Europe’s Diverse Philanthropic Sector Is Confronting Seven Interlinked Challenges

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Author: Gerry Salole

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This article is the third in a series about European philanthropy*. The series is published as a collaboration between* The Philanthropist *and The Lawson Foundation.*

The European Foundation Centre (EFC) was formally established on the same day the Berlin Wall fell: November 9, 1989. As such, it has always been axiomatic in telling our history that the establishment of the EFC was part of the zeitgeist of the times. This period ushered in an unprecedented growth in European philanthropy due to a combination of three discrete trends: the re-emergence of existing institutions, the emulation of particularly muscular philanthropy in the United States[1], and – most importantly – an organic, homegrown, and diffuse response to new challenges and conditions that Europeans have primarily pioneered.

What does the EFC do? We engage in advocacy. We make the case for institutional philanthropy. We undertake research, deepening our understanding of the evolution of tools for effective philanthropy. We are particularly attentive to the legislative and fiscal regulation of the myriad forms of philanthropic institutions in Europe. We help ensure that members raise their game via peer learning and sector exchanges in diverse formats. We convene meetings and debates and host an annual conference as well as support several thematic networks and affinity groups. With 28 years of experience and an in-depth knowledge of our membership – which includes some of the world’s oldest and largest philanthropic actors internationally – we have developed a more generalized lens on the philanthropic ecosystem in the countries in which they operate.

It is a truism that European institutional philanthropy[2] can be encapsulated in one word: diversity. A vast assortment of idiosyncratic characteristics exist in terms of origin, focus, size, decision-making, funding mechanisms, aptitude for change, appetite for collaboration, and especially specificity in governance and in the varied relationships that prevail over investments, assets, and the philanthropic parts of the enterprise. Trying to typify or categorize institutional philanthropy is an exercise in futility. Since the adoption of our current six-year strategic framework in May 2016, the EFC has been developing the Institutional Philanthropy Spectrum, which gives a three-dimensional description of all the variables that constitute institutional philanthropy. This "in-depth" foray into the specificity of the characteristics and trends has also forced us to be stricter about stereotyping and has led to a need to be mindful of seven challenges that seem to be currently preoccupying those who work in institutional philanthropy in Europe – what I'll call the "not so Magnificent Seven." Despite its diversity, institutional philanthropy shares an array of complex, wicked, and interlinked problems. Successfully tackling these requires adroitness, flexibility, and familiarity with constant change.

The "not so Magnificent Seven"

1. ***(Too) Great Expectations***

Possibly the most important conundrum facing institutional philanthropy is a political and economic context in which governments, the media, and the general public seem to have unrealistic expectations of what it is that such institutions can do. Reasons for this are manifold and include the fact that there continues to be much vagueness about scale, agency, and specialization – which seems to be combined with a great deal of wishful thinking. There is a recurrent expectation that pillars of European institutional philanthropy,[3] especially after the economic crisis of past years, can somehow substitute dwindling or withdrawn state funds. Too often EFC members need to patiently explain to various parties that they are not ATM machines, but rather have their own expertise, agency, and aspirations of what they want to achieve.

The most obvious difficulty with these improbable expectations is the vast difference in scale of funding available to authorities as compared with philanthropic resources. Philanthropic institutions, even the very largest, possess modest resources in comparison to state players, and so they are adamant: substitution is simply not a viable option. On the other hand, those engaged in institutional philanthropy are fully cognizant that they do have a responsibility to play a temporary role in tiding over organizations or projects that have lost government funding. Across the European landscape, stakeholders have developed many different responses to this dilemma; most involve more co-creation with authorities. A good example is the Fondazione con il Sud's *Con I Bambini* project, which created a social enterprise to combat educational child poverty in conjunction with the Italian government. There are many similar case studies in our *Regional Foundations on the Map* publication.

Europe has, for example, developed a plethora of institutional philanthropic forms – from Norway to Italy – that have a regional or municipal remit. There are many examples where regional and municipal authorities and the philanthropic institutions that operate alongside them have joint responsibility over the same population. Much time and energy is invested (and yet saved) in ensuring that all parties understand their limitations and strengths. This increasing trend in co-creating activities and projects has been dramatically changing the landscape of philanthropy in Europe over the last 10 years or so.

