

# Philanthropy Back to the Drawing Board

Shaping a Future Agenda

**Rien van Gendt**



## About the cover

The cover design represents an invitation to European philanthropy to bring its future agenda to life, to colour in the outlined image with its own strategies and ideas for the future. The faded edges of the design encourage further drawing and elaboration. As such, the design mirrors the purpose of this book, which is to provide an inspirational starting point for European philanthropy to shape its future agenda.

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*"Don't believe  
everything  
you think."*

Robert Fulghum  
AUTHOR

# CONTENTS

- Foreword ~~~~~ 06
- Preface ~~~~~ 09

## Part A Context

1. Why, who for and where to? ~~~~~ 16
2. Philanthropy: A shifting landscape ~~~~~ 24
3. Philanthropy paradox and the importance of self-reflection ~~~~~ 35

## Part B A Future Agenda for Philanthropy

4. Legitimacy and added value ~~~~~ 48
5. Relationship with grantees and the local community ~~~~~ 64
6. Partnership versus going solo ~~~~~ 82
7. Integrating (new) substantive policy themes ~~~~~ 93
- FOCUS ON** Relationship between philanthropy and philanthropy research ~~~~~ 104
8. Effective philanthropy and spending ~~~~~ 108
- FOCUS ON** Compliance versus performance ~~~~~ 140
9. Investment of endowment/reserves and the relationship to spending ~~~~~ 143
10. Operating systems and styles; and the importance of overhead and governance ~~~~~ 166
- FOCUS ON** European philanthropy ~~~~~ 182
11. Going forward in times of uncertainty ~~~~~ 190
- Endnotes ~~~~~ 194
- About the author ~~~~~ 200
- About the partner organisations ~~~~~ 202

## Annexes

- Index of individuals ~~~~~ 204
- Index of foundations, PBOs and social enterprises ~~~~~ 205
- Philanthropy infrastructure / support organisations ~~~~~ 209

## Foreword

It's a demanding and confusing, if not dramatic time in which we are living, and our capacities to react to the challenges at hand are being tested in new ways across the globe. Europe – its institutions and people – must rethink its direction and role in the new world. And so must philanthropy. The future is heading towards us ever faster, and lessons of the past no longer provide the answers needed to respond to today's challenges. Europe is confronted with war at its eastern borders; rising social, demographic and regional inequalities; and the mainstreaming of political populism. Humanity is threatened by accelerating climate change, and artificial intelligence seems to present equal parts danger and opportunity. In this difficult context, we subscribe to the words of European Union co-founder, Robert Schuman, that the future can only be safeguarded by making creative efforts proportionate to the challenges which threaten it.

In this light, "Philanthropy Back to the Drawing Board: Shaping a Future Agenda" certainly comes at the right time: Rien van Gendt urges foundations to reflect on why and how they, too, can generate the most creative efforts proportionate to the challenges of our times. He asks philanthropy to critically and reflectively assess how it can best live up to the promise it makes – and the responsibility it has – of investing private resources for the public good. The book is a well-informed invitation to reflect, challenge, rethink and reorganise philanthropic action that makes sense *and* makes a difference.

Rien does not shy away from difficult questions such as mission-compatible portfolio investment, whether foundations should exist forever, and whether new is always best. He also addresses the virtue, challenges, opportunities and urgencies of European philanthropic cooperation. Those operating in the sector directly or around the edges of philanthropy – be it in government, business, academia or civil society – will learn much from this book, which sheds light on the often still opaque questions the sector grapples with and helps to map pathways towards answers.

From our perspectives as the leaders of three diverse organisations within the European philanthropy sector – an Italian foundation with a centuries-long history; a Europe-born and Europe-focused foundation; and a European-level philanthropy infrastructure organisation – certain notes in the book particularly resonate with us.

First, Rien captures very well the complexity and diversity of the sector, embracing the richness that these bring to European philanthropy. Every country has its own specific, often heterogeneous, philanthropic styles and institutions – though these are mostly known as foundations. Religion, civic history, the economy and the features of the state's role all contribute to such diversification.

However, philanthropy as a social practice has common traits everywhere. We strongly believe that a common understanding of philanthropy and of philanthropic culture, especially in Europe, can be beneficial not only to the sector but to society at large. As far as an “internal culture” goes, there is a lot to be learned about the “trade” of philanthropy – its tools and duties – and this generally happens through exchange, dialogue and friendly mutual criticism among foundations. There is also an “external” culture, meaning the way philanthropy positions itself and takes responsibility towards the social environment in which it is embedded and the causes it aims to serve. This external culture is mirrored by how the public and other societal institutions – mainly in the world of politics – perceive philanthropy; and to what extent they want to cooperate with it and recognise the liberty a healthy and effective philanthropy sector requires. In this book, Rien speaks to these aspects and more of both internal and external common cultures.

Second, the book discusses the lack of philanthropy with a genuine European purpose. Politically, economically and culturally, Europe has grown strong institutions and infrastructure: the European Union, the European Central Bank, the Erasmus Programme, Eurovision and the Champions League. However, aside from a handful of examples, philanthropy with an explicit European purpose remains uncharted territory. The book demonstrates how relevant and urgent it is to unlock

the potential for Europe of the estimated €60 billion spent annually by foundations – exploring new forms of investments and partnerships for the public good; innovating governance and financing models; and delivering greater impact together.

Finally, the journey that this book encourages philanthropy to undertake aligns with the important mission of philanthropy infrastructure organisations. As outlined in the book, the environment in which foundations operate has become increasingly challenging over the past decade, and the role of infrastructure bodies – both at national and European levels – in advocating for and connecting the sector, as well as in building and empowering the philanthropic community, is becoming ever more relevant. Philanthropy infrastructure organisations can use the book as a travel guide to help the sector navigate this urgent and important journey of self-reflection and re-assessment. The book can play the roles of benevolent challenger and critical friend in asking the bold questions that need to be asked, and finding responses that work for philanthropy, and for society.

Our three organisations are happy to support this book as a highly relevant resource for those who want to understand philanthropy better and engage in an intelligent discussion of the challenges foundations face. As one of the most astute and experienced practitioners and analysts in philanthropy, both European and global, there is no one better placed than Rien van Gendt to author such a book. Written with an authoritative yet inviting voice, “Philanthropy Back to the Drawing Board” encourages every reader to define their own future agenda for philanthropy.

<b>Alberto Anfossi</b>	Secretary General, Compagnia di San Paolo
<b>André Wilkens</b>	Director, European Cultural Foundation
<b>Delphine Moralis</b>	Chief Executive, Philea – Philanthropy Europe Association



## Preface

The title of this book advises philanthropy to go back to the drawing board: But what should it do once it gets there? In a world upended by the pandemic, the war in Ukraine, increasing inequality and technology evolving at a rate never seen before, foundations would do well to dive deeply into the following questions:

- What is the **added value of philanthropy**? Why is private money for the public good sometimes better than more public money (i.e. taxation) for the public good?
- Should issues of **climate and environment** not become dimensions of grantmaking irrespective of the primary mission mandates of foundations (ranging from economic development to human rights)?
- To what extent do foundations **acknowledge the expertise of grantees** and see them as partners instead of as just beneficiaries?
- What are the ways and means for foundations to **incorporate ESG (environmental, social and governance) dimensions** in the management of their endowments or reserves (from passive index trackers to impact investing)?
- Should foundations be more forthcoming in **providing unrestricted funds** to grantees? Should they be more focused on funding the organisation behind the project?
- Why is it that foundations often consider **operational costs of grantees** as overhead with a negative connotation, although it is obvious that such costs may contribute to overall impact?
- How do foundations strike a **balance between short- and long-term funding** of initiatives? Why is longer-term funding still an exception?
- Why do foundations contribute to a world flooded by **interesting but limited, stand-alone projects** that most of the time do not lead to systemic change or do not have strategic impact?

- At the same time, is the expectation that foundations ought to bring about systems change not a bit whimsical and a tad pretentious for most foundations? Should foundations on average not be a bit humbler and agree that having a **strategic impact within existing systems** is already an achievement?
- Should the ways we **measure the success of foundations** not be revised? Instead of focusing on ultimate targets (such as the number of students or women impacted, or micro-credits given, etc.) should foundations not focus more on what they can influence in a more direct manner, such as making the partner organisations more resilient and agile?
- **Is perpetuity cast in stone**, or can foundations consider higher spending in times of need and allow for a decrease of the level of assets moving forward?
- Partnership is a buzzword, and we assume that more of it is better. When and why is that the case and under which circumstances is it **better to go solo as a foundation**?
- Why are foundations so **keen to fund initiatives that are “new”** or lead to “growth” instead of also funding proven concepts that are no longer “new” but are of vital importance to society?

These are just some questions of many more that could and should be raised by foundations. Such questions were already discussed in philanthropy before Covid-19 struck the world, but the pandemic and the war in Ukraine have been catalysts in a new process of self-reflection. These disruptive factors have accelerated the process of foundations going back to the drawing board to have a serious discussion about a wide range of issues. Evidence-based philanthropy is no longer the norm: We should have the courage to “forget” about the historical evidence and take a fresh look at that wide range of issues.

Against this background, the purpose of this book is to offer an informed agenda for the discussions that ought to take place in the world of philanthropy. I do not want to do this by simply listing a range of questions with an exhaustive list of answers, asking the reader to tick the boxes of preferred responses. For me this would be too

transactional, uninteresting, and therefore not very effective for the purpose I have in mind.

I would rather like to inspire philanthropic organisations by providing a selection of possible responses for the challenges they face. Sometimes I will give my own opinion about philanthropic dilemmas. I do not expect people to agree with me but rather to engage in critical thinking and to be creative in handling challenges and questions. Creativity for me is not to embrace something that merely smacks of the new and innovative, but rather to be able to reject a so-called “new” idea.

Hence the core objective of this book is to establish an inspiring framework for a sound philanthropic discourse.

In October 2022, WalburgPers in the Netherlands published the Dutch version of my book, “Filantropie terug naar de Tekentafel”. It was presented during a Conference in Amsterdam titled “Civil Power: Time for Disruption”, and a trail of events has followed up to this moment with conferences, roundtables and presentations organised by banks, investment managers, foundations, philanthropy associations, families, media, service clubs and bookshops.

This international version of my book is not just an English translation of the Dutch publication, which was specifically tailored to a Dutch audience. Philanthropy in the Netherlands is shaped and influenced by its history and traditions; its relations to government and the wider civil society; its culture of giving and volunteering; and its specific fiscal and legal environment. And I have not attempted to contextualise the book by considering the different cultures of giving and legal/fiscal frameworks in other countries. This would have been virtually impossible to do in a proper way, or worse, it would have led to an indigestible result because of the vast differences in contexts among countries. Even inside Europe there is tremendous variation among countries in the way that philanthropy is conceptualised, organised and perceived.

Instead, I wanted to distil from the Dutch version of my book the more generic issues, lessons and practices that could inspire philanthropic organisations irrespective of their specific national context. Hence, I formulate the topics of my agenda for the future in a way that they can be

recognised and understood by almost any foundation. This should allow foundations and other relevant stakeholders to translate and judge the topics I address in terms of relevance to their own situation.

The book is divided into two major parts: the first on context, and the second on the future agenda itself. Within these parts I present the various topics in different logical blocks in a way that invites you to reflect on the policy directions of your foundation. In several chapters I include sidebars with examples that provide concrete underpinnings for my line of thought, and I take a closer look at a few specific topics in three “Focus on” sections, including one on European philanthropy written for this international version of the book. Throughout the text you will find endnote references to the sources I have used, and in the Annexes section you will find an index of the many persons, foundations, public-benefit organisations (PBOs) and social enterprises mentioned in this book.

From what background have I distilled this future agenda for foundations? I have almost 35 years of experience in the world of philanthropy, having worked in academia, international organisations, government and business. Those years in the philanthropy world were intense, inspiring and educational. As the Executive Director of the Bernard van Leer Foundation (Netherlands), I worked in 40 countries in Europe, Africa, the Middle East, Asia and Latin America, as well as in the US. As Director of the Van Leer Group Foundation (Netherlands), I was responsible for the investment strategy and implementation of the investment policy. I have served on many foundation boards in the Netherlands, the US, the UK and Portugal, including the Calouste Gulbenkian Foundation (Portugal) and Fonds 1818 (Netherlands). I combine(d) that with seats on many boards on the receiving end of foundation funding, both in the Netherlands and abroad, such as the IMC Weekendschool Foundation (Netherlands) and Partners in Health (US). This allows me to assess the role of foundations from the perspective of a grantseeker.

I can also contribute my experiences from umbrella organisations in the world of philanthropy. I was, among others, Chair of FIN (Association of Foundations, Netherlands), Chair of SBF (Cooperating Umbrella

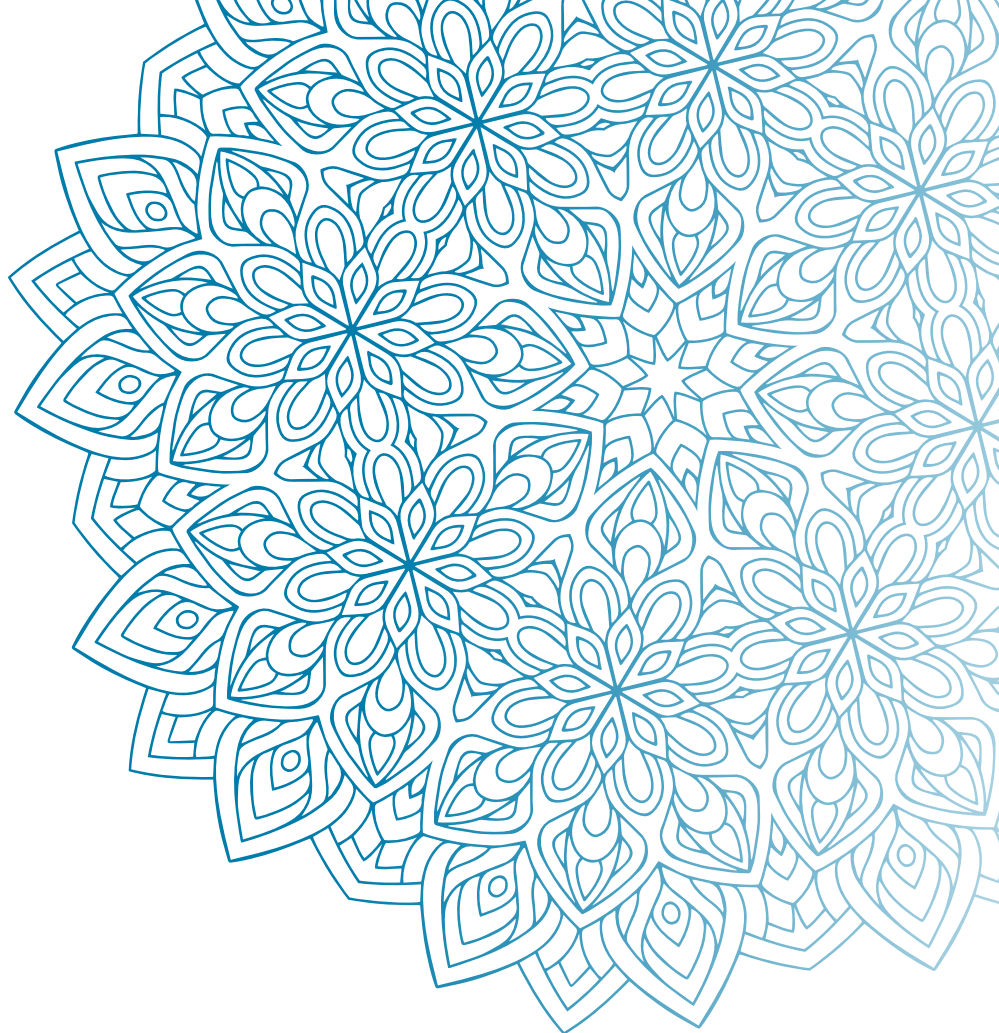
Associations Philanthropy, Netherlands), and Board Member of the EFC (European Foundation Centre, Belgium) and Council on Foundations (US). My involvement in advisory organisations such as Rockefeller Philanthropy Advisors (US) has shaped my view and understanding of philanthropy. Although I have an analytical interest in, and have been associated with, scientific committees (including Collegio Carlo Alberto, Italy), universities (including Newcastle University, Australia), and knowledge institutes (including BoardSource, US), this book is primarily written from my hands-on experience in the foundation world.

I am very grateful to Philea for its decision to publish an international version of my book: a digital one in open-access publishing. It has been a delight to work with Delphine Moralis, CEO of Philea, and her team: Hanna Hanses (Policy Manager), Sevda Kilicalp (Head of Research and Knowledge Development), Angela Pauly (Head of Communications and Events) and Hanna Surmatz (Head of Policy). A special word of thanks goes to Marianne Johnston, Senior Communications Manager and editor of this publication. She combines the mastery of language with a deep knowledge of the field. She made subtle suggestions for revising the text, but they were always too good to be refused. Publication of this book was made possible thanks to the financial support of the European Cultural Foundation in Amsterdam and the Compagnia di San Paolo Foundation in Turin. I am indebted to André Wilkens and Alberto Anfossi, the leaders of these foundations, for their generosity.

I hope that “Philanthropy Back to the Drawing Board” will trigger a process of self-reflection in the world of philanthropy. Organisations do not learn and professionalise by sticking to the mode of business as usual, nor do they learn by embracing new ideas for solving old, complex problems just because those ideas are new. Organisations learn by being open-minded and seriously reflecting on what they do. It takes creativity and courage to deconstruct the pursuit of “best practices” past and future, and to reject them when appropriate.

**Rien van Gendt**

September 2023





Part A

# Context

## 1. Why, who for and where to?

In his 1942 book “Capitalism, Socialism, and Democracy”, the Austrian economist Joseph Schumpeter wrote about the process by which companies introduce new technologies, products and processes.<sup>1</sup> “What exists is replaced” is a process that he called “creative destruction”. His core message: If you don't adapt to new developments and realities, you'll miss the boat. Although creative destruction is a permanent process, it takes on an extra dimension at times of acute change in society. We then see a break from the past: a disruption. Schumpeter's observations apply as much now as they did then, and the world of philanthropy is not exempt.

### 1.1 Motivation for this book

Philanthropy has seen many disruptions. Covid-19 is one that has affected all aspects of our lives. It has reinforced the view that we live in a complex world with rapid changes – not least those related to climate impacts – a world in which everything is interconnected. The war in Ukraine has been yet another disruptor that has influenced the world of philanthropy. We often talk about evidence-based philanthropy, which means that foundations, based on experience, look at the future in terms of strategies, processes and solutions. Covid-19 and the Ukraine war have undermined the assumptions of evidence-based philanthropy. The predictive value based on the past has lost a lot of its relevance. Hence the title of this book: “Philanthropy Back to the Drawing Board”. We will have to look to the future with a fresh perspective, because developments from the past are no guarantee for the future.

