UBS

Insights into UHNW *Family Philanthropy* in India

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1. Philanthropy in India

India, a country with 69 billionaires at the end of 2010*, gave 0.6% of its GDP to philanthropy in 2006, according to a survey by Bain & Co. That is more than any other BRIC country – as a percent of GDP Indian giving is double that of Brazil and six times that of China.

Driven by an increasing urgency to reduce social inequality the general public, media, and state are looking to India's corporate and private wealth to help solve social challenges. Increasing attention is directed at this group of billionaires who have become active and visible over the past years, and can also be considered trend setters for the broader constituency of Ultra High Net Worth (UHNW) families and individuals in India, many of which are just entering the field.

Building an accurate picture of philanthropy in any country is always a challenge. The personal nature of philanthropy often leads to discretion around the topic. However, it is clear that philanthropy in India is substantial. It is also growing rapidly and has become very visible over the past decade. Growth in India is likely to accelerate, both as the industry matures and more wealth is created.

Most philanthropic giving amongst India's richest is linked to a family business and involvement of families in philanthropy follows a familiar pattern – the creation of a business is followed years later by the establishment of philanthropic organizations when the business is either sold, an Initial Public Offering (IPO) occurs, or the business starts to generate sufficient cash flow to provide annual charitable revenues.

This pattern has accelerated since liberalization in 1991, with a shorter gap to establishing a philanthropic institution (see Figure 1). More family businesses are reaching the threshold for giving than ever before. Newer entrepreneurs, with smaller families or without legacies of wealth, also have less interest in retaining all their wealth, providing added impetus to philanthropy.

Average time in years to the creation of the first foundation linked to the business

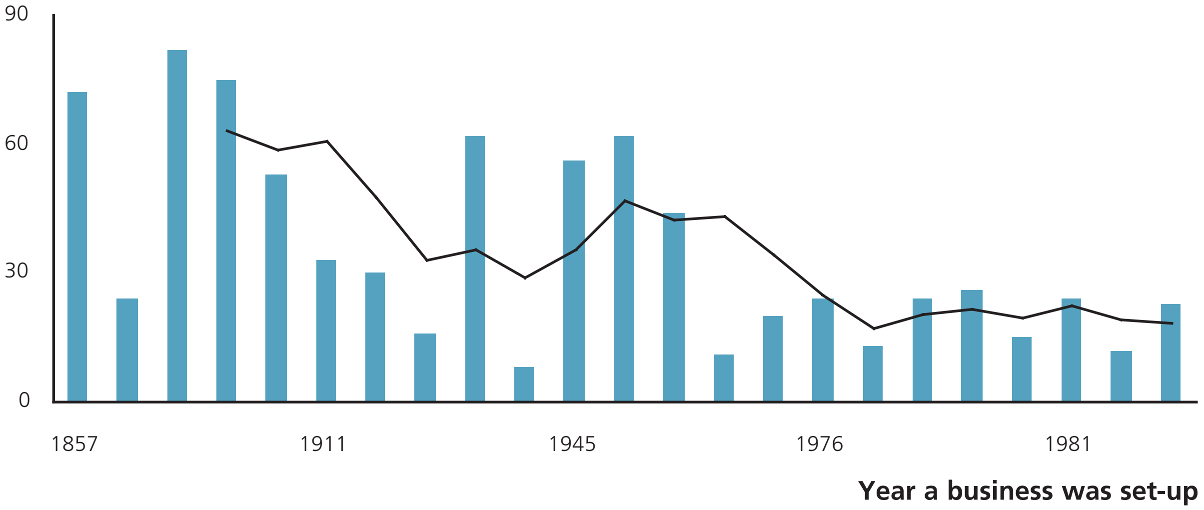

Figure 1: Years to establishment of first philanthropy, after setup of business, in India (1850 – 2010)

* Forbes billionaires rich list 2011

2. Summary of findings

Despite expectations to the contrary, we found that many of India's largest industrialists were extremely open to discussing their activities. For most, their philanthropy is a source of joy and pride and many are speaking out and making public commitments to charity. In this, India may be an outlier in Asia.

Based on our conversations we can make the following summary observations:

A timeless tradition. Through religion and culture, philanthropy in India is far from a new phenomenon. Before the Gates and Buffetts, the Tata, Birla, and Godrej families and their contemporaries where already transferring large shares of their business to public benefit trusts, or engaging in philanthropy in a very substantial manner. The practice of institutional philanthropy started as far back as the late 19th/early 20th century, almost at the same time as in the USA and the UK. The earliest philanthropists were inspired by visions of social reform, the struggle for independence, and nation building.

