income depends on their fundraising skills, motivations and the economic situation in the donor areas and sectors. They are normally known in the public since they have to do public fundraising

3. *Receiving and Giving Foundations* have own resources, are receiving donations from third parties and are giving donations to third parties. Many foundations combine these activities. It means that they do not implement all projects themselves, but are direct implementers of some and donors and facilitators of other projects.

5.4.2 Types of Income Sources

Fundraising as generating income is a key and complex activity of foundations. The principle is the same in not-for-profit activities as in the profit sector: The business of business is to generate income, to maintain and create jobs and to create value for the society. The difference is 'only', that in the non-profit organisations, the net benefit (donations and other income) has to be distributed to and invested in beneficiaries and cannot be given back to the donors or owners as it is the case e.g. through dividends for shareholders.

The income sources by category of donors and donations differ substantially between the donors. The following main income sources can be distinguished (the list is not exhaustive):

1. *Donations from Individuals*
   - 1.1 Small private donations from many individuals
   - 1.2 Large private donations from few individuals (High Net worth Individuals)
   - 1.3 Legacies from individuals
2. *Donations from Institutions*

- 2.1 From state: communes, cities, governments, intergovernmental institutions

- 2.2 From private sector companies and their foundations
- 2.3 From private foundations and organisations
- 2.4 Legacies from institutions

3. *Income from Sales*

- 3.1 from sales of products, services, licences, patents

4. *Income from Reserves/Investments*

- 4.1 From investments of own capital
- 4.2 From benefit sharing of capital of third parties

5. *Income from In-kind Contributions*

- 5.1 Volunteering: donating time
- 5.2 Expertise: sharing of knowledge
- 5.3 Goods and services: donating material, infrastructure, facilities

5.4.3 Types of Donations

1. *General:* The general donation is given to the institution which then allocates it to a programme or project according to the needs and budget lines.
2. *Project-related* (earmarked): such donations are given for a specific programme, project, campaign or even for an individual (scholarship, individual child).

Earmarked donations are a strong trend since donors want to have a better control, a relation to the project/country/person. Institutional donors need to justify the donation as coherent to their strategy and priorities. On the other hand, receiving institutions need enough general donations in order to balance over-funding and under-funding of projects in order to reach the overall goals of the philanthropic activity. General donations depend also on the trust of donors and their long term relationship with an institution: the relationship, the trust in the leadership and a transparent and credible information policy are key for general contributions.

5.4.4 Types of Fundraising Methods

The fundraising channels and methods are very broad. Only main types are mentioned here[153]:

1. *Public Campaigns:* Larger organisations make once a year a large national or regional fundraising campaign, e.g. as fundraising week, among the large public with public adverts, media events, mailings in all households, phone campaigns with direct calls etc. In many countries, public radio and television channels offer public campaigns e.g. on emergency after an earthquake and channel the donations through their partner institutions.
2. *Websites:* The donation button on the website of the foundation is a necessity, but it normally does not create substantial donations as donors often want more specific information first. Websites with fundraising platforms for various organisations are known in some contexts, more in the Anglo-Saxon world than e.g. in mainland Europe.
3. *Direct Mailings:* Emails and postal mailings addressed to the members of an organisation or to selected addresses which are bought are a good, targeted way of fundraising. Categories of addresses are distinguished: regular donors are 'hot' addresses, random, rare donors are 'warm' addresses and bought addresses of persons which are not yet donors are called 'cold' addresses. The 'warmer', the better the return of donations.