However, there may be doubts, combined with a feeling of déjà vu, because after a crisis things sometimes don't change that much. We just go back to the old normal and forget the crisis. This would mean that after Covid-19, we would just hop on a budget flight to Cape Town to go surfing for the weekend. It would also mean that private foundations and public charities would no longer invest their own capital sustainably. Foundations would simply go back to the traditional



way of investing without considering the potential harmful effects on the environment and climate. And yet the latest IPCC report leaves no doubt about the seriousness of the situation and the need for action by everyone and all organisations – including foundations.<sup>2</sup>

## 1.2 Objective

My expectation is that not everything can and will remain the same in the world around us. Especially young people are capable and willing to make new decisions and explore new directions. For them doing business and making investments are frequently seen as instruments to make the world a better place. This is also relevant for philanthropy, as young people enter the world of private resources for the public good.

Foundations are constantly at the crossroads of important decisions in a rapidly changing world (more on this in [Chapter 3](#)), and this is likely to continue. In my work with many foundations, I see that they are willing to reflect on the changes in their environment and the implications for their functioning. I sincerely believe that many existing policy choices will be reconsidered and changed. I think that, and I hope that. The future may be uncertain, but it is also to some extent malleable. The future doesn't just happen to you, you have a say in it too.

The objective of this book is to contribute to the discussions within and between foundations to examine their own future. Foundations cannot be satisfied with a one-off clean-up of problems and challenges and then sit back until the next crisis arises. Self-reflection and introspection need to become more continuous processes. This does not necessarily mean that there is an annual “audit”. But it is important to regularly revisit discussions, such as those presented by me via the future agenda in [Part B](#) of this book. Foundations will need to look at their future with fresh eyes, both regarding the topics on the agenda and the content attached to these topics. It is about a state of mind of permanent learning, not just a one-off formulation of an action list. I want to help the foundation world and their stakeholders by providing my broad practical experience.

In the 2021 Ariadne Forecast, the annual trend report of this network of European foundations and social investors, Julie Broome writes in the introduction about the future expectations of European foundations: “Very few people are hoping to go back to the way things were in 2019. They want, instead, to find the gems among the rubble: What positive changes have come out of the upheaval of 2020? What do we want to keep, and what do we want to do differently?”<sup>3</sup>

### 1.3 Covid-19: A catalyst

Just as with Schumpeter’s concept of creative destruction, the changes in the world of philanthropy are not solely a result of the disruptive impact of Covid-19. Long before the pandemic, it was clear that philanthropy needed introspection. The outside world is asking critical questions of philanthropy, and philanthropy is asking questions of itself. Changes and innovations do not exist in isolation. They derive their relevance from the fact that there are fundamental developments of a substantive and political nature that demand a response, also from philanthropy. After all, the context for philanthropy is changing as well (see [Section 3.3](#)). Examples of fundamental developments that will influence the functioning of philanthropy include the technological revolution, with the growing importance of social media and digitalisation; and globalisation and the related counter-focus on the local, familiar environment.

If philanthropy wants to respond to these fundamental developments and contribute to the solution of broader problems in society, it must examine its role and the strategies and instruments it can use. Covid-19 has only been a catalyst and accelerator that gives urgency to developments and trends that were often already identified before the pandemic. Towards the end of the year 2022, the scope of the disaster caused by the Ukraine war became more visible. It is too early to speculate about the consequences this may have for philanthropy, but I do not want to leave this unmentioned. That is why I devote attention in [Section 7.2](#) to the possible consequences of this war for philanthropy.

## 1.4 Zooming in on institutional philanthropy

So, there is every reason for a serious discussion, and this book aims to provide a good agenda for it. The focus is on institutional philanthropy, i.e. philanthropy practised by organisations rather than individual citizens. The essence of philanthropy is that private resources, both financial and non-financial (goods, time, rights, expertise), are used on a voluntary basis to serve the public good. Doing this in a sincere and effective manner is the basis for the license to operate of philanthropy, for its right to exist. The use of private funds can take the form of both donations and various forms of social investment. The transfer of private funds to grantees is done by both private foundations and public charities, referred to by me together as “foundations”: These make up the lion's share of institutional philanthropy.

## 1.5 The future agenda is not just an internal matter

This book, which will address a wide range of questions about institutional philanthropy, could be seen as solely relevant to the functioning of foundations themselves. However, that was not my intention in writing it. The content of this book is not only an internal topic but serves a much broader societal interest. The quality of our society is determined by the interaction between different stakeholders: government (redistribution, coercion); business/market (exchange, self-interest); and community (loyalty, altruism). In this interaction, a shared middle ground/civil society is formed, in which each of these main actors plays a role, and where new power dynamics emerge between them. Institutional philanthropy, with foundations as their representatives, is an important part of civil society. There are other organisations active in civil society that do not engage in philanthropy but often seek grants to carry out their operational activities. Think of museums, daycare centres, nursing homes, as well as volunteer organisations, community groups and broadcasting associations.

Institutional philanthropy is in constant interaction with government, business and the community. It is for this reason that this book

is not only relevant to foundations themselves but also to these other three actors. They want to understand the dynamics of philanthropy, collaborate with it, and possibly help shape it. For this reason, this book has a broader importance than just for institutional philanthropy.

## 1.6 Target audience

This book is primarily aimed at the executive boards, supervisory boards and management of foundations, particularly the small and mid-sized foundations that find themselves on a learning curve. Boards are highly relevant in this context because they have a fiduciary responsibility for the many topics that shape the contours of philanthropy, in addition to legal obligations related to the foundations they serve. Although the executive boards, supervisory boards and management are my primary audience, this book has much broader relevance. It can be used by:

- Individuals, families and businesses that want to take their first steps in the world of philanthropy, and may be considering setting up their own foundation or donor-advised fund
- Organisations connected to the foundation world, such as philanthropy associations and family offices
- Public-benefit organisations (PBOs) that are the grantees of foundations
- Organisations that have a service relationship with foundations, such as banks, wealth managers, estate planners, auditors and other advisors
- Politicians and policymakers who want to improve their understanding of institutional philanthropy, and who are interested in public-private partnerships
- Entrepreneurs and companies engaged in sponsorship, donations and CSR policies who want to make their social engagement more focused and effective
- Journalists and media who want to familiarise themselves with the complex and heterogeneous world of philanthropy

Interest in philanthropy should exist not only at the national but also at the local level of government, as the power of social initiatives manifests itself in the veins of society, far from the national political centre. On the national level there is naturally an interest due to the responsibility for the formulation of fiscal and legal frameworks for philanthropy. However, national governments also want to get inspired by what philanthropy can offer in their activities with respect to a renewed sense of citizenship and community responsibility among their populations.

Regarding the business community, interest in philanthropy comes not only from large multinational corporations but also from small and medium-sized enterprises, which are inherently intertwined with the local community.

Parties outside of philanthropy sometimes struggle to comprehend philanthropy because simple images do not do justice to the enormous diversity of private activities for the public good. This book is an important source of information for these actors.

## 1.7 Challenges and opportunities for foundations

The Covid-19 pandemic has somewhat pulled the rug out from under our feet, but the rug was already in motion. Searching for answers and going back to the drawing board is relevant for various reasons. It is not just about contemporary developments but also about how foundations view the future. Disruptions of all kinds may become the new norm. The war in Ukraine is the most recent and telling evidence of this, as previously mentioned. Moreover, there is also serendipity: discovering and experiencing developments that you are not actively seeking. Foundations must be able to respond to all of this in an agile manner.

The urgency to go back to the drawing board is also emphasised by the fact that as a society, we only have a few years left to achieve the climate targets and the Sustainable Development Goals (SDGs) of the United Nations.<sup>4</sup> The year 2030 is approaching very quickly, and we will have to explain to future generations why we did not take our own

commitments seriously enough. I believe that foundations should be involved in solving societal problems. If this does not apply to the so-called Baby Boomers and Generation X working at foundations, it will certainly apply to the Millennials who have started their careers in philanthropy, and to Gen Z, the oldest of whom are now just entering the sector.

The Covid-19 pandemic has disrupted our functioning, presenting many challenges and problems, but at the same time, we must note that the pandemic has offered philanthropy opportunities to make new choices. Looking back on the Covid-19 years of 2020, 2021 and 2022, I can say that both private foundations and public charities have shown creativity and resilience. In Chinese, the character for “disaster” is also the character for “opportunity”. Let us press the reset button, review current strategies and practices, and consider what is good for philanthropy, and, above all, for all individual foundations, big and small. In turn, they will be better able to serve the world.

## 1.8 Conceptual framework of the future agenda

In **Part B: “A Future Agenda for Philanthropy”**, I address a series of topics that can lead to internal reflection and decision-making by individual foundations. Not all the topics will be equally relevant for each reader, but this part on the future agenda can be read in a modular way. I could have discussed each selected topic separately to create an informed agenda. However, I preferred to cluster the topics into seven themes that are logically related to one another, creating a conceptual framework for the developments I wanted to outline. I begin with questions of legitimacy and added value and end with operating systems and styles: Structure follows function.

The following themes of the future agenda will be discussed:

- Legitimacy and added value
- Relationship with grantees and the local community
- Partnership versus going solo
- Integrating (new) substantive policy themes

- Effective philanthropy and spending
- Investments and the relationship to spending
- Operating systems and styles; and the importance of overhead and governance

I also highlight some other topics separately between a few of the chapters. These “Focus on” sections cover topics that can be influenced to a lesser extent at the level of individual foundations, but that are interesting and relevant to the context in which foundations (particularly European foundations) operate:

- Relationship between philanthropy and philanthropy research
- Compliance versus performance
- European philanthropy

The central dimension in the conceptual framework that I use is the pursuit of the common good. The common good is a normative objective: It is what binds us all in philanthropy. It can be seen as the common factor in addressing the important challenges and problems of our time. Foundations, which are at the heart of civil society, play a particularly important role in stewarding the common good.

An interesting joint initiative between the well-known French research university Sciences Po in Paris and Stanford University in California, represented respectively by Judith Symonds and Bruce Sievers, seeks to give meaning to the pursuit of the common good. In a recent paper, “Toward an Agenda for Pursuit of the Common Good: An Exploration”, Symonds and Siever explain: “Our working hypothesis is that pursuing the common good is a key principle in efforts to find solutions to a range of interconnected modern problems, including the decline in democratic governance, catalytic climate change, erosion of civic media, governance of the digital domain and income inequality.”<sup>5</sup>

## 2. Philanthropy: A shifting landscape

It is important to be clear about the landscape that is the subject of this book and about the dynamics that characterise that landscape. Institutional philanthropy does not function as one coherent sector. It is a diverse collection of initiatives, projects, approaches and organisations. Ranging from tiny to very large in size, and from less professional to highly professional, each organisation has its own unique history, legitimacy, resources and clout. It is no wonder that those outside the sector, such as the media, the public and even government officials struggle to understand “philanthropy”, especially because this melting pot of social initiatives is tremendously dynamic. The philanthropic landscape is constantly shifting.

### 2.1 Transfer of private resources is at the core

As previously mentioned, the focus of this book is on institutional philanthropy, and more specifically, on private foundations and public charities. I will not cover all private foundations and public charities, but only those organisations that are characterised by the transfer of private resources to ultimate beneficiaries/grantees (often PBOs) primarily in the form of donations and/or social investments. I am therefore excluding those private organisations that are solely operating foundations that implement their own activities, with no financial transfers to other parties. Examples include: the Royal National Lifeboat Institution (UK) and the Animal Welfare Foundation (Stichting Dierenlot) (Netherlands). Before delving into the different types of foundations, it is important to outline the characteristics of philanthropy itself.

### 2.2 Characteristics of philanthropy

The primary characteristic of philanthropy is that it uses private resources (goods, time, rights, expertise, but especially money) independently and voluntarily for the pursuit of the common good. But we can add a few secondary characteristics:



- Foundations can strategically use their private resources with a long-term perspective in mind.
- Private resources can be used in a way that allows for risks to be taken: Foundations can play the “wild-card” role and promote innovation.
- Foundations can look beyond the boundaries of disciplines and sectors and take a holistic approach when formulating their strategies and solutions (as opposed to governments, which are often trapped in organisational silos, such as ministries).
- Foundations can provide money quickly and in an unrestricted manner, unlike governments.

At first glance, it seems that private foundations exhibit these characteristics more than public charities do. This is caused by the fact that private foundations have a structural and more stable source of income, whereas public charities rely on the philanthropic giving motives of the public. It is assumed that the latter leads to a short-term orientation of public charities with an emphasis on achieving tangible results. However, the reality is much more nuanced. I will come back to this in [Section 2.4](#).

Furthermore, the distinction between private foundations and public charities can be fluid. Examples are Oranje Fonds and Prins Bernhard Cultuurfonds (Netherlands), which have both endowments and contributions from lotteries as well as donations from the public. The number of these hybrid foundations is increasing. Hence, I prefer to look at the philanthropic intentions and ambitions of an organisation rather than at the specific organisational form. It means that I shall often just refer to “foundations” instead of private foundations and/or public charities. There is such a dynamism in philanthropy that, no matter what classification or categorisation we use, the picture is constantly changing.

## 2.3 Relationship of trust

Philanthropic transactions are always based on a relationship of trust. If a donation is made based on a proposal from a PBO, then

the grantee does not send a VAT invoice to the grantor. In return, the grantor cannot demand enforceable performance from the recipient. There is no economic relationship, but there is reciprocity: Both parties (grantor and grantee) give something and receive something in return. Agreements are made about this reciprocity, which are usually recorded in a grant letter. There is then a transaction: The foundation commits to transferring money, and the grantee commits to submitting, for example, a financial report and a substantive report about results. Even though these agreements are recorded in a grant letter, there is always an element of mutual trust on which the agreement is based. The grantee may feel a moral obligation to provide a final report, but this cannot be enforced. The same applies to the foundation that makes the promise to donate. Trust is inseparable from philanthropy and the interaction between different parties.

Philanthropy is more than transferring money in the form of donations or social investments. There are other, less tangible effects for both the recipient of funds and the provider. For the recipient, having a financing relationship with a foundation can mean that it is able to use the expertise and network of that foundation. For the grantmaking foundation, having a funding relationship with PBOs can mean that it builds up a knowledge base and is able to share that knowledge with others to have an impact, for example, on the public debate or the political discourse. The intangible benefit for a foundation can also be that, for example, in the case of corporate foundations, the reputation of the corporation is reinforced in the market in which it operates; or that the primary business objective (i.e. not philanthropy but the provision of goods and services for the market) is strengthened by the lessons learned from philanthropic activities. For example, at the Bernard van Leer Foundation (Netherlands), we learned because of our work in Malaysia how important it is to always have an indigenous, so-called Bumiputera partner when setting up a new initiative. These insights were also directly relevant to the Van Leer company (Royal Packaging Industries Van Leer) in Malaysia.

## 2.4 Private foundations and public charities at a glance

The philanthropic landscape is diverse, with private foundations and public charities being the two main prototypes of institutional philanthropy, although as mentioned before I shall in this book most often just refer to “foundations”.

### **Private foundations**

These organisations have their own capital, which is invested, and the proceeds are used for philanthropy. A way to further characterise private foundations is that they have a structural source of income that is not collected from the public. That structural source could be the returns on their own capital, structural contributions from a company, or contributions from lotteries. Finally, it may be that a foundation owns a company because it holds all or most of the company’s shares and is therefore entitled to dividends, such as the Novo Nordisk Foundation (Denmark).

None of these foundations need to raise money from the public, and in some cases, this is even prohibited by statutes. Private foundations are created because individuals/companies are willing to put part of their wealth/profit outside of their control in an independent foundation. Private foundations take many forms, including family foundations (e.g. Oak Foundation, Switzerland), corporate foundations (e.g. Rabo Foundation, Netherlands; and De Agostini Foundation, Italy), independent foundations (e.g. Bernard van Leer Foundation, as there is no statutory obligation to appoint members of the Van Leer family to the board, and the foundation is no longer the owner of the Royal Packaging Industries Van Leer company), lottery foundations (e.g. Oranje Fonds, Netherlands), and community foundations (e.g. Community Foundation Northern Ireland). Together, these types of foundations make up the universe of private foundations.

### **Public charities**

In contrast to private foundations, public charities rely on the public to generate their income. Fundraising from the public may lead to

a different positioning of public charities with respect to the allocation of their philanthropic funds. The premise for this observation is that private foundations have more opportunities to support high-risk initiatives and set longer-term goals. A public charity, on the other hand, must be accountable (and feels accountable) to donors, who, it is assumed, will not appreciate their money being used for high-risk initiatives that may fail. Public charities also feel, it is assumed, the need to show quick success.

When I was the director of the Bernard van Leer Foundation, I often had conversations with public charities such as Save the Children and Terre des Hommes. The common element between us as foundations (both private foundations and public charities) was our mission: working for children in disadvantaged situations. However, our approaches differed: Public charities focused more on tangible, concrete activities that would lead to quick results, such as combatting dehydration as a cause of child mortality by using ORS (oral rehydration solutions); whereas the Bernard van Leer Foundation as a private foundation could focus on long-term initiatives, such as community-based health-care programmes together with mothers in the community.

However, the dichotomy between private foundations and public charities is not so clear-cut as it seems at first sight. There are private foundations such as Fonds 1818 (Netherlands) that respond to current and urgent local needs, while public charities such as the Dutch Kidney Foundation (Nierstichting) are engaged in long-term investment-oriented initiatives (e.g. the portable hemodialysis machine).

An advantage of public charities over private foundations may be that because they raise money from the public, they have a sharper insight into what is happening in society and what the priorities are perceived to be. The fact that private foundations can independently decide on their strategies and activities can lead to a form of "philanthropic tunnel vision" where foundations set their own priorities, which may not be completely in line with those of the societies they wish to serve.

## 2.5 Exclusions

In addition to operating foundations, I also exclude individual private giving and volunteering in the context of this book. Regarding the former, digitalisation and online giving have provided a tremendous boost to the field of private giving. New forms are emerging, such as crowdfunding, philanthropy circles (meetings of individual philanthropists who regularly gather to make donations, inspire each other, and learn from each other), and fiscal sponsorship programmes (in which individuals and companies entrust their philanthropic ambitions to an organisation with philanthropic status). These forms of private giving obviously do not fall under my definition of institutional philanthropy. However, when forms of institutionalisation of these expressions of private giving evolve, these become new branches of the constantly evolving institutional philanthropy tree.

## 2.6 Blending of private and public money

The dynamics in the world of philanthropy also mean that private and public money gets blended, and furthermore, there are all kinds of movements and transitions: The landscape is always shifting. First, I want to address the blending of private and public funding. Public charities that used to be funded largely by government subsidies are now trying to raise private money. They often have no choice because the government is withdrawing from different domains that were accustomed to receiving public funding. However, this reality has led them to become more proactive and take the initiative to diversify and attract funding from various sources, including from private sources. Good examples are the Dutch Red Cross and the National Trust (UK). We even see public charities under these circumstances trying to form endowments.

