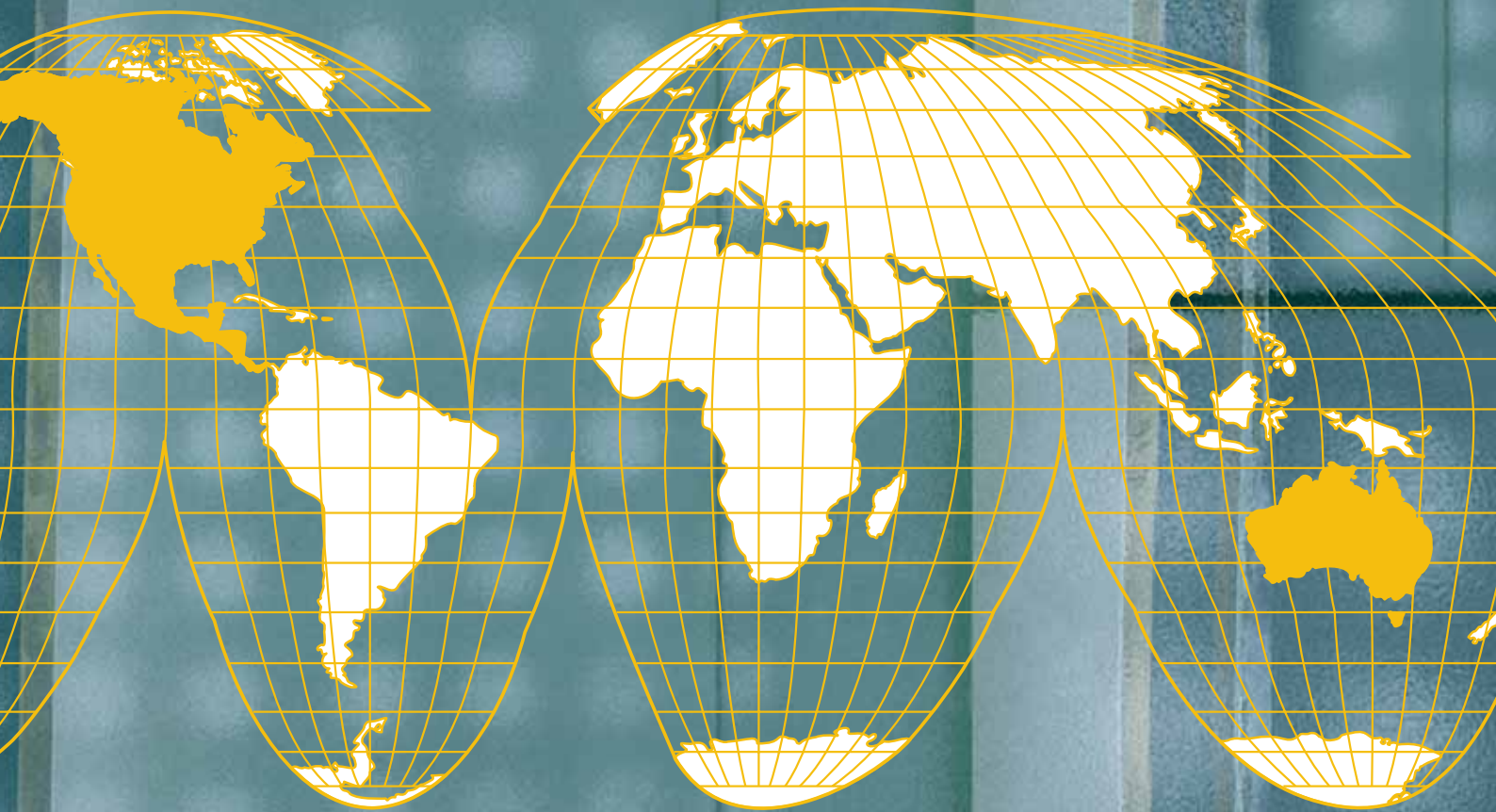


The Development of Community Foundations in Australia

Recreating the American Dream



Queensland University of Technology
Centre of Philanthropy and Nonprofit Studies

Dr Diana Leat

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Foreword

Australia is faced with a challenge shared by many other societies; how can communities participate and benefit from all that modern technology and the global economy can offer and at the same time provide a social setting in which people care for each other and for the common good? What are needed are institutions that provide the means and connections to make investments that meaningfully address social inequities. There are many examples of social institutions in traditional societies in which community members invest together their time, energy and resources to achieve common goals for the community's benefit. Community foundations might just provide a contemporary response to the lack of current capacity within modern society to provide the means for people to care for each other.

It should be no surprise to anyone that Diana Leat, as the inaugural Myer Foundation Fellow of the Centre of Philanthropy and Nonprofit Studies at the Queensland University of Technology, should have been asked to write a paper on community foundations. She is well placed to do this as she is so familiar with the community foundation movement both here and abroad. The Centre of Philanthropy and Nonprofit Studies has also demonstrated a keen interest in focussing on topics of strategic interest to the nonprofit and philanthropic sectors, and community foundations are at the forefront of thinking about the means to support stronger more self reliant communities.

Diana's analysis of community foundations has a strong emphasis on their relevance to community wellbeing. This is as it should be. Communities are the hub of society and provide the locus for human survival. Of course, families are central to their own and their members' survival, but when it comes to larger groups of people communities matter most.

In traditional societies, social investment is greatest at the community level. This is manifest in some extraordinary (to us) social institutions. For example, Barabaig herders in north central Tanzania, with

whom I am familiar, outplace as helpers their adolescent children to families of friends or relatives. They expect boys to relate most closely to their paternal uncles and not their fathers. Why? A child's allegiance must be to the community and not the family because it is thought that too strong a tie to family undermines security through the pursuit of self-interest to the detriment of the common good.

Most modern societies have moved beyond survival through higher levels of material security. However, their survival may be threatened by a growing individualism that encourages people to pursue self-interest and disregard the wider interests of the community. Technology enables people to connect with what and with whom they want, and this can distract them from what is going on around them. This is a particular problem when individuals are not aware of, or do not care about, the needs and interests of others: something that is impossible in traditional society.

Where this occurs, we find a disconnection between material and social security. Recent studies in Australia show that high levels of economic output provide no surety against human suffering and social dysfunction. It has been revealed that the most important factor that makes a community active, confident and resilient is the level of social cohesion it enjoys – what people might call having a 'sense of belonging'. Without it, Tony Vinson (2004) in his study of Community Adversity and Resilience in Victoria and NSW found that there was a direct correlation between low levels of social cohesion and such things as school drop-out rates and numbers of those in prison.

Sadly, there are few institutions in modern society that replace those enjoyed by traditional societies. Governments and community organisations have failed to fill the void. Governments have the means, but most often lack the connection to community to make investments do more than provide service and ameliorate social problems. Community

organisations have the connections, but lack the means to alter the causes of disadvantage and dysfunction.

Community foundations offer something useful here. Diana Leat has revealed that Australia has a vibrant, if small, community foundation movement. However, it is sustaining a distinct type of community foundation that is the product of entrepreneurial zeal in response to the hardships of small economies and populations, often in relative isolation. As she points out, the model of community foundation that is evolving in Australia may have advantages over some of those found abroad. However, to fulfil that potential they must do more than is being done by government and community organisations, by being genuinely from the community, by the community and for the community.

By community foundation I mean more than the accepted definitions that focus on the repository of gifts or grants (restricted and unrestricted) from various donors for allocation in a particular geo-political area run by a board of local leaders. Here it is important to draw the distinction between the function of community foundations (social benefits) and the processes that they adopt to bring people and resources together to deliver on desired outcomes. It is the community strengthening processes of partnering and networking between the community groups/organisations, various levels of government and businesses that can bring about real change in the ways communities can work for the common good.

In this expanded guise, community foundations can genuinely help strengthen communities, adding real value to the conduct of government and the

philanthropic sector. However, if they are to flourish and fulfil the potential that Diana Leat believes they can, then they not only need support from local subscribers, but also positive collaboration with all levels of government and business to deliver innovative means to achieve the important outcomes that are needed.

Those involved with communities will find comfort in Diana Leat's analysis. She describes a phenomenon that is perhaps the most important community development in terms of resources made available since the first emergence of philanthropic trusts and bequests in the early 1900s.

By writing this paper, Diana Leat has done Australia a big favour: a favour not afforded the development of community foundations elsewhere. Had the community foundation movement in the US and Europe had these reflections earlier in their evolution they might have developed differently. What Australia has and must cherish is the emergence of community foundations that are directed more towards applying donated funds for community development through innovative means than the provision of donor services and a drive to build endowments.

Community foundations are still few in number and their assets small, but they do offer the potential to change the way communities engage with a range of stakeholders to unite and support actions that deliver benefits greater than their respective contributions. Let's hope that community foundations can deliver on the potential they offer to provide the means by which people can work together to make communities throughout this country better places to live.

Charles R Lane

Introduction

Community foundations have been described as the fastest growing form of philanthropy. This report focuses on the development of community foundations in Australia as one especially important example of the growth of community foundations world-wide.

Origins and Global Growth of Community Foundations

The first community foundation was started in Cleveland Ohio in 1914. Frederick Goff, a lawyer and President of the Cleveland Trust Company, concerned about stagnant assets in private charitable trusts, wanted to create a legal means of over-riding the wishes of donors (the cy pres rule) in trusts whose purposes had lost their usefulness over time. Goff came up with the solution of:

'A new type of foundation directed by a partnership between trustee banks and a responsible group of citizen leaders (to) provide unified management for a number of charitable trusts. When leaving their endowments to the foundation, donors would agree that their charitable directives would be honored so long as they were not obsolete or harmful and that their objectives could be altered by the foundation's directors as changing circumstances might require, without resort to the courts.' (Nielsen, 1996; see also: Hall, 1987 and 1989; Magat, 1989; Hammack, 1989).

Thus the original idea of community foundations was based on releasing assets without breaking trust with donors, and providing efficient, unified management. Over the years this purpose has been adapted and, as discussed below, community foundations stress other purposes and aspects.

From 1914 to the present day, growth of community foundations in the US has been variable, both between areas and over time. In 2003, the Council

on Foundations estimated that there were around 700 US community foundations, with more in development (WINGS-CF 2003, 5).

In Canada, the first community foundation started in 1921, again via the banking world (Feurt and Sacks, 2001). As in the US, development was initially fairly slow and patchy, and by the 1980s around 35 community foundations had been formed. Community Foundations of Canada was formed in 1992, and throughout the 1990s development speeded up with 55 new community foundations created. In 2003 it is estimated that there are over 125 community foundations in Canada.

In the 1980s and 1990s, community foundations were introduced to the UK by the then director of Charities Aid Foundation, drawing on experience in the US and with significant financial support from the C.S. Mott Foundation. Community Foundation Network, a membership body supporting and promoting community foundations, was formed in 1991. In 2003 there were around 65 community foundations at various stages of development.

In 1997, again with the support of the C.S. Mott Foundation and others including Atlantic Philanthropies, the European Foundation Centre created the Community Philanthropy Initiative designed to increase and support the growth of local community philanthropy, including community foundations in wider Europe.

The first community foundation in Australia – the Victorian Community Foundation – was established in 1983, yet again on the initiative of a bank. Under the auspices of the bank, community foundations were soon established in two other Australian states. But it was not until the late 1990s/early 2000 that the development of community foundations began to take off. By 2003 there were nine established community foundations in Australia, with a further 13 in various stages of development.

During the mid/late 1990s, community foundations, and organisations to support them, began to grow dramatically around the world. By the late 1990s community foundations existed in North America, The Caribbean, South America, Western Europe, Central and Eastern Europe, the Middle East, Africa, and Asia and the Pacific. By 2000 there were estimated to be about 230 community foundations, or 'community foundation like organisations' outside the US (Sacks, 2000); two thirds of these were in the UK and Canada.

Organisations to support community foundations have also grown. WINGS-CF, a sub-group of WINGS, was created in 1998 to provide worldwide support for community foundation support organisations. By 2000, support organisations existed in Russia, South Africa, Mexico, Poland, Brazil, the UK, Canada, and the US, among others.

Other initiatives to support learning between community foundations in Europe and the US followed. The Transatlantic Community Foundation Network (TCFF) began in 1999, funded by the King Baudouin Foundation of Belgium and the United States and the German Marshall Fund of the United States, with support from the C.S. Mott Foundation. Also in 1999, the Bertelsmann Foundation and the C.S. Mott Foundation established the Transatlantic Community Foundation Network to identify and share good practice and to promote community foundations.

According to the latest (2003) report from WINGS-CF there are around 1100 community foundations worldwide, of which 365 are outside the US – a 60 per cent increase in 3 years. The number of countries with community foundations has risen from 30 in 2000, to 37 in 2003. Given these figures it is not surprising that community foundations claim to be 'the fastest growing form of philanthropy' (WINGS-CF 2003). In 2002 the World Bank announced a new initiative to support community foundations in developing areas.

Factors in the Global Growth of Community Foundations

There is a tendency in the non-profit sector to assume that replication of good ideas and practices 'just happens' by some sort of process of infection

or osmosis. In reality, diffusion and implementation of ideas and practices that work is rarely so simple (Backer, 1995; Leat 2003). So why have community foundations spread in the way they have?

One important factor has been the new neo-liberal global policy context that has encouraged interest in 'growing philanthropy', especially at a local level. Within the neo-liberal policy agenda, the rationale for encouraging greater private philanthropy has varied both between countries and over time. One rationale has been the simple one of taking some of the 'burden' of public expectations and provision off the state. With more private money being devoted to public benefit, the state could be 'rolled back', reducing its responsibility for, and involvement in, provision of public services. Another rationale for encouraging private giving and greater philanthropy has been that this would, by its very existence, somehow contribute to building 'civil society'.

In the international field, the attractions of growing local philanthropy had an additional element. During the 1990s many US foundations began to move away from giving directly to local NGOs and toward supporting the creation of a philanthropic infrastructure that would be self-sustaining (Global Equity Initiative, 2002).

