

Private Bank



# A guide to strategic philanthropy for wealthy families





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# Foreword

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The desire to help humanity and promote the welfare of others is common amongst most individuals around the world. As a result, many wealthy families spend a significant amount of time and effort on philanthropic activities.

Globally, 39 countries are home to over 260,000 foundations with assets exceeding USD\$1.5 trillion.<sup>1</sup> Over the past two decades, there has been tremendous growth in this sector worldwide. There has been a recent flourish of foundations in Europe, with 50% of those in Switzerland and 69% in Spain less than 20 years old. The number of French foundations have more than doubled between 2001 and 2014. Previous to the enactment of Regulation on Administration of Foundations in 2004, China's foundations were public and government-run. However, since 2004, private foundations have been the fastest growing segment and almost 65% are now private.<sup>2</sup>

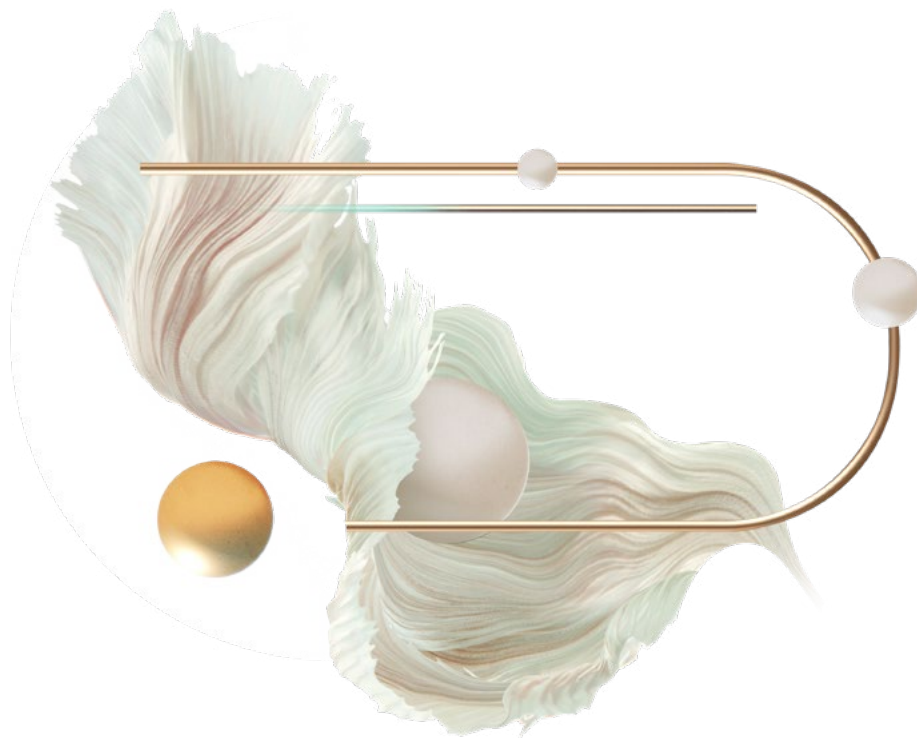
Individual giving from people from all socio-economic backgrounds is increasing globally; and it is now greater than institutional giving in most countries.<sup>3</sup> This is not only a strong testament to the integral role that philanthropy plays in our society, but also the high levels of commitment by individuals and families to charitable giving.

Philanthropy differs from charity, in that the former encompasses each single aspect of one's charity and can create true impact when strategically focused and framed. Charity is typically seen as a generous act or donation to aid others, while philanthropy is the overarching blueprint that combines each act of charity into meaningful change.

Each individual and family's approach to philanthropy is unique and, as a result, requires a customized solution. Additionally, philanthropy comes in many forms of giving – time, treasure, talents, and lifestyle choices. Actions can include volunteering and mentoring, donations, and serving on the board of a philanthropic organization. Lifestyle choices concern how to live and behave according to an individual's value system. After all, philanthropy is highly personal and is solely motivated by your own beliefs and values. This may manifest itself in choices of employment, investing and even consumer choices – working for a socially-responsible organization or shopping with organizations that adopt and practice fair trade policies.

<sup>1</sup> Johnson, Paula Global Philanthropy Report: Perspectives on the Global Foundation Section. Cambridge: Harvard Kennedy School, 2018

<sup>2,3</sup> Worldwide Initiatives for Grantmaker Support (WINGS). (2018, January). The Global Landscape of Philanthropy. Retrieved from <http://wings.issuelab.org/resources/29534/29534.pdf>



Some families may have a more passive approach to philanthropy – for example simply making regular charitable donations – while other families may be more active and run their philanthropy like a business venture. For families that do the latter, it is crucial they do so in a measured way, focusing on the areas they care the most about, and considering all the issues that come with active philanthropy. Regardless of the approach, all families should spend some time thinking about the following four topics, whether they are beginning their philanthropic journey or are somewhere along the way:

- Strategic development;
- Compliance and infrastructure;
- Implementation; and
- Monitoring and evaluation.

The purpose of this paper is to help families think strategically about their philanthropy while providing some key topics and a range of options to consider. It is not meant to cover every topic or issue a family may encounter in their philanthropic journey, but rather to be used as a guide to help families frame and inform their philanthropic approach.



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# Strategic development

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## Legacy and mission

Wealthy families believe their philanthropic activities will help create a family legacy – a way to be remembered by both the extended family and the community. Although a family's main philanthropic purpose is to help others, many also see it as a way to convey how they intend to make the world a better place. A mission statement articulates the philanthropic purpose and principles that guide a family's charitable work to create this legacy.

Families should think about what motivates their philanthropy, with the understanding that this may change over time. The motivations behind philanthropy are often many and deeply personal, whether from experience, faith, heritage, sharing of success, or something else. However, it is important that families have a complete understanding of the motivations behind their philanthropy so they can focus on the overall mission. By discussing a family's shared beliefs and values, how they distinguish themselves from other families, and what they want to accomplish, members can determine areas or causes that are most important to them, areas they are already giving to, and the specific needs of the chosen community or region.<sup>4</sup>

A mission statement that is too broad in scope can lead to ambiguity and ineffective use of family resources.