At the same time, we see private foundations that previously worked solely with revenues from their own endowment being open to receiving government funding, as well as money from the public, the European Commission or multilateral organisations. Sometimes the merger of this private and public funding takes place at the project level, resulting in public money not passing through the foundation's

books. Sometimes public funding does go through the foundation's budget to grantees and operational activities. A good example of this blending of private and public money can be seen at the European Cultural Foundation (Netherlands).

The mixing of private and public funds is an interesting development and a natural consequence of the increasing interest in public-private partnership initiatives. It demonstrates the dynamism of the sector, but it also increases complexity.

## 2.7 Shifting landscape and complexity

We observe in the world of philanthropy transformations over time from one strategy, practice or style to different ones. This shifting landscape deepens the complexity of philanthropy even further. Let me mention a few of these transformations.

First, take corporate foundations that are set up with contributions from the profit of the underlying company (with or without a fixed percentage of the profit). Especially in family-owned businesses, the owner also donates shares of the company to the foundation, diluting the pure character of a corporate foundation. If this is taken further, a situation can arise – as with Van Leer Group Foundation (Netherlands) – where the foundation becomes the sole shareholder of the company. Here we see a transition from a foundation that is dependent on profit contributions and is subordinate to a company, to a foundation that can determine what portion of the profit is paid out as dividends. We then speak of steward-ownership, with interesting benefits for both the continuity of the company and philanthropy. The main principle of steward-ownership is that a company is no longer a tool to channel profits to shareholders to boost their personal wealth, but a vehicle to serve the interests of multiple stakeholders, including the interests of society through a charitable foundation. Recently, the family Chouinard gave away its company Patagonia to a foundation to fight climate change.<sup>6</sup> This is an excellent recent example of steward-ownership.

A second example of the shifting landscape is corporate foundations where the owner transfers their own private wealth (not in the

form of shares of the company) to the foundation on top of the share of the profit from the company that the foundation receives. These corporate foundations gradually transform into family foundations.

A third example is public charities that realise that existing models of fundraising from the public and subsequent spending policies (mostly on research programmes) have reached their limits, partly due to digitalisation and direct giving, but also to the non-measurable concrete impact of these spending policies on society. They are shifting the focus to forging partnerships with private foundations and businesses to implement concrete initiatives themselves. A good example is one already mentioned above: the Dutch Kidney Foundation (Nierstichting) and the development of the portable hemodialysis machine in partnership with the corporate sector and health insurance companies.

A fourth example of the shifting landscape is when the endowments of rather small private foundations are impacted by a financial crisis, such as in 2008. Many foundations decided at that time to give up their independence and continue as donor-advised funds under the umbrella of another foundation. For example, at Oranje Fonds, several donor-advised funds were established after the 2008 crisis. These funds have their own name and specific philanthropic mission. It may also be that such foundations merge into another foundation and thus cease to exist entirely.

Finally, I have seen transitions from a family foundation to a private foundation. Some families decide to exclude themselves entirely from future control. Subsequently a group of trustees (individuals entrusted with the legacy of the family) will manage the family foundation as a private foundation. Often in these situations, there is a family statute/letter of wishes, indicating which values and norms new board members should endorse in the management of the foundation.

## 2.8 Lack of understanding by the government

The blending of private and public money, the shifting landscape – in short, the dynamic development of philanthropy – should be seen as something positive. It underscores the challenge for the foundation

world in general to constantly transform itself and search for organizational, financial and strategic forms that best allow it to address the problems in society it wants to help solve. Unfortunately, this same dynamic development and complexity can also be perceived as “opacity”. It can lead to misunderstanding and even mistrust. The answer to this, in my opinion, should be to counter unjustified criticism and to take justified criticism to heart. That is why the legitimacy of philanthropy is the first agenda item for the future, which I address in [Chapter 4](#).

Unfortunately, that mistrust and the lack of understanding about philanthropy also exist in some governments, with the Dutch government being an example. In the Netherlands, this reflects the position of the Tax and Customs Administration, which had and still has a somewhat archaic view of philanthropy. It wants to see philanthropy as foundations led by people who work pro bono and make donations a few times a year without any conditions attached. As is often the case, legislation is miles behind practice. For example, if a foundation would consider it a better strategy to participate in social investments than to make donations; or if it would prefer to give a loan, to attach conditions to donations, or to give its board members a suitable remuneration; these actions would be poorly, or not at all, understood by the government. The idea among some foundations in the Netherlands to increase the social impact of their activities through performance-based forms of financing is also not understood by the government.

The cases outlined deal with innovative activities of *foundations*, but it is even more difficult for the same government to understand that there are other philanthropic structures besides foundations. We see this mainly in the Anglo-Saxon world, but it is also emerging in continental Europe. I am referring, for example, to limited liability companies (LLCs) that make donations and do social investments.

## 2.9 The importance of philanthropy infrastructure

In recent years, I have noticed an increasing interest among foundations in engaging with, or becoming members of, financing networks, philanthropy associations and other infrastructural



organisations. For a long time, it was sometimes difficult to convince foundations to become members of philanthropy associations such as FIN (Association of Foundations in the Netherlands). This was not only a Dutch phenomenon, as we regularly discussed this issue within Dafne (Donors and Foundations Networks in Europe), the platform where national philanthropy associations in Europe met, and which merged in 2022 with the EFC (European Foundation Centre) to become Philea - Philanthropy Europe Association.

For philanthropy associations it is important to have as many members as possible. This strengthens the financial basis of these associations, which is necessary to provide effective services to their members. It is also important for their representative power in consultation with policymakers, the government and tax authorities. If you can demonstrate that you are speaking on behalf of a large part of the foundation world, it obviously strengthens your negotiating position.

The challenge of recruiting members is often complex for a philanthropy association. Private foundations sometimes believe: "It is our money that we have invested in a foundation. We know what we want, we are not dependent on the public and we want as little interference as possible from anyone." Against this background, foundations that are not yet members of a national association weigh the membership costs against the services provided: stimulating quality and effectiveness in the sector; providing a platform for mutual exchange of knowledge; and representing interests. The questions these foundations then ask themselves revolve around arguments such as, "What is the added value of an association for us as a foundation?" and "Won't these administrative costs come at the expense of our charitable spending?" Because contributions to philanthropy associations are usually booked by foundations under the heading "administrative expenses", they are perceived as needing to be avoided.

Foundations that decide not to join a national association position themselves as free riders because they do benefit from the fact that these associations could favourably influence legislation and

regulations. How can foundations be convinced that they should be part of the infrastructure to which they already actually belong?

- The added value of associations for individual foundations must continue to be emphasised and demonstrated.
- There needs to be an adjustment in the thinking about administrative costs for foundations. If a foundation wants to operate effectively, necessary costs must be incurred, including the costs for the infrastructure of philanthropy.
- Finally, foundations should feel it as a moral obligation to become members of organisations that contribute to the enabling fiscal and legal environment to which they belong and from which they benefit.

Fortunately, there has been an increasing interest among foundations in recent years in financially contributing to their own philanthropic infrastructure. Important driving forces here are that the environments in which foundations operate are no longer automatically perceived as “good”; that there is distrust towards foundations and especially towards their founders; and that governments sometimes see foundations as a risk factor in money laundering operations and the financing of terrorism. In a world that is critical and sometimes even hostile towards foundations, a well-developed infrastructure – a good philanthropy ecosystem – provides protection. Such an ecosystem does not only exist to represent interests, but also to provide a safe environment to exchange experiences, share successes, learn from failures and, if useful, establish partnerships (including with governments). In this way, resisting external threats and working towards collective impact are connected.

In an article in *Alliance* magazine, “25 Years of Philanthropy”, Barry Knight points to the desire for collaboration with governments as a key reason for what he calls “the associational revolution”.<sup>7</sup> In his thinking, foundations support philanthropy associations to encourage governments to share their power with civil society.

### 3. Philanthropy paradox and the importance of self-reflection

Before I begin developing an informed agenda for the future in [Part B](#) of this book, I want to first elaborate on the importance of that agenda and clarify what, in my view, is the legitimacy and societal role of philanthropy; what the philanthropy paradox entails; and why self-reflection is crucial for the future agenda.

#### 3.1 Philanthropy as a mirror of society

The developments that can influence the future agenda of philanthropy, which I will discuss in several chapters in the rest of this book, do not take place in a philanthropic vacuum but in a social, political and economic context. This context is rapidly changing, and this compels foundations to seriously reflect on the shaping and legitimisation of their role. The great substantive challenges and problems in the world are what make philanthropic organisations and their leaders look at their mission, strategy and approach. Their societal mission simply requires them to do so.

We are witnessing migration flows from the south and east towards Europe, which bring concerns about absorption capacity and a future in which climate problems will only intensify these flows. Globalisation can be seen as an opportunity for some people, but it can also be perceived as a threat for others. Nostalgia and nationalism lurk, and new divides occur in our society. There is concern about increasing populism and nationalism and the questioning of democratic legal systems in the Western world.

There is also worry about increasing inequality in society: within countries and between countries and regions. New differences have emerged due to Covid-19: Disparities in access to broadband and the internet have increased learning disadvantages among children due to this digital divide. Society is faced with dilemmas of security on the one hand and freedom and privacy on the other. There are serious doubts as to whether we are capable and willing to create a sustainable future for our children.

All these developments belong to the constantly changing context for philanthropy and therefore compel foundations to engage in self-reflection.

Yet, we almost forget that philanthropy itself, and not only as a reaction to the above-mentioned developments in society, is also changing intrinsically: There is an internal dynamic. For example, most family foundations created over the last three decades were founded by people during their lifetime and not through inheritance. Apparently, there is a great need among these new philanthropists to contribute not only their money but to be engaged and also offer their expertise and networks. Another factor of changing internal dynamics that influences philanthropy is the inflow of a younger generation into the management and governance of foundations (see [Section 10.4](#)).

With public charities, we see a strong growth of organisations that emerge from the local community, close to the citizens who are directly concerned. Globalisation, in this regard, goes hand in hand with a greater interest in the local environment.

### 3.2 Political changes are relevant to the future agenda

The context in which philanthropy operates is changing not only due to major geopolitical and socio-economic challenges and internal dynamics, but also due to a changing role of government and changes in party political configurations. In recent decades, governments have been withdrawing, cutting back and leaving more responsibility to the market and private initiative. However, there may be a gradual reversal of this trend in the future as the imperfections of the market become increasingly evident, and governments therefore will regain more control.

The consequences of government withdrawal are not only visible at the national level, but also at the local level. Local governments often assume too easily that private initiatives, including foundations, will fill the financial gap left by budget cuts. They trust that their stance in this respect will lead to a so-called substitution reflex. Foundations are

sometimes inclined to use tough language and state that they are not a substitute for local governments. However, the reality is often different. Substitution is not always a choice: Compassion for the citizens affected by a government in retreat often outweighs the annoyance of being put in a position by governments to act as a substitute. A government in retreat is therefore an explanatory factor for the increasing importance of foundations.

### **Dilemmas of substitution: Fonds 1818, The Hague**

When I served on the board of Fonds 1818 from 2007 to 2015, the city of The Hague decided to close several libraries, and the question was whether our foundation would be willing to step into that vacuum. Our initial intuitive reaction was: “No, we won’t do it because it sets a dangerous precedent!”

However, at Fonds 1818, we realised that not only were libraries being closed, but also youth centres and community centres. In fact, public spaces as meeting places were being closed at a time when integration, promoting mutual understanding, and social cohesion were needed. Coincidentally, the latter is also an essential part of Fonds 1818’s mission. In this light, should we have refused to step in? The board decided no, we could not refuse.

This example shows how complex such a situation is and that foundations cannot and do not always want to categorically reject the substitution reflex. Sometimes, foundations must prioritise the interests of the community over their rightful irritation with the substitution reflex, and that’s what we did at Fonds 1818. We financed the operation of public libraries in several places and thus took over the role of the local government to some extent. But not by simply replicating what had existed before. We did it differently, with new functions, with a more open structure, using digital means, and not necessarily in existing buildings where people only went to borrow a book.

Another factor is change in party-political configurations, which can in fact cripple the effectiveness of government. There is a growing political fragmentation in many countries, with the Netherlands

as an example: At the beginning of 2023, the 150 seats in the Dutch parliament were occupied by 20 political parties/factions. This means that the substantive challenges of society are being looked at through increasingly diverse lenses. The political structures are less easily defined in terms of left and right or progressive and conservative. Instead, we see the rise of a multitude of single-issue parties, which represent a partial interest, for a (limited) theme: Examples in the Netherlands include animal welfare, elderly citizens, Europe and farmers. Political fragmentation carries the danger that distinct partial interests are pursued instead of weighing such partial interests against the general interest.

Traditional mainstream parties, such as the Christian Democrats and Social Democrats, are being pushed to the margins, and majorities in parliament are becoming increasingly difficult to form. Governments that are dependent on an increasing number of political parties to reach a political majority for their decisions are experiencing how difficult it is to formulate adequate policies for the complex challenges of our time. They must form complicated coalitions to make complicated compromises. And if such compromises can be forged, it is not clear who owns the compromise. When I was senior fellow of Maatschappelijke Alliantie in the Netherlands (an organisation that connects public-private parties to work on scalable solutions to complex social problems), I experienced the relevance of the factors mentioned above in my role of being responsible for migration issues. One of the cabinet ministers told me that, given the political reality in the Netherlands, it was easier for the Alliance to address certain migration issues than for the government to do so.

### 3.3 The context of philanthropy is changing

Foundations need to go back to the drawing board because there are major disruptive developments in their environment such as Covid-19, the war in Ukraine and, as I have indicated, more to come. These developments force foundations to seriously consider the legitimacy of their role.

Before delving into the future agenda of philanthropy in [Part B](#), let me mention several areas of self-reflection for philanthropy brought on by these external developments (the list is not exhaustive):

- There are urgent geopolitical and socio-economic challenges. This urgency makes the need for philanthropic support at this moment more important than ever. This leads, for example, to questions about the perpetuity of foundations.
- The market may have imperfections such as an interest in maintaining the status quo while paying lip service to serving the public interest; and the dominance of shareholder interests is an issue. But the government may also have imperfections such as election cycles that do not allow politicians to take the required long-haul approach; and ministerial silos that make an integrated approach to problems cumbersome. This begs the question about philanthropy's imperfections such as the lack of transparency and a scattered and varied landscape of foundations and projects. Self-reflection is needed.
- Problems can often not be viewed in isolation: It is about coherence and a holistic perspective. This means, both for large and small foundations, being attentive to a systemic approach and having focus.
- Climate, environment and sustainability are seen as strategic parameters for our actions: SDGs function as a moral compass for many foundations in relation to their philanthropic spending and their investment strategy. This means that there is an increasing attention to sustainable investing that links financial returns and risk appetite to social impact.
- There is an interest in wanting to make a difference and going beyond looking at output and outcome by focusing on impact: The financial toolbox of foundations is larger than simply donations. This leads to a discussion on whether investment approaches may be more relevant for grantees than pure donations are.

- Problems can only be solved if their root causes have been explored. This means that foundations are increasingly interested in cooperating with research organisations/knowledge institutions prior to embarking on concrete project activities.
- Foundations realise the complexity of the problems they want to address. This leads to a greater interest in working in partnership with other foundations, the government and the corporate sector.

There is an important caveat regarding the contribution of philanthropy in such partnerships mentioned in the last point above. The role of institutional philanthropy is not strategic from a strictly financial point of view due to the size of the resources available. Such resources are insignificant compared to those of the government. It is not the quantity that counts, but the quality of philanthropic resources. This is precisely why foundations can play a very important complementary role compared to that of government. The fact that foundations can take more risks and choose a longer time perspective emphasises the complementary relationship to the government. Not only can philanthropy never be a financial substitute for the government, but foundations should not even aspire to replace government.

### 3.4 The philanthropy paradox

The role of philanthropy is becoming more important, and foundations are becoming more visible as they grow in size and number. They have the ambition to play an important role – and they present themselves as such – and they increasingly determine the agenda of issues to be addressed. The interest in philanthropy by the public, media and politics has increased strongly in the last two decades. Growth and visibility of foundations are not only the result of the important role they play, but growth and visibility also feed into that role. Which is the cause and which is the effect is not clear, but the growth of the sector and its importance reinforce each other.

It is against this background that I previously noted that there is a philanthropy paradox. In my keynote address, “Institutional



Philanthropy: Trends, Social Context, Distrust and Legitimacy”, given on the 150<sup>th</sup> birthday of Calouste Gulbenkian in September 2019, I indicated that as philanthropy’s role in society becomes more important, criticism of it and distrust are also increasing.<sup>8</sup> Incidentally, there is also distrust towards the government, politics, science, the judiciary and the media. In this regard, one could dismiss criticism of philanthropy as a zeitgeist, but it does not absolve foundations of the obligation to take this lack of trust seriously.

### 3.5 Where does criticism of philanthropy come from?

The credibility of philanthropy is increasingly being questioned, and trust is being put to the test. Criticism comes from citizens, the media and politics – and increasingly from some corners of the philanthropy sector itself. There are doubts about, and criticism of, the effectiveness of foundation programmes; and there are questions about the origin of accumulated wealth and the choices made regarding a foundation’s mission. Why do philanthropists first earn money in a way that does not sufficiently consider wider societal interests and then present a different, socially conscious face through philanthropy? The lack of transparency from foundations is also seen as problematic. Questions are also being raised about administrative costs/overhead, fundraising tactics and salaries paid to the leadership of public charities. The disparities in wealth across our societies are increasingly seen as problematic, and philanthropy reflects these disparities. Therefore, philanthropy is often not seen as a solution for societal problems but as part of these problems.

Criticism of philanthropy was expressed, for example, by Rutger Bregman, a historian and journalist associated with De Correspondent (a Dutch news website), whose intervention at a panel discussion during the World Economic Forum in Davos in 2019 went viral.<sup>9</sup> He stated that the super-rich people present in Davos spoke about justice, equality and transparency and were somehow involved in philanthropy, but often avoided paying their fair share of taxes. Similar criticism was voiced by

Anand Giridharadas in his book, “Winners Take All: The Elite Charade of Changing the World”,<sup>10</sup> and by Robert Reich in his book, “Just Giving: Why Philanthropy Is Failing Democracy and How It Can Do Better”,<sup>11</sup> in which he criticises large philanthropic institutions that are tools of the super rich: There is no transparency, no accountability, and these institutions can exist indefinitely subsidised by taxpayers’ money. Marlene Engelhorn, a member of a very wealthy Austrian entrepreneurial family, drew a lot of attention when she called on the super rich in 2021 to pay fair and higher taxes.<sup>12</sup> She did so as a member of the “Tax me now” initiative.

### 3.6 Criticism of philanthropy or philanthropists?

The question to be answered here is: Does criticism of the behaviour of certain philanthropists automatically imply criticism of philanthropy broadly as a deeply rooted cultural phenomenon? I do not agree with that line of thought. We do not dismiss politics because of the behaviour of certain politicians, do we?

