

## Charitable foundations

# A spoonful of sugar

## Endowing charities can make privatisation more palatable

Sep 21st 2013 | From the print edition

EMPLOYEES will get free shares, and the British public will be offered them at bargain prices, when the Royal Mail is privatised in the next few weeks. These deals will sweeten a sale that is unpopular with the public and postal workers. Yet a more effective bung, judging by a new study, would have been to use some of the shares, or the proceeds from selling them, to endow a charitable foundation that might broadly benefit the country.

This is not a new idea. In 1961 the German government put 60% of the cash it made from selling the state-owned Volkswagen car company into just such a body. Today VolkswagenStiftung has assets of around \$3.5 billion—roughly the same as the Rockefeller Foundation. The Fondazione Cariplo, created in 1991 when many of Italy's savings banks were spun off, has assets of \$9.8 billion. That makes it nearly as rich as the Ford Foundation, America's second-biggest charitable endowment.

According to the study, "Philanthropicitation through Privatisation", led by Lester Salamon of Johns Hopkins University, more than 500 endowed, independent charitable foundations have been

created or enriched during privatisations, most of them since 1990. Together they control assets of \$128 billion. Some 56% of these assets are held by 103 Italian foundations (see chart). American foundations account for 16% and Germany's 12%.

In many cases foundations were created when privatisations were controversial. The Italian banks, for example, were quasi-governmental owing to the degree of state oversight and risk-bearing (so, too, was Britain's Trustee Savings Bank, whose sale also led to a foundation) but they had a long history of charitable service. The Italian public would not have been happy if revenues from the sales had swelled the state's coffers.



In America nearly 200 “conversion foundations” were created when tax-advantaged health-care charities became profitmaking firms. (The California Endowment is the biggest. Created in 1996, it has assets of \$3.7 billion.) Seventy-four Czech foundations were formed during privatisations in the 1990s, each of them started using 1% of proceeds from the sale of a state-owned firm. That process was intended to boost civil society after decades of Communist rule.

The most successful foundations tend to have a well-defined mission. Volkswagen’s goal, for example, is to support German science; the Deutsche Bundesstiftung Umwelt, formed in 1990 from the sale of Germany’s state steel firm, is one of the world’s largest environmental foundations. Transparent and independent governance is also essential if foundations are to avoid the sort of problems that engulfed the Fondazione Monte dei Paschi di Siena earlier this year when its associated bank got into trouble. Critics said the organisations were too entangled.

These lessons will be useful to authorities in developing countries as they embark on a new wave of privatisations. Money for charities would make unpopular sales easier, argues Mr Salamon. Creating foundations could also help to overcome the difficulties that arise when a country moves from an informal property system—often with much common ownership—to a formal one. Those problems are growing prevalent as countries such as Mongolia, Myanmar and Zambia look to privatise mineral reserves that lie beneath land traditionally belonging to tribal groups or indigenous people. Endowments are one way for their governments to get a better package.

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The Philanthropicization thru Privatization (PtP) project is managed by the East-West Management Institute and directed by Dr. Lester Salamon of the Center for Civil Society Studies at Johns Hopkins University.

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