[153] See e.g. Arnold Taggert, Fundraising. Crash Course!, 2015 (kindle online); Burke Keegan, *Fundraising for non-profits*, New York: Quill 2002; John Chikuati, *Fundraising on the Internet*, Nairobi: Repared 2009 (www.repared.com); Fundraising Akademie (ed.), *Fundraising. Handbuch für Grundlagen, Strategien, Methoden*, Berlin: Springer Gabler 2016;

4. *Crowd Funding:* Crowd funding platforms allow individuals or institutions to fundraise for a specific project, for a defined target amount and during a limited time period. In emotionally touching projects like a sick child it can be very successful, in other cases it is a failure. Transparency of reporting is in private crowdfunding often a challenge and does not always meet the standards of institutional fundraising. But crowdfunding is also used by public media channels or social media with a list of projects, e.g. by Tencent in China, with great success of small amount per donor but a very large number of donors (e.g. Tencent with an average of few dollars per donation but millions of young donors).
5. *Direct Contacts:* Personal contacts with mouth-to-mouth within families or neighbourhoods or even door-to-door collections are still an effective way of fundraising, but needs volunteers and some courage.
6. *Collection in Events:* The worldwide most often used way of donations are still religious events such as the collection in Christian Sunday worship, in the Muslim Friday prayer and in the Hindu or Buddhist temple offerings. Other fundraising events are benefit concerts, sport events, running (children get an amount per donor per km they run) etc.
7. *Regular Transfer (debit procedures):* Donors who are committed to an organisation spend regularly, e.g. once per month, an amount per automatic debit procedure from their bank account.
8. *Applications to Institutions:* A main method are individual applications to institutions such as foundations, governmental agencies/state departments, companies and their foundations, multilateral institutions etc. The applications are either proactive or as an answer to a call for application by the respective institution.
9. *Intermediaries, especially financial institutions:* Banks and wealth managers influence the investment and also donation pol-

icies and decisions of their clients. A personal contact or a flyer in the hand of a wealth manager can motivate her/him to recommend a project or a foundation for a donation. Aged persons sometimes ask lawyers, pastors and notaries to make suggestions for legacies to philanthropic institutions.

10. *Directories:* Being listed in directories of foundations, placing adverts in such directories are mainly 'branding marketing' in order to make an organisation known.
11. *Media presence:* presence of an organisation in the media by interviews, reports about projects, advocacy, petitions, public controversies, social media messages such as tweets and facebook groups are important instruments to make an organisation known and create the foundation for donations.
12. *Personalities:* Having a well-known personality as president, Board member or director of an organisation or a movie or sport star as special 'ambassador', increases visibility and credibility of an organisation as basis for donations.

5.4.5 The Fundraising Culture and Strategy

The income sources and the fundraising methods depend on many factors such as the philanthropy culture in a geographic area, the social structure of society, fundraising traditions, the religious background of donors, the legal framework and legislation for philanthropy activities, the tax deductibility, the technological facilities such as payment systems, social media, costs of adverts and many more.

Example: SWOT Analysis for the Foundation's Fundraising Strategy:

Strengths	**Opportunities**
- Resources and skills - relations, partnerships, networks - advantages compared to competitors	- innovative projects and approaches - synergies with partner institutions - comparative advantage with

- vision, values, reputation - geographic location - access to media, technologies - etc.	new target groups - expansion to new geographic areas - etc.
Weaknesses	**Threats/Obstacles**
- lack of history or success stories - little transparency and accountability - geographic limitations - lack of significant networks - etc.	- changing legal in the donor countries - political and economic unrest in the project countries - scandals in the organisation or the non-profit-sector of the country

Fundraising can learn from marketing strategies for consumer products. A philanthropic institution 'markets' the projects similar to a product. Therefore, a foundation needs to make a market analysis of the fundraising market in order to find the most promising methods for fundraising, e.g. with a SWOT analysis.

5.5 Communication, Marketing, Reporting

5.5.1 Goals of Communication

Communication, marketing and reporting are key activities for philanthropic institutions in order to

- Raise funds since fundraising is at the core a communication activity
- Build trust by transparency
- Report to donors about the use and impact of the donation
- Meet legal reporting requirements of not-for-profit institutions
- Build and sustain relationship with the beneficiaries of the programmes
- Building bridges by increasing mutual understanding between donors, beneficiaries and and intermediaries

- Make the programmes and activities of the institution known to the larger public
- Encourage others by sharing success stories.