As an advisor to the Compagnia di San Paolo, I organised, in collaboration with Philea and the European Research Network on Philanthropy (ERNOP), the International Conference on the Research on Philanthropy in Turin in September 2022.<sup>13</sup> As a prelude to this important conference, a webinar took place in July 2021 in which Beth Breeze (Director of the Centre for Philanthropy, University of Kent, UK) concluded based on her research that society is still positive about philanthropy but negative about extremely wealthy philanthropists.<sup>14</sup>

I recognise this opinion and see it reflected in many of the public debates about philanthropy and especially about the legitimacy of philanthropy. The initial thought when super-rich people entered the world of philanthropy was that not only could they combine their entrepreneurial skills with philanthropy (such as a focus on impact and the use of data to make choices and track developments), but that they could also play a role in making philanthropy better known as a serious force in society. Well, that has certainly happened and initially had positive effects, but there are also many concerns about the influence of these billionaires, the choices they make, and whether their

philanthropy is a genuine personal goal or an instrument for other personal aspirations.

During a webinar organised by *Alliance* magazine and the United Philanthropy Forum in July 2021 (“Future of Philanthropy in North America”), participants could indicate which change they would most like to see realised in North American philanthropy.<sup>15</sup> The participants chose “making billionaires pay more taxes” as their first choice, followed by “making the governance of foundations more diverse and inclusive”.

### 3.7 Criticism of philanthropists: Some nuances

Criticism of philanthropists may be justified, but we should realise that it is framed by a limited number of super-rich individuals, while my perception of philanthropy is determined by another reality. I prefer to associate philanthropy with the millions of philanthropists and caring individuals found across the globe, who stand for the pursuit of the common good, for social justice and solidarity.

In the anniversary issue celebrating 25 years of *Alliance* magazine (the 100th edition), the opening article distinguishes between the “democratic universe” and the “plutocratic universe” of philanthropy.<sup>16</sup> The latter revolves around the concentration of wealth among a limited number of people who also have a philanthropic ambition. The former revolves around the world consisting of the numerous people and foundations that often practise philanthropy at the local level. Their influence is not in the size of their wealth, but in the commitment to showing solidarity with their environment, even with modest means. This is what personally motivates me. It makes philanthropy belong to everyone: Everyone can be a philanthropist.

If you witness the activities of networks and associations such as Philea, the Council on Foundations, Ariadne, the United Philanthropy Forum, WINGS and similar organisations and platforms in other regions of the world, you realise how good it would be if the wide range of philanthropists were to shape the face of philanthropy rather than a few philanthro-capitalists.

### 3.8 Philanthropy has an added value, but...

Let us move from philanthropists to philanthropy, because there is also criticism of philanthropy, not just of philanthropists. People who question the added value of philanthropy and believe that more taxes should be levied to serve the public good do not see that private money can contribute in an important way to a more diverse society and pluralism. They overlook the fact that as a society, we benefit from diversity in the way problems are understood, solutions are tested, effectiveness is evaluated and new coalitions are forged. Philanthropy can do this because it involves private money that can be used independently.

Philanthropy can operate effectively, creatively and skilfully in times of crisis. Governments are often trapped in bureaucratic structures and procedures, working in the silos of individual ministries, while foundations can use their relative freedom to manoeuvre quickly and skilfully.

Philanthropy can also be the thorn in the side of government and thus exert a corrective power. An example of this is the Bernard van Leer Foundation (Netherlands), which in the past applied strategic litigation and enabled the Kennedy School of Government, together with the Boston Public Housing Committee (a PBO), to successfully hold the city of Boston to account for neglecting public housing complexes where the foundation wanted to establish early childhood facilities.

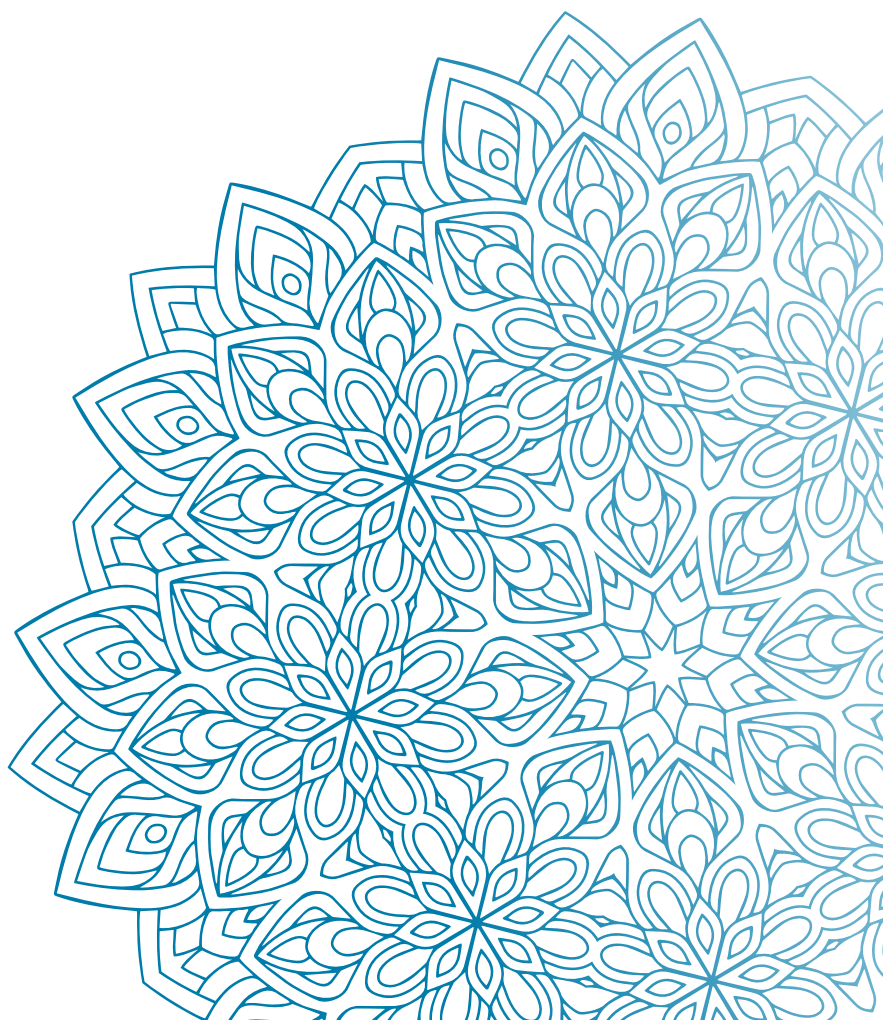
Philanthropy can also take risks and choose a long-haul approach, characteristics that are (too) complex for governments and their cumbersome decision-making power.

Philanthropy has a mission to direct private resources to public goods and services that are complex, risky and require a long-term view. Philanthropy thrives best when it can fulfil its mission alongside a well-functioning and adequate government and not alongside a "minimal government". Government and philanthropy can reinforce each other. Philanthropy is important for a government that wants to protect and defend the democratic and pluralistic character of society. Philanthropy should be seen as a systems requirement in a modern democracy.

Thus, philanthropy has a clear added value, but... self-criticism is needed.

### 3.9 Necessity of self-criticism and reflection

As previously stated, criticism of philanthropy often focuses on the behaviour of super-rich *philanthropists*. However, I would find it regrettable if this would prevent criticism being expressed about *philanthropy itself*. Such criticism is also justified, despite the added value of philanthropy. It should force foundations to reflect on their role in society and on their effectiveness. Foundations must reflect on developments and trends to better contribute to current and future problems. That is precisely what I want to offer in [Part B](#) of this book, and [Chapter 4](#) will start by taking a critical view on the license to operate.



Part B

# **A Future Agenda for Philanthropy**



## 4. Legitimacy and added value

In [Part A](#), I pointed out that philanthropy, and more specifically the foundation world, is under scrutiny. Criticism is expressed by the public, politicians and the media. All of this is happening at a time when philanthropy is becoming more visible, has an ambitious agenda, and wants to play a more significant role in society. I called this “the philanthropy paradox”. We can certainly qualify and mitigate this criticism, but we cannot and should not ignore it. That is why this first chapter of topics for the future agenda is about the legitimacy of philanthropy. It deals with the questions: What is our right as foundations to exist? What is the added value of foundations? Further, it looks at how legitimacy and working from a basis of trust are closely linked. Trust begins with “walking the talk”, with sincerity, and with having values that are not self-serving but are linked to social justice, solidarity and sustainable development. Without trust, there can be no legitimacy.

### 4.1. Seriously reflecting on the license to operate

Foundations must show much more clearly why private money for the public good is often better than more public money for the public good. This is the ultimate question of the legitimacy of philanthropy. My premise is that the government does not have a monopoly on serving the common good. Foundations bring real added value to the pursuit of the common good (see [Section 3.8](#)). Yet foundations should not take their right to exist for granted. They must always demonstrate that they deserve a license to operate and that there is indeed added value.

As there have been more questions in recent years about the added value of philanthropy, foundations must work to restore and/or strengthen trust by showing that with private money for the public good, with the ability to take risks, and with an independent attitude, they can play a clear and distinctive role in society – and that they want to be transparent about it.

A few years ago, a professor from Berlin raised a critical question about the Bertelsmann Foundation (Germany), founded by the Mohn



family. The foundation was “in compliance” with regulations, but the professor questioned whether the foundation was doing the right things. He had his doubts and then asked whether it would not have been better for German society if the Mohn family had settled with the tax authorities instead of setting up a foundation.

I have always had a very high regard for the Bertelsmann Foundation for what they do and stand for, but such a question forces philanthropy to reflect on its added value.

### **Added value, but also a few caveats**

Foundations do not have a necessity or obligation to be accountable to the outside world, while governments are expected in our system to be accountable to parliaments. Of course, there is a form of accountability for foundations to regulating government agencies, but this does not (primarily) concern the content of foundation programmes and their strategies. Foundations are only accountable to their own board, and public charities are in addition accountable to their donors.

This lack of public accountability, which is particularly evident in private foundations, is also the strength of philanthropy and a potential advantage. It allows foundations to take risks, take an independent stance, be the thorn in the side of the establishment, formulate long-term goals, and choose an integrated approach to solving problems. But do foundations practise what they preach? Are foundations using the comparative advantages of deploying private resources for the public good? These are the key questions.

Only when foundations are aware of their added value and act accordingly does diversity and pluralism emerge in society and can innovative initiatives flourish. Giving substance to the added value of philanthropy is what foundations should focus on when formulating their agenda for self-reflection. Unfortunately, I have seen that the risk appetite of foundations has often decreased rather than increased in recent years. A factor contributing to this includes aligning with restrictive government policies out of the fear of unintentionally funding terrorism and being involved in money-laundering operations. There

is a danger that foundations are conforming to the compliance mode, where all the boxes must be checked before initiatives can start.

Another cause of foundations becoming more risk-averse concerns their size. I personally believe that the size of foundations can be problematic. For small foundations it is not only easier to be creative and innovative, and have wild ideas and dreams, but they can also do this in relative peace unhindered by the pressure of politics, media or the public to show fast and tangible results. These small foundations are not seen as a threat to the system. Once foundations become larger, more visible and more influential, there are more questions about their legitimacy. It gives large foundations a different responsibility because they have other interests. They shift from a complementary relationship – often unnoticed – to a relationship where they can potentially substitute governments. They can then become quasi-governmental, or at least be perceived as such. When very large foundations become substitutes for governments, and it is not clear how and why choices are being made by them, they become susceptible to external criticism and distrust.

Risk aversion versus risk appetite is just one area of self-criticism. Foundations must also examine the effectiveness of their own functioning. It is common practice for foundations to assess their grantees, but self-evaluation by foundations about the what, the how and even the why of what they do is far less common. And yet, self-evaluation and the attitude of being open to critical questions from outside are important for the license to operate of foundations and for their legitimacy.

Self-criticism and getting feedback can be organised in different ways. As an example, I would like to mention the work of the Center for Effective Philanthropy in the US and its grantee perception reports. These reports allow foundations “to learn from actionable insights based on truly candid and reliable grantee feedback”. Another example is Listen4Good and the work it does in the world of foundations and PBOs. They use the phrase “embedding a culture of listening”.

Independent and critical journalism focused on philanthropy, as practised by *Alliance* magazine<sup>17</sup> and the *Stanford Social Innovation Review*,<sup>18</sup> is also essential. The same can be said of peer intervention groups, where a limited number of foundations meet to assess each other in a transparent manner.

### **Role of tax benefits in the legitimacy discussion**

The essential question is therefore why and when private money for public purposes can be better than public money for public purposes. This question is sometimes tangled with the question of legitimising tax benefits for transferring money to foundations. Many countries have legal facilities for this. Regularly, and not coincidentally after an incident or scandal affecting a foundation, criticism of tax-benefit schemes for donations re-emerges. But there is a broader political debate about the desirability of providing tax incentives for private giving. An important argument is that such tax facilities come with a price for society: By accepting these schemes, taxpayers tolerate lower government spending on all relevant policy areas. Another point of criticism of providing tax facilities to rich, major donors concerns the influence that goes along with their philanthropy. Tax benefits give disproportionate influence to major donors in those areas where traditionally the government would provide public goods paid for with public money.

For me, these arguments against tax benefits for foundations do not outweigh the arguments that are in favour of such benefits. The main argument in favour is that these tax incentives recognise the willingness of private individuals and organisations to voluntarily plough funds back into the public good. It is a recognition of societal generosity and expresses society's own responsibility to contribute to a better world. Against this background, taxing private donations is neither logical nor fair. A prominent tax expert in the Netherlands, Ineke Koele, sees the existence of tax benefits for giving as a matter of civilisation. She pointed out the fundamental rationale for gift deduction: "Privately organised general welfare should be treated equally to general welfare organised by the government. The government does not pay taxes, does it?"<sup>19</sup>

I will not elaborate any further on the legitimisation of tax benefits for giving, but will now focus on the more fundamental questions that foundations can ask themselves regarding their own license to operate. I believe that the more important question in the context of this book is the added value of private money for public purposes compared to public money for these purposes, completely independent of any potential tax benefits.

## 4.2 Roles foundations can play with private money

For the legitimacy question, it is interesting to look at the roles that foundations can play in society compared to the role of governments:

- Government and philanthropy **complement** each other: For instance it is more difficult for the government to lift people at a distance to the labour market out of the sphere of social security benefits than it is for private organisations to do so.
- Philanthropy **supplements** what the government does: For example, when the government subsidises cultural institutions and philanthropy adds private money to this.
- Philanthropy can be the **accelerator** for new developments: While the government pays for pure scientific research in, for example, medical technology, there is a time lag between the research and the moment when new discoveries are embraced by the business world. Philanthropic money can accelerate developments in that gap. I was involved in the fundraising for several medical technology projects at TU Delft in the Netherlands and experienced how crucial the role of philanthropy is in that intermediate phase between scientific research and market application.
- Philanthropy can be the **incubator**, the breeding ground, for new developments by funding research and ideas that governments are unable to fund or are not interested in.

- Philanthropy can address topics that are too risky for a government, such as supporting civil society organisations in Belarus. This is philanthropic money as social **venture capital**.
- Philanthropy can **challenge the government** when it does not take its responsibility, acting as a watchdog and correcting mechanism (see the earlier example of the Bernard van Leer Foundation in Boston).
- Philanthropy can be an **agenda setter**, stimulating the public and political debate on a topic, such as the discussion on the Panama Papers, a project realised with private money from foundations (such as Adessium Foundation, Netherlands).
- Philanthropy can serve as a **substitute** for the government. I mentioned in [Section 3.2](#) the example of Fonds 1818 (Netherlands) stepping into the vacuum left by the municipality of The Hague when they closed public libraries. Substitution can also take place when very large foundations start to act as quasi-governments.
- Philanthropy can be a **competitor** to the government. While the Dutch government supported the international campaign “Basic education for all”, which embraced the widely accepted age of four as the starting point for promoting child development, the Bernard van Leer Foundation challenged this and advocated for “learning starts at birth”, in line with its own strategy and conviction.

These different roles give substance to the legitimacy of private money for public purposes and can help foundations in the discussion about their role in society. Moreover, elucidating these roles helps foundations themselves to grasp how and why they are relevant players in civil society. At the same time, they should not overestimate their importance. It is not the foundations themselves, but the PBOs supported by foundations, that are the change agents. Foundations facilitate change. However, in those relatively rare cases where a foundation takes on the role of “agenda setter”, it certainly does deserve the label of a change agent.

On the other hand, foundations must also be careful not to fall into the “Calimero Complex”, the feeling of not being taken seriously because of their relatively small size compared to governments. Their role is greater than their size suggests: As the English say, “They punch above their weight.” Foundations should be more aware of their power in society and use their strengths, such as being able to take risks and to choose a long-term approach. There is certainly no reason for a collective inferiority complex.

### 4.3 Analysis of root causes: Basis for effective solutions

The mission and strategy of foundations are often formulated without in-depth analysis. The founders of foundations (especially private foundations) are sometimes guided by what is genuinely seen as “adequate responses to problems in society” after speaking with various people and organisations in their own network. But often, mission and strategy are the result of the founder’s intuition. Based on a sophisticated gut feeling, policy plans and work plans are then developed. Because foundations indicate on their websites or portals which activities they want to support, they unsurprisingly receive exactly these types of requests.

There is often no critical analysis of the effectiveness of the interventions that a foundation supports with its financial resources, let alone a deep analysis of the problem itself that needs to be solved. On the other hand, in the case of public charities, mission and strategy are more reflections of the actual problems that require a solution. The discipline of the fundraising market ensures this to a certain extent, although there looms a danger that fundraising strategies could influence the narrative of the problem the charity seeks to solve.

Fortunately, we are seeing a development among private foundations in which they first try to identify the root causes of a problem and evaluate it in a broader context before the donation machine is set in motion. This allows for more informed choices to be made regarding the solutions they want to support. This, for example, leads

to foundations commissioning more research from universities and other knowledge institutions. Problems are first seriously investigated before donations or investments are made. In the October 2019 edition of its newsletter, WINGS commented: "Philanthropy is no longer about benevolence. It is about having impact on the complex problems that face the next generation."<sup>20</sup>

Indeed, there is a deeper understanding among foundations that many problems are complex in nature; that money, time, and other resources are needed to unravel and understand these problems; and that effective solutions should not be assumed but need to be tested or at least supported by evidence. If foundations can understand the root causes of a problem, they are more likely to formulate and support effective solutions. A good example is the Goldschmeding Foundation (Netherlands) which, after its establishment, first began commissioning research on how it could contribute to an inclusive and sustainable society. Only after it received evidence-based guidance on this question was the foundation open to well-documented project proposals in the areas of inclusivity, circular economy and a humane society. It is wise for new foundations not to immediately start projects and programmes but to take the time to formulate their mission and vision.

