

## Global Philanthropy Initiative



# Philanthropy in the Republic of Ireland

An assessment of the current state and future potential of  
philanthropic giving in the Republic of Ireland



# *Philanthropy in the Republic of Ireland*

## *Summary*

In the mid-1990s, Ireland saw the start of a period of accelerated economic growth that was unparalleled in Europe. In just over a decade, Ireland moved from being one of the poorest countries in Western Europe to one of the wealthiest. However, last year this development came to an abrupt halt. Analysts currently predict that GDP will shrink by roughly 9% in 2009 and even further in 2010. Against this economic backdrop, McKinsey & Company investigated the market for philanthropy in Ireland as part of a multicountry research effort on philanthropy to be published in late 2009. We believe that, despite the current economic conditions in Ireland, there remains untapped potential for philanthropic growth. The grave economic climate has spurred public pressure on the wealthy to give back to society and our interviews confirmed that those better off show willingness to shoulder their share of the burden. There is also great need for more, and more effective, philanthropic funding. By way of example, 23% of the Irish population is functionally illiterate and 17% of the Irish population is at risk of falling below the poverty line.

The goal of this investigation was threefold: better understand the Irish market for philanthropy, determine the effects of recent developments, and develop a set of recommendations on how to increase the level and effectiveness of philanthropic giving in Ireland. To this end, we examined five different aspects of Irish philanthropy (Exhibit 1): First, we analyzed the Irish donor landscape; particularly the giving potential, participation, and individual level of contribution of various donor segments. Next, we surveyed the intermediaries; individuals and organizations that play a critical role in linking donors to recipients, providing information, advice, and creating vehicles that allow both donors and recipients to meet and interact in a productive, trustworthy, and efficient manner. We then turned our attention to the recipient organizations themselves; the institutions who actually deliver social services. Among other factors, we examined their financial situation, organizational capabilities, and the level of transparency they provide into their activities. We also investigated the relevant Irish tax and legal systems, which heavily influence the level of donor activity and the range of opportunities for intermediaries and recipients. Finally, we looked at the country's culture of social investment, which in turn impacts and shapes many of the other elements.

Our analysis reveals significant potential for philanthropic growth in Ireland from private individuals and corporations. While participation rates are quite high, giving levels by private individuals are relatively low and have not kept pace with the increase in wealth. Corporate philanthropic giving in Ireland is also very low; only a few large corporations are actively pushing social investments and even fewer have a department dedicated to corporate giving or a corporate foundation. There is also potential for growth in the foundation sector; Ireland is largely dependent on a small number of limited-life foundations that will cease to exist within the next few years.

Philanthropic intermediaries are only beginning to emerge in Ireland and still lack the scale and expertise to cover a range of information and advisory services. Philanthropy is hardly on the agenda for professional advisors in Ireland such as lawyers, bankers, or tax accountants, though these professionals have noted that their clients' interest in the subject is rising. Planned giving vehicles, such as donor-advised funds, charitable bequests, or private foundations, are not yet widely used in Ireland.

Regarding recipient organizations, Ireland has a well-developed and varied landscape of nonprofits active in a range of fields, from arts and culture, to environment, health, and education. However, the vast majority of these organizations are very small and they depend heavily on dwindling government funds. In Ireland, charities' expenditure on hiring and retaining highly qualified staff is often seen as money that could have been channeled to beneficiaries rather than as a worthwhile investment in organizational capacity that can further the cause. The sheer number of nonprofits combined with limited staff capacity contribute to a relatively low level of transparency into the financials, operations, and impact of charities in Ireland.

Charities in Ireland benefit from a liberal legal environment that allows for easy formation and operation of nonprofits under various legal structures. The recently enacted Charities Act 2009 aims to address both the lack of transparency and public oversight and these areas are likely to improve in the future. Tax incentives are available for charitable donations in Ireland, though they are not widely availed of, in part owing to their complexity.

The Irish see themselves as a nation of givers. However, the positive embrace of philanthropy only extends to the smaller donations made by the majority of the population. By contrast, the general public and the media tend to be distrustful of the large-scale philanthropic activities of Ireland's wealthy. There is also a lack of understanding of the complementary role that philanthropy activities can have with the public sector. Indeed, social affairs are ultimately regarded as a government responsibility. Hence, there are only a few high-profile Irish philanthropists willing to stand up to public scrutiny and serve as role models for their peers.

### The philanthropy landscape in Ireland – a gap analysis



Exhibit 1

SOURCE: McKinsey team

### Methodology and data sources for the study

Before presenting the findings of the study, it is important to point out several qualifiers. In this article, philanthropy refers to all private capital given by individuals or corporations. We do not distinguish between strategic or planned giving and other charitable donations. Geographically it refers to all charitable giving within the Republic of Ireland.

