NCRP
Responsive Philanthropy
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Beyond Grantmaking: Letting Our Foundation Assets Work Full-Time

By Dave Beckwith

Early this year, the Los Angeles Times *published a series of reports on the Bill and Melinda Gates Foundation's investments in companies whose business practices undermined the programmatic objectives of the foundation. This brought attention to the seeming conundrum that many nonprofits face: As they engage in efforts to address pressing social, economic and environmental issues, they seek to increase their assets through high-return investments. Unfortunately, many national and international companies most attractive to fund managers, such as oil and pharmaceutical giants, contribute to the very problems nonprofits and foundations are trying to fight.*

NCRP asked board member Dave Beckwith, executive director of the Needmor Fund, to share its foundation's experience with the kind of investing that uses the foundation's endowment to generate income and further its mission.

"Every dollar bears a burden of mission."

"Every dollar is a tool to use to build a better world."

"Every dollar is public. It's not just our money."

Different takes on the same idea—that philanthropists should consider all our resources, both the dollars we spend on grants and administration and the dollars we invest, as important vehicles for achieving our objectives.

In reality, every foundation has investment goals, whether they are to maximize return or to make safe, dependable, non-risky investments. Every financial manager is instructed by the client. The question we first raised at the Needmor Fund in the 1980s was: "what should be the nature of those instructions?" Are they limited to risk and return, liquidity and strategy, or do they include instructions as to the impact on our values—our mission and the (continued on page 11)

IN THIS EDITION

The Impact of Mergers on Philanthropy in the Banking Industry

Total giving is up significantly, but real challenges remain

By Becky Sherblom

When Bank of America completed its merger with MBNA in 2006, it pledged to increase its philanthropic giving, including more than $200 million in 2006.[1] During its merger with Fleet in 2004, Bank of America promised $1.5 billion in charitable grants over the next ten years, a 40 percent increase from the year before by both banks.[2] And in 1998, NationsBank Foundation gave $1 million to nonprofit groups nationwide during the first week after NationsBank's merger with Bank of America.[3]

The National Committee for Responsive Philanthropy recently completed a research project to look at the impact on corporate philanthropy of bank mergers within seven bank corporate "constellations."[4] These banks include Bank of America, JP Morgan Chase, Citicorp, SunTrust, Wachovia, Washington Mutual and Wells Fargo.

Nonprofit groups, especially local grassroots organizations, commonly fear that these bank mergers will spell a decline in or disappearance of grants from these financial institutions. However, analysis of these banks' 990-PFIRS from 1983 to 2005 show a surprising trend: there was significant growth in giving from an annual cumulative total of about $100 million in the late 1980s to around $400 million in the 1999 to 2001 time frame.

This can be attributed primarily to the convergence of three factors. First, the role of philanthropy and its prominence as a tool in corporate America changed during the 1990s. It shifted from being an extension of the charitable interests of the corporate leadership, or something done simply to buy goodwill, to being a key component of corporate strategy.

Philanthropy now is part of the equation for a corporation to be a competitive entity in the market. Philanthropy helps attract and retain quality employees, makes the corporation stand out among the competition so potential customers notice, and influences the quality of the communities in which the business has its investment.

In February 2006, the Committee to Encourage Corporate Philanthropy (CECP) in New York convened a roundtable discussion among 28 leading CEOs and chairpersons where participants concluded that *"the complexion of corporate philanthropy has changed radically in the last decade. Now, more than anytime in the past, corporate giving has become integral to a company's DNA. Companies are working strategically to incorporate their giving into the business model."*[5]

At the same time that philanthropy was becoming an increasingly important element of corporate strategy, bank mergers in the 1990s were growing and changing as well. Banking corporations changed rapidly as legislative changes facilitated larger and larger mergers covering ever-widening geographic areas. In his 1996 study, *"Bank Mergers & Industrywide Structure, 1980–1994,"*[6] Stephen Rhoades classified two types of mergers: "horizontal merger," or a merger of companies within the same market, and "market extension," or a merger in which there is no duplication of market. The economic attractiveness of market extension mergers was enhanced significantly by the lifting of strict anti-branching restrictions by states during the late 1980s and early 1990s, which culminated in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. The act allowed nationwide interstate banking through holding companies by June 1995 and interstate branch banks by September 1997. The holding company model opened new geographic markets to bank corporations, but it was expensive operationally because the corporation held each bank as a separate legal entity. The

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1997 law change allowed interstate branch banks to remove that cost barrier It also permitted aggregation of those back office functions in a more direct and cost-effective manner, and thereby facilitated a more cost-effective expansion model.

In addition to the changing role of philanthropy and the changing nature of mergers, community and public pressure on merging banks for more philanthropic support also has been a factor in the recent growth in bank giving. The place of community reinvestment pressure in these mergers is not to be ignored. As communities and advocates worried about losing local banks and their local employees, they negotiated agreements with banks using the Community Reinvestment Act (CRA) as a tool. Those agreements often included commitments for community lending and for philanthropic giving.

