Carrying the Torch

Passing on a lasting family legacy to future generations through family philanthropy

Foreword

Over the past few decades, Asia has amassed one-third of the world's wealth while witnessing incredible progress in areas such as education, life expectancy and infrastructure. Yet, the region remains home to two-thirds of the world's poor[1]. Economic advancements in Asia have not been shared equally, and pressing global challenges such as the pandemic, climate change and natural disasters remain. The accumulation of private wealth, persistent economic and social inequalities, and a heightened awareness of social impact have all contributed to the rapid growth of charitable giving in the region.

Family philanthropy has long been perceived as a cornerstone of preserving family legacy, creating a continuation of family spirit and enhancing family engagement and identity. Given the family wealth transfers globally underway, the role of the next generation continues to expand as they help this space evolve beyond traditional practices to create more lasting impact on their philanthropic efforts and goals. This article explores how the next generation in the Asia Pacific region are leading a more systematic and sustainable approach towards their family philanthropy while preserving and carrying on their family values, vision and sense of responsibility in giving back to society.

1.0

Overview of Private Charitable Giving in the Asia Pacific Region

As many economies in the Asia Pacific region continue to grapple with the effects of the Covid-19 in the transition to a post-pandemic era, the philanthropy sector has seen charitable giving at an unprecedented scale and accelerated pace. Meanwhile, with corporate social responsibility and ESG investments gaining traction, corporates and high net worth individuals are exploring innovative ways to contribute to the region's sustainable development.

The crucial enablers for effective philanthropy, such as regulations, tax policies and ecosystems, have created varying environment for private social investment in the region. The three major regional economies that have seen substantial growth in ultra-wealthy individuals, Singapore, Hong Kong and Mainland China, are each at their own respective stage of development.

According to the Doing Good Index 2020 by the Centre for Asian Philanthropy and Society, Singapore provides favorable conditions that are highly conducive to philanthropy in the region, in which its optimal tax incentives and supportive regulatory environment help maintain a reliable and robust non-profit sector. Singapore's government plays a central role in both building infrastructure and funding social delivery organizations[2], which collectively draw almost a third of their budget from government funding, one of the highest percentages in Asia.

Hong Kong has an active social sector that has experienced significant growth over the past 20 years with the number of tax-exempt charities tripling from 3,250 in 2000 to 9,191 in 2020. Donations to these charities also quadrupled from HK$2.9 billion (US$374.1 million) in 2000–01 to HK$11.7 billion (US$1.5 billion) in 2014–15[3]. The rules governing charities are piecemeal, housed within a regulatory framework geared more towards corporates with ad hoc additions to accommodate charitable institutions and their activities, thereby affording a critical role to home-grown philanthropy and citizen-led efforts. The Doing Good Index 2020 survey also shows that for 90% of social delivery organizations, a third of their funding comes from individuals — the second highest percentage in Asia[4].

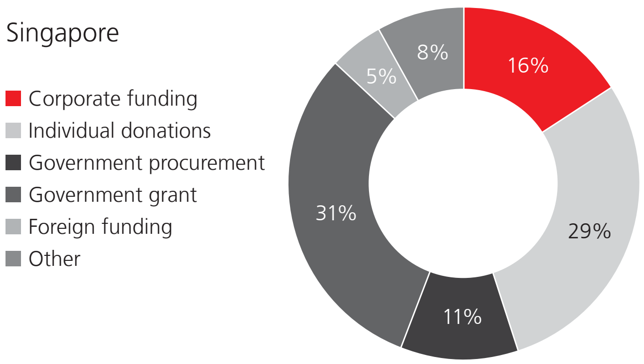
> "When it comes to family giving, Hong Kong probably has the most established market in the Asia Pacific. For families with wealth passing down more than three generations, ways of charitable giving tend to be more settled. Mainland China leads in the scale and speed of development in the region, while first generation wealth creators are still weighing their options, for instance, direct stock donation. It will be interesting to watch how these phenomenon evolve over the next decade and how their next generation mature."
>
> **Mr. LH Koh,**
> Managing Director and Co-Head of Global Family Office APAC region at UBS Global Wealth Management

