

Plea for a more effective philanthropy

April 2024

Lessons we have learned from 5 years of DPF Award

“Anyone can (...) hand out money and be generous. But knowing to whom to give, how much, when, for what purpose and in what way, is not within everyone's reach and is difficult. Therefore, the good use of money is rare, as much as it is praiseworthy and beautiful.”¹

This text from Aristotle is now 2,400 years old. The Degroof Petercam Foundation still applies its vision every day.

Why? 6 years ago, our resources were increasing, prompting us to review our philanthropic approach. We realized that financial resources are a precious commodity and that many pressing issues needed to be addressed. And so we asked ourselves: how we could do that most efficiently? And what positive impact could we generate with an annual budget of €1.5 million.

We started from the crucial question: **what is philanthropy anyway?**

And is it another word for charity? Not really, because there is indeed a substantial difference between the two:

- Charity is usually understood as the act of giving, a generous moral act supported by the 3 major monotheistic religions, which encourage, and even impose, this "duty of charity". The person who gives is acting out of charity.
 - Philanthropy goes one step further. 'Philanthropy' means love for humanity and a commitment to better living conditions (and more recently the environment). So, there is a desire for results, for progress, for a solution to a problem while charity ends as soon as the good deed is done. Moreover, acts of charity can be done purely for religious reasons by someone who is not necessarily humanitarian.
- So when we say philanthropy, what we really mean is: **what do we want to solve?** What problem are we going to address? And how? That's where strategic philanthropy makes all the difference.

In 2016, the Degroof Petercam Foundation decided to move from a model of reactive philanthropy – also known as 'expressive' philanthropy which is limited to choosing projects in line with its own values, but without the aim of solving a particular problem - towards a 'strategic' model in which donations are a means to tackle an identified social challenge.

¹ Aristotle, *Ethique à Nicomaque*, Book 2, Chapter 9.

The foundation decided to look for its own role and added value in the "market" of philanthropic themes. Employment was chosen because it is in line with the values of its founder, the Degroof Petercam Group. Moreover, employment is a fundamental condition for prosperity and is also a theme that was taken to heart only to a limited extent by other philanthropists. The foundation then worked out a strategy, determined what expertise should be developed, recruited an operational team and launched its main program, the DPF Award. Since then, one organization dedicated to employment has been selected annually. The laureate receives a sum of one million euros and receives support for five years.

At the end of 2023, support for DUO for a JOB, the first laureate of the DPF Award, came to an end. The decisive factors in its selection were the excellent results of its initiatives to get young people with a migration background into work, its positive impact on Belgian society and its ambition to roll out the solution beyond its borders.

The past five years have been a good learning experience and a great lesson in humility, thanks to the close relationship with the organizations in the field with which we have had the pleasure of working.

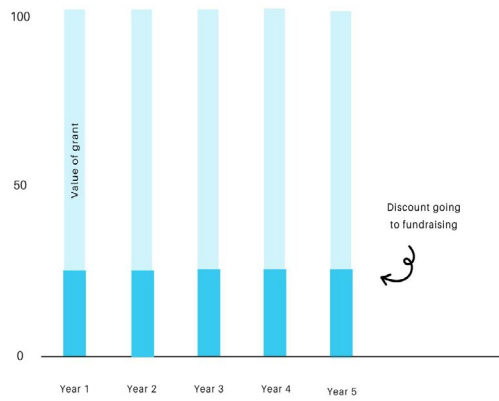
We learned the following lessons from this:

- **How do you bring about change?** This requires a certain amount of power. Philanthropy is often described as a soft power that relies on two basic elements: capital and talented people who are well organised. If you want change, find the right people, allow them to be very well organised and give them the financial resources to make it happen. A foundation is, in short, like an army general sending an elite team to tackle a very complex problem.
- One of the most important lessons we learned: **an organization you support financially must be enabled to attract, retain and train the best talent.** We learned from associations that they are allowed to use their "earmarked donations" only to fund "projects," not to cover "structural costs. But what is a project without structural costs? Who is managing the project? Salaries, the main expense for most organizations, are often overlooked. We have understood this and do not dictate for what purposes donations should be used. We leave this to whoever is best positioned to determine where the money is most needed: those in charge on the ground. And if it is a well-organized elite unit, that need not be a problem at all.
- It is possible to **increase the value of a donation.** Indeed, there are a number of ways that allow you to upgrade that donation. For example: **Donating several years in a row;** Various organisations have already been made to understand that they should spend 20% of their budget on fundraising. Donors prefer not to fund such 'structural costs'. Ironically, these costs are partly due to the donors themselves. For example, if a donor donates 100 the first year, 20% of that donation is used to seek new donations the second year. If he decides to donate in 3 years, the value of this donation increases by 20x2 in fundraising savings.