Creation and support of community foundations, in particular, was attractive not only because this offered the hope of developing a sustainable, local philanthropic infrastructure, but also because it ameliorated some of the legal and trust problems associated with cross-border giving. Legal tax-related problems arise if US foundations do not give to public charities, or charities that fulfil the US criteria of public charities, and if they cannot demonstrate 'expenditure responsibility' (Flaherty, 1992). Trust problems arise because foundations cannot so easily assess and monitor out of country grants, and because cross border grant recipients may be perceived as less 'educated' in the norms of good practice. Community foundations fulfil the US criteria for public charities, thus providing a 'one-step' means of both demonstrating expenditure responsibility and ensuring accountability, as well as providing a means of educating grant recipients in the niceties of 'good practice'.

Another significant factor in the growth of community foundations has been the activities of a number of key foundation players acting as, in effect, trans-national policy entrepreneurs.

Working in a wide range of countries, a variety of tools have been employed to encourage and support community foundations. Tools have included financial support and challenge grants; data gathering and academic study (eg at City University New York); provision of knowledge, skills and technical support; exchanges of personnel, study visits and networking; the recruitment of existing organizations, and the creation of new ones, to act as community foundation support organizations. Widespread use of information technology was a key factor; many of the methods employed in promoting community foundations globally would not have been possible prior to widespread availability of email and the Web.

The total amount of money spent by foundations, and others, on developing community foundations world-wide is unknown but certainly runs over a hundred million US dollars. The C.S. Mott Foundation alone spent \$US74 million on the promotion of community foundations in the twenty years from 1980–2000 (C.S. Mott Foundation, 2001). Although the C.S. Mott Foundation was one of the leaders in the field of community foundation promotion, it was by no means the only player. The cast of players included many of the biggest and best US foundations, as well as leading foundations in the UK and wider Europe. Foundations involved in promoting community foundations include: the Ford Foundation, W.K. Kellogg, James Irvine, John S. and James L. Knight, Kresge, David and Lucile Packard, Wallace-Readers Digest, German-Marshall, the Lilly and California endowments, Esmée Fairbairn Foundation, Atlantic Philanthropies, King Baudouin Foundation, Cariplo, the Bertelsmann Foundation, and others.

How effective have strategies to promote community foundations been? Have some been more effective than others? And, if so, why and under what circumstances? More generally, what can we learn from the community foundation story about the global transmission of philanthropic practices and institutions?

Detailed answers to these questions are beyond the scope of this short study. Nevertheless, analysis of the growth of community foundations in Australia is an important starting point in answering these questions. Unlike the UK and much of Central and Eastern Europe, Australia has not received any significant financial assistance from external funders. Unlike the UK and much of wider Europe, Australia has not generally been included in other transatlantic exchanges to promote community foundations. Yet, community foundations in Australia have begun to take off. Does the Australian experience suggest that community foundations can develop without the incentive of external challenge grants and other forms of support? From the Australian story, what can we learn more generally about the conditions under which community foundations develop?

Scope and Structure of the Report

The report is in five parts. The first section tells the story of the origins and growth of community foundations in the US. This story is important for at least two reasons. First, it sheds light on some of the conditions under which US community foundations flourished, and failed to flourish. Second, the real US community foundation story is an important corrective to the optimistic myths on which Australian community foundations have been, in part, founded. The ‘American dream’ of community foundations has had some very positive functions in the growth of community foundations in Australia, but, if not fully understood, may have a damaging sting in its tail. The second section tells the story of the development of community foundations in Australia, relating this to the analysis of conditions for growth derived from the US experience. The third section discusses different models of community foundation and the ingredients of community foundations. The fourth section outlines some challenges ahead for community foundations in Australia. The final section reflects on implications of the Australian story for understanding of the general conditions under which community foundations develop.

Before examining the growth of community foundations in the US, a note on definition is important.

A Note on Definition

One powerful characteristic of the ‘community foundation movement’ has been ambiguity and flexibility in the precise definition of a community foundation. Modern US based definitions tend to stress provision of donor services as a key characteristic. In fact, as discussed below, this aspect is a relatively recent addition.

Hall suggests that community foundations differ from the majority of foundations in the following ways. ‘Rather than being based on endowments created by a single wealthy donor or family, they bring together endowment funds – large and small, restricted and unrestricted – to benefit charitable endeavours in particular cities or regions. Their boards are not self-perpetuating: many members are public officials serving *ex-officio*, others are designated by community organisations for the purpose of assuring a broadly representative character to the foundation’s grantmaking decisions’ (Hall, 1989, 180).

Initially this paper works with a modified version this definition: Community foundations rely on *gifts/grants* from a *multiplicity* of donors, to benefit a particular *geographical area*; their *boards are not self-perpetuating* and may include some *public representation of some sort*.

1. Myths and Realities of Community Foundations’ Growth: The ‘American Dream’

Hype and Hope

This section outlines the story of the development of community foundations in the United States. The story of the growth of community foundations in the US is not the ‘American dream’ sometimes portrayed. The real story is more complex. Success was variable; there were periods of stagnancy, and areas where community foundations did not easily take off; some of the early US growth was, in part, a function of transfer of existing funds and of powerful, local champions sometimes pursuing other agendas. Forgetting the real history of community foundations in the US has had positive and negative effects. The positive effect has been to create a powerful marketing tool in the development of community foundations elsewhere, emphasizing the hope offered by community foundations. The negative effect comes when this ‘American dream’ turns into unreal hype, creating an illusion that community foundations can be successfully developed and sustained in the space of just a few years with minimal support and resources.

A Brief History of Community Foundations in the US

A chapter of this length cannot do justice to the complexity of the history of community foundations in the US. The aim here is to highlight certain key phases in order to draw out the conditions under which community foundations appear to have flourished.

In the Beginning

There are various more or less heroic stories of the start of community foundations, but few, if any, dispute the fact that Frederick Goff started the first community foundation in Cleveland Ohio in 1914.

As noted above, Goff, a lawyer and president of the Cleveland Trust Company, was concerned about stagnant assets in private charitable trusts. He sought a legal means of breaking the dead hand rule (cy pres) over trusts that had lost usefulness over time, thus, in effect, over-riding the wishes of donor.

Goff’s invention took place in the context of wider efforts to separate religious giving from secular philanthropy and to establish new organisations for both. The Cleveland Chamber of Commerce took the lead in creating a new federation of Charity and Philanthropy (1913) – emphasizing secular virtues of business-like efficiency and professional expertise. The Cleveland Foundation fitted well in this context. Goff, as president of Cleveland Trust Company, wanted the Foundation to serve two purposes: to accumulate and manage permanent charitable endowments rather than raising annual operating funds, and to provide leadership of large foundations concerned with seeking out causes, finding and promoting new social policies that would put the results of social enquiries into effect ((Hammack, 1989). To ensure the new foundation would carry out public purposes and contribute to the new coordination of secular philanthropy, Goff emphasized the importance of public representation on the distribution committee, to be composed of five people, two from Cleveland Trust Company and one each chosen by the mayor, the senior judge of the US District Court and the senior probate judge of Cuyahoga County.

Goff’s community foundation also provided protection for charitable funds by dividing their administration so that investment responsibility lay with professional corporate trustees serving in fiduciary capacity, whereas the power to make grants and vary charitable purposes lay with a separate distribution committee, with knowledge

and experience of community needs. Selection of the distribution community by local elites served: 'To engender confidence in the integrity and independence of the committee on the part of potential donors and the public' (Sugarman, 1977, 1689).

Sugarman sums up what he sees as 'the genius' of this plan.

'(It provides to testators or donors the stability of professional management of charitable funds and the continuity that could be expected from such management in a bank or trust company as the corporate trustee; at the same time, it provides assurance that while the donor's charitable directions will, so long as they are beneficial, be honored under fiduciary concepts governing a trust, the charitable uses and purposes will not be rendered obsolete or harmful, since a responsible group of community leaders will be in a position to exercise their best judgment regarding the beneficial use of such funds in the events of changed conditions.'
(Sugarman, 1977, 1689)

And all this is done without the delays, expense and possibly narrow limitations that would be involved in application to court for cy pres scheme.

Thus the rationales for creating, or supporting, the first community foundations were complex, drawing on and in different agendas. There was a further agenda into which community foundations fitted especially well, and one that has considerable contemporary relevance.

In the early decades of the 20th century in the US, private foundations exerted considerable influence on social policy at national level. But leaders in major cities were ambivalent about the increasingly national character of American life and its effects on the character of towns that were once relatively isolated and self-determined. Thus the beginnings of community foundations came at a time of perceived increasing national centralization of power and influence to the perceived detriment of local autonomy – conditions that were also relevant in many countries in the 1990s and later.

Early community foundations also fitted well with Carnegie's Gospel of Wealth (published in 1889) calling for responsibility by the wealthy, and advocating scientific philanthropy using charitable resources to maximum effect. Carnegie's message was particularly appealing to many in mid-size cities 'because they transformed their desire to lead from an ineffectual yearning for lost power to a positive injunction to seek it' (Hall, 1989, 186). Furthermore, community foundations, and federated giving campaigns, were seen as providing a path between socialism and laissez faire capitalism. Again, it could be argued that parts of Australian society, disenchanted with the values of big business and government, in the early 21st century are searching for a similar sort of middle way between socialism and the excesses of capitalism.

Community foundations, rather than merely or even primarily a way around the costs and constraints of cy pres arrangements, were attractive because they appealed to the communitarian concerns of elites in provincial cities. At the same time, early community foundations through their links with the social survey movement and their emphasis on 'public representation', rather than the self-perpetuating boards of national private foundations, appealed to the prevailing value attached to scientific rationalism and to self-determining democracy. The fundamental purpose of the surveys, undertaken by some early community foundations, was 'to make the public want certain conditions changed'. Change would come when 'democratic institutions, both private and public, recognized that the public demanded it' (quoted in Hammack, 1998, 334). Again the parallels with contemporary concerns with local democracy are close.

The First Two Decades

Following Goff's lead, other Trust Companies providing services to people with large estates promoted community foundations. In 1920, community foundations gained a new champion in the form of the Trust Division of the American Bankers Association's newly established Committee on Community Trusts.

Initially, community foundations grew in the Midwest and North East where nonprofit organizations were already established and

important. Community foundations fitted well into the civic culture of many of these cities and chambers of commerce took the lead in setting up federated fundraising campaigns and community foundations (Hammack, 1998). By contrast, community foundations did not so easily develop on the East Coast, partly because there was less 'willingness to trust the public to use community charitable resources intelligently' (Hall, 1989, 188); or perhaps more accurately, given that board members of community foundations were hardly typical members of the middle class, there was less trust in, or greater fragmentation of, civic elites. Community foundations at this time tended to flourish in cities where 'civic leadership was clearly articulated and deeply rooted in patterns of well-established deference, it was easy for urban elites to conceive of themselves as representing the public' (Hall, 1989, 190).

New York, for example, had wealthy potential donors, but the size and diversity of its population and the complexity of cross cutting elites hindered commitment to a community foundation with a 'community-wide' purpose. When New York Community Trust was established it called itself a 'community of funds, a community of trusts' and did not limit itself to funds designed to serve the New York region.

Far from being an over-night success, in this first 20 years the development of community foundations was slow and geographically very uneven. As Loomis, of the Chicago Community Trust, wrote in 1949: the 'glowing expectancy of large and easy money which seems to have animated many of the earlier Community Trusts (was) seldom realized. Three of four of the early Trusts were fortunate in having substantial funds turned over to them for administration soon after they were organised', but, he added, 'most of the Community Trusts which have achieved any success at all soon found they would have to settle down to hard work, to diligent, patient, intelligent promotion of the community trust idea on its own merits' (quoted in Hammack 1998, 338). At this time, support came mostly from well-known business leaders and ordinary citizens who identified with the community, but these smaller contributors were never enough to

support the notion of community foundations as foundations rooted in the community.

The Depression

The Great Depression put a stop to community foundation growth, and many existing community foundations became inactive. Apart from reduction in disposable income, there was loss of confidence in banks and community foundations' erstwhile champion, the Committee on Community Trusts of the Trust Division of the American Bankers Association, was wound up. More generally, people had lost confidence in the reliability and power of private organizations and business leaders and, during the 1930s, also lost confidence in the abilities of nonprofit organizations to meet social needs. The result was a renewed faith in, or expectation of, government as a potential solver of social problems.

The New Deal had important effects on community foundations not only in underlining the role of (national) government in promoting social justice and providing for its citizens but also in its effects on wealthy donors. As Hall puts it, when the New Deal turned left the wealthy became defensive, distrusting forms of giving that would place charitable funds in public control. Private foundations came to be seen as more attractive, providing tax efficiency and control, as well as 'an important component in the institutionalisation of dynastic wealth' and 'community trusts were viewed as curious artefacts of a vanished time' (Hall, 1989, 191). The depression had the further effect of forcing closure of many local businesses and cutting people away from their communities of origin.

The Post War Years

In the 1950s, interest in community foundations was revived, not, as in the past, by banks but by community planners. One result of this moving away from close ties with banks was that community foundations increasingly took the form of charitable corporations rather than adopting a bank trust agreement. This had the further effect of allowing community foundations to adopt multiple trustee plans, thus giving all banks providing trust services an incentive to attract donors.

During the 1940s and 1950s, community foundations began to grow again as they found new champions and allies in the form of Community

Chests. With the post war ending of many corporate welfare programmes, there were new demands on Community Chests to provide additional resources for buildings, equipment and so on. During the 1940s and 1950s, many community foundations supported, or were supported by, community chests (although some rejected this role as abandoning their responsibilities to make distributions).

The 1960s and Early 1970s

After the growth of the 1950s and early 1960s, the later 1960s and 1970s were another low period for community foundations. Total assets of community foundations measured in constant dollars showed little growth. Many community foundations had become stuck in a paternalist style of grantmaking which was now seen as old-fashioned and out of touch with new thinking. White, male dominated, Protestant community foundation boards were no longer accepted as legitimate 'representatives' of the community and were challenged by the civil rights and women's movements. Community foundations' grantmaking and governance structures lagged behind the mood of the 1960/1970s, resulting in a loss of trust.

