

Philanthropy Letter



FONDATION
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‘What we have done for ourselves alone dies with us; what we have done for others and the world remains and is immortal.’ Albert Pike

Although a tragic event, the decease or long-term illness of a loved one, can in a later stage be a source of inspiration for philanthropic actions. Shanti George, Chairman of the Maor Ben Zion Foundation explains in this edition of the Philanthropy Letter how the decease of a beloved parent inspired the family to engage in a project contributing to positive social changes in the former hometown of the father of the founder. Furthermore, Shanti George opens a discussion of various choices in philanthropic giving.

Several countries within EU promote philanthropy by providing fiscal incentives. Thanks to European legislation together with the extension of the Transnational Giving Network, it is now also possible for donors to support charities based in other countries, while still benefitting from the fiscal advantages granted in the country of residence of the donor. Ludwig Forrest, Coordinator of Transnational Giving Europe talks about cross-border giving.

In this edition of the Philanthropy Letter we further elaborate on how philanthropy is evolving by looking at complementary ways of engaging for the general good. Uli Grabenwarter, Head of Development for Impact Investing and Social Investing at the EIF shares his vision about impact investing with us. This new approach to investing gains in popularity amongst investors who want to make sure their funds have a social impact, while at the same time maintaining the financial value for the investors.

We are pleased to present the summer edition of the Philanthropy Letter and hope that you will enjoy your reading.

Tonika Hirdman
Director General



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The road to a European Single Market for cross-border giving



Ludwig Forrest

Coordinator,
Transnational Giving Europe,
Philanthropy Advisor,
King Baudouin Foundation

The value to society of charitable giving and philanthropy is recognised and growing in Europe, and is even becoming more and more important in current troubled times. Many Member States promote such giving by providing fiscal incentives. Until recently, such benefits have stopped at national borders, but European and national fiscal and legal initiatives, in conjunction with the impressive extension of the Transnational Giving Europe network (TGE), have seriously improved this situation.

People are moving, living, working, marrying or retiring in/to other countries inside the EU, and causes of interest to donors are not contained within national borders. European donors do not want to be hampered any longer

by legal or fiscal hurdles when they want to create a new philanthropic structure or simply support a foreign organisation and enjoy tax benefits from this. We will focus on the latest.

Individual complaints at EU level, the famous European Court cases ‘Stauffer’, ‘Persche’ and ‘Missionswerk’ and important and relevant European Commission infringement procedures (by DG taxation and Custom Union) requesting Member States to modify their treatment of taxpayers making donations to foreign-based public benefit organisations are creating slowly but surely an enabling environment for cross-border philanthropy.

Several countries in Europe have now extended tax incentives to cross-border giving or are in the process of doing so. Basically, we currently have two kinds of transpositions of the Persche ruling in the national laws: Registration/agreement versus burden of proof on the donor.

In The Netherlands, Austria, Denmark and Italy for example, domestic donors (individual or corporate) can receive a tax benefit when donating to a foreign public benefit organisation only if that organisation has undergone local registration procedures and has been qualified as a charitable institution by the competent authority.

Other countries, like Luxembourg, also transposed the conclusions of the Persche case and chose to put the burden of proof on the donor. Donors have to prove that the foreign organisation pursues activities deemed to be of public interest according to national standards. They have to include (or at least be able to produce upon request) this information in their tax declaration, and fiscal authorities can either question the donor or the foreign beneficiary in case of doubt.

This is by far of course the better of the two systems as it is more flexible and less constraining for the donor and the foreign beneficiary. Furthermore, the registration procedure is considered as being unnecessarily restrictive by the Commission.

We could add that some countries like France did introduce a softer solution as they do not require registration, but propose a special agreement to avoid any unpleasant surprises for the donor when giving abroad. The question of how easy and simple it is to obtain this agreement will show if this proposition will satisfy the Commission and become an acceptable alternative to registration.

