

Philanthropy Letter



FONDATION
DE LUXEMBOURG

“It is every man’s obligation to put back into the world at least the equivalent of what he takes out of it”

Albert Einstein

Being a profoundly human endeavor, philanthropy continuously evolves as societies change. The need for adapting legal frameworks becomes evident when analyzing the international dimension of modern day philanthropy. In light of the gradual erosion of the welfare state in some countries, the philanthropy sector will have an even more critical role to play within the European landscape, both within and across national borders. However, as Gerry Salole, Chief Executive of the European Foundation Centre, points out in his article, the sector’s potential is being held back, among other things, by the EU’s single market, which simply does not include foundations. The case for a European Foundation Statute should be heard and carried forward. Luxembourg, widely recognized as an international financial center, should continue to play a leading role in developing international philanthropy, by promoting the creation of a European Foundation Statute and adapting its legislation. This will contribute to Luxembourg’s standing as a European center of expertise in philanthropy.

In this edition of the Philanthropy Letter, we focus on how philanthropy is evolving with the continuous search for increased giving efficiency, new ways of communicating, and the emergence of new professionals serving philanthropy. In his article, Jérôme Kohler, Director of L’Initiative Philanthropique and co-founder of the Philanthropy chair at the ESSEC Business School, highlights these new tendencies in philanthropic giving. The interview with Hugo Mahieu, co-founder of the Mangrove Foundation, provides a concrete example of how these new developments shape philanthropic action in the real world.

We wish you a pleasant reading

Tonika Hirdman
Director General

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The European Foundation Statute marathon – crossing the finish line



Gerry Salole
Chief Executive
European Foundation Centre
(EFC)

For the best part of 20 years, the European Foundation Centre in partnership with the Donors and Foundations Networks in Europe (DAFNE) has been running a marathon of sorts to bring about the European Foundation Statute, an optional, European legal tool to facilitate cross-border philanthropy and ultimately create a stronger philanthropic movement in Europe. With the European Commission agreeing to present a proposal on the Statute for approval by the European Council of Ministers and Parliament by the end of the year, it would appear that we are entering the last leg of this

long distance campaign. But crossing the finish line will depend hugely on a relay team of national philanthropic communities to urge their governments to make a sprint finish.

Some in Luxembourg's philanthropic circles might ask whether there is a need for such a Statute, given the incredible strides that the country has taken in recent years to improve the legal and fiscal environment for further philanthropic engagement by private individuals and companies. Testament to this trend is the 2009 circulaire, a landmark legal text that makes Luxembourg one of the few countries in the European Union to extend full fiscal benefits to international donations. The circulaire not only demonstrates progressive thinking when it comes to philanthropy, and in particular cross-border giving, but also an understanding of the globalised nature of giving. The very existence of Fondation de Luxembourg also shows an increased recognition for the need for instruments and services with which to harness the country's growing philanthropic aspirations.

Undoubtedly, this flexible and facilitative framework adds to the already attractive environment that is Luxembourg, with its competitive financial centre, wealthy client base and strategic location in Europe. However, despite these unique selling points there are factors that lie beyond the control and influence of Luxembourg

and its reformers. Fostering cross-border philanthropy in Luxembourg also relies on other EU countries offering a favourable environment to advance philanthropy, enabling Luxembourg foundations and donors to enjoy similar recognition when working across borders. It also relies on removing obstacles for Luxembourg citizens living elsewhere and wishing to give something back to their country. Up until recently, Luxembourg was considerably ahead in Europe in developing a philanthropic-friendly environment, however it is heartening to see that other European countries have since caught up and the trend is now towards creating a more favourable regime for cross-border philanthropy between Member States.

In tandem with such national fiscal and foundation law reforms and developments, the European Foundation Statute would provide the opportunity to individual donors, existing foundations, associations, public authorities, and companies to set up a European foundation by will or deed, merge existing foundations or convert a national foundation into a European foundation. The attractiveness of the tool is that a European foundation would be treated as any other foundation under the laws applicable in the countries where it operates. Given Luxembourg's friendly and proactive philanthropic regime, the Statute is likely to provide a vehicle for increasing the number of "foreign" donors and foundations wishing

to operate in the country, thus boosting the flow of investment.