It also is true that the corporations would modify their behavior in anticipation of a pending acquisition or merger. In their May 2002 Study, "*Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the CRA*,"[7] Raphael Bostic, et al. found that banks prepare strategically for the regulatory and public scrutiny associated with a merger or acquisition by increasing their lending to low- and moderate-income individuals.

The American Bankers Association confirmed Bostic's findings; in affirming its belief that mergers have positive effects on communities, the ABA acknowledged that because banks are aware that merger transactions focus public attention on their role in the community, they frequently demonstrate their commitment immediately through greater lending and giving.[8]

REGIONAL WINNERS AND LOSERS

As the graph shows, the level of cumulative giving by the seven bank constellations grew significantly during the later-half of the 1990s, and through the first few years of the 21st century. However, one can see that certain regions of the country benefited more than others, with the Southern region of the United States as the winner in the distribution of this largesse. Among these seven bank constellations, the Northeast has received an erratic amount year to year, but never more than $100 million. The Southern region jumped above $100 million in 2002 and has stayed there. The Midwest has experienced steady, small giving, not receiving above $60 million total in any year.

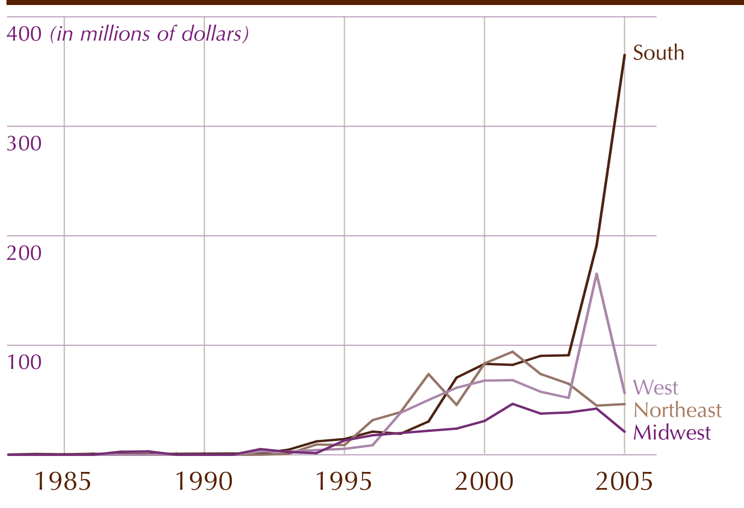
> There was significant growth in giving from an annual cumulative total of about $100 million in the late 1980s to around $400 million in the 1999 to 2001 time frame.

MEASURING CORPORATE GENEROSITY

As these financial corporations have grown and expanded, their philanthropy also has expanded. Community advocates have worked to increase the level of giving for their communities and, by using CRA expectations, advocates have been successful in increasing the level of lending and giving to communities. Internal advocates within banks who encouraged an expansion of philanthropic giving also have been influential. But as these corporations reach new levels of corporate size and profitability, it is difficult for communities to know what level of giving is the right level.

As Nelson Aldrich Jr., asked in an article in *Worth* magazine, "*What is the true measure of corporate generosity? Is it the total size of a company's gifts to charity or its sacrifice in giving?*"[9] The measure used,

CUMULATIVE AMOUNTS GIVEN BY ALL BANK CONSTELLATIONS, BY REGION



whether total dollar amount or a percentage of profit, will determine whether or not a corporation is seen as a leader. According to a *Worth* magazine survey, Bank of America ranked number 1 on its list of Top Givers, with $92 million in giving in 1998, based on their total cash contributions. But that didn't even get Bank of America onto the list of Top 50 Profit Sharers because that $92 million was such a small portion of Bank of America's overall profits for that year (giving as a percentage of average earnings was just 0.92 percent).[10]

However, one can see that certain regions of the country benefited more than others [from the growth in charitable giving], with the Southern region of the United States as the winner in the distribution of this largesse.

LOSING PERSONAL CONTACT

In addition to the potential loss of funding from banks after a merger, NCRP's research found that local organizations and communities also fear the loss of key community leaders who had been employed at a bank prior to an acquisition or merger. Nonprofit representatives interviewed identified the removal of access to corporate leaders and decision makers as a significant impact of mergers.

Organizations that had experienced strong partnership relationships with bank employees—as grantees, through volunteer programs and board participation by bank employees or involvement on community issues—often found those relationships weakened or destroyed. Interviewees estimated that communication confusion regarding whom to talk with and what the new priorities are can last anywhere from nine months to two years.

This lack of communication and access can occur even when the bank holds the organization's corporate banking accounts. A social service organization in Chicago that had a long track record of working with Bank One observed, "*Once the merger [with JPMorgan] started happening, we lost all contact. We actually do our banking there and we've had lots of discussions with our private bankers there regarding that. They have attempted all they can, but there has been no response whatsoever.*"

Moreover, an online application process, now a common requirement among the large banks, means there is little opportunity for dialogue and feedback, precludes the ability to deviate from the perceived norm, and increases the feeling that the application is entering a black hole. A women's shelter that had experience with long-term relationships with banks observed, "*Smaller community, regional banks—it's easier to build personal relationships and feel that they are committed to the community. With BofA, the whole application process is online: you hit a button, you click send, and then you're just sort of waiting.*" Nonprofit organizations interviewed for the report stated that only rarely is there now a relationship with a corporate representative with whom they can discuss their proposal.