Meanwhile, while welcoming and supporting this momentum and the progress that has already been made



regarding changes to the national laws of Member States, the Transnational Giving Europe (TGE) network will continue to seek new partners to increase tax-effective giving in all Member States of the EU until all legal and practical barriers to cross-border giving within the EU are removed.

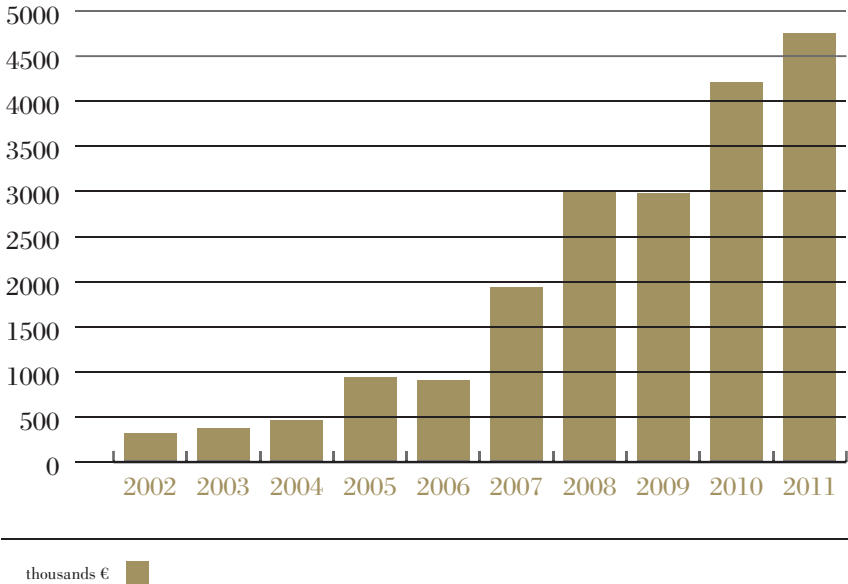
The TGE network is a partnership between the Charities Aid Foundation, the King Baudouin Foundation, the Fondation de France, the Oranje Fonds, Maecenata International, the Foundation for Poland, the Carpathian Foundation Hungary, the Carpathian Foundation Slovakia, the Bulgarian Charities Aid Foundation, the Swiss Philanthropy Foundation, the Community Foundation for Ireland, the Associazione Vita Giving Europe Onlus, SKUP, the Odorheiu Secuiesc Community Foundation and the Fondation de Luxembourg, and currently covers 15 countries. It enables donors, both corporations and individuals, resident in one of the participating countries, to financially support non-profit organisations in other Member States, while benefiting directly from the tax advantages provided for in the legislation of their own country of residence. For organisations in Luxembourg for example, TGE could allow them to receive tax deductible donations from the 14 other European countries with tax benefits. It is as simple as that.

As long as the TGE network will provide this flexible, serious and quick alternative, it will continue to serve European donors and beneficiaries. And once all countries will have ruled in the same way as Luxembourg, the network will no longer be relevant, and will be able to withdraw. But this is probably not for tomorrow.

What is at stake here is to enable donors to make donations within the EU to the organisations of their choice, without being blocked or discriminated against by tax issues. The recent evolutions provide us some optimism for that.

TGE Facts

- 15 countries covered by the network
- 4.850.000 € channelled through the network in 2011
- More than 300 beneficiaries are using TGE
- 4000 donors per year are using TGE
- One website: transnationalgiving.eu



Social Impact Investing – The miracle cure?



Uli Grabenwarter, has rejoined European Investment Fund (EIF) in March 2012 as Head of Development for Impact Investing and Social Investing, managing the build-up of a new business line for EIF. Prior to that he conducted a 20 months research program on impact investing in collaboration with IESE University of Navarra in Barcelona. Uli has co-authored several books and numerous articles on the topic of Impact Investing.

