

Interview with Jim Litwin under the heading of “Philanthropy and Charity”

**The New Generation of Philanthropists Will Profit from Social Investment: An Interview with Jim Litwin**

Are private foundations effective instruments for philanthropy? What do we know about the young and the older generations of philanthropists? Can philanthropy bring profit? Why do philanthropists invest huge sums into the tackling social ills? These questions were explored during a conversation with Jim Litwin, the Managing Director of the consulting firm pfc Social Impact Advisors (USA), which studies the social impacts of philanthropy.

**Jim, your company, pfc Social Impact Advisors, studies how high net worth individuals work in philanthropy in different countries of the world. What do they prefer to spend their money on? What problems do they want to solve?**

**JL:** Our group is studying leadership and how philanthropists are able to effect, or not effect, social change. We are trying to find out what organizations and individuals are successful, how they try to implement social projects, what skills they might have or not have, and what they are trying to do.

We have already conducted about 800 interviews with wealthy philanthropists, foundation program officers and others. Most of them are trying to tackle systemic problems, such as lack of clean water, food, etc. They say that you cannot build a healthy society if there is insufficient access to water or food in the country, or if there are environmental risks. That’s understandable. But beginners often do not realize they will need to deal with a huge number of stakeholders, every one of whom has their own interests/agenda. Additionally, you have to understand that there is no one cause of a systemic problem, otherwise this problem would be long gone. The problems are closely interconnected, interdependent, and cannot be entirely eradicated. Complex problems cannot be fully resolved. But they at least can be partially mitigated.

**JL:** We are combining these interviews with a series of case studies to document effective leadership in creating social change. This book will be published next year by the Stanford University Press. Each case study was chosen to highlight a specific approach to creating change. In the book, for each case study, we describe the problem the organization is trying to impact, what actions they took, what worked and what didn’t, and what the overall impact was. Our goal is to show how the approach that the organization took influenced the overall impact of the program. For example, the largest mobile phone service operator in India, Vodafone India, has a great program working with local communities. They send about 50 employees for two to three months every year to work into various non-profit organizations, while still on salary with Vodafone. The goal is to strengthen the capacity of the non-profits selected by providing them with resources not readily available to them. In another study, we looked at a program by Thomson Reuters Foundation, part of the Thomson Reuters media company. They have a project where they have pro bono lawyers work on such issues as trafficking and slave labor.

We already have 9 case studies prepared, including one the Vladimir Potanin Foundation, which is involved in leadership development in Russia.

### **Why is Potanin Foundation's work an interesting case study?**

**JL:** I am glad that we have such a case. This is one of the first Russian private foundations, it is extremely creative, doing a lot of experimenting, and doing many things right. The Foundation's mission is to help shape future leaders and helping them change themselves, that will in turn change the environment and as a result, help others. Everyone understands that this is a long-term mission. It is impossible to implement it in two years. But what we can do is compare the actions of the Foundation against the leadership model that we have developed over time. Against those measures, the foundation is doing very well. They have the courage to succeed, because there will always be risks and they are following a path of cooperation, working closely with the local community. In addition, we also look at whether a foundation is creating a culture of openness, honesty and courage, creativity, compassion, capital (both social and human capital) as they go about achieving their mission.

The Potanin Foundation works in a variety of ways including individual capacity-building, human capital, cooperation, and institution-building. Employees and beneficiaries of the Foundation noted in interviews that the Foundation was open to dialogue and learning from its mistakes. As an example, it changed and revised the target audience of the educational program (in 2013, the Vladimir Potanin Scholarship program was refocused to serve Master's students and their instructors – Eds.). In addition, the Foundation had originally set the goal of supporting the youth of Norilsk, but over time it identified other areas in need and established partnerships with European and American institutions.

If you evaluate the all-around performance of the Foundation, it is not afraid to try new things. It teaches future leaders to be critical thinkers, and this requires courage. Also it builds cooperation with partners effectively, the Foundation listens to the representatives of different communities, involves leaders in the joint efforts to change the environment, and addresses other values, as well. As far as the amount of money the Foundation contribute (about US\$10 million), it is much less than the amount large international foundations may spend. But I think it has to do with the specifics of the country's economy. And where there is not a lot of money, partnerships and cooperation play an important role.