A new generation of philanthropists. Today's philanthropists grew up mostly in socialist India, yet found success in the post-liberalization period. They have found inspiration in addressing the inequalities they see, drawing in part on their family values and the traditions of the Tatas and Birlas. However, a new generation of philanthropists born in different times than today's business leaders and growing up with different values will soon be taking over. This will change how philanthropy in India is conducted.

Philanthropy starts with building wealth. Despite many positive role models and an already impressive array of wealthy individuals, a majority of wealthy families in India are still at the stage where their efforts and time are mainly focused on building the business. Philanthropy for these individuals will come at a later stage in their lives.

Family, philanthropy, and business go together. Family controlled businesses – being the predominant form of wealth – play a strong role in philanthropy and retaining control of the business is a recurring concern amongst India's wealthy that constrains their philanthropy, particularly when they look to generate liquidity to support their giving. The business is often the vehicle through which philanthropy is managed, funded, or both. This may be either through a company's Corporate Social Responsibility (CSR) arm or through a corporate foundation. Using equity in the business to endow trusts is being revived, though using corporate and personal annual donations remains the norm.

Sophisticated giving. Professional management practices (impact measurement and evaluation, performance-related pay etc.) are making their way into some philanthropic organizations. Non-profit (Section 25) companies that provide greater transparency seem to find favor among a number of philanthropists and stand in stark contrast to the perceived lack of transparency and professionalism within the Non-Governmental Organizations (NGO) sector. Unlike their western counterparts, Indian philanthropists seem to favor building operating organizations, reflecting a distrust of the NGO sector and a strong personal motivation for control.

An ambivalent government. India's largest philanthropists have an ambivalent relationship with the government. Many partner with or operate social programs for specific government agencies. Yet others, however, prefer to work independently and often express frustration at a bureaucracy and political class that sees philanthropy as a threat to its social contract.

Substantial operational challenges and a broken intermediary structure. Philanthropists decry a lack of qualified people in the sector with a commitment to social change. They, and their staff, also have recurring concerns around the capacity, transparency, or effectiveness of the NGO sector. This, seems to derive from a substantial mutual distrust between philanthropists and some of the NGO sector's most established organizations.

3. Family philanthropy in India – detailed findings

3.1. Overview

India's philanthropists have appeared in this study as a dynamic, passionate, and communicative group. The individuals we interviewed expressed a keen desire to be heard and were remarkably open to discussing what they do and why. It should be acknowledged that this group of about 18 philanthropists that we learnt from is a very small subset of India's UHNW families. However, they represent 26% of India's ultra-wealthy – those with over USD 1 billion in assets.

The wider community of Indian millionaires was not the object of this survey, though many should recognize themselves in some of the trends we have identified. In addition, many are in their own words, still busy building wealth, with philanthropy not currently a priority on the limited time they and their families have.

From what one can gather, philanthropy in India proves to be dynamic, and analyzing it was an exciting experience. Most important, philanthropy – and the values that motivate it – is in transition in India. The future, therefore, is wide open to how India's wealthy, and those that support them, wish to shape it.

3.2. The evolution of family philanthropy in India

Organized giving has been around in India for a long time, at least a century, a fact which may not be obvious to the rest of the world. We identified through the course of this study four distinct phases of philanthropy in the country (see Table 1). The logic of giving has changed over the years and continues to evolve.

Modern day philanthropy started with a first group – the Tata, Birla, Muruggapa and Godrej families. These families were heavily influenced by either a desire for social or religious reform (pre-1910), the Gandhian concept of trusteeship (pre-independence), or a call to nation building (post-independence).

Post-liberalization, however, India's newly wealthy families in fields as diverse as IT, pharmaceuticals, and infrastructure, seem to be moving past that legacy, and seem to give as an instinctive reaction to inequality. The most active and visible are families that built substantial wealth during the post-liberalization period of the 1990s. Over the past two decades, as their wealth crossed the threshold at which they become comfortable to give, these philanthropists have become extremely active. It is this second wave of families that form a large share of the crux of India's philanthropy today, with the majority of families entering philanthropy after 1991 (see Figure 2).