Additionally, there is only limited data available on philanthropy in Ireland. Most of the figures included here are based on a study conducted by Johns Hopkins University in 1995 and the report “The Hidden Landscape” from 2006. A further source of reliable data is the household surveys conducted by the Central Statistics Office in 1994/1995, 1999/2000, and 2004/2005. Recent baseline research undertaken for the Forum on Philanthropy provided another comprehensive data source. In this research they draw a distinction between philanthropic giving and charitable giving. The former only referred to giving by individuals, corporations, and foundations with a deliberate and targeted long-term perspective to achieve tangible results; whereas the latter referred to all giving to charitable causes. Even though we do not maintain this distinction, we do include the findings from the baseline research where appropriate. Based on these various data sources, it was possible to draw conclusions and describe developments and trends.

Finally, we have complemented the statistical information with qualitative findings from a series of interviews with donors, intermediaries, and recipients as well as philanthropic experts. We would like to express our gratitude to everyone who contributed their valuable insights and thank them for their time and effort.

## 1. Donors

Three distinct sources contribute to philanthropic giving in Ireland: private donations, foundation giving and corporate giving. Private donations make up more than 80% of total giving or EUR 460 million.<sup>1</sup> Foundations add another EUR 85 million annually.<sup>2</sup> There is very little data on corporate giving in Ireland, but estimates tend to be in the region of EUR 25 million per year.<sup>3</sup> All three sources together make philanthropic giving in Ireland a EUR 570 million market (Exhibit 2).

### **Ireland’s strong tradition of spontaneous giving has not kept pace with recent affluence**

Participation in charitable donations is very high in Ireland. Compared with a mere 58% in the UK or 40% in Germany, 89% of Irish adults give to charity. In other words, only about

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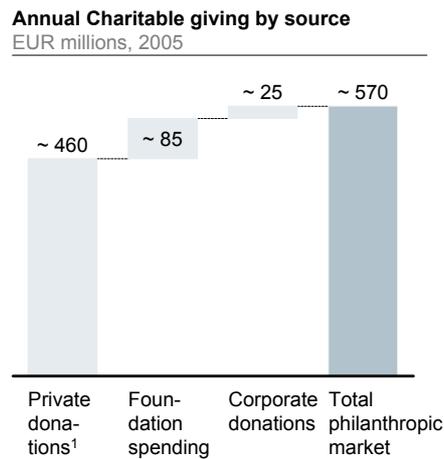
<sup>1</sup> Household surveys of the Central Statistics Office Ireland, 2005

<sup>2</sup> Forum on Philanthropy Baseline report, 2009

<sup>3</sup> Interviews and estimates from “The Hidden Landscape” report, 2005

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## Philanthropic giving in Ireland is a EUR 570 million industry



<sup>1</sup> Including church giving

SOURCE: Household surveys; Baseline report, "The Hidden Landscape"; McKinsey team

### Exhibit 2

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one in ten Irish adults do not give to charity.<sup>4</sup> Ireland is a nation of givers. Women tend to give to charity more often than men, and older people more often than younger people. The typical Irish donor is female and aged between 55 and 74. However, male donors make larger average donations. As a result, men account for 52% of the value of all charitable donations.<sup>5</sup>

Even though most Irish people give to charity, only 12% give to charity in a planned, regular way (e.g., automatic transfer of a portion of their income to a charity).<sup>6</sup> By contrast, in the UK, 36% of donors make regular donations.<sup>7</sup> Spontaneous giving channels such as street collections, fund-raisers, and events are preferred for giving in Ireland. Irish charities are over dependent on this volatile source of income.

Besides limiting charities' ability to forecast their donation income and plan accordingly, a major drawback of spontaneous giving is that individual donations tend to be quite small. Data from the UK shows that planned donations are on average five times larger than spontaneous donations.<sup>8</sup> Additionally, spontaneous donations are usually the same nominal amount each year and people do not adjust their giving to compensate for inflation or reflect increases in their disposable income, as is evidenced by the historic evolution of giving levels in Ireland.

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<sup>4</sup> Household surveys, Giving in the UK, Spenden in Deutschland, 2005

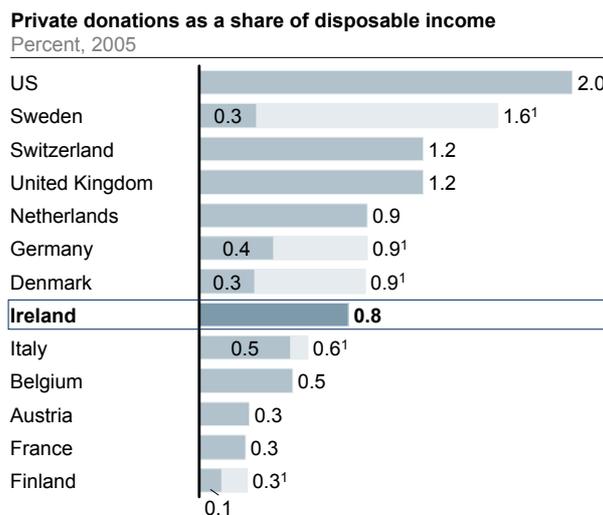
<sup>5</sup> Amárach Charity Survey, 2005

<sup>6</sup> Amárach Charity Survey, 2005

<sup>7</sup> Giving UK, 2005

<sup>8</sup> Giving UK, 2008

**With 0.8% of private disposable income donated, Ireland ranks below many European peers**



<sup>1</sup> Including church tax

SOURCE: Global Insight; McKinsey Global Philanthropy Initiative analysis (2005 - 2008 data)

Exhibit 3

In total, private donations in Ireland came to EUR 460 million in 2005.<sup>9</sup> Compared to about EUR 189 million in 1995,<sup>10</sup> this constitutes a considerable rise in private charitable giving, even after adjusting for inflation. Yet the portion of disposable income given to charity has decreased. While disposable household income increased from EUR 358 per household and week in 1995 to EUR 843 in 2005, charitable donations to churches and NGOs have increased from an average of EUR 142 per household and year to EUR 345. This represents a decrease in the share of disposable wealth donated from 0.94% in 1995 to 0.79% in 2005. With its current donation level, Ireland ranks well below the US and below many of its European peers, including Sweden, Switzerland, and the UK, where despite a similarly active government people are donating more than 1% of their disposable income (Exhibit 3). Rising disposable income levels in Ireland have not translated proportionally into rising levels of charitable giving.

Some of the new ultra-wealthy Irish families are not engaging in philanthropy at a level that reflects their means. Ireland has a population of only 4.4 million, yet there are 45 families or individuals with a fortune of EUR 200 million or more.<sup>11</sup> The combined wealth of Ireland's richest 250 still exceeds EUR 40 billion (down from EUR 60 billion in 2008). Unfortunately, there is less data available on the philanthropic activities of this very

<sup>9</sup> Household surveys of the Central Statistics Office Ireland, 2005

<sup>10</sup> Household surveys of the Central Statistics Office Ireland, 1995

<sup>11</sup> Sunday Times Rich List, 2009

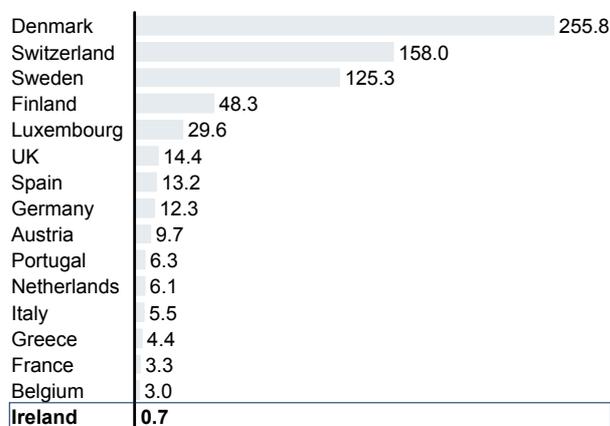
wealthy subset compared with the wider public. Data from the Revenue Commissioners shows that the 400 top earners accounted for about 10% of the tax-deducted charitable giving totaling EUR 12 million. While this indicates that a very small number of people are providing a significant share of all individual giving in Ireland, there are two caveats to this figure. First, high income earners and large donors are more sophisticated in utilizing tax deduction opportunities, so their contributions are often overrepresented in tax data. Second, the contribution of the wealthiest segment in Ireland lags behind Germany, the UK, or the US, where the top income earners account for more than 30% of private donations. This difference can be partly explained by the fact that some large Irish donors are not tax residents in Ireland and therefore their contributions are not included in the data from the Revenue Commissioners. However, even with these qualifications all evidence confirms untapped potential for philanthropy among the wealthy Irish families.

### Irish foundation sector is underdeveloped and its long-term future is uncertain

Large donors often channel their philanthropic giving through a dedicated vehicle such as a private foundation or trust. A survey of professional advisors to wealthy Irish individuals indicates that 15% of their clients are using such a vehicle based in Ireland and another 7% abroad.<sup>12</sup> However, there are only about 30 active grant-making foundations in Ireland compared to more than 8,000 in the UK. With 0.7 charitable foundations per 100,000 inhabitants, the number of Irish foundations lags far behind the European average of about 20 (Exhibit 4).<sup>13</sup>

#### Ireland has the smallest number of foundations in Europe

**Number of foundations per 100,000 inhabitants by country**



#### Exhibit 4

SOURCE: EFC "Foundation Facts & Figures Across the EU", 2005

<sup>12</sup> The Community Foundation for Ireland, 2008

<sup>13</sup> EFC "Facts and Figures", 2005

The large number of foundations in many European countries can be interpreted as a deficiency in that many foundations are arguably too small. Indeed, 80% of foundations in Germany and about 60% of foundations in the UK have an annual budget below EUR 250,000, and hence can barely afford to hire professional staff. The same holds true for Ireland; if we exclude the three largest foundations, the average annual budget of Irish foundations falls below EUR 500,000. Similarly, about 70% of all grants made by Irish foundations are for less than EUR 5,000.<sup>14</sup>

Currently, the annual aggregate grant-making budget of foundations in Ireland is approximately EUR 82 million. It is important to bear in mind that three large limited-life foundations account for 85% of the annual grants in Ireland and that all three will cease to exist by 2016. Unless new foundations replace these, total foundation giving in Ireland will fall below EUR 13 million by 2016.<sup>15</sup>

### **Corporate philanthropy is very low – especially by large Irish companies**

Corporate social responsibility (CSR) is a regular topic in the external communication of Irish corporations. Even though 18 of the largest Irish companies provide detailed information on their CSR programs on their Web sites, these reports rarely provide any figures on corporate philanthropic giving. While several Irish companies are lead members of Business in the Community Ireland, a network of companies with a special interest in CSR in Ireland, very few of the largest Irish companies are represented.<sup>16</sup> Similarly, very few Irish companies have a corporate foundation. Hence, the level of corporate giving in Ireland is relatively low. Only 1.4% or some EUR 25 million of Irish NGOs' income in 2005 stemmed from corporate donations.<sup>17</sup>

The top 500 companies published in the Irish Times in 2007 amassed profits of over EUR 26 billion. However, there are some caveats to these findings: just under half of the companies' profits are disclosed and, in some cases, profits generated outside Ireland (by Irish and foreign multinationals) are included. Notwithstanding, if we take this list as indicative of the state of corporate profitability in Ireland, the corporate donations of EUR 25 million represent less than 0.1% of pretax profits of the top 500 Irish companies. By comparison, all listed corporations in the UK donate on average 1.2% of their pretax profits, reaching as much as 7% for Sainsbury's or 6% in the case of ITV plc (Exhibit 5). Despite the limited data available, all evidence suggests that Irish corporate giving lags far behind international benchmarks.

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<sup>14</sup> Forum on Philanthropy Baseline report, 2009

<sup>15</sup> Forum on Philanthropy Baseline report, 2009

<sup>16</sup> Business in the Community Ireland, 2009

<sup>17</sup> Interviews and estimates from "The Hidden Landscape" report, 2005

## Listed UK corporations donate about 1.2% of profits

Donor	Total contribution, <sup>1</sup> GBP millions, 2005	Pretax profits Percent
GlaxoSmithKline		141 2.1
Royal Bank of Scotland	56	0.7
Unilever	54	1.7
BHP Billiton	43	1.5
Tesco Stores	42	1.9
Barclays	39	1.1
Lloyds TSB	37	1.1
Anglo American	31	1.0
FA Premier League	30	5.1
HBOS plc	30	0.7
BBC	26	n/a
Northern Rock	25	5.1
British American Tobacco	22	0.9
BT Group	21	1.1
Diageo	20	1.0
ITV plc	19	6.2
Sainsbury's	19	7.0
AstraZeneca PLC	18	0.5
WPP	17	2.9
Xstrata	13	1.0
<b>Total<sup>2</sup></b>	<b>986</b>	<b>1.2</b>

<sup>1</sup> Contribution includes cash gifts, staff time, in-kind gifts, and management costs

<sup>2</sup> Total giving for the 187 rated companies in the UK

SOURCE: The Guardian's Giving List 2006; Per Cent Standard 2006; Web search; McKinsey team

### Exhibit 5

## 2. Intermediaries

Intermediaries play a critical role in mobilizing more resources for philanthropy. They establish links between donors and recipients, providing information, advice, and vehicles that allow donors and recipients to interact in a productive, trustworthy, and efficient manner. They are particularly important for the effectiveness and efficiency of the philanthropic sector as a whole, because their information is often critical for investment decisions.

There are two different kinds of advisors that influence the market for philanthropy: professional advisors not specialized in philanthropy (e.g., lawyers, accountants, investment advisors) and advisors specialized in philanthropy. The latter exclusively deal with charitable projects and their clients have already thought about philanthropic investments before they are approached. By contrast, professional advisors support their clients on topics not necessarily connected with philanthropy, and they can more often be the ones who initially broach the topic.

### Philanthropy is not a high-priority topic for Irish advisors

Research shows that philanthropy is not a common topic when professional advisors in Ireland consult their clients. Indeed, 50% of all advisors surveyed have never had a discussion with their client about philanthropy. Another 18% do not feel comfortable with the subject and only discuss it if the client raises it. It is therefore unusual for advisory services to address philanthropic investment issues. However, Irish professional advisors recognize their clients' need for support in the field of philanthropy, with about 80% stating that their clients do not understand the concept of strategic

### Intermediary infrastructure – overview for Ireland

Services offered	Global examples	Irish examples	Situation in Ireland
<b>Promotion</b>	<ul style="list-style-type: none"> <li>CAF</li> <li>The Chronicle of Philanthropy</li> </ul>	<ul style="list-style-type: none"> <li>Philanthropy Ireland</li> </ul>	<ul style="list-style-type: none"> <li>Promotion through best-practice guidelines</li> <li>Limited reach and scope of activities</li> </ul>
<b>Information</b>	<ul style="list-style-type: none"> <li>GuideStar.org</li> </ul>	<ul style="list-style-type: none"> <li>GuideStar.ie</li> </ul>	<ul style="list-style-type: none"> <li>No comprehensive information available</li> <li>GuideStar Ireland just launched</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>Charity Navigator</li> <li>New Philanthropy Capital</li> <li>WISE Giving Alliance</li> </ul>		<ul style="list-style-type: none"> <li>No accreditation agency for charitable organizations</li> <li>No evaluation services provided</li> </ul>
<b>Advice</b>	<ul style="list-style-type: none"> <li>Rockefeller</li> <li>JP Morgan</li> <li>Foundation Source</li> </ul>	<ul style="list-style-type: none"> <li>Business in the Community Ireland</li> <li>Davy</li> </ul>	<ul style="list-style-type: none"> <li>Advice often limited to members and thus very limited in scope</li> <li>Very few philanthropy advisory services offered by Irish private banks</li> </ul>
<b>Transaction</b>	<ul style="list-style-type: none"> <li>GlobalGiving</li> </ul>	<ul style="list-style-type: none"> <li>The Community Foundation for Ireland</li> </ul>	<ul style="list-style-type: none"> <li>Few innovative vehicles available</li> <li>Donor-advised funds are not widely used</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>United Way</li> <li>UBS</li> </ul>	<ul style="list-style-type: none"> <li>The Ireland Funds</li> </ul>	<ul style="list-style-type: none"> <li>Diaspora fundraising through The Ireland Funds</li> <li>Limited coordination/collaboration among fundraising NGOs</li> </ul>

SOURCE: McKinsey team

### Exhibit 6

philanthropy. Moreover, 27% of advisors noticed an increase in the number of clients enquiring about philanthropy in the past year.<sup>18</sup>

As a result, advisors have recently begun to develop their philanthropic service offerings. Some advisors have established departments exclusively dealing with philanthropic queries. Some organizations have also invited to Ireland more experienced advisors from the UK to explain their methods and the business opportunities associated with philanthropy.

### Specialized philanthropy intermediaries are slowly emerging

In Ireland over the last ten years, organizations have emerged that specialize in providing information on philanthropy (Exhibit 6). From a situation in which there were virtually no organizations focused on philanthropy, a number of players have since appeared on the market (e.g., Philanthropy Ireland, The Community Foundation for Ireland, Guidestar Ireland). These intermediaries are still few and quite small. Although their efforts do offer a good starting point for data on the philanthropic sector in Ireland and Irish NGOs, they are by no means yet a comprehensive source of data. Despite the appearance of some promotion, information, and advisory initiatives in Ireland, there is still no organization that accredits or evaluates charitable organizations, thereby providing donors with guidance when selecting a professional and suitable recipient. The interviews highlighted that the philanthropic community in Ireland is aware of this information deficit, but they currently lack the resources to remedy it.

<sup>18</sup> The Community Foundation for Ireland, 2008

Besides offering information and advice to donors, intermediaries also play a vital role in establishing an infrastructure of giving vehicles to facilitate donations. In general, a wide range of vehicles is available in Ireland. Unfortunately, due to the relatively low share of planned giving, many of these vehicles, such as donor-advised funds or community foundations, are not widely used and have not seen a growth path comparable to other European countries. Similarly, advisors have found that while more than 85% of their Irish clients leave some legacy to charity, large legacies to charity remain the exception.

### *3. Recipients*

The recipients of donations or other forms of philanthropic investment are the cornerstones of a working philanthropic sector. They deliver social services, advocate for social change or engage in research about social issues. Without operating nonprofit organizations philanthropy cannot function. In Ireland there is a strong cohort of nonprofits with which philanthropists can work.

#### **Ireland has a large and varied nonprofit sector**

Overall, the Irish nonprofit sector is well developed. There are about 25,000 nonprofit organizations in Ireland. This is a very high NGO density relative to the country's population. This means that philanthropic investments have a large number of potential targets. Irish nonprofits cover the full spectrum of charitable issues, from arts and culture to environment, health, and education. The beneficiaries of Irish charitable organizations range from local communities and vulnerable groups in Irish society to people in developing countries.

The high NGO density does have a negative side effect: every second Irish NGO has five or fewer full-time employees. Some organizations are simply too small to effectively address their target issues. The average size of an organization varies significantly across sectors. Health and development organizations in Ireland are generally quite large, while sports and environmental organizations are often relatively small (Exhibit 7).<sup>19</sup>

#### **Transparency of Irish charities is limited**

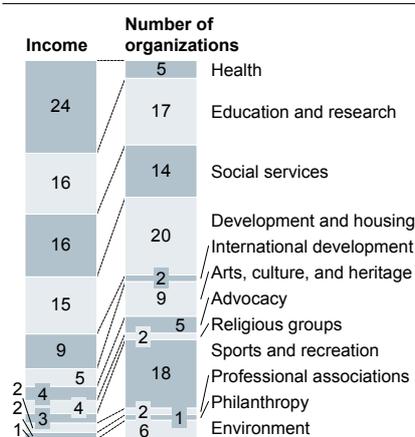
Small independent organizations frequently lack the resources to ensure professional management and transparent reporting to the public. Reports published by many NGOs are limited to general statements and do not give a detailed account of where and how funds are used. More collaboration or even a certain level of consolidation would probably enable the charitable sector to work more effectively and efficiently, for instance, by pooling the administration activities of small NGOs. There are also a number of very large and resourceful NGOs in Ireland that have the capabilities and resources needed to work at the national or international level. These NGOs already tend to give much more detailed accounts of their activities including (in some form) a report on the impact of their work.

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<sup>19</sup> Interviews and estimates from "The Hidden Landscape" report, 2005

**While health and development organizations are quite large, sports and environmental organizations are relatively small**

**Comparison of income and number of organizations**  
Percent, 2005



SOURCE: "The Hidden Landscape" report; McKinsey team

**Exhibit 7**

Besides the level of professionalism, there is another reason for the limited transparency of Irish NGOs. In the UK, for instance, it is considered acceptable for charities to spend funds on highly qualified and adequately compensated staff. In Ireland, by contrast, administrative costs are not viewed as investments needed to produce the desired social impact, but rather as costs that diminish the share of money available for the ultimate beneficiary. Not only does this perception pressure NGOs to reduce their administrative expenses – often below an appropriate level – it also creates a disincentive for charities to openly communicate their financial affairs.

**Irish NGOs still largely depend on government funding, which is diminishing**

Irish NGOs still largely depend on public sources to obtain financing. In 1995, 75% of total funding came from public sources, this share of funding obtained from government significantly decreased to 59% in 2005 (Exhibit 8). Education and research institutions were most severely hit by this decrease in government spending.<sup>20</sup> Considering that this decrease came during a booming economy, it is likely that it will decrease even further during a recession. Irish NGOs would therefore be well advised to double their efforts to attract private giving.

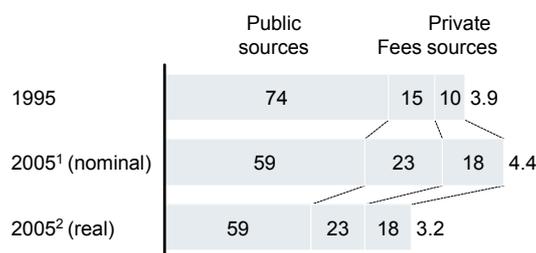
From 1995 to 2005, Irish NGOs' income from private donations and fees increased both in nominal and real terms (i.e., adjusted for inflation). However, this increase was insufficient to compensate for the decrease in public funding. In real terms, NGOs' total income has decreased since 1995.