Organizations also expressed consistent frustration that banks increasingly require funding applications to be project-specific rather than for operating support, and often must be a high-visibility project that will garner positive public exposure and corporate visibility. An arts organization, speaking of the post-merger environment in Chicago after multiple bank mergers, said, "*It's been very clear to us that it's got to be a project with visibility factors, and if you can't put it in as a project, you're not going to get a lot of consideration for general operating support.*"

At the same time, there was equal acknowledgment among nonprofit informants that, while bank foundations require that a grant application be for a specific project, the monitoring and budget tracking by bank foundations is nominal, so the funding seems much more like core operating support. There was consensus that overall bank grant reporting is easier than the reporting requirements of other funders, positively comparing bank funding requirements to the high level of detailed benchmarking that private foundations, community foundations or governments tend to require.

CONCLUSION

For those who believe banks should be doing more for communities through lending and philanthropy, the messages are clear. Community leaders and activists should work to build a strong culture of giving within smaller banks that are likely merger candidates, to increase the chances of that culture surviving a future takeover. Senior executives in the banking industry should continue to emphasize the positive role that philanthropy can play as part of the overall corporate strategy. Community organizations should continue to negotiate CRA agreements, recognizing that CRA positively impacts bank behavior before, during and after mergers. Bank insiders and outsiders should measure bank philanthropic giving not just in total dollars but also as a percentage of profits, and should acknowledge that banks are not yet leaders in corporate philanthropy when measured in this way. Finally, bank executives should find ways to build stronger connections with local community leaders in a post-merger environment.

Becky Sherblom is a research consultant for NCRP's bank mergers project.

NOTES

1. Bank of America, "Bank of America Completes MBNA Merger," Press Release, 1 Jan. 2006.
2. Rothacker, Rick, "BOFA Pledges $750 Billion for Aid," *The Charlotte Observer* (North Carolina) 8 Jan. 2004 – Third Edition: 1D.
3. Veverka, Amber, "Bank Marks New Name With Gifts to Charities," *The Charlotte Observer* (North Carolina) 3 October 1998 – Third Edition: 1D.
4. A"constellation" is used to describe a current bank and the prior banks that were integrated through the mergers. NCRP will release the research report by the end of June 2007.
5. *Summary Report, Board of Boards CEO Conference*, Committee to Encourage Corporate Philanthropy, www.CorporatePhilanthropy.org, March 2007.
6. Rhoades, Stephen, *Bank Mergers & Industrywide Structure, 1980–1994*, Board of Governors Federal Reserve System, 1996.
7. Bostic, Raphael, et al., *Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the Community Reinvestment Act*, May 21, 2002, 3.
8. American Bankers Association,"Banking Institution Mergers: Questions and Answers," February 2003, http://www.aba.com/Industry+Issues/ECO_Mergers_QA.htm.
9. Aldrich, Nelson Jr., "America's Most Generous Companies," *Worth* magazine, Dec. 1999/Jan. 2000, 144.
10. Ibid.

Taking On One of the "Dirty Dozen" Tax Scams

By Kristina C. Moore

In July 2006, the National Committee for Responsive Philanthropy helped break the news about questionable practices by Health and Human Services Secretary Michael Leavitt's family foundation, the Dixie and Anne Leavitt Foundation.[1] The tremendous media coverage the story generated brought long-overdue attention to the loopholes that surround Type III supporting organizations, which along with donor-advised funds, are on the IRS' list of "dirty dozen" tax scams.

As a result, Sen. Charles Grassley (R-Iowa), then chairman of the Senate Finance Committee, with a track record of actively championing charitable accountability, included a number of provisions to close some of these loopholes in a piece of legislation, which was designed to reduce abuses by nonprofits and donors. President George W. Bush signed the Pension Protection Act into law in August 2006.

> Unfortunately, we cannot effectively regulate that which we do not know or understand. Although some may say that ignorance is bliss, in this instance it is our duty to become wise.

The Pension Protection Act of 2006 (PPA) included a provision requiring the Department of the Treasury and the IRS to study donor-advised funds and supporting organizations. NCRP submitted its comments to the Treasury and the IRS in April 2007, wherein it listed disclosure, payout requirements and opportunities for misconduct as immediate issues that the government needed to address. These loopholes in the current system allow for mismanagement, illegal activities and rampant abuse.

DONOR-ADVISED FUNDS

Donor-advised funds attract donors who want some of the benefits of a private foundation without the bureaucratic obligations. The funds provide donors with the opportunity to make recommendations for how their contributions will be used, but are controlled and administered by community foundations, universities, hospitals, the United Way or similar institutions for a fee.

