The recent commitment by Fortescue Metals chief Andrew Forrest to contribute half of his private wealth to philanthropic causes, coming on top of investor Graham Tuckwell’s $50 million donation for equity scholarships at the Australian National University, draws attention to the role of private social investment in Australia as never before.

Philanthropy is not new to Australia. We are fairly familiar with the eminent names attached to museums, galleries, think-tanks, schools, university libraries, and art collections in honour of those who built them. Many lesser-known Australians make equally generous contributions. The country’s major banks between them manage several billion dollars in small to medium charitable bequests left by little-known or anonymous donors, many dating from over a century ago.

But just how the donations of generous private benefactors in Australia is used, is worth debating.

The role of philanthropy is gaining prominence as Australia grows richer but arguably less equal, while government funding is cut back. Something, if not someone, has to give.

Some critics condemn philanthropy as alien to this country, if not uniquely American, or as fundamentally hypocritical, self-serving, and idiosyncratic. Commentator Satyajit Das has argued it can serve to undermine social policy by reflecting the views of the benefactors rather than reflecting a rigorous analysis of the issues. “Such influence may ultimately be unhealthy in a democracy,” he writes.

But surely the question is not whether philanthropy is a good thing or a bad thing. It can be both. The question at issue is how Australians can work together to ensure that private philanthropy is beneficial and effective for those who need it most, and how private donors can work together on a scale that could really make a difference.

It’s not the business of philanthropy to substitute for markets or to do the government's job for it – to run health and education systems, to provide basic care for the sick and the elderly, or to engage in poverty reduction on a scale that matters. Non-government organisations which do provide these services in Australia are largely funded by government. Indeed, private wealth contributes a fraction to these services relative to public funding.

But philanthropy and private social investment can help by drawing on two distinctive features of private giving that are often missing in market mechanisms and government operations: innovation and risk taking.

Private philanthropy is better equipped than government agencies or commercial investors to bear risk in support of innovation. When Muhammad Yunus approached the Bank of Bangladesh in the 1970s to expand micro-credit services to the rural poor, through his new Grameen Bank, the Bank of Bangladesh not unreasonably declined his request for core lending. The bank’s board and management considered lending to poor households inconsistent with its duty of care to depositors and shareholders in ensuring the security of their investments. No government agencies or government international aid donors stepped in to the breach either.

So Yunus approached a private philanthropic donor, the Ford Foundation, for an $800,000 loan guarantee as security against commercial micro-credit loans – not as a grant but as a social investment. He offered to pay it back, but only if his plan worked. Ford carried the risk and, as we now know, Muhammad Yunus returned the loan in full once he had demonstrated the commercial viability of his micro-finance model to banks and to the market.

In a case study of the Ford Foundation’s dealings with the Grameen Bank, Harvard University professor Steven Lawry notes that the case suggests most innovative ideas do not come from the donors themselves, nor from their boards, but from among people living and working closest to the problems at hand.
Social justice donors need to keep their ears close to the ground and be sufficiently humble to recognise that they don’t carry solutions to every problem in their briefcases. The best of them bring resources, an open mind, and an appetite for risk. In this case, a private foundation carried the risk of someone else’s social innovation to the point where the innovation could get to market and prove itself – in a style of investment philanthropy that would be considered innovative even today, 40 years on, in some parts of the world.

Taking risk alone is not enough. Once the appetite for risk is whetted then finding the smartest innovations to adopt, figuring out how to test them in the field, working to leverage additional resources from markets and the state, and scaling up a social program to the point where it has systemic impact, all involve challenges of a different order. But done well, a strategic risk investment of under one million dollars can have a beneficial social impact measured in the hundreds of millions or even billions of dollars over time.

Risk-taking is not new to Australian philanthropy either. In 1989, the Myer Foundation and the Commission for the Future created Asialink, a university based-entity promoting Asia literacy in Australian schools from kindergarten through senior high school.

Asialink in turn established the Asia Education Foundation which leveraged millions of dollars from the federal government for state-based Asia literacy programs. Through Asialink, the Myer Foundation invested in a future that was still in the making.

Philanthropy can never make up for lack of sound policy or lack of political will in government, nor compensate for serious market failures. But through its appetite for innovation and risk taking, it can help to expand access to public goods and improve the delivery of government services.

It can also prompt market corrections. Australia needs more, not less, of this kind of risk-taking innovation. We also need more open and inclusive discussion of how philanthropy can make a real difference to our communities, our environment, and our well-being. The question is not whether philanthropy is a good or a bad thing. It’s a question of finding out just how good it really can be.