### **Relationship between philanthropy and research**

The trend of delving into the root causes of problems before foundations support a project or programme is, in my opinion, one of the explanatory factors for the recent closer cooperation between philanthropy and research. In 2019, the EFC even signed a memorandum of understanding with the European Research Network on Philanthropy (ERNOP), the umbrella organisation for university research departments and programmes in the field of philanthropy.<sup>21</sup> In the section, **"Focus on: Relationship between philanthropy and philanthropy research"**, I elaborate further on this developing area.

Instead of commissioning research, there are of course other approaches to gaining insight into what does and does not work as instruments and strategies used by foundations. One of these alternative approaches is for a foundation to make many small donations

in support of different programme strategies. This way, a thousand flowers can bloom to see which ones seem promising and therefore worthy of being supported with larger resources.

The trend of not simply writing a cheque but instead incorporating a careful phase of research and evaluation can be explained partly by the pressure of the environment in which foundations operate. Foundations are more visible than in the past, which means that making choices based on their gut feelings alone would be more likely to lead to questions and criticism in the current environment. However, the interest in root causes and effectiveness is also driven by the intrinsic and genuine interest foundations themselves have in wanting to make a real difference and to tackle the real problems of society instead of just nibbling along the edges. What began with donating a seesaw for the playground has evolved into supporting the playground itself, followed by a desire to contribute to creating meeting places for people in public spaces, which is understood to be the root problem. This visibility of foundations and the desire/inevitability to solve larger problems stimulates the need to start the donation or investment process in a better-informed manner.

### **Output, outcome... and even impact**

Foundations are not only interested in understanding the root causes of the problems they want to address and the distinct role they want to play with their private resources: They are also increasingly interested in measuring or mapping results. They want to distance themselves from just deciding on donations, writing the cheque, and waiting for a financial report from the grantee to cover accountability requirements. That said, this more traditional practice can still be valid for a number of foundations, especially the smaller ones, as they may not have the resources to engage in thorough evaluation. Still, in general, I have noticed changes over recent years: Many foundations do not look upon the donation as a final product but as an instrument within a strategy.

I witnessed this through my involvement with FIN (Association of Foundations in the Netherlands), as a member from 1988 and



later as chair of the board (2007-2015). “Monitoring” became the new term. Foundations prepared grant letters that not only formulated agreements about the amounts committed for grantmaking and the payments schedule, but also included agreements on how a foundation would monitor the project. To be able to monitor a project or programme, goals were defined, preferably in terms of more concrete results. There was a shift from thinking in terms of “input” to thinking in terms of “output” – the direct, often quantitative results of a project. Sometimes this was further translated into “outcomes”, where a foundation tried to understand the achieved results via self-evaluation by the grantee, or through external evaluation, or by means of all the options in between. In recent years, the term “impact” has been added to the concepts of output and outcome – namely, looking at the effects of interventions by a foundation over a longer time period. This is particularly important if foundations want to play an innovative role in addressing problems in society.

Here is a concrete example: When a foundation supports a school, it is not only interested in the number of students with a diploma (output) or the competencies that students have acquired with a diploma (outcome), but the foundation also wants to know if the alumni have found their way to the labour market and have obtained a job (impact). It is important to have an impression of the ultimate goal that foundations want to achieve in order to reason backwards, understanding all the steps towards this goal and then formulating an implementation strategy and related activities. This is also the essence of the so-called theory of change.

I find it an interesting development that foundations are realising that they often have only an indirect impact on the ultimate results (such as how many alumni have obtained a job). The primary responsibility for this lies with the PBOs as grantees of foundations. The impact of foundations themselves lies more in strengthening and sustaining the organisation of the grantee. How can a foundation contribute to increasing the self-sufficiency of the partner and reducing its dependence on both governments and foundations? By taking

this approach, foundations contribute to their own license to operate, because the result is a more robust civil society.

I want to flag two issues regarding impact-driven approaches. First, it is often said that the interest in impact has to do with how endowments of foundations are invested, and not, or to a lesser extent, with the effectiveness of their spending. That is obviously not true, and there are even numerous examples of foundations that are very concerned with the impact of their charitable spending and not at all with the social impact of their investments.

Second, in the context of impact thinking, it is becoming increasingly important to collect and analyse data. Formulating KPIs (key performance indicators) and monitoring whether they are achieved has become the norm. But can everything be measured? Is there a clear metric that represents the complexity of the problems that a foundation wants to address? And is it even necessary to measure everything and translate all values into monetary terms? No, we must realise that philanthropy often contributes to the intangible social capital of society. And this cannot, or can hardly be, captured in any form of measurement. A rigid application of KPIs and the desire to measure everything means that foundations are in danger of limiting their focus to quantifiable and short-term results, while also making concessions to their risk tolerance. They are afraid to take steps that cannot be translated into clear KPIs. In other words, foundations must be careful that they do not develop initiatives precisely because the outcomes are measurable.

On the other hand, the importance of KPIs and measuring progress cannot be denied. Otherwise, foundations risk looking like a commercial company that does not measure its financial returns. But measuring impact is subordinate to having a broader vision. While part of that broader vision indeed can be captured in KPIs and tracked in quantitative terms, another equally relevant part cannot be tracked in quantitative terms but can only be described through narratives and qualitative information. Martin Luther King would never have had so much influence if he had said “I have KPIs” instead of “I have a dream.”

Hence it is important to embark on impact analyses and longitudinal studies, while at the same time allowing for stories, tracer studies and other qualitative analyses. And it is important to share and disseminate such information. This culture is much more developed in the US than in Europe. The annual obligation for US foundations and PBOs to complete their so-called “990s” illustrates this. Because of this there is a lot of information available to the public in the US, and this in turn influences the mindset of being transparent and sharing a broader information base with each other. Organisations such as Candid (US) and the OECD (France) are excellent when it comes to providing up-to-date information about the entire philanthropy sector. Improving data collection and analysis in Europe should have a much higher priority. In this context, I want to point out again the groundbreaking work of ERNOP.

Despite my somewhat critical comments, the development of thinking in terms of output, outcomes and even impact is essential for the legitimacy of philanthropy.

When it comes to the impact of Covid-19, It is not entirely clear whether the pandemic has strengthened or slowed the inclination of foundations to research the root causes of problems, or their interest in effectiveness and impact. The growing awareness about the complexity of the world in which we live and how everything is interconnected, combined with the growing influence of philanthropy and the visibility of the sector, could be an explanation for a greater need for analysis and interpretation. On the other hand, the pandemic has also brought the sector, as noted earlier, into a mode of acting quickly and solving problems without much time for in-depth analysis. If living with more crises and more uncertainties becomes a reality, the consequence may well be that speed of action and more room for intuitive behaviour become the norm, as illustrated by Covid-19.

#### 4.4 SDGs and the soul of philanthropy

Foundations are often so focused on what they do (the content) and how they do it (the approach and instruments) that they spend too little time on the why of their actions. Yet the why is essential in a discussion about the license to operate. Foundations make choices, and those choices are motivated by a vision. A vision reflects how you want the world to look. It is idealistic, long-term, and serves as a source of inspiration to initiate philanthropic initiatives. The motivations to start a foundation and/or to give a foundation a soul can be very diverse. There are foundations that derive their moral compass from a religion, a political conviction, or an ideal that is neither religious nor political.

My suggestion is for foundations to also consider the United Nations Sustainable Development Goals (SDGs) when looking at their own moral compass.<sup>22</sup> In 2020, the Gulbenkian Foundation (Portugal) decided to commission Rockefeller Philanthropy Advisors (US) to link the foundation's activities to the SDGs. This way, the foundation developed a tool to map and monitor the contribution of the foundation's programmes to sustainable development. Importantly, the foundation also shared its journey on its website in an article titled "SDGs and the Foundation".<sup>23</sup>

Another foundation that embraces the SDGs in an innovative way is Compagnia di San Paolo.<sup>24</sup> Its strategy even provides for the organisational structure of the foundation to mirror the philosophy of the SDGs, and subsequently its strategic goals are set in accordance with the Goals – proportionate of course to the size of the foundation. This innovation took place under the guidance of Compagnia di San Paolo's Chair, Francesco Profumo, and its Secretary General, Alberto Anfossi, who is seen as a leader of this kind of thinking among his European colleagues.

Even if the SDGs would not be regarded by foundations as their moral compass, they can still make their involvement in the broader social context explicit and concrete. This is not only relevant for international foundations – it is important to establish this relationship

for development at the local level as well. In 2020, the European Community Foundation Initiative (ECFI) published “Connecting Community Foundations with the SDGs”, a report which highlights the important role that local philanthropy can play in achieving the SDGs.<sup>25</sup>

SDGs also play an important role in sustainable investing. I am an advisor to Double Dividend (Netherlands), a sustainable asset manager active in the foundation world. Double Dividend has linked the selection of stocks in constructing portfolios to the contribution that the selected companies make to the SDGs. Foundations that seriously link their investment policies (which I discuss extensively in [Chapter 9](#)) to the sustainability agenda, give a concrete expression to their license to operate.

The person who has been my biggest source of inspiration for getting to the essence of philanthropy is the late Paul Ylvisaker, Dean of the School of Education at Harvard and board member of Bernard van Leer Foundation. His article, “Is Philanthropy Losing Its Soul?”, is an eye-opener for insights into the license to operate and the importance of thinking about the moral compass.<sup>26</sup> In this piece, he formulated rules for foundation staff and board members. Let me mention a few:

- Guard your own humanity. Don't lose your soul to arrogance. Be a distinctive human being who helps give identity to the foundation.
- Constantly assess your motivations. Do they reflect your drive or the goals of the foundation?
- Be willing to open up the black box of philanthropy to share its mysteries. Always be ready to explain the reasons for your decisions.
- If you lose your passion and become jaded, get another job.
- Follow both compassion and analysis to understanding.
- Don't ever lose your sense of humour.

### Why legitimacy belongs on your future agenda

In this chapter, I have presented some concepts for an informed agenda to discuss legitimacy and the added value of foundations in the foundation world.

I want to reiterate in this context that foundations should not overestimate themselves. Foundations are not the changemakers. The changemakers are the PBOs that are the recipients of philanthropic funding from foundations. The common language used to speak about these changemakers as “beneficiaries” undermines their actual significance. The term grantee is more neutral in this regard. Therefore, foundations facilitate grantees/ changemakers by providing access to financial resources, expertise, advice and networks. If foundations can use the lessons that can be drawn from the initiatives of their grantees to influence the public and political debate, then they can be seen as changemakers themselves. This is also the case if foundations truly contribute to strengthening civil society.

The core of foundations' legitimacy and added value lies in listening to the local community they claim to serve and then taking risks in the process that follows. I will return to this in the next chapter, where I will address the relationships of foundations with their grantees and the local community.

## Do foundations have a problem of self-awareness?



Drawing by Claudius Ceccon, commissioned  
by the Bernard van Leer Foundation

## 5. Relationship with grantees and the local community

The understanding that grantees and the local community are more than just recipients of financial resources deserves a place on the discussion agenda of foundations. Driven in part by government regulation, there has been a recent discussion about who the ultimate beneficial owner (UBO) of a foundation is. In my opinion, it is not the board or supervisory board of a foundation, but rather “society”, with grantees as a more concrete personification of this concept. This seems so obvious, but why does the European Commission present regulations that allow Member States, such as the Netherlands, to see the board of a foundation as the UBO instead of society? Could it be because foundations themselves have neglected to emphasize the strategic importance of grantees and the local community?

### 5.1 Some observations as “food for thought”

I would like to start this chapter with two observations that make it clear that grantees and the local community are the pivot points in societal change.

#### **Observation 1: The concept of grantees as customers misses the mark**

In his publication, “The State of Not-for-Profit & Higher Education in 2021”, Grant Thornton raises the question of what not-for-profits, such as foundations, can learn from for-profits. The first lesson or success factor mentioned is “It’s all about the customer,” which is a call to foundations to see and treat the recipient of grants as a customer or client. This argument posits that foundations should take grantees seriously and that the relationship between grantor and grantee would thus get closer to equality.<sup>27</sup>

While referring to grantees as “customers” or “clients” may sound sympathetic, I am sceptical and hope that this discussion will be held across the foundation community. Real customers can exercise



their purchasing power as leverage. They can decide whether to buy goods and services, and they can switch to competitors. This is how the discipline of the market works, and companies that offer goods and services will indeed listen to their customers and clients, who can really use their “power” to influence the relationship with suppliers in the for-profit world. My objection to applying this concept to the grantor-grantee relationship is, first, that grantees cannot use purchasing power as a weapon in that relationship, even though the grantor benefits from receiving, for example, substantive information (such as project reports and evaluations) from the grantee.

My second and perhaps more important objection is that the functioning of foundations should be based on the deep understanding that problems in society can only be solved if you take grantees seriously because the problems are shared problems. The grantee is not a customer but a partner. The mindset should be to want to come to a solution together.

The imposition of top-down solutions that supposedly serve the community should be avoided. This also applies to cultural arrogance that foundations sometimes display about their experiential knowledge, especially at the local level. Grantees who are close to the field and daily practice play a crucial role through their insights and experiences. It is essential to see them as equal partners. Of course, grantors play an important role in addition to providing funding, as they also have experience, expertise and networks on their side. It also has value in and of itself to be able to view a problem by purposefully taking a certain distance as a grantor can do. But that does not detract from the fact that the grantee must be seen as essential to the effectiveness of the grantor.

**Observation 2: Local communities and local philanthropy are essential**

My second observation concerns the importance of the local community in addressing societal issues. The interest in the local level and local issues is the natural counterpart to globalisation. Globalisation has many advantages and is sometimes considered unavoidable.

However, it also relates to everything in one's immediate environment, and as such, underscores the importance of the local community and the web of local connections.

Social movements and citizens initiatives arise and sometimes lead to programmes that could not have been initiated by governments. An excellent example of active citizenship is Emma's Hof in The Hague, a community garden set up and maintained by local citizens. In a residential area in The Hague there was a piece of land locked between residential houses with an old dilapidated small industrial building in the middle of that courtyard. The organisation Stadstuin Emma's Hof was founded by the neighbourhood and was able to buy the land and building with help from individual donations and support from, among others, Fonds 1818, based in The Hague. The building was demolished, and with the participation of the whole community, a beautiful, publicly accessible community garden was created. It is a prime example of how civil society should and can function: Citizens and communities rediscover the power of their local assets and interpersonal connections. On that basis they come together for common action.

Not only is the interest in the local level and local issues the natural counterpart to globalisation, but local dynamics are also essential for achieving global goals, such as the SDGs. For example, if society wants to achieve the concrete goals around climate change, the involvement of local communities and citizens initiatives is crucial. The World Forum of Local Economic Development produces much interesting information on this important relationship.<sup>28</sup>

It is becoming increasingly relevant for foundations to listen to and understand this local dynamic and new elan. Local communities are raising money themselves (for example, through crowdfunding) to implement their plans. The question is how this can be facilitated and strengthened by the foundation world without foundations appropriating these types of initiatives.

### **Community foundations: A quiet revolution**

One specific way to give substance to the importance of the local community is through so-called community foundations. This form

of philanthropy has been on the rise for decades but has shown an enormous upswing in recent years, which is perhaps the most promising new development in philanthropy. It is often referred to as a quiet revolution. The essence of community philanthropy is the pooling of mostly local resources, both financial and non-financial (especially volunteers), with the aim of benefiting the local community. The boards of these foundations are formed by representatives of the community. Thus, community foundations are of the community and for the community.

Community foundations have long been known in the US and the UK, but in recent decades, we have also seen a rapid rise in Germany and Italy, supported by the Bertelsmann Foundation and the Cariplo Foundation, respectively. The first community foundation in Germany was established in Gütersloh in 1996. Germany now has more than 250 of this type of foundation. A driving force behind the movement of community philanthropy in the world was and is the Charles Stewart Mott Foundation based in Flint, Michigan (US).

Together with a few other colleagues in the foundation world, I was responsible for the establishment of Community Foundations Netherlands (Stichting Lokale Fondsen Nederland) in 2014, to promote community philanthropy in the Netherlands and support emerging initiatives. The Mott Foundation was willing to support this Dutch initiative, with the Texel Foundation being a great example of a community foundation in the Netherlands.

A critical remark with respect to community philanthropy is, however, justified. At first glance, promoting community philanthropy seems entirely positive. But we sometimes observe a top-down approach in implementing it. Sometimes a foundation working on the national level wants to promote community philanthropy by providing an endowment to a new, local community foundation to give it a head start. Despite good intentions, questions can be raised about this approach.

The starting point of community philanthropy should *not* be an endowment handed to them by a third party from outside of the

community. An appropriate starting point should rather be the deep understanding that there are local assets that can be capitalised upon. These assets can be the ownership of historic monuments (see sidebar), geo-physiological assets (such as a mountain range or river), certain rights, knowledge/expertise (such as a university), etc. Community philanthropy is not about a few super-rich people in the community but about everyone who is willing to participate and contribute to their own community with (sometimes) limited resources. Resources may be limited on an individual basis, but if done collectively, they can be significant.

We can speak in this context about the democratisation of philanthropy. Often, community foundations receive legacies from their own community. The local community organises itself to utilise these assets, and foundations outside the community can facilitate such a process and serve as a catalyst instead of taking over or taking charge.

#### Local assets in Naples

Naples, Italy provides a wonderful example of community development and philanthropy. In the early 2000s, it became apparent that there were neighbourhoods in the city with significant socio-economic challenges and a host of problems for young people. At the same time, these neighbourhoods had important assets. The Neapolitan catacombs of San Gennaro are famous but had fallen into total disrepair. With philanthropic funds and help from the municipality, the local population was able to give these catacombs a facelift and present them again as a tourist attraction.

This was not an end in itself: The attraction was used to give the local community an impetus and generate resources to solve social problems. From the inside, the community was strengthened: Restaurants opened their doors, and small businesses were started. In 2006, Cooperativa La Paranza was founded to give an impetus to solving the social and socio-economic problems of these neighbourhoods in Naples. I visited this programme with all its youth activities in 2018 and was impressed. It clearly demonstrated how a community can transform itself by getting its act together, mobilising citizens and utilising local assets. External assistance was a welcome

} catalyst in that transformation process, but the stewardship lay with the Neapolitan civil society.

### **Grantees and local communities as hubs**

My two previous observations are obviously different, as the first one concerns the relationship between a grantee and a foundation (as a grantor), who may be physically distant from each other, and where the question focuses on the equality of the relationship. The second observation is not about a grantee, but about a local community that can be strengthened with the help of an external donor. However, what these two observations have in common is the recognition and awareness that it is the local grantee/the local community where it all happens. That is the social hub, the platform for societal innovation.

Foundations, especially those functioning on the national level, can facilitate societal innovation on the level of the local community, but even that process requires restraint, modesty and having trust in the people and organisations on the receiving side. The last thing a foundation should do if it has an interest in supporting local initiatives is to come from outside with the attitude of “we will solve your problem.” Foundations must prevent themselves from projecting their norms and solutions onto grantees. It is about attentive listening and avoiding cultural arrogance. I see the provision of resources to strengthen the capacity and organisational rigour of these grantees as a good way for foundations to empower them. If foundations can play this facilitating role, then they have also contributed to their own legitimacy. Against this background, I would like to make some comments that can facilitate an informed discussion about the relationship between foundations and the field.