But that's not all the Statute has to offer. Perhaps the most important element is that through just one legally-recognised organisation, foundations would have greater freedom to choose where to register and to work more effectively across borders. This would cut much of the administrative red tape and significantly reduce costs for foundations that must today set up several legal entities in separate Member States in order to fulfil their European mission. Companies and cooperatives in Europe already have access to European legal forms allowing them a similar right to establishment. Bearing in mind its location at the crossroads of Europe, Luxembourg has come to represent the European value of free movement through nurturing over the years a strong cross-border culture and approach to its economy, business and more recently its philanthropic sector. By backing the Statute, Luxembourg would not only strengthen its own cross-border aspirations but would also be a leading force in ensuring that such freedoms are enjoyed throughout Europe and by all.

Bringing recognition to the sector is another of the advantages offered by the Statute, which would provide a European-wide, easily recognisable label through which to benchmark foundations and their work across Europe. In the past, on occasion,

the European foundation community has come under unwarranted media and political scrutiny due to, in some rare cases, the misuse for criminal purpose of the legal form of private-interest foundations. Despite their infrequency, these "bad apples" blur what is meant by the term "foundation" and have the potential of harming the good standing that public-benefit foundations deserve and currently enjoy. The Statute would help to ensure that the good reputation of the foundation community remains intact. Much like any business, having clear and comparable branding would also allow foundations across Europe to better communicate and connect with the citizens they serve.

The Statute is the very embodiment of what Europe stands for and is clearly a must for the future of the European project. To stay competitive, innovative and dynamic in a globalised world, Europe must ensure that the right conditions are met to allow foundations and private donors to freely channel and pool their resources in order to face issues that have no borders and that require excellence and advancement, such as research, migration and the environment, to name but a few. To see it become a reality, we hope that with Olympian determination, each and every national foundation sector will now take up the relay baton and convince their national governments to give the Statute the push it needs to reach the finish line.

About the EFC

The European Foundation Centre (EFC), founded in 1989, is an association representing more than 230 public-benefit foundations and corporate funders active in philanthropy in Europe and beyond. The EFC develops and pursues activities in line with its objectives: creating an enabling legal and fiscal environment for foundations; documenting the foundation landscape; strengthening the infrastructure of the foundation sector; and promoting collaboration, both among foundations and between foundations and other actors, to advance the public good in Europe and beyond.

www.efc.be
www.efc.be/efs

Emerging Trends in Philanthropy



Jérôme Kohler

CEO, L'Initiative Philanthropique, Philanthropy Advisory firm (Paris, NY), Co-Founder of the European Philanthropy Chair, ESSEC Business School, Member of the EVPA, the European Foundation Centre, the US Philanthropic Advisors chapter of the Council of Foundations and of the French Association of Family Officers, Member of the Board of Paris-Musées, Humanity in Action, Fonds Entreprendre pour Aider and the Philanthropy Fund.

Philanthropy in Europe is evolving rapidly and the emergence of several trends within the sector can be observed: the pursuit of increased efficiency through financial leverage, the increasing use of new methods of expression such as social networks and changes in the population of philanthropists with the emergence of new professional operators.

Four aspects seem to illustrate these new tendencies in Philanthropy:

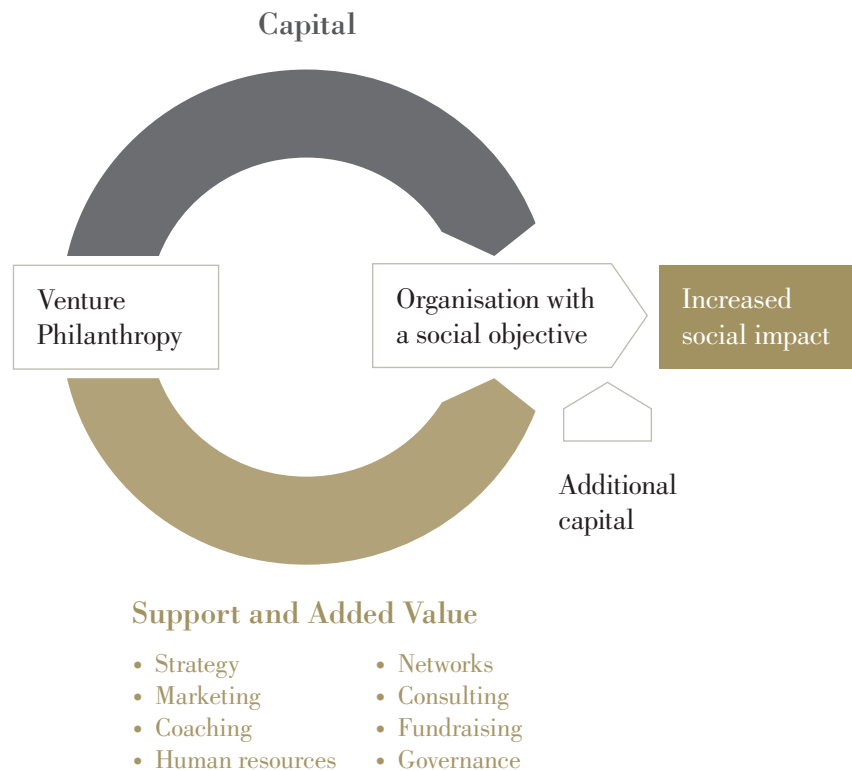
1 | The pursuit of higher efficiency

The appearance of new financial and methodological tools has reinforced the effectiveness of philanthropic activities. In financial terms, the search for leverage through impact investing¹ is soaring. This entails aligning endowment or cash-flow management of the philanthropic structure with its missions. A prime example of this can be seen in medical research foundations, which simultaneously fund research, award grants to researchers and equip laboratories, yet also invest a part of their funds in pharmaceutical or biotechnological companies developing vaccines and generic medicines² or other facilities accessible to the poor.

A second tool is venture philanthropy, which appeared in the 1990s and

which rapidly expanded in both the US and in Europe. **Venture philanthropy**, which entails the combination of a financial contribution and a set of non-financial resources at the philanthropist's disposal³ (such as know-how, expertise, contacts, network, communication tools), is coming

to define itself as a **philanthropic** activity that uses capital investment principles in order to **increase social impact**. It is characterised by the strong commitment of its contributors, pluriannual financial support in combination with non-financial commitment and organisational support.



Source: European Venture Philanthropy Association (EVPA)

¹ "Foundations align investments with their charitable goals" Los Angeles Times, 29/12/2007

² Cf. The strategic plan of the Wellcome Trust in Great Britain www.wellcometrust.org

2 | The second emerging trend is the growing use of technical and social tools in philanthropy

We have, in fact, moved from a fairly classical use of communication technology, for example a website as a communication tool with the possibility of making a donation, to one that is much more proactive, with continuous solicitation via search engines such as Google⁴ or sites like Amazon. This also allows for the reduction of minimum contribution levels to a single dollar or euro. Social networks such as Facebook, YouTube or Twitter and even the SMS have made possible the integration of three dimensions that were divergent up to this point: the **large scale mobilisation of potential donors**, and this at almost no cost, the **rapidity of mobilisation** and immediacy of response and, lastly, the **possibility of making extremely small donations** (for example by responding to an SMS which authorises the telephone operator to charge a small debit to the client, which it then passes on in full to the non-profit organisation). Facility, collective emulation, game-like features and micro-donations are among the emerging trends of philanthropy.

3 | **The behaviour of philanthropists**, which is largely determined by wealth and social status, is **gradually widening in scope**: feminine philanthropy, philanthropy within diaspora groups, philanthropy by networks and circles. There is a tendency to favour philanthropic transfers of wealth within a specific group or community illustrating a structuring of philanthropy according to a criterion – affinity or identity – in addition to the criteria of revenue and the support of a particular philanthropic cause.

4 | The final trend is a progressive maturation of the philanthropic sector demonstrated by:

- The emergence of philanthropy advisors, which is a first indicator of the maturation and professionalization of the sector, a sort of ‘market test’.

Indeed, the very rapid growth of philanthropy and the amounts spent on it directly reflect the growth of extremely large fortunes (+21,5% 2008-2009⁵). Organisations such as the Fondation Roi Baudouin and Fondation de Luxembourg play an active role in the promotion of philanthropy and the support of philanthropists in their activities by offering, for example, the possibility of hosting funds or foundations. The work of institutions such as these is complementary to that of the private bankers, family officers, tax lawyers and so on, who, first in the United States and then in Europe, organised themselves to support their clients in their philanthropic activities, particularly by calling upon philanthropy advisors. By respecting as much as possible the wishes of the client, these experts are able to advise on all stages of a philanthropic undertaking from the conception of a project to its technical, legal and operational implementation, while at the same time setting up programs and evaluating the impact.

- The creation of university centres and particularly, in 2010, of a European Chair of Philanthropy at the ESSEC Business School, has just completed the network of courses, seminars and research originally set in motion by such universities as Bologna and

Rotterdam. This development in the higher educational sphere has been amplified by organisations such as the European Foundation Centre (EFC) and the knowledge centre of the European Venture Philanthropy Association (EVPA) who have created implementation guides and case studies for all participants.