Some of the larger community foundations, with unrestricted endowments and imaginative staff and board members, were quick to change. Between 1961 and 1964, some community foundations 'were pursuing a new purpose, that of enlarging the sense of public – and government-responsibility' (Hammack, 1998, 345). Again, community foundations demonstrated their flexibility to encompass new purposes and approaches to giving. This emphasis on enlarging public and government responsibility has obvious resonance with the earlier links with the social survey movement; and, it is worth noting, provides an interesting contrast to the way in which community foundations are often presented today as substitutes for local government.

In this period, community foundations found a new and powerful champion. The Ford Foundation's Public Affairs Program Director, Paul Ylvisaker was looking for ways

*'to move out of safe and sane hospital,
university and similar do-nothing grants...
to begin getting after the more gutsy,
urban problems. Ford block grants to local*

*foundations (could)...address the tough
problems – get other philanthropists involved
... and gain large-scale leverage necessary for
getting the country to wake up to social change'
(Ylvisaker quoted in Hammack, 1998, 343).*

Interestingly, at around this time, key business and civic leaders were becoming dissatisfied with the Cleveland Foundation's unimaginative grant-making to well established charities which less and less reflected the real needs of Cleveland. The plan was to establish a new foundation which, in many respects, took community foundations back to their old links with research and the social survey movement. Again, the agenda was closely tied in with concerns around the structure and quality of local government. Concerned that the metropolis has no regularised democratic procedures for choosing its goals and allocating resources the hope was that 'the foundation might, in part, play the role of a regional government' (Hammack, 1998, 334).

While these new approaches appealed to some, they also attracted criticism. Community foundations were in difficulties for other reasons. Community foundations assets remained largely stagnant due to unfavorable financial market conditions; and uncertainties generated by the series of enquiries into the state of philanthropy and foundations did little to encourage growth (Brilliant, 2000).

In the mid to late 1970s, community foundations came back into the limelight. With the implementation of the 1969 Tax Reform Act, community foundation growth revived somewhat. The Patman Committee, Filer and Peterson Commissions' enquiries leading up to the Act had revealed various aspects of private foundation structures and practices, undermining their reputations and perceived trustworthiness. To Congress and others, community foundations may have seemed an attractive means of both supporting philanthropy and avoiding some of the alleged shortcomings of private foundations.

The Act not only gave 'public' foundations greater tax advantages than private foundations but also imposed what some saw as burdensome reporting and administrative requirements on private foundations. This gave a double advantage to community foundations. Community foundations,

indirectly, had a new champion in the form of federal government.

Community foundation assets grew by 30 per cent from 1970 to 1972 and another 10 per cent in 1973. Data from 60 community foundations for a 1973 Council on Foundations survey suggested that 46 per cent of the \$40 million in recent gifts came from private foundations. In another survey, 20 community foundations indicated that between Jan 1, 1970 and mid 1973 they had received the assets of 91 dissolving private foundations, with transferred assets in excess of \$60 million (Sugarman, 1977).

Growth in the 1970s was most dramatic in the West and South which had previously lagged behind. In part this was due to changes in tax laws discussed above; it was also related to post war relocation of industries and employees to underpopulated regions of the West and South. In these newly prosperous places:

'community foundations were viewed as emblems of urban achievement. They also seem to be tied to the rise of new businesses. Lacking deep community roots, these new leaders were willing to bypass older charitable organizations to establish new ones more reflective of their personal interests and management styles. Because many of them were politically conservative, they regarded local focused voluntary activity as an important alternative to government action while shying away from the private foundation form, which was tainted with an aura of liberalism' (Hall, 1989, 194).

The war in Vietnam had also changed the national mood. Trust in government was undermined and people again turned for solutions to philanthropy with a local remit. Further indirect support for the need for local philanthropy came from the Reagan government's policy of reduced federal spending; support was further underlined by Reagan's promotion of private charity via the Task Force on Private Sector Initiatives. Although it appears to be widely accepted that the Task Force did not do very much, it raised the profile of philanthropy and sent a clear message that this was the way of the future.

Further support for community foundations came again from the private foundation world. The Ford Foundation had already begun to champion community foundations. In the 1970s and 1980s other national foundations took up the baton, led by C.S. Mott Foundation. Mott singled out four community foundation purposes as particularly important:

- Developing permanent unrestricted endowment;
- Responding to emerging changing community needs;
- Providing a vehicle and a service for donors with varied interests; and
- Serving as resource, broker and catalyst in the community.

The very fact that these are the purposes singled out suggests a serious lack of trust in the capacity of local government, and metropolitan government in particular, adequately to understand and respond to the needs of local areas.

'These are the general agenda-setting, decision-making functions Paul Ylvisaker has in mind when he describes community foundations as "private legislatures". They are also the functions pioneered in Cleveland through surveys and demonstration projects to provide, through a private organisation, a kind of leadership unavailable through metropolitan government' (Hammack, 1998, 346).

In 1979, C.S. Mott Foundation gave seven small struggling community foundations a total of \$1.4 million for administrative costs, projects and endowments with matching requirements. Between 1982 and 1986, it gave Council on Foundations \$460 000 for a programme of technical assistance to community foundations, and \$740 000 to 17 community foundations receiving such assistance. In 1987, the programme was renewed for another two years. Similarly, the Ford Foundation supported community foundations with grants of \$1.5 million to 16 community foundations working on teen parenthood programmes. In 1986, Ford also provided 8 community foundations with challenge grants of up to \$500 000 each, and with MacArthur Foundation, to a further 19 in 1988 (Berresford, 1989).

During the 1980s community foundation assets grew rapidly again. In part this was due to the factors outlined above, but it was also related to a change in approach by community foundations. Following the Tax Reform Act some community foundations began emphasizing and actively selling donor advised funds, and special interest funds, attracting money that might otherwise have gone into private foundations (Hall, 1989, 181). The combination of focus on the purposes above, singled out by the C.S. Mott Foundation, and the emphasis on selling donor advised funds marks an important point in the development of community foundations. This, in an important sense, was the birth of what has come to be seen as the 'gold standard' model, the model to which many community foundations are encouraged to aspire. Viewed in the context of the history of community foundation development, this elevation of donor services for endowment building to a prime position in community foundation purposes is a very modern invention, and, historically, only one of a range of possible purposes of community foundations.

In 1989, when community foundations in the US celebrated their 75th birthday, community foundations were growing, although 5–6 community foundations continued to hold over 40 per cent of all assets. Despite grants for administrative costs, and the practice of community foundations making grants to themselves for such purposes, questions about rising administrative costs were being raised which would later turn out to be important (Council on Foundations, 1989).

The 1990s and Beyond

In the 1990s and beyond, community foundations entered another growth phase. In 2000 there were estimated to be 664 community foundations; a 12.3 per cent increase from 1999 and a 150 per cent increase since 1990 (Ocejo, 2001).

But this increase masks huge disparities in geographical distribution and assets. In 2000, the top 20 per cent of community foundations controlled more than 88 per cent of the sector's \$31.5 billion in total assets, with the top 5 per cent holding 60 per cent. The bottom 60 per cent of community foundations holds only 3.5 per cent of assets (Ocejo, 2001). This disparity in assets

is, perhaps unsurprisingly, significantly related to geographical disparities in wealth. For example, in the year 2000 alone California received over 25 per cent of total gifts to community foundations.

Almost half of community foundations are still located in the Midwest 'due in large part to the effort and support of a few private foundations interested in promoting their development and expansion of community foundations' (Ocejo, 2001). A survey of gifts to community foundations revealed that gifts from foundations totalled \$44 million in 1987, as compared with \$55.7 million from individuals and \$48.5 million from bequests (Council on Foundations, 1989).

Geographical and wealth disparities may also be related to the long-standing link between community foundation formation and issues to do with metropolitan government. 'As private organizations with quasi-public boards, strongly public purposes, and expansive territories, community foundations may be particularly well designed for such a role in metropolitan regions where no central city houses a large portion of the total population' (Hammack, 1998, 349).

The trend for community foundations to focus on donor services has solidified as the variety of giving options, including commercial gift funds like Vanguard and Fidelity, have increased. But this emphasis has also created tensions between attracting new donors and maintaining strong ties to local communities. 'Evidence suggests that community foundations may actually be moving away from supporting grass roots social change groups' (Ocejo, 2001). Arguably, choosing to focus on serving donors may actually risk the foundation's real competitive advantage – its close community ties and knowledge.

In 2001 and 2002, gifts to community foundations began to fall again, and, at the same time, return on investments dropped (www.columbus-foundation.org). On top of that, community foundations began to acknowledge what had been apparent for some years – fees were not covering costs. This has raised questions about the cost-effectiveness of both some donor advised funds and regional offices designed to ensure coverage of out-lying areas. It remains to be seen how community

foundations will respond, but the very fact that these are issues underlines concerns that community foundations in smaller and poorer, geographically isolated communities which lack resources and networks necessary to attract new donors, 'can't compete in an industry increasingly driven by economies of scale' (Ocejo, 2001).

Key Points

This brief account of the development of community foundations in the US highlights a number of key points of particular relevance in understanding the development of community foundations in Australia.

The review highlights US community foundations':

- slow and uneven growth¹; uneven geographical coverage; uneven distribution of assets. Community foundations in the US were not, as often portrayed in Australia, an overnight runaway success. They took decades to develop; they went through low times and good times. They still do not exist in many places, and were much slower to develop in some places as compared with others. And very few community foundations have the huge assets of the leaders in the field; indeed, those often presented as 'representatives' of the US community foundation movement are very unrepresentative;
- relatively greater establishment in areas with an established non-profit culture and infrastructure;
- relatively greater success in both metropolitan (with populations over 1 million people) and wealthy areas; and closely related;
- relationship to desires for, and faith in, the efficacy of, local self determination in the context of perceptions of centralizing state and federal government.

The history of community foundations in the US highlights the fact that community foundations go through good and bad times. They appear to grow fastest when they have:

- champions;
- favourable economic and financial market conditions;

- favourable tax and legal conditions relative to the alternatives.

The review above also reveals:

- the diverse and changing rationales for community foundations. For example, for Goff community foundations offered a cheap alternative to city pres; for others, community foundations were a way around the inadequacies of metropolitan government; for some, at some periods, community foundations were about enlarging government responsibility; for others and at other times they were about reducing it;
- community foundations' diverse and changing purposes and styles of operation. Community foundations have been social survey researchers, collecting houses for traditional charities, local pressure groups, and providers of services to wealthy donors. What many think of today as the gold standard model for community foundations – the donor service endowment model – is only one of several purposes/styles, some with a rather longer pedigree.

Running through the US history are two deeper themes. One theme is that of oscillating perceptions of the proper roles and responsibilities of the state and local philanthropy in ensuring the public good. When trust in government is high, and low in nonprofits, growth of community foundations tends to slow, and vice versa. The second, related, theme concerns perceptions of the nature and source of key problems and their solution. Community foundations depend on a belief that, at least some, key problems are capable of being solved at local level.

The growth of community foundations appears to be related to a complex set of 'areas of trust'. These 'areas of trust' include a set of inter-related beliefs about the nature of problems, how they can be solved and trust in public vs private and national vs local institutions to achieve that; trust in the power, and growth, of money; trust in the community foundation itself and, in particular, its governance.

Lack of Trust in National/Regional Government

- Perception of problem as lack of national government understanding of local problems

- Distrust of existence/capability of alternative regional government

Lack of Trust in National and/or Regional Foundations

- Lack of trust in willingness and capability of national/regional foundations adequately to understand and provide for local areas

Trust in Localism

- Perception of problems as local and capable of local solutions

Trust in Local Nonprofits

- Belief in, or at least acceptance of, the morality and value of 'private legislatures'
- Trust in the existence and capacity of local nonprofit organizations to provide solutions
- Trust in efficiency/coordination in charitable giving and grantmaking as a solution

Trust in the Power of Money

- Trust that money is out there and available
- Trust that money (eg rather than knowledge, management etc) can solve problems of/ stimulate non-profits

Trust in the Future and Financial Institutions

- Belief in the legitimacy of holding money in endowment
- Trust in financial institutions, and the stability of financial and legal structures
- Trust that investments will produce returns greater than inflation
- Trust that community foundations are legally and financially (tax efficient) attractive in comparison to the alternatives.

Trust in Community Foundation Governance

- Trust in civic elites/leadership
- Trust that others (the community foundation board) can do investing and giving/grantmaking better
- Belief that unknown, future others will do it better
- Existence of trust in 'the public' (ambiguously defined) to do public good and use resources well.

These are some of the general contextual conditions, thrown up by the review above, for the development of community foundations in the US. At various points in time and in different regions some of these conditions have been missing, and community foundations have failed to develop or have languished. Similarly, it appears that in other parts of the world, when these conditions have not been present, development of community foundations has been difficult. For example, development of community foundations in parts of CEE in the 1990s suffered from lack of trust in civic elites, the nonprofit sector and financial markets. To what degree community foundations need these as prior conditions and to what degree they can help to create them is another matter.

Chapter note

1. Growth of US Community Foundation Assets, 1921–2001 (adapted from Hammack, unpublished paper). As the table below demonstrates, community foundations grew rapidly in only three of eight decades between 1921 and 2001.

Year	Total Assets in 2001 US Dollars (million)	Average Annual Growth Rate in Period
1921	69	
1931	431	52
1941	651	5
1951	749	42
1962	2492	21
1973	4787	8
1983	4979	0.4
1987	7357	12
2001	31 630	22

2. Developing Community Foundations: An Australian Story

Background¹

Australia shares a number of characteristics with the US. Australia is a geographically vast country, with a heavy concentration of population in metropolitan areas and huge, sparsely populated regional and rural areas. Like the US, Australia is a federation of states that retain strong identities and allegiances (Australian federation is little over a century old). States differ significantly in their climate, cultures and economies. People in rural areas and away from the metropolitan centres doubt that they are understood by state and federal government, and believe that while they generate much wealth, the cities get the greater share of resources.