The DP Foundation responded by donating over a five-year period. This helped stabilise fundraising efforts and freed up resources to spend on other domains, such as recruitment and training, which - as mentioned above - contribute significantly to success. We have found that DPF Award laureates primarily use their donated funds to recruit senior talent to manage growth.

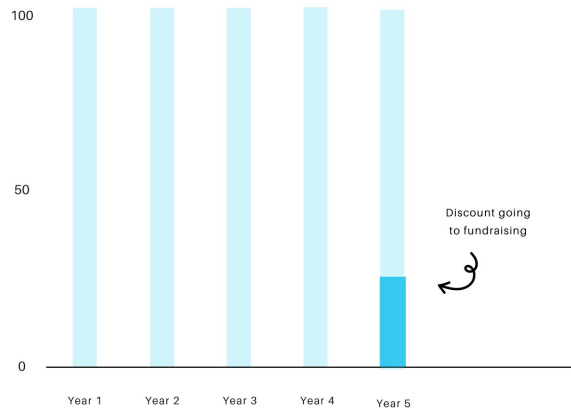
Upgrading your grant

The discount of short-term giving



Upgrading your grant

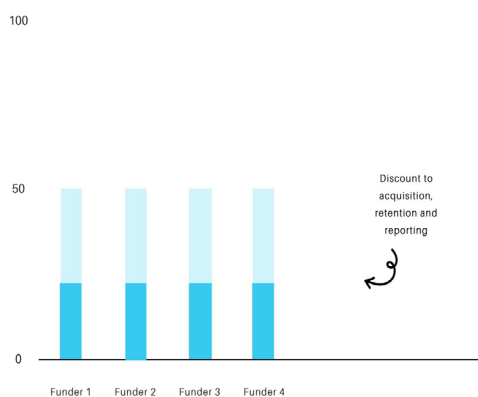
The value of long-term giving commitment



The logic can be extended if the donor decides to **donate a larger amount**. Large donations help stabilize the donor base. Average acquisition costs are the same for large, medium and small donors. For example, finding and managing 2 donors who give 100, costs less than 4 philanthropists who give 50 each. A professional donor such as a foundation can significantly reduce these acquisition costs by concentrating more resources in one organization.

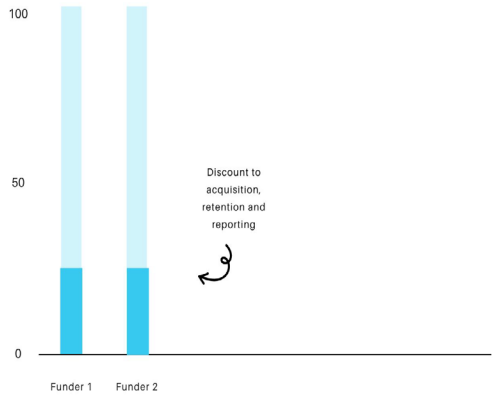
Upgrading your grant

It takes on average the same time to manage one donor, small or large



Upgrading your grant

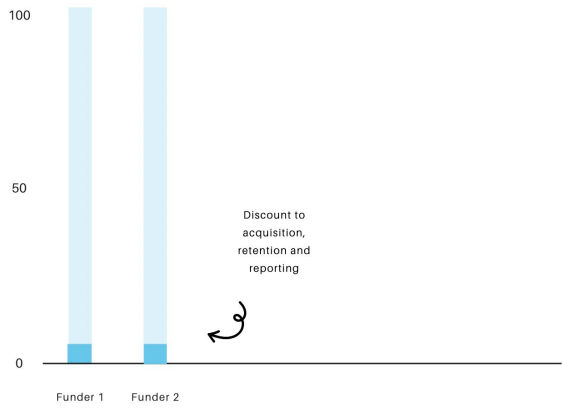
For the same total funding, 2 larger grants will halven the donor's related total cost.



Some associations make it understood that they need to employ a full-time staff member to meet the needs of certain donors, for instance to prepare reports or Excel files describing the exact destination of donations. This increases significantly as the organisation grows to several hundred donors. DUO for a JOB manages 150 donors of various sizes. The 2023 winner, the Chemins d'avenirs association, currently has a team of three people dealing with the 58 ongoing cooperation agreements. If each donor has different reporting requirements, the costs are soon exponential. You can easily increase the value of a donation by reducing reporting (or aligning with what already exists). Relying on funding real costs, such as a full-time salary or the development of a digital infrastructure, for example, is an easy way to provide insight into the purposes for which the donation is used. Even more so since the donation is legally "irrevocable and unconditional", it is therefore not part of any obligation for the donor.

