

PHILANTHROPICATION through PRIVATIZATION:

Building Permanent Assets for Social Progress

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PROJECT MESSAGE

There are those who see things as they are and ask “WHY?”

But I dream things that never were and ask: “WHY NOT?”

Senator Robert Kennedy
Paraphrasing George Bernard Shaw



BACKGROUND

- **Major efforts under way to foster community foundations in less developed areas**
- **These efforts are hampered by lack of capital**
- **Growing frustration the result**



BACKGROUND

- **A POSSIBLE SOLUTION
RIGHT BEFORE OUR EYES**
- **ROMAN ALCHEMY—transforming
base privatization into charitable gold.**



ITALIAN EXPERIENCE DOES NOT STAND ALONE

- **New Zealand Savings Banks—1980s**
- **Volkswagen Foundation—2 decades earlier**
- **KBF—National Lottery access—late 1980s**
- **Czech Foundation Investment Fund—1990s**
- **Blue Cross of California Battle in US—1993**
- **Austrian Sparkasse—2003**
- **But all proceeded in virtual isolation / no concept**

BACKGROUND

SUCH DEALS ARE NOT A THING OF THE PAST

- 2012 the 3rd most active year for privatization in history
- Privatization off to a fast start in 2013
- Major privation plans announced for broad range of countries over next 3-5 years

THE OPPORTUNITY

Capturing even a fraction of the assets in privatization sales could revolutionize global philanthropy:

- 10% of proceeds of Kryvorizhstal Steel in Ukraine could have yielded a \$480 million Ukrainian community foundation
- 10% of proceeds of Kenya-Vodafone deal would have yielded a \$70 million Kenya community foundation
- 20 percent of the \$5.5 billion proceeds of U.S. government's 2012 sale of a portion of its stake in GM could help revitalize Detroit

PTP PROJECT: 6 STEPS

1. Conceptualization: Working Definition
2. Discovery process / Discovery Associates
3. Revised Working Definition
4. Examined 21 cases
5. Reviewed other data
6. Held preliminary workshop
7. Prepared draft report

DEFINING THE CONCEPTS: STEP 1

- Concepts are the lenses through which we view the world.
- Without appropriate lenses, key aspects of reality are missed.

DEFINING THE CONCEPTS: STEP 1

- **Privatization**
- **Philanthropicization**

DEFINING THE CONCEPTS: STEP 1

➤ Privatization

- Not outsourcing
- Transfer of ownership / control



DEFINING THE CONCEPTS: STEP 1

➤ **Philanthropication**

“a range of transactions in which essentially public or quasi-public assets are transformed into charitable endowments under the control of meaningfully autonomous charitable institutions”

PHILANTHROPICATION: 3 DEFINING FEATURES

1. A public or quasi-public asset
2. A resulting privately controlled charitable endowment
3. A process of transformation



5 TYPES OF PTP ACTIONS

DEPENDS ON NATURE OF ASSET

- I. State-owned enterprise
- II. Other state-owned asset
- III. Control of flow of proceeds
- IV. Debt swap
- V. Quasi-govt'l organization (e.g. nonprofit)

KEY CAVEATS

- No position for or against privatization.
- BUT: Assets are the peoples', not the government's.
- People deserve some tangible benefit.
- Can often usefully take the form of vesting proceeds in charitable endowments.
- Foundations promote pluralism, attract additional resources and energies, promote community, take the long view.

PRELIMINARY TALLY OF PTP FOUNDATIONS, BY COUNTRY

COUNTRY	FOUNDATIONS	
	NUMBER	%
Austria	33	6.1%
Belgium	1	0.2%
Brazil	3	0.6%
Canada	1	0.2%
Czech Republic	73	13.5%
Germany	29	5.4%
Hungary	1	0.2%
Italy	103	19.1%
Netherlands	1	0.2%
New Zealand	36	6.7%
Norway	4	0.7%
Poland	4	0.7%
Slovakia	2	0.4%
Sweden	35	6.5%
United Kingdom	9	1.7%
United States	199	36.9%
Other*	5	0.9%

**Total Cases:
539**

**Total Assets:
US\$135bn / €102bn**

**Assets not available for some foundations*

***Includes Bolivia, Chile, Morocco, Peru, and Uruguay*

Source: Lester M Salamon and Associates, "Philanthropication Thru Privatization: Building Assets for Social Progress," March 2014. Available at p-t-p.org.