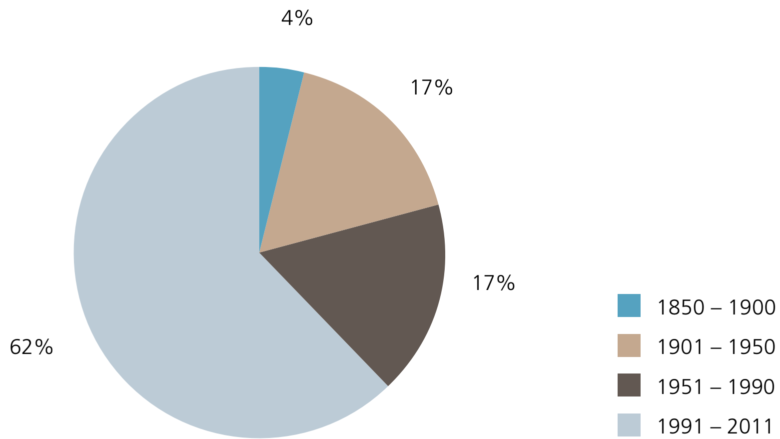

Figure 2: Distribution of Indian philanthropic institutions by period of creation.

Table 1: Evolution of UHNW giving in India

Period	Main form of giving
Up until the late 19th/ early 20th century	Traditional philanthropy consisted of giving to temples and supporting local communities (education and health). This form of philanthropy continues to this day and is seldom mentioned publicly. Towards the turn of this century, some giving was also directed towards efforts at social and religious reform (e.g. financing much of women's education throughout the British Raj).
Early 20th century to independence	The first large industrial groups are successful. Some families transfer equity in these companies to non-profit trusts that pursue philanthropic missions. Many of these families were very active in nation building, contemporaries of Gandhi, and their philanthropy was focused on creating the constitutive elements of an independent nation. Their work started well before independence and continued after.
Independence to the 1980s	Philanthropy in India grew slightly before stagnating. Established families continued to create trusts for schools, universities, and hospitals throughout the 1960s, 70s, and 80s. New business families established medium-sized enterprises and started philanthropic activities. A generally socialist government and confiscatory tax and regulatory environment discouraged philanthropy, and the creation of foundations slowed in the 1980s.
From 1991 till today	Economic reforms in the early 1990s introduced a liberal economic structure. New businesses emerged in IT and pharmaceuticals. The early 21st century sees a strong growth in big ticket philanthropy from a new generation of self-made Indians.

The current generation of philanthropists and their executives whom we spoke to all grew up and are steeped in the legacy of a socialist education – they appreciate the complexity of social change and are skeptical of too much faith in capitalism as a solution for socio-economic inequality. But the upcoming generation of India's wealthy families has been educated in an era where capitalism rules. How they will view their own role as philanthropists will have profound consequences on what they fund and how.

3.3. The role of the family and the family business

While there are many models of how philanthropists finance and manage their organizations, the most common one previously identified by anecdotal evidence is that of a philanthropy associated with a family-controlled business. This has been called "family-corporate jugalbandi" by Prof. K. Ramachandran of the Indian School of Business. Our interviews confirm the predominance of philanthropy operating through the business.

Family philanthropy in this context is often expressed as corporate philanthropy, with the philanthropic activities directed or governed by members of the family, and funded through a mix of corporate revenues and personal donations. This should not be surprising as newly created corporate wealth is the typical source of funding for philanthropy, and family controlled businesses remain the most common form of business organization in India. The country therefore sees a lot of overlap between philanthropy, family, and business.

A key advantage many see in using the business as a means of engaging in philanthropy is the ability to rely on business resources and expertise. One example is the Times of India Foundation, which has seen itself very much as a convener and commentator on philanthropy in media. For those whose equity is tied-up in a family business, using the business to engage in philanthropy makes all the more sense as it allows them to give and engage in helping others without selling stakes in their business to generate liquidity. Given the importance of retaining family control over businesses, it is therefore likely that funding philanthropy through corporate donations will continue as the primary form of giving.

Family members take an active role in shaping and directing philanthropy, even if the day to day management is handed over to independent executives. Family involvement is substantial and includes providing personal resources (such as land), endowments (including company shares), and the recruitment of family members to run parts or all of the philanthropic activities.

This overlap makes it difficult to categorize models of organization easily into buckets. There are few independent foundations, such as the Shiv Nadar Foundation, Arghyam Foundation, and the Azim Premji Foundation. More often the lines between family philanthropy, corporate philanthropy, and CSR blur. The foundation of an infrastructure group, for instance, serves both a CSR and corporate philanthropic function by funding projects where the group is active. Yet, the passionate involvement of the Group's Chairman and founder in directing the foundation's activities means it is also a family endeavour. This is consistent with the businesses themselves – where enterprises may be publicly held and corporate institutions, yet also be considered family enterprises by their promoter groups.

3.4. Generation interplay

Many of today's philanthropists came to their current role as they were stepping away from running the family business and as their children were taking over. For many the success of their philanthropy resides in part with the strong involvement and commitment of the family. As they retire from the business to focus on philanthropy, patriarchs and matriarchs might also join some of the younger members of the family for whom the philanthropy is a first induction into the business, or provides a means of working within the sphere of the business.

