

Philanthropy Letter



FONDATION
DE LUXEMBOURG

It is a great pleasure for me to present the first edition of the Fondation de Luxembourg Philanthropy letter, a further milestone in our ambition to encourage philanthropic giving and raising awareness. Our intention in publishing a newsletter is to present in each issue a selection of topics related to the vast field of philanthropy and to inspire future donors by covering the latest developments in the sector. Over the last two years, significant reforms have been made in Luxembourg to encourage philanthropic engagement by private individuals and companies. The laws regarding fiscal benefits for donations have been reviewed and once again Luxembourg has shown its commitment to the European idea by being one of the first countries to extend full fiscal benefits to international donations within the European Union. The article below detailing the fiscal environment for philanthropy is part of our effort to raise awareness for this new and improved framework for donations.

The Luxembourg financial center, with its wealthy European client base and its unique concentration of international expertise, provides a huge opportunity for philanthropic engagements. There is a rapidly growing interest among the wealthy to give away significant parts of their fortunes, rather than leaving it all to their children. The Fondation de Luxembourg and the banks are partners in the development of this rapidly evolving movement. In view of this, we asked a few key players of the financial place to share with you their bank's approach to philanthropy. We are also very pleased to have the comments of the new chairman of ABBL, Mr. Ernst Wilhelm Contzen, who shares his views of how philanthropy services contribute to strengthening the Luxembourg financial market place. Social entrepreneurship and venture philanthropy represent new interesting developments in philanthropy. What we have seen is that today's donors are not only passively donating their fortunes but increasingly becoming personally involved. Social entrepreneurship is therefore the central theme of this first newsletter. Ashoka and Oxfam, two leading international organizations illustrate how entrepreneurs with a social vision can have a positive social impact and still be economically successful, thereby encouraging us to think about new ways to tackle social issues.

Philanthropy goes beyond charity; it is the belief in a common good, the valorization of each individual's contribution to the creation of a better society and the ability of civil society to bring about positive change.

Tonika Hirdman
Director General



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Fiscalité des donations

Les lignes qui suivent ébauchent les règles essentielles applicables aux donations faites par des personnes physiques ou morales résidentes au Luxembourg à des asbl ou à des fondations établies au Luxembourg¹ :

Déductibilité fiscale – impôt sur le revenu (articles 109 et 112 LIR)

Les dons en espèces versés aux organismes reconnus d'utilité publique par l'Etat (ainsi que les dons en nature au Fonds culturel national ou au Fonds national de soutien à la production au-

diovisuelle) sont déductibles fiscalement.

Sous la rubrique des dépenses spéciales, il est possible de déduire les dons en faveur d'une fondation du revenu imposable sous réserve de certaines conditions :

- Montant minimum 120 EUR pour la somme de tous les dons d'une année
- Montant maximum des dons de l'année déductible de:
 - 20 % du total des revenus nets
 - 1'000'000 EUR

L'excédent peut être reporté sur les deux années d'imposition suivantes

- Les contribuables non résidents assimilés fiscalement à des contribuables résidents peuvent demander la déduction des dons dans le cadre de l'imposition par voie d'assiette.

Droits de donation et de succession

Au Luxembourg la fiscalité attachée aux donations et aux legs en faveur d'une fondation peut être résumée comme suit :

Pour les donations :

Moment de la donation	Biens meubles	Biens immeubles
Lors de la création de la fondation d'utilité publique	Droit fixe (12 EUR)	Droit fixe (12 EUR)
Postérieurement à la création de la fondation d'utilité publique	4,8 % (sur la valeur de marché des biens donnés)	4,8 % sur la valeur de marché de l'immeuble (+ droit de transcription hypothécaire de 1 % et éventuelle surtaxe sur les mutations immobilières dans la Ville de Luxembourg égale à la ½ des droits d'enregistrement dus sur l'opération)

Lorsque la dotation de biens meubles prend la forme d'un don manuel ou d'une donation par virement, elle ne doit pas obligatoirement être présentée à la formalité de l'enregistrement. Il est donc possible par ce biais d'éviter en toute légalité la perception des droits de donation dont question ci-dessus.

