

# **Developing philanthropy as a source of funding for research**

## **Main findings of an independent report**

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# The aim of the report

*“to identify and define possible measures and actions at national and European level to promote the role of foundations and the non-profit sector in boosting public and private investment in R&D”*

# The policy context

- The Lisbon agenda and the 3% R&D/GDP goal
- Until now, little attention paid to Foundations that fund research in boosting Europe's research effort
- Foundations represent an important source of funding for some research activities
- They could be an important element in the strategy to create a European Research Area.
- In addition, research Foundations have a qualitative impact on the direction and nature of research

# The potential of Foundations in promoting research

- Foundations can increase volume of research funds for fundamental research, and early-stage applied research which is not attracting industry funding
- They can help European integration through supporting cross-border research projects
- They can fund interdisciplinary projects; enhance researchers' mobility, exchange and collaboration.
- They can bring not only money (quantity) but also unique characteristics (quality) which contribute to the pluralism of R&D funding.

# Potential vs. reality

- Funds devoted by Foundations to research in Europe remain low, both relative to government and industry funding, as well as compared to US Foundations
- This is despite the existence of a few large research Foundations in Europe and some new national initiatives.
- Data on research Foundations is scarce; what data exists however suggests that the Foundation sector as a whole accounts for a very small share of the overall R&D effort in most EU countries

# The aim of our recommendations

- ***To increase giving to existing Foundations and lead to the creation of new Foundations:***

recommendations relating to the legal, fiscal and institutional environment, as well as to cultural and social factors which affect giving.

- ***To improve effectiveness of Foundation funding:*** addressing issues such as improved management of funds within Foundations, improved governance and transparency, strengthening of public-private partnership in R&D, pan-European collaborations.

# Actors involved and type of action

National governments	Fiscal policies, legal and regulatory framework, matching funds
EU institutions	Regulation on a European statute for foundations, EU programmes
Foundations	Governance and accountability, networking, international collaboration
Universities	Conditions for funding and undertaking research, partnerships
Business	Incentives to create public-private partnerships via foundations
Public	Charitable giving and science awareness

# 5 types of recommendations

- A. To improve visibility and information about foundations
- B. To create a more beneficial fiscal and regulatory environment
- C. To improve mechanisms for leveraging research funds
- D. To create more effective funding arrangements/mechanisms
- E. To induce a more conducive EU-wide environment

# A. Improve visibility and information about foundations

## The problem:

- A serious lack of awareness and understanding of the role played by research Foundations.
- This is compounded by a lack of comprehensive data concerning the Foundation sector across the EU.
- Closing this awareness and information gap is a prerequisite to other actions
- It would improve visibility of research Foundations and enable a better understanding of their contribution to R&D investment

# ***R#1. Improve information available on the role and importance of Foundations in different EU countries and the EU***

- Support the development of a mapping of research Foundations to document overall financial contribution
- Also to identify and review best practice examples and facilitate cross-fertilisation and exchange of experience.

## **R#2. *Encourage the creation of a “European Forum of Research Foundations”***

- A permanent mechanism to share experience, review best practices, and promote cooperation
- Under the auspices of the European Foundation Centre

### ***R#3. Encourage giving to research through national and international donation campaigns***

- Develop imaginative campaigns focusing on the importance of science and research.
- Review possibilities to step up the distribution of lottery proceeds to public benefit research.
- Consider setting up a European level charitable lottery in which proceeds go to fund research from a fund endowed by the lottery

# B. Create a more beneficial environment for Foundations

## The problem:

- Most EU MS have fiscal arrangements intended to facilitate giving or create favourable tax environments for Foundations
- But: scope for improvement on a number of fronts:
  - the generosity of tax treatment of donations,
  - the clarity of existing rules for Foundations,
  - linking tax status with funding obligations.
- There is similarly scope for improving the legal and regulatory environment for Foundations

## ***R#4. Ensure that donations by individuals and corporations benefit from more generous tax credits or deductions***

- Governments should envisage increasing current limits on tax credits or deductions.
- Donation schemes should be tax-effective and user-friendly to enable both large and smaller donations.
- Tax systems should encourage various types of donations to Foundations including cash, in-kind donations, real estate, shares, works of art, IPRs...
- Governments should eliminate gift and inheritance tax on donations to Foundations.

## ***R#5. Review tax treatment of Foundations' activities to make tax benefit schemes broader, clearer, more user-friendly***

- All foundations should be entitled to be relieved of various taxes, with clearly defined user-friendly rules.
- There should be a common EU definition of public benefit purpose, mutual recognition of “public benefit” organisations, to facilitate cross-border activities.
- VAT rules should take into account the public benefit nature of Foundations and their activities

## ***R#6. Appraise Foundation status and tax exemption of Foundations according to public benefit action***

- Foundations should spend a reasonable proportion of their income for the pursuit of public benefit purposes, while being able to preserve their endowments necessary for long-term action.
- Disbursement policies (“pay-out practices”) and other similar methods adapted to different national conditions should be encouraged.