5.5.2 Strategy of Communication

The strategy for communication, marketing and reporting depends on the objectives and the culture of the organisation. In the past, many private foundations—especially small foundations or those with endowment funds and no need for extended public fundraising activities - cultivated a culture of confidentiality. Some of them have no website, no publicly available report and are difficult to be contacted. They protect themselves also from being overwhelmed by numerous funding applications since they already know what they support and they may not be open or do not have additional funds for new applications.

This strategy is understandable and can be justified for the reasons given. In some exceptional cases, confidentiality is intended if money-laundering of money with corruption or black market background is involved. But with the international transparency standards in banking and financial transactions, not-for-profit institutions are closely monitored by the supervisory authorities and the financial institutions and are obliged to implement transparency standards.

The majority of not-for-profit institutions increased remarkably the transparency and amount of information on their website. They respond to the trend of donors who want to know more about the activities and want to monitor and have direct contacts with beneficiaries. In addition, new social media and crowd funding facilitate this new trend.

We recommend that not-for-profit institutions follow a pro-active, open communication strategy in order to build trust and transparency. The comparison of not-for-profit institutions by rating them becomes more and more popular. For example, the China Foundation Centre CFC, a private rating agency for Chinese foundations, makes it a condition for foundations to be listed in their directory that they publish their annual report and annual account. This led to the fact that only in the last two years (2016/2017), the number of Chinese foundations which published this information grew very substantially as can be seen on the website of CFC.[154] CFC offers on its website the very informative 'China Foundation Transparency Index' with a lot of information about 4225 foundations (as of 20 March 2017).[155]

It does not mean that it can be justified to keep some information confidential. For example, if beneficiaries are in danger by the release of information of support in countries of war, terrorism, dictatorship or threats against journalists up to murdering of journalists, it may be needed to be very cautious which information are released and to whom. It is not unethical, but ethical do so in order to protect life.

5.6 Advocacy and Lobbying

Advocacy means to advocate for a topic, a target group or an institution at decision makers in order to defend, protect and promote the topic, target group or institution. Advocacy normally means to be an 'advocate' for third parties, not for own interests. To advocate can be done with manifold means and instruments such as writing articles or producing a documentary, petitions to parliaments, public demonstrations, organizing testimonials of victims in front of decision makers, publishing books, email campaigns, online international petitions, silent diplomacy (non-public contacts, mediation, 'diplomacy') etc.

Examples of advocacy are campaigns of not-for-profit development organisations for the right to food and water towards governments, campaigns for climate justice at the UN, a media campaign to release political prisoners, a protest march of farmers, testimonials of indigenous

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[154] http://en.foundationcenter.org.cn/

[155] http://ftien.foundationcenter.org.cn/

people, the collection of signatures of an organisation for the rights of children etc.

Lobbying means the promotion of own interests as a person or more often as an institution or a company towards decision makers, normally political decision makers such as parliamentarians. Classical forms are the institutionalised lobbying work of companies (e.g. multinationals) or associations/interest groups of companies (e.g. chamber of commerce, association of pharmaceutical or oil industry) in national, regional or supranational parliaments and in multilateral institutions.

Advocacy and lobbying are to some extent overlapping, but the main difference is normally seen in advocacy for third parties' interests and lobbying for own party interests.