This discussion is a wonderful way to start engaging a family's younger wealth owners, or next generation of family leaders with the family's mission.

According to The National Center for Family Philanthropy (NCFP), a US-based nonprofit philanthropic organization, "the best family philanthropy happens when every generation has a seat at the table." Its study on family philanthropic trends found several benefits of bringing all generations together, including:

- Families develop deeper ties through giving and philanthropy;
- Families learn to work more effectively with individuals of different ages, beliefs, and experiences;
- Young people bring older family members up to speed on new technology, media, and communication; and
- The next generation becomes advocates for their family's philanthropy and generosity.<sup>5</sup>

<sup>4</sup> Philanthropy in the Family Office: A Global Perspective, Global Family Office Community and Hammer & Associates, 2015, Suzanne Hammer with Elaine Gast Fawcett.

<sup>5</sup> Opportunity of a Lifetime 2.0: Multigenerational Family Philanthropy, National Center for Family Philanthropy, 2017, Kylie Musolf and Danielle LaJoie.

### Giving guidelines

Giving guidelines are an extension of a family's mission statement. It is the lens for deciding what will be funded and how.<sup>6</sup> These guidelines include the areas and causes that will be the focus of a family's philanthropy as articulated in the mission statement and the means available to facilitate the family's philanthropic giving.

The giving guidelines for a more active philanthropic approach may also include an annual giving budget and a five-year giving projection. Updated annually, these planning tools can be used to help a family set reasonable expectations for the amounts or time to be donated, the percentages to be donated to each area or cause, and any amounts to be set aside for discretionary funding by the family. These tools can also be used to measure the actual giving against those expectations and to help the family plan for future revenue streams and granting expenditures.

There are several vehicles available to families to help facilitate their philanthropic giving, including: direct donation to nonprofit or non governmental organizations (nonprofits), the use of a donor advised fund (DAF), establishing a supporting organization, establishing a private foundation, and establishing a limited liability company (such as the Chan Zuckerberg Initiative). Each of these vehicles have varying degrees of compliance, with various advantages and drawbacks. Additionally, one or more vehicles can be used simultaneously as they are not mutually exclusive.

<sup>6</sup> Philanthropy in the Family Office: A Global Perspective, Global Family Office Community and Hammer & Associates, 2015, Suzanne Hammer with Elaine Gast Fawcett.

## Focus areas

The areas that families can support are practically limitless. At a high level, typical focus areas include:

- Arts, Culture & Humanities
- Education
- Environment
- Health
- Human Services
- Public, Societal Benefit
- Religion

However, these focus areas are very broad in nature and while there is no right or wrong when it comes to philanthropy, framing and focusing your philanthropy can lead to greater impact. In the US, the National Center for Charitable Statistics created a taxonomy used by the IRS to classify nonprofit organizations by their mission and activities. For example, within Arts, Culture & Humanities, there are close to 100 categories families can focus on including and not limited to:

- |                          |                           |                          |
|--------------------------|---------------------------|--------------------------|
| • Arts Education         | • History Museums         | • Dance                  |
| • Media & Communications | • Children's Museums      | • Theater                |
| • Film & Video           | • Folk Art Museums        | • Ballet                 |
| • Television             | • Science & Technology    | • Symphony Orchestras    |
| • Radio                  | • Museums                 | • Opera                  |
| • Printing & Publication | • Botanical Gardens       | • Sing and Choral Groups |
| • Art Museums            | • Performing Arts Centers | • Bands & Ensembles      |

Within Education the categories include and are not limited to:

- |                                       |                                  |  |
|---------------------------------------|----------------------------------|--|
| • Research Institutes & Public Policy | • Charter Schools                | • Graduate & Professional Schools      |
| • Preschools                          | • Vocational & Technical Schools | • Adult Education                      |
| • Primary & Elementary Schools        | • Two-Year Colleges              | • Libraries                            |
| • Secondary & High Schools            | • Undergraduate Colleges         | • Scholarships & Student Financial Aid |
| • Special Education                   | • Universities                   | • Parent & Teacher Groups              |

The categorical hierarchy holds true within all focus areas. Typically, the family can focus on one or more categories within a focus area. Families then support nonprofit organizations whose mission is aligned with the category families want to target. By selecting a few categories and nonprofits, resources can be directed and centered thereby helping families go deeper with nonprofits to generate impact.



### Individual support directly to nonprofits

Individual support of a nonprofit through direct donations is the most common source of funding for nonprofit organizations. It provides a family with the most control over the nonprofits it wants to support. Some countries offer tax advantages for making donations to certain tax-exempt organizations. For example, the Singapore government is incentivizing community giving through a 250% tax deduction for cash donated to charities registered as 'Institutions of Public Character.'<sup>7</sup> Additionally, Swiss residents may write off 100% of donations made to charities located in Switzerland, up to 20% of the donor's net taxable income.<sup>8</sup>

While the tax incentives may be attractive, many philanthropists make donations to organizations or causes that do not qualify for deductions. Depending on the jurisdiction, donations to foreign-based charities may limit or prohibit any tax deduction. A KPMG survey of 60 countries revealed that 48 countries allow a tax deduction only if a charitable contribution is donated to a local entity. Of those 48 countries, 60% have additional restrictions that require the funds to be used domestically. Other countries may have additional stipulations for charitable donations to qualify for tax-deductible status. For example, in Romania donations can only be granted based on an agreement which specifies the amount and the scope of the donation. If the funds are used for any purposes other than what is specified in the agreement, the donation may not qualify for exemption.<sup>9</sup>

<sup>7</sup> Inland Revenue Authority of Singapore e-Tax Guide Tax Treatment on Donations with Benefits [https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides\\_jit\\_tax-treatment-on-donations-with-benefits\\_2021-03-19.pdf?sfvrsn=571c0cd7\\_0](https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides_jit_tax-treatment-on-donations-with-benefits_2021-03-19.pdf?sfvrsn=571c0cd7_0)

<sup>8</sup> The tax treatment of giving | Taxation and Philanthropy | OECD iLibrary (oecd-ilibrary.org) [https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides\\_jit\\_tax-treatment-on-donations-with-benefits\\_2021-03-19.pdf?sfvrsn=571c0cd7\\_0](https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides_jit_tax-treatment-on-donations-with-benefits_2021-03-19.pdf?sfvrsn=571c0cd7_0)

<sup>9</sup> Global Impact/KPMG Giving Global. "2018 Global Giving Matrix: Tax, Fiduciary and Philanthropic Requirements", 2018.