There had been no specific definition for donor-advised funds prior to the PPA, and public charities are not required to report on the assets and distributions of these funds. In its comments, NCRP described why nonprofits, lawmakers and regulators should find this lack of available information troubling:

> This constitutes a world of hidden philanthropy that merits significantly upgraded disclosure—by donor-advised funds—of assets and how these assets are invested and distributed. While donors are not supposed to exercise binding control over the managing charities' distributions from their funds, it is widely known in the field that "donor-advised" is, in many instances, a euphemism for "donor-controlled" or "-mandated". Until

Photo by Tim Sloan, AFP/Getty Images

Surrounded by Congressmen, US President George W. Bush signs the Pension Protection Act of 2006, 17 August.

> there is reporting and disclosure for each donor-advised fund, there will be no adequate way for the IRS to determine with any certainty that the donors' advice and direction is truly non-binding, that the managers of these funds are performing adequate due diligence, and that charitable purposes are being pursued through the distributions.[2]

This lack of disclosure means that what we do know about donor-advised funds reveals only a small part the full picture; the exact number of funds, their assets and distribution are largely unknown. Unfortunately, we cannot effectively regulate that which we do not know or understand. Although some may say that ignorance is bliss, in this instance it is our duty to become wise.

SUPPORTING ORGANIZATIONS

In 2002, 2003 and 2004, the Leavitt Foundation—a Type III supporting organization—donated less than 1 percent of its $9 million assets, while family members claimed millions of dollars in tax deductions for their contributions to the foundation. The Washington Post reported that most of the foundation money had been invested in or lent to family interests and holdings. As a Type III supporting organization, the Foundation is not subject to the 5 percent payout requirement of private foundations.

According to the General Accountability Office, over 21,000 supporting organizations filed tax returns in 2003.[3] Defining, identifying and classifying these organizations are daunting tasks, even to experts, and therein lies the danger:

> The complexities of the definitional tests (i.e., responsiveness, integral part, and control) have been reviewed in the literature to reveal just how impenetrable the supporting organization is to most observers. When the mechanisms for charity and philanthropy are as technical and arcane as to defy general understanding, what can be understood is that there are great opportunities for misuse and abuse.[4]

DONOR-ADVISED FUNDS

According to the Pension Protection Act of 2006, donor-advised funds must have the following characteristics:

- These funds are separately identified by reference to contributions of a donor or donors;
- These funds are owned and controlled by a sponsoring organization; and,
- Donors (or any other person appointed by the donors) have, or must reasonably expect to have, the privilege of providing advice regarding the funds' distribution and investments.

Sponsoring organizations of donor-advised funds are public charities such as community foundations, hospitals, universities and the United Way.

SUPPORTING ORGANIZATIONS

A supporting organization is a 501(c)(3) organization that qualifies as a public charity because of its close relationship with another publicly supported 501(c)(3) organization. A supporting organization must provide financial and/or programmatic support to a beneficiary organization. The beneficiary organization also exercises a certain level of operational control over the supporting organization.

There are three types of supporting organizations, and classification is determined by the relationship between the donor and beneficiary organizations:

- Type I: the beneficiary organization appoints the majority of the governing board members of the supporting organization.
- Type II: at least a majority of the beneficiary organization's board members are also members of the supporting organization's board.
- Type III: the two organizations are each more independent; the beneficiary organization usually appoints one member of the supporting organization's governing board. Type III organizations may choose to carry out a program or function of the beneficiary organization, instead of providing financial support.

There are currently three types of supporting organizations, which are based on the level of control the beneficiary exercises over the donor organization. In its comments, NCRP urged the IRS and the Treasury to consider the full disclosure of grants and distributions for all supporting organizations and the elimination of Type III supporting organizations where the "likelihood for abuse is the greatest."

> When the mechanisms for charity and philanthropy are as technical and arcane as to defy general understanding, what can be understood is that there are great opportunities for misuse and abuse.

MORE NEEDS TO BE DONE

There are two other reforms that NCRP recommends that the Treasury, the IRS and Congress should seriously consider. First, donor-advised funds and supporting organizations should all be subjected to the same payout requirements as private foundations.

The current payout rate for private foundations is 5 percent, which can include administrative costs. NCRP has historically called for Congress to increase this annual minimum qualifying distribution to 6 percent—excluding overhead expenses—as a way to get much-needed philanthropic dollars in the hands of grantee organizations.

"With less overhead, less 'process' to their grantmaking and a comparatively low administrative 'load' charged by their fund managers, donor-advised funds should easily be able to make a 6 percent payout for each individual fund as well as cumulatively," NCRP noted in its comments. "Using supporting organizations to warehouse charitable funds does not further the interests of the nonprofit sector or the public at large."[5]

Finally, since donor-advised funds and supporting organizations operate as the equivalent of foundations that accumulate billions of tax-exempt funds, both charitable instruments should be subjected to excise tax payments. Proceeds from the tax should be allocated to support oversight and enforcement efforts by the IRS and state regulators.

The recommendations for donor-advised funds are based on the understanding that most of the donors who use this charitable giving tool are individuals of financial means. But what about funds used by donors of limited means out of a sincere effort to help lift their struggling communities?