The recently wealthy have less time to dedicate to their philanthropy as they are still busy building their wealth and their company. In the case of Kris Gopalakrishnan for example although the family does give money, there is simply not enough time to focus more on philanthropy. He sees retirement as the time when he will be able to fully dedicate himself to his foundation Pratiksha and hopes to make it grow into a self-sustaining organization.

Some families inherit well established philanthropic trusts which create challenges for new entrants into the family philanthropy. In such cases, there might be established trusts that are institutions with a specific mission, funding themselves through an equity stake in the family business. As new family members become active in the family philanthropy, they may wish to pursue their own projects rather than, or in addition to, the philanthropic mission they inherited. However, established structures are typically ill-equipped, or legally unable to open up to families' evolving philanthropic interests.

3.5. A focus of giving in India

Just like neighboring China, and the majority of other countries in the region, philanthropy in India is very much focused on the country itself with a majority of funding being spent either within the philanthropists' own community (geographic or religious) or within the country. For those engaging in philanthropy through their business, decisions on where to act often also reflect the geographic focus of the business.

Unsurprisingly, the top three causes on which philanthropists focus are, in decreasing order of importance:

1. Education
2. Development and poverty alleviation
3. Health

This is a reflection of the immense social challenges that the country faces. It may also be, to a certain extent, a remnant of the early philanthropists' focus on supporting nation building enterprises during the pre- and post-independence period.

3.6. Operating considerations

Despite the diversity of India, the country's philanthropists have emerged to become extremely consistent in one aspect of their work – how they give. India's UHNW philanthropists are showing a propensity for building operating organizations.

Three reasons have emerged for this. Firstly the philanthropy is often tied to a business which is in many cases very much an extension of the family; different generations of family members can be implicated, and a large share of the family assets are tied up in the business. As such, it is natural to use the business as the vehicle for family giving.

Secondly, some philanthropists such as Dr. Anji Reddy or Rohini Nilekani are driven to establish philanthropic institutions through strong personal passion. For them the philanthropy is an extension of their own work, or very closely linked to their values or personal experiences, and as such creating their own operation gives them:

- The ability to involve themselves deeply in achieving their philanthropic objectives.
- The ability to control how their funds are used and as such maintaining some control on the risks of engaging in philanthropy.

The third reason and most common reason, quoted by all respondents, was a deep distrust of NGOs in India. With few exceptions, philanthropists and their executives perceived in the sector a lack of transparency, an inability to execute at scale, and an inability to deliver to corporate standards. Many of the respondents themselves have incorporated as a Section 25 not-for-profit company. In the words of Meena Ragunathan, Director of Community Services at the GMR Varalakshmi Foundation, the reason for choosing this form was that the organization "welcomed the additional transparency and disclosure requirements" the regulations bring. Another factor driving many philanthropists to set-up their own operating foundations is their desire to develop lean efficient organizations which can operate without waste or fear of corruption which they see in the public and non-profit sector.

3.7. The policy environment

Of course, no discussion of India, of the challenges the country faces and how to address them would be complete without considering the role of government. That role proves to be highly ambivalent.

For one, Indian law is both enabling and constraining. One the one hand, innovative non-profit company legal structures are available to philanthropists. Yet on the other, for example, charitable trusts are not permitted to hold corporate equity, a major reason why Indian families stopped creating endowed trusts after independence.

There is also substantial diversity in how philanthropists interact with the government. In the case of some of the longest standing or well established initiatives, such as the Aditya Birla Group or Dr. Reddy's Foundation, the government not only partners with, but also funds, social programs through them. In other cases, the government implicitly requires infrastructure companies to spend a part of their project costs on community services, effectively delegating its own responsibility to corporate foundations. As described by our interviewees, the government's role is often dichotomous:

- Encouraging, or in some cases implicitly pushing philanthropy to act as a substitute for public services on the one hand;
- While at the same time stunting philanthropists and their foundations through bureaucracy, late payments, or coercive signals such as a proposed legislation mandating corporate philanthropy.

3.8. Sophisticated giving

A key element that emerges from our interviews is that India's active UHNW philanthropists are exceptionally sophisticated – committing the time and money necessary to build philanthropic organizations that make a real difference. India's philanthropists, and their executives, display a keen desire to do good, while also being humble enough to understand that social change is complex. Many are also, or have been, experimenting with ideas that are considered innovative in the West.

Dr. Reddy's Foundation, for instance has incorporated variable pay and funds for-profit social enterprises. The Aditya Birla Group has been using randomized control trials, and is working with McKinsey on its impact assessment frameworks. Rohini Nilekani and a few others have committed all or substantial portions of their wealth to building strong foundations that are independent of any business, although they are still a minority.