Families should also consider and agree on the form of support to be provided directly to a nonprofit. All nonprofits can take cash donations, however they are not all equipped to accept publicly-traded securities or other assets. Converting these to cash first and then donating to a nonprofit is typically disadvantageous from a donor tax perspective. It is therefore important to work with the nonprofit and a tax advisor when thinking about making non-cash donations.

For some families, privacy is of paramount importance to their philanthropic approach. Individuals providing direct support to a nonprofit makes it more difficult for individuals to remain anonymous to that nonprofit.

Care should be taken to investigate any regulations regarding which entities may receive donations – regardless of the tax deductibility of those gifts. For example, in the UAE, it is illegal to donate to unregistered charities and fundraising groups.<sup>10</sup>

#### Donor advised funds

DAFs allow families to adopt a more passive approach to philanthropy as they can outsource much of the work involved. It can also be a good way to supplement other forms of philanthropic giving. Typically donors give funds to a registered public charity that specializes in directed donor funds. A donor fund is then established with this organization based on the value of the assets donated. The family can then recommend nonprofit grant recipients. DAFs are most popular in the US but can be found in various forms around the world, from the UK to South Africa.

With this strategy, since the donations to the nonprofits are made from the DAF, the recommending donor can remain anonymous to the nonprofit and also the wider public. However, if the donor does not want to be anonymous, the recipient nonprofit can be informed

about the donor recommending the grant. Many DAFs will also take a variety of non-cash donations, including artwork, real estate, privately held stocks, and hedge fund interests. With these types of assets, a DAF will typically need a three to five-year exit strategy in order to sell the asset, and there are other planning matters that must be considered before the asset is donated. Additionally, some DAFs will allow separate investment managers to advise and make investment recommendations for the donor account and allow for a portion of the DAF's assets to be invested in alternative investments.

A DAF can be a good way to introduce philanthropy to younger family members, as it can be opened with a small investment amount and there is no time pressure in selecting grant recipients or amounts to be granted.

#### Private foundations<sup>11</sup>

Private foundations – also known as family foundations – are often best suited for wealthy families that make significant philanthropic contributions; have the resources and expertise to oversee the organization and comply with the various rules; wish to have control over grant making, investments, and operations; and want to provide a long-term or perpetual family legacy. A family foundation is also a great way to involve many family members, as philanthropy provides a low-risk environment for them to learn and grow. For example, younger family members can participate in site visits to nonprofits, participate in investment committee or board meetings as a non-voting member, or be responsible for the granting of a pool of discretionary funds. In this regard, the private foundation can be an effective tool to bring together children and extended family members and help them develop skills in asset management and governance, and to foster their own philanthropic interests and experiences.

Private foundations are established by the creation of a nonprofit entity under the country's applicable laws.

<sup>10</sup> "Everything you need to know about UAE's charity laws – and the dangers of donating to rogue sites." 3 July 2018. The National. Online Periodical. 9 April 2019. <<https://www.thenational.ae/uae/government/everything-you-need-to-know-about-uae-s-charity-laws-and-the-dangers-of-donating-to-rogue-sites-1.746623>>.

<sup>11</sup> Adapted from 'Creating a Family Foundation' by Michelle Coleman-Johnson, Bourland, Wall and Wenzel, P.C., American Bar Association, GP-Solo Law Trends and News, Estate Planning, Volume 2, Number 2 (February 2006).

There are two types of private foundations – a private operating foundation and a private non-operating foundation. As the name implies, a private operating foundation uses most of its assets to operate a charitable program or provide a charitable service. For example, a private operating foundation would use its assets to run a mobile library providing free access to books in rural communities or to run a soup kitchen that provides free meals. A private non-operating foundation engages primarily in grant-making activities and would provide donations to nonprofits that would run the book mobile or soup kitchen.

Private operating foundations may engage in grant-making activities and private non-operating foundations may engage in direct charitable activities but they are distinguished by their primary function. In some countries, like the US, there are differing tax advantages available for donations made to each type of private foundation.

A private foundation gives a donor control over the composition of the board of directors, grant making, and investment activities. The foundation can make donations on behalf of a family, thereby creating efficiencies in the grant-making process as one entity receives all donation requests. An objective approval process around grant making can alleviate pressure placed on family members by grant-seeking organizations. Additionally, one source for all donations allows for easier reporting of metrics with respect to causes supported and amounts given.

While private foundations offer the widest array of philanthropic-giving tools, they also require the most time, effort, and resources to handle the compliance requirements and the infrastructure needed to support them. They are also subject to a number of restrictions that must be monitored closely and adhered to.

#### Company with limited liability

Legal entities vary widely from country to country. However, most jurisdictions have a form of company in which liability of members is limited. These structures range from limited liability companies in the US to

private companies limited by guarantee in the UK and many former British colonies (such as Australia, Hong Kong, and Ireland). In all cases the liability of members is limited but the tax advantages of donations made from the company to nonprofits may vary. Most countries do not usually provide any tax benefit to members who contribute capital to the company for later distribution to grant recipients.

A company may give the owner(s) some level of anonymity. Grant recipients will be aware of the company making the donation, but not necessarily the owner(s) of the company. However, many countries require companies who wish to register as a charity to publicly file this information.

#### Guidelines for investments<sup>12</sup>

Wealthy families typically have access to a wide range of investment assets with varying risk tolerance levels and benchmarked performance. More and more, they are exploring sustainable investing which has a substantial impact on the overall strategic development of their philanthropic approach. The term “Sustainable Investing” has, over the past two decades, evolved into a collective descriptor for a range of approaches. Sustainable investor motivations vary. While some seek to minimize risk associated with issues such as climate change and/or the competitive returns sustainably operated companies stand to generate, others want to invest in innovations driving environmental and social progress across the globe. A growing number of investors seek both and the pace of sustainable investing has risen over the past decade to record levels.