## **5.2 Relationship with grantees: Participatory grantmaking**

Participatory grantmaking is an approach or style of grantmaking that is important for the world of philanthropy. EDGE Funders Alliance is a network of both organisations and individuals working in philanthropy that provides an interesting platform for discussions about, and

experiments with, participatory grantmaking (for example, through FundAction).

Ultimately, participatory grantmaking is about a redistribution of power between a foundation and the grantee. GrantCraft, Candid's initiative, came up with a definition of the concept of participatory grantmaking in the publication, "Deciding Together: Shifting Power and Resources Through Participatory Grantmaking", namely: "Participatory grantmaking cedes decision-making power about funding – including the strategy and criteria behind those decisions – to the very communities that funders aim to serve."<sup>29</sup>

The publication states that the concept of participatory grantmaking is not yet widely embraced. I believe that the framing of participatory grantmaking may be blamed for this. The suggestion is made (also by this definition) that foundations should throw a bag of money over the fence because the recipient organisation or group knows what is good for it and the community. Because of this suggestion, foundations that I worked with were hardly prepared to move away from their traditional behaviour.

However, the essence of participatory grantmaking is – and EDGE Funders Alliance stands for this – to involve grantees seriously in donations and social investments. This can also mean that foundations are willing, under certain conditions, to leave the decision-making process about donations more to the community concerned. Examples can be seen at FundAction, the Joseph Rowntree Charitable Trust and the Participatory Grantmakers Community. The Global Fund for Community Foundations (GFCF) gave the impetus to a movement now known as #ShiftThePower, which, as the name suggests, wants to give more influence to the local voice in grantmaking. Foundations should see involving grantees in the decision-making process of donations as morally desirable and effective for their strategy and positioning.

I believe that we need to move away from the approach where grantmakers describe what should be done by grantees and how it should be done, which leads to the formulation of KPIs by grantmakers without a serious dialogue with grantees. Philanthropy can learn from

the business world when it comes to providing venture capital to new companies. If such companies raise funding from new and existing shareholders, shareholders are not likely to indicate precisely on what cost items their funding should be spent. But this, on the contrary, is exactly what foundations do with their grantees. They should realise that specifying in detail on which cost items funding cannot be spent or should be spent, is the wrong attitude. More trust should be given to the grantee. The grantee is knowledgeable and has experience. Foundations would be wise to use these insights in their grantmaking policies and practices.

On the continuum of a foundation that prescribes everything and a foundation that provides unrestricted funding to PBOs, there are many interesting options to consider. In [Chapter 8](#), I will elaborate further on the issue of unrestricted grants.

In the current section I focus on the options between restricted and unrestricted grantmaking. These options have to do with the way and the extent to which grantees have a voice in the decision-making process about donations and social investments. They also have to do with foundations changing their attitude and being willing to let go of absolute control over the functioning of the grantee and instead thinking in terms of partnership. Let me be a bit more specific about these options.

### **Different dimensions of participatory grantmaking**

Participatory grantmaking obviously relates to the engagement of grantees in decisions about donations and social investments by foundations, and it may imply, as mentioned before, that more discretionary money is provided to grantees. The common denominator is that foundations allow for flexibility in their relationship with grantees.

For example, foundations sometimes decide to make payment schedules more flexible; provide more leeway for grantees to receive committed funds earlier or later; or allow grantees to receive a no-cost extension. These flexibilities can also be coupled with greater freedoms for grantees to determine how and how often progress reports are provided. Foundations can contribute in this way to a situation where

PBOs can better concentrate on their actual work. It would be worthwhile for different donors of the same grantee to better coordinate their reporting requirements. Currently, it often happens that a grantee must produce different reports for different donors. Sometimes, donors even use different fiscal years for the financial reporting by grantees. This places an undue administrative burden on grantees.

Although participatory grantmaking focuses to a large extent on the financial and reporting relations with grantees, there are other dimensions in the relationship between grantor and grantee that must be considered in the discussion about participatory grantmaking. These dimensions rather relate to the attitude of foundations and their grantmaking style. Volker Then, CEO of AIS Foundation (Italy) and former Executive Director of the Centre for Social Investment at the University of Heidelberg, conducted a trend study on the grantor-grantee relationship with Martin Hölz. "Learning from Partners" began in 2012 and was repeated for the fourth time over the period 2020-2022.<sup>30</sup> Drawing from this trend study, Then provided his perspective on the inverse relationship between the strategic and often proactive attitude of a foundation on the one hand, and on the other hand the flexibility that such a foundation has toward the recipient and its ability to listen to that recipient.

Foundations must reflect on this dilemma. They sometimes assume they know the field so well that they become proactive ("Don't call us, we'll call you."). They even see this as a step forward and as a progressive way of practising philanthropy, but in my opinion, they are fundamentally mistaken if they take this too far. The consequence of this attitude is that little flexibility is offered to the recipient and that foundations are insufficiently open to signals from grantees and potential grantees.

The essence of participatory grantmaking is not primarily the degree to which discretionary money is made available to the grantee, but the underlying attitude of foundations. Foundations must genuinely believe that problems can only be solved in close partnership with the grantees. They must believe that the grantee's expertise is so



essential that some choices can be left to the grantee. Instead of imposing solutions on the grantee, foundations should rather strengthen the grantee's ability to make choices for themselves. If you do not do this, you will also lose the creative intelligence of the people you want to serve with philanthropic resources.

### **Have your ear close to the ground to listen to grantees**

Truly listening to the grantee means that a foundation better understands the needs and challenges of the grantee. This keeps a foundation from receiving proposals that are not necessarily a reflection of local needs but are driven by the attitude of “how to please the grant-maker”. It also prevents two worlds from existing side by side without understanding each other: Local organisations/grantees have financial and non-financial needs and think in terms of possibilities, while foundations often think in terms of systems and policy plans. In foundations there is sometimes too much emphasis on limitations and why something does not fit into their strategy. While local organisations often have concrete and urgent requests, foundations want a theory of change to be formulated. These kinds of discrepancies can be prevented through better relationships and communication between these two worlds.

I witnessed this after the 2010 earthquake in Haiti, when an important PBO there appealed to international foundations, and one of these foundations dared to indicate that it wanted to consider a donation, but... it first wanted to know about the PBO's theory of change. In a blog in Ariadne's Thread in November 2021, Vu Lee called on foundations, “especially the left-leaning ones”, to stop what he called “toxic intellectualisation”.<sup>31</sup> In other words, a toxic type of rationalisation of the problems leading to the kind of situation I described.

A sideline comment: I am very allergic to new concepts with new jargon that are often initiated by people or organisations that want to make their mark on the world of philanthropy. Sometimes, the theory of change and catalytic philanthropy (an approach practised by foundations to create transformative change beyond writing the cheque) are discussed. It is trendy, leads to “instant respect and confusion”, and can often be classified as “the emperor's new clothes”. The same

applies to the often-used term “systems change”. I have often reiterated that such a structural change of the system should not be excluded, but that the desire to do so is at least somewhat pretentious and often formulated too lightly as ambition. I advise foundations not to embrace buzzwords such as “systems change” and “theory of change” too quickly. If foundations stick too strictly to pretentious theoretical concepts, all the oxygen is sucked out of their organisations, and we alienate the outside world from us with dysfunctional jargon. Foundations should be very satisfied if their activities lead to strategic changes, even if they occur within existing systems. I will come back to this topic in [Section 8.2](#).

So, the relationship with the grantee is not only strengthened by giving the recipient more freedom in the financial relationship with foundations, but especially by the style of grantmaking. Participatory grantmaking can go beyond giving a voice to grantees in the decision-making about donations: It can also entail seeking the expertise of people with first-hand experience relevant for foundations to make informed decisions. I came across a good example a few years ago at Community Foundation Northern Ireland in Belfast. This foundation wanted to finance initiatives to bridge the gap between the Protestant and Catholic communities in the torn society of Northern Ireland. In the decision-making process about the budget available for donations, this foundation gave a significant voice to people in prison who were there because of religious violence in those communities.

### **Regranting: Reaching the ultimate grantee**

Another option for the future agenda is to use regranting as a tool to strengthen the relationship with the ultimate recipient. Reaching out to the ultimate grantee can be problematic for a foundation because of the small scale of grantees, the cost of processing donations, considerations of efficiency in a more general sense, and the ability to work in a different political and cultural context. Foundations will often be inclined, especially when it comes to international donations, to finance the “darling PBOs” that are well-known and represent seemingly low-risk propositions. These popular PBOs are often already overfunded.

In my opinion, foundations must have the courage to make smaller donations to a larger number of unknown and often younger PBOs that do the right thing but have not yet ticked all the boxes of proven effectiveness and efficiency. Foundations are supposed to take risks, and it is indeed true that working with small, starting PBOs is riskier. Regranting offers opportunities to overcome this impasse.

So how does it work? An example: Among others such as the Rockefeller Brothers Fund (US), the GSRD Foundation (Netherlands) makes relatively large donations to the Global Greengrants Fund, an intermediary organisation that does regranting. Global Greengrants, which has a local presence in Vietnam, among other countries, knows very well the many small and sometimes starting PBOs that are unknown to the GSRD Foundation. Conversely, these local PBOs in Vietnam would not be able to find the foundation in Amsterdam. Global Greengrants divides the large donation from the foundation into small donations of often no more than €1000. This is an example of a style of grantmaking that has a positive impact on the relationship between foundations and final recipients. Years ago, I wrote an article about this in *Alliance* under a title that precisely indicates what regranting is, namely: "How to retail wholesale money".<sup>32</sup>

In 2022, India banned regranting with its FCRA legislation. The Indian government wants to have control over the flow of foreign money to ultimate grantees. If funds come into an organisation in India that passes it on in small portions to local organisations, the Indian government loses control. This is just an example of the shrinking space for civil society that we will have to get used to and to live with as foundations.

A variation on regranting is the example of the New York Federation of the Arts (NYFA), which received a substantial donation and chose to allocate a certain amount separately. They transferred this amount to a local cultural institution to spend it entirely at their discretion and under their own conditions in the cultural veins of the New York community.

### 5.3 How do we strengthen the local community?

I have already pointed out the importance of community philanthropy, which must be bottom-up to be successful. Foundations on the national level can facilitate community philanthropy but should not take over. I have already mentioned the role that the local community and thus community foundations can play in achieving the SDGs. This is where the connection can be made between global objectives and local action. The European Community Foundation Initiative (ECFI) has published a practical guide, as mentioned in [Section 4.4](#), to support community foundations.<sup>33</sup>

Essential here is that the SDGs should not be seen as distant and unattainable goals. By making this connection, individual citizens can give practical meaning to the SDGs and bring them to life. From the perspective of the UN, the involvement of community foundations, where many stakeholders come together, is considered essential for a transformation of society towards these objectives. The ECFI publication highlights the value of community foundations in connection with the SDGs: "Realising the SDGs is not just about mobilising financial resources: It requires systemic change that involves new ways of working between the public, private and non-governmental sectors. Community foundations will always be a minor actor from a finance perspective: However, they are well placed to play a catalytic role through their own independent action and through brokering connections, stimulating discussions, and promoting collaboration."

### 5.4 Unenforceable accountability to grantees

When foundations hear the word accountability, they usually think of the accountability they are obliged to provide to government agencies such as the tax authorities. In English, a distinction is made between enforceable and unenforceable accountability (i.e. voluntary accountability). The latter concerns the accountability that is owed to grantees and can even be extended to the public and future generations. The relationship between grantor and grantee is not often thought of in terms of accountability, but it is actually a good way to describe it.

In the introduction to this chapter, I alluded to my opinion that if foundations had paid more systematic attention to accountability to grantees, the political discussion about the ultimate beneficial owner could have gone differently. It is a bold statement that can be rightfully contested but hopefully also sparks a discussion about the grantor-grantee relation.

The UBO register arises from the 4<sup>th</sup> Anti-Money Laundering Directive of the European Parliament and the European Council.<sup>34</sup> It aims to register the “ultimate beneficial owners” (UBOs) of legal persons, including foundations, to reduce the risk of money laundering and other economic crimes. I can understand that owners of businesses are seen as UBOs, and that registration is necessary because of the ownership relationship. However, it is bizarre that this also applies to the board members of foundations. The European legal framework is unclear and vague, which leads to a variety of interpretations by Member States. Katerina Ronovska recently wrote an interesting article about this for *Philea*: “Wanted: A rational definition of ultimate beneficial owners of public-benefit foundations”.<sup>35</sup>

The vagueness of the regulations causes some governments, such as the Dutch one, to see members of the board and supervisory board members of foundations as UBOs. However, there is no ownership relationship between a foundation and a board or supervisory board. Even in the case where a family or a company establishes a foundation and sits on the board itself, this is not the case. Once money has been transferred to the foundation, it is outside the control of the donor, who can no longer dispose of it as if it were his or her own property. The UBO of a foundation should therefore not be the board or supervisory board, but society. This should be entirely evident in cases where a foundation also has a tax-exempt status. The government obliges the founder (citizens, families, businesses) to transfer ownership to society in exchange for this fiscal status. Society has given that tax-exempt status to the foundation and the foundation must work for the common good. If foundations had felt more systematically the need to be accountable to society, it would have been clearer that the UBO

should not have been designated as the board or supervisory board but as society.

Moreover, if you really want to prevent money laundering and terrorist financing, common sense suggests that it would be more effective to conduct a risk analysis of how money has ended up in a foundation and who is really pulling the strings. Instead, tens of thousands of elected or appointed officials of foundations, who are sometimes only chosen for four years, must now register. This is an example of pointless and above all disproportionate regulation.

Unenforceable accountability means that foundations engage seriously with grantees, listen, show empathy, heavily weigh the voice of grantees in decision-making, and are transparent about the what, how and why of their activities. The motivation for foundations to do this should not have to do with external expectations. Foundations should be convinced themselves that it is smart to do this, that it can greatly improve their effectiveness. It also means that foundations are open to signals from society, that they keep their finger on the pulse of society and involve the local community in a serious way in their work. This involvement should take shape in defining problems, in determining the direction of solutions and in evaluating effectiveness.

## 5.5 Trust as a driver for effective philanthropy

If philanthropy wants to be effective and credible, trust is the keyword. It is my deepest conviction that if you want to restore or improve trust from, for example, politicians and the public in philanthropy, you must start with trust in yourself, in the sincerity of the motives for establishing a foundation.

On 9 August 2021, I received an open letter from Kathleen Enright, President and CEO of the Council on Foundations, which was posted on the Council's website and was about "trust".<sup>36</sup> Let me quote a few sentences from it: "Over the past several years we have witnessed a crisis of trust in society and in our institutions. And philanthropy is no exception." She continues that the annual "Trust in Civil Society Report" from the Independent Sector indicates that trust in non-profits and

philanthropy continues to decline.<sup>37</sup> “What if trust in philanthropic institutions in the US and around the globe could be restored? Not through a sophisticated PR campaign, but by changing some of the fundamentals of our work in ways that build and restore trust. Imagine the potential that would unlock.”

Maecenata Foundation in Germany is an independent think tank in the field of civil society and philanthropy. This foundation started a project in 2018 called “Philanthropy Insight”, which aimed to give new meaning to the concept of trust in the context of society's mistrust and scepticism towards philanthropy. The final report was published in 2022 under the title “Trust in philanthropy”.<sup>38</sup> For me, this discussion connects the themes of the relationship with the grantee/community and that of legitimacy. It is also a key driver for the cooperation between foundations and other stakeholders. It is important for the future agenda that I offer in this book, because the question is what foundations themselves can do to improve the feeling of trust in what they do, how they do it and why they do it.

### **Restoring trust: Four interconnected dimensions**

To restore trust in philanthropy, I distinguish four dimensions that are logically interconnected with each other and that build from small to large. To restore society's trust in philanthropy in general, it is necessary to have trust in 1) the sincere motives of the individuals, families, and businesses that establish a foundation; 2) the way people interact within a foundation; 3) the way foundations interact with their grantees and the local environment in which they operate; and 4) the relationship within the broader contexts of citizens, politics and media.

I agree with Kathleen Enright that it is pointless to try to improve society's trust in philanthropy with a PR campaign as long as foundations, for example, deal with their grantees in a rigid way.

Restoring or building trust starts with the sincere motives of the founders, directors and managers of foundations to serve society. Doubts about whether the super rich only establish foundations to avoid taxes are damaging to philanthropy. If the general perception was that founders do this primarily for their own glory, it would be an

illusion to think that foundations or their associations could improve the public image of philanthropy. Let us therefore assume that the motives of foundation founders and key staff are primarily determined by the desire to serve the public good.

The next step is to look at trust within the foundations themselves: trust between a board of directors/supervisory board on the one hand and management on the other; trust between management on the one hand and staff on the other; and mutual trust within a management team, and so on. It is important to create an environment of trust, which includes having rules about avoiding conflicts of interest in serving the foundation. Having a whistleblower policy is also part of this.

The next dimension is to work on trust between a foundation and its grantees. Is there an attitude of listening to each other and brainstorming together about strategic choices instead of just monitoring KPIs? Is there respect? Is there an understanding that both parties need each other to act effectively? That the knowledge of the problems that need to be solved lies largely with the grantees? That there is a need in some cases for decolonisation of this relationship? Naturally, trust-based philanthropy goes hand in hand with evaluation/impact assessment and proper auditing.

Only when foundations have deliberately worked on creating trust in their own organisations and in the relationship with their grantees can trust in the relationship with the outside world be on the agenda. From the inside out. Not the other way around.



### **Why the relationship with your grantees and the local community should be on your future agenda**

In this chapter, I have presented several issues for an informed agenda that foundations should use to discuss the relationship they have with their grantees and with the local community. Is that relationship based on a deep desire to listen and to trust the knowledge and expertise of PBOs who have their ear close to the ground and their feet in the mud? In other words, is that relationship designed for and in service of the foundation's mission? Be honest about that and don't forget to ask grantees what they think about that relationship.

## 6. Partnership versus going solo

Cooperation is a typical, feel-good buzzword that seems to imply that working together is always good and that we should therefore do it more often. However, I want to start from a different premise, especially to stimulate critical debate: Cooperation has no intrinsic added value. This means that the burden of proof lies with foundations to demonstrate the added value of partnering with others. Cooperation is not a goal but a means. Foundations should be careful not to see cooperation as a solution to a poorly defined problem.

After this warning, I also want to emphasise that there can of course be many benefits to cooperating with other foundations, PBOs, governments and corporates. This applies not only to the process of donating or social investing, but also to jointly formulating a strategy, positioning the partner organisations together towards the outside world, or devising an advocacy agenda, among other areas. Foundations should therefore place cooperation with others high on their agenda as a topic for internal debate. Sometimes cooperation even develops into collaboration when there is a pooling of resources and collective decision-making.