Reading the newspapers in today's environment isn't the most inspiring occupation one may have. There are endless chains of apocalyptic news on states at the edge of bankruptcy, and social unrest is building up across the continent because of our economies in distress.

Amidst this little glamorous news, impact investing is frequently cited as the universal remedy to any economic, environmental and demographic challenges our society may face. Looking at the expectations formulated for impact investing it is hard not to feel uneasy. We have seen this phenomenon too many times before: in the light of saturation of financial markets in traditional segments, suddenly a new investment theme emerges as the cure

to a systemic failure in value creation. Internet was such a theme and ended in a crash landing, biotech platform technologies equally boomed and fell short of expectations, the buy-out segment is still in the hangover phase after the collapse of the credit markets and the cleantech segment is about to run out of steam as it fails to demonstrate different risk/return dynamics to what made the European venture capital model struggle.

So, is impact investing going to be the next bubble? It certainly seems that it has all the ingredients to become a trendy fashion for a few years and to disappear thereafter, as if it had never existed.

But this time, there is more at stake than just the emergence or the failure of a new market segment. Looking at the polarisation between social impact and financial return that has historically governed the relationship between for-financial-profit investors and philanthropists in pursuit of a brighter future for our society, something must have fundamentally changed to put impact investing in such spotlight in the financial media.

Maybe it is the slow down that we are no longer borrowing wealth, quality of life, living standards from three generations away in the future. The repayment of the debt that has created the disequilibrium in our economic system in financial, social and environmental terms has become due for repayment within our own lifetime, not the lifetime of our grandchildren or beyond.

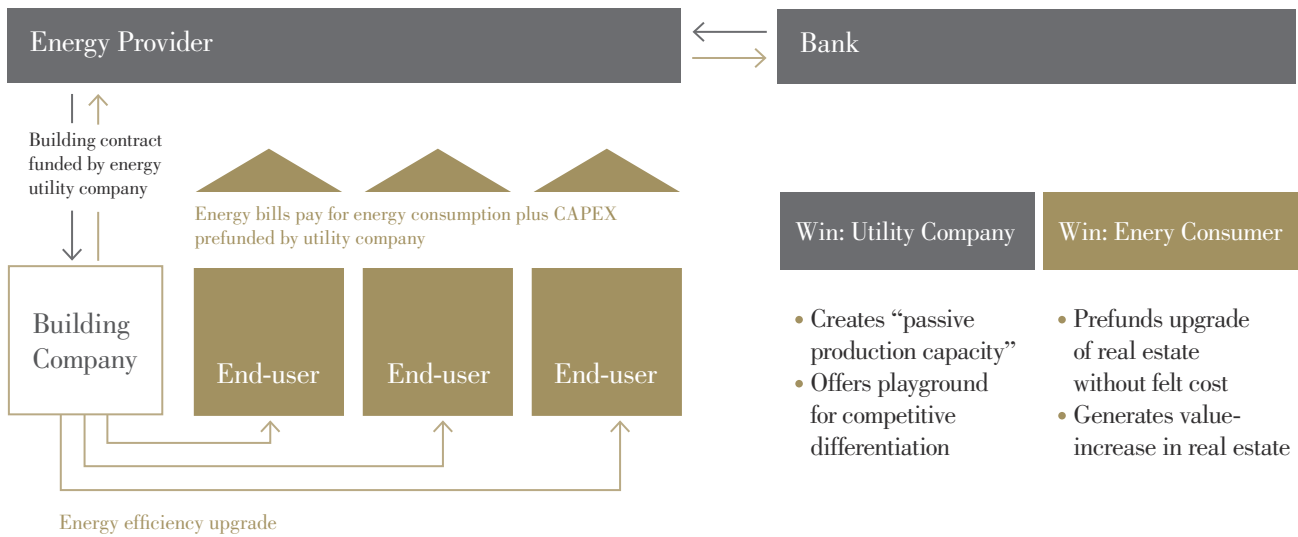
This is also the reason why we need to be more creative this time than just patiently waiting until the dust settles and the storm is over. We have little

time to reverse this trend and in doing so, financial markets paradoxically need to rely on a constituency of stakeholders that traditionally seems having put social impact considerations above financial return.