Like the US, Australia has been built on immigration. Unlike the US, Australians have always believed that government should provide, and in large measure continue to do so. Like the US, Australia has a thriving voluntary sector, but its composition and funding are somewhat different (Lyons, 2001). Unlike the US, Australia does not have a strongly developed foundation sector (Leat, 2003).

There are undoubtedly many wealthy people in Australia. In the financial year ending 2000, over 2,000 people declared taxable income of over \$1 000 000; this is clearly a gross underestimate of people with incomes over \$1 million, most of whom would be expected to make arrangements keeping them out of this category. Although there is a small number of high profile philanthropic givers and foundations, Australian cultural attitudes toward wealth are different from those in the US. Australian culture places considerable emphasis on equality; 'charity' still has 19th century *de haut en bas* colonial overtones, and displays of benevolence are as likely to generate cynicism as praise. Being

a 'philanthropist' is generally something to keep private, not something to advertise.

Nevertheless, Australians have engaged in philanthropy. In contrast to the US, historically, bequests and endowments have tended to be restricted to a particular state (with a particular concentration in Victoria, partly because of tax incentives offered by that state at a particular period) rather than for the benefit of Australia as a whole. Australian foundations would be more likely to lament the lack of national foundations than to be concerned about their power and influence as in the US at certain periods.

Traditionally, philanthropic gifts have taken the form of bequests and endowments handled by for-profit trustee companies. Trustee companies have, until very recently, been secretive bodies publishing no lists of the trusts they administer, nor of grants given. Unlike the US, there is no regulation to require trusts and foundations to make their affairs public.

One result of both the practice of giving via trustee companies, and their own secretiveness, is that there is no culture of foundation formation or even of philanthropic giving as a 'normal', or even possible, thing to do. Foundation formation has traditionally been shrouded in mystery and seen as an enormously complex undertaking. Another result of the practice of giving via trustee companies, and their secretiveness, has been great difficulty in making any estimate of the number or size of trusts/foundations in Australia; this, in turn, has meant that it is very difficult to assess potential for future philanthropic giving and to promote more of it with statistics and examples.

¹ Data for this chapter relies heavily on interviews with 18 key players in the past and current development of community foundations in Australia.

A small number of larger, mainly family, foundations are now actively promoting the notion of philanthropic giving and foundation formation. But it is worth noting here that a pilot survey of financial advisers in Australia found that in 2003 very few even raised the matter of giving with their clients (McGregor Lowndes, 2003). Similarly, the federal government, in particular, has begun to take an interest in promotion of giving, especially, but not only, by businesses.

One major impediment to foundation formation and philanthropic giving in the past has been complex and confusing legal and tax regulations. Arguably, the persistence of this complexity reflects both lack of trust and interest in philanthropy. In the last few years these regulations have been simplified somewhat, but they remain complex. Unlike the late 1960s, when legal reforms in the US gave significant advantages to community foundations, the effects of Australian reforms on community foundations have been mixed (see below).

The Pioneers

As in the US, Canada and later in Italy, a bank played a key role in the introduction of community foundations to Australia. The first community foundations in Australia were started by ANZ Bank in the 1980s after one of its staff, dealing with administration of charitable bequests handled by the bank, visited the US. The first of these bank-created community foundations was set up in Victoria in 1983. The Victorian Community Foundation appeared to get off to a flying start when it received a grant from another philanthropic trust (as a way around legal impediments) to buy a building which would act as a common home for various non-profit organisations in Melbourne, and other gifts came via sub-funds created by ANZ clients. Spurred on by this success, the Bank attempted to set up community foundations in other states. Queensland Community Foundation was created in 1986, and New South Wales Community Foundation followed. But problems soon emerged.

Questions were raised about the propriety of some of the activities of the charitable trust department of the Bank and, at around the same time, the Bank was restructured. Issues were raised about the role and costs of community foundations in

an organisation centred on making profits for shareholders; and there were questions about the relationship between the Bank and the community foundation boards (technically boards of advice and not employees of, or controlled by, the bank). The result was that in both Victoria and Queensland the community foundations were 're-created' in other settings (although the original structures still exist within the Bank). In Victoria, the Melbourne Community Foundation was created as an independent entity and in Queensland the original Board of Advice took itself, and the name of the community foundation, into the Public Trustees Office – a semi-government controlled not for profit organisation.

These early community foundations were primarily focused on endowment building, in large part via donor advised funds, reflecting their twin origins: the dominant US model of the time and their bank parentage.

With the exception of the creation in 1995 of the Tasmanian Community Foundation, development of community foundations in Australia came to a stop. By 2000, 17 years after the creation of the first community foundation, Sacks wrote: 'The community foundation concept is relatively new in Australia, although the numbers have grown steadily in recent years' (Sacks, 2000, 32). In fact, there were still only five community foundations in operation, of which two were in abeyance.

There was another community foundation type organisation, the Greater Melbourne Community Foundation, created by the Lord Mayor's Charitable Foundation, receiving large numbers of donations and making grants to a range of causes, decades before community foundations came on the scene. In addition, the Victorian Women's Trust had many of the hallmarks of a community foundation.

Although the difficult early history of community foundations in Australia almost certainly did little to inspire confidence, or encourage imitators, it might also be argued that the wider environment was not conducive to their development. Community foundations faced legal and tax restrictions, they had no national champion and no development resources, and, at this point in time, their rationale

in Australia appears to have been simply that more philanthropic giving is always a good thing.

By 2003 the situation had changed dramatically, with almost another 20 community foundations at various stages of development.

From 2000

The Policy Context

Accounts in the US and UK make much of the neo-liberal policy context in indirectly spurring the development of community foundations. For example, Humphreys (1999, 40) writing about the UK, suggests that the most significant spur for community foundation development came from Government 'actively reducing the powers and the financing of local government, as deliberate policy, and while some new streams of funding were being created at national level, local organisations were facing increasing difficulty in obtaining grants from local government'.

While the points above would also apply in Australia, the rise of community foundations around the turn of the century appears, in many respects, more serendipitous. Initiatives to develop community foundations came from a variety of key players whose rationales were somewhat different. Although neo-liberal ideas almost certainly played some part, directly or indirectly, in Government thinking, this was only rarely mentioned in interviews, and does not feature prominently in accounts of community foundation development in the Australian literature. This may be indicative of the fact that it is debatable whether many Australians fully accept or acknowledge that agenda; certainly, some involved in philanthropy do not embrace it.

Key Players

The start of the second phase of community development in Australia came with the emergence of the Foundation for Rural and Regional Renewal and Philanthropy Australia as champions of their development.

- **Philanthropy Australia**

Philanthropy Australia (PA), the peak association for foundations in Australia was established in 1975. For various reasons, including the independent and

private culture of foundations in Australia, it took some time to establish itself and concentrated on bringing into membership existing foundations. Until the late 1990s, it had little interest, time or resources to consider development of philanthropy via community foundations.

Interest in community foundations began to develop at Philanthropy Australia as a result of the conjunction of various events. In 1999, a member of staff from the Commonwealth government was seconded to Philanthropy Australia with a brief to build bridges between government and philanthropic foundations. Working with a leading PA board member, who already had an interest in community foundations as a result of attending a Canadian community foundations conference and seeing the similarities between Canadian and Australian regional issues, she took a particular interest in community foundations. For both people, community foundations were potentially interesting in Australia as a means of encouraging community identity and renewal. A business plan for development of community foundations was prepared and approved by the Council of Philanthropy Australia in 2000; in addition, \$45 000 was obtained from the Commonwealth Department of Transport and Regional Services (DoTaRS) for feasibility studies.

Meanwhile, the National Director of Philanthropy Australia was becoming interested in community foundations for rather different reasons.

'People were talking about the inter-generational transfer of wealth and I felt we needed structures to receive and channel that. Community foundations were an obvious answer and the local aspect might also be a selling point to bring people in and encourage a value change in favour of philanthropy.you have to remember that the late 90s was a very different political context – there was still a sense that government would provide whereas now (2003) people are hanging onto their money for health care, educating their grandchildren and so on.'

Further stimulus for development of community foundations came from moves to establish, outside of Philanthropy Australia, an association for/of

community foundations: Community Foundations of Australasia.

- **Community Foundations of Australasia**

Community Foundations of Australasia (CFA) was led by leading members of Melbourne Community Foundation, frustrated by lack of awareness of the community foundation concept and the failure so far of any other body to push for their development. CFA was founded in April 2000 to ‘assist local communities to develop community foundations, identify new sources of funds for community purposes, and through collaborating with other funding bodies assist meeting locally identified community needs’.

- **The Sidney Myer Fund**

Another serendipitous strand in the story came with the involvement of Australia’s leading philanthropic trust the Sidney Myer Fund (and later involvement of The Myer Foundation).

During the 1990s, a national sense of crisis in rural and regional Australia had been growing. Unemployment, failing small businesses, closure of banks and other local services were ongoing factors, exacerbated by drought. The rise of and support for Pauline Hanson’s One Nation party was seen by some as the political writing on the wall. Something had to be done.

Similar concerns existed in a small number of foundations. In the early to mid 1990s, the Reichstein Foundation – a small social change oriented family foundation – had carried out a survey and small grants programme in rural Victoria; the findings from this programme highlighting the need for and potential of small grants were shared with other foundations, including the Sidney Myer Fund, where at least one member of staff shared these concerns. In 1994 the Fund had supported a group of women involved in agriculture to put on an international conference. The conference attracted 1000 people from all over the world including some from community foundations in, for example, Africa. The Fund’s Grants Officer became convinced of the need to do something for rural women, and of the results that could be achieved with very small grants for community development: ‘For me then it wasn’t about community foundations. It was about

regional and rural development and what rural women could do with really very small amounts of money’.

1999 was the centenary of the arrival in Australia of Sidney Myer. The Trustees of the Sidney Myer Fund decided to mark the centenary by giving a number of \$1 million grants to major projects. Projects were decided by ballot. Given the family’s links with regional Australia, interest in rural development matters from its trustees and at least one of its staff, and the high policy and media profile of rural and regional issues, it was agreed that the Fund should contribute \$1 million to the creation of a foundation to be solely concerned with rural and regional regeneration. At this stage, community foundation development was still not fully incorporated into the plan. As thinking and research developed within the Foundation, community foundations emerged as a possible vehicle stimulated in part by the work of the Aspen Institute and in part by the Nebraska Community Foundation (i.e. a state-wide community foundation with government involvement and an interest in rural areas).

The Sidney Myer Fund decided to use its \$1 million grant to lever further money, and other concessions, from the Commonwealth Government. At this time, one interviewee suggested, ‘It was knocking on a half open door. The government felt under siege from local communities and was casting around for something to do. This offered them something to show they cared and they probably saw it as a way of leveraging private foundation and corporate funds for rural Australia.’

Serendipity struck again. When the Chairman of Trustees of the Sidney Myer Fund and the then Deputy Prime Minister met to discuss the proposals above, they discovered a variety of common interests and links. In particular, the Deputy Prime Minister had recently returned from a trip to Nebraska and was enormously enthusiastic about exploring the potential of a similar type of community foundation in Australia. The linking of rural and regional development with development of community foundations began to take shape, further encouraged by invited speakers from the US.

With the support of the Deputy Prime Minister, a series of meetings were held in Canberra to

canvas ideas on ways of regenerating rural and regional Australia, and the potential and role of community foundations in this. A speaker from the Aspen Institute was brought over to contribute to discussions. Interviewees described these meetings in terms such as ‘a defining moment’, but some also noted the optimism they generated. ‘I remember thinking at the time, where are these figures coming from?’, ‘We were talking about this proposed new foundation raising maybe \$5 million or \$10 million and then suddenly it was \$100 million based on US experience or something. It was mad.’

- **Foundation for Rural and Regional Renewal**

These meetings culminated in an agreement that the Sidney Myer Fund’s \$1 million (over four years) would be matched by the Commonwealth Government with \$10 million, plus a further donation of \$750 000 towards set up and a \$3.75 million ‘challenge’ grant, to create the Foundation for Rural and Regional Renewal. The ‘challenge grant’ was to be accessed in two ways: on a case by case basis, and, more regularly, for every \$1 raised by FRRR 5–6 cents would be released. The plan was that the earnings from the initial corpus would support the foundation and fund its grantmaking and other activities while it raised other donations from business and elsewhere to add to the corpus. This, in turn, required two assumptions which in the then current financial and political context seemed reasonable: that the return on investment would be sufficient to fund the foundation and its activities, and that businesses would respond to the crisis in rural and regional Australia by making untied gifts to FRRR.

Possibly as important as the money from Government was an agreement that the new foundation would have a special legal and tax status. Supporting rural and regional renewal is not a charitable or a tax deductible purpose under Australian law. The Sidney Myer Fund appealed to examples of charity law interpretation in England and Wales and India (allowing such purposes as charitable) to convince the Commonwealth government that the new foundation (but not community foundations funded by FRRR) should enjoy both legal and tax advantages under a special charter.

In October 1999, FRRR was launched at the Regional Australia Summit, called by the Deputy Prime Minister, and attended by people from all over Australia. Attendees from rural and regional areas were invited to go back to their communities and explore with others the notion of creating a community foundation.

FRRR was, and is, Australia’s only national philanthropic Foundation dedicated to rural and regional Australia. Its role is ‘to work in partnerships with the private sector, governments, community organisations and philanthropy to champion the economic and social strength of Australia’s regional, rural and remote communities’ (www.frrr.org.au). FRRR’s board and patrons are drawn from leading Australians in government, philanthropy and business.

From the outset, ‘FRRR drew on the US and UK experiences of community foundations linked to rural development to inform its own model of a partnership between philanthropy, government and the community and the strategic decision to support the establishment of community foundations in regional Australia’ (The Community Foundation Kit, 2001, 15). In particular, FRRR’s CEO (who had previously developed an interest in community foundations while on secondment to Philanthropy Australia) was influenced by the Rural Development and Community Foundations Initiative (RDCFI) of the Aspen Institute, both through its website and through contact with some of those involved

The emphasis throughout has been on community foundations as vehicles for community development rather than the US model of donor service driven endowment building.