### 6.1 Public charities and private foundations are different players

Many private foundations lack an instinctive tendency to cooperate with others. Private foundations are sometimes seen as entirely self-sufficient, and that is how they feel. They often have their own endowment, which makes them financially independent. In addition, they are also politically and intellectually rather independent. They can formulate long-term goals and do not have to deviate from them due to external pressures. On the other hand, they run the risk of being challenged to a lesser extent on content and strategy. Therefore, there is every reason for private foundations to engage in a debate among themselves about the benefits that cooperation with others can bring.

For public charities, the situation is different. They are largely dependent on the generosity of the public. This is why public charities are more market-driven, which generates forces that naturally lead to cooperation. It is easier for public charities to find each other because they are more visible and therefore more likely to attract publicity. They also tend to see the strategic advantages of partnerships more easily than private foundations do. Cooperation between public charities can be about content, but also about the development of new business models such as the sale of goods and services, grant applications, crowdfunding, etc. – a subject that plays little or no role for private foundations.

## 6.2 Complementary roles of government, foundations and the business sector

The level of complementarity of the roles different stakeholders can play in a partnership is a determining factor for the success of working together. If you want to strengthen each other, it is essential to be aware of the unique characteristics that each stakeholder – government, foundations and business – has in solving societal problems, or more broadly, in improving the quality of society. I will mention a few unique characteristics of these three parties that may accentuate the advantages of cooperation.

The unique characteristics of governments relate to the public legitimacy of what they do. The agenda of activities and initiatives is the result of democratic decision-making. In addition, unlike the other two stakeholders, governments can more easily provide structural financing, which can be substantial. Governments can realise a scaling up of initiatives so that they do not have to be limited to a single city or village but can have a more national coverage.

The unique characteristics of foundations, on the other hand, relate to the fact that even though they are obliged to operate within legal/fiscal frameworks set out by governments, there are no explicit democratic processes that lead to what they do. However, foundations can transform this lack of democratic accountability into an advantage. They can finance diverse and sometimes controversial public goods

and services that may not be supported by the average voting citizen but that do meet the diversity of preferences among the population. This contributes to the diversity and pluralism of society.

Foundations can be innovative and make societal experiments possible. Unlike governments, foundations can choose a long-term approach, act quickly and provide unearmarked funds. A unique feature of foundations is also that they can take risks – they can play the wild card.

Finally, the business sector. Companies do not function in isolation from their environment. Their existence is dictated by their ability to respond to that environment. To the extent that they are involved in charitable activities, this is based on genuine altruism, marketing considerations and everything in between. Some companies have a corporate foundation, but most companies interested in philanthropy have a corporate social responsibility programme. As with foundations, there is great diversity among companies: They range from a limited number of very large, sometimes publicly traded corporations that often want to express their social commitment through their own initiatives, to the enormous number of small and medium-sized enterprises (SMEs) that are often active by providing financial donations or in-kind contributions to more local initiatives with a societal character.

The unique characteristics of companies partnering with PBOs have to do with the fact that they can offer much more than just cash donations: Often, it is about non-financial support in various areas such as marketing and cash management. Companies can contribute to the professionalisation of PBOs. They will often, in contrast to private foundations, strive for a long-term relationship with a PBO because they do not feel the internal urge to be there just in the incubating phase of an initiative. It is important that the drive to cooperate with PBOs is found at a sufficiently high level of management within the company. A unique feature of the business world is that, in addition to the role played by management, there can be a significant contribution from employees who are proud that their company puts into practice the attitude that there is more to life than growth, market share and profit. There are many good examples of employee volunteer programmes.

### Cooperation within the foundation world

Over the last five to ten years, foundations have shown a greater interest in cooperating with each other. Covid-19 has been an important catalyst in this process, as outlined in [Part A](#) of this book, because foundations became even more aware of the importance of an integrated and cross-sectoral approach to problems. In general, it can be said that in times of crisis, foundations are more inclined to seek cooperation with other foundations. We saw this, for example, after the financial crisis in 2008. Public charities experienced setbacks with respect to their fundraising campaigns, which led to more cooperation with other foundations. Private foundations suffered a significant drop on the stock market, and subsequently declining returns from assets, which in many cases also led to a decrease in spending. The discussions among private foundations then focused on a few options:

- Continue business as usual
- Become a donor-advised fund under a larger foundation
- Build in a time horizon instead of existing in perpetuity
- (More) cooperation and collaboration

There are several considerations that lead to partnerships between foundations. One reason is to improve efficiency, which may include sharing office space; purchasing goods and services with other foundations; setting up an investment fund (such as the Common Fund in the US); and sharing facilities. Another more strategic consideration is the increasing complexity and scale of the societal challenges that foundations choose to address. Cooperating foundations can also punch above their own individual weights by pooling their financial and non-financial resources, which allows them to access each other's best practices and make their available budgets work more effectively. Cooperation can help foundations to better analyse problems, identify root causes and take a more holistic approach, thereby contributing to effectiveness. Collaboration among foundations can go much further than just co-financing and can involve sharing knowledge, jointly developing programmatic directions or setting up advocacy campaigns.

An excellent international example of foundation collaboration in the form of a pooled fund is Civitates – A Philanthropic Initiative for Democracy and Solidarity in Europe. This initiative of 21 foundations, mostly from Europe, supports civil society organisations that are under pressure in their own countries. The goal of Civitates is “to provide funding for civil society actors to come together, revitalise public discourse, and ensure that all voices are heard. Because we need a strong civil society to shape vibrant and open European democracies that work for all.”

An interesting reason for foundations that work in the same domain to cooperate is to facilitate the application process for potential grantees. A great example of this in the Netherlands is the Cooperating Foundations for the Elderly (Fondsen voor Ouderen), an initiative of 17 foundations working in the field of care for the elderly. The foundations launched a joint website that allows PBOs that support the elderly to easily see which foundation is best suited for their application.

Another reason for cooperation may be for foundations to increase their chance of accessing budgets that governments make available for a specific purpose. An example is the budget provided by the Dutch government to strengthen the mental resilience of young people in the Netherlands.

Finally, a reason for cooperation may be for foundations to make a strong statement to the government to draw attention to an urgent problem and place it on the political agenda (advocacy). The Association of Cooperating Health Foundations (SGF) has brought together 23 health foundations in the Netherlands, such as the Diabetes Fund and the Mind Foundation, to work together on a range of issues. An important theme towards the government is the lobby for the “Healthy Generation”: an argument for the importance of the first thousand days after birth, so that every child can have fair opportunities for a head start to life.

### **Cooperation with other stakeholders: What does it take?**

What should the interaction among government, foundations and the business world entail to be successful? First, mutual respect for

the individual, unique characteristics of the three parties, combined with mutual trust and realistic expectations. Second, it is about formulating and consciously experiencing the shared objectives and ambitions of the partnership. Partnerships should not only benefit individual partners, but there should also be common goals (that is when cooperation may evolve into collaboration), and should lead to better solutions for societal issues – solutions that could not have been achieved by each of the stakeholders separately.

Third, for foundations and the business world, it is about a sincere desire to serve the public interest in a professional manner, meaning: no quick fixes for problems; no greenwashing or purpose-washing; and adequate resources deployed for a period long enough to make a serious contribution to solving problems. Fourth, it is about valuing the unique characteristics of government, which not only focuses on the prevention of abuse in its regulations but also has a clear eye for the important things that can be done with private money for the public good. Compliance should, however, not overshadow performance (I will extensively address this in the section, **“Focus on: Compliance versus performance”**).

When it comes to realising effective cooperation with governments, there is an important prerequisite: Governments must accept that foundations are independent. While they may work with governments one day, it must remain possible for foundations to be the critic, the thorn in the side of the same government the next day.

For a long time, foundations were hesitant to cooperate with governments. On the one hand, there was a fear that foundations would become a substitute for the government in retreat. On the other hand, foundations were afraid of losing their own independence. They were also afraid that cooperation with government could suck them into the bureaucracy of governments and could cause them to lose their unique selling points. All these feelings still exist, but the potential of partnering with governments has become more understood, which has led to foundations being more willing to accept the potential pitfalls of cooperation.

The thinking about cooperation with governments has evolved in other ways as well. When I joined the Bernard van Leer Foundation (Netherlands) in 1988, this line of thought was still being followed: Foundations finance innovative initiatives and then share the results with the government in the hope that these initiatives can be scaled up with public funds. In my opinion, this is both illusory and naive. A detached approach to cooperation with the government does not work well. Foundations that finance a project, complete it, even evaluate it, and then wrap it up and send it to the government in the expectation that it will take it further, will be disappointed. There are several reasons for this. For the government, the foundation world is a relatively unknown world. If something is put through the government letterbox to implement, the reaction of “not invented here” looms. But perhaps the most important hurdle in cooperation with governments is the lack of a gradual transfer of the project from the foundation to the government at the end phase. I will delve into this further below.

The barriers to cooperation are reversed for governments that develop an initiative and realise at five minutes to midnight that there is a financial budget gap, and then knock on foundations' doors to enter a “partnership”. Cooperation as an afterthought by governments does not work. The foundations are then seen as an ATM, a financial partner without their own agenda. But foundations are also knowledge institutions: They have their own agenda, and rightly so. They should be involved at the beginning of a process when programmatic parameters and policy principles are being formulated.

Both types of partnerships demonstrate a misguided mindset to achieving constructive, sustainable and impactful cooperation. Constructive cooperation is a matter of both giving and taking. What the foundations should bring to constructive cooperation is a gradual withdrawal after a project has been successful, rather than an abrupt one. Foundations should be willing to remain involved in scaling up initiatives in a dialogue with the government for a certain period. This creates a good “dovetail”, in which private money and public money cooperate for the pursuit of the common good. An example is IMC



Weekendschool (Netherlands) with its programme for the public school system.

### **IMC Weekendschool becomes part of the regular school system**

In my opinion, the IMC Weekendschool Foundation (where I am a supervisory board member) is one of the most successful social initiatives in the Netherlands. The foundation provides supplementary motivation-focused education for young people aged 10-14 at 10 locations in the Netherlands. These are young people who face fundamental choices in their lives regarding education and training, but who often do not have the opportunity to make the right choices. Over the 25 years since the foundation was established, many passionate volunteer guest teachers (more than 7,500 per year) have helped broaden the future perspectives, increase self-confidence and deepen the sense of community for these young people.

The foundation's success can of course be measured by the fact that there are 10 schools, but as previously stated, it is better to look at the long-term effects of the Weekendschool initiative (a programme attended by children for 3 years every Sunday with a diploma at the end). There is sound scientific research on effectiveness, but for me, the testimonies of alumni speak the most. They sometimes come back after years to teach their "peers". They are now architects, police officers or lawyers, and they tell how decisive the three years at the Weekendschool were for them.

A few years ago, the organisation asked itself a fundamental question: Does "impact" mean that we would grow from 10 to, for example, 15 Weekendschools? Our joint conclusion was not to do so, but to explore the possibilities of bringing the Weekendschool methodology to regular education: not on weekends, but during the week. With that idea, IMC Basic Education was born.

In the discussions with the Ministry of Education, Culture and Science, the question arose whether we were looking for public funding. We indicated that we could realise IMC Basic with private funds, but that we did want to have discretionary space from the Education Inspectorate to experiment without being exposed to bureaucratic questions, such as "Why do those passionate professionals who volunteer as teachers at the school not have a teaching qualification?"

Meanwhile, more than 37 primary schools now participate in IMC Basic. The evaluations are very positive, not only for the children but also for the schools and their teachers. They see how children can be motivated and how their potential can be unlocked.

Primary schools have an obligation to connect with society, but many do not know how to do this. IMC Basic offers them that possibility. Schools have great appreciation for and interest in this programme, and it is on that basis that we have turned the financing model from 100% private funding by IMC Weekendschool (in early 2015) to the current model where 50% is paid by IMC Weekendschool and the other 50% by the schools and municipalities.

This example shows that foundations and PBOs such as IMC Weekendschool should not immediately seek public funding, but first need to develop a solid base for support.

### **Shrinking space of civil society: Hurdles to cooperation**

In recent years, the cooperation between foundations and governments around the world has come under increasing pressure due to nationalistic and autocratic political leaders viewing the independent stance of philanthropy and civil society as a threat to their authority. They hardly tolerate criticism of their policies and see a free press, as well as foundations and PBOs, as opponents or even enemies. Society is then being stripped of essential elements such as a free press and privately funded social initiatives. This limits the possibilities for foundations to cooperate with each other and with PBOs. This trend is seen in countries such as China, India, Turkey, Russia, some African and Latin American countries, as well as closer to home in Hungary and Poland.

The space for civil society continues to shrink further, and this is concerning. It also means that international transfers of philanthropic funds are limited or subject to such tough restrictions that effective international cooperation between foundations and PBOs is hardly possible. For example, in India, the Modi government imposed in 2020 new restrictions on foreign organisations that want to support domestic initiatives in India. The so-called FCRA regulations mean that donations from a foreign country to a PBO in India can only be received through an account with the State Bank of India. Additionally,

money from abroad cannot find its way into India through regranteeing because otherwise the Indian government apparently loses control of the ultimate destination. Obtaining an FCRA license is complex and often frustrating.<sup>39</sup>

### Shrinking space due to compliance requirements

Most European countries have an enabling environment for foundations and PBOs from outside Europe to establish themselves on the continent. However, these foundations and PBOs over the last years have experienced serious problems when opening a bank account. There is a compliance pressure imposed by European regulations that banks pass on to foundations and PBOs that want to open an account. This is particularly cumbersome if these organisations work in countries that are not transparent and that are unfriendly towards civil society and sensitive issues such as human rights, climate, community development or freedom of expression. Board members can even be designated as “politically exposed persons” by banks. Unfortunately, the Netherlands is not an exception in Europe in this regard. Recently the shrinking space due to compliance requirements was even extended to foundations and PBOs of Dutch origin.

## 6.3 Sometimes going solo is better

I mentioned in the beginning of this chapter that the premise for a discussion about cooperation should be the recognition that co-operation does not have an intrinsic value. Yet there are many good reasons for foundations to cooperate with each other and with other stakeholders.

Let me now come back to my premise. Cooperation should not be considered as the holy grail but should be on the agenda of foundations only if functional for their mission and strategy. This implies that there are circumstances that cause foundations to carry out initiatives alone. Cooperation takes time and effort. Alone, you can move and decide more quickly and be more alert and agile. Especially when it comes to initiatives that are not complex and do not require an interdisciplinary approach,

there may be a reason to act solo. *Alliance* magazine published an article by Lynda Mansson in December 2021 about the Mava Foundation (Switzerland), which usually acted solo “due to a desire to move fast and get things done”.<sup>40</sup> Cooperating with other foundations means that they must have the same values and norms. Moreover, all kinds of agreements must be made, while the personal characters of the players involved may be quite different and may even clash. The behaviour of a partner can also increase the reputational risk of one’s organisation. The feeling may also exist that one foundation contributes more than the other, and that there are differences in approach and in the budgets that are committed. All these arguments can lead foundations to decide to go solo, allowing them to avoid having to make concessions on mission, strategy, approach and tools; and to be able to take full credit for achievements.

### Why cooperation belongs on your future agenda

In this chapter, I have presented some suggestions for an informed agenda for discussing cooperation with others, such as other foundations, governments and the business sector. However, cooperation is not a “magic bullet”. Foundations must always search for the parameters that can make it interesting to work together. And these parameters are primarily related to the fact that a foundation wants to contribute to the solution of complex problems. Foundations weigh this against their own knowledge and experience, as well as that of other foundations and stakeholders. Considering this, the conclusion may be that cooperation is the best strategy to achieve long-term results because treating a partial problem in isolation has no impact. For the success of cooperation, it is important that partners are in an equivalent position, have a common interest, a shared vision, mutual trust and a willingness to compromise. Cooperation may then even evolve into real collaboration.

## 7. Integrating (new) substantive policy themes

An agenda for the future is not just about processes and structures, but also about content. Foundations must ask themselves whether – considering disruptive developments such as Covid-19, the Ukraine war and climate change – new substantive themes should be considered as subjects of donations and social investments. A good alternative may be to broaden existing topics that foundations focus on by giving them an additional dimension.

### 7.1 Major themes: Climate and environment

Unlimited economic growth violates the interests of nature, environment and climate and will eventually backfire on the well-being and even economic welfare of our society. We are shooting ourselves in the foot. Since the outbreak of the Covid-19 pandemic, there has been more discussion in the foundation world about mission and strategy. There is a greater awareness of the links between the mission of foundations (such as education, poverty reduction and culture) and the broader context of climate, nature and environment. The pandemic has further exposed the complexity of these links. It has become clearer that climate is a risk factor for health, well-being and economic welfare on both individual and societal levels.

The natural disasters that are unfolding and the problems we face are not “godsent” but can primarily be seen as human made. That is why it is important for foundations to realise that they are faced with intersectional problems and challenges. Therefore, they should relate their mission and strategy to the broader debate on climate and environment. An interesting initiative in this respect is the Global Commons Alliance (US), a coalition of scientists, philanthropists, businesses and innovators who work together for a safe and just future for people and planet.

Against this background it has become even clearer that financing “single issues” without considering the larger connections should be

avoided. A more integrated approach then seems the route to follow. The many webinars on climate and environment organised by philanthropic associations, both nationally and internationally, testify to this.

But even more important is that foundations are now demonstrating this in their mission statements, programmes and approaches. For example, Porticus in the Netherlands, which coordinates the philanthropic activities of the Brenninkmeijer family, sees philanthropy as a catalyst for systems transformation to help address the root causes of problems and understand the complexities of the challenges that society is facing. Climate issues form a strategic part of their cross-sector strategies and alliances. The urgency to do so is concisely phrased on their website: "Our climate is no longer 'changing', it is a full-blown emergency." The CEO of Porticus, Melanie Maas Geesteranus, is adamant about the implications for her organisation: The organisation wants to focus on "deeper and longer-term systems change".

Another example of a foundation that has reinvented itself in terms of its mission and programme strategy is the Wallace Global Fund (US), with powerful activities "to fight for a healthy planet", both through grantmaking and endowment management. The Wallace Global Fund was the driving force behind the "divest-invest movement" which entails divesting from fossil fuels and investing in sustainable energy. What started out as a different perspective on their endowment management was transformed into a strategic programmatic concern.

There is also a need for initiatives that translate the urgency of climate and natural environment issues into concrete initiatives at the level of the local community. A good example is the Commonland Foundation, a Dutch foundation that works in 20 countries to restore degraded landscapes and regenerate the earth. The foundation brings together all relevant stakeholders, from local farmers to nature organisations, with the aim of having them discover their shared interests as expressed on the local level. A practical approach for restoring their landscapes follows, which is done by and for local communities and is a perfect example of combining the global with the local.

Many foundations are small or medium-sized, and it cannot be expected that they have the resources (not only financial but also conceptual) to broaden their mission and embrace a more complex integrated strategy, including caring for the earth and climate. But that is not necessary, because in a more modest way, these foundations can respond to the relationship with the broader environment within the boundaries of their existing missions.