We will have to get used to the fact that going forward we will invest more money in preserving our wealth than we are going to invest in new wealth creation. We can see this as a gloomy outlook or as an opportunity. The pessimistic view would focus on the fact that none of our traditional investment approaches appears to deliver meaningful financial returns anymore, and accept the erosion of our wealth creation by the effect of inflation.

The optimistic side of the coin would see the wealth of opportunities in a new market reality. Rather than seeing the limitation for growth in the finite nature of certain resources we ought to find business models that "sell" to their customers services, products and concepts that make them spend less on a company's product. Take the example of energy efficiency: Suppliers are facing capacity constraints, building new capacity is capital intensive with increasingly long lead times, consumers face an increasing cost of living from their energy consumption. Why can energy companies not offer to their customers concepts that upgrade their consumers' private energy efficiency, and in doing so joining the efforts of curbing the exponential growth of the need for new energy resources. Such concepts could be prefunded by the energy supplier and repaid by the consumers through their energy bill, resulting in a classical win-win situation.

This is just one example for how reversing our rigid thinking on how economic models ought to function can create new opportunities.



Source: Uli Grabenwarter (2012), "Thinking business backwards – and survive"

Such creativity can be applied to almost any sector that traditionally has been taken care of by the public sector. Certainly, there are many sectors and areas where market-based models will not work because of the absence of any purchase power by any stakeholder on which a sustainable business model could be built. These sectors will remain reserved for the philanthropic funding models. However, philanthropists, social entrepreneurs, governments, policy makers and financial investors alike should have an interest in building bridges between purely financial-return-driven investments and purely social-impact-motivated funding models:

- we by now know for certain that philanthropic resources will not be sufficient to address the multitude of social and environmental challenges our society is facing today;
- for social entrepreneurs, mainstream funding would give them the choice (not the obligation) of bringing the brilliance of their social innovation to scale;

- for governments and policy makers, privately delivered public services reduce the strain on public resources and change the financial market logic towards social responsibility;
- and finally, financial investors could find in impact investing a means to create true value as opposed to unsustainable financial return.

These reflections do not put in doubt the need for philanthropic funding. There will always be areas where only philanthropy can provide solutions. Market-based models can only work where there is purchase power. However, we need to be more efficient in allocating our capital: preserve philanthropic funds for where they are needed and involve investment approaches where they can work. We need to draw on all resources we can get to solve the social issues we face.

What it takes to get there? A pinch of courage. We have spent enough time on blaming financial markets for not giving a toss about the impact they have on society. As much as this be-

haviour is deplorable, as stakeholders we all share the responsibility for it. No member state of the EU to date has created a credible regulatory framework that allows businesses to pursue true social impact in a non-discriminated way. Instead, we firmly maintain in our thinking that true social impact can only be created by non-for-profit businesses. How split-minded is such mind-set in criticising financial markets for mono-dimensionally focusing on financial return only.

We call financial markets to be socially innovative. This call will remain unheard if made by a community that procrastinates in the obsolete trade-off thinking between financial return and social impact. In fact, in debating for-profit social businesses we are not trading social impact for financial return – but, without noticing, we may well be trading the sustainability of our society for the cosiness to remain in our comfort zone of known patterns of thinking – some of them having severely been proven wrong by reality.

From personal commemoration to supporting children's development: the Maor Ben Zion Foundation



Shanti Georges

Independent researcher and advisor on children's issues. Previously, she worked for six years as programme specialist at the Bernard van Leer Foundation, specializing on children's issues in West Asia, North Africa and Europe. Shanti Georges holds a M.Phil in social anthropology from the University of Delhi. shanti.research@gmail.com

Philanthropic foundations are quite often established to commemorate a parent or other family member. Some of the choices made by the Maor Ben Zion Foundation – one of the foundations under the umbrella of Fondation de Luxembourg – may be of interest to readers who are thinking of establishing a philanthropic legacy in memory of a departed member of their family.