Dans cette dernière hypothèse, les droits de succession de 4 % peuvent cependant être dus en cas de décès du donateur dans l'année suivant la date de la dotation.

Pour les legs par testament :

Moment du legs	Biens meubles	Biens immeubles
Lors de la création de la fondation d'utilité publique (en cas de création de la fondation en exécution du testament) **	4 % (sur la valeur des biens transmis)	4 % (sur la valeur des biens transmis)
** Mode de création peu recommandé		
Postérieurement à la création de la fondation d'utilité publique	4 % (sur la valeur des biens transmis)	4 % (sur la valeur des biens transmis)

Particularités du don manuel ou de la donation par virement par rapport au droit d'enregistrement

- En principe, toute donation doit être constatée par acte notarié (article 931 du code civil). Il existe toutefois deux exceptions à cette obligation de forme en faveur des dons manuels et des donations indirectes.
- Le don manuel est une donation s'opérant par la remise de la main à la main d'un bien mobilier (exemple : somme d'argent, valeurs mobilières, bijoux, œuvres d'art...).
- La donation indirecte est celle qui se réalise par le biais d'un acte neutre, tel que, par exemple, un virement de compte à compte pour lequel aucune communication n'est mentionnée.
- les dons manuels ou les donations indirectes emportent transfert de propriété et ne sont pas constatés par écrit. De ce fait ils ne sont pas assujettis à la formalité de l'enregistrement et échappent donc en toute légalité au droit d'enregistrement sur les donations.
- Toutefois, en cas de décès du donateur dans l'année suivant la réalisation du don manuel ou de la donation par virement, les biens donnés sont fictivement réintégrés dans la base de calcul des droits de succession et assujettis en tant que tels à l'impôt successoral luxembourgeois.

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¹ En raison de la complexité des textes de loi, les indications qui suivent sont nécessairement incomplètes. Il est vivement recommandé aux donateurs intéressés de consulter les textes de loi détaillés ou de se faire conseiller par des praticiens du droit fiscal.

Les observations qui suivent admettent que le donateur et le bénéficiaire de la donation sont tous les deux résidents et ne traitent donc pas de la fiscalité des donations faites dans un contexte transfrontalier. Les donations peuvent soulever des questions juridiques en dehors de la fiscalité, par exemple en ce qui concerne l'autorisation du Ministre de la Justice requise avant que l'asbl ou la fondation n'accepte certaines donations ou la protection des héritiers réservataires en cas de succession:

Les dons supérieurs à 30'000 EUR, qui ne proviennent pas d'une banque autorisée à exercer au sein de l'Union européenne, doivent être autorisés par un arrêté du Ministère de la Justice, moyennant une demande adressée par les organismes bénéficiaires au Ministère de la Justice. Les dons peuvent être acceptés provisoirement en attendant la validation (loi modifiée du 21 avril 1928 sur les asbl et les fondations, article 16).

Les libéralités, soit par actes entre vifs soit par testament, ne pourront excéder la moitié des biens du disposant, s'il ne laisse à son décès qu'un enfant ; le tiers, s'il laisse deux enfants ; le quart, s'il laisse trois ou un plus grand nombre d'enfants (article 913 du code civil).

Social Entrepreneurs aim to change the world

With the current economic and environmental crisis, the need for a change in our mindsets and practices appears more and more necessary. The fast growing sector of Social Entrepreneurship is offering a new and quite fascinating approach.

What is a Social Entrepreneur?

Bringing unprecedented system-changing solutions to solve the world's most urgent social problems (i.e. education, health, human rights, nature preservation, sustainable development, etc.) Social Entrepreneurs do not just build a new school, clinic or environmental garden; they develop innovative and effective models to change the education, health or environment preservation system in their countries. Doing so, they also impact public policies, citizen sector organizations and businesses. Providing these innovators the support they need to succeed can prove to be a highly leveraged invest-

ment, as they will be both the engines of concrete social change and role models/ideas providers for the rest of the sector.

Take for example David Green.