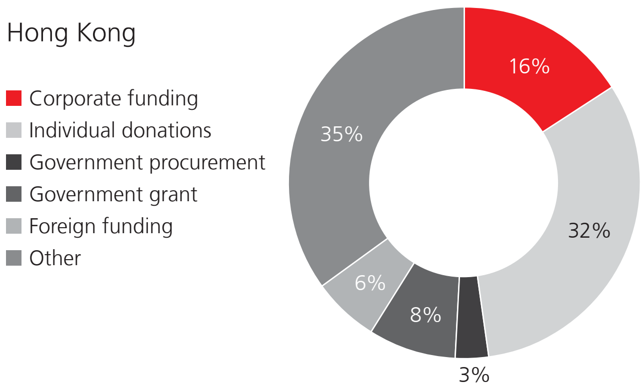
[1] Centre for Asian Philanthropy and Society, "Doing Good Index 2020 Profiling Asia's Social Sectors: The Path Forward, 2020"
[2] According to Doing Good Index 2020, social delivery organizations are defined as the organizations engaged in delivering a product or service that addresses a societal need.
[3] Centre for Asian Philanthropy and Society, "Doing Good Index 2020 Profiling Asia's Social Sectors: The Path Forward, 2020"
[4] Centre for Asian Philanthropy and Society, "Doing Good Index 2020 Profiling Asia's Social Sectors: The Path Forward, 2020

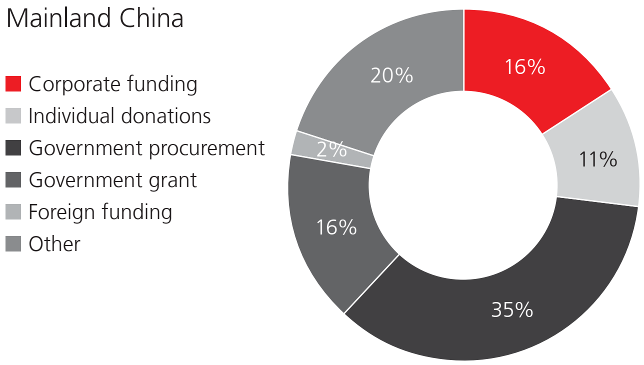
Philanthropy in Mainland China has been conducted together with the government and focuses on certain sectors that align with state priorities, such as education, poverty alleviation and disaster relief. Government policies related to the social sector not only have a direct effect, but also a signaling effect as well that amplifies the impact.

Although the philanthropic ecosystem is relatively nascent and tax incentives for charitable giving are not as favorable as in other economies, total charitable donations in Mainland China increased from RMB33 billion (US$5.03 billion) in 2009 to RMB209 billion (US$31.57 billion) in 2020[5] and giving from Mainland Chinese family foundations grew from RMB8.73 million (US$1.32 million) in 2005 to RMB3.7 billion (US$560 million) in 2017 alone[6]. The speed of development, especially in the private and corporate space, is a reflection of higher engagement with philanthropy and a growing number of corporate social responsibility programs operating in China.

Average Social Delivery Organization Budget by Funding Source







Source: Centre for Asian Philanthropy and Society, Doing Good Index 2020 Profiling Asia's Social Sectors: The Path Forward, 2020.

[5] China Charity Alliance, "Charitable Donations in China 2020"
[6] Yang Tuan, "Report on China's Philanthropy Development (2018)", Social Sciences Academic Press, 2018

In 2016, the Chinese government implemented the Charity Law to regulate domestic charitable activities and the Law on Administration of Activities of Overseas NGOs (NGO Law) to govern foreign charities. While the laws give charitable organizations greater social recognition, the NGO Law confers a high degree of oversight on the operations of foreign NGOs. The subsequent shrinkage of foreign funds and growth in the number of individual philanthropists and corporate responsibility programs have reshaped the social sector landscape in China.