Named after a resident in the city of Petach-Tikva in Israel who was committed to civic causes, this Foundation represents an effort by

his family to contribute to positive social change in his name.

One choice concerns the field in which a contribution should be made. Favoured projects within philanthropy range from medical research to environmental causes to historical buildings. In this case, the Maor Ben Zion Foundation chose to invest in education. The Foundation's objective is to improve social cohesion between ethnic communities in Israel and the region. Education, the Foundation believes, improves communication and understanding between diverse groups in a plural society.

Many organizations would have set up a private educational institution named after the person being commemorated. Instead, the Maor Ben Zion Foundation chose to strengthen educational activities being carried out by the Municipality of the city where a beloved parent had lived all his life.

Also, instead of suggesting a project to the Municipality (or worse, imposing a project), the Foundation asked the Municipality to identify an educational programme that would foster social change in the city. Civic activities and organizations were thereby strengthened through consultation and discussion with local authorities, and a bridge was built between private sector, philanthropy and local government.

The Municipality of Petach-Tikva asked for continuing support for an

unusual programme for children that had been conducted for many years in two disadvantaged neighbourhoods within the city.

The programme is unconventional in trying to keep as many children as possible within regular education, rather than sending all children who manifest learning difficulties to special education. While special education is a necessity for many children, its numbers should not be swelled unduly by children who could stay in regular schools if timely intervention is provided – and the programme being described usually succeeds in doing this.

Many children display various problems early on in the kindergarten environment, for example in eye hand coordination, or with their balance, or in regulating their senses and their activity, or in feeling unease in their peers' company. Such problems can be addressed at this early stage and a child can then move on to follow a successful school career. Unfortunately, if such intervention does not take place, a minor learning or social difficulty grows until it manifests as a disability labeled 'dyslexia' or 'hyperactivity' or 'behaviour problem', with extremely distressing consequences for the children concerned, their families and the school environment.

The 'Neuro-Developmental Functional Approach', developed by Dr. Rami Katz of the organization Learning Competence – the Centre for Advancement of Functional Capacities, translates into simple and enjoyable activities for children in kindergarten and school environments. As children play, they

develop skills that will stand them in good stead in school and in later life (although the children are not aware that this is 'skill development,' because they are having fun). A visitor to a classroom where the 'Neuro-Developmental Functional Approach' is at work sees children quietly engrossed in a range of activities, playing individually or in pairs or in small groups. Teachers and teaching assistants have been trained to watch children playing and to spot the beginnings of developmental difficulties even where these difficulties are almost imperceptible to untrained eyes. The child concerned is then helped to address the difficulty, also through play.

For example, a child may have a problem with eye hand coordination and may therefore find it difficult to write properly. Harsh exhortations, punishments, extra homework – all of these will only exacerbate the problem and create an overlay of learning and behavioural disabilities as the child becomes resentful and unruly. Instead, through guided and enjoyable play, eye movements can be gradually strengthened, muscle tone regulated and the feedback from muscles and joints improved, so that the writing strokes also improve and the child moves along an upward spiral of achievement, reinforced by gentle support at home where the parents have been advised of the problem and reassured that it can be addressed. Such coordination between school and home can preempt situations of family conflict, where parents are anxious about their child's learning difficulties, yet do not understand the problem, and may blame the child or each other for the situation at school.

Support to all children's learning and social needs within the kindergarten environment is a key feature of the programme. Children are not made to feel different and self-conscious by being pulled out of the kindergarten to visit a therapist, and care is taken not to label or stigmatize particular children.



Only the relatively few children whose special needs cannot be attended to within the programme are referred to outside specialists.