Initially, it was planned that FRRR would add to its existing corpus to sustain it beyond its current 10 year life. As noted above, the aim was to raise a corpus of \$100 million but as one person commented: ‘This was just someone’s dream – a figure plucked out of the air with no market testing’. This figure was related to an assumption that businesses would provide donations, and unrestricted ones at that. The reality to date has been that although business leaders will attend fundraising dinners they do not leave their cheques at the door. When donations are received, business

donors want results and kudos immediately in the form of flow through grants in areas of their own choice. Donations of \$1 million each, for particular projects, have been received from the Pratt Foundation and the ANZ Bank, as well as grants from a range of other donors including The RE Ross Trust, Perpetual Trustees and The Myer Foundation.

Thus the two fundamental assumptions on which FRRR's long term plan was based – a high return on investment and untied donations to the corpus from business and others – have proved unwarranted. To complicate matters further, administrative fees for grants services were not built into FRRR's agreements with original donors.

To date, FRRR has allocated \$2.5 million to communities across the nation and has leveraged many millions more supporting projects that stimulate the renewal of whole communities. The ways in which FRRR has developed and supported community foundations, as just one strand in its activities, are outlined below.

Before that it is important to note the work of the Joint Task Force.

Joint Task Force

In February 2001, Community Foundations of Australasia received a grant from the C.S. Mott Foundation for USD 30 000 (AUD57 809). Then, a year later, Philanthropy Australia and FRRR jointly received a grant of the same size from the same foundation for purposes including promotion of community foundations.

A Joint Task Force was formed to consider the best ways of utilising the two grants, and further work was temporarily put on hold. In June 2002, a part time Development Officer was appointed to liaise with, advise and assist existing and developing community foundations in Australia.

Subsequent Events

In the last year there has been increasing interest in community foundations from some state and local governments, although interviewees differed in their assessments of what this interest really amounts to.

In 2002, the Victorian government advertised a post of community foundation development officer, but this was never filled due to budget constraints. In

Queensland the Premier has praised, in Parliament, the community foundation. Various other local and state governments have contributed varying sums of money or in-kind support to community foundations, including developments in Sydney and Canberra. FACS has given a further grant to Philanthropy Australia to develop a further two community foundations.

At Commonwealth level the issue of community foundations and the legal obstacles to their development has been raised at the Prime Minister's Community Business Partnership Round Table.

The Myer Foundation has continued to give grants to community foundations, and there are some other foundations using community foundations as a vehicle for channelling money to rural areas. But the bulk of foundations do not appear to be willing to support the development of community foundations.

More generally, community foundations are slowly gaining profile in their local media and, much more difficult, at state and national level. The 2002 WINGS and WINGS-CF conference held in Sydney was one opportunity to interest the media in a 'world-wide movement' thus, in theory at least, generating greater interest in, and conferring legitimacy on, Australian community foundations.

Key Tools and Processes in Developing Community Foundations in Australia

Various tools and processes have been used by different organisations to promote community foundations in different parts of the world (www.communiyt-fdn.ca/WingsCF/projects/pdf/WINGSCF-Casestudies-learnings.pdf). What tools and processes have been used in Australia?

Challenge Grants

Challenge grants have been widely used to stimulate community foundation growth, and some see such grants as a powerful tool to that end. Apart from the obvious attractions of challenge grants in 'making a donor's money go further', challenge grants also serve important functions in building legitimacy for the community foundation concept and for a particular community foundation: 'If x thinks this

organisation can be trusted with \$1 million then it must be right’.

In the UK, parts of wider Europe and in other countries, embryonic community foundations have received often significant challenge grants from US foundations. Although the C.S. Mott Foundation has provided small sums of funding to support Australian agencies for the development of community foundations (see above), Australian community foundations have not received US funding for challenge grants. This raises an interesting question about just how necessary major challenge grants are.

Feasibility and Seed Funding

Although FRRR is itself the result of a challenge grant, in that money was put up by the Sidney Myer Fund on condition that the Commonwealth Government would also contribute, FRRR has not typically given challenge grants to community foundations. FRRR has, however, given one off grants of up to \$5000 to sponsors or convenors interested in starting a community foundation to carry out an initial feasibility study.

Following a positive finding from a feasibility study, FRRR considers applications for a grant of between \$20 000 and \$40 000 to get the community foundation off the ground. To date (late 2003) FRRR has provided seed funding for 11 community foundations, as well as providing grants for feasibility studies for a number of others.

Funding for feasibility studies and start up has also come from Philanthropy Australia. Philanthropy Australia has funded five feasibility studies in regional Australia, and two in major regional centres, with funds obtained from the Commonwealth Government. Philanthropy Australia also obtained funding from the NSW Premier’s Department and The Myer Foundation for the Sydney Community Foundation feasibility study. As a result of lobbying and advocacy by PA and FRRR, funds have been provided by the Commonwealth Government and local governments for feasibility studies for around 10 other proposed community foundations.

Local governments have also provided some community foundations with flow through funds for small grants programmes, enabling these new

foundations to begin to establish a track record, raise awareness and gain knowledge in the community, and access to various meetings.

Technical Support

Given the newness of the concept of a community foundation, lack of existing models on which to base a new venture, as well as the complexity of the Australian legal system relating to community foundations, providing technical support has been a high priority for support organisations in Australia. Technical support has taken various forms.

In 2001, the first edition of The Community Foundation Kit – building stronger Australian communities was produced and funded by FRRR with Philanthropy Australia. This kit is designed to tell those interested in setting up a community foundation what they need to do and how to do it. The kit borrows heavily from material developed by Community Foundations of Canada.

Philanthropy Australia and FRRR have developed web-sites providing a range of technical information to community foundations.

The legal and tax structures in Australia constitute an important hurdle to be overcome in setting up a community foundation in Australia. The Kit could explain the legal situation but could not provide emergent community foundations with the detailed technical support needed in this area. To remedy this, FRRR, in association with a firm of solicitors noted for their expertise and pro-bono work in charity law, provided a set of pro forma documents to a solicitor holding a current practising certificate. These documents include a Constitution, Trust Deed, Consents to Act as Directors and Secretary, Applications for Registration with the ASIC and a recent ATO Tax Ruling in relation to charities.

Technical and moral/personal support has been provided via four community foundation conferences in Mildura (hosted by FRRR), Tasmania, Katoomba and Sydney (hosted jointly by FRRR and Philanthropy Australia). These annual events provide an opportunity for information sharing, networking, dealing with common issues and problems, as well as the beginnings of mutually supportive on-going relationships between community foundation staff and volunteers in

different parts of a vast country. One difficulty has been, however, that new community foundations have not all been able to afford the air fares and other expenses associated with attending.

Lobbying/Advocacy

FRRR also engages in advocacy on behalf of community foundations. In conjunction with Philanthropy Australia, it commissioned a research report into the legal and tax barriers in forming community foundations in Australia.

In addition, both FRRR and PA have been active in arranging meetings with government at federal, state and local levels to explain and promote the potential and work of community foundations. International visitors have sometimes been used as a platform, and extra input, for these meetings. The WINGS-CF Conference and the Philanthropy Australia Conference in 2003 were well used as opportunities to generate both government and media interest in community foundations.

Persuasion and Publications

Community Foundations of Australasia, FRRR and Philanthropy Australia have all promoted the notion, and potential of community foundations via speeches, meetings, networks, the Web and publications. For example, Philanthropy Australia devoted a whole issue of its journal *Philanthropy* to community foundations in 2000, and has a regular column on community foundation news. In addition, of course, individual community foundations promote themselves via similar methods.

Tools of persuasion, or marketing, are designed to establish the benefits and legitimacy of community foundations both individually and in general. In important ways, tools of persuasion – the rhetoric of community foundations – have to be seen in, and adapted to, the national and local context of values, obstacles and alternatives: how do community foundations compare with and differ from the available alternatives? This is one reason why marketing messages and materials successful in one country may not travel well.

In Australia, the available alternatives are primarily direct giving to charities or DGRs, giving via a trustee company, or for larger gifts creating a

private/independent foundation. In some donors' eyes, direct giving suffers from the disadvantage of lack of, or patchy, accountability and questionable control over the future use of the gift; for example, there have been recent cases in Australia where a gift of land or property has subsequently been sold for development. Creating a private foundation has, until recently at least, been seen as expensive and time consuming. Trustee companies have traditionally been the main vehicle for wealthy, and not so wealthy, donors, and are probably community foundations' greatest competitors. As one interviewee commented: 'There's simply no question that there is a competition going on between trustee companies and community foundations that seek endowment funds'.

How have community foundations sold themselves in Australia? What characteristics have they emphasised in persuading others to support them?

Endowment oriented community foundations stress permanence/on-going support 'endowments and bequests will serve the community in perpetuity.' This emphasis has to be seen in the context of fears that charities will spend the corpus. Closely related, is a stress on 'professional management of funds and financial security'.

Donor involvement and accountability is another key theme, addressing fears that charities will not be accountable. Donor control was a theme in some early Australian community foundations' marketing materials (probably copied from US materials), but these references are now severely restricted after warnings from legal advisors that donor control is not within the law and will attract attention from the ATO.

Expertise in both the management of funds and in grantmaking are stressed. 'Its expert Board of Management includes respected financial, legal, managerial and community representatives.' XX has 'experience and extensive understanding of health and welfare needs and issues at a level not necessarily obtainable in private philanthropic organisations and trusts.' This statement clearly invites comparisons with trustee companies.

Local and regional knowledge are clearly emphasised. Community foundations are said to provide 'local ownership' and a 'local focus for givers'. This emphasis on localness has a particular resonance in some parts of Australia where lack of trust in/fears of a centralising state and unequal distribution of resources between regions are strong; in addition there is a view that private fortunes made in rural and regional Australia do not always find their way back there.

Another set of themes concerns the ease, cost-effectiveness and lack of administrative and legal hassle in giving via a community foundation; by implication, this invites comparison with setting up a private foundation and/or giving via a trustee company. 'The main difference between XXX and other forms of Trust infrastructure is that you pay no legal or set-up charges when establishing a named fund.' 'The burden of administering a charitable trust is absorbed by the Foundation on behalf of the donor'.

The newer community foundations tend to emphasise additional or alternative characteristics. One set of themes is that of 'sharing responsibility': 'a vehicle for individual donors, bequests, companies, trusts and foundations and community groups to share responsibility and commitment for the region.' Similarly, there is an emphasis on multiple constituencies rather than the emphasis being on the benefits to donors.

For these community foundations, the theme is less one of building and managing a corpus of money and more one of building community identity, spirit and collaboration: 'a convening role in the community, through consultation, collaboration and sharing of information with other funding bodies'; 'developing our strengths as a people and a community.'

Commentary

Drivers and Facilitating Factors

As the review above demonstrates, community foundations were first formed in Australia in the 1980s but remained few in number for the next 20 years. By 2003 community foundations were springing up all over Australia. What had changed in the intervening 20 years?

- 'Open' Policy Windows

The review of the history of community development in the US illustrated the way in which community foundation growth was related to, among other things, the political and cultural climate of the day, as well as the diverse and changing purposes of community foundations enabling them to adapt to new issues. That relationship is also apparent in Australia.

Around the turn of the new century, the Government and foundation policy culture and climate was probably no more conducive to community foundations per se than it had been in the 1980s. At Federal government level the policy climate was certainly more concerned than it had been in the 1980s with ways of growing philanthropy and encouraging corporate giving in particular. This was not necessarily true at state level where Labor governments continued to range from ambivalent to opposed to the neo-liberal agenda of the Commonwealth government. But community foundations were not initially seen as a way of growing philanthropy and encouraging corporate involvement.

The 'solution' to growing philanthropy was primarily seen in terms of 'more of the same' and focused on reforming charity law to make it easier, or more tax effective, to form private foundations. Encouraging corporate involvement was seen as a matter of encouraging a culture of 'social responsibility' and community-business partnerships via existing structures; community foundations did not figure in this plan.

In gaining political attention for community foundations, policy concerns with what was happening in rural and regional Australia were, in many ways, far more important than concerns with growing philanthropy. As discussed above, in the late 1990s/early 2000, issues in rural and regional Australia were seen as increasingly pressing. Hansonism was just one manifestation of the potential political consequences of failing to address these issues. Thus the policy climate at federal level, at state level where votes from rural and regional Australia counted, and among some foundations, provided openings for initiatives that might provide a 'solution' to these problems. When community foundations were linked with rural and

regional issues and presented as a vehicle for 'doing something' in these areas, community foundations came inside the outer circle of policy options.

- **Diverse Constituencies**

The notion of community foundations also played into other agendas that had little to do with the problems of rural and regional Australia: the much-vaunted and long awaited inter-generational transfer of wealth; increasing loss of trust in some large charities due to publicity around mis-use of funds; fears that charities were not sufficiently accountable; concerns that for-profit trustee companies were tarred with the same brush as other crisis-ridden financial institutions. Thus, as in the early years of community foundations in the US, support came from a variety of sources for a variety of not necessarily related reasons.

- **Promoting the 'American Dream'**

But, community foundations were known about by only a select few, drawing on information from the Web, conferences and personal contacts primarily in the US, and to a lesser extent in Canada and the UK. In order to gain support, community foundations had to be seen as credible vehicles that could deliver results. A glossy, highly selective picture of the growth of community foundations in the US - the 'American Dream' - provided that credibility, and the strategic use of international visitors to publicise, advocate and gain access to government circles ensured that this was communicated. If the spectacular results achieved by (the very small proportion of asset rich) US community foundations could happen there, then surely they would also happen in Australia.

- **Champions with Money**

The offer of \$1 million from the Sidney Myer Fund, coupled with the status, influence and networks it could contribute, gave the notion of community foundations the push forward it needed. Endorsement for the notion of community foundations by the Fund and the high profile support of a Deputy Prime Minister provided further credibility. Ten million dollars from the Federal Government added more credibility, further increased when two other foundations each put in one million dollars. FRRR's special charter not

only gave it valuable operational flexibility but also undoubtedly added to its status and legitimacy.

- **Support and Promotion**

With champions supporting and promoting their cause, resources for feasibility studies and seed funding, technical support, advocacy and lobbying, community foundations began to appear, thus, on the surface at least, confirming the viability of the strategy.

