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Chapter title:

New Challenges to the Third Sector in a Welfare State

Short description of chapter, to precede chapter:

The interdependence of the government and the Third Sector is an important characteristic of philanthropic expression in New Zealand. This chapter looks at what has influenced the development of fundraising practice and highlights some of the challenges that now confront the Sector.

New Zealand prides itself as being an egalitarian society. We aim for equality. New Zealanders consider it an affront to suggest that one person is more equal than another.

We are a settler nation. Self-resource and determination forged our identity. This is the way it was: from our first settlers, the Maori from about 950AD, followed by the waves of European settlers from the 1790's. Today we continue this pattern with immigrants from the Pacific Island and, more latterly, from Asia.

In such a nation, then, the development of a philanthropic character and its expression in society will not be homogeneous; but diverse.

History

In common with other countries that were colonized in the 19th Century, New Zealand exhibits the buildings and monuments that were endowed either through personal beneficence or through public subscription. Not only were such edifices created, but enduring institutions: hospitals, universities, libraries, schools, orphanages etc, were created in the new society. This early European presence indicates both a civic pride and a desire to help those less fortunate than oneself.

But what of the first inhabitants? The structure of Maori society was firmly rooted in the *wbanau* (family) and the *imi* (tribe) and their linkage with the land. Families were extended: grandparents or childless relatives often brought up children. This sense that everyone is responsible for, and to, everyone else still pervades Maori culture. Surveys of volunteering in the country reinforce this impression, with Maori women being the group who contribute the most volunteer hours to the economy. It is expected that one person will help another. A whole host of customs related to hospitality and ceremony emphasize this reciprocity. Gifts of money and goods are expected in particular circumstances and given according to ability. This is the base of philanthropic expression in Maori culture, which is called *koha* and full participation increases one's *mana* (self-worth, status).

Philanthropic expression through gift of time is common in New Zealand – we're a great nation of do-it-yourselfers, so the old meaning of fundraising in terms of "raising" a building continues to be the means by which many people participate in their community.

Although gifts of time and gifts of money are two sides of the same coin, there is often a tension, with fundraisers in the middle attempting to advise voluntary Boards that financial support would be a helpful adjunct to their gift of time.

This country has been a welfare society since 1935 with the adoption of the Social Security Act, which set in place a safety net of benefit entitlements for people who were disadvantaged. This institutionalized form of charity did not, however, detract from the role of the third sector and the post-war generation comprise the bulk of today’s loyal donors.

Professional fundraising can be said to have “arrived” in New Zealand in the 1950’s with the revivalist style Capital Campaigns directed by international fundraising consultants like the Wells Organization (no relation to the author!). These Campaigns swept the country, particularly in church organizations, and were either loved or loathed. Those who loved them speak of the challenge and commitment engendered in raising money, one-on-one for a cause you were passionate about – the loathers characterized the methodology as exploitive and inappropriate for New Zealanders. It is not surprising then, that a recent survey of giving motivation (BRC Marketing and Social Research) found that New Zealand donors like to feel in control of their giving and resent feeling coerced in any way.

Size of the Sector

It is difficult to be definitive about the size of the Third Sector in New Zealand as no body currently has responsibility for requesting and collating comprehensive data. This is an issue that the proposed Charities Commission, which will come into being late 2004 with the passing of the Charities Act 2004, intends to address.

Hon Steve Maharey, Minister for the Community and Voluntary Sector, in addressing Philanthropy New Zealand’s annual conference in 2001, remarked on the rampant growth of the Sector “ ... a complex and multifarious entity that [consists of] 22,500 incorporated societies and 9,000 charitable trusts and an estimated 50,000 – 60,000 informal community organizations.”

Scoping the Sector has been piecemeal to date, with the most consistent and reliable information emanating from Philanthropy New Zealand, an association of grant-making trusts, who produced Reports on inflows to the Sector in 1997 and 2003. The following data is extracted from their most recent report.

Date Data Gathered	1996 \$	2002 \$
Philanthropic Trusts	70,736,837	142,801,284
Local Government	26,000,000	28,200,000
Gaming Machine Trusts	Not available	131,241,000
Lottery Board	108,305,800	91,381,417
Personal Donations	258,825,000	281,905,620
Bequests	25,353,120	37,698,180
Central Government	669,950,000	920,595,000
	\$1,159,170,757	1,633,822,501

Source: Robinson, D. & Hanley P.

With the addition of extrapolated estimates (benchmarked against other countries in the Johns Hopkins Comparative Non-profit Sector Project) for the value of payments for fees and services (\$1,250,000,000) and corporate giving (\$80,000,000), we have a picture of a sector with an inflow of just under \$3b p.a. To put this in context, New Zealand's Real Gross National Disposable Income (RGNDI) for the same period was \$110b.

The authors of this study admit that there are considerable limitations to the data; particularly the base figures and the extrapolated results from personal philanthropy. However, on what we have, 21% of income to the Sector is a result of personal generosity (giving from a motivation of choice) and 79% from public policy (giving because a service is received, or there is a legal compulsion to do so). It is fair to say that Philanthropy is not a major force in the New Zealand economy, but that not for profit organizations (n.p.o.'s) and the work they do, is. Welfare states have a poor record of fostering philanthropy.