The mission he has taken on is to enable poor/developing countries to produce, distribute, and service high-quality health care products at a price affordable to anybody. Having already successfully launched two of these products – intraocular lenses and surgical sutures -, he has started in 2006 a new effort to manufacture and distribute top-of-the-line, cost effective, cosmetically acceptable, and locally maintainable hearing aids. To illustrate the effectiveness of David Green's model, look at the huge social impact of its intraocular lenses: lenses that are typically sold for 150\$ in the US are produced at 3\$ and sold at a much lower price, enabling several million patients who could never afford

classic treatments to preserve their sight and ability to work.

The World Health Organization estimates that at least 120 million people in the world have a disabling degree of hearing impairment. In developing countries, at least half of all hearing impairment could be prevented or reversed through improved availability of appropriate hearing aids. However, the cost of hearing aids is prohibitively high for the great majority of the hearing impaired who are poor. David business plan implied raising \$1 million in start-up costs (to design hearing aid, develop manufacturing process, create manufacturing and service delivery sites, secure initial inventory, etc.) while reaching financial sustainability at the local level. He thus came up with the innovative idea of multi-tiered pricing not just within regional markets, but globally (i.e. between rich and poor countries). David Green is supported by Ashoka, an international



Ryad Sallem, another fellow of Ashoka France, breaks the preconceived notion that disabled people are dependent and can not contribute anything to society. He developed “Cap-Classe”, a fun and practical program of risk prevention, led by disabled people in schools. His idea was to build up a prevention programme by using and thus valuing people with disabilities as change agents. In this programme disabled people become agents of change and positive role models.

“Do not ask what you can do for the disabled, but what the disabled can do for you.”

non-profit, to develop his new venture.

Supporting the development of the most innovative Social Entrepreneurs.

Launched in 1980, Ashoka has pioneered the concept of social entrepreneurship, recognizing that fostering the development of the sector was a major means to change the world and to bring forth a society where “everyone can be a changemaker”.

Ashoka has a major program, Venture, which selects innovative Social Entrepreneurs (Ashoka Fellows) such as David Green or Ryad Sallem, and helps them grow their organizations and their impact on society. Ashoka

offers them a three-year living stipend, professional services for their development (strategy, organization, communication, legal issues...), and connects them to a global community of peers, the Ashoka Support Network. Already nearly 3,000 social innovators are Ashoka Fellows, in 70 countries around the world. The track record of impact is impressive: 5 years after their election 94% Ashoka Fellows still work to develop their organizations; 95% have seen their ideas replicated by other – public or private – organizations; 56% have influenced law/regulation in their area of work.

Muhammad Yunus, the founder and CEO of the Grameen Bank, and 2006 Nobel Peace Prize winner, believes

“Ashoka is a great global organization, built on a brilliant idea. It picks up social innovators when they themselves don’t know what great changes they can bring... Ashoka helps pool local innovations into global solutions.”

Funded only by private money, Ashoka has long recognized the importance of collaboration with other sectors, particularly business. Developed first in France, then in Europe and worldwide, the Ashoka Support Network (ASN) currently gathers more than 220 business entrepreneurs, who both finance Ashoka and bring their competences and networks to the Ashoka Fellows.

Arnaud Mourot
Director General of Ashoka France

Oxfam’s Enterprise Development Programme

When you think of ways to help impoverished communities in the developing world, you probably think of aid and grants. And there’s certainly a place for these, but does ‘free money’ provide the right incentives when applied to economic development and sustainable livelihoods?

Oxfam GB, an international NGO working in more than 60 countries, is piloting an innovative model of development which aims to deliver economic growth and social change for poor communities by identifying, nurturing and working with local enterprises. At the heart of the Enterprise Development Programme (EDP) is a growing portfolio of small to medium-sized enterprises (SMEs) operating in a variety of challenging conditions

in countries such as Ethiopia, Tanzania and Sri Lanka. EDP is part of an emerging sector, which understands the importance of SMEs to sustainable economic development. Despite being recognised as the backbone of modern economies, and having the potential to generate employment and opportunities for growth in the developing world, SMEs are currently poorly served. Too large for popular microfinance schemes and too small for banks, these SMEs are identified by Oxfam and nurtured to progress their business and, in many cases, make the jump to bigger markets. These enterprises are typically involved in agriculture – seen by many as one of the riskiest areas for investment. However, investment in agriculture and rural enterprises is crucial to lifting remote communities out of poverty.