Sustainable investment has evolved from being a primarily exclusionary approach, to one focused on identifying companies that can effectively manage Environmental, Social and Governance (ESG) risks and opportunities. The integration of ESG data can provide a more complete analysis of a company or security, potentially leading to strong risk-adjusted returns and subsequent value creation. Sustainability serves both as a competitive advantage as well as a source of risk mitigation.

<sup>12</sup> Citi Global Wealth Investments, Sustainable Investing 2023

At some point in the not-too-distant future, a significant proportion of costs, or negative externalities, incurred outside one's company, such as environmental damage, nature and biodiversity loss, or social upheaval, might be forced onto companies' books. Along the same lines, companies that can point to operational benefits, or positive externalities, such as reduced pollution, safe and diverse workplaces through the supply chain, and transparent, ethical business practices, could stand to become even more appealing.

Approaches to sustainable investing have their own financial and sustainability objectives and are available across traditional and alternative asset classes. A single investment product can also combine multiple approaches to help target exposure specific to family values.

The attraction of sustainable investing is clear for those families whose mission statement focuses on social or

Socially Responsible Investing	ESG Integration	Thematic Investments	Impact Investments
Relies on values-based exclusions of companies or sectors. Investment mandates will explicitly state the intent to exclude exposure by sector, industry or product using values-related criteria. Common exclusions include tobacco, fossil fuels and weapons.	Uses ESG metrics to identify investments with potentially attractive risk and return characteristics. Investment mandates will incorporate ESG risks and opportunities that are considered material, integral drivers of investment decisions into their investment process. Managers of ESG integration strategies may directly engage with portfolio companies and / or use their proxy votes to help drive positive ESG outcomes.	Access exposure to investments aligned to sustainable themes such as climate change or access to healthcare. The United Nations Sustainable Development Goals outline possible applicable themes. Companies seek alignment to sustainable themes through their business lines as demonstrated by their current and future revenue exposures.	Selection is based on measurable impact in a particular environmental or social area. Investment mandates not only state intent, but also manage to a desired sustainable outcome by providing measurable metrics alongside a potential financial return. To be considered impact, the outcome must be incremental, meaning it would not have occurred had your capital not been allocated to the investment.

environmental causes, as it allows them to use both investment and grant-making resources to advance their mission, thus creating greater or 'double' impact. However, regardless of mission statement focus, there is a trend for wealthy individuals and families to invest in line with personal values – i.e., 'doing good' – especially given the attitudes, preferences, and engagement of the next generation wealth holders who are increasingly interested in sustainability, ethics, and human welfare. Additionally, sustainable investments have become viable alternatives to traditional investments not only in terms of performance but also the number of options available.

Investment guidelines via an investment policy statement (IPS) or other governance documents should not only outline the amount or percentage of investment a family will allocate to sustainable investments, but also highlight the opportunities it wants to invest in the various investment approaches. Families need to decide whether they will invest in investments that are socially responsible, ESG integrated, thematic, impact investments, or even a combination of these. It is important for families to work with external professional financial advisors to develop a portfolio that aligns with their values and financial objectives. They should also ensure that they are engaging with partners who understand both the impact and financial components of portfolio management.

# Compliance and infrastructure

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In many instances, families may want to engage third-party professionals to help monitor and adhere to the compliance requirements of philanthropic giving. For example, tax experts can ensure the accurate and timely filing of tax returns required of a private foundation.

While there are several strategies available for families to facilitate their philanthropic giving, each has varying degrees of compliance requirements. Typically, the greater the compliance requirements, the greater the infrastructure or active family involvement needed to support this.

## Industry-leading practice compliance

Practices and policies that are documented, reviewed, and updated on a periodic basis tend to be more effective and easier to administer. Not every practice requires documentation and review, as that would lead to an administrative nightmare. Typically, industry-leading practices should be established for any areas of statutory compliance.

Families should consider some of the following industry-leading practices:

**Advisory board:** Similar to a board of directors, an advisory board can be comprised of family members or respected individuals that offer additional perspectives and varied areas of expertise. Unlike a board of directors, the advisory board does not make decisions on legacy, mission statement, or nonprofits to support, nor does it have voting rights. The role of the advisory board is to provide input and perspectives to help guide families; for example, review of the mission statement, participating in the investment review, or helping

to determine additional industry-leading practice compliance the family may want to establish. Including the next generation of family wealth holders on the advisory board is an excellent way to engage them in the family philanthropy and serves as a training ground in a 'business environment.'

**Mission statement review:** Family members should clearly set out a roadmap for their philanthropic work based on shared purpose and principles in one document which will provide clarity and avoid ambiguity. The mission statement should be reviewed every three to five years, as this allows the family to correct its course as needed without making frequent changes, which can lead to lack of direction. For example, as the family wealth grows there may be additional causes that the family wants to focus on and support.

**Governance for board of directors:** Some jurisdictions stipulate certain requirements on the composition of the board of directors in terms of number, resident status, and roles. Typically, the more philanthropic assets the board is responsible for, the greater the number of board members needed. Families should keep in mind that excessively large boards can be ineffective and very small boards do not always have a broader perspective. Having board members from various disciplines and backgrounds brings more insights, experiences, and perspectives to the table. For smaller organizations, having only a patriarch and matriarch as board members is not ideal if there is no succession or dissolution plan in place.

**Five-year giving projection:** This planning tool should be updated annually with a rolling five-year view. Families can use the rolling five-year period to assess any future granting requirements to plan in advance. Grants can be staggered between years to ensure each year has enough grant expenditures to meet the philanthropic giving goals or statutory requirements. The giving projection can take into consideration any required distributions to be made from a private foundation, individual direct support of nonprofits, and DAFs donations that are foreseen for the coming year. In this way, an overall ‘umbrella’ of all family giving can be calculated, as can overall giving by geography or focus area. Tax carryforwards also play a role in this projection and therefore families should work closely with their tax advisor when preparing this. The takeaway here is that the projection can help families begin planning sooner rather than later.

**Annual giving budget:** As the name implies, this planning tool should be prepared annually, in advance of the coming year. It is predicated on the granting expenditures outlined in the current year of the five year giving projection. It should be updated quarterly or semi-annually with actual amounts donated. It can be segregated by each cause, focus, or segregated geographically depending on a family’s mission statement. When updated with actual results, this can provide a measurement against the goals set and provides insights into the amounts of support for the family’s various causes or focuses. It can also help to inform the following year’s annual giving budget.