Because of the unique needs and limited resources available to these communities and their donors, there is room for exceptions that would help prevent these recommendations from hurting vulnerable but valuable local efforts without sacrificing standards for the majority of donor-advised funds.

The Pension Protection Act of 2006 (PPA) is a step in the right direction, but there are still a number of outstanding issues that legislators and regulators need to address. In its role as the nation's premier philanthropic

THE IRS LIST OF DIRTY DOZEN TAX SCAMS IN 2006

1. Zero Wages
2. Form 843 Tax Abatement
3. Phishing
4. Zero Return
5. Trust Misuse
6. Frivolous Arguments
7. Return Preparer Fraud
8. Credit Counseling Agencies
9. > Abuse of Charitable Organizations and Deductions, such as involving supporting organizations, donor-advised funds, and historic façade easement contributions
10. Offshore Transactions
11. Employment Tax Evasion
12. "No Gain" Deduction

Note: The list, which includes a full description of each item, is available on the IRS website: http://www.irs.gov/newsroom/article/0,,id=154293,00.html.

watchdog, NCRP will continue to promote transparency while seeking to eliminate potential breeding grounds of philanthropic abuse.

Kristina C. Moore is communications associate at NCRP.

You can download the full text of *Protecting the Public Interest: Recommendation for Donor-Advised Funds and Supporting Organizations* from www.ncrp.org.

Do you agree with NCRP's recommendations to reform donor-advised funds and supporting organizations? Share your thoughts! Join the conversation on NCRP's blog at www.ncrp.org/blog.

NOTES

1. Jonathan Weisman, "HHS Secretary's Fund Gave Little to Charity," *The Washington Post*, July 21, 2006.
2. NCRP, "Protecting the Public Interest: Recommendations on Donor-Advised Funds and Supporting Organizations" (Comments submitted to the IRS and the Department of the Treasury on April 19, 2006), http://www.ncrp.org/downloads/Statements/NCRP_DAF_SO_Comments_040907.pdf.
3. U.S. GAO, *Tax Exempt Organizations: Collecting More Data on Donor-Advised Funds and Supporting Organizations Could Help Address Compliance Challenges*, July 2006. p.19.
4. NCRP, op. cit. p. 4.
5. NCRP, op. cit. pp. 3, 5.
6. Barton, Noelle, "How the Survey of Donor-Advised Funds Was Conducted," *Chronicle of Philanthropy*, May 3, 2007.

DONER-ADVISED FUNDS' INCREASING POPULARITY

The Chronicle of Philanthropy's most recent survey of 102 gift funds, community foundations and other nonprofits that administer donor-advised funds noted the over 100,000 funds in operation in 2005 to 2006, 11 percent more than the previous year's survey. There was also an increase in asset value of about 21 percent to $19.2 billion.[6]

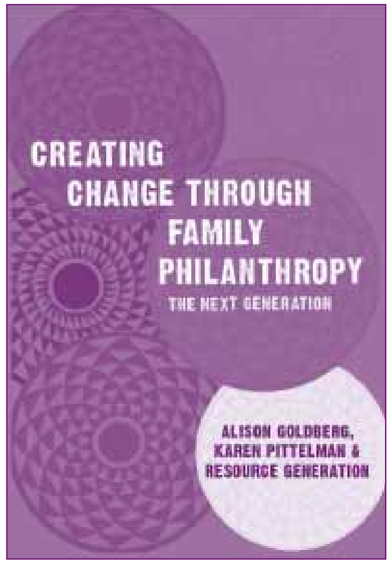
SOME PROVIDERS OF DONOR-ADVISED FUNDS BY ASSETS IN 2006

	Type of Institution	2006 Assets ($)	2006 Charitable Distributions ($)	Number of Funds
Fidelity Charitable Gift Fund	Commercial Fund	3,533,952,375	931,777,589	36,693
Vanguard Charitable Endowment Program	Commercial Fund	1,202,141,223	300,262,906	5,363
Schwab Fund for Charitable Giving	Commercial Fund	1,029,509,544	166,593,224	7,901
National Christian Foundation	Religious Fund	836,108,250	229,319,416	4,493
New York Community Trust	Community Foundation	750,651,554	98,779,863	1,004
Jewish Communal Fund	Religious Fund	723,481,326	218,370,505	2,298
Greater Kansas City Community Foundation	Community Foundation	449,718,612	69,883,227	753
Harvard University	College/University	151,000,000	6,800	29
Tides Foundation	Social Justice Fund	128,501,876	50,262,299	280
Cornell University	College/University	33,426,000	4,899,834	96
Funding Exchange	Social Justice Fund	14,217,000	2,308,000	71

Source: *Chronicle of Philanthropy*, 3 May 2007.