Financial support to businesses

Setting up enterprises in remote eastern Ethiopia, or conflict-affected northern Sri Lanka is no easy task. Success depends on effectively applying commercial principles to the funding of enterprises and supporting these enterprises beyond the injection of capital in a way which builds capacity and ultimately delivers inclusive economic growth. Relying exclusively on grants can diminish the entrepreneurial spirit and create a false picture of the costs and potential sustainability of the business. It can also create unfair competition or dis-incentivise other financial services providers, which could otherwise play a key role in supporting local businesses.

Mixing investments to overcome poverty

What this means is that there is a need for mixed types of finance, a combination of grants, loans and guarantees. Oxfam carries out a careful analysis to establish which activities should be loan-financed; for example, working capital, fixed assets and other business-related expenses. This loan provision is accompanied by technical assistance and mentoring to build capacity, reduce risk and ensure the sustainability of each business. This might mean using grant-funding to cover salaries of new specialised staff, which is usually done on a diminishing percentage.

Enterprise development as partnership

Oxfam is engaging with entrepreneurs and individuals from the business world. Increasingly, modern philanthropists are realising that their giving potential is not limited to financial handouts but that their experience, contacts and skills can be put to practical use. EDP's Investment Committee, which includes external business specialists, undertakes detailed due diligence of propositions drawn from across Oxfam's programmes. These business proposals are assessed for commercial viability, their ability to integrate women's economic leadership, revitalise local economies and improve market services.

The strongest proposals are then put to the Enterprise Development Board for final review. The EDP Board is made up of successful and influential business people who invest not only their funds, but also their time and expertise in deciding which enterprises to support and helping build these fledgling companies.

Recovery and returns

Today, EDP relies on philanthropic investment because there is a need



Ethiopia is one of the seven poorest countries in the world and Oxfam has been working in the Benishangul Gumuz region for a number of years. The Assosa Farmers' Enterprise, which represents 6,041 farmers in the eastern region, has been selling sesame seeds for a few years and recently asked Oxfam for support to set up an edible oil processing plant. This will allow them to add value, create jobs and secure higher income for everyone in the value chain. The Enterprise Development Programme is providing a loan to finance working capital and machinery, along with a grant to increase management capacity provide project management and monitoring and specific support to women. Crucially, in addition to increasing their involvement in the company, women will receive additional support to take on an exclusive role in the marketing of the new sesame-oil in the local areas.

to demonstrate a positive impact and track record in this high risk, high social return sector. In the future, the aim is to establish a discreet loan fund, returning at least 100 per cent of the capital, and offering supporters the option to loan and reclaim the capital. The goal is always exit. This will usually be after 3-5 years once the business has built the capacity to go out and access commercial finance to fund future growth.

Measuring change

Measuring social impact, as well as business, is key. Oxfam uses quantitative metrics to measure business performance, income and job creation, while also looking at changes in the role of women and in the household economy. The aim is to demonstrate that investment in this sector, through the adoption of an integrated socially

inclusive approach, while potentially riskier, will deliver high social, economic and market returns in a way which creates wealth and breaks the cycle of poverty for large numbers of poor and marginalised communities.

Does 'free money' provide the right incentives when applied to development and sustainable livelihoods? Absolutely not. But properly targeted grants, used in the right amounts and in the right ways and in the right combination with loans and other business inputs, is crucial to making markets work for poor people and in delivering broad, deep sustainable change. This is what Oxfam and EDP are really about – enabling people to get on with building and developing their own lives from a position of power, strength and dignity.

Katharine Hopper
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“What is your bank’s approach to philanthropy?”

Charles Hamer, CEO
Crédit Agricole Private Banking



Whether our clients are private individuals or families, our Bank offers a personalised and tailored service. Our knowledge and experience allow us to guide and assist benefac-

tors throughout the different stages of their commitment. We listen carefully to clients, help them identify their aspirations, motivations, convictions and terms of commitment. We assist them in defining their goals and in making strategic choices by providing the resources needed to answer any questions they might have. Once a client’s commitment profile is established, we propose a portfolio of organisations who provide a credible and efficient answer.