**Quarterly/semi-annual cash flow meetings:** A cash flow analysis is critical to running any business venture and philanthropy is no exception. An understanding of short-term and long-term cash flow requirements helps to ensure there is sufficient liquidity to make grants timely, especially when multi-year commitments have been made to a nonprofit and specific charitable tax goals need to be met by year end. Those investing the assets need to have an understanding of granting expenditures to ensure that assets are available and not locked up.



**Investment review:** The investment goals, objectives, and guidelines with respect to how assets are managed should be documented in an IPS. As noted, for families interested in social investments, the allocation to social investments and the spectrum of opportunities should also be included in the IPS. An investment review should take place quarterly or semi-annually to monitor performance and ensure assets are managed in accordance with the IPS. This review also allows for correction to the course of action as needed without making frequent changes that could lead to lack of true direction or guidance.

For private foundations, board members and those charged with reviewing the investments should understand any restrictions on investments that might jeopardize a private foundation’s ability to carry out its stated purpose.

**Grantee application:** A standardized grantee application process has the advantage of reviewing each request along the same criteria, which leads to a more objective and efficient review and approval process. It should not be required for every grant a family is considering, especially for smaller monetary grants or general operating support grants. While this

is not an exhaustive list, some criteria to consider in the grantee application include, the nonprofit stats – e.g., name, address, tax ID number if applicable, name of current board members; a short narrative of the expertise the nonprofit has within the cause or focus; other funders of the nonprofit; grant amount requested and a budget proposal with pre-defined expense categories; and expected outcomes to be achieved by the grant.

**Grantee due diligence:** At a minimum, a cursory level of due diligence should be performed on any nonprofit. This can be as simple as a check of the grantee's charitable status or an online search to review the latest news, favorable or unfavorable, about the nonprofit.<sup>13</sup> A determination of the financial health of the nonprofit may be ascertained through a review of its financial statements filed with the oversight authority in their jurisdiction. These documents often provide insights into the revenues and expenses of the nonprofit, its liquidity and sustainability, transactions with interested persons, and its governing body and management. However, governments with a less mature civil sector often do not require any financial reporting from nonprofits. Smaller organizations in these countries usually lack resources and without government requirements, are not incentivized to measure, track, and publish this information, leading to a lack of transparency.<sup>14</sup>

A more robust due diligence process could include review of the organizational health of the nonprofit. Through site visits, online research, and discussions with the prospective nonprofit, inherent conflicts can be uncovered, an assessment of the skill level and experience of the nonprofit can be made, and credibility of the nonprofit's board of directors can be ascertained, as can an assessment of the strength of its operational team – for example, finance, IT, legal, etc.

**Records retention policy:** In general, an effective records retention policy will ensure accurate financial statement and tax return preparation. Taxpayers have the burden of proof when it comes to documentation. This holds true for individuals to substantiate charitable donations and for private foundations to substantiate receipts and disbursements or programs/grants that carry out the exempt purpose of the organization.

<sup>13</sup> Philanthropy in the Family Office: A Global Perspective, Global Family Office community and Hammer & Associates, 2015, Suzanne Hammer with Elaine Gast Fawcett.

<sup>14</sup> Shapiro, R. A., Mirchandani, M., & Jang, H. (2018). *Pragmatic Philanthropy: Asian Charity Explained*. Palgrave Macmillan.



## Infrastructure

Compliance and infrastructure go hand in hand; the greater the compliance required, whether statutory or industry-leading practices, the greater the infrastructure needed to support it. For example, an online grantee application process will take IT resources to implement and maintain, not to mention the time involved in the review of the applications. Infrastructure is not limited to personnel, and it can also include facilities, systems, and technology components. The personnel component may include professionals in legal, tax, accounting, investment management, human resources, and those with expertise in the fields of study that align to the causes or focuses the family supports.

If a family is granting programmatic support to a nonprofit, having an expert on hand is of critical importance. For example, if a family's focus is medical research of a particular illness, it is important to have an expert in that field to help with developing the granting program objectives, reviewing the various grantee proposals, and defining the milestones that will be measured by use of grant funds. The drafting of grant agreements or a grant agreement template should involve legal counsel. Outsourcing these roles would most likely reduce the need for the internal facilities, systems, technology components, and the costs associated with them.



# Implementation

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Implementation is the process in which a family can bring its legacy and mission to life. There are most likely some nonprofits that families are already familiar with or that they already support. As families begin to explore new causes or begin to focus on community or regional needs, research becomes critical to decide which nonprofit to support or whether a private operating foundation will take on the program itself. As mentioned, support can range from volunteer work, to donations, to board service and while each of these are important for nonprofits, some may be more important to a particular nonprofit than others. Thorough research should also include an understanding of the needs of a nonprofit, as different types of support are used in different ways by nonprofits.

## Research

If a family already has some knowledge or expertise on the cause or focus it would like to support, or is already familiar with a nonprofit working within that space, the required research is probably limited. However, for many families this is not the case and therefore proper research is necessary. This can begin with an online search of the cause or focus a family is interested in supporting. Contacting nonprofits directly can be helpful, as they are typically willing to provide information not only on their specific work with respect to a certain cause, but educational material about the cause itself.

Contacting local community groups or local institutions, such as research facilities within hospitals, colleges, or universities, can also yield helpful information in the research process. Collaborating with other funders with the same focus is an ideal way to gain insights and information. In this way, families may not have to 'reinvent the wheel' and most philanthropists are willing to share information and lessons learned to assist others. It can also be helpful to call in an expert or advisor within the space a family wants to support that can educate the family and help determine the needs and gaps.

The grantee application and the grantee due diligence processes can help narrow down the number of nonprofits a family is considering and provide the final part of research on specific nonprofits. The more comprehensive these processes are, the greater the infrastructure to support them becomes.





## Strategies

A few overarching strategies that families can employ as they think about the implementation of their philanthropy include values-based granting, trust-based philanthropy, and placed-based giving. These strategies can inform how families select focus areas or geographies to support and how families work with their nonprofit partners. These strategies can be applied to all focus areas the family wants to support or select focus areas or categories.