Strategies for Young Philanthropists to Support Progressive Social Change

By Scott Benbow



While all eyes were on Warren Buffett last summer as he announced his $43 billion gifts to the Gates Foundation and foundations led by his children, his was not the only enormous charitable transfer of 2006. Twenty-one Americans donated at least $100 million each to charitable causes last year, nearly twice as many as the year before. With this unprecedented transfer of wealth, a new generation of philanthropists is confronting the difficult task of making grants in ways that are meaningful, accountable and effective. It is for this new generation of grantmakers that Alison Goldberg and Karen Pittelman have written *Creating Change Through Family Philanthropy: The Next Generation*.

Goldberg and Pittelman encourage young philanthropists to give in ways that achieve social change, which they define as creating a more just distribution of power and resources. To achieve social change, the authors urge families of means to explore their "money story"—the combination of luck, privileges, connections and historical forces that have resulted in their accumulated wealth. By acknowledging such factors, and recognizing the power and prestige that their wealth gives them, young people will be in a better position to give in ways that squarely address inequalities in our society.

Arguing that family philanthropy is not effectively serving the needs of low-income people, communities of color, women and girls, immigrants, refugees, and the LGBT (lesbian, gay, bisexual and transgender) communities, the authors challenge young philanthropists to examine the grantmaking practices of their family foundations. Who is sitting at the decision-making table, and how does this setup shape the decisions that are made? Are grantmaking decisions, even those with the best intentions, dictated primarily by family networks and connections, rather than community need? "As long as the real power over these resources rests only with those who are wealthy and white," they ask, "how much has really changed?"

Creating Change is divided into two sections. The first provides a theoretical overview of family philanthropy and presents the authors' arguments about making the sector more effective and accountable. The second, called "Taking Action," provides a variety of tools for people to assess their family foundations and quantify their own influence within the decision-making structure. It recommends methods for young philanthropists to begin uncomfortable, but helpful, conversations with their families about class privilege, racism, sexism, unequal distribution of wealth, grantmaking values, and social change. The authors urge family foundations to transform the grantmaking process in ways that makes it more respectful to the nonprofit organizations that depend on grants and the ultimate intended beneficiaries of those grants.

The authors include fascinating testimonials from young people who have tackled problems in their own family foundations. One young grantmaker, named Cameron, provides the most succinct justification for *Creating Change*. Because the field of family philanthropy is stagnant, he writes, "There needs to be an infusion of younger voices and conversations about what's next in the evolution of family philanthropy."

While most of their focus is on changing foundations from within, Goldberg and Pittelman are critical of the organizations that endeavor to shape philanthropy without the voices of important constituencies: the organizations and individuals who depend on foundation largesse. They illuminate the injustice of "funder-only" conferences, which are off-limits to grantseekers, and urge young philanthropists who attend such conferences to call attention to the shortsightedness and unfairness of refusing to invite such important stakeholders. They urge young philanthropists to remind funder-only conference participants that critical perspectives and experiences are absent, highlighting the profound difference between including activists into "funder-only" spaces versus speaking, or presuming to speak, on their behalf.

For philanthropists of any age, *Creating Change Through Family Philanthropy* offers helpful tools to deal with common problems. For young people learning how to operate as agents of change within less effective family foundations, Goldberg and Pittelman provide strategies for opening up the process and achieving social change.

Scott Benbow is an attorney and philanthropy advisor in San Francisco, California. He can be reached at philanthropyadvisor@mac.com.

Investing in our Values

(continued from page 1)

spirit of progressive engagement bequeathed to us by the founders along with the money? It's a question asked increasingly by Board members, trustees and financial managers of the massive resources held by philanthropic entities around the country.

In our case, a number of key factors converged to bring our values and our investments together. The founders, Duane and Virginia Secor Stranahan, had largely passed on the management of the foundation to their children, and the next generation—teenagers and twenty-somethings who had been taught to believe in something and take action on those beliefs—was coming up behind. The foundation was one of the places where both generations converged. The anti-apartheid movement had raised the question of the complicity of investors in companies doing business in South Africa. Campus and corporate campaigns for disinvestment had spread widely. Family members were involved in both the foundation and the family business (Champion Sparkplugs). They were faced with tough decisions about shareholder resolutions concerning Champion's business operations in South Africa. In the ensuing debate, one of the family members who served on the Champion board asked, "Why are you picking on Champion when there are far worse offender's in Needmor's portfolio?" The young people began looking at all the portfolio holdings. We found ourselves to be investors in a company that was locked in battle with local environmental groups and employees over their policies related to nuclear pollution. When we realized that one of our grantees was working to combat the pollution of Kerr-McGee,[1] of which we were shareholders—owners, in fact—the wall between our investment decisions, our grants and our values weakened.

> We found ourselves to be investors in a company that was locked in battle with local environmental groups and employees over their policies related to nuclear pollution.

The next year, the Board invited Amy Domini, founder of Domini Social Investments, to come and talk about Socially Responsible Investing. It took us several years to bring our investments into line, and we're still looking for new ways. The most important moment, though, was when we asked ourselves the question, "How do our investments reflect our values?"

Now, our Investment Policy[2] and our Guiding Paper on Mission Related Investing describe our "values congruent investing" approach—and we use many tools.