DISTRIBUTION OF PTP FOUNDATIONS & ASSETS BY PTP TYPE

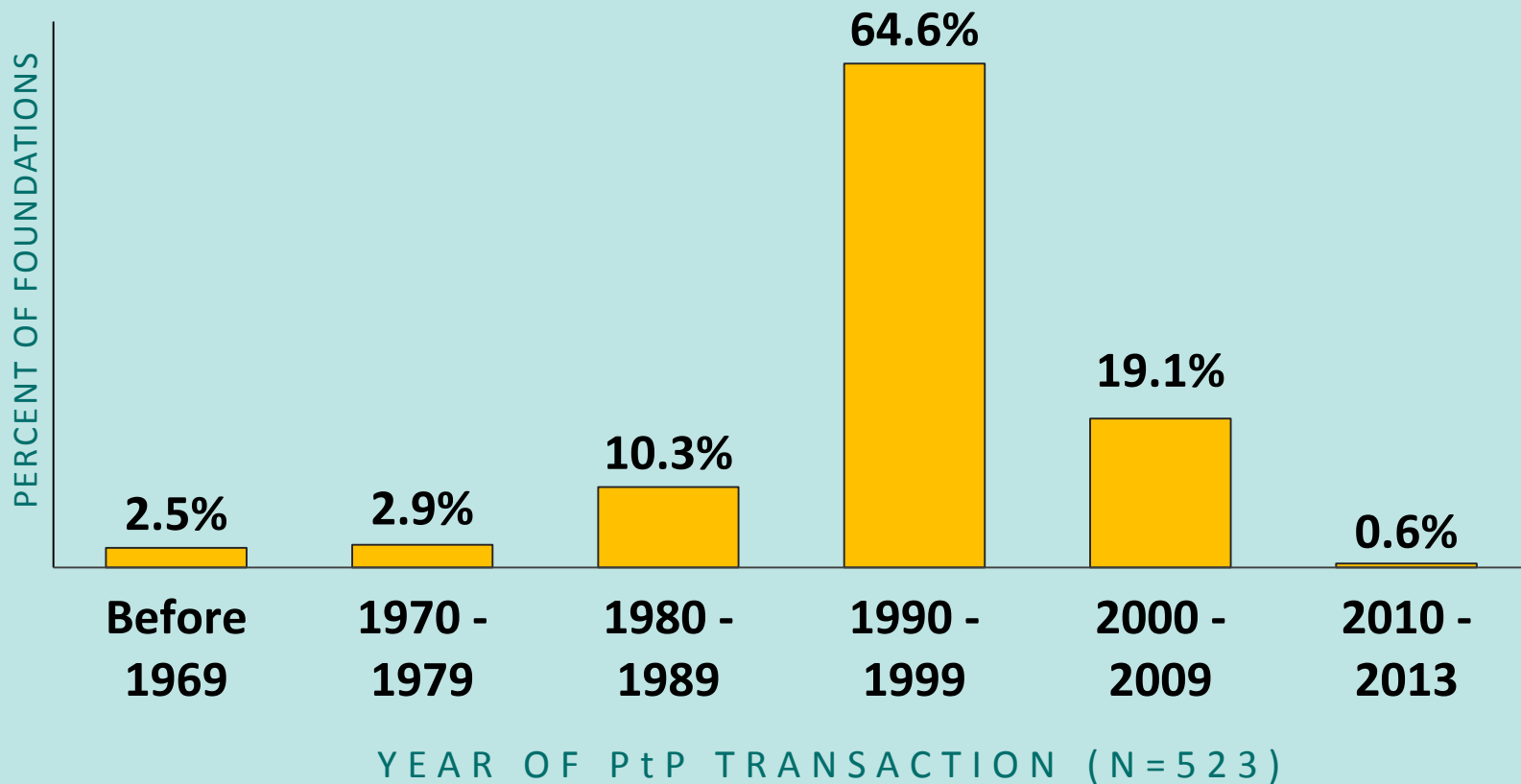
TYPE	SHARE OF TOTAL	
	FOUNDATIONS	ASSETS
I	16.3%	12.4%
II	6.0%	2.1%
III	1.7%	1.3%
IV	0.4%	0.2%
V	75.7%	84.0%