2. ***Don't believe the hype***

Another familiar challenge, closely connected with the previous issue of unrealistic expectations, is the plague of jargon and buzzwords that afflicts institutional philanthropy. The philanthropic space is now a veritable hothouse of terminology linked to the ubiquitous notion of "innovation" – accompanied by energy and optimism. Every season brings a trendy new form of philanthropy: "sustainable," "intelligent," and "engaged" are recent strains of this epidemic. And to think of all those years wasted extolling the virtues of "unintelligent" philanthropy! The rhetoric that new forms of philanthropy will deliver solutions that "traditional" philanthropy cannot is problematic.

Those involved in European institutional philanthropy are obliged to recalibrate or rename processes; invent or adopt new tools; modify their work processes; and use their intellectual, social, and financial capital by describing them in new ways at a time when, in fact, there is much to be said for consolidating and explaining the processes that already exist and the work that is already being done.

Nonetheless, there have been advances in recent years. As the industry gains a better sense of its own depth, length, and span, it is ensuring that the existing philanthropic infrastructure builds together. One example of this, still nascent, is the existence of Philanthropy House, with the EFC, European Venture Philanthropy Association, Network of European Foundations, and other philanthropic infrastructure cohabiting and working in the same building. The aim is that these different components will be obliged to work within sight of one another to further understand and support the sector in a collaborative way. This is happening quite rapidly, and we can expect further promising developments soon.

3. *Shrinking space – the final frontier*

The adage "be careful what you wish for" applies with some irony to the third interconnected challenge. The EFC and others have argued loudly that it was increasingly clear that the institutional philanthropy sector in particular, and the non-profit industry in general, remain a neglected periphery on the sidelines of the standardization of European laws. Whereas sanctity of freedom of movement of money, personnel, and goods has been the priority of the regulatory system in Europe, legislators have completely overlooked and undervalued the freedom of philanthropy. Efforts to ensure that European lawmakers do justice to the non-profit sector are still needed and we continue to insist that philanthropic endeavours should not be neglected as the EU standardizes the way in which organizations from one country are treated in another.

Philanthropy remains largely outside the European treaties. Better recognition in the treaties and in the European Charter of Fundamental Rights is needed. Barriers to cross-border philanthropy are a challenge, with some European countries introducing or considering punitive foreign funding rules which will make any foundation receiving money from abroad a "foreign agent." The freedom of capital movement clearly prohibits foreign funding restrictions and discriminatory tax regimes. National laws must be in line with European fundamental rights and EU freedoms. While the philanthropic sector uses existing protection mechanisms (e.g. via infringement procedures) it may be necessary to examine if these are sufficient.

However, current concerns about terrorism, money laundering, and tax evasion have led to a sudden escalation of regulation, and therefore philanthropy in Europe is having to grapple with a deliberate and coordinated attempt to shrink its "wriggle room." Just as the sector has been expected to respond to the withdrawal of the welfare state, which necessitates prowess in reacting fast to shifting conditions, it has also become more of a target for increased regulation and oversight. Thus, institutional philanthropy has been confronted with shrinking space for manoeuvring at precisely the time when demand for its traditional flexibility is peaking. Clearly institutional philanthropy must learn to engage with legislators and regulators in new ways. EU and national efforts to counter terrorism financing, money laundering and tax evasion, which are intended to protect the sector, must be risk- and evidence-based and proportionate. In addition, the sector and policymakers should work jointly to assess and address risks while also looking at soft law measures.

The sector has a nuanced understanding of the different ways in which regulation impacts this crucial wriggle room. The General Data Protection Regulation (GDPR), Financial Action Task Force (FATF), Anti-Money Laundering Directive revisions and implementations, tracking of illicit funds, and need to simultaneously limit data to a minimum yet know everything about a grantee are bewildering and explicit challenges being laid at foundations' doors.

4. ***Blurred lines***

The peculiar relationship between European philanthropy and the European welfare state has not received enough specific attention in philanthropic literature. I alluded above to the fact that the emergence of homegrown European philanthropic institutions is one of three elements that have led to the growth of philanthropy in Europe. The fact that governments making specific assets available have created (in some cases) or permitted (in others) foundations has meant that, in practice, there has been a great deal of government involvement in foundations. This is something that China is emulating today, yet it results in a very different picture than that in the United States. Europe also has many foundations that are essentially the owners of multinational companies. The Robert Bosch Foundation in Germany, for example, holds 92% of Robert Bosch GmbH's capital stock of 1.2 billion euro, and its assets are worth around 7 billion euro.