First, **we screen our investments to avoid investing in areas that clash with our values.** We expect our fund managers to have the internal capability to research

THE NEEDMOR FUND AND MISSION-RELATED INVESTING

Why It Does It

The Needmor Fund's Mission-Related Investment Program is guided by its mission statement, which is "to work with others to bring about social justice. The Needmor Fund supports people who work together to change the social, economic, or political conditions which bar their access to participation in a democratic society."

In carrying out our work, the Needmor Fund is a steward of an endowment with a portfolio of investments. We believe that it is our responsibility to carry out our mission with all the resources available to us, not just the funds allocated to grantmaking. We have both internal and external motivations for our investment program. Internally, we desire that our investment program reflect our institutional values. Externally, we hope to use our investments as a tool of social change, to support fair and sustainable corporate practices.

How It Does It

The Needmor Fund achieves its Community-Related Investment Goals through the following strategies:

> Investing our cash reserves in community development banks or credit unions located in the communities in which we make grants.

> Partnering with intermediaries like Calvert and Access Capital to invest in debt instruments targeting low-income community home ownership and small business or non-profit development in the communities where we make grants.

companies and ensure they fit both our investment goals and our values. Although we may invest in non-screened companies as part of our campaign to change corporate behavior (we currently hold small amounts of Exxon and Occidental Petroleum, for example), we consider ourselves "100% screened."

Second, we vote our proxies. As responsible co-owners of these companies, we believe that ethical behavior and sound management practices are exactly congruent with long-term corporate soundness, and that our fiduciary duty as share owners requires us to take an active role in the management decisions we are asked to vote on.

Third, we look for investments that do good as well as make money. Needmor began its community-related investment program in the 1990s after Molly Stranahan, then chair of the Finance Committee, attended the "SRI in the Rockies" conference for the first time. There she learned of the "1% for Community" campaign, which was a drive to increase the level of community-based investments by requesting that all investors using screens commit 1 percent of their portfolios to community-based investments such as community development banks, credit unions, housing and community development projects. Needmor decided to participate and partnered with the Calvert Foundation to develop guidelines and procedures. Since then, our community-related investments have grown and our partnerships have expanded.

At its May 2005 board meeting, the Needmor Board approved an Investment Policy that stated:

> "A portion of Needmor's endowment may be committed to support community development projects with a potential for high positive social impact. These investments will use the values and strategies of community economic development and include community empowerment and local control as critical components. These investments may take the form of debt financing, certificates of deposit, or equity investments."

Right now, 14 percent of our assets is invested in community development programs, with both a financial return and a positive link to the low-income communities we seek to benefit. None of these investments is below-market.

So why doesn't every foundation engage in mission-related investing? Well, many actually do. The F. B. Heron Foundation, the Nathan Cummings Foundation, the Ford Foundation, the David and Lucile Packard Foundation, and many others—large and small—have broken or are looking at breaking the barrier between investments and values.

Even the Gates Foundation seems to be open to moving toward mission-related investing. "We do think that advocacy toward corporations is important," said CEO Patty Stonesifer during the Council on Foundations' recent conference in Seattle. "We are placing [program-related investments] and making loans to organizations that benefit communities. We are interested in a wide range of tools. We were delighted to receive just this week the Proxy season guide from Rockefeller Advisors. We do vote our proxies in accordance with the values of Bill and Melinda. For now, though, we are concentrating on our giving through our payout, but we'd like to learn more."

There are a number of concerns, however, that foundation leaders raise regarding mission-related investments for their organizations. We certainly considered each of these as we developed our approach, and we continue to keep these questions in mind as we evaluate our strategies on an ongoing basis.

First, there is the question of return. Isn't the main job of the financial managers to maximize return so as to maximize the dollars available for charitable giving? We view this as a false choice. Our expectation is that our professional managers will meet or exceed the performance of the benchmarks for their strategy—and if they don't, we will move resources to new managers. The return on our portfolio over the last five years has been 7.8 percent, which compares favorably to the combined indexes (8.2 percent) and to most foundation endowments.

It's important to note that there are plenty of investment opportunities that carry a positive community or mission impact with absolutely no risk or lowered expectation of return. These include the U.S. Treasury's Community Development Financial Institutions Fund[3] and the Certificate of Deposit Account Registry Service, which aggregates these insured deposits and offers investments that are fully liquid and fully insured at competitive rates for up to $30 million.

> It's as much about your own behavior as an investor as it is about the behavior of the corporations you choose to own or not to own. For a foundation funding teen health to make money from investing in tobacco is just not right.

Second, many express concern that **the skills of managing investments and of monitoring the behavior of corporations are divergent and hard to find.** At Needmor, we require all our managers to be skilled in their strategy area and in mission-related investments, screening companies, voting proxies, etc. In every area we have effective managers, some who are veterans and others who are newly engaged in the screening field. This is a growing field—the Social Investment Forum lists 224 advisors and planners on its website, which includes a service that reports on the performance of socially responsible mutual funds. Clearly, as finance committees and investment consultants demand these skills, the supply of capable managers will continue to expand.