**Excludes foundations with unavailable type*

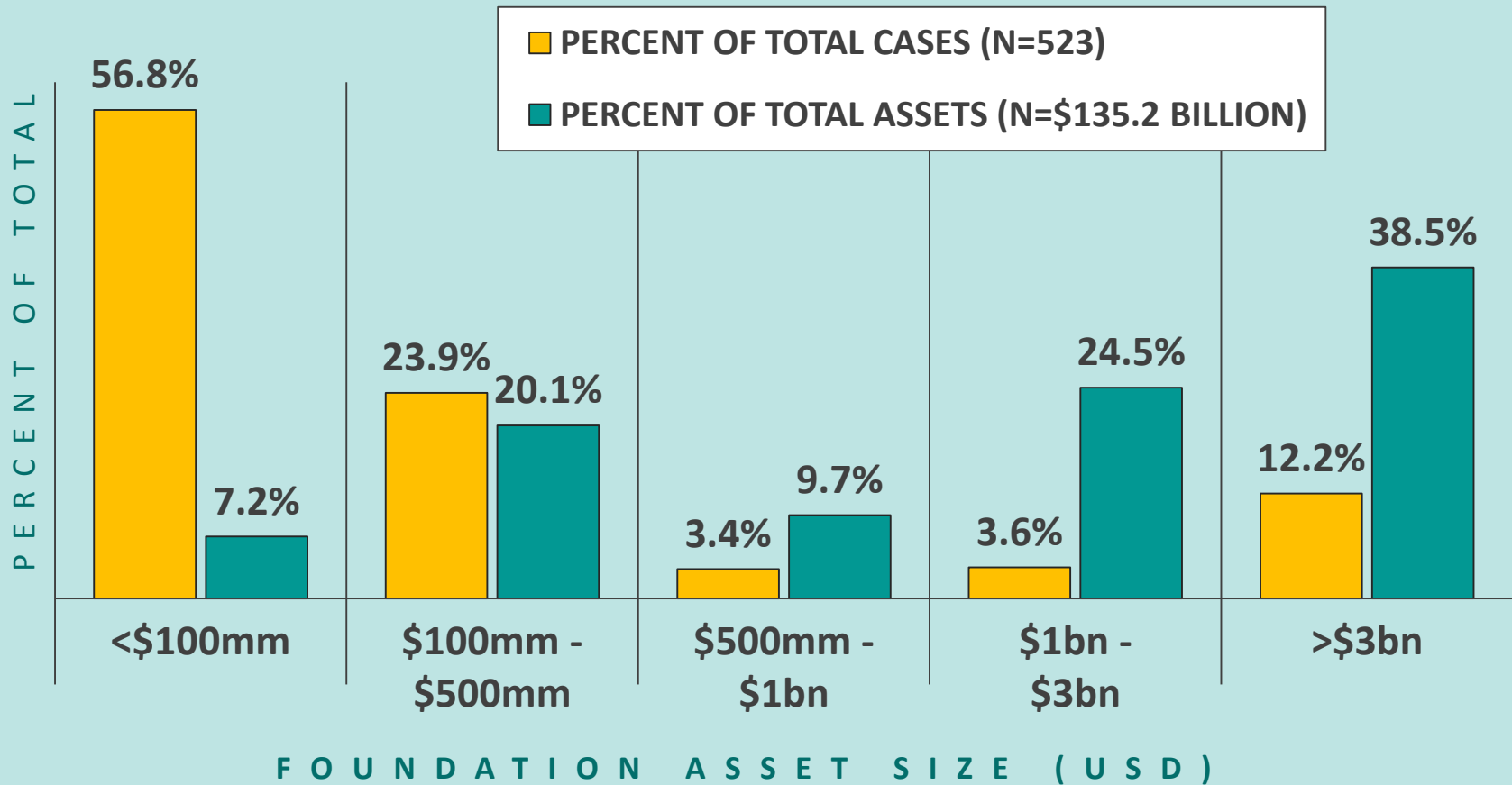
***Excludes foundations with unavailable asset values*

Source: Lester M Salamon and Associates, "Philanthropication Thru Privatization: Building Assets for Social Progress," March 2014. Available at p-t-p.org.