Many encouraging examples of grand philanthropy efforts have emerged in recent years, particularly in the technology sector. The majority of China's internet giants have founded their own corporate foundations (usually taken from a portion of companies' revenue or profits), and in some cases, individual foundations have been set up by the founding family as well. These charitable organizations tend to domicile outside of China as they are mostly funded through stock donations of overseas listed companies, while the main destinations of their donations are still within China. More recently, Chinese tech giants have pledged millions of dollars to help combat Covid-19, including funds reserved for medical research, enhancing healthcare facilities and supporting medical workers, as well as leveraging technological expertise to launch digital platforms that facilitate international cooperation on containing the pandemic.

2.0

A New Generation of Engaged Philanthropists

2.1

Next generation family members lead in professionalizing philanthropy

Family philanthropy has long been considered an effective tool for aligning values across generations. It provides a neutral ground for family interactions and an opportunity to let the elder generation stay involved and share family beliefs, while offering a platform for younger generations to build their interests and skills, and to prepare for a greater role in family decision-making.

Many of the younger generations of wealthy families were introduced to philanthropy at an early age. Unlike their predecessors who tend to offer one-off donations, they have the ambition to build professional charitable organizations that create lasting social impact. Compared to the times when the majority of decisions were solely made by family leaders or beneficiary owners, in many ways the next generation seek a more transparent charitable process and are leading family foundations into a stage of professional management and capacity building. Their roles will continue to expand as they increasingly begin to explore solutions to more systemic social issues.

When speaking about the different approaches to charitable giving across generations, Karen Cheung, Chief Strategist of The D. H. Chen Foundation, explained the restructuring process of institutionalizing charitable activities after her late grandfather and the founder of Nan Fung Group, Dr. Din Hwa Chen, passed away in 2012. "When I gradually become more involved in the Foundation and eventually became one of the trustees, we fine-tuned our strategies and initiatives based on our own missions in order to become 'engaged philanthropists'. We would like to offer not only financial resources, but also intellectual and social support," she commented.

The D. H. Chen Foundation was built upon Dr. Chen's vision of "care for others as well as you would care for yourself". Based on this philosophy, the board of trustees crafted their mission statement, which is to build a compassionate society and to promote compassion-based values. To improve overall operational efficiency, each of the four core focus areas became registered as an independent charitable organization (referred to as the "institutes"), and the Foundation issues grants to each institute.

Another tool to institutionalize family philanthropy is through the establishment of the foundation-trust joint structure. The trust, which houses family endowments and is usually managed by an investment team or a family office, makes annual contributions to the foundation which are issued as grants. The foundation-trust joint structure ensures both flexibility and sustainability in giving, while allowing philanthropists to retain control over family assets.

Tolaram, a Singapore-headquartered enterprise, transitioned from a shareholding to a trust structure in 2015, with the Foundation becoming the single largest beneficiary of the trust. "The incorporation of the Foundation marked the next phase in Tolaram's philanthropic journey. With a dedicated, independent funding source, there was an opportunity to build a new, purpose-driven, and impactful organization," noted Sumitra Aswani, the executive director of Ishk Tolaram Foundation and a fourth-generation family member.

"In Hong Kong and Singapore, the combination of trust, family office and foundation structure has developed into a common practice for wealthy families of multiple generations. This formal structure presents a platform for family members to communicate, bond and make decisions collectively. In some cases, the family office also oversees the foundation's operations."

Christina Tung,
Managing Director, Head of Philanthropy Services Greater China and UBS Optimus Foundation Hong Kong at UBS Global Wealth Management

2.2

Evolving family philanthropy practices to keep up with times

Today's charitable organizations are constantly evolving to adapt to the changing needs of the world. The Covid-19 pandemic has transformed philanthropic practices in many different aspects. In markets with a mature infrastructure that enable charity work, restrictions on funding and reporting requirements were temporarily lifted for pandemic relief and grants were issued out swiftly[7]. As the world rebuilds and adjusts amid the normalization of the pandemic, a full recovery will require long-term efforts.

At the start of the global pandemic, Ishk Tolaram Foundation rerouted a portion of funds to address immediate needs, while enabling quicker turnaround of grant applications. These were typically for smaller-scale, short-term relief efforts. As lockdown measures eased, the Foundation returned its focus to supporting intermediate and long-term rehabilitation efforts through skills training, education and healthcare programs, their core areas of expertise.