Closely connected to this issue is the fact that because Europe has evolved many forms of "foundation" that are *sui generis* and homegrown, these forms are deeply anchored in a specific context, and political and economic tradition, and are therefore not easily replicable. In recent years this has meant that one and the same institution can, at one and the same time, be a private endowed foundation, a community foundation, a dispenser of government funds, a fundraising entity, a think tank, a constituency builder, an integral part of traditional philanthropy, and an innovative entrepreneurial hustling organization that is looking for new ways of consolidating funding. Hybrid foundations like this exist in many places and play an important role in expanding the parameters of what institutional philanthropy is able to do in Europe. Good examples of innovative structures and ways of working include King Baudouin Foundation, Realdania, Fondation de France and Fundación ONCE, to name but a few.

5. ***A "glocal'' outlook***

The fifth factor is familiar to any foundation located in, and responsible for, a specific geographic location. It is the simultaneous pull an entity feels towards global and international issues while attempting to maintain the equally strong obligation to demonstrate relevance to quotidian local issues such as social housing, integration of migrants, care of the elderly, school systems, etc. This dual pull means that even foundations that only work locally must take in the international and global "bigger picture" and wrestle with the "glocal" in practically everything they do. This can sometimes feel quite disorienting.

One of the consequences of the recent referendum in the United Kingdom that resulted in the decision to leave the EU (catching many UK philanthropic institutions by surprise) has been the rediscovery of “place-based funding” and a need to pay more attention to neglected areas of Britain and address rural areas and local issues. This has gone hand-in-hand, however, with a more accentuated interest in collaboration across borders with European philanthropic peers and more participation in peer-learning and exchange events. Both the local and the universal are becoming increasingly important, and it’s not as simple as either/or.

6. ***Autonomy and independence vs. collaboration***

The sixth issue – another dual pull – is the challenge for institutions to overcome their fierce commitment to their own autonomy and independence in order to collaborate actively with other players. As the zeitgeist highlights the need to pool resources, spread risk widely, experiment, and co-create solutions, there are serious experiments underway in how to do things together. In recent years this trend has accelerated considerably. The fact that foundations are now regularly beginning to favour partnerships with others (a good example is the Barrow Cadbury Trust’s management of the Fair by Design Change Programme) reflects an increasing ability to find ways of both maintaining autonomy and working together. This is another area of great promise. True collaboration requires serious and constant intent with a need to surrender some fundamental autonomy and independence. Institutional philanthropy does not always do this well.

One of the other arenas in which European institutional philanthropy excels is in science and technology funding. Some of the best collaboratives are practiced by institutions that have learned how to cooperate at all stages of grantmaking so that there is a simple and seamless face for scientists and researchers across the continent. This has meant, for example, that scientific applicants have been able to use a one-stop shop for their proposals and that the foundations involved freely share proposals amongst themselves.

7. ***Making the case***

The last issue stalking organized philanthropy, as paradoxical as the rest, is the relatively new notion of foundation legitimacy. It manifests itself in the need to justify, explain, and demonstrate impact, in other words: the growing need for organized philanthropy to make a case for itself and clearly show what is being done for the public good and why. This need to prove effectiveness is an important, but sometimes blunt, imperative and needs the development of specific language and tools. It puts further pressure on foundations to deliver justification and statistics in ways that are not always possible.

Conclusion

Something is indeed happening in European philanthropy: the inevitable arrival at a point where the combined consequences of a set of challenges faced by the sector meets the increasing need for governments to formally incorporate the resilience and innovation of these non-state players. This means that the validation of the work of institutional philanthropy is likely to be seriously enhanced over the next few years and we fully expect that this will result in a sector that is organically an integral part of state solutions. Some of the work that European foundations are quietly exploring, including developing responses to a “second” welfare state, for example, are already demonstrating the interconnectedness of the non-profit and state funders working truly synergistically. This is a very important moment for European institutional philanthropy and governments to really come together in the interests of the public good. There is much work to be done.

[1] A robust and growing US philanthrophy clearly helped stimulate the creation of European foundations. Some European foundations still compare themselves to US foundations and persist in seeing them as models.

[2] Institutional philanthropy refers to foundations, corporate funders, and other players that 1) have their own financial resources that they deploy strategically, 2) are independently governed, and 3) use private resources for public good.

[3] In the post-welfare developments, European foundations that are regional or municipal in their remit continue to be seen as potentially bailing out the withdrawing state. Thus, for example, Italian foundations of banking origin, most of which are focused on a municipal region, have had to resist being seen as mere alternatives for civil servant salaries.