### **Jim, how do you see the future of the large-scale private philanthropy?**

**JL:** There is a difference between charity and strategic philanthropy. For example, if you are working to help the poor, with charity, you give money, hope for the best, and you think that your job is done. With philanthropy, you assess the work in front of you using a deep social sense to affect the root problem that causes the poor to ask for help. When I talk about philanthropy, it is about defining the problem and looking for ways to improve the situation. It's about how to organize a process of using resources (both financial and other) to maximize results.

I think that private philanthropy will always be here. There will always be problems that need to be addressed that can only be funded through philanthropic dollars. And there will be people who are ready to work on these problems with the help of their capital. Immediate shortages of food, the consequences of global disasters, the homeless - in these cases we don't always talk about solving systemic issues. Money is needed here and now.

In the United States, very few private foundations manage the execution of the solutions they fund. Basically, they provide money, focus and accountability. Instead, they manage their endowments and provide grant funding using the investment income generated by the endowment's investments (capital management income). The system works because there are private foundations that provide funding, and there is a well-developed infrastructure of organizations receiving the grants - a huge number of NGOs with excellent reputations and other structures that accept and distribute the money.

**There is much talk about social investment. Do you think social investment was one of the major trends in the development of charity?**

**JL:** Until 20-30 years ago, when we talked about philanthropy, it was always, "there is a problem, let's use our money to solve it". But now there is view that says that philanthropy is more of a social investment.

I have seen examples of social investment in India, where there is a problem of clean water. Money is invested in the solution - providing the population with clean water. Subsequently, it becomes a business with the local business owners selling the water to local residents and the investors able to make a return on their investment.

I strongly support this trend because it is creating opportunities, infrastructure, and encourages looking for ways to create solutions that can be self-funding. This allows social investors to fund a solution, help to make it work, and then move on once the project becomes self-funding.

**Philanthropy and philanthropists themselves are changing. Do you see the difference between older generation philanthropists and the newcomers? How are they different?**

**JL:** In the past, older philanthropists have shown a willingness to give their money with no special expectations from their donations. The new generation's logic is "This is my community, I came from within, I want to donate here, I want to see the results here ...." New philanthropists are often successful in business, they make money quickly, and see real results. And they are trying to solve systemic problems using social investment with the same approach. Most often, this does not work. Younger philanthropists often think that they are the best people to direct their social investments and philanthropy to create change: "I earned the money, and I myself want to create the conditions for a change for the better. I do not want to give the money to someone who will decide how to spend the money I earned to find a solution. I want to leave a trace as an individual," - that is their perspective.

**How hard is it for the businesspeople who do not have own funds to get involved in philanthropy?**

**JL:** Now there are various philanthropic products sold by financial advisors that you can invest in with smaller amounts of money. You don't have to create your own organization to participate in the process. Twenty to thirty years ago, foundations were one of the only ways to fund organizations working to address social issues. Now everything is different. Indeed, there are private foundations that donate. But let's say I am a businessman, I have US\$15,000 and I want to donate it to charity. Working with my advisor, I can just transfer the money to a donor advised fund (a fund that is designed to hold charitable funds) and tell the fund managers how I

want the money to be used. They service the payment. And I am able to earn a return on the money in the fund before I decide where to send it. And yet another way to engage philanthropy, which I have already mentioned, is a social, or impact investment: "I provide the money to solve problems, serious problem, but I also can expect to return this money, perhaps with a small profit."

**Can charity be a unifying factor for businesspeople?**

**JL:** Yes it can. I'm from Minnesota, and successful people in my city have united and created a "Five Percent Network." They agreed to donate 5% of all their income to charity. There are many examples like this, but unfortunately I cannot say that this is an extremely popular phenomenon. Charity involves personal motives. Perhaps that is why there are not many partnerships. If a businessman is involved in charity work, he often does not want to promote this activity. Lack of information can be a barrier to the development of joint charitable activities.

**How does one sustain a private charity so that the departure of the benefactor does not cause it to disappear?**

**JL:** Two immediate solutions are to (1) create a self-sustaining foundation, or (2) establish a donor advised fund. In both cases, you decide how much money you want to give away, and in both cases, you can either give all of it away, or leave a portion of the funds for your successors to decide what to do. Both a private foundation and a donor advised fund are structured to take direction from you, but also able to manage the operations once you are gone. And by connecting your children with the operation early, they will be able to continue to fund the areas that you care most about.

(To view this interview in the original Russian, please visit the [Agency for Social Information](#))