## ***R#7. Simplify and improve the legal and regulatory environment for Foundations***

- Review, simplify, lighten legal/regulatory environments to make it easier to create new Foundations.
- Ensure the independence of regulatory bodies for Foundations; in general clarify regulatory oversight shifting the emphasis from ex-ante to ex-post.
- Review existing legal/ regulatory arrangements to ensure there are no obstacles to cooperation or to facilitate the merger of Foundations

# C. Improve mechanisms for leveraging funds for research

## The problem:

- To increase investments in research undertaken by Foundations we need to leverage more funds from:
  - the public,
  - from national governments
  - the EU,
  - and from the business community

## ***R#8. Introduce a system of “matching funds” for Foundation-supported research projects at national and EU level***

- At national level, create a new model for project financing of research whereby private donations trigger matching donations from the government
- At EU level, establish a conditional matching grant system for projects funded by Foundations to benefit from EC matching funds

## ***R#9. Foster the development of new research Foundations by encouraging “philanthropic venture capital”***

- Use public resources (money from privatization or natural resources) to create a new breed of Foundations (Social Venture Foundations).
- At EU level use public resources to create a new breed of Foundations in line with goals under FP7, by supporting the development of regional “research-driven clusters” associating universities, research centres, enterprises and regional authorities

**R#10. *Encourage the creation of “sector-  
or issue-specific” Foundations by the  
corporate sector***

- Governments should encourage the creation of “sectoral” or umbrella Foundations endowed with funds from industry to overcome fragmentation

# **D. Promote more effective funding arrangements and mechanisms**

## **The problem:**

- Weaknesses in research funding arrangements and mechanisms which result in the potential of Foundation investment in research not fully realized.
- These relate to governance issues in Foundations and universities, to limited cooperation amongst Foundations, as well as between Foundations, government and other actors in the research system.

# ***R#11. Promote good governance, transparency and accountability practices of Foundations***

- Review board overseeing operations (turnover, selection, periodic review, etc.)
- Use transparent rules such as clear information on funding restrictions, arms-length processes for calls for projects, selection with expert committees.
- Adopt professional asset management, disclosure, peer-review and self-regulation mechanisms and standards.
- Adopt a “label system” so donors are assured that money donated is applied to a public benefit purpose

## ***R#12. Improve networking and cooperation between Foundations***

- Improve networking and cooperation between Foundations at national and European level.
- While each Foundation should keep its own identity, smaller Foundations could create a network or be supported by an “umbrella” Foundation, for improved asset management and a better return on investment

## **R#13. *Explore possibilities for the creation of university Foundations***

- Encourage universities to create their own Foundations to generate funds for research, attract resources from alumni or from their local environment.
- Creation of “personal Foundations” another promising avenue for attracting research funds in universities
- Explore the desirability and changes required to the legal and regulatory framework for universities to be able to operate as independent Foundations.

***R#14. Universities and research institutes need to become more proactive in order to attract additional funds for research***

- Development offices in universities should select high-potential research projects and “sell” them (to Foundations, alumni and others about financing).
- An increase on the emphasis of good governance and transparency of universities would encourage increased giving to research, as would a more personal treatment of alumni and donors

## ***R#15. Increase collaboration between Foundations, governments and EU institutions***

- Clarify respective roles and responsibilities and set them out in a charter establishing that Foundations focus on "complementary" activities and do not engage in substitutional funding.
- Governments should acknowledge their responsibility to maintain the strength and stability of the basic research infrastructure

# **E. Foster a more conducive EU-wide environment for Foundations**

## **The problem:**

- Foundations mostly operate at a local, regional or national level.
- Increasing the contribution of Foundations to European research requires the removal of specific obstacles which currently impede cross-national activities of foundations.

## ***R#16. Create a more conducive EU-wide regulatory and fiscal environment for the operation of Foundations***

- The European Commission should consider preparing a regulation to create a new legal vehicle which could be used by Foundations in the EU -- a ***European Foundation Statute***, for adoption by the Council and the European Parliament.
- This should follow a study to assess the feasibility of such an EF statute

# **R#17. Improve conditions for cross-border giving and Foundation activities extending beyond national borders**

- Activities and assets of foreign Foundations taxed in the same way as activities of national Foundations.
- Individual/ corporate donors should receive same gift/ inheritance taxes and income tax deductibility whether donation is granted to a resident or foreign Foundation
- Grants or other benefits received by individuals from a foreign Foundation established in any MS should be treated as if given by a resident Foundation

# Next steps

- A clear political commitment is necessary
- The establishment of a European Forum of Research Foundations by 2007
- By 2010 the main recommendations should have been implemented
- A midterm review in 2008 is recommended

# In conclusion ...

- Increasing research efforts in Europe is a high priority
- Foundations are playing an increasing role in European society
- Research foundations currently contribute little to overall research efforts
- There is an important latent potential which needs to be tapped
- This requires action on a number of fronts...
- ...involving all actors: governments, industry, universities, foundations themselves, the public

**Thank you!**