Pierre Ahlborn, CEO
Banque de Luxembourg



Our philanthropy advisory services are the natural extension of our private banking services and our desire to accompany and advise individuals, families and entrepreneurs at every stage of

their lives. We provide the benefit of our in-depth knowledge of clients’ expectations and our project management expertise to help our clients set up and find the right structure for their philanthropy projects. Naturally, the Bank offers asset management for Foundation’s endowments. The Bank does not have its own charitable foundation. We have explicitly chosen not to select and monitor projects on behalf of our clients, as we believe this is beyond our areas of expertise. For enquiries about projects and charities, we prefer to put clients in touch with our network of partners and external specialists, notably Fondation de Luxembourg.

Frank Wagener, CEO
Dexia BIL



Luxembourg banks must play part in the philanthropy boom. Today, great inequalities in distribution of wealth and the countless ecological and social challenges across the planet are factors, which

incite businesses and individuals to invest in causes of general interest. The creation of the Fondation de Luxembourg and improvements to the tax system applied to donations clearly demonstrate the desire to develop philanthropy and patronage in an appropriate legal and fiscal environment. As an international private banking centre, Luxembourg must have its own targeted philanthropic services which can be integrated into the personalised management of the portfolios of its wealthy clients. Dexia BIL has been active in the sector of individuals of international origin for over 150 years. Strengthened by its private banking clientele and lengthy experience in ethical and socially responsible financing, our bank has all the assets to become a major player in the philanthropy field in Luxembourg. Today, more than ever, the time has come to promote and assist philanthropic initiatives and Dexia BIL certainly intends to play its part.

Éric Martin, Director
BGL BNP Paribas



As a banking group, BNP Paribas led the way in corporate philanthropy in the early 1980s with the BNP Paribas Foundation supporting culture, encouraging medical research and

social integration. In Luxembourg, BGL BNP Paribas set up in 1989 the Alphonse Weicker Foundation dedicated to scientific research. More recently the Bank launched a program dedicated to supporting its own staff’s solidarity activities. Since 2008, our Philanthropy Offering has been delivering bespoke solutions to private banking clients willing to give back to society. In Luxembourg, some use our turnkey solution, the Fondation de l’Orangerie, which collects donations and efficiently allocates them to original projects, monitoring the use and concrete results of the donated funds. Others prefer our tailored-made solution, Philanthropy Advisory, asking us to select charities, helping them with the assessment process of the social return, or setting up their own foundation such as lately done by one of our clients within the Fondation de Luxembourg umbrella.



Message from the ABL Chairman

**Luxembourg:
an international
financial centre
dedicated to serving
overall client needs.**

Philanthropy is a rapidly growing niche and plays an important role in the ongoing diversification of the Luxembourg financial centre. The Luxembourg banking sector needs to continuously develop and improve its service offering to respond to the expectations of an increasingly sophisticated and demanding clientele. Today's philanthropists are often successful international entrepreneurs with a wish to give something back to society and with a long-term engagement horizon. Luxembourg's political and economic stability together with its central position in Europe, and above all, its concentration of experts in cross-border wealth management and legal matters make it an ideal location for clients with a global and human vision.

Attracting wealthy individuals to Luxembourg requires a sophisticated and broad service offering that goes beyond fiscal and regulatory aspects and philanthropy plays a significant role in this context. With the creation of Fondation de Luxembourg as an independent philanthropy advisory structure and a sparring partner to the

private banks, Luxembourg now offers a one-stop shop for all clients' financial needs including philanthropy, adding up to our well-established position in the area of microfinance and socially responsible investing. Philanthropy services contribute to strengthening Luxembourg's wealth management offering and provides an opportunity for banks to add value to their clients and to deepening and retaining the relationship with them. Luxembourg has made enormous efforts in recent years in this direction and I am pleased to note that the private banks are actively engaging themselves in offering philanthropic services as part of their wealth management offering. This will in the long-term reinforce the leadership of the Luxembourg financial market place.

Ernst Wilhelm Contzen
Chairman ABL