In addition to reactionary disaster relief, charitable organizations are also expanding beyond grant-making by adopting a holistic approach to tackling social issues. Karen explained about their high-impact model of giving, for example, The D.H. Chen Foundation initiated Project Fuel during the pandemic to not only provide selected local small-sized non-profits with emergency financial support, but also offering a Fellowship program to empower them to be more resilient and to thrive in the long run. Programs under other institutes also putting compassion into action, feature value promotion for children, nurturing of Scholars to be insightful and compassionate leaders, and steering of integrated holistic care.

"The next generation is very much focused on impact evaluation and the sustainability of the programs. Impact measurement would both include output and outcome to achieve lasting impact. If 'output' means a scholarship program that sponsors 1,000 students, 'outcome' means the learning achieved by the students," added Christina Tung.

[7] Family Office Exchange, "Family Philanthropy's New Era", https://www.familyoffice.com/knowledge-center/2021-fox-foresight-family-philanthropy%E2%80%99s-new-era, August 2021

2.3

Philanthropy as a key platform for family education and engagement

Family philanthropy plays a central role in engaging family members and contributing to a sense of spiritual continuity between multiple generations. The act of giving in the name of one's ancestors has become a key source of motivation for younger generations to take on more responsibilities and carry the torch of their family's legacy.

For some younger generations, philanthropy serves as a learning or testing ground that offers opportunities to the next generation and local communities. Ishk Tolaram Foundation engages employees of the business and next-generation family members to support their individual giving potential and scale their impact. "Tolaram employees can apply for a Pass-it-On grant to support an organization working in education, healthcare or skills training", shared Sumitra. "We are exploring this model for next-generation family members as well, who are passionate about contributing toward building a better world."

For others, the philanthropic journey serves as a way to connect and become inspired by ancestors. Karen recounted making a speech at the opening of an exhibition hosted by The D. H. Chen Foundation in 2021, a moment she recalls as feeling an unwavering sense of responsibility. The exhibition took place at The Mills, former textiles factories under the Nan Fung Group which has since been revitalized into a space for innovation, inspired by a desire to honor its history while building a future. "When I sat at a place where my grandfather used to come all the time, it was then that I realized I've been given this serious obligation of carrying on my family's legacy. I really had this moment of hearing an inner voice saying, 'Karen, you have to grow up and take on this responsibility. Do what your grandfather and mother have always taught you to do.' Moments like this remind me that there's always more work to be done. It inspires me to keep on innovating to keep up with the times."

3.0

Philanthropy gets blended in across activities to optimize impact

Unlike their Asian peers, many top philanthropists in Mainland China are first-generation wealth creators who are still in the early stages of exploration. Many of them choose to give through their companies and corporate foundations instead of family foundations since the infrastructure around these has yet to mature. But there has been widespread consensus among business owners that giving back to society is an essential part of preserving a family's legacy.

Mr. Li Houlin, the founder of I Do jewelry brand and I Do Foundation, speaks about his understanding of philanthropy: "As an entrepreneur, I feel that philanthropy is a part of my destiny. The mission statement of I Do jewelry brand is to let more people believe in love, feel love and pass on love. Our philanthropy is an extension of this mission statement."

> "For Chinese families whose businesses are rooted in purpose, philanthropy can be a visible demonstration of their commitment to the community and causes they believe to be important. Done right, this visibility can help an organization thrive by increasing its reputational capital and enhancing its positioning in the society."
>
> **William Chou,**
> Deloitte Private Asia Pacific Leader

A passion for giving that is shared by many entrepreneurs, however, has been met with a restrictive policy environment in Mainland China. There are currently two major forms of private philanthropy in China, each with their own drawbacks. Charitable trusts have emerged with great potential as they do not have a minimum capital base or annual asset expenditure requirements, while foundations require a RMB2 million capital base and an annual expenditure of at least 8% of total assets. But tax incentives tailored for charitable trusts have yet to be finalized. The lack of tax incentives and premature legislation for charitable trusts, and high maintenance costs associated with foundations, are among the top reasons for philanthropists to domicile their trusts overseas. However, by residing outside of China, philanthropists have to find ways to bypass the NGO Law if they are to make direct donations in Mainland China.