A major area not addressed in the Survey has been the establishment of Maori *imi* Trusts, which have been funded by Crown land settlements. Unfortunately, data from this source is even more difficult to verify than that of the mainstream Trust gift market. However, despite large capital bases, the level of distribution is not understood to be sufficiently large to negate any of the other conclusions that have been drawn in the Report.

Current Trends

Tangible support of philanthropy is not strong in our legislation and, although not a significant motivator of giving, the tax rebates for individual giving are meager compared with other Western nations. Individual taxpayers can claim a rebate of one-third of donations paid up to a maximum of \$1,890 per annum and for a company a maximum of 5% of net income can be claimed.

Therefore, corporate support, where significant, is most likely to be sponsorship. The quid pro quo required means that successful sponsorship is the realm of few New Zealand n.p.o.'s. Further to this, centralization of business practices has meant that decisionmakers are off shore, which once again disadvantages smaller, local organizations.

Cause related marketing is gaining favor with corporates as the favored manner of engagement with n.p.o.'s. However, these strategies can be disappointing to n.p.o.'s as the profile gained through purchasing behavior, is often at the expense of gift income.

56% of the revenue available to the sector comes from government sources as a purchase of services. Contracts, based on output funding, underpin most of New Zealand n.p.o.'s, particularly those most commonly identified as charitable; the welfare organizations.

In delivering social services to the people of New Zealand, successive governments have recognized the ability of n.p.o.'s to be efficient and effective and to deliver outcomes greatly in excess of what they have been funded for. It is for this reason, and having pursued government contracts as a welcome funder in the 1980's, that n.p.o.'s are now realizing the

vulnerability of having a single funder, which, in a push for greater return on investment, demands 150% outputs for 75% funding.

There are some significant choices to be made for organizations as they attempt to diversify their revenue sources. Philanthropic funders are often reluctant to give funds to “top up” a project which is otherwise funded by government and arguably achieves the social agenda of the government of the day, rather than (or more so than) the original mission of the n.p.o.

Looking at the whole economic picture alerts us to some significant vulnerabilities – the welfare society is dependent on earners supporting others and in 1999 only 65.5% of New Zealanders were 15-64 (working age.) As the baby boomers exit the workforce this percentage decreases exponentially.

Boomers behave differently as donors and we are seeing a growing number of individuals make strategic investments in causes that are important to them. These considered gifts are not untagged though – they come with the donor’s interest and involvement. Stewardship of the gift can no longer be taken lightly. The donor wants to know that the gift is fulfilling their objectives as well as those of the organization.

Appreciating the large number of n.p.o.’s that are asking for support at any one time, a common donor reaction has been to prioritize, plan individual giving and not be influenced by advertising and marketing claims. Despite talk of “donor fatigue” and “awareness week overload”; the recent Giving Survey (BRC Marketing and Social Research) makes it clear that people prefer to be asked in a way which leaves them feeling “in control” and have no qualms refusing requests which they perceive as contravening this. When asked in this Survey, 93% of respondents said that they had donated to a charity in the last 12 months. If this is the case, then for the vast majority of New Zealanders, the gifts they make to philanthropic and community causes are relatively small, both in the amount of individual gifts and in the annual cumulative total of giving.

Personal income distribution is as varied in New Zealand as in any other Western nation. The Inland Revenue Department (IRD) figures for 1999/2000 tell us that 6.4% of our taxpayers earn over \$60,000 per annum. 1,110 of these people earned more than \$1m in that year.

As fundraising targets get larger, we are seeing larger lead gifts in Capital Campaigns and an increasing proportion of the target coming from the top ten donors. The interesting thing here, and New Zealanders are only starting to realize it, is that these are gifts can and will be made by individuals – not Trusts and certainly not corporates.

This onus for individuals to make significant gifts is further exacerbated by recent changes in giving by Philanthropic Trusts. The disestablishment of Lottery Community Facilities committees has had a major effect on schools, sports groups, arts societies and community groups throughout New Zealand. Lottery Board policy now favors the “little to many” approach to funding and continues to use its funding in a non-strategic way to bolster the proliferation of small groups, many of which blatantly compete and duplicate services.

An address by Wayne Ward (Community Trust of Canterbury, August 2002) picks up on this very point. “The Community Trust was approached by 190 welfare groups last year, 30 of which rose from the ashes of other groups, each with the same aims and objectives and 20 of which made no apology for setting themselves up because they could access community funding. Seven groups approached because they relied 100% on fundraising and were “going down the gurgler.” This illustrates the poor job that many n.p.o.’s have been doing in identifying their own unique constituency and settling instead for soliciting all and sundry.

In a backlash effect, we are seeing the growth of Community and Philanthropic Trusts that are concerned with capacity building, reduction of duplication and cost efficiencies from co-operation within the Sector. Their presence and influence is only beginning to be felt and may well change the face of funding available from Trusts and Foundations in the future.

