



building
permanent
endowments
for
the
common
good

A PROJECT OF EAST-WEST MANAGEMENT INSTITUTE

under the direction of Lester M. Salamon

The Philanthropication thru Privatization Project

A Joint Project of the East-West Management Institute and
the Johns Hopkins Center for Civil Society Studies

Energetic efforts are being made at the present time to boost the availability of charitable resources both in developed and less-developed regions of the world. A crucial objective of such efforts is to expand permanent charitable endowments for the common good, which alone can provide long-term, independent support to sustain civil society and priority causes. But such endowments require capital. Where is the capital to seed such charitable endowments to come from?

As it turns out, a newly discovered potential source of such capital has recently come to light, including in regions where foundation endowment-building efforts are particularly going starved for funds. This source has been missing in plain sight—in sales of state-owned enterprises, in transactions selling nonprofit or cooperative organizations to for-profit enterprises, in debt swaps, in royalties flowing to governments from mining operations or drilling permits, in cell phone frequency auctions, in recovered stolen assets, and in penalties for corporate misdeeds. If steps could be taken to channel even a small portion of the proceeds of such transactions into charitable endowments, an enormous breakthrough could be achieved in building a permanent support base for civil society, social enterprise, and a host of other priority objectives in developed and less-developed regions around the world.

This is not just an abstract idea, moreover. To the contrary, some of the largest and most reputable foundations in the world, such as Germany's Volkswagen Foundation, Italy's foundations of banking origin, New Zealand's network of "community trusts," Belgium's King Baudouin Foundation, the close to 200 health conversion foundations in the U.S, and, most recently, the US\$25 billion "la Caixa" Foundation have all resulted from, or been enlarged through, precisely such transactions.

Yet these developments all proceeded in virtual isolation. No one thought to draw a circle around them and call attention to their striking commonalities. More importantly, no one thought to highlight the important lessons they might hold for a new approach to foundation formation that can yield win-win payoffs for citizens and civil society, as well as for governments and investors. *Until now.*

What is "PHILANTHROPICATION thru PRIVATIZATION?"

*"Philanthropication thru Privatization" or "PtP" can be defined as a transaction in which all or a portion of the proceeds resulting from the sale or other transfer of **public** (i.e., government-owned or-controlled), or quasi-public, assets into for-profit ownership or control are dedicated to the creation or expansion of **charitable endowments** under the control of **meaningfully autonomous private charitable institutions.***

Over the past several years, with support from a number of charitable foundations around the world, a major project has been launched to identify, and further promote, examples of this route to forming and endowing charitable foundations—a process we are calling ***Philanthropication thru Privatization, or PtP***.

To date, this PtP Project has **identified over 630 foundations** that have emerged from one or another type of such privatization transactions. **Nine identifiable asset classes** have so far been involved in such transactions, including state-owned enterprises, other state-owned property, debt swaps, royalties from state-regulated businesses (e.g., lotteries, extractive industries, motorboat racing), transformations of nonprofits or mutuals into for-profit companies, stolen assets, stranded assets, cell phone frequency auctions, and penalties arising from corporate misdeeds (see attached table).

Having identified this new route to the creation of charitable endowments, the PtP Project is now seeking to encourage its more widespread use, particularly in regions where charitable institutions and charitable resources are in insufficient supply. It does so in the belief that the assets involved in such transactions are ultimately not the government's assets, but the people's assets—often their only such assets—created by the sweat and toil of a country's workers or belonging to the people as part of their birthright of resources. While the proceeds of such transactions can be used for a variety of purposes, the creation of charitable endowments has surfaced in numerous cases as a highly valuable one, creating permanent assets dedicated to the common good and establishing an alternative private channel for addressing priority issues that may not yet have attracted governmental attention.