MOST PtP FOUNDATIONS ARE FAIRLY YOUNG



MOST PTP FOUNDATIONS ARE SMALL/ MOST PTP ASSETS IN LARGE INSTITUTIONS



CASE STUDY OVERVIEW

CASE		COUNTRY
TYPE I: PRIVATIZATION OF STATE-OWNED ENTERPRISE		
1	Volkswagen Stiftung	Germany
2	Deutsche Bundesstiftung Umwelt	Germany
3	Baden-Wurttemberg Stiftung	Germany
4	Stiftung Innovation (Rhineland-Palatinate)	Germany
5	Czech Foundation Investment Fund	Czech Repub
6	Foundation for Polish Science*	Poland
7	Nadácia Slovenskej sporiteľne	Slovakia
TYPE II: TRANSFER OF STATE PROPERTY		
8	La Scala	Italy
9	Youth Foundation (Nadacia mla deze)	Slovakia
10	Fondazione Lombardia per l'ambiente	Italy
TYPE III: TRANSFER OF STATE REVENUE STREAM		
11	Oranje Foundation**	Netherlands
12	King Baudouin Foundation**	Belgium
TYPE IV: DEBT SWAP		
13	Fdnt for Polish-German Cooperation	Poland
TYPE V: SALE OF QUASI-PUBLIC ENTERPRISE		
14	Fondazione Cariplo	Italy
15	Compagnia di San Paolo	Italy
16	Fondazione Casa di Risparmio di Torino	Italy
17	Erste Foundation	Austria
18	ASB Community Trust	New Zealand
19	Community Trust of Southland	New Zealand
20	The California Endowment	U.S.A
21	Lloyds TSB Fndtn for England & Wales**	U.K.

Total Cases:
22

Total Assets:
US\$44.7bn / €33.7bn

**Part of the asset came from a Type II transaction*

***Estimated asset equivalent of resources from annual lottery or covenanted proceeds*

Source: Lester M Salamon and Associates, "Philanthropication Thru Privatization: Building Permanent Assets for Social Progress," March 2014. Available at p-t-p.org.

HOW DID IT HAPPEN?

TWO KEY CONCLUSIONS

1. Philanthropication accompanies privatization where it is helpful or necessary to do so.
2. Privatization is a “malleable” process.



HOW DID IT HAPPEN?

5 CONDUCTIVE CIRCUMSTANCES

1. Privatization under way
2. Assets with special features
3. Facilitative legal structure
4. A need to defuse opposition
5. Presence of advocates/champions

THE P&P PROCESS

KEY FEATURES

1. Nature of the Deal
 - One-step vs. two-step deals
2. Governance Structure:
role of government



PHILANTHROPICATION
THROUGH PRIVATIZATION

PERFORMANCE I: OPERATIONAL

5 KEY FEATURES

1. Independence

MATURATION OF GOVERNANCE

AUTONOMY GREW OVER TIME

- Volkswagen Foundation
- Lloyds TSB for England and Wales
- ASB Community Trust
- Fondazione Cariplo / Compagnia:
A new model of collaborative
decision-making