### Values-based granting

Families can overlay their values and beliefs into their granting strategy, regardless of focus areas they choose to support. Respect, dignity, trust, accountability, diversity, equity, and inclusion are just a few examples of values that may be important to a family and that they want to carry through to their philanthropy. Using a value-based lens, families can overlay their values into the grants they make to their nonprofit partners.

Using diversity, equity, and inclusion as an example, families can ensure that all grantee partners they work with, across all focus areas, have a diverse board of directors as well as a diverse employee population, with representation in senior leadership positions. Diversity, equity, and inclusion need not apply only to board and employee composition. When families support Arts & Cultural nonprofits, not only can they look at the boards and employees, but also the artists exhibited, those performing, conducting, choreographing, the composers, etc. If the family is supporting a capital campaign, ensuring that the nonprofit will use a majority, or another defined benchmark, of women and minority owned vendors in the design and construction phase of the project.

If for example, dignity and respect are values important to a family, these values can be incorporated into their grantmaking practices. Suppose a family supports a community meal program, they may want to include

both quantitative and qualitative reporting measures into their grant agreements with their nonprofit partners. In this way, the nonprofits report not only the number of meals served, cost per meal, etc., but also provide a narrative or stories of how the recipients engaged in this service. Did they feel secure in the space provided? Did they feel a sense of dignity? Were they comfortable as they were served the meals, etc.?

### Trust-based philanthropy

When you think about it, funders wield a lot of power and influence when it comes to philanthropy. Families decide where, how, when, and to whom funds are granted. At its core, trust-based philanthropy shifts the power dynamic to a more equitable distribution between the family and grantee; you are partners, in this together with both parties being realistic about how change happens and how success is defined. The relationship is central to a trust-based approach, which espouses that relationships are much stronger between the family and the grantee when they are based on trust, mutual respect, transparency, and mutual learning. It means sharing power with nonprofits, communities, or those with lived experiences in the areas your family wants to make impact. It does not mean that nonprofits are not expected to achieve results or that they are not held accountable.

[Philanthropy and the Global Economy - Opportunities in a World of Transition](#)<sup>15</sup> highlights the six practices of trust-based grantmaking, that when applied holistically, can help advance a healthier and more equitable nonprofit ecosystem and society:

- Multi-year unrestricted funding
- Families doing their homework to get to know prospective grantees
- Simplifying and streamlining paperwork
- Being transparent and responsive to your grantee partners
- Soliciting and acting on feedback
- Offering support beyond the grant

<sup>15</sup> Citi GPS: Global Perspectives & Solutions, Nov. 2021.



It also offers ways to infuse this approach beyond grantmaking, to governance and operations, providing several case studies. Since this approach is fundamentally about redistributing power, a true embodiment of trust-based philanthropy goes beyond grantmaking alone, and has implications for your family's philanthropic culture, values, and leadership.

### Place-based giving

One way for families to work in several focus areas and frame their philanthropy to create impact, is through place-based giving. This approach targets a particular city, region, or neighborhood which seeks to create impact at the community level by supporting multiple focus areas, such as education, the arts, public parks, community centers, etc. It is typically a long-term, collaborative approach with funders, municipalities, community leaders, and nonprofit organizations. Through multisector partnerships focused in one community, philanthropy can play to its strengths including its ability to take risks, to stay patient and be in it for the long haul, and its superpower of convening. Bringing together various stakeholders, allows for pooling of resources, both public and private, which can lead to the backing of major projects on a scale that families alone may not be able to do. Listening to community members on the ground can help build trust and provide knowledge of how best to use the resources at hand.

In many instances, place-based giving is more than writing a check. It can involve multiple strategies, such as giving for direct services, educational advocacy, capacity-building, general operating support, impact investing and public-private partnerships between governments and private donors. Families can not only share their financial resources, but their networks, acting as ambassadors to recruit new members.

Whether it's your neighborhood, the town you grew up in, or where your business is located, place-based giving is collaborative and long-term to improve the quality of life in a given place.



### Support types

Once a nonprofit has been selected, the type of support given can be significant to the impact the nonprofit can make in society. Knowing a nonprofit's strengths and areas for improvement can help families target the best way to support it. Certain types of support have restricted uses and it can be beneficial to know which type will best serve the needs of the nonprofit to ensure it does its best work. Some of the more common types of support include:

**Galas/benefits:** Many nonprofits fundraise with an annual gala or benefit to support the organization. Tickets are typically purchased for admission and because there is some form of exchange of goods or services (commonly referred to as quid-pro-quo) such as food or entertainment provided with the admission price, there may be additional tax implications. Typically, DAFs cannot be used for this type of support. The funds raised can be used to offset the

costs of the gala or benefit or they can be used by the nonprofit for general or programmatic support at the discretion of the nonprofit.

**General operating support:** This type of support is probably the most coveted of any support a nonprofit receives. The nonprofit determines how the funds will be used, whether for administrative, fundraising, or programmatic costs. Some examples of ways in which a nonprofit can use general operating support include operating costs, such as rent or utilities, offsetting the costs of a fundraising event, upgrading technical capacity (i.e., purchase of computer software or hardware), making additional investments or using for liquidity needs, supporting a capital campaign or specific programmatic support.

Since there is no restriction on the use of the funds, they are typically combined in the operating bank account of the nonprofit which makes it difficult for the nonprofit to then track how the funds were used. The ability to use the funds at the discretion of the nonprofit and the absence of tracking and reporting the funds make it the most advantageous support type for a nonprofit to receive.

While it may not be feasible for a nonprofit to report to the donor, the donor might require a brief update on the nonprofit's overall accomplishments over the year when general operating support is provided.

**Capital campaigns:** Support for capital campaigns – an effort to raise a significant amount of donations – typically revolve around a physical structure and are restricted as to use by a nonprofit for the construction project. This can be new building construction, additional construction to an existing structure for a wing or research facility, or a renovation of an existing structure.

The capital campaign goal can be the full amount of the construction project or a portion thereof depending on other funds the nonprofit has available to use towards the construction project. These types of grants can include naming rights for the donor which allow the new building, addition wing, research facility or newly renovated space to be named after the donor or his or her family.