For example, the awareness that there are complex links between mission and context has led some foundations to include criteria of climate and environment in the implementation of their mission. The GSRD Foundation (Netherlands) is a good example of this. This foundation, whose mission is to promote the economic independence of people on the margins, explicitly considers how new activities threaten or are threatened by the natural environment. Therefore, when evaluating new project proposals from India, Bangladesh, Vietnam or China, climate factors such as the effects of projects on soil erosion, local water management and natural habitat are more consistently considered.

Not only foundations but also philanthropy associations see climate as a top priority. In an interview by Charles Keidan, Executive Editor of *Alliance* magazine, with Delphine Moralis, CEO of Philea, Delphine named climate as one of the key topics for Philea.<sup>41</sup> She says that climate issues keep Philea members awake at night, and as such, she sees it as the responsibility of her organisation to connect the dots between the different conversations about climate within Philea. In that respect, she sees Philea not only as serving its members but also as being a thought leader.

Another charismatic leader in the international philanthropy arena is Benjamin Bellegry, Executive Director of WINGS. In his article in the August 2021 issue of *Alliance*, “Philanthropy must act on ‘code red for humanity’”;<sup>42</sup> Benjamin indicates that WINGS has mobilised 40 philanthropy associations to sign up to the International Philanthropy Commitment on Climate Change.<sup>43</sup> His words indicate the urgency of the problems, but also the level of ambition: “Historically, WINGS

has been cause-agnostic, as a global network whose role is to foster stronger and more impactful philanthropy worldwide. This year, for the first time, we decided that we have a responsibility to leverage our network – which reaches out indirectly to 100,000 philanthropy actors around the world – to push the sector to act on the climate emergency.”

Foundations would do well to embrace and articulate the importance of the natural environment and climate. Fortunately, a younger generation is starting to make itself heard and is putting pressure on political leaders to prioritise these issues. Their future is at stake! “How did the older generation deal with it, did they take responsibility?” is their rightful question. The “empty chair” in the boardroom of foundations should be an incentive for foundation leaders to seriously address these problems.

## 7.2 Policy themes that will become more relevant

The 25<sup>th</sup> Anniversary Reader Survey in the 100th edition of *Alliance* magazine from 2021 included a question about which topics philanthropy will pay more attention to in the next 25 years.<sup>44</sup> The two most important topics mentioned by *Alliance* readers were climate change and inequality. I addressed climate change in the previous section, and in this one I will address the issue of inequality. But I will take the liberty of adding two others: 1) digitalisation, communication and social media; and 2) protection of civil society/quality of the public discourse.

### **Digitalisation, communication and social media**

Digitalisation is not only a theme of importance for the operational side of foundations and therefore for their business operations, but it is also an emerging theme in the spending policies and social investments that foundations are considering. The 5W Foundation (Netherlands) is a good example. The foundation supports wildlife conservation initiatives working to protect and save vulnerable species that are listed as endangered according to the International Union for Conservation of Nature's (IUCN) Red List classifications. To advance its mission, the foundation uses the next generation of



blockchain technology, the Hedera Hashgraph technology. In this way, the foundation can show all donors exactly where their donations are being used, on what, and why; and the logistics can be tracked. As donating to wildlife in this way becomes a transparent and interactive experience for donors, it influences and stimulates both the fundraising and the grantmaking sides.

Foundations, partly due to these types of applications, realise the tremendous potential that digitalisation, communication and social media can have for sustainable development in the world. We are seeing more breakthroughs resulting from these types of digital applications in developing countries. In many African countries, for example, stages of technological development have been skipped. Farmers in rural areas and people in markets can do their work better because they have access to relevant applications via mobile telephony. This way, they are better and more quickly informed about prices of agricultural products and other market information. Information and communication technology also provides easier and faster access to health information and opportunities for distance education in Africa. These are interesting topics for foundations to focus on. The mobile revolution in Africa has increased the quality of life and promoted entrepreneurship, innovation, income development and social mobility. A report by the World Bank and the African Development Bank, “The Transformational Use of Information and Communication Technologies in Africa”, outlines the scope of this development.<sup>45</sup>

Foundations are increasingly interested in these developments. They realise that the lack of information technology, both access to broadband and the necessary hardware and software, in certain countries and regions can lead to new inequalities in society. For example, when children in remote areas of southern Italy were “sentenced” to homeschooling during the pandemic, it turned out that digital education was sometimes not an option because broadband was not available.

The same problem also occurs in rural and poor urban areas of the US. The pandemic has made the gap between rich and poor in

American society even clearer. The Benton Foundation in Chicago is a foundation that focuses entirely on combatting this problem.

In addition to identifying the benefits that new technology has for the substantive work of foundations, they must also be aware of the risks and dangers. Artificial intelligence (AI) and the use of algorithms is becoming more important in the design of policies but can also lead to discriminatory profiling as has been shown in the Netherlands with respect to the entitlement to specific social benefits. Other dangers relate to manipulation, lack of transparency and negative chain effects when two AI systems try to communicate with each other. Foundations and philanthropy associations should have issues such as risk analysis, regulation and oversight on their agenda.

### **Greater attention to problems of inequality**

As mentioned above, foundations are paying more attention to the problems of inequality in society, both nationally and internationally. This has a cynical side in the context of my book because there are apparently 25 times more billionaires in the world today than at the beginning of this century. Many of them are active in philanthropy, and exactly this observation puts society in a complicated dilemma about questions of justice, solidarity and equality.

Covid-19 has increased inequalities and made them more visible. We are now more aware of all types of inequality based on socio-economic circumstances, ethnicity and gender, among others. We see inequalities in access to public services in the domain of education, culture, healthcare and information technology. We saw during the lockdown periods in the pandemic that women, bound to their homes and without the protective effects of larger family networks, were more likely to fall victim to violence, forced marriage and abuse. Many households experienced income loss, and especially children suffered as a result. Hence there is every reason for foundations, given their public-benefit identity, to pay extra attention to the problems of inequality, particularly in relation to young people at a distance to the labour market; to people with a migrant background and refugees; and more generally to people that are at risk of poverty and social exclusion.

Crisis situations sharpen divisions in society. Therefore, I admire the work of Goldschmeding Foundation (Netherlands), which has chosen “a humane economy” as one of its strategic themes. It is an economy that is not driven by individual self-interest but by community spirit, co-operation, dignity and giving/serving as central principles. To get to this humane economy, a new type of leadership is needed. Characteristics of that new leadership are transparency (if you are transparent, you gain authority), vulnerability (if you make yourself vulnerable, you gain trust), empathy and integrity (the inner compass), alongside courage, perseverance and straightforwardness. Also, the Calouste Gulbenkian Foundation takes a bold step in its new strategic plan 2023-2027 by identifying the themes of equity and sustainability as the main areas of concern for the foundation’s work.

### **Protecting civil society and the quality of public discourse**

Even before the Covid-19 crisis, there were discussions about a shrinking space for civil society in a range of countries where we have witnessed increasing nationalism, populism, intolerance and autocratic behaviour by those in power. This translates into many countries in Africa, Asia, Latin America, eastern Europe and the Middle East limiting the role of civil society, including the role of philanthropic organisations, and silencing the free press and obstructing an open public discourse. The pandemic and the war in Ukraine have only exacerbated these developments, giving rise to conspiracy theories and fake news which have only reinforced these trends of intolerance and autocracy.

Liberal democracies in the West take a critical stance with respect to such developments. One could argue that Europe should be careful in taking this position, as Europe could be blamed for wanting to create a world in sync with its own beliefs and values. In an interesting article in the Dutch newspaper *NRC Handelsblad* on 22 August 2021, under the title “Afghanistan had to become like us”, Luuk van Middelaar argues that the Western world must realise that the planet must be shared with forces and powers that are not democratic and probably never will be. He speaks of “that inescapable tension between the desire to remain true to the elevated Western

self-image and the awareness of concrete opposing forces". He continues, "I try to stay away from expansive universalism."<sup>46</sup>

This vision may somehow help to put the irritation over restrictions on democratic rights and civil society outside Europe in perspective. But a more serious concern is that we see that the environment to listen to each other, to perceive what binds us together in European countries, is under pressure. We are witnessing a polarisation in public discussions about how to handle something such as the Covid-19 pandemic and how to assess the severity of climate change. The war in Ukraine has underscored the negative effects of fake news, which exacerbates polarisation. All these developments form a potential threat to civil society, also in Europe, putting the importance of the quality of the public discourse in our societies at the core.

Fortunately, there are foundations in Europe that are committed to public debate, good information provision, investigative journalism and strengthening democracy: Adessium Foundation (Netherlands), Fritt Ord (Norway) and Luminare (UK) to name some strong examples. However, this important role of philanthropy should not be restricted to foundations that have the protection of democracy and the improvement of public discourse in their mission. Practice shows that foundations do not have to change their mission to contribute to the "informed society". They can anchor careful information provision for society about their substantive work (whether it is about early childhood development or integrating migrants into society) in their strategy, and they have been doing so more and more recently. Just as foundations can no longer say about sustainability: "We do not support it because it does not fit our mission," so can they no longer ignore their outside communication activities.

If foundations are interested in protecting civil society and promoting the quality of public debate, there are several issues that, in the eyes of the international foundation world, should get priority. In February 2020, together with Gerry Salole of the EFC and Stephen Heintz of Rockefeller Brothers Fund (US), I organised a meeting with ten European and ten American foundations in Pocantico, the Rockefeller

family's estate on the Hudson River in New York state. Three themes were on the agenda: climate, access to the internet and promoting democracy. The participants at this meeting concluded that the following topics should take priority with respect to the "democratic deficit":

- Civic education: What is democracy? What are the different perspectives, especially those of young people?
- Supporting investigative journalism and public media, including public social media.
- Establishing mechanisms for dialogue with citizens and local communities to avoid a sense of alienation from society among citizens who feel unheard and neglected.
- Investing in independent media.

I want to elaborate a bit more on the last topic. Foundations can actively participate in those investment vehicles that promote independent media and the quality of public debate. A good example of this is the Media Development Investment Fund (Switzerland).<sup>47</sup> MDIF invests through loans or equity participation in independent media organisations that are suppressed or opposed. What a fantastic way to put private money to work for the public good.

### **The war in Ukraine and its possible implications for philanthropy**

The Covid-19 pandemic which began in 2020 was an important catalyst for formulating philanthropy's future agenda. But the war in Ukraine that broke out in 2022 was another disruptive development that also leads to discussions about the meaning and effectiveness of foundations. Often, it will be the same topics that were put on the agenda because of Covid-19. Yet there are a few more specific implications of the Ukraine war that could influence philanthropy's future agenda:

- The war can lead to a greater sense of community in a Europe that was divided on several issues. A reinforced sense of community can offer opportunities for foundations to promote a Europe of equal values and to combat anti-European values.

- The importance of reliable and independent information for public and political debate has become even more important due to the war. The urgency is felt because democracy can be threatened by careless reporting and fake news.
- With the war came a serious increase in inflation. This will reduce the real purchasing power of endowments and reserves. Of course, many investment strategies offer protection against inflation, but the net result is uncertain, and this can lead to a discussion about the level of spending. Will foundations reduce their spending, or does the realisation that the current period requires more rather than less spending prevail?
- The food crisis in Africa may not be caused by the Ukraine war, but it has certainly been deepened by it. This stimulates foundations to give priority to increasing agricultural productivity in Africa. Nippon Foundation from Japan is an example of an organisation that has long been involved in supporting small-scale farmers in Africa. The war in Ukraine has convinced them even more of the importance of their strategy.

Finally, the fact that the disruptive implications of the Ukraine war cannot be well estimated is a justification for my argument to have a more structural process of reflection by foundations on their mission, strategy and activities.

### **Why substantive policy themes should be on your future agenda**

In this chapter, I have suggested several points of discussion around policy themes for an informed agenda for the foundation world: climate, digitalisation/communication, inequality and shrinking civic space/public discourse. It is important for foundations to look at how their missions connect to these larger themes. After all, foundations do not operate in a vacuum but feel increasingly the shared responsibility for the well-being of our planet and future generations. This does not mean that foundations should always broaden the scope of their agenda. This may even be too cumbersome, but it could mean that they should look internally at how existing themes

can be expanded and given more depth, with or without new partners. And if foundations want to stay at the cutting edge of philanthropy, a good relationship with philanthropy research is of vital importance. (see section, "**Focus on: Relationship between philanthropy and philanthropy research**").

## **FOCUS ON Relationship between philanthropy and philanthropy research**

In this book, I often mention the relationship between philanthropy and government, and between philanthropy and the business sector. Equally important is the relationship between philanthropy and philanthropy research. Both have for a long time functioned in their own silos. Only in recent years have we seen serious initiatives to connect these worlds. For the International Conference on the Research on Philanthropy, held in Turin in September 2022, I wrote a framing paper titled “Imagining the Future of Philanthropy Research in Europe”.<sup>48</sup> In this paper, I extensively discuss the importance of research for philanthropy and vice versa.

### **Cooperation of Compagnia di San Paolo, Philea and ERNOP**

Fortunately, philanthropy and philanthropy research have come in closer contact in recent years. The Memorandum of Understanding signed by the EFC and the European Research Network on Philanthropy (ERNOP) in 2019 demonstrates this.<sup>49</sup> Both parties clearly indicate their positive intentions for this collaboration: “The EFC believes that academic research on philanthropy can further help profile and professionalise the European philanthropy sector, increase its impact and enhance its legitimacy”; and “ERNOP acknowledges the need that academic output should pay attention to its practical implications. Researchers should design research projects that are rigorous and relevant for philanthropy practitioners without losing academic quality.”

The agreement between the EFC and ERNOP is an excellent starting point for collaboration. The follow up focuses on giving concrete meaning to this agreement. The international conference in Turin, a cooperation among Compagnia di San Paolo, Philea and ERNOP, aimed to establish a common research agenda for the coming years.<sup>50</sup> Such an agenda should provide room for the topics that



foundations feel are urgent and require research. But there should also be room for topics that are important to researchers, even if their importance is not yet recognised by foundations.

## Questions of foundations to researchers

Earlier, I pointed out a philanthropy paradox: The importance of philanthropy has increased, as has its relevance, and in conjunction with this, its visibility has increased. But at the same time philanthropy is under scrutiny. There are questions about the sources of philanthropic money, the size of certain foundations, the transparency of the sector as well as the wider issue of legitimacy and the license to operate of foundations. The legitimacy question requires further research exploring the questions of what the competitive advantages of private money for the public good are, and what the added value of philanthropy is.

In addition to the legitimacy issue, there are other questions relating to foundations and the research field. Foundations want to combat problems not based on gut feelings – however sophisticated they may be – but with attention to identifying the root causes of problems before embarking on their policies of grantmaking and social investments. The need and the wish to take a holistic approach to problems foundations want to address requires research of an interdisciplinary nature. Issues around impact evaluation also require further research. Disruptions such as Covid-19 and the Ukraine war require foundations to go back to the drawing board for self-reflection that can be enriched by appropriate research. In sum, philanthropy in the present era requires a research infrastructure to enhance critical thinking, underpin new trends, demystify whims of fashion and contribute to good judgement.

## Scientific research is also under discussion

It is interesting to note that not only is philanthropy facing criticism, but the same applies to scientific research and hence, philanthropy research. We live in an era where opinions increasingly are seen

as more important than facts: “Science is just an opinion.” This distrust in science is probably also fuelled by social media, where people can express and receive opinions with “absolute certainty” about almost everything. Meanwhile, science always holds a sense of reserve and speaks of evolving insights.

Another reason for the critical attitude towards research, and in this case, especially philanthropy research, is that there are doubts about the relevance of research for the daily practice of foundations. The notion is that researchers are sometimes more concerned with strengthening their own reputation by publishing in scientific journals than with responding to the concrete needs of foundations.

## Independence of research

To bring philanthropy and research closer together, a certain mindset must be assumed on both sides. For philanthropy, as previously indicated, there should be a healthy curiosity about root causes, effectiveness and impact, as well as an interest in strengthening its own judgement. For research, there should be a genuine interest in understanding the real problems from the daily practice of the foundation world.

An important recommendation to foundations is that they should not only be interested in scientific research that directly addresses their urgent questions: It is equally important, in my opinion, for foundations to contribute to the discretionary funding of research for all these issues that are around the corner and are not yet on their radar screen. An example is research related to behavioural economics (the study of the effects of psychological, cognitive, emotional, cultural and social factors on the decisions of individuals and organisations) and questions regarding risk appetite and risk aversion. It is also important that researchers can approach the foundation world critically and without hesitation. This is an important condition to counter the distrust of philanthropy in society.

It is important for foundations to enable researchers to act as watchdogs of philanthropy. Foundations should see this as being in their own interest and should therefore at least partially foot the bill with unrestricted funding. Funding should not lead to self-censorship on the part of researchers. On the contrary, it should be possible to conduct research in a non-commercial environment, at least in part. Scientific research is a public good and not a private good subject to market forces. Of course, financing of philanthropy education and research should also come from universities themselves. I find it rather bizarre that universities in the Netherlands are increasingly busy setting up infrastructures (such as separate departments for their own fundraising) to generate philanthropic funds for the university, while neglecting the allocation of funds for philanthropy research itself. There is a clear task for foundations to exert pressure on universities on this point.

## 8. Effective philanthropy and spending

**In this chapter, I want to present several options to foundations that are related to the spending side of philanthropy. It is evident that there is a multitude of spending strategies beyond just donating, ranging from loans to equity participation. Policy choices about this are not black and white: It is possible to use different spending tools alongside each other. While this expansion of strategies and tools can be complex and can raise many questions – and cause misunderstandings with the government – it is essential that foundations make conscious choices in service of the effectiveness of their philanthropy and the real needs of their grantees.**

### 8.1 Philanthropy's toolbox includes more than donations

For a long time, foundations have regarded making donations as their only possible charitable act. In fact, the boards of many private foundations meet once a year to make decisions about donations for the coming year, often to the same organisations. The cheques are written, and the board members go to lunch. After all, these board positions are unpaid, and there should be some compensation. With respect to public charities that do not qualify as operating foundations but provide funding to ultimate recipients, we see the same emphasis on making donations. Thus, the donation is seen as the core product of foundations.

This is not only how foundations see themselves, but it is also how philanthropy is viewed by the outside world. Almost all laws and regulations on philanthropy focus on donations. Even in the media that cover institutional philanthropy, it is almost taken for granted that donating is the norm. Even very professional foundations that see writing the cheque not as a goal but as an instrument in a strategy, may only have this one instrument in their financial toolbox.

How refreshing would it be if a foundation's board decided not to release the available amount for spending in the form of donations, but in the form of a loan to the recipient? It would be equally refreshing if a foundation would give a guarantee to the beneficiary or even participate in social equity capital.

Fortunately, expanding the financial toolbox is becoming a reality. Over the last 25 years, we have seen a gradual increase in the number of foundations being open to a different interpretation of what philanthropy stands for: Namely, an emