

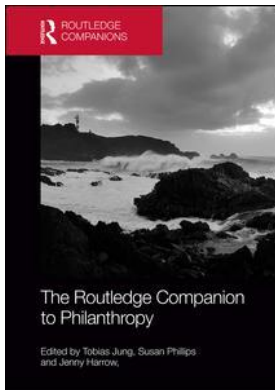
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The darker side of philanthropy

How self-interest and incompetence can overcome a love of mankind and serve the public interest

David Horton Smith with Sharon Eng and Kelly Albertson

Philanthropy has a ‘dark side’ or ‘darker side’, just like any other individual or collective human activity. Smith (2016) argues that the ‘angelic’ nonprofit sector, including foundations and other charitable organizations, can be a site of deviance, crime, and ethical misconduct. The underlying reason is simple: as well as being able to act from altruism and philanthropic concerns, humans, in any context, organized or informal, often act out of egotism and self-interest. Humans can also create dysfunctions or negative outcomes through ignorance and incompetence as unintended consequences of their actions.

Even though the vast majority of foundations, charities, and other NPOs and their leaders, staff and volunteers are law abiding, moral, and pursue goals that can benefit society, there are significant exceptions. Sometimes this deviance is *unintentional*; sometimes, it is intentional. The darker side of philanthropy refers to ways in which philanthropy, specifically involving foundations and other ‘philanthropic’ nonprofit organizations (NPOs), can become ‘deviant’. The term ‘deviant’ or ‘deviance’ refers here to a broad spectrum – of varying degrees of seriousness – of rule breaking: from potentially tolerable, minor, deviance arising from customs or social expectations that lead to unintended harm (dysfunction), through behaviour that violates noncriminal moral norms (misconduct), to acts that are serious crimes (felony).

Approaching the topic from a US perspective and context, this chapter examines three aspects of this darker side. First, the chapter focuses on the potential for dysfunctions, misconduct, and crime through, and by, foundations and philanthropic trusts. The second section discusses such rule breaking in, and by, transnational humanitarian aid and relief NPOs based in the high income nations of the Global North, that are attempting to help people in the low income nations of the Global South. In the third section, we consider the role of charities in financing terrorist groups as potentially being underground, fundamentally, deviant NPOs.

The darker side of foundations and trusts

Foundations and trusts have a special legal classification in most countries (Anheier and Toepler, 1999). The various types of foundations are examined in other chapters of this volume (Leat, Chapter 18; Harrow *et al.*, Chapter 19). Our main concern is with ‘private’ foundations that make ‘philanthropic ... grants to individuals or nonprofits or both’ (Smith *et al.*, 2006: 90). Most

private foundations make grants only to other NPOs, although in the US, and a few other nations, they may make grants to individuals. Characteristically, private foundations have an endowment from which they make their grants. In this regard, private foundations are quite different in their structure and functioning from community foundations and from public foundations which routinely raise funds locally each year, and as grantmakers they also differ from operating foundations which spend the large majority of their disbursements on internal projects.

The fundamental rationale of private foundations – the accumulation and allocation of private wealth for public purposes – remains essentially undisputed in the US, Europe and most other nations (Anheier and Toepler, 1999; Heydemann and Toepler, 2006). The definitive legal approval of the private foundation as a form of tax exempt organization and the provision of tax subsidies for such foundations, beginning in the late nineteenth and early twentieth centuries, remains unchallenged in any significant way (Prewitt 2006a,b; Fleishman, 2007). Furthermore, private foundations are generally seen as integral and exemplary parts of the larger nonprofit sector, which enjoys widespread public participation and high levels of public approval in most nations (Noble and Wixley, 2014). In the US this perception, combined with the size of the foundation subsector, cements the essential legitimacy of private foundations to an extent unheard of in many other countries (Frumkin 2005).

The unique nature of private foundations has been widely noted (Nielsen, 1972; Anheier and Daly, 2007; Arnove and Pinede, 2007). They can be characterized as relatively autonomous and undemocratic entities (similar to business corporations) that are controlled by comparatively small numbers of individuals (mostly donors and self-perpetuating trustees), often with effectively no external stakeholders (unlike business corporations). As such, some commentators have highlighted that foundations constitute a veritable ‘wealthy elite who apply tax protected dollars to enact their vision of the public good’ (Prewitt, 2006b: 374; Prewitt 2006a; Fleishman 2007; Anheier and Hammack, 2010). Notwithstanding that the majority of foundations do a lot of laudable work, this social and structural situation provides a context ideal for rule breaking deviance in pursuit of self-interest by both original foundation donors and subsequent foundation leaders. This rule breaking can occur in several distinct ways. In many cases potential ‘misconduct’ is quite legal, though nevertheless unethical and contrary to the purported public interest mission and purposes of foundations as an organizational form.

Foundations as tax shelters

Whatever the philanthropic language and public spirited declarations of a private foundation’s charter (or its articles of corporation or mission statement), one motivation by the original donor(s) of assets can be tax relief: substantial assets might be sheltered from inheritance taxes and, for living donors, from current income taxes. Given the amount of private wealth tied up in American foundations, the concern raised over several decades about tax sheltering has been most strongly voiced in the US. In his extensive critique of American charity, Wagner (2000: 97) argues that the donors who created the major US foundations in the period 1900 to 1930 were substantially motivated by tax avoidance or evasion, as they ‘found a way to perpetuate their family wealth legally while saving fortunes in taxes’. In addition, donors might create foundations because they seek social power, prestige, and even immortality for their ‘generosity’ (Wagner, 2000: 108–111). The cosponsor of the 1969 Tax Reform Act, US Congressman Wright Patman, stated in a hearing on the bill that, ‘philanthropy – one of mankind’s more noble instincts – has been perverted into a vehicle for institutionalized, deliberate evasion of fiscal and moral responsibility to the nation’ (Crimm, 2001: 1119). The 1969 Act improved the situation, but foundation misconduct remains a significant problem in the US and elsewhere.

More recently, Langley (1997: A1), a nonprofit consultant, was quoted in the *Wall Street Journal* as saying, 'the majority of these so-called charitable foundations [are] motivated more for avoiding taxes and supporting pet projects than helping society'. Although no quantitative survey data is available to back up these impressions, they are supported by other qualitative research (e.g., Nielsen, 1985; Odendahl, 1990; Marcus, 1992; Ostrower, 1995; Wagner, 2000), and seem credible. Valid quantitative, survey research on rule breaking is very difficult to conduct, however, because it is so easy for respondents to lie or, at least, not be completely candid about motivations.

A study of the timing of such gifts reinforces the case. Yermack (2009) conducted a quantitative analysis of large (\$US 1 million plus) charitable stock gifts by the chairpersons or CEOs of public companies in the US to their own private family foundations in the period 2003 to 2005. He notes that such gifts are not subject to insider trading laws, and hence these laws are not widely observed. Yermack (2009: 118) concludes that, 'CEOs make these charitable stock gifts just before sharp drops in their share prices, a pattern that increases the value of their personal income tax deductions arising from the gifts'. Other information indicates support for the perspective that CEOs also tend to backdate the timing of such gifts to maximize tax deductions and make use of insider information on prospective negative information likely to affect stock prices. Yermack further states (2009: 188), 'while seeking to subsidize good works in society, [CEOs] simultaneously follow aggressive tax evasion strategies'. Although such tax avoidance is legal, 'idealists' again object to the motivations and actions involved, viewing them as legally sanctioned misconduct.

This perception that foundations might be created mainly for purposes of tax avoidance, rather than for 'purely' philanthropic purposes, is accentuated when they pay very substantial fees to their trustees for relatively limited work.

Excessive fees

Governments give special tax exemptions to foundations as they are assumed to serve the common good and a public interest. This assumption is questionable when foundations, usually larger ones, provide substantial fees to the members of their boards or senior staff. Excessive fees significantly reduce the funds available to serve the public interest purposes of the foundation. They may also be legal ways of self-dealing, favouring financially the donor(s)' family, descendants and friends or the foundation's executive staff.

Ahn and colleagues (2003) analyzed trustee remuneration for 176 of the largest US private foundations and of a purposive sample of 62 smaller ones. Data were collected from federal (990-PF) tax returns for tax year 1998, and also from telephone interviews in 2001. The findings, while not representative of all foundations, are striking. Some 64 percent of the large foundations and 79 percent of the smaller ones paid fees to their trustees. In total, the full sample of foundations paid over \$31 million to individual board members in 1998 (Ahn *et al.*, 2003: 6). The amounts paid were variable and had little relation to the size of foundation endowments. Leaving aside fees for bank trustees (which constitute 31 percent of total fees), of those paying fees that year, the large foundations paid on average a total of \$219,000 to their trustees, while the smaller ones paid on average a total of \$128,700 (authors' calculations from data reported). Since most boards have a relatively small number of members (about 15), the estimated average annual fees per trustee were about \$14,600 in large foundations and \$8,600 in smaller ones (computations from reported data, assuming an average of 15 trustees per foundation).

Given the relatively small amounts of time involved for most trustees in most foundations, such disbursements seem excessive, and hence could be considered ethical misconduct. At the

upper end of fee amounts, the results were clearly contrary to the philanthropic purposes of foundations. Ahn *et al.* (2003: 7) state that, on an annual basis, 'fourteen of the large foundations paid their trustees more than \$100,000 each'. Some 50 percent of the foundations providing fees paid each trustee \$25,000 or more annually, as did 63 percent of the smaller fee paying foundations. Among large foundations providing fees, 24 percent paid total trustee fees amounting to two percent or more of all their grants in 1998; for smaller foundations providing fees, 59 percent paid more than five percent of their total grant amounts (authors' computations from data provided). Clearly, from this sample, it seems that when foundations provide trustee fees, as they routinely do, these fees often seem excessive. This situation seems even more like ethical misconduct in the form of nepotism and cronyism when one takes into account that trustees are often family members, descendants, friends, or business contacts of the original donors or their relatives.

Foundation scandals, crimes and fiduciary neglect

So far, our discussion has focused on a few general studies of foundation conduct that is fully within the law. In this section, we touch briefly on one major scandal involving a specific trust that has achieved notoriety and aroused widespread public ire, and consider the extent of foundation misconduct that falls well outside the law. The case of the Kamehameha Schools/Bishop Estate (KSBE) is perhaps the most egregious example of foundation or charitable trust misconduct in American history. This trust, established in 1887, runs a preparatory school in Hawaii that accepts, with very few exceptions, only students of native Hawaiian ancestry (King and Roth, 2006). The KSBE has long been the largest landholder in Hawaii and the largest charitable trust in the US by asset value. Although a trust rather than a private foundation, and functioning more like an operating than a grantmaking entity, the case is nonetheless noteworthy.

As one example of extreme ethical misconduct, trustees of KSBE were each paid an average of \$US 900,000 annually from 1994 to 1997 (Frumkin and Andre-Clark, 1999: 425). In addition, the trustees appear to have violated nearly every rule of law regarding fiduciary responsibility over many years (King and Roth, 2006). As a result, the Trust had its Internal Revenue Service (IRS) tax exemption removed retroactively and was liable to pay about \$1 billion in back taxes (King and Roth, 2006: 254; Brody, 1999). The head of the IRS Exempt Organizations Division stated, 'the scope and magnitude of abuse were unparalleled' (paraphrased in King and Roth, 2006: 255).

There are many other examples of flagrant misconduct by foundations that could be discussed, but space constrains such detail (Nielsen 1985; Wagner 2000; White 2006). In a quantitative study, Fremont-Smith and Kosaras (2003) examine wrongdoing by officers and directors of many US charities, based on a total national sample of press reports in several key newspapers for the period 1995 to 2002. They focused only on 'instances of alleged wrongdoing by persons who have primary fiduciary responsibility for the charity involved' (2003: 3); wrongdoing by charity employees was excluded, although also frequently reported by the newspapers. Some 152 incidents of civil or criminal wrongdoing were identified over the seven year period. The authors indicate that 35 of these incidents (23 percent) involved foundations. Foundations accounted for about 18 percent of incidents of alleged criminal wrongdoing, but nearly 30 percent of breaches of fiduciary duties (our calculations). For anyone who thinks foundations are somehow free of involvement in crime and misconduct at the highest levels, these results should be sobering. Nearly a quarter of press reports of scandals or wrongdoing involved foundations, even though foundations represent only 10 percent of all charities. Thus among all charities, US foundations seem unusually misconduct prone. However, we must note, as did the authors

of the report, that the 152 incidents reported in the mass media involve a *very* tiny fraction of the more than 120,000 private foundations that existed in the US during this period (Urban Institute 2009).

Some of the foundation scandals involved very large amounts of money, however, particularly when Ponzi schemes were used. There was a \$570 million loss in one case and a median dollar loss of \$130,000 across all criminal incidents (authors' calculation from data provided in Fremont-Smith and Kosaras, 2003: Criminal Activity Table). The foundations involved in top level misconduct were highly varied in their structural types, ranging from grantmaking to operating foundations, and from public to private. Most foundations implicated seemed to be metropolitan or statewide, rather than national in scope, and most seemed to be public foundations (raising money each year from public donations) not private foundations. Thus, as might be expected, national private foundations made the best showing. The label 'foundation' was probably used in some cases when it did not technically apply to these nonprofits which may have been operating 'charities'. Such relatively common but misleading use of the label 'foundation' by nonprofits is legal, and probably occurs in order to secure greater public trust and donations, but this practice can be seen as another kind of NPO deception.

Our analysis has focused on the US, opening the question of whether US foundations are more prone to misconduct and scandal than those elsewhere. Rather than inferring, differences in ethical behaviour or effectiveness of regulation, we note simply the number of foundations in the US, and our lack of access to published evidence of similar rule breaking and dysfunctions by foundations elsewhere. Anecdotal evidence would suggest that there is no fundamental difference, and that rule breaking also exists among foundations in Europe and elsewhere.

Dysfunctions, accountability and regulation

To what extent is government regulation effective in controlling such misconduct, particularly of the criminal kind? In a brief history of foundation rule breaking and regulation by the federal government and state governments in the US, Crimm (2001: 1132) sees the crux of the problem as the tension between the fact that 'private foundations' funding, governance, and management are intimate and private, but the foundations must pursue public benefits'. There have been various federal laws attempting to regulate foundations, but foundation and trust misconduct continues to occur. Crimm (2001: 1180–1196) suggests various improvements in such laws, particularly strengthening the IRS and more education for foundation donors, managers, and trustees/directors. Brody and Tyler (2010), however, seek to debunk the idea that the assets of foundations, as autonomous organizations, are inherently 'public' and should be subject to democratic controls; they argue that governments are using the wrong logic of 'public money' to interfere with the use of foundation and NPO funds in their activities and expenditures.

Orosz (2007) addresses the issues from the perspective of improving foundation management, with a variety of useful suggestions for better management practices. His general point is that foundation leaders (both trustees and executives) need more sophisticated knowledge in order to do foundation work better and more effectively. Intentional misconduct is one thing, but simple ineptitude and ignorance can be even more damaging – and far more pervasive. Orosz (2007: xix) quotes Michael Porter from Harvard Business School: 'foundation scandals tend to be about pay and perks, but the real scandal is about how much money is pissed away on activities that have no impact. Billions are wasted on ineffective philanthropy'. This, too, is foundation deviance in the form of dysfunctions, albeit largely unintentional. Humans in all kinds of organizations and groups tend to be inept frequently. There seem to be no quantitative surveys of this 'grey side' of foundation imperfections and flaws.

Even though the general public does not elect or appoint foundation leaders, many larger foundations have had significant impacts on the foreign policy of their nations. For instance, the Carnegie, Ford, and Rockefeller Foundations have long had such influence in the US, according to Berman (1984). In addition, Arnold (1999), and more recently Brulle (2014) suggest that wealthy foundations have had, and are having, an ‘undue influence’ on US environmental policy. Nielsen’s (1985) book on the ‘great foundations’ in the US makes similar suggestions about their political influence (Odendahl, 1990; Roelofs, 2003; Prewitt, *et al.*, 2006). For some observers, such undue political influence of the wealthy using publicly supported, i.e. tax exempt, funds is ethical misconduct.

Finally, foundations tend to channel, dampen, and suppress the activist and social change goals of advocacy NPOs by mainly supporting non-change oriented NPOs (Roelofs, 2003). Many NPOs soften or eliminate their social change goals in order to obtain grants from private foundations. This is not surprising since private foundations, with a few exceptions, mainly seek the *status quo* oriented visions of their very wealthy and conservative founders and donors and their descendants or friends (Nielsen, 1985; Odendahl, 1990; Arnove and Pinede, 2007).

The darker side of transnational humanitarian aid and relief NGOs

One major form of philanthropy in the world for at least the past century has been the attempts of NPOs (often referred to as ‘NGOs’) in wealthier nations to provide relief and humanitarian aid to people in poorer nations who have suffered famine, epidemics, geographical displacement, civil and guerrilla wars, invasions by neighbouring nations, and other calamities (Kapucu, Chapter 11). Sometimes floods, tsunamis, earthquakes, and other natural disasters have caused these humanitarian emergencies, but most have had sociopolitical roots, not roots in geophysical events.

According to Karlan and Appel (2011: 5), more than \$US 2.3 trillion in humanitarian aid, relief, and development assistance has flowed from the Global North to the Global South, especially to Africa, Latin America, and Asia, over the past 50 years. Although development assistance has been the larger concern in recent decades, Humanitarian Aid and Relief (HAR) continues to be very important in terms of philanthropy directed to the Global South, and the number of HAR NGOs has grown greatly in the past two decades (Barnett, 2011: 3). Although there are many aspects of the darker side of HAR NGOs as a multinational form of philanthropy, we consider only a few aspects here, drawing on extensive research by many authors.

Following fads, chasing funding, and serving donors

Transnational HAR NGOs all have had positive, compassionate *official* values and goals in their mission statements. They all focus on helping poor, hungry, ill, homeless, and otherwise needy and vulnerable people in developing nations with their immediate survival problems. Unfortunately, the *de facto* or *unofficial* goals and values of many such NGOs have long been their own survival and growth as organizations. Terry (2002: 233) argues that ‘a logic of institutional preservation dominates much of the organizational responses and behavior of aid agencies with respect to other actors within the aid regime’. In addition, Maren (1997: 278) notes, ‘the first priority of an NGO, like any bureaucracy, is its own survival’. The technical term for this situation is ‘goal displacement’, in which organizational preservation and enhancement over time replace ostensible, altruistic, official goals of an organization (Smith *et al.*, 2006: 98). This occurs with many NPOs, especially large, paid staff NPOs, not just HAR NGOs.

Because HAR NGOs generally raise their philanthropic funding from the general public in nations of the Global North, they are eager to preserve their ‘good will’ or general positive

image among the publics of such nations and be seen to do things that their donors favour. Keen (2008: 127) identifies the fundamental problem as ‘organizational health (and individual careers) may sometimes be better served by satisfying donors and host governments than by satisfying ostensible beneficiaries’. Tvedt (1998: 229) goes further in stating that HAR NGOs mainly seek to satisfy their donors in the Global North, not their intended recipients in the Global South. Sometimes donors in the Global North are national governments, which often use HAR NGOs to advance geopolitical aims, not really to help the neediest people of the Global South (Terry 2002; Keen, 2008).

A related challenge is that HAR NGO relief and aid projects are often planned only in the Global North at NGO headquarters, involving little or no consultation with intended recipients. Riddell (2007: 369) observes that relief fails because of ‘insufficient consultation with recipients’. There is a long tradition of charities in the Global North providing philanthropic aid to the poor and needy in their own nations without consulting them about their own view of their ‘needs’ (Wagner 2000; Cunningham, Chapter 2). Consequently, some critics have argued that HAR NGOs are in the business of creating delusions, which can be seen as dysfunctional. De Waal (1997: 221) suggests that the greatest harm done by such NGOs is that ‘Western governments and the donating publics are deluded into believing the fairy tale that their aid can solve profound political problems, when it cannot’. Polman (2010: 173) concludes similarly, that ‘humanitarian crises are almost always political crises or crises for which only a political solution exists’. De Waal (1997: 221) further notes, ‘most significantly, local people (“recipients” or “beneficiaries”) are deluded into believing that salvation can come from other than their own actions’.

An arresting statistic is that in 2004, less than 25 percent of overseas development assistance was given to the poorest countries (Polman, 2010: 161). In 2005, over half of total humanitarian aid funds went to Sudan (Keen, 2008: 134), neglecting less popular aid emergencies elsewhere. The challenge, Polman argues (2010: 176), is that ‘transnational aid moves to the next big crisis’. As Keen (2008: 134) notes, ‘a concern with organizational growth can encourage a concentration of NGO efforts on high profile crises and even on those parts of crises and affected areas that are easily accessible to the media’. There is no ‘master plan’ regarding how HAR NGOs should best deal with the full set of global humanitarian crises at any time, nor how to prioritize any future crises. This constitutes serious dysfunction for the entire set of such NGOs.

At any given moment in history, there are thus ‘donor darlings’ – popular crises, and corresponding NGOs, to which people give substantial money – and ‘donor orphans’ – unpopular or less visible crises and their corresponding NGOs that are overlooked (Polman, 2010: 158; Kapucu, Chapter 11). Of course, donors are free to ignore any crisis anywhere, irrespective of its severity and extent: ‘Aid is a lottery’ (Polman, 2010: 158). Keen (2008: 134) observes that ‘donors have fads and fashions, and local and international NGOs may be quick to learn and adapt’. To cope with changing perceived humanitarian and relief needs, NGOs shift their stated emphases and the words they use in seeking donations as ‘marketing’ changes, often without any real changes in their programs. Being a favoured NGO can be problematic, however; as Tvedt (1998: 215) argues, ‘easily available funds may be a “source of distraction” and may create “opportunistic” NGOs’. Given that humanitarian aid and relief is a lottery, rather than a rational, comprehensive, global system, potential recipient NGOs and governments may also be engaged in ‘marketing’ to ensure they distinguish their needs from those of others. Insofar as Global South national governments are involved in the aid and relief process, government corruption and other flaws may substantially reduce aid flow and effectiveness (Maren, 1997; Spector, 2005; Collier, 2007; Riddell, 2007; Moyo, 2009). This is especially true for the ‘bottom billion’ population of the poorest nations which are not developing, but rather ‘are falling behind, and often falling apart’ (Collier, 2007: 3).

Structural and operational deficiencies

A variety of operational weaknesses of HAR NGOs contribute to aid that is too slow and of poor quality. These various dysfunctional practices include: too many agencies and inexperienced staff; high staff turnover; short term contracts for projects; weak coordination within and across agencies; falsification of local need assessments; over focus on resources and on a few high profile emergencies; and general inability to learn from experiences (Keen, 2008: 136; also Riddell, 2007: 369). Particularly troublesome is the lack of adequate impact evaluation of projects. A thoughtful study group of experts focusing on HAR NGOs concluded, 'the humanitarian system still lacks a systematic and regular means of assessing its overall performance' (Polman, 2010: 176). Keen (2008: 130) notes that such aid is only evaluated superficially by counting the movement of goods (food, clothing, medicine, etc.) because these movements are visible and relatively easy to measure and report. But there is insufficient attention to real, longer-term outcomes, and to the livelihoods of recipients or intended recipients. The usual 'bean counting' approach of HAR NGOs grossly misrepresents actual impact by over estimating it. For instance, Catholic Relief Services has focused on the number of recipients, not on the impact of its food aid, and some HAR NGOs are essentially money raising organizations that mainly benefit their staff, with little funding reaching needy recipients, according to Maren (1997: 8, 151).

There are many serious, recent critiques of all aspects of HAR NGO operations and practices (de Waal, 1997; Maren, 1997; Tvedt, 1998; Rieff, 2002; Terry, 2002; Kennedy, 2004; Easterly, 2006; Riddell, 2007; Barnett and Weiss, 2008; Keen, 2008; Moyo, 2009; Holmén, 2010; Polman 2010), but none of these has had much effect on actual NGO activities. De Waal (1997: xvi) remarks that HAR NGOs 'have an extraordinary capacity to absorb criticism, not reform [themselves], and yet emerge strengthened'. HAR NGOs need to submit 'to genuinely rigorous forms of local accountability to recipients' and to demonstrate transparency'. The result, as Kennedy (2004: xviii; xx) observes, is that HAR NGOs often 'promise more than can be delivered – and come to believe our own promises,' creating self-delusion and a gap 'between good impulses and [recipients'] bad experiences'.

More than an inadequate evaluation and a gap in expectations is the concern that HAR NGOs are not transparent about, or they actively ignore, their failures. Because these NGOs raise funds mainly from the general public in Global North nations, they have a deep and persistent self-interest in hiding their inefficiencies, ineffectiveness, and other flaws, failures, and dysfunctions. Terry (2002: 231–232) writes that their reliance on donations from the general public

discourages open discussion among the organizations about the failures or negative consequences of humanitarian actions. ... Aid organizations depend on an image of "doing good" for their support and are reluctant to jeopardize this image by airing concerns that aid may or may not serve the purpose for which it was intended'.

This is the simple logic of NGO self-preservation.

In sum: A half century of dysfunctions in HAR

HAR NGOs from the Global North do some good for some people and nations in the Global South, but long-term success stories seem limited when objective, comprehensive success criteria are applied. Research by many experts seems to suggest that the overall situation might resemble a massive, multitrillion dollar 'scam' perpetrated over the past half century by Global North and South governments, multinational intergovernmental agencies like the United Nations (UN) and

World Bank, businesses based in the Global North, and more recently by Global North transnational NGOs (Hancock, 1992; Maren, 1997; Tvedt, 1998; Terry, 2002; Kennedy, 2004; Michael, 2004; Easterly, 2006; Collier, 2007; Keen, 2008; Holmén, 2010; Polman, 2010). All of this has happened with purported good intentions. Objectively, one has to wonder just how deep, altruistic, and committed such good intentions really are, given the persistent and widespread failures of government, intergovernmental, and NGO aid, relief, and development programs and projects in the Global South. There are many elements of power, prestige, deception, and corruption involved throughout both the global aid/relief and global development systems (Hancock, 1992; Tvedt, 2010), which work to the advantage of Global North governments, businesses, and NGOs (Hancock, 1992; Riddell, 2007).

Many experts (Riddell, 2007), including multinational organizations such as the OECD (2009), have made suggestions for improvements in transnational aid, relief, and development assistance. However, nothing much has changed. Some experts have suggested that the entire 'philanthropic helping' model is deeply flawed as a way to assist the Global South: it creates or maintains perpetual economic dependency rather than long-term economic independence and growth (Moyo, 2009). Perhaps the time has come to challenge the general 'philanthropic imperialism' identified by de Waal (1997: 214), which assumes that the general philanthropy model of helping others in need works, and recognize it rarely helps in all situations.

A focus on the darker side of philanthropy points to the need to delve more deeply into the motivations of philanthropy, including transnational NGO philanthropy. As Rieff (2002: 334) notes, however, 'the tragedy of humanitarianism [and, we add, philanthropy more generally] may be that for all its failings and all the limitations of its viewpoint, it represents what is decent in an indecent world'.

Terrorist financing by philanthropy

Bell's assertion that there is 'terrorist abuse of nonprofits and charities' (2007: 450) brings us to the 'darkest' question in this chapter: philanthropy and charitable giving as a component in financing terrorist organizations. The latter is understood as 'the act of knowingly providing something of value to persons and groups engaged in terrorist activities' (Weber, 2008), with 'terrorism' being 'the calculated use of violence or threat of violence, to attain goals that are political, religious or ideological in nature by an illegitimate and unestablished power against a legitimate and established state ... done through intimidation, coercion or by instilling fear' (Napoleoni, 2005: 256). There is widespread agreement that closing, or even diminishing, of terrorist financing would reduce terrorist groups' activities and impact (Greenberg *et al.*, 2002; Biersteker and Eckert, 2008).

Weber (2008) emphasizes that historically, the development of philanthropic institutions has been a powerful tool in challenging states. He goes on to note that organizations such as criminal or hate groups, e.g. mafia-kind organizations and religious fundamentalist groups, have set up systems that, rather than being complementary to any official welfare regimes, openly try to fill the gap of those states that are 'weak' or which have 'failed', and, which, for various reasons, are unable to provide basic social services (Weber, 2008: 2). Within this context, contemporary abuse of charities by terrorist groups may occur with, or without, the knowledge of the donors, officers, and management of these organizations, knowingly or unknowingly acting as cover for terrorist financing (Bell, 2007). Philanthropic funding for terrorist activities may therefore be intentional, whereby recipient charities are established as 'fronts' whose purpose is to channel money into those activities, whose donors understand its purpose, or unintentional, whereby, often through complex networks of connected charities, donations make their way to funding terrorism without the donors' knowledge or intent.

Paradoxically, it is philanthropy's and NGOs' legitimacy, both in doing good and doing so voluntarily, that make them targets for terrorist groups' close attention. This paradox is further extended in the exploitation of faithfulness. Conway (2006: 283), for example, highlights that charities are also popular with Islamic terrorist organizations 'probably because of the injunction that observant Muslims make regular charitable donations'. So far, knowledge on the amounts of money involved in financing terrorism, and the ways in which funds are spread, is limited (Giraldo and Trinkunas, 2007: 31). What research does, however, show is the immensity of terrorist financing. Cassara and Jorisch (2010: 142), for example, state that, in the case of Al Qaeda, an estimated \$US 30 million per year over many years was received, totaling \$US 300 to \$500 million until 9/11/2001. Research further indicates that there are a variety of types of sources of financing of terrorism; the extent, and relative dependence, of terrorist financing on charitable and quasi-charitable funds, warrants further exploration. Notably in relation to those of Islamic charities implicated in terrorist financing, the area that has seen the greatest scrutiny in recent years, Ehrenfeld (2003: 2, 73) lists a spectrum of major sources. Alongside charitable organizations, these include wealthy individuals, but also international organizations such as the UN and the European Union. In the context of counterterrorism's international scrutiny of charities in, and restricting money flows to, Saudi Arabian charities, Altermann (2007: 75) comments that 'because it remains unclear how much of a conduit charities ever were for terrorist financing, it is even less clear how much restricting formal channels for charitable giving helps stem the flow of cash to terrorist groups'.

The link between charities and armed organizations is not new. From an Islamic perspective for example, Napoleoni (2005: 251), translating jihad as 'striving in the cause of God', reports that Islamic charities actively engaged the anti-Soviet jihad, and, once that war was over, 'many continued to support Muslims fighting similar wars in other countries such as Bosnia and Chechnya' (Napoleoni, 2005: 173; Wittig, 2011). Casting the web wider, Benthall (2007: 2), considering the association of Islamic charities with transnational mujahideen, points out that 'on a smaller, bilateral scale, an analogy could be made with Noraid, or Irish Northern Aid, the New York-based charity that since 1969 has raised funds in the US for Republican – that is to say Catholic – charities but that was regularly accused of spending some of the funds on weapons until the Irish Republican Army accepted the peace process in 1996'.

Further complexity is presented where funds from terrorist sources also reach charities. Thus, Giraldo and Trinkunas (2007: 24–25) add that terrorist financing also comes from Islamic terrorist groups through fees and donations associated with cultural events, regular contributions from diaspora communities, and special fundraising events, such as dinners for diaspora donors and other sympathizers (Napoleoni, 2005: 171–172). This 'commingling of illicit with licit funds' is advantageous, according to Maras (2013: 103) because of the subsequent difficulties of linking financiers with terrorist acts. In the argument that charities have special advantages for terrorist financing, Giraldo and Trinkunas (2007: 25) emphasise that, as in the legitimate charity sphere, 'it is very difficult to confirm or control the ultimate recipient of a charitable donation'. Given public trust in charities and charities' access to substantial funds, their 'presence' can serve as 'an excellent means of both radicalizing constituents and moving money (Cassara and Jorisch, 2010: 138).

It is in this context of trust that perspectives on both the dynamics, and scale, of the terrorism-charity nexus are developed. For example, Cassara and Jorisch (2010: 138) report the US Central Intelligence Agency as estimating that 'one-third of Muslim charities support terrorist groups or employ individuals who are suspected of having terrorist connections'. Other commentators, however, regard commercial and business association linkages as far more critical – in the sense of being more lucrative – than links to charities, recognizing that some terrorist groups tend to

abuse both charities and businesses in their local spheres of operations (Biersteker and Eckert, 2008).

In yet further layers of interaction, many terrorist groups have established their own international networks of ‘charities’ to provide financing (Ehrenfeld, 2003, 21). In this sense, terrorism groups will have their own ‘customer base’ of donors and patrons from which they have to raise money through ‘selling’ their mission, changing mission or specific targets, and activities to suit those customers, not their recipients (Biersteker and Eckert, 2008: 32). Such groups may also undertake charitable acts, whether directly or through affiliates. Ly (2007: 178), for example, emphasizes the importance of this route for gaining the support of local populations, citing research concerning the 1989 Algerian earthquake where aid to victims was provided more efficiently through unofficial channels than via government. Such an example strongly encapsulates Flanigan’s (2006: 641) examination of charity being used as a tool by groups of terrorists and political insurgents to shepherd communities along a ‘support continuum’ towards growing consent with, and participation in, acts of aggression. Finally, it has also been argued that charities as financing vehicles are especially attractive in those jurisdictions where they are subject to limited or no oversight, i.e. registration, record-keeping, and monitoring (Giraldo and Trinkunas, 2007: 25).

There are ongoing major well-funded, national government and intergovernmental efforts to diminish and control terrorism in recent decades, where the financing of terrorism is a major focus (Lindsey and Williams, 2013). In a quieter way, charity regulators are also attempting to follow the money, also with decidedly mixed success given the variety of ways in which charities and philanthropy can be involved, and the complexities of international networks. Meanwhile, this ‘dark side of philanthropy’ casts an immense shadow over civil society: unwitting donors are defrauded, or cease or lessen their giving, while wholly philanthropic actions can be deterred or erased from areas of urgent need, arguably to terrorism’s advantage.

While Howell *et al.* (2008: 82) assert that civil society’s space for action and flourishing is threatened by increasing global concerns with security and counterterrorist measures, civil society itself is also endangered by terrorism. This is illustrated by advocacy nonprofits and NGOs becoming particular targets for terrorist action. Murdie and Stapley (2014: 79) theorize that the nonviolent advocacy activities of some nonprofits and NGOs, especially in relation to governments’ human rights practices, can shape the perspectives and manners ‘of potential terrorist group supporters in ways not liked by terrorist organisations’. The shadow from this very ‘dark side’ continues to draw us into paradox. From Berman’s (2009) examination of radical religious groups involved with terrorism, it is striking that these groups demonstrate characteristics of staying power that we also associate with worthy philanthropic action that involves sacrifice and mutual aid.

Conclusion

Rule breaking, deviance and dysfunctions are present as the darker side of philanthropy worldwide. Most philanthropy in most countries may be beneficial, but some pockets of it, around the globe, manifest ethical misconduct, dysfunctions, and even crime. Donors and philanthropies in the Global North are often more concerned with ‘the symbolism of helping that appeals to many people rather than any actual accomplishment’ (Wagner 2000: 113). Some foundations and other charities focus more on the process of their giving than the actual, long term impacts and outcomes of their philanthropy. Philanthropy then is more of a kindly gesture based on altruistic intent than demonstrable helping of the intended recipients, especially when such recipients are needy and poor. Similarly, a number of philanthropic organizations seem to be

more concerned with their donors and their own survival or enhancement than with genuinely helping the recipients they claim as their primary mission. The monitoring, regulation, and accountability of philanthropic organizations are inadequate on a global scale.

In this chapter, we have only scratched the surface of the darker side of philanthropy (Smith 2016; Eng *et al.*, 2016) and there are wider debates to be had about the nature of ‘public benefit’ and ‘general welfare’: these are relative to one’s worldview, religion, ideology, and personal experiences. However, we have shown that various kinds of rule breaking and dysfunctions across many societies can be huge in dollar terms and in their negative impact on intended recipients, as well as legitimate philanthropic action. Putting self-interest above the public interest is pervasive, and may be seen as normal for humans, as for other animals. Altruism and the philanthropic impulse and spirit exist as a secondary motivation for most people, but they very much need to be nurtured carefully if they are to have a broad and positive impact on human society. Philanthropy, in all forms everywhere, needs to be more transparent, monitored, and accountable, as does so much of the rest of human activity.

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