"Geographically we're taking steps to move beyond Hong Kong as our team grows but it will be a long journey", explained Karen. "We started a new initiative in Mainland China last year with Zhejiang University, and because of the restrictions on direct offshore donations, we donated through its registered charitable institution in Hong Kong instead".

Despite restrictions and less favorable enabling conditions for private philanthropy activities, a number of alternative methods are gaining momentum. The increasing popularity of strategic philanthropy, impact investing and corporate social responsibility campaigns all exemplify growing efforts to maximize social impact and blend philanthropy into a larger range of activities. For instance, some among the younger generation in China

are extending and deepening their parents' poverty alleviation schemes through various models of corporate initiatives. These include but are not limited to 1) rural education support, 2) financial donations for infrastructure improvement, 3) employment training for villagers, 4) rural entrepreneurship incubation, and 5) cultivating new local industries to achieve independent development. Because poverty alleviation and rural revitalization requires long-term efforts, it will take generations of philanthropists to carry forward their commitments towards sustainable development.

According to a study conducted by UBS, Campden Wealth and The Family Office Think Tank on 78 Chinese wealthy families and family office professionals, 40% respondents state that the next generation is active in philanthropy and all respondents report that the next generation will exert influence over the families' philanthropic endeavors.[8]

While Chinese corporations and high net worth individuals are becoming more engaged with philanthropy, many do not have extensive experience, which is exacerbated by the lack of professionals in the sector. "After a period of experimentation, our foundation has now taken a more systematic approach, worked out our specific domains, and developed an internal mechanism for choosing partners," said Mr. Li. He emphasizes that the first and foremost step towards effective philanthropy is to formulate a comprehensive strategic framework that takes into consideration the family's mission and legacy as well as corporate competencies.

"We've seen a more diverse and expansive form of giving during the pandemic response, ranging from donating medical supplies and devices to supporting dispatched healthcare workers. It is worthy to call out the increased donations to international collaboration and R&D efforts. We are also seeing a trend of increasing global donations to more developing countries as China takes a bigger role in global development."

Ruixi Hao,
Senior program officer of the Bill & Melinda Gates Foundation based in Beijing

[8] UBS, Campden Wealth, The Family Office Think Tank, AVIC Trust, "Chinese Family Office and Wealth Management Report 2021".

4.0

Conclusion

For wealthy families, the preservation of family legacy can take many forms, for instance, ensuring the transfer of wealth across generations, developing a thriving family business, establishing effective family governance and succession plans, and launching social impact programs. The essence of these activities originates from a desire to pass down family assets and visions. A family's philanthropic initiatives embody that family's beliefs, and these can be carried out by future generations to come. Guided by their own moral compass, wealthy families can then plan and implement philanthropic activities, while constantly innovating and evolving to meet changing social needs.

The direction of travel for philanthropy among wealthy families, however, is not uniform across Asia. Whereas the next generation in the developed Asian economies such as Hong Kong and Singapore have embarked a new journey of sustainable giving by embracing a more strategic, impact-oriented approach, wealthy families in Mainland China are in the process of active experimentation which is being driven largely through corporate initiatives.

As more and more wealthy families increase their engagement with philanthropy, we summarize the following factors that have been critical to their success and which other families can follow:

- Define or refine family strategies and long-term plans based on the various goals associated with family legacy
- Deploy professional structures to ensure sustainable and efficient operations of family philanthropic activities
- Embrace evolving practices to keep up with changing social needs
- Use philanthropic activities as a stepping stone for the next generation to participate in family decision-making

With a progressive mindset and the help of industry professionals, family philanthropy will certainly provide an effective tool for younger generations to develop and take charge, to continue the legacies of families and adapt to carry out the work needed to achieve better outcomes across the world.

Acknowledgement/ Contributors

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