PERFORMANCE I: OPERATIONAL

5 KEY FEATURES

1. Independence
2. Missions: Reactive to pro-active
3. Transparency
4. Professionalization
5. Asset management



PERFORMANCE II: PROGRAMMATIC

4 KEY FEATURES

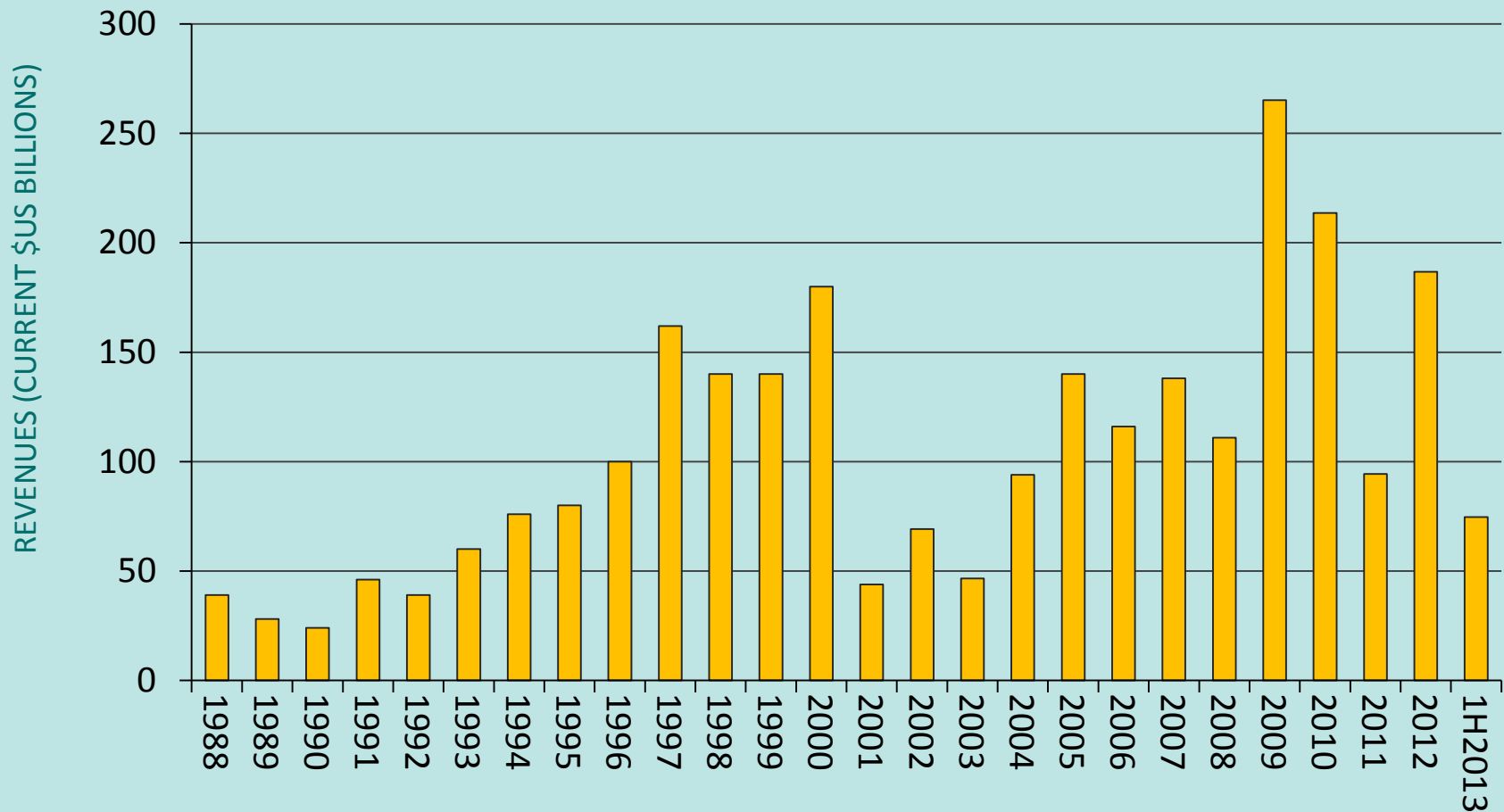
1. Mobilize important resources
2. Regional focus—magnifies impact
3. Broad focus + true to mission
4. Innovators

DOES PtP HAVE A FUTURE?

3 REASONS TO BELIEVE

1. The myth of the end of privatization

WORLDWIDE REVENUES FROM PRIVATIZATIONS, 1988-1H2013



A NEW WAVE

“The large number and value of privatizations executed during 1H2013, coupled with several massive planned sale announcements, suggests that a major new global privatization wave may be forming.”

Dr. William Megginson,
Privatization Barometer, 2013



DOES P_tP HAVE A FUTURE?

3 REASONS TO BELIEVE

1. The myth of the end of privatization
2. The Paradox of Opposition:
Upside-down effects of privatization

PARADOX OF OPPOSITION

OPPOSITION IS PRESENT

- CEE Survey/ Latinobarometer surveys
- Citizen protests Ukraine/China
- Sales halted in Sweden, Germany, France, Italy
- Sarkozy dedication of 2007 sale to universities



DOES P_tP HAVE A FUTURE?

3 REASONS TO BELIEVE

1. The myth of the end of privatization
2. The Paradox of Opposition:
Upside-down effects of privatization
3. Promising assets: minerals, air waves,
public utilities

NEXT STEPS

ENGAGE STAKEHOLDERS

1. Champions / advocates
2. Investors
3. Government officials

NEXT STEPS II

1. Mobilize advisory committee
2. Disseminate results– conferences / PtP website
3. Develop “best practice” guidelines
4. Identify pilot test countries and partners
5. Launch pilot implementations
6. Chronicle pilot implementation progress / lessons
7. Publicize & promote further implementation

THE TIME IS RIPE

1. Increased interest in global philanthropy
2. Increased resistance to privatization
3. Business community looking for win-win opportunities
4. Institutional structure for community foundations in place in many locales

Let's seize the moment!



WHY PtP?

“The state should not be based on the idea that it, and it alone, knows best what society needs and that it alone should finance that area from centrally levied taxes....[W]e should trust the citizens more and enable them to take on more responsibility.”

Vaclav Havel,
January 1, 1994

FOR FURTHER INFORMATION

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p-t-p.org