Since all the funds raised for the construction project are tracked and commingled together, the reporting of the use of these funds back to the donor is usually limited to periodic reporting of the funds received towards the capital campaign goal and the actual costs incurred for the construction project.

**Programmatic support:** This type of support is restricted to one or several of a nonprofit's specified programs. The scope of programmatic support can include strategic planning and development of the program, technical procurement support for the program, and program execution.

Since the funds are restricted to a specific program, a nonprofit must track the use of the funds to ensure they are expended solely for the intended program. Nonprofits typically leverage the tracking mechanisms they already have in place to provide reporting on the specific use of the funds. Depending on the level of detail a donor requires to monitor the grant and the sophistication of the tracking mechanism employed by the nonprofit, reporting can include amounts expended within each phase of the program – planning and development, technical procurement, or program execution – or at a more granular level of expenditure category – salaries, subgrants, travel/meetings/workshops etc.

**Grant matching:** A grant-matching concept is a popular condition that can be used in conjunction with most support types. Basically, a donor agrees to match funds raised by a nonprofit from other donors at a particular rate – i.e., match 1:1 or 2:1. It can be structured for general operating support grants or restricted purpose grants and typically includes a specific time horizon – for example, all funds raised in the first 90 days of a capital campaign. The grant matching condition gives the nonprofit a financial incentive to raise additional funds, broaden its donor base, and become self-sustaining, as it is not reliant on one specific donor. The matching grant can be given all at once or spread out in installment donations.

**Program Related Investments (PRI):** An investment, as opposed to a grant, PRIs are social impact investments made by private foundations to either a for-profit or nonprofit entity to further its charitable mission. While there is the potential return of capital within an established time frame, the primary purpose of a PRI must be to accomplish one or more of the foundation's exempt purposes. Production of income or appreciation of property is not the significant purpose of a PRI and therefore PRIs have a below market return.

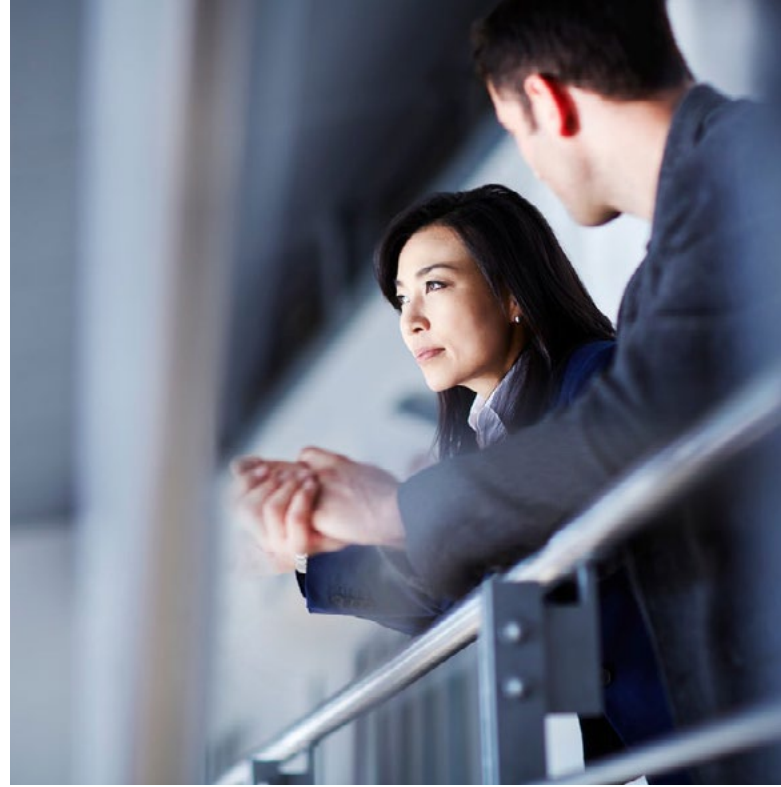
Regardless of the type of support, large, complex, or multi-year grants should typically be memorialized by a grant agreement with input from legal counsel. In this way all terms and conditions are clearly articulated and there is less room for ambiguity. Some provisions to consider include:

- Amounts granted;
  - Payment installment schedule and milestones to be met for each such installment payment
  - Timeframe in which a grantee can expend the grant funds and a provision for unused grant funds;
  - Conditions associated with the grant – e.g., naming rights or matching conditions;
  - Clear articulation of the program for programmatic support grants
- A budget may be included that outlines the line item categories of acceptable expenditures of grant funds;
  - Milestones a grantee must meet should be clearly stated in quantitative or measurable terms to aid in monitoring and evaluating the progress of a nonprofit; and
  - The frequency and method of monitoring should be clearly stated and depending on the size of the grant or the extent of oversight by a donor can be anywhere from quarterly to annually.

Additional provisions for grant agreements for private foundations may include:

- Prohibitions on lobbying activities and payments to government officials;
- Sub-granting restrictions if any;
- Royalty free license to make findings or results of grant activities available to the general public; and
- Indemnity provisions.

Drafting grant agreements and working with nonprofits, especially when providing programmatic support, will take time and resources. However, this initial investment of time and energy can go a long way to help nonprofits succeed and achieve impact. It can also aid the monitoring and evaluation process, as terms and conditions that are clearly outlined are easier to measure and ultimately evaluate.



# Monitoring and evaluation

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“How do I achieve impact?,” “How do I make sure my dollars count?,” and “Where’s the data?” are all common and relevant questions when it comes to monitoring and evaluating a grantee. Monitoring refers to the periodic ‘check-in’ with a grantee during the term of the grant, while evaluation is the final assessment of the grantee or specific program at the end of the grant term or beyond the grant term.

Outputs are tangible in nature as the immediate results of direct products or services. Outcomes are the effects or changes that follow the outputs. Since outcomes occur gradually over time, and are influenced by many external factors, it’s not easy to attribute them to one specific program or grant. Typically outcomes are measured in research control trials. Quantitative measurements, expressed numerically, include outputs and metrics that can be used to track progress. Qualitative measurements include narratives and stories about how those outputs were provided or how the activities have helped to achieve long-term goals of the organization you support.