Thus 2000 provided a very, very different environment for the growth of community foundations in Australia as compared with the 1980s. Community foundation development was not the isolated adventure of a maverick, as in the 1980s, but a meeting of many minds, for different reasons, with resources, inter-related influential champions, skilled knowledgeable operators and a conducive policy environment.

But obstacles remained and, as discussed below, the American Dream contained a potentially dangerous sting in its tail.

Obstacles

Off the Radar

As noted above, Australia's foundation sector is in many respects very different from that in the US. Crucially in this context, it has a much lower profile, and the notion of creating a foundation, by whatever means, is almost certainly much less familiar. Similarly, the notion of endowment building is not familiar, or necessarily accepted as a valid enterprise. As one person said: 'It's not even on the psychological radar of those who might be expected to understand. Even the (later) big donors to FRRR didn't give to its corpus they gave flow through funds'.

Perceptions of Responsibility

As the previous chapter illustrated, US community foundations tended to thrive when trust in government was low. Although in many respects this was true in Australia in the late 1990s/early 2000, arguably there was, and still is, a deeply rooted reluctance to let go of the idea that government has a duty to provide. Many Australians do not believe that it is right, or viable, to leave it to charity. While they may distrust particular administrations and/or

levels of government, it is probably fair to say that they retain an underlying faith in and respect for, perhaps especially, local government. (It is worth noting here that in Australia it is compulsory to vote which may have some effect on allegiance to the notion that a democratically elected government is the right vehicle for deciding policies and priorities). This ambivalence applies not only to Australian citizens but also to (some) politicians.

While the federal government was broadly supportive of the development of community foundations, the reactions of state governments was, and continues to be, more variable. State politicians dependent on rural votes may have come to see the virtues of community foundations in doing something in their constituencies, but some interviewees asked: 'Of those that understood community foundations, there may have been a feeling that this was a potential challenge. Of course, they're not big enough to be scary but if they were'

While these factors – lack of a visible, vibrant foundation presence, lack of widespread acceptance of the value of corpus building and ambivalence around the respective roles of charity and the state – may not have constituted major obstacles to community foundation growth, they certainly provided a much less conducive climate than that of the US.

Rural Dimensions

US community foundations have, for various reasons discussed above, tended to develop most strongly in metropolitan areas. Australia is attempting to grow community foundations not only in metropolitan areas but also, and primarily, in rural areas. This presents a number of difficulties of which one is the cost, logistics and time involved in people coming together. For those who have not experienced the sheer size of Australia – and its internal air fares – this obvious point may be overlooked. Electronic and telephone communication have important functions, but are not an adequate substitute for face to face contact in generating enthusiasm, support and understanding of complex issues. Other issues relating to rural community foundation development are discussed below.

Lack of Challenge Grants?

One obvious difference between the development of community foundations in the UK and Australia is the lack of challenge grants. In many countries, challenge grants (usually from the US) have been seen as key in getting foundations off the ground, providing early legitimacy and generating trust by example (www.community-fdn.ca/WingsCF/projects). In Australia it is debatable what effect challenge grants might have had, especially if they had been tied to a donor services model. At the least, this would have set some Australian community foundations on a different trajectory, possibly not best suited to the rural and regional Australian context.

Déjà Vu and Confusion

Although the fact that community foundations had existed in Australia since the 1980s was an advantage in some respects, it may also have been a disadvantage insofar as other potential funders remembered the early history and problems that ensued, and the appearance of stalled development. As one interviewee put it: 'Was this an idea that had already been tried and not taken off much?'

The existence of both Philanthropy Australia and Community Foundations of Australasia both championing community foundations, and the perceptions of overlap between them, may also have confused other funders at home and abroad, doing little to increase trust and attract resources.

Market Uncertainties

The major growth phases of US community foundations have tended, unsurprisingly, to be related to favourable economic and financial market conditions. The recent promotion of Australian community foundations has taken place in a difficult economic and financial market climate. The logic and attractions of contributing to a corpus are not easily explained when community foundations themselves admit that at present their main aim is not to lose money. Even in the US, where endowment building and the notion of a community foundation are better established, community foundations are reporting a downward trend in both donations and investment returns.

While, as noted above, the policy climate was strongly supportive of increased corporate giving,

market uncertainties and (institutional) shareholder pressures were working in the opposite direction. Furthermore, as several respondents remarked, when corporations were willing to give: ‘They usually want control and they want results NOW’. This is not a good recipe for building a corpus.

Another obstacle to community foundation development, at least on the corpus building model, is the lack of support and understanding from financial advisors in Australia; whereas in the US, 90 per cent of financial advisers ask clients about giving as a matter of policy, in Australia only 22 per cent do so (McGregor Lowndes, 2003). Interestingly, one Australian community foundation, run from the Public Trustees Office, where the financial advisors are encouraged to offer the community foundation as one giving option, now has \$146 million in known bequests.

Covering Development and Administrative Costs

For some community foundations adopting a corpus building donor advised model, obstacles to growth have arisen in part from fee structures and thresholds for named funds. The result has been lack of resources for development, marketing and donor relationships while the foundation struggles to get through the early years in which income does not cover expenditure on time-consuming, small, donor-advised funds.

Unlike US community foundations, those in Australia have not typically received donations to administrative costs and have not engaged in the practice of giving grants to themselves for such purposes. In the US, many community foundations receive significant proportions of funding from other foundations (Coouncil on Foundations, 1989). Australian community foundations have received relatively little support from other foundations.

Legal Complexity and Restrictions

Legal obstacles have been seen as a key issue in many countries, and Australia is no exception. But Australia’s problem is not so much lack of charity law, as is the case in some countries, but rather the law’s bewildering complexity. As Macdougall (2003, 142) has remarked, people ‘inspired by stories from Canada, the US or UK ...can then be confused when confronted with the restrictions on activities

and the complexity of structures in Australia’. The following account draws heavily on Macdougall’s wonderfully clear summary.

The Australian tax regime distinguishes between an Income Tax Exempt Charity (ITEC) and a Deductible Gift Recipient (DGR). ITEC endorsement is relatively easy if the organisations’ objects and activities are charitable within the legal meaning. Charitable purposes do not include sport, social or recreational activities or governmental purposes such as projects for which local government is responsible or general grants to state government schools (Macdougall, 2003, 142).

DGR endorsement is a completely separate process and is much more difficult. A DGR is able to receive tax deductible donations. For community foundations as general grant making organisations seeking and receiving gifts from the public, the only appropriate category to achieve DGR status is a public or ancillary fund (Macdougall, 2003, 143).

‘A nongovernment fund will be a public fund where the public are invited to contribute to the fund, a significant part of the public does in fact contribute to the fund and the public participates in the administration of the fund. In relation to the last requirement, a majority of the governing body (eg board) must be made up of people or institutions that have a degree of responsibility for the community as a whole because of their tenure of some public office or their position in the community.’ (Brown, 2003, 135).

These complex distinctions are obvious obstacles to community foundation formation, and clearly affect the governance of community foundations via the requirements for board composition of a Public Fund.

These restrictions limit the freedom of Australian community foundations to run and market themselves as full donor service organisations. The US tag line ‘You do not give to but *through* a community foundation’ would probably not pass muster with the ATO if this was taken to imply the existence of sub-funds. In the past, the ATO has not approved applications where the trust deed refers to ‘sub-funds’. The ATO is concerned that ‘sub-funds’ – ie donor advised funds/named funds – are in fact

separate funds. ‘The consequence of the sub-funds being treated as separate funds by the ATO is that tax deductibility status will not be available. This is because the sub-fund will not meet the requirements of a public fund by itself, as it does not seek and receive gifts from the public’ (Macdougall, 2003, 145). Sub-funds/donor advised funds are also problematic because ‘A trustee has a duty to resist dictation and must not commit itself in advance with respect to its conduct as a trustee’. Thus, a donation to a trust by a donor with a direction as to its application is not a tax deductible donation – the donor can only make **requests** to the trustee.

One consequence of the above is that community foundations have to be very careful in wording their marketing materials. Some materials drawn from the UK and US were not within the law. For example, ‘A donor cannot establish a named fund and direct how income from it is to be used’ (Macdougall, 2003, 145).

One further difference between the US, UK and Australian regulations is that in Australia community foundations are treated as ancillary funds; they are not institutions and therefore cannot do anything, such as taking on a convening role.

In addition to presenting obstacles to the formation of community foundations, legal restrictions limit what and to whom community foundations can give. For example, in many rural areas there simply are not any or sufficient organisations with DGR status. Similarly, sporting organisations play an important role in rural Australia but do not have charitable, let alone DGR, status. Again, educational institutions and any organisation working preventively rather than providing a direct service do not typically have DGR status.

In the light of the above, it is not surprising that in late 2001 when FRRR reviewed its Community Foundation Program, it concluded: ‘Overall the review identified the major barrier facing emerging community foundations as being the difficulties working through a multi-step process for incorporation and then achieving deductible gift recipient status as a Public Fund – only to find the community foundation could not provide donors with tax deductions for all of the community foundation’s charitable goals’. For most community

foundations, the time between incorporation with the Australian Investment and Securities Commission as a company limited by guarantee and achieving DGR endorsement of the Public Fund from the Australian Tax Office has been around a year (Brown, 2003, 138).

New Competitors

Perhaps ironically, one of the effects of the new federal Government interest in growing philanthropy was the creation of a new form of foundation – a Prescribed Private Fund (PPF) – making it easier and more tax efficient to create a philanthropic foundation. The introduction of PPFs has somewhat reduced community foundations’ claims to advantage over the alternatives and, in particular, offers, in effect, a greater degree of donor control. Some interviewees saw PPFs as new rivals for the philanthropic dollar.

Decades of Establishment

Another crucial factor in community foundation development, often over-looked in popular versions of the American Dream, is simply time. It is worth remembering that the notion of a community foundation has been around in the US for close to 90 years, and some of the larger community foundations have taken decades to grow. By their very nature, it takes time for endowment building community foundations to show results. Bequests may take decades to come through and before that the community foundation has to have proved its usefulness and attractions to wealthy donors who always have other options. In Australia, those other options have included long established and widely used for-profit trustee companies; unlike the US, these companies (with one or two exceptions) have not been active promoters of community foundations.

3. Community Foundations: Ingredients and Models

Community foundations do not exist to build endowments, to carry out needs surveys, to provide services to donors, or any other of a variety of functions they have undertaken in the past and present. They exist to produce public benefit. In order, effectively, to produce public benefit, community foundations need a range of related ingredients, of which money is only one. Without these other ingredients money can achieve little by way of public benefit, and without these other ingredients financial resources are unlikely to flow to the community foundation.

Community Foundation Ingredients

To be effective in their pursuit of public benefit, community foundations need:

- **Human resources, including knowledge and skills**

Human resources, including knowledge and skills are needed both within the community foundation and in the wider community. A community foundation needs knowledge and skills to create the organisation, to publicise its purposes and potential, to find funding, to identify and relate to potential donors, to identify community needs, to identify other sources of funding and the gaps in that, to find potential grant applicants with whom the foundation can work, to construct programmes/activities, to design and process grant-making, and so on. A community foundation also needs, or needs access to, highly specialist knowledge and skills relating to legal and tax matters, proper governance structures and processes, as well as knowledge and skills relating to investment.

- **Organisational and technical capacity to put ideas into action**

Organisational and technical capacity are needed both within the community foundation and in

the wider community. Without organisational and technical capacity in the community foundation, the organisation cannot function to full effect. Without organisational and technical capacity in the wider community, the community foundation will lack effective grantees through whom it can work to achieve its goals.

Organisational capacity for acquisition, management and investment of funds is only one part of the equation. Community foundations also need organisational and technical capacity for grantmaking, which financial institutions are not likely to possess. This was why Sugarman (1977), giving evidence to the Filer Commission in the US, saw the ‘genius’ of community foundations lying in a dual structure of financial management and grant-making: each body is doing what it is best at. Organisational and technical capacity for good grant-making in turn requires organisational and technical capacity for gathering and assessing information about community needs and issues. Again this requires skills, dedicated time and money.

There is another aspect of organisational and technical capacity. A community foundation may have organisational and technical capacity to acquire, manage and invest money; it may have organisational and technical capacity for gathering and assessing information about community needs; it may have organisational and technical capacity for good grantmaking. But unless there are organisations in the community with the technical and organisational capacity to engage in activities/projects which will effectively and efficiently deliver the outcomes identified by the community foundation, the foundation’s own effectiveness will be seriously reduced.

In some rural and regional communities in Australia, organisations with the ‘right’ legal/tax status and/or with the technical and organisational capacity to deliver the community foundation’s desired goals

are thin on the ground. In these circumstances, the community foundation's first task may not be to develop organisational and technical capacity for endowment building and grant-making but rather to develop the capacity for community development.

- **Collaborative capacity to make relationships**

A community foundation needs to establish relationships and alliances if it is to survive and work effectively in pursuit of public benefit. It needs to establish, and cultivate, relationships with donors and funders to secure its own funding. It needs to establish relationships with potential grantees, and later with grantees. Given that a community foundation working alone rarely has the resources to solve problems, it also needs to establish relationships with other non-profit and government organisations, and with business, to identify and discuss issues and to find ways of working together for maximum benefit.

- **Authority and legitimacy**

A community foundation needs authority and legitimacy to receive, invest and spend other people's money, to raise issues, to make judgements and decisions regarding community needs and priorities, to be in effect a 'private legislature', to be accepted as a partner or someone to be listened to.

Demands for demonstrable legitimacy and authority may vary between cultures and over time. As one community foundation interviewee remarked: 'In Australia people want to know who gives you the moral authority to make decisions. That's the question we're most frequently asked.'

Goff understood the need for authority and legitimacy when he required that the Cleveland Community Foundation board be composed of people nominated by high standing public figures with unquestioned authority and legitimacy. Some community foundations still adopt this basic strategy, appointing 'leading' citizens to their boards. But in other types of area, a truly representative board may be vital – perhaps especially where those with wealth and formal authority are not seen as fully understanding community issues – or in the early stages of building trust in the concept and the organisation.