Because of the structural disadvantage that shapes their circumstances, children from low income homes or immigrant families (or both) are more likely to manifest learning difficulties and be assigned to special education. At one time it was calculated that while 10 per cent of children in Israel were in special education, this figure rose to 33 per cent in disadvantaged minority groups. Also, affluent parents can pay for professional attention for a child who is labeled 'dyslexic' or 'hyperactive' (although there is no guarantee that such professional attention will help), whereas low income families cannot afford this. It is for this reason that the Maor Ben Zion Foundation supports the Municipality of Petach-Tikva in extending the programme just described to schools in low income neighbourhoods. All kindergartens and schools can benefit from such a programme regardless of the socio-economic status of children and parents, but kindergartens and schools in disadvantaged neighbourhoods have a stronger claim.

One of the 18 kindergartens participating in the programme in Petach-Tikva has been ranked among the

ten best kindergartens in the country, and one of the teachers involved has received an award from the Ministry of Education. A child who had to leave a school outside the programme because of destructive hyperactive behaviour currently attends one of the kindergartens within the programme, and is now indistinguishable from the other children in quiet engrossed play. An independent professional agency conducts an on-going evaluation of the project in a manner that encourages learning by all stakeholders.

It can be only hoped that such support to young children's development will one day be found in all the world's cities, supported by local government and – where necessary – philanthropic organizations.



What is your experience from discussing philanthropy with your clients?

Danielle Goedert – Membre de la Direction,
Private Banking, Banque de Luxembourg



Banque de Luxembourg set up its philanthropy advisory service in 2006 in response to demand from its private banking clients. Since then, philanthropy advice has become an integral part of our private banking

offer and we consider this as a natural extension of our relationship with our clients, whom we aim to advise and support at every stage of their lives. The benefits are largely shared. Clients feel understood by a partner who has legitimacy and in-depth knowledge of their personal situation, can offer objective advice, and asks the right questions at the right time. Discussions about philanthropic projects provide a deeper understanding of the client. In some cases, the adviser becomes the client's confidant, which is extremely rewarding and motivating from a personal point of view. A relationship based on such a high level of trust is the best guarantee for long-term client loyalty.

Sylvain Wojdyla
Relationship Manager, BIL



I am convinced of the fact that today's clients are willing to commit themselves to philanthropy and are not anymore of the opinion that their only duty would be to pass on the entirety of their assets

to their heirs. From discussions I had about philanthropy, I experienced that the clients often find it difficult to conceive the impact of their donation and experience problems in finding genuine information on probable beneficiaries. Our country is short of assisting organizations and specific knowledge which could guide the clients. We are living in an environment where the exchange of ideas is still insufficient. Therefore we have to try harder and communicate more to the prospective intermediaries and the account managers to give them the necessary knowledge and skills to advise and assist the clients in a proficient and professional way.

Caroline Prüm – Senior Wealth Advisor,
Marché – Bénélux, Pictet & Cie



We believe it has a lot to do with discovering the client's real interests and passion. Consequently, accompanying the client in this endeavour enhances the quality of our exchange. It helps initiate or reinforce

a long-term relationship, based on mutual trust and respect. Through philanthropy, which can be either socially or artistically oriented, we understand what really matters to our client, what inspires him and, more importantly, the imprint he wants to leave on society. We share our client's motivation for philanthropy, whether it be the continuity of his passion after he has passed away or the creation of a cross-generation family project. This shared motivation is a strong testimony of our encouragement to fulfil his way of thinking and acting in this respect.

Louise McFall
Senior Client Advisor, UHNW, UBS Luxembourg



A positive one, I have to say. It is a fact that the demand for values-based investments is growing significantly. However, our clients want to see a return on their investments while ensuring that

their assets are invested in companies and projects that address social and environmental issues. Their ideas in terms of asset class, geography and sector engagement of course vary. In advising clients, we have noted that there is increasingly a shift away from the idea of maximising returns on investments and then giving money to charity, to embracing the idea of doing good while generating returns.