The space of action for advocacy depends on the legal and ideological frame in a given jurisdiction: freedom of expression, freedom of media, freedom of internet etc. The space of action for lobbying is in many jurisdictions defined by laws and regulations on lobbying. Between regulations and reality are manifold grey zones of actions. An internationally growing concern are the *conflicts of interests* which can evolve in advocacy and especially in lobbing. If a parliamentarian is at the same time a member of the Board of Directors of several companies or president of non-governmental foundations, nowadays it is requested to declare it as a potential conflict of interest. If it is not transparent, the democratic decision-making processes can be heavily influenced by non-declared interests. Ethical principles on dealing with conflicts of interests are available.[156]

Historically, lobbying is a very old institutionalised activity. Advocacy in the limited meaning of defending the interests and rights of vulnerable people and victims is as old as charity, empathy and benevo-

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[156] Scaling Up Nutrition Movement SUN, Ethics Matters in Conflicts of Interests. Discussion Paper of the Group of Ethics Experts under leadership of Christoph Stückelberger, Geneva, Feb. 2015.

lence which means as old as humanity. But in the larger modern meaning of institutionalized and organized activities for third parties it grew in the western world especially since 1970: Whereas the first UN-decade of development 1960–1970 concentrated on concrete development projects and programmes by aid, in 1970ies a number of advocacy development organisations in developed countries have been established and established organisations for aid, development and advocacy added an advocacy department in their organisations. They advocated for structural reforms of the Bretton Woods institutions, for sanctions against apartheid South Africa, for human rights, for environmental legislation, for disarmament, for a rights-based approach in development, for debt cancellation of debts of least developed countries or of illegitimate debts etc.

The next generation of advocacy activities and institutions grew especially after the end of the Cold War with the fall of the Berlin Wall in 1989 and the so-called end of the bipolar world. New advocacy activities grew especially in developing, emerging and transition countries. This was also possible due to the growing importance of non-governmental organisations as part of democratisation processes and the recognition of their contribution to development by governments and the international community. The boom of internet, social media and communication with mobile devices also contributed substantially to its development.

In the current decade since about 2010, advocacy activities still grow substantially on one hand, but on the other hand are more and more restricted in some countries due to new nationalism or restricted for specific international campaigning organisations. Lobbying activities are on the one hand exposed to more and more transparency rules and regulations, at the same time they are flourishing in authoritarian regimes in an in-transparent way. A recent example (March 2017) is the fact that in the US the Trump administration cancelled to publish the list of visitors of the White House which was done since many years. It means that lobbying activities in the white house are less transparent than before.

6

CONCLUSION AND OUTLOOK: INNOVATION IN PHILANTHROPY

For the last two to three decades, all *European countries* recognise the role of philanthropy that benefits the public interest, eases the social issues. The tax incentive mechanisms, legal favourable environment for foundation, increased awareness of the need of philanthropy and professionalism are factors which contribute to this megatrend.

Some countries have a long philanthropic tradition since centuries compared to others. At the same time, behaviours in terms of individual giving are very disparate, given the *wide variety* of historic and cultural backgrounds, socio-economic factors, state models and taxation rules. There is no one-size-fits-all portrait of the European philanthropist or donor, nor are there dominant models. Nonetheless, everywhere in Europe, the foundation sector is flourishing since many philanthropists consider constituting a foundation as one of the best instruments in pursuing their philanthropic vision and wishes and having full control over it. But this trend is also a weakness since many foundations are extremely small, without staff and low impact if they are not linked to larger and experienced institutions with similar objectives.

The *traditional philanthropy* is most commonly associated with straightforward grant making, most usually making donations where all capital is lost and no return expected. The current practice of philanthropy is more sophisticated and diverse and more and more foundations are not only or mainly grant-making, but also implementing projects themselves. Today's European foundations are very much characterised by their youth and dynamism, a sign that the modern philanthropic culture is developing and lively. Adaptation of the legal and fiscal frameworks facilitates this trend. Foundations actively mobilise resources other than the initial endowments of legacies. Young and active European foundations define themselves primarily in terms of their actions rather than their assets. Through use of external resources, whether public or private, and not relying solely on the wealth of a single individual or family, the European foundations are mobilising an increasing number of stakeholders, thus contributing to the wider deployment of a philanthropic culture.