Conclusion

This brief overview of emerging trends in the philanthropy sector clearly highlights, first and foremost, the significant and ongoing growth in a sector that has often been considered unreliable although it represents an average of 2% of American GDP over the last ten years. Apart from its dependence on new technologies and the continuing search for innovation, the creation of genuine academic research on a European level backed up by the professionalization of philanthropic activity is an important indicator of the increasing maturity of the sector.

The Philanthropy Chair of the ESSEC (Paris-Cergy) headed by Prof. Anne-Claire Pache was created in January 2010 with a European perspective. Its purpose is to establish a panorama of European philanthropy, report on strategies utilized by donors to bring their philanthropic activities to completion and, finally, to measure the impact of these activities. As a research chair, it is also involved in teaching, promotion and popularization. It is financed by a variety of philanthropists, companies and foundations.

<http://chaire-philanthropie.essec.edu>

³ Source EVPA 2009/ Serge Raicher www.evpa.eu.com

⁴ The Googling of Philanthropy, Tactical Philanthropy, 20 avril 2009

⁵ World wealth report 2010, CapGemini-Merrill Lynch

Stopping Desertification in Senegal: The Mangrove Foundation and SOS Sahel International

Interview with Hugo Mahieu, Mangrove Foundation and Agnès Sabattini, SOS Sahel International Luxembourg

What were the objectives of Mangrove Capital Partners when creating the Mangrove Foundation?

Hugo Mahieu: Looking around us, there are always many reasons to be shocked. Hence, all of us at Mangrove were supporting individually some causes we each felt strongly about. But when discussing this together a couple of years ago, we came up with the idea that we could maximize our efficiency by bringing together all of our resources: money, time, goodwill and more importantly the experience we had accumulated over our 10 years in venture capital.

We spent quite some time discussing which causes we felt were relevant for all of us. At the end of the day, it was agreed that our action would be around environment and the fight against overpopulation, with a focus on raising awareness, and through the support of dedicated projects on the ground, in cooperation with local players and NGOs.

What are the links between your everyday work and the activities of the Mangrove Foundation?

Hugo Mahieu: Our day-to-day work is unfortunately time-consuming but we try to give ourselves enough time for philanthropy. This is why we all agreed that, while half of the time we dedicate to the Mangrove Foundation would be during our business time, the remainder would be out of our free time and

holidays as a sign of commitment. But this is only a detail: the crucial aspect is more about transposing our professional experience and applying it to project selection and management. A great project essentially requires two things.

First of all the people: we want to donate to people having an ambition, a vision but more importantly a passion for the cause they defend. To figure this out, we go in the field to discuss with all those involved in the project, to find in the project sponsors those qualities we know have been essential in the most successful technology projects in which we have invested.

Second aspect: a project will be successful if it emanates from the final beneficiaries. We don't believe in solutions engineered in the North, and brought to the South together with lots of good sentiments. To the contrary: people in the South know best what is required to improve their living conditions or their environment: we therefore always spend the time necessary in due diligence, understanding from the local population what they need, and formulate it with them in the most appropriate manner.

Not to forget; project management is crucial for success. This is where our experience can add significant value, and we don't hesitate to be involved and provide whatever aspect of our experience that is felt to be relevant to optimize execution. However we have to be honest, there are many things we don't know and we are learning constantly.

I want to emphasize one important aspect; we spread the word around



Sealing the cooperation: planting the first tree



Women involvement is at the heart of the project

us, also to our friends and families, and my 16 year-old daughter is now taking part in the project. She came with me to Senegal last spring, and she is working with the students of the local high school trying to educate their parents on how to change their behavior on waste disposal.

How did your cooperation with SOS Sahel International start?

Hugo Mahieu: Word of mouth has played a key role. We learned about each other through the SOS Sahel Luxembourg president, with whom I had worked many years ago. We quickly learned to understand each other as we are sharing similar values, and the projects SOS Sahel was promoting were very much in the Mangrove Foundation's sweet spot. The selection was made on the ground. West Africa was easier as travelling there was not complicated. We have visited four projects, initially scouted by the SOS Sahel Senegal team on four different sites. We evaluated each of them based on our criteria, with

emphasis on the demand expressed by the people and their motivation. The decisive element when going into this first project together was the fantastic enthusiasm shown by the population during our discussions when we visited them.