<sup>20</sup> Estimates from "The Hidden Landscape" report, 2005

## While NGOs' nominal income has increased since 1995, real income has actually decreased

ESTIMATE

**Proportion of income and absolute amount**  
Percent (absolute amounts in EUR billions)



<sup>1</sup> Estimate based on household survey 2004 - 2005 and "The Hidden Landscape" report  
<sup>2</sup> Adjusted for inflation

SOURCE: The Johns Hopkins Comparative Nonprofit Sector project; "The Hidden Landscape" report; McKinsey team

### Exhibit 8

## 4. Legal and tax environment

The legal and tax framework in a country influences the way philanthropy operates. Even though regulatory intervention cannot directly increase the amount or effectiveness of philanthropy, it can create incentives and ensure appropriate oversight and control.

### New Charities Act will enhance transparency in the sector

There are many different legal structures available for establishing an organization with a "charitable purpose" in Ireland (the law defines permissible charitable purposes). There are three main charitable structures:

- Unincorporated association: membership-based, no legal personality
- Trust: one or more persons hold funds or property on behalf of third parties
- Company limited by guarantee: a company with no share capital and legal personality, members are guarantors rather than shareholders.

Within each of the above groups there are a number of different variations on the respective legal structure. The Irish legal system provides a broad range of clearly defined and suitable legal structures for setting up charities.

The drawback of these many variations lies in the complexity and lack of transparency of the charitable sector in Ireland. In addition, there is a more general need to clarify and improve the regulation of charitable organizations. In response to these concerns, the government recently enacted the Charities Act 2009, which places decisive obligations

for charities: charities with annual income/expenditure of more than EUR 10,000 have to file annual statements of account, and all charities – regardless of their income – have to prepare an annual activity report. These reports will significantly improve transparency in the Irish nonprofit sector. Increasing transparency will possibly motivate people to increase the frequency and level of donations as they see where their money is spent and what impact it is generating.

### **Tax incentives for philanthropy are complicated and not widely used**

An individual giving to an eligible charity is entitled to tax relief at his or her marginal tax rate. The minimum annual donation is EUR 250 and there is no upper limit, except in cases in which the donor is associated with the charity (e.g., a member, an employee). In the latter case, tax relief is limited to a maximum of 10% of annual income. High earners (i.e., annual income of EUR 500,000 or more) face restrictions as to the amount of income they can offset using any combination of tax relief schemes up to EUR 250,000 annually or 50% of income, whichever is higher. This upper limit applies to all tax relief; the government does not exempt tax relief for charitable giving from this general rule. In addition to the thresholds limiting the applicability of tax incentives, the system to reclaim taxes is quite complicated, thus imposing another administrative burden on the donating tax payer.

As a result, while most Irish are giving charitable donations, only a small fraction of Irish donors (4% of the 2.3 million income tax payers) claim tax relief on their donations.<sup>21</sup> In the UK, more than 15% of donors claim tax benefits, even for donations under GBP 5. And the percentage of donors claiming tax benefits rises to 64% in the case of donations in excess of GBP 100.<sup>22</sup> The complex nature of tax incentives partly explains their low utilization by Irish donors. Although tax incentives are rarely a decisive factor in philanthropic participation, unrestricted and less complex tax incentives could encourage active philanthropists to donate more while keeping their net contribution constant. Thus the complicated nature of tax reliefs reduces the amount of charitable giving.

Irish companies can deduct donations in the same way they trade expenses. A benefit taken for charitable purposes is exempt from inheritance tax to the extent that the Revenue Commissioners are satisfied that the benefit has been charitable. Charities may conduct certain economic activities without triggering a liability to pay tax (e.g., museums selling tickets), but they are not entitled to recover VAT on their purchases – a major area of debate in the philanthropic sector.

In a recent announcement, the Commission on Taxation suggested harmonizing the procedures for tax relief for charitable donations across all types of tax payers. Additionally, they recommended reducing the lower limit for tax-deductible donations from EUR 250 to EUR 100 to further encourage mass market donations.

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<sup>21</sup> Forum on Philanthropy Baseline report, 2009

<sup>22</sup> Giving UK, 2008

## 5. Culture of social investment

In general, it can be said that the Irish see themselves as a philanthropic nation, as is demonstrated by the large share of the population who give. But, unlike the situation in other countries, the state is perceived as being responsible for almost all social tasks while there is suspicion of wealthy individuals pursuing philanthropic activities.