Extraordinary wealth is now being created in the Gaming Machine Trusts (entities established to distribute profits from gaming activities such as casinos and “pokies”), but few organizations will see any real benefits from this largesse. Once again many organizations receive small donations; but there is little strategic investment in the community. Upcoming legislation will have the effect of increasing transparency and accountability in these Trusts, but is unlikely to ensure that their substantial funds are used to best advantage.

The reality is that most New Zealand n.p.o.’s are true volunteer organizations. If they have staff they will be generalists – running the programs, motivating volunteers, doing the books and the fundraising and making the cups of tea! Professionalising and even prioritizing fundraising becomes a challenge when organizations are more concerned with getting through tomorrow than visioning a future.

Generosity to organizations typically seen as government responsibility, such as Universities and schools, is problematic and tends to catch more corporate dollars than personal philanthropic support. Similarly, raising funds for endowed purposes is extremely difficult and unlikely to get easier.

Charities Bill 2004

The underlying premise of the Charities Bill 2004 is that tax rebates for charitable donations are forgone income and, just like other forms of government expenditure, should be assessed against the achievement of the government’s social agenda. The Bill establishes a Charities Commission (a Crown entity) with power to require all n.p.o.’s who wish to take advantage of tax concessions to register and demonstrate annually that funds are not only used for charitable purposes, but that charitable activity has occurred. This doesn’t sound like something to be feared, but the lack of clarity in the Bill means that donors will no longer be able to claim a rebate for gifts to many organizations currently understood as “charitable”, including many with a religious ethos.

Furthermore, it has been claimed that the Commission will be an advocate to the sector and “stimulate and encourage research on charitable matters”. This is also

encouraging to read, but the current Bill's education and research role is limited to carrying out research commissioned by government departments and educating charities about their new responsibilities.

Charities will pay fees to register and complete annual accountability returns (which may or may not be available and/or understandable to potential donors). These fees will fund the operation of the Charities Commission. This requirement to fund a government agency further increases compliance costs leading to fewer dollars to carry out the actual Mission and a likely reduction in the number of viable n.p.o.'s.

All of this seems contrary to the Statement of Government Intentions for an Improved Community/Government Relations (Compact with the Voluntary Sector, 2001) which acknowledges that the government is committed to strengthening the sector and sees a future where the state performs its role as a facilitator of a strong civil society based on respectful relationships between government and community, voluntary and *invi* organizations.

Towards a Future

“New Zealand has one of the lowest rates of systematic individual charitable giving. Moreover, there will be some lag before today's young income earners learn the new ways expected as a moral and civic duty.” (Dr Dugald McDonald quoted in FINZ on Fundraising, vol 17, Nov 1994) Given the postmodern paradigm, where affiliation is relational rather than institutional, it is likely that charities will continue to have little success with many traditional fundraising methods.

Donors feel that they are seldom asked to give in ways to which they are most receptive (BRC Marketing and Social Research). Their preferred “asks are by mail (19%) and “not being asked” (14%). Compared with this, they actually respond most commonly to “being asked to make a purchase to benefit a charity” (62%) and “asked in the street” (61%). Neither of these are methods which are conducive to building a strong and committed relationship with donors.

The bequest market is virtually untouched in New Zealand. 77% of respondents in the giving survey quoted above said that they had made a Will, but only 6% had included a bequest to a charity or charitable cause in their Will.

How do fundraisers see the future? An informal survey of members of the Fundraising Institute of New Zealand indicates that they see the most potential in monthly pledging, payroll giving, bequests and major gifts solicitation. This is consistent with the trends, which makes clear that donors want to give in a considered manner and would be receptive to supporting a few organizations well rather than responding with a token amount for all askers.

Internet and other technological access to donors has been seen as an opportunity to engage with a new donor generation, but little proof of success has been seen to date.

Fundraisers profess concern at the proliferation of similar causes, but naturally are resistant to the idea that it should be “their” organization that merges with another.

Strong comment is made on the ability of Boards to exercise appropriate levels of governance and take their place in the fundraising team. Asking continues to be an anathema to many Boards. This concern does not seem to be unique to New Zealand, but it does however impact on the role of the fundraiser and turnover is high as practitioners who seek affirmation of their professionalism and status move on quickly. The result of this is that “good” fundraisers are highly sought after, but this is not yet reflected in remuneration scales.

The final comment which comes through from fundraisers is just how concerned they are that an attitude of philanthropy is so underdeveloped in the population. How generous New Zealanders are remains to be addressed accurately in research and data to date. Added to their reservations about the ability of personal philanthropy to help fund the Third Sector, is a concern that the future of many n.p.o.’s is increasingly open to the whims of Gaming Trusts as primary funders of operational programs. Quite correctly, this is seen as more of a threat than accepting funds from committed donors who are advocates for the cause.

Philanthropy appears to be having a rough time in New Zealand. The question before us is “whose role is it to create a healthy Third Sector – the government or the people?”

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