What are the objectives of the project in Senegal?

Agnès Sabattini: It is an interesting combination of many factors. The key objective is reforestation and stopping the desert progression in the chosen area. We will plant hectares of trees of varied species being selected to maximize diversity. But planting is only one aspect; it was also seen as necessary to reduce wood consumption to ensure durability of the project. To that end, we are promoting the use of clay ovens, replacing the traditional 3-stone fires used by the local population. This reduces firewood consumption by as much as 75%. Besides, this will free time for the women, whose task is traditionally to fetch wood, to focus on other activities and look after their families.

Last but not least, we are also introducing revenue-generating activities managed by the women. By taking advantage of the irrigation works, the idea is to grow vegetables and fruits, to be sold on the local markets. The benefit from these activities will not only be reinvested in the reforestation project to make it sustainable, they will also guarantee additional revenues for the population involved, thus increasing motivation. We are also determining with them what portion of these revenues can be invested into better infrastructure for the whole village: an infirmary, mills, and other such things that essentially ease the life of the women. This all will improve the population's living conditions, and foster the endorsement of the project by those living in the area. To us, this is an essential element for a long-standing success.

What did you learn from each other? How has this influenced your work?

Hugo Mahieu: We at Mangrove are business people used to dealing with business people talking our business language in order to align on the business objectives we agree to reach. In philanthropy, the mentality is different, the timing is different, the people are confronted with issues that are not driven by business and of which we at Mangrove too often had very little knowledge and experience. Cultural background is not the same of course as we act on different continents. Taking distance from the environment in which we have lived for so many years hasn't happened over night and we have had to significantly change our way of thinking. Most importantly we have learned to take the time for all those aspects, SOS Sahel with its many years of experience has been instrumental when it comes to learning how to adapt and behave.

www.mangrovefoundation.com

What is your firm's view on the opportunities in philanthropy services?

Yves Francis
Managing Partner-CEO, Deloitte Luxembourg



On one side, one in five wealthy individuals around the world is actively involved in philanthropy whilst many more would like to get involved but are not sure how. On the other side, in a world where government resources are insufficient to address the world's social problems, impact investing offers a new alternative for channeling large-scale private capital towards social benefit. "Giving back" is as important as wealth preservation and value generation. It is essential for Luxembourg's wealth management industry to leverage this trend. At Deloitte, we take initiatives to foster and support philanthropic activities in Luxembourg. In that regard, we firmly believe the Fondation de Luxembourg is a great step and that more should be done to become a worldwide philanthropic centre.

Alain Kinsch
Country Managing Partner, Ernst & Young



Philanthropy services play an important role for the Luxembourg's wealth management industry. Tailored vehicles, an efficient financial infrastructure and legal toolbox as well as experienced wealth managers have been key success factors to this development. Going forward, it will become increasingly important to embrace the growing convergence between financial products and social investment opportunities. In this context, Impact Investing, describing investments in the pursuit of both financial return and social impact, will play an increasing role also for philanthropy-minded clients. Luxembourg has recognized this trend and works on several initiatives to continue helping its clients navigate the philanthropic / Impact Investing landscape.

Karin Riehl
Managing Partner, KPMG



Since the set up of the KPMG Luxembourg Foundation in 2009, very close to the time when the Fondation de Luxembourg was also established, we have seen great work done by a number of market actors promoting Luxembourg as a centre for philanthropy. And despite recent financial market turmoil, we continue to see growing interest in Luxembourg as a centre for Philanthropy, be it to set up a foundation or as a fund centre for socially responsible investment funds, impact finance funds or similar products. The recent renewed EU strategy for Corporate Social Responsibility, Social Business Initiative and Social Investment Funds consultation demonstrate what is to come and throughout the Luxembourg market we should all continue to promote Luxembourg as a centre for philanthropy and social investment.

Didier Mouget
Managing Partner, PwC Luxembourg



With the unlimited societal needs, philanthropists will play an increasing role to complement public engagement. The good news is that a new generation of successful entrepreneurs as well as companies will show the way in Europe by setting up cross border foundations to engage with local, European and international projects. It means that donors are now looking for the most attractive specific philanthropic framework to set up a foundation or similar vehicles to support projects in multiple countries. Taxation and legal predictability, governance, commitment planning, flexibility, professionalism, time to market are key selection criteria. Luxembourg is taking the opportunity to become the location of choice and offer the full range of wealth management services.