

# Split Intentions

Private foundations need to walk the talk on their investments

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foundation? Should getting the best “dollar return” on its investments be the only goal? Or should a foundation also consider the social responsibility of the companies in which it invests?

The answer, to me at least, is simple: a foundation, dedicated to improving the world we live in, should invest its money in companies that share its concerns. Of course, one might argue that a corporation owes its shareholders maximum investment returns and so may need to ignore social responsibility, although the trend today is in the opposite direction. But how can a foundation—one created to ease social ills—justify turning a blind eye to the socially irresponsible behavior of the companies in which it invests?

These are not new questions. But as the number of new mega-foundations grow in number and clout, these questions cannot now—in my view—be raised often enough.

Consider what the Gates Foundation has been doing: the *Los Angeles Times* series reported the foundation is spending millions of dollars worldwide funding inoculations to protect health, including in the Niger Delta. Yet at the same time, it has invested in the Italian petroleum company, Eni. The Eni company is one of several with plants in the delta that pollutes the air with flares of oil containing up to 250 toxic chemicals, many of which “have caused an epidemic of bronchitis in adults and asthma and blurred vision in children,” the newspaper says. The paper also says the foundation is additionally invested in Royal Dutch Shell, Exxon Mobil Corporation, Chevron Corporation, and Total of France—companies responsible, along with Eni, for most of the flares blanketing the delta with pollution at levels above those permitted in the United States and Europe.

Also according to the series, the Gates Founda-

**B**ill and Melinda Gates rightly received a groundswell of public accolades and applause from people inside and out of the philanthropy world when they created their private foundation in 2000. Who could say anything negative about a couple donating roughly \$30 billion of their own wealth to a foundation created to eradicate global disease, illiteracy, and poverty around the world?

Yet findings by the *Los Angeles Times* earlier this year that the Bill & Melinda Gates Foundation has invested its assets in corporations that contribute to some of the same problems it aims to alleviate are troubling, indeed. The newspaper series raises critical but long overdue questions about how today’s new surge of private mega-foundations, essentially the largely unaccountable new philanthropic vehicles of the newly wealthy, are being run and managed.

What should be the investment guidelines of a



Naomi B. Levine

## The Bill & Melinda Gates Foundation has invested its assets in many corporations whose behavior contributes to the very problems their foundation aims to alleviate in the world.

tion's investments, totaling at least \$8.7 billion—or 41% of its assets, not including U.S. and foreign government securities—have been in companies “that countered the foundation's charitable goals or socially concerned philosophy.” The foundation donates 5% of its assets every year and invests the other 95%.

Much of the Gates Foundation's investments are in companies that “have failed tests of social responsibility because of environmental lapses, employment discrimination, disregard for workers' rights, or unethical behavior,” the newspaper said. These include: pharmaceutical companies that have restricted the flow of key medicines to poor people in developing nations; mortgage companies that have been accused in lawsuits or by government officials of making it easier for thousands of people to lose their homes; a healthcare company with a history of scandal, lawsuits, federal raids for Medicare fraud, kickbacks, and poor and dangerous patient care; companies ranked among the worst U.S. and Canadian air polluters; and four large chocolate makers, which buy their cocoa from West Africa, where, according to a report from the International Institute for Tropical Agriculture, a group supported by the U.S. Agency for International Development, 284,000 children—many younger than 14—work under hazardous conditions.

Even more disturbing, though, is the fact that the Gates Foundation has not used its considerable financial clout to influence companies to change their policies. Several other major foundations—most of them older mega-foundations outside the realm of today's “new donors,” such as the Ford, MacArthur, Rockefeller, Nathan Cumming, and Charles Stewart Mott foundations, have not only developed investment guidelines that support their missions, but also participate directly in shareholder initiatives, voting their proxies to influence corporate behavior.

Gates Foundation officials, however, in a statement following the *Los Angeles Times* investigation, made it clear the foundation does “not get involved in proxy issues.” And when Gates Foundation President Patty Stonesifer was asked to comment about this, *The Economist* magazine reported that she brushed aside the issue as one that “certainly can provoke an interesting debate.” She further explained

this in a letter to the *Los Angeles Times*. “Changes in our investment practice would have little or no impact on the suffering identified in the *Los Angeles Times* article(s),” she wrote. “The foundation does not own big-enough stakes in companies to influence their behavior through shareholder activism—even if it does nod to political correctness by declining to invest in cigarette firms.” A far better way to help people, she said, “is by making grants and working with other donors to improve health, reduce poverty, and strengthen education.” She repeated that point at a recent gathering at the New York Public Library.

In my view, Stonesifer is too smart to believe that the foundation's corporate investments should play no role in furthering its program goals; the foundation's poor example here should be a siren call for reforms and stepped-up oversight.

“Foundations are stewards of wealth for the benefit of society—and receive tax advantages on that basis,” writes Joel Fleishman, professor of law and public policy at Duke University, in his new book, *The Foundation: A Great American Secret*. Foundations have, in other words, an obligation to foster the public good.

Paul Hawken, an expert on socially beneficial investing who directs the Natural Capital Institute, said recently: “(The) dirty secret of many large philanthropies (is that) foundations donate to groups trying to heal the future, but with their investments they steal from the future.”

The *Los Angeles Times* deserves a special accolade for its findings and also for causing the foundation community to start talking about its investment policies. If foundations, whose assets now total more than \$200 billion, begin to use their investment strength to influence corporate behavior, the *Los Angeles Times* will have performed a great service to the world of philanthropy and to the global community of which we are so important a part. ▲

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# 55,120

The number of private/independent foundations in 2001

# 63,059

The number of private/independent foundations in 2005

Source: The Foundation Center New York, 2007



The *Los Angeles Times* series, “Dark Cloud Over Good Works of Gates Foundation,” and “Money Clashes with Mission,” can be found at: [latimes.com/news/nationworld/nation/la-na-gatesx07jan07\\_0,6827615.story](http://latimes.com/news/nationworld/nation/la-na-gatesx07jan07_0,6827615.story)

The Gates Foundation's official response to the *Los Angeles Times* series can be found at: [gatesfoundation.org/AboutUs/Announcements/Announce-070109.htm](http://gatesfoundation.org/AboutUs/Announcements/Announce-070109.htm)

The *Los Angeles Times* story, “Berkshire Wealth Clashes with Gates Mission in Sudan”—which raises new questions about the Gates Foundation's investment policies—can be found at: [latimes.com/news/nationworld/la-na-berkshire4may04\\_1,7545044.story?ctrack=1&cset=true](http://latimes.com/news/nationworld/la-na-berkshire4may04_1,7545044.story?ctrack=1&cset=true)