SPECIAL FEATURE

A one per cent solution

Carlo Umberto Bonomi, senior partner of InvestIndustrial, has an idea – if you were to get all European venture capital and private equity funds to give one per cent of their profits to charity and manage them centrally and efficiently, you would raise an annual sum big enough to have a significant impact on a multitude of social problems. He outlined the idea at the EVPA conference in September. We asked him to explain in more detail how it would work, how realistic a prospect he considered it and what obstacles he foresaw to its achievement.

It's what InvestIndustrial, a southern European industrial private equity fund (**www.investindustrial.com**), itself does in respect of its own corporate foundation, Invest for Children (i4c) (**www.investforchildren.org**). The company (InvestIndustrial is the Private Equity arm of the BI-Invest Group) founded Invest i4c ten years ago as a channel for its corporate giving. It reflects, Carlo says, the founding members' 'vocation to do charity work, but we wanted to give a professional and efficient direction to that work.' So two years ago, InvestIndustrial devised the idea of giving one per cent of what it made - from the capital gain on the sponsor's commitment to funds, through the capital gain on the team's commitment to funds, carried interest earned on funds, the profits of the management company, as far as the founding partners' salaries - to charity. When the idea was proposed, all InvestIndustrial's founding partners said yes 'and "closed the deal" immediately as the compelling reasoning is clear. Previously there was a lot of goodwill but no real strategy behind our giving.'

A one per cent club

Now, he wants to roll out the idea, and to persuade private equity firms in Europe to adopt the same strategy and to set up a central organisation to manage the resultant funds. There is a straightforward argument for this, he believes – efficiency and the leverage that the amount of capital raised would provide. You would at a stroke take away the costs of running an individual corporate foundation. 'If we had such a fund,' he says, 'I would fire everyone in my foundation tomorrow.' 'The biggest problem in charity is inefficiency,' he believes. 'You can't be egoistic and just look at what you want to do locally because egoism is inefficiency. In today's world philanthropy must be seen as a business and you must look at how to get the best return on your investment because the needs we're trying to address are so big.'

Ideally, he would set up such a central management fund with a well-paid Chief Executive of proven pedigree. 'You'd go to private equity firms, tell them the idea – we've got this fund managed centrally and by the way, the CEO is Jack Welsh [the successful CEO behind General Electric] for example. This year, we'll give 300 million Euros to tackling malaria and the money will come in on day one.' As this last remark indicates, another important aspect of the plan for Carlo is concentration of the fund's object. 'All the money should go to one project each year, whether it's multiple sclerosis, HIV/AIDS, malaria, Downs Syndrome or whatever, because my experience tells me – focus, focus, focus. I'd rather have five successful big projects than two hundred smaller ones....let's not compete between InvestIndustrial, 3i, Apax, Blackstone, CVC, KKR etc, on the subject of philanthropy, let's put the money to work like we do in the private equity industry so we can be efficient in giving.'

'As an example,' he says, 'I admire Bill Gates, but I admire Warren Buffet more because he saw that using the Gates Foundation could leverage his money better than using his own foundation. But he also told them "I want a seat on the board and you'd better tell me where you put my money" so they're accountable.'

How would it work?

So a central fund would administer the money, but who would decide where to spend it? His view is that there should be an independent body, whose members the equity firms would nominate but on which they would not be directly represented. 'They'd be elected every five years and they would decide where the money goes and no project gets funded twice.' But he insists that the details of the project can be safely worked out in due course as participants join the project. For the present, the main task is to persuade people to buy into the concept.

He is doing this through personal contact with family or largely-family run private equity companies in southern Europe because 'their decision-making processes, as family-run businesses, is much faster on this subject.' (The founding partners of InvestIndustrial and i4c are Bonomi family members). It won't happen overnight, he acknowledges, but basically, he believes it is a winning formula because 'the argument is so compelling.' What he is proposing is in effect a reform and rationalisation of corporate philanthropy in Europe, at least among private equity firms. His scheme would provide a definite amount of corporate giving, directed at one social problem, and would remove the need for the whole apparatus of corporate foundations.

In practice

He admits, though, that there are certain big constraints to his vision. In practice, he says, though it would be wonderful if all private equity firms in Europe were to join his 1 per cent club, most will be restrained by their own systems and regulations. This is a second reason why he is concentrating his proselytizing efforts on family or largely family-run foundations.

Institutional investors account for 72 per cent of investments over the past 5 years. The remaining 28 per cent are 'family-related' investment funds, and, based on a net 2 times return (that is, a doubling of the sum invested) on investments which, is 'the industry average' and the official European Venture Capital Association figure, his one per cent scheme could generate from these some €92 million. And there is still the possibility of some of the institutional investors chipping in and an unknown amount from management company profits. 'If all Venture Capital firms and Private Equity firms in Europe gave 1 per cent,' he calculates, 'we are talking approximately €350 million per annum!'

However, even discounting the institutional investors and taking the smaller figure which Carlo's pragmatism suggests, 'we're still talking about big numbers.' No-one would dispute that, but governments and multilateral agencies invest substantially more in the kinds of problems he is talking about without solving them. Why does he think his scheme would succeed where public money has not? 'Because,' he argues, 'what I'm proposing is more accountable and efficient. Government-funded initiatives are great on two counts: they happen and they tend to have a fair amount of money...but they also have two problems: they happen late because of bureaucracy and they tend not to be efficient, because there is usually a lack of accountability. I therefore would like to see a full "outsourcing" of government charitable funds so the end user gets the best of two worlds: a lot of it and fast.'

Suppressing individual preferences for common benefit

If there is an obvious advantage for family-led firms in the economy of the idea, there are obstacles to be overcome too. The biggest problem, he thinks, is that families often have their own preferential objects of giving, and ones which resonate with them personally. Participants would have to accept that the money would not necessarily go to the area to which they traditionally give. It's a hurdle that the Bonomi family has already confronted and mentally overcome – one of the family has Downs Syndrome and this is the area that i4c concentrates on. And, again, he believes that the common benefit potentially served by pooling resources provides an unanswerable argument.

A variant of this problem is that of parochialism. If, for example, he's talking to companies in Italy and in Spain, won't those companies want their money to go to Italian causes or Spanish causes? He thinks that, at first, this may well be the case and, in fact, having regional associations of the one per cent club, so to speak, may be the most practical way to get the scheme going in the first place. 'I can get twenty Spaniards round a table in Madrid tomorrow and that's maybe easier than getting together ten Spaniards, five Italians, a German, a Dutchman or whatever and getting them to agree – and maybe they solve a purely Spanish problem.' That would be a beginning to what he sees as a long process. 'Let's face it, it will take time but maybe ten years down the line, we'll have a European fund where people have overcome their preferences and that can put significant money into one cause or problem.'

Finally, he believes there are two more overriding reasons why his idea can and will work. 'First, our generation is much more open. It's got a wider field of experience than the last one and it's seen more of the world. Second, our generation cannot afford not to do something. The gap between the rich and the poor, the haves and the have-nots is expanding. We have a duty to really make it happen.'

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For more information on i4c, see
www.investforchildren.org