There also is **the powerlessness argument**: will our little investment decisions or our few proxy votes really change the behavior of giant corporations? There are two answers to this. First, it's as much about your own behavior as an investor as it is about the behavior of the corporations you choose to own or not own. For a foundation funding teen health to make money from investing in tobacco is just not right. The other answer is that, in fact, we can make a difference. There are shareholder action experts and investment responsibility organizations that have worked to aggregate

SOME ADDITIONAL RESOURCES

PUBLICATIONS

Compounding Impact: Mission Investing by US Foundations,
From FSG Advisors
www.fsg-impact.org

"Maximizing Charitable Returns: Mission-Related and Socially-Responsible Investing" in Family Giving News
By National Center for Family Philanthropy
www.ncfp.org/FGN-Mar_2006/Maximizing_Charitable_Returns.pdf

Sample Investment Policy for Mission-Related Investing
From Foundation Partnership for Corporate Responsibility
www.foundationpartnership.org/SmplPlcy.htm

WEBSITES

Interfaith Center on Corporate Responsibility
www.iccr.org

Social Investment Forum
www.socialinvest.org

Socially Responsible Investment Coalition
www.sric-south.org

SRI in the Rockies
www.sriintherockies.com

the voices of investors concerned with corporate behavior, and those voices, together, are strong. The ultimate example is the Carbon Disclosure Project.[4] Started in December 2000, hosted by the Rockefeller Philanthropy advisors, this international effort has enlisted the owners and managers of $41 *trillion* dollars in assets in their campaign. The results have been startling: corporations are beginning to understand that their investors care about their policies in regard to carbon emissions—and expect action.

The **ultimate barrier to bringing investment practices in line with an organization's values is more about culture than policy or finance.** It's the division of labor in most family and private foundations between the "mission" or "program" people and the "money" folks. In a family foundation, the rift may be generational, skill- or experience-based. In a private foundation, it's likely that finance committee members were recruited more for their experience with investments than for their values or social conscience. This division does a disservice to both sides. It assumes that the fund managers couldn't—or wouldn't—agree with the values of the foundation, and robs them of the chance to deepen their understanding of the work that the foundation does, and why. It says that the board members who carry the mission couldn't—or wouldn't—respect the parallel goals of prudent financial management and positive impact, that they'd somehow diminish the effective investment agenda with their peripheral concerns.

The ultimate barrier to bringing investment practices in line with an organization's values is more about culture than policy or finance.

The experience of our foundation, and of hundreds of other institutional and individual investors, tells a different story. In dozens of ways, through careful construction of investment policies and selection of consultants, managers or investment vehicles, it's possible for foundations to do less harm and more good while growing their financial assets. It's a powerful feeling to put all your resources to work to accomplish your mission; it has brought our foundation together in many exciting ways.

Dave Beckwith directs the Needmor Fund, an Ohio-based family foundation with more than $27 million in assets that seeks to empower individuals whose basic rights to justice and opportunity are systematically ignored or denied.

NOTES

1. During that time, Kerr-McGee Corporation was an energy company involved in gas and oil exploration and production. In 2006, Anadarko Petroleum Corporation in Houston acquired Kerr-McGee.
2. Available online at www.needmorfund.org.
3. The Community Development Financial Institutions Fund offer federally insured CDs, including those from local credit unions and development banks.
4. The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions. More than 1,000 large corporations report on their emissions through this website. On 1 February 2007, this request was sent to more than 2,400 companies. For more information, visit http://www.cdproject.net/aboutus.asp.

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Tell us what you think about the articles in this and previous issues of *Responsive Philanthropy* or send your suggestions for topics you'd like us to tackle in future issues. Send them to: Kristina Moore, NCRP, 2001 S Street NW, Suite 620, Washington, D.C. 20009. Or send them by e-mail to readers@ncrp.org.

New from NCRP

A Call to Action: Organizing to Increase the Effectiveness and Impact of Foundation Grantmaking (March 2007)

This new report from NCRP urges foundations to increase their core operating support giving to improve the effectiveness and impact of their grantmaking. It encourages nonprofits and their allies from philanthropic institutions to mobilize and develop a strategy to build a more responsive and effective grantmaking culture.

Forthcoming Publications

Banking on Philanthropy: Impact of Bank Mergers on Charitable Giving (June 2007)

This report will examine the impact of the past decades' bank mergers on philanthropy. It asks the questions: What level of giving is the right level, in which geographic areas and for what issues? As each of the corporations has expanded beyond retail banking to other financial services, what impact does or should that have on where and how they distribute their giving?

Rural Development Philanthropy

NCRP is examining ways to help improve and strengthen philanthropy in rural regions across the United States. Our goals are to identify foundation best practices for rural grantmaking, and to encourage foundation support for rural development programs. A report will be published in summer 2007.

Conservative Philanthropy and Education Policy

This report, which will be released in September 2007, will look at how those who support conservative policies on education issues (i.e., privatization) have been advancing their agenda through foundation grantmaking.

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