Upgrading your grant

Donor's related total cost can be reduced to the minimum by suppressing reporting for instance or commit for a long-term grant which lowers retention costs



- Associations need to be transparent, but **more trust on the part of donors** is equally useful. How can we build trust? We aim to build a relationship with the winners whose quality we assess during the 10-month pre-donation analysis we conduct. Once they are selected, we feel they are worthy of our trust, and follow-up only happens in the context of support, rather than as a control mechanism. Associations need to be transparent, but it can also be balanced by greater trust on the part of donors. The funder can provide a space for reflection, help the charity take a step back and share observations, but one thing is certain: real expertise comes from the field. Sharing a coffee with those who are there every day will provide far more transparency than any Excel spreadsheet. **Working with a small number of associations also gives us the time to get to know and understand each other.** After all, it is much better to donate well to fewer associations than less well to more associations, right? For us, that's a valuable insight.

The choice of the number of associations to support remains an important issue. We support projects for five years, enough to ensure stability within the projects while allowing a rotation to support new innovations. Yet it is not easy

to leave a project. For DUO for a JOB, we are no longer one of their main donors, even though we remain active as a philanthropic investor through an impact contract with the French Ministry of Labour. After five years, the aim was for the association to grow and become stronger. The result is there. But disembarking just when the now well-equipped ship has reached full cruising speed also raises questions. The future of an association can take different forms, and in the industry this is known as the 'endgame':

- Some of them develop communication and fundraising tools that attract large numbers of small donors and form the basis of their financial model - this is the NGO model.
- Others evolve into social enterprises that generate revenue to finance their activities.
- Still others voluntarily disappear once their mission is accomplished (e.g. associations advocating for legislative changes).
- Still others see their model adopted by the government. In employment, it is often the latter objective that is pursued, and this is the case of DUO for a JOB, whose budget is currently 60% covered by public funds.

Government funds finance ongoing operations, while philanthropy covers the remaining 40% spent on research and development, raising awareness and expansion into other geographical areas. The question of how to take the financing torch from us is raised because we know that this model will never be free of philanthropy. Should we stay on board, given that the project is well run, robust and has the potential to reach many more people (in Brussels, only 4,000 young people - 2% of the audience involved - are reached by DUO for a JOB)? How can we prevent the resources of the 'SMEs of philanthropy' from running dry? How can we organise a chain of funders who come and go at different stages of an organisation's maturity? Philanthropy is constantly a matter of choices and compromises, which are not always obvious.

- **Philanthropic money is venture capital:** it is used to exploit areas where no one is active (yet). The challenges facing philanthropy are colossal: poverty, climate, democracy, human rights. How can we tackle these problems with relatively small resources? There is sometimes a tendency to approach philanthropy like being a good housekeeper. But being conservative or overly cautious is arguably not the best approach for a philanthropist. We often hear that funds are limited and that it is better to use them for things that are proven, standardised and not too risky, even if that means limiting the number of donations. After all, failure is not an option. Our answer to this is that if David had acted like a 'good family man' towards Goliath, it would have become his downfall. Instead, as a shrewd strategist, he made use of the resources at his disposal - a small stone - and succeeded in overthrowing Goliath. By cleverly exploiting the fact that he knew the weakness of his giant enemy. The philanthropist, that's David. And even if his resources seem very modest, if he aims well he can succeed. That is the principle of strategic philanthropy. The smaller the resources, the more strategy and knowledge of the problem are needed to aim well.

Risk is inherent in philanthropy, because it is used to fund visionaries, innovations and failures in the system that are deemed too risky or not financially or electorally profitable enough. It is always possible that a project may not work, while succeeding is guaranteed to be difficult. If this is the case, the philanthropist is in the right place. **Short-term philanthropic successes do not exist:** even our 5-year strategic commitment now seems very short. It is this difficulty that also makes philanthropy so privileged: the ability to think long-term, to look beyond the issues of the day and think about what is really important to move forward.

Western tradition first introduced the figure of the philanthropist in the person of Prometheus, the titan who stole fire from Olympus to give it to mankind, which he wanted to save from the cruelty of the gods. It was a visionary act that, while it led to him being portrayed as a fool and tortured, also made him immortal.

Conclusion? Daring and trust are essential to philanthropy. From that point of view, Prometheus is an important role model as he perfectly defines what a philanthropist is and should be: *"he who thinks ahead"*.