Philanthropy is not a monopoly of European or American culture, nor a 21st century phenomenon. *Chinese philanthropy* being largely formed by its traditional philosophy and culture, and much localised in kinship relationship, there is a renaissance of philanthropy in modern China. The modern philanthropy in China is a confluence of several complex factors, i.e., religious, historical, cultural, and political, socio-reforms dimensions that shape expressions of philanthropic activities in China; it is highly likely that such profound factors will continue influence the patterns and directions of modern Chinese philanthropy. For the last two decades, there is a vital role for modern Chinese philanthropy in addressing the tension between wealth creation, poverty and pressure on the environment. It is reasonable to assume that as more citizens in China grow wealthy, the philanthropy has and will become an increasing component of spending - a phenomenon is evolving and has been widely publicized in the current Chinese media.

Philanthropy is deeply rooted in all world religions. It was developed since two thousand years especially strong in the Christian tradition. It had been deeply rooted in the Chinese traditional culture and had been practiced by the Confucius merchants in the Chinese ancient history. Over the last 20 years, Western philanthropy has been through an accelerated period of change and evolution. Old money is being replaced by the new wealth of self-made entrepreneurs who want to be actively involved in their giving. Philanthropy has become a business sector like any other, focused on impact and outcomes; there are new financial tools and a paradigm shift from donating to investing through innovative entrepreneurial philanthropy models. We live in a highly globalized world; learning from best practices globally and adapting to local needs and cultural contexts, the modern Chinese philanthropists are not just increasing the volume of giving by their wealthy, but are making their giving smart whilst being the global citizens. In our view, philanthropy doesn't just have the latitude to innovate, it has a duty to do so, in order to adapt to the evolving needs in society and find the most efficient ways to deliver social impact. This view is also shared by the modern philanthropists all of the world, they are increasingly committing themselves to the social and environmental challenges through the innovative philanthropic models, and is making the philanthropy as an industry and a major force for public good.

Innovation: This wider deployment of philanthropic culture has been evolving at a time of global financial difficulties encountering for the last more than a dozen years, entrepreneurial philanthropy, social responsibility, social impact, social innovation, social enterprises, etc. concepts have become applied into the philanthropy sector. Both Europe and the United States are seeing increased interest in *innovation in philanthropy*, in which *venture philanthropy*, *impact investing* and *social entrepreneurship* are often used instruments which use financial investment strategies in line with the foundation's social mission. Although the social impact of these investment strategies is difficult to accurately measure at this point, it gives European philanthropy a considerable pool of assets that can be mobilised to intensify the work of foundations to further the social good; at the same time, to decrease their dependence on traditional donations and to achieve financial sustainability.

In the respect of supporting social entrepreneurship, traditional corporates charity has been shifting to the donation forms such as donating intelligence, platforms, technologies and venture investment.

Still, we observe that the biggest challenges in the philanthropy industry are:

- how to convert more entrepreneurs into social entrepreneurs so we can operate and manage non-profits organizations with more entrepreneurship, thus to achieve a high degree of impact investing;
- how to attract more talents from different sectors into philanthropic sector to help expand the scale and impact of civil engagement and the social responsibility.

In any case, we foresee that the philanthropy sector in both Europe and China as in other world regions such as Asia outside China, Africa and Latin America has a great space and great opportunities to grow. But also the needs are fast growing with dangerous and deep inequalities, environmental challenges, cultural, ethnic and religious conflicts, racism etc. May this book encourage to be active in philanthropy and to do it in a professional way—doing good and doing it well.

7

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Authors

Li Jing

Dr Li is Programme Executive Strategic Development and Business Ethics for Globethics.net in Geneva. She got her Bachelor degree in Political Science & Law from Peking University, Beijing/China, her Master and Ph.D in International Relations from the Graduate Institute of International and Development Studies in Geneva/Switzerland.

Christoph Stückelberger

Prof. Dr. Dr. h.c. Stückelberger is the Founder and President of Globethics.net, Executive Director of Geneva Agape Foundation and Prof. of Ethics at universities in Basel/Switzerland, Beijing/China, Moscow/Russia and Enugu/Nigeria.

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