### General public in Ireland is skeptical about philanthropy

The Irish see themselves as a nation that traditionally gives a considerable amount of money to charity. The general public's wide-spread positive attitude toward philanthropy, however, only extends to include donations of smaller individual amounts by the majority of the population. Public perception and media coverage is rather skeptical of large-scale philanthropic engagement by wealthy Irish people. Philanthropists are under general suspicion of gaining additional tax breaks or other benefits from charitable donations. Similarly, philanthropic giving abroad was at one point the target of heavy criticism from people arguing that the money would be better spent in Ireland. At the same time, rather than welcoming donations to Ireland from Irish nationals registered abroad for tax purposes, Ireland has witnessed a heated debate with questions raised as to why they don't pay taxes in Ireland instead.<sup>23</sup>

In line with other European countries, Ireland has a relatively high tax burden (compared particularly to the US and Japan) which is used to fund an active state involvement in social affairs. However, despite high taxes other European countries like Sweden and the Netherlands have developed an understanding of the parallel need for public sector and philanthropic action on social issues. In these countries, philanthropy takes a very strong role advocating for social change, providing start-up investment in innovation, and supporting issues at the margin of government attention. In the Irish debate about the social sector there seems to be no clear understanding of the role of philanthropy in a social democracy.

As a result of the skeptical attitude of the general public and the unclear role of philanthropy in Ireland there are only a few high-profile philanthropists willing to act as role models and inspire others. Many people who dedicate large sums of money to philanthropy choose not to talk about their donations in public. Unlike in other societies, the relatively new class of wealthy Irish is not used to doing social good and publicly talking about it.

## Conclusion

Even though the recent affluence created in Ireland has been hard hit by the financial crisis, a substantial level of wealth will survive. At the same time, the crisis has deepened the public awareness about a range of social needs. We believe that a fact-based debate about increasing social needs and the potential contribution of philanthropy to the varied solutions might promote a more open and impact-oriented culture of giving in Ireland. Three initiatives in particular would help increase the level and effectiveness of philanthropic activity in Ireland:

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<sup>23</sup> Interviews

### **Improve giving culture**

The biggest change required to promote more and more effective philanthropy in Ireland is to improve the culture of giving, especially with larger philanthropists. Media attention and public debate should include a fact-based assessment of the current and potential positive social impact of philanthropy and a discussion of how philanthropy can complement government activities rather than compete against them. Drawing attention to the good work performed by Irish philanthropists will spur the more active philanthropists to be more public with their activities. Such public role models in turn will inspire other wealthy individuals to invest in philanthropic organizations or to set up their own foundations. Similarly, this increase in public discourse and activity would encourage companies to devote a higher share of their profits to charity, as they would be keen to show their community engagement to employees and external stakeholders. A positive and impact-focused giving culture will help to mobilize more resources and to ensure that the money is well-spent.

### **Mobilize resources for philanthropy**

All donor segments in Ireland show potential to increase their giving levels. By fostering the use of regular, planned donation methods private mass market giving in Ireland could grow further and keep pace with future increases in disposable income. In addition, the large number of very wealthy people and the low number of active private foundations in Ireland indicate a potential for increasing the philanthropic engagement of these segments. By donating just 1% of their current wealth, the wealthiest 250 Irish families could contribute foundation endowments of more than EUR 400 million and secure the future stability of foundation spending in Ireland. Finally, given the low levels of current corporate donations and the growing pressure for more socially responsible businesses, the level of philanthropic giving from companies in Ireland could rise substantially when economic conditions improve. The time to start preparing the environment for increased giving is now.

### **Expand and strengthen underlying infrastructure**

The intermediary landscape in Ireland needs further development in order to provide the infrastructure required by effective donors. Both the supply as well as the demand of philanthropy services needs to be strengthened. Professional advisors should engage their clients in discussions on philanthropy more often and in a more informed way. Local and foreign specialized philanthropic advisors should be encouraged to expand their service offering in Ireland. A vibrant philanthropic intermediary landscape will only develop in Ireland when also the donors actively demand and utilize the offers by intermediaries. They need to understand professional support as a way of investing in social impact by maximizing the effectiveness and efficiency of their giving.

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Overall, these three approaches – improving the giving culture, mobilizing more resources, and expanding and strengthening the underlying infrastructure – have the potential to significantly increase the scope and impact of philanthropic engagement in Ireland. The philanthropy movement in Ireland is at an early stage but the initial platform for development is there and with action on the areas outlined above philanthropy could play a transformative role in Ireland's future.

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