In general, for more complex programmatic support, it can be helpful to have expertise within the program area to monitor and evaluate a grantee. Engaging an outside expert that has knowledge in the particular field of interest can be beneficial in development of the milestones and how best to monitor and ultimately evaluate the program.

## Monitoring

Each support type needs its own monitoring level and frequency. Monitoring requirements under a general operating support grant are typically either non-existent, depending on the amount of the grant, or involve narratives of how the activities of a grantee have helped to achieve its long-term goals. This is where the qualitative measurements can add context to the quantitative measurements to provide additional insights into the organization that go beyond the ‘what’ and focus on the ‘how.’

The monitoring requirements under a programmatic support grant can be much more involved. The SMART (specific, measurable, actionable, realistic, time-bound) criteria is a common method used to clearly articulate a grantee’s targets and aid the overall monitoring process. It is important to partner with the grantee when designing the milestones, as both the family and grantee are in this initiative together and focused on the same results.

The collaborative effort between the family and nonprofit can be taken a step further towards the democratization of grantmaking. Simply stated - any person that’s affected by the grant-making decision deserves to have a voice in making that decision. Involving the ultimate intended beneficiaries and those closest to the issue at hand can lead to better outcomes. Those that actually experience a problem first-hand have in-depth knowledge and often identify new ways to assess and tackle those problems.



A grantee that is able to learn from what worked successfully and what did not work successfully will grow and create better programs in the long run. A brief narrative describing the activities a grantee undertook in a bid to achieve the milestones helps to give the donor a general framework of what the grantee has accomplished. From a financial perspective, a budget versus actual report is also helpful in the monitoring process and overall evaluation. It can highlight over or under spend on the program and provide a tool to course correct during the grant term.

Frequency of monitoring by the donor should be commensurate with the amount of grant. For example, an annual report will typically suffice for most programmatic support grants, however if the donor wants to monitor the grantee more closely or the grant amount is large, then semi-annual or even quarterly monitoring may be in order. Site visits to the grantee or to the geographic area served by the grantee can be very useful to help donors gain first-hand knowledge of how the grantee operates or see them in action in the communities they serve.

A standardized grantee monitoring process provides the same advantages as a standardized grantee application. It allows a donor the ability to evaluate various grantees along the same criteria. For example, if a donor supports an initiative in one geographic area and would like to support the same initiative in a second, it can look to the monitoring reports of the grantee in the first location as a benchmark of milestones and grants for the second.

## Evaluation

Typically, the evaluation of a grantee's program takes place after the grant term has ended. A final narrative and financial report covering the entire grant term can be a helpful way to start. Again, the use of an outside expert to evaluate the program can be beneficial, especially for large grant amounts or complex programs that require specific field expertise. Families should keep in mind, however that assessing long-term change takes a long time and in some cases rushing to an assessment too quickly can lead to insignificant findings which can imply the program is not reaching its goals. With very new programs, there may not yet be enough data to get an accurate picture of the program itself. Families should bear in mind that sometimes the outcomes may not be expected. While at first glance this may seem a failure, the assessment actually gives both the donor and the grantee the ability to learn from these results and determine how to make corrections to improve the program or design the program differently to address unintended consequences.

Partnering with a grantee over a longer term can go a long way to helping achieve impact. Multi-year grants can be an effective grant-making strategy to let the grantee know the donor is there to support and work with them over an extended period of time. It allows the grantee the ability to think longer term from a programmatic standpoint. General operating support grants can be another effective way to supplement programmatic grant making. Allowing the grantee to determine where they can use the funds helps them to develop the infrastructure support needed to run effective programs.

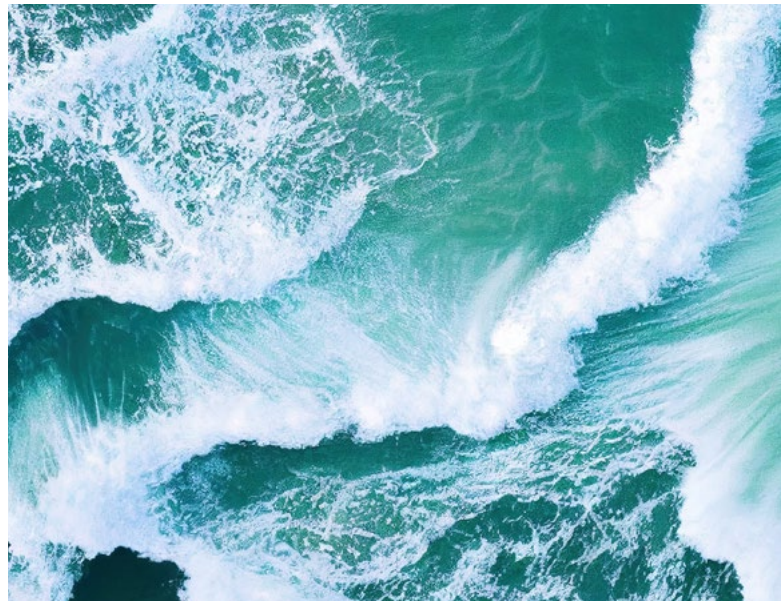
# Closing thoughts

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There is a lot to think about when it comes to philanthropy which may overwhelm families at first. The good news is that not all decisions need to be made at the outset of the philanthropic journey and for the most part decisions can and will change as a family grows or wants to expand its philanthropic impact. There are many resources available to families and their advisors to assist them along the way, including professional consultants, educational training, online resources, and peer and network groups just to name a few.

The critical role philanthropy plays in our society cannot be underestimated. Philanthropy is also a special way to engage family members, bringing a family together to work for a common cause and allowing it the opportunity to use its value system for the greater good.

Focusing initially on strategic development, compliance and infrastructure, implementation, and monitoring and evaluation will help to set the framework for focused, effective, impactful philanthropy.





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We offer clients comprehensive private banking and family office advisory services, institutional access to global opportunities and connections to a community of like-minded peers.

For more information, please contact your Private Banker or the group head in your region.

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# About Philanthropic Advisory

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We guide clients through a range of considerations, including: strategic development, compliance and infrastructure, implementation, and monitoring and evaluation.

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# Private Banking for Global Citizens

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