- **Confidence/trust**

Confidence and trust are crucial ingredients of community foundations. Generally, and fundamentally, a community foundation requires an environment in which there is confidence and trust that things can and will happen, that a nonprofit organisation working at local level can produce public benefit. More specifically, each community foundation needs to gain confidence and trust in its capacity prudently, effectively and efficiently to invest entrusted resources and to make and manage grants for public benefit.

In an important sense, concentration on donor advised funds reduces the community foundation's need for donor trust in its capacity to identify and make grants for public benefit. The donor, in effect, takes on these functions him or herself and thus does not need to trust the community foundation to get it right. Insofar as this encourages donors to give to the community foundation, concentration on donor advised funds may increase the prestige of the community foundation and thus trust from other donors.

However, a focus on donor advised funds may do little to build trust, and actually reduce trust in some circles. The wider community may see the community foundation as little more than a club of rich donors, rather than a trusted vehicle for public benefit. A focus on donor advised funds may mean that the community foundation has no visible track record, a track record of giving to established causes and organisations, or no visible track record of its own. Furthermore, donor advised funds are time consuming and expensive to run, potentially diverting time and other resources from wider trust building and development activities with new donors, with other funders and, crucially, with community organisations and issues.

- **Financial resources**

A community foundation needs financial resources not simply, or even primarily, to build an endowment but rather to pursue its goal of producing public benefit. It needs some level of financial resources to develop the human resources, including knowledge and skills, and the organisational, technical and collaborative capacities

outlined above. The sheer fact of having money may also bring legitimacy and authority, trust and confidence generating more financial resources, and a seat at various tables.

- **Community identity**

Finally, a community foundation needs some level of community identity within its area of operation if it is to survive and function effectively. Without some manifest or latent community identity, there is no logic to a community foundation and there is unlikely to be the necessary authority, legitimacy, trust and confidence for it to function effectively. Where community identity does not exist, it may be possible to build it – but there has to be some basis on which to build. In some cases, that basis may be historical; in some cases, it may arise from positive factors (a common pride in ...); in some cases it may arise from perceived external threats/differences (being united in the feeling of being misunderstood, under-funded or over-looked).

These ingredients are closely inter-twined, growing and re-enforcing each other. Human resources, knowledge and skills can generate organisational and technical capacity which in turn generates capacity to make relationships, creating authority and legitimacy to build and re-enforce confidence and trust which generate financial resources, which support and may enlarge human resources and organisational capacity, and so on.

Each of these ingredients has to be seen in terms of the cultural, social, economic and political contexts in which a community foundation is working, including the alternatives to community foundations. These cultural, social, economic and political contexts will vary over time, as well as between and within countries, and states. So, for example, building trust in the community foundation may be more difficult when financial markets are uncertain or when trust in the capacity of government is high, as well as where there are established competing structures for local philanthropic giving.

Because contexts and alternatives/competitors differ, community foundations may need to start at different points, with different tasks, and may

have varying degrees of difficulty in creating and harnessing the key ingredients.

Where financial resources are not plentiful or easily accessible, the endowment/donor service starting point may be inappropriate. Without the example of, and the legitimacy and trust conveyed by, a few early and larger donations, a community foundation may find it hard to establish itself as a trusted and credible player on the local scene.

There are other contexts in which a strategy of corpus building may not work at all, or work very poorly. Where community identity is low or there is little trust that non-profit organisations can make a difference or the human resources and skills and organisational and technical capacity for both fundraising and grant-making do not exist, a community foundation is likely to find it very hard to build the confidence and trust to raise funds to build a corpus.

Again, where non-profit organisations are ill-developed or lack organisational and technical capacity, it may be very difficult to generate trust and confidence that giving to the community foundation will make a difference.

In these situations, instead of starting by building financial resources for a corpus, it may be necessary to start by drawing together human resources, knowledge and skills and/or organisational capacity in the community, to build or harness community identity and/or collaborative capacity. This may be the essential basis for building authority and legitimacy to generate trust and confidence in the community foundation, which will in turn provide a basis for attracting financial resources.

In other words, there may be a variety of starting points for community foundations. Endowment building is one, but 'community building' may be more appropriate in some contexts. It is also worth reflecting here that endowment building is often presented as a means to the goal of community building for public benefit. In an important sense, community foundations that start with community building, start with the goal and then address the means.

Community Foundations: Two Models

Differences in approach and starting points in producing community benefit can be summed up by distinguishing two broad 'models', or 'extreme' types.

Model A

- Primary Focus of Activity

Endowment buildingStimulating community activity
via donor services (see note 1)

- 'Style' of Governance

Elite leadershipBroad based
(‘aristocratic’) (see note 2) (‘democratic’)

- Key Values

Charity/philanthropy/service.....Change/development

- Perception of key resources

FinancialKnowledge, skills/time/involvement

- Relationships to government and others involved in the production of public benefit

Alternative or competitor or coordinator.Cooperative/Complement

Thus in Model A, a community foundation sees its primary activity as endowment building via provision of services to donors; it is governed by people selected for their elite credibility/reputation in the community (based on wealth, position or expert knowledge); it aims to promote philanthropy and assist organisations in their charitable/philanthropic work (often in the social welfare field), providing an alternative (and often implicitly better) approach as compared with government.

A variant on this model is when a community foundation's primary activity is to serve the needs of donors wanting to make donations in perpetuity to named organisations, or to serve the needs of organisations wanting to receive such donations. The community foundation becomes in effect a holding company/collecting agent for particular, usually larger and better-known, charities. It may be difficult to distinguish between this type of organisation and a United Way or Community Chest.

In Model B, the community foundation sees its primary activity as encouraging community engagement; its governance is designed to involve as many different interests as possible; it aims

Model B

to promote social and economic development and change via, among other things, unlocking/harnessing a variety of different types of resource including community capacity/organisation, time and involvement both now and in the future, working in cooperation with a range of others, including government, involved in the promotion of public benefit.

In practice, individual foundations are rarely 'pure' types of either Model A or Model B on all dimensions. Importantly, community foundations may be difficult to typify because their rhetoric/public presentation may emphasise characteristics towards the Model B end of the continuum, while its practice is closer towards Model A - or vice versa.

Many community foundations would claim to be simultaneously building a corpus via services to donors *and* stimulating community activity, to be charity and change oriented, and so on. Some may achieve this. But, for most, trying to be at both ends of the continuum simultaneously creates strains in management, governance, priorities and performance measurement (for further discussion, see below).

Community Foundation Models in Australia

In Australia, the early pioneers of community foundations in the 1980s broadly adopted Model A – the endowment/donor service model – whereas the second wave of community foundations tended to adopt Model B – the community development model. In part, this difference in orientation was related to differences in their origins, parentage and date of development.

The pioneers took their ideas from the US where the dominant model of the time emphasised endowment building via donor services. Adoption of this model also fitted with the interests of the banking world out of which these early community foundations grew. The endowment building/donor service model undoubtedly also seemed appropriate given that these pioneer community foundations were located in metropolitan centres of population of some wealth (even if they claimed to be serving a whole state).

The second wave of community foundations grew out of a very different context. As noted above, this wave was based on a variety of different, only loosely related rationales. The rationale to which political will and money were attached was not the development of community foundations per se, but rather rural and regional regeneration to which end community foundations were seen as one vehicle. These second wave promoters came from a different starting point and drew on different, more selective, sources for their inspiration, focusing on examples relating to rural development in Canada and the US. Working in rural and regional areas, the endowment building/donor service model of the metropolitan centres appeared less appropriate. But, as discussed above, arguably, Model B – the community development model – was better suited to rural and regional Australia for reasons other than the likely availability of wealthy donors to be ‘serviced’.

Chapter Notes

1. Seeley, in a pioneering study of Community Chests in 1957, highlights the value conflicts inherent in the Community Chest movement, many of which have clear parallels with community foundations today. Seeley characterises one key value conflict as ‘business success vs community organization’. He describes the tensions between those who ‘regard the Chest primarily as a semi-sacred movement in the realm of “community organisation” (for which money is incidentally needed) and those who regard money-raising as the commonsense and natural heart of the enterprise (for which some community organization is, incidentally, necessary)’ (Seeley, 1957/1998, 358).
2. The difference in governance here parallels Seeley’s distinction between ‘Democratic vs Aristocratic’ orientations of community chests in 1957. The ‘aristocratic’ style sees the organisation as one of the best people for the sake of those not so favoured, indulging in aristocratic virtues of nobility, generosity, and ability to deal largely and open-handedly and make quick decisions on large events without being unduly sensitive to public relations and public opinion. Seeley’s ‘democratic’ orientation sees the organisation as an organisation of all the people, or at least representing all the people (Seeley, 1957).

4. Challenges Ahead

Community foundations in Australia face a number of challenges in the coming years.

Financial Sustainability

Both endowment building and community development foundations need financial resources to work effectively and survive. Endowment building community foundations need money because that is the goal they have set themselves and their own measure of performance; and because they are relatively expensive to develop and run. Community development foundations place less emphasis on raising large sums of money; they can be less expensive to develop and run because of the nature of their activities and because they involve volunteers and other funders – but they cannot survive without some financial resources.

Some people question whether money to grow community foundations is available in Australia. Obviously, the money is available – Australia is a wealthy country – but whether it is accessible is another matter, and whether it will flow to community foundations is a different matter again.

For community development foundations, financial sustainability will depend in large part on maintaining momentum and building trust and profile. There are already some encouraging examples of rural and regional foundations being used as vehicles for foundation and individual giving. There are stories of rural foundations discovering wealthy citizens who have put money into a trustee company or city community foundation because there was no vehicle for giving to their home- town. But the difficulties should not be under-estimated. Foundations are thin on the ground outside Victoria. There is a limit to what volunteers can be expected to do, and for how long. Rural and regional community foundations will continue to need financial and other support if they are to capture and expand their opportunities.

For endowment building community foundations, issues of financial sustainability are in many respects more complicated. To build trust and gain profile community foundations need demonstrable results to provide a track record. Unlike community development foundations, endowment building, donor-service focused community foundations are not typically out there in the community doing things and making small grants, they are busy working with existing and potential donors to build an endowment. In their early years (and early years may last 20 or more years) they make few, if any, grants, and rely on Board composition to build trust. Not making grants not only does not put runs on the board to develop trust but may also lead to questions from the tax office.

As noted above, a focus on donor advised funds reduces the community foundation's need for trust, but it brings with it another set of problems. First, Australian tax law limits the extent to which funds can be donor 'directed', and restricts the community foundation's marketing messages.

Second, donor advised funds are expensive to run. This raises two related issues: fees and restrictions on named funds. In some early Australian community foundations, a 1 per cent fee 'was picked at random, with no business plan'. One result may be that a very small number of larger donor advised funds are, in effect, subsidising all the rest. A 1 per cent fee level may be workable in later years (when 1 per cent is 1 per cent of a large corpus) but it is in their early years (when 1 per cent of very little is very little) that endowment building community foundations need the most money for marketing, development and building trust.

It is worth pointing out that community foundations running small grants programmes for local government, and other foundations, also need to start thinking sooner rather than later about the real costs of running such programmes, and what

fee level would cover the real cost (Leat, 2002). Community foundations in rural and regional areas, aiming to gather in a large number of smaller donations, also need to be aware that this may give them more unrestricted money but it may also be expensive to administer.

One of the advantages of locating the administration of an endowment building community foundation within a bank, or similar financial institution, is that this not only provides the specialist skills and knowledge of legal and financial matters, but also the organisational and technical capacity the community foundation needs. Financial institutions may not only have established regional and local structures, but also teams of people whose job is to relate to people making financial plans, including bequests. The Public Trustee in Queensland, for example, makes 20,000 wills per annum across Queensland. As one such person noted: 'It (administering a community foundation) requires a lot of specialist knowledge and it's very time consuming, especially with donor advised funds, but we're geared for that because that's what we do. We have economies of scale'.

The dilemma is that location within a financial institution may lead to questions about the independence and 'community ownership' of the foundation. The culture of financial institutions may also be more attuned to conserving funds than spending them.

Given the expense of running donor advised funds, endowment building community foundations may need to consider setting financial limits below which a named fund is not available. At present, some community foundations have a limit whereas others have none; limits are typically very low (e.g. \$20,000). The theory behind this lack of limits is that a donor will start with a small gift and then 'grow' the fund, but donors are rarely required to sign any formal contract or pledge to this effect and there appears to be no system to check that this does actually happen. One person commented: 'People have dreams. You want to give them a chance to try but if they don't follow that dream and build their fund then maybe you have to push them over into unrestricted funds.'

In addition to considering setting limits on named funds, endowment building community foundations may also need to consider 'cooling out' donors' expectations of what money will buy, in both good and bad market conditions. Twenty thousand dollars does not generate enough annual income to pay for an annual scholarship; \$200 000 would be barely sufficient.

Finally, there is a question of how many endowment building community foundations is too many. The dilemma here is one of balancing financial viability with appeal to local identity. There is a notion that you cannot be too parochial when it comes to community foundations. But if the administrative costs are likely to exceed the income ever likely to be generated, then you can be too parochial.

It is worth noting that if community foundations are genuinely committed to public benefit there is another potentially valuable approach. Endowment building community foundations focus on building stocks of money, but today it is widely recognised that knowledge is as important as money in producing community benefit. Community foundations could focus on building stocks of knowledge about community needs and issues, existing grantmaking and gaps in that, and so on. This might not only generate income from advisory services to other funders but also increase the foundation's stock of trust as experts in routes to community benefit, thus generating more donations. This option would, of course, require investments of time and money at the outset.

Relating to Local Government

For some rural and regional community foundations, support from local government has been crucial in providing start-up money and in-kind support. Community foundations have administered small grants programmes for local government, and have worked with them on various joint projects.

Working collaboratively with local government has various advantages for new community foundations. It expands their knowledge of community organisations and issues, expands resources, raises profile, develops networks, increases legitimacy and, importantly, 'put runs on the board'. For rural and

regional community foundations, local government may be one of the keys to financial sustainability. The only danger is that the community foundation may come to be seen not as an independent entity but as an agent of others.