The Philanthropication through Privatization (PtP) Project

The PtP Project is the first concerted effort to pursue this option for creating indigenous charitable endowments out of the proceeds of privatization transactions. The initiative has received **support** from the Charles Stewart Mott, Volkswagen, King Baudouin, la Caixa, and Ford foundations, as well as from a coalition of eight Italian foundations of banking origin. The project is directed by Dr. Lester M. Salamon, Director of the **Johns Hopkins Center for Civil Society Studies**, and is housed administratively in the **East-West Management Institute**, an independent nonprofit organization that has played an instrumental role in building sustainable civil society institutions worldwide. Dr. Salamon is assisted by a robust international team of **Project Associates**, an **Advisory Committee** chaired by Dr. **Wilhelm Krull**, General Secretary of the Volkswagen Foundation, and a network of regional PtP Exploratory Committees.

To date, the Initiative has:

- Identified over 630 foundations with over US\$200 billion in assets.
- Launched a series of detailed **case studies** of existing PtP foundations.
- Produced a major report, *Philanthropication thru Privatization: Building Permanent Endowments for the Common Good*, analyzing how these foundations came about and how they have performed.
- Undertaken a variety of dissemination events, including two major PtP **international conferences**.
- Launched a series of "How-to" **Booklets** designed to acquaint citizens with how to apply the PtP approach to the various asset classes in which it has surfaced.

Next steps include:

- Continued dissemination of the PtP idea through presentations and meetings with key stakeholders.
- Continued assembly of **examples of PtP foundations**.
- Preparation and dissemination of additional How-To booklets and case studies.
- Organization of additional PtP Exploratory Committees in more countries and regions.
- Identification of promising PtP transactions and organization of pilot implementation efforts to pursue them.
- Publication of an updated edition of *Philanthropication thru Privatization: Building Permanent Endowments for the Common Good*.

Typology of PtP Transactions



ASSET CLASS



SAMPLE FOUNDATIONS *(asset source)*

(i) State-owned enterprises

The sale or transfer of a government-owned business enterprise such as a steel mill, bank, airline, or cell phone company to a private entity

Volkswagen Foundation, Germany *(Manufacturing enterprise)*

Foundation for Polish Science, Poland *(Multiple enterprises)*

Czech Foundation Investment Fund, Czech Republic *(Multiple enterprises)*

(ii) Transfer of other state property

The gift of a state-owned physical asset or resource such as a building or cultural institution

Fondazione Teatro alla Scala (La Scala), Italy *(Cultural institution)*

Youth Foundation (Nadacia mládeže), Slovakia *(Real estate)*

(iii) Royalties/concessions

Income from a national lottery or other resource controlled by government such as airwaves, mineral extraction, or airports or other public infrastructure

King Baudouin Foundation, Belgium *(State lottery)*

Hong Kong Jockey Club Charities Trust, China *(Gambling proceeds)*

Nippon Foundation, Japan *(Motorboat racing proceeds)*

(iv) Debt swaps

An agreement in which debt is forgiven in exchange for the debtor nation putting an equivalent amount of local currency into an endowed foundation or other nonprofit

Foundation for German-Polish Cooperation, Poland *(Debt swap)*

Foundation for Community Development, Mozambique *(Debt swap)*

(v) De-mutualization

The sale or conversion of a quasi-public or nonprofit institution that has benefited from government assistance and/or serves a public purpose into a for-profit entity

Cariello Foundation, Italy *(Lombardy Region Savings Bank)*

“la Caixa” Foundation, Spain *(Catalonia Region Savings bank)*

California Endowment, U.S. *(Nonprofit insurer—Blue Cross/Blue Shield CA)*

(vi) Stolen assets

Assets resulting from recovery of bribes or embezzlement by politically-connected persons

The BOTA Foundation, Kazakhstan *(Recovered bribe)*

(vii) Penalty-based assets

Assets arising from penalties levied by governments for corporate malfeasance such as money-laundering, bribery, and environmental or other violations

National Fish and Wildlife Foundation, U.S. *(Environmental penalties)*

Renova Foundation, Brazil *(Corporate penalty settlement)*

(viii) Stranded or dormant assets

Assets remaining in bank and other accounts that have been abandoned or that lack legitimate claimants

Big Society Capital, UK *(Dormant bank accounts)*

(ix) Broadband spectrum

Proceeds from broadband auction sales or from set-asides of free broadband licenses for priority uses

Voqal Foundation, U.S. *(Rental income from lease of broadband spectrum licenses originally set-aside for educational purposes)*