India's top families operate through their own philanthropic foundations which appear well governed, transparent, and have a long-term orientation. This sophistication is also reflected in a number of philanthropists not only giving substantial sums and endowing foundations, but also encouraging their peers and advocating for giving. As Indu Jain, Chairman of the Times Foundation, explains "A great giver is one who encourages others to give." So it comes as no surprise that part of the Times Foundation's activities is focused on fostering giving.

3.9. Outlook

Contrary to media commentary in the country or perceptions aboard, India's philanthropy sector is alive and growing. The UHNW that are active provide remarkable models for replication for the many that are yet to get involved in philanthropy. However, the sophistication of the sector, combined with the expected growth, gives rise to several challenges.

The most obvious one is a lack of skilled manpower – in particular individuals that are competent and committed to the cause of social change. While there is some movement of people from the corporate world into the philanthropy sector, nobody expects this to solve the problem. Almost all foundation managers indicated finding the right staff was difficult, and philanthropists themselves have often hired their own foundation CEOs from within the company or in some cases from the government. Interestingly, the one foundation we interviewed that did not encounter problems finding the right staff is also headed by someone with long experience in the non-profit sector and a good understanding of its inner-workings. This suggests there is not enough interaction between the NGOs and private philanthropists, and a need for offering staff, and in some cases philanthropists themselves, with education and training.

A second challenge, more easily solved, is one of intermediating effectively between the philanthropists and the broader non-profit sector. Families that give – regardless of whether they operate through a foundation or not – face the challenge of distinguishing between good and poor quality initiatives. The solution adopted by most is to build operating institutions, but this is not necessarily the most efficient approach. Therefore, organizations that can intermediate effectively and offer philanthropists the necessary means of judging quality, can increase or improve the flow of philanthropic funds.

Another challenge is the lack of debate on philanthropy between philanthropists, the government, and the broader non-profit sector. In the absence of open debate critical issues, such as the regulatory system, the role of government, and the lack of interaction between philanthropists and the non-profit sector remain unaddressed.

Finally, a fourth issue is that philanthropists seem to be accumulating a series of risks. They seem to be addressing the same issues – education, health, and children. While many are dedicated to understanding the causes they support, as Rohini Nilekani put it, philanthropists must understand that they cannot "fix the problem from one angle." The close link to business of much philanthropic activity also risks depriving causes that might be inimical to business – such as land rights. And finally, there are murmurs that not all philanthropy is truly philanthropic, especially when funding schools and hospitals.

Despite these challenges the outlook for philanthropy in India can only be considered bright. The current group of philanthropists show the same drive at building these institutions that they took in building their businesses.

What follows, however, is less certain. Will philanthropists continue to create their own institutions or collaborate through a few reliable cause-specific institutions? Will the non-profit sector itself improve its governance standards, in order to be able to provide the level of service desired of philanthropists? And, as family businesses professionalize and grow, will they continue to execute philanthropy through the business, or make the two independent?

4. Methodology and scope

This report has been produced as part of a wider survey of family philanthropy in Asia that was conducted by UBS with the INSEAD Business School in Singapore. For this report UBS Philanthropy Services Switzerland interviewed 10 leading Indian philanthropists and staff from their foundations. The authors had access to a further 8 interviews undertaken by FSG and the Indian School of Business. Finally, the authors also received quantitative survey responses from an additional 9 foundations. The interviews took place between December 2010 and June 2011 (see Table 2).

Interview and survey responses were limited to UHNW families with their primary residence in India and with an estimated networth of over USD 1bn. The interview sample therefore represents 26% of all such families. Taken together with survey responses, this represents 38% of Indian families with assets over USD 1 billion.

If you would like a copy of this study please contact UBS.

Table 2 Interview and survey sample

Number of philanthropists surveyed	26
Of which, interviewed	18
surveyed but not interviewed	7
foundation staff interviewed	4
Estimated combined wealth of interviewees only	USD 65 billion

5. Acknowledgments

This report would not have been possible without the contribution, time and patience of the many philanthropists, foundation professionals and sector experts we interviewed. We are very grateful to all the philanthropists, and their families, who agreed to speak to us and also took the time to respond to the survey.

We are also thankful to all the professionals working for family foundations who shared the successes and the challenges they face in their daily work. In explaining their experience of translating a founder's vision into concrete undertakings on the ground, they provided us with many exciting and inspiring insights.

Finally, we are also very grateful to all the experts who provided us with an understanding of the social and institutional contexts within which Asian philanthropists and their families operate.

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