More generally, community foundations, of all types, in Australia need to address their

relationship with local government. This is an issue not much discussed in the largely US dominated literature in which close community foundation-local government relationships tend to be seen as inappropriate. In Australia, the cultural and value context is very different, and clarifying the relationship between community foundations and local government is crucial. If both are working for public benefit why would they not work closely together? Addressing this relationship raises big issues about the role of community foundations in a democracy, as well as practical issues about how to relate. But unless these questions are addressed and clarified they may create running border and control disputes – as well as under-exploiting opportunities to maximise community benefit.

Legal Issues

Community foundations in Australia face a set of legal and tax issues outlined above. There are constraints on offering donor advised funds; constraints on what community foundations as ancillary funds can do in the community; constraints on the types of organisations community foundations can give to, raising issues about the extent to which community foundations can meet key needs especially in rural areas. There are constraints on community foundations' roles in economic regeneration, with the added anomaly of FRRR's special status in this regard not being extended to its 'arms and legs' in the community.

If these issues are to be resolved, sustained and skilled lobbying and advocacy, informed by expert advice, will be needed. This will require considerable effort by organisations supporting community foundations.

Optimism and Time

One of the biggest challenges ahead for Australian community foundations is to secure the time to

build trust, awareness and to develop. The story of community foundations in the US played an important role in providing the hope to get community foundations in Australia off the ground. But, as illustrated above, that story missed out certain critical details. Community foundation development is not a one year or five year or even 10 year enterprise, not least because trust takes time to build; bequests take time to come through.

The hype of the American Dream played an important function in generating hope. But hype has a sting in its tail if it leads to discouragement after the initial flush of enthusiasm. Failure to live up to the American Dream – rather than the reality – will create disappointed funders, discouragement among community foundation, promoters, practitioners and donors and, most important, will betray the hopes and expectations of communities.

Community foundations need to maintain hope but they also need to be wary of magic formulae. It may be true that: 'Someday someone will come along and give us a big endowment. People in the US say that just happens', or that endowment doubles every x years, but the systematic evidence for these hopes is not clear. Even if these formulae work in the US, is there any reason to suppose that they will happen in the very different legal and cultural environment of Australia, and in financial conditions that are very different from those of recent years?

Community foundations and their supporters and funders need to understand and take heart from the real story of development of community foundations in the US. They need to accept that, as one person remarked: 'If this is a long term project then the first few years are only a few seconds on the clock'.

Continuing Support

If community foundations are to develop their full potential in Australia, they need continuing support. There are at least two issues here: who will provide that support, and where will the resources come from?

FRRR has played a crucial role in the second wave start up of community foundations in Australia. But FRRR's mission is not to develop community foundations but to promote rural and regional regeneration. With this goal in mind and given its own structure and funding: 'We have diverse

responsibilities as both grant seeker and grant maker and lobbying for rural areas. Community foundations are only one strategy in a multi-faceted programme’.

FRRR sees its role as having been to demonstrate the community foundation model and to continue to lobby for community foundations. It does not see its role as developing more and more community foundations and its budget for community foundations has reduced every year. It does not see itself as ‘a peak body for community foundations. You’re on a hiding to nothing if you’re a funding body and a peak body’.

Philanthropy Australia, by contrast, does see its role as continuing to support community foundations. Its dilemma is that it cannot do so without fees or other funding. It is conscious, however, that if it drops its hub role in supporting and acting as a central reference point for community foundations it loses its involvement in a very active, rapidly developing, new area of Australian philanthropy and, arguably, one which has considerable potential in the bulk of Australia – rural and regional areas – not well served by other funders, especially outside Victoria.

Community Foundations of Australasia also sees its role as supporting community foundations, but again it could not do so without resources.

It is unlikely that Australian community foundation support organisations can look for financial resources from abroad. It may be possible to gain some in-kind support, in the form of visits by North American community foundation speakers, but Australian community foundation needs now require specialist knowledge and networks and on-going support. Continuing resources for community foundation development can only come from government and philanthropic funders within Australia. Rather than allowing their initial investments to be lost, at worst, or perform below their potential, at best, funders need to give their investments time to mature. As in other countries, this will require continuing financial investment in supporting the development of community foundations. In the longer-run, some community foundations may fail, but withdrawing support when many have barely started is not giving them a fair go.

5. Wider Reflections

What does the Australian experience to date suggest for the development of community foundations in other countries?

As discussed above, the Australian story is a particularly interesting example of community foundation development for several reasons. First, in Australia community foundations were developed in two waves, one of which did not take off and the other of which appears to have done so. Second, Australia provides a contrast to the US in its lack of a visible philanthropic foundation forming tradition, its strong historical allegiance to the notion that government does and should provide, and its complex tax and legal regime highly unfavourable for development of donor service oriented community foundations. Third, the major development of community foundations in Australia has been focused on rural and regional areas, rather than metropolitan centres where community foundations in the US have tended to cluster. Fourth, the major thrust for development of community foundations in Australia has taken place in the late 20th/early 21st century in very different social and cultural conditions from those which pertained in the early days of community foundations in the US. Fifth, community foundation development in Australia has occurred in the context of financial market uncertainties when even established US community foundations are experiencing difficulties (Chronicle of Philanthropy, 16.10.03, 23).

In 2002, WINGS-CF undertook a series of eight case studies of the development of community foundations, by community foundation support organisations, in very different parts of the world: Poland, Latvia, UK, Michigan USA, wider Europe, Italy, Brazil and South Africa. The community foundation support organisations involved were of different size, age, structure and resources; and were working in very different social, cultural,

political and legal environments. Nevertheless, some common themes emerged from the case studies.

Common themes relating to the development of community foundations included: building understanding of organised philanthropy; gaining trust and confidence; the role of incubators; ensuring representativeness; involving business; building a strong board; doing your homework/ researching feasibility; professional support; the slow process of gaining financial support; and the need for realistic board and organisational planning and development.

The case studies also identified some critical success factors. These included: understanding of the community foundation concept; educating donors and others about endowment; wider community participation and representation; links with the business sector; balancing support from local government with political impartiality; leadership and commitment; infrastructures and incubators; strategic positioning and operational planning; funding, external and challenge grants; legal and fiscal matters; staffing; organisational capacity building; technical assistance; promotion/marketing and shared standards (www.wings-cf.org).

The Australian story illustrates many of the factors identified in the WINGS-CF case studies in other parts of the world. The Australian experience also expands and refines some of these points, and suggests some additional factors.

Favourable Policy Environments and Open Policy Windows

The Australian story expands the WINGS-CF case study findings highlighting the importance of a favourable policy environment, illustrating the difference in this regard between the first wave of community foundations in the 1980s and the second wave around the turn of this century.

In the 1980s first wave of community foundation formation, the policy environment was not particularly favourable to development of community foundations, or even to formal encouragement of greater foundation formation of any sort. In the second wave of community foundation formation the situation was very different. The Australian story expands on the importance of a favourable policy environment by highlighting the way in which a policy environment may not be favourable to community foundations per se, but may rather provide an open window through which community foundations may gain a place on the political agenda. Using a different analogy: political concern around rural and regional issues provided a vehicle for community foundations to hitch a lift into the sunshine. In other words, favourable political environments for community foundations do not necessarily ‘just happen’; they may be created by seizing opportunities to ally the notion of community foundations to *currently recognised* policy problems in search of solutions.

The Australian story also highlights the value of marrying diverse rationales and constituencies of support. As emphasised above, interest in and support for promotion of community foundations grew from different quarters and for different reasons. Some constituencies were primarily interested in community foundations as a response to rural and regional regeneration; others focused more narrowly on women in rural areas; others were less concerned with rural and regional matters and more interested in community foundations as vehicles for promoting philanthropy more generally and, in particular, capturing the expected inter-generational transfer of wealth.

The Power of Positive Example

The WINGS-CF case studies highlighted the unfamiliarity of the concept of endowment and of community foundations, and the obstacles this presents. The Australian story highlights the way in which ideas and examples – and people – from North America inspired key individuals and movers, providing legitimacy and credibility for the community foundation concept with others both within and beyond foundations and government.

The Australian story illustrates the functions of positive, working examples in providing confidence and hope for the future viability of community foundations. But, because such examples accentuate the positive, and the unrepresentative, the struggles of community foundations, even in the US, are under-played; the real story turns into a glossy tale of rags to riches in one bound. The danger lies in the possibility that the story, having played a positive function in generating hope, becomes a source of unrealistic expectations and disappointment among funders, supporters and practitioners.

The Importance of Champions and Support Organisations.

The nonprofit sector tends to subscribe to the myth that good ideas are infectious, spontaneously replicating themselves. The Australian story underlines the importance of champions and support organisations, noted in the WINGS-CF case studies, in encouraging the spread of community foundations. Champions and support organisations not only provide financial and other support to embryonic community foundations, but are also crucial in promoting the community foundation concept, lobbying for a favourable legal and fiscal environment and encouraging others, including state and local governments, to support community foundations. In the first wave of community foundations, champions and support organisations were not available. In the second wave, they played a critical role in driving wider support for community foundations, and in providing community foundations themselves with resources, support and encouragement.

The Importance of Practical Technical Support

The Australian story, like the WINGS-CF case studies, underlines the value of practical technical support, and the need for organisations with the knowledge, time and financial resources to provide this.

Challenge Grants

The WINGS-CF case studies suggested that challenge grants played an invaluable role in encouraging development of community

foundations, providing both financial resources and as an indication of trust and legitimacy. Australian community foundations have not typically received challenge grants, and certainly not on the scale of community foundations in the UK. As one person remarked: 'I doubt it's made that much difference because we probably couldn't have raised the other half anyway'.

Resources for Development

The WINGS-CF case studies emphasised the need for resources for both start-up and on-going development. Enthusiasm, and volunteer time, may compensate for lack of money in the first year, but this is rarely sufficient to build a sustainable community foundation. Early wins are certainly important in confirming initial enthusiasm and generating hope and credibility, but it is the on-going wins, or lack of them, that can make or break a community foundation.

As the real community foundation story in North America (and the UK) demonstrates, building community foundations is a long term project, requiring perhaps 10–20 years of hard work before the community foundation can fully support itself.

The Role of Incubators

The WINGS-CF case studies highlighted the role of incubators in encouraging the development of community foundations, hosting and effectively subsidising them through their early stages. The experience of those Australian community foundations focused on endowment building confirms the difficulties in developing the foundation, and adding to endowment, without substantial subsidy and a network through which to communicate with potential donors. It is no accident that the most successful Australian community foundation, measured in terms of size of actual and promised endowment, is one hosted by a (non-profit) financial institution which not only provides significant administrative subsidy but also has a network of will makers and financial advisors. Without these advantages (or equivalent volunteer support, knowledge and networks) an endowment building community foundation is in a vicious circle in its early years. It cannot cover its costs until its endowment is of a size to generate more income, but

it cannot build its endowment because it does not have the staff time, resources, skills and networks to do so.

Strategies for Building Trust and Confidence

The WINGS-CF case studies highlighted the crucial importance of building trust and confidence in community foundations. The Australian story illustrates some of the dilemmas in building trust and confidence when 'borrowing' trust by publicising respected donors is not culturally acceptable in some circles. Gaining trust via board composition illustrates the variety of notions of 'representativeness'; wealthy people, donors and potential donors may be different from respected people or people perceived as representative of the community. The Australian story illustrates the potential value of other strategies for gaining trust and confidence including the value of pass through funding for 'getting runs on the board' and publicising the foundation and its activities, as well as working with others who are trusted. One person summed up her community foundation's strategy as: 'Just go for it – establish a presence and legitimacy by engaging in a variety of activities to bring people together to address community issues and build identity – and worry about the money later'.

The Role of Tax and Legal Environments and Reforms

The WINGS-CF case studies emphasised the importance, for development of community foundations, of a tax and legal environment favourable to philanthropic giving. The Australian experience illustrates the need for a tax and legal environment favourable not just to giving, but to giving *via a community foundation*.

Some of the WINGS-CF case studies covered countries with an almost total lack of tax and legal provisions relating to philanthropic giving. Australia's tax and legal regime is, in some respects, highly supportive of giving; but it is also complex, and confusing and ill-suited to the particular needs of community foundations, and endowment building community foundations in particular.

The Australian story also illustrates the way in which reforming tax and legal structures to encourage philanthropy and foundation formation in general can indirectly cancel out the relative benefits to community foundations. Tax reforms in the US in 1969 produced gains for community foundations by the penalties imposed on private foundations. Tax reforms in Australia have made it easier to create private foundations. This simplification of private foundation formation, combined with the restrictions on donor controlled funds within community foundations, has potentially reduced the attraction of giving via a community foundation.

Building Ingredients

The Australian story expands the WINGS-CF case studies by highlighting the possibilities and challenges of developing community foundations in rural areas. It illustrates the practical, logistical problems in accessing technical and other support in widely dispersed populations. Perhaps more significantly, it also highlights the need to adapt the community foundation purpose, structure and activities to different contexts and cultures.

Rural areas present challenges very different from those of metropolitan areas. Rural areas may lack not only businesses and wealthy individuals and foundations on hand, but also organisations and groups – especially with right tax status – through

and with whom the community foundation can work.

Lack of a developed, organised nonprofit infrastructure leads to consideration of the necessary ingredients for an effective community foundation. Money has typically been seen as the key ingredient, but community foundations also need human resources including knowledge and skills; organisational and technical capacity to put ideas into action; collaborative capacity to make relationships; authority and legitimacy; confidence and trust and some level of community identity. When any of these ingredients is missing, or under developed, the first task may be to remedy this.

This sort of community capacity building is, in itself, a valuable means of achieving all community foundations' fundamental purpose of contributing to public benefit. It may also be the necessary foundation from which endowment building may grow in later years.

Recognising the need to relate the focus, activities and structure of community foundations to 'missing ingredients' and the cultural context underlines the need to avoid blue prints and culturally specific models. As the WINGS-CF case studies suggest, endowment building is not necessarily the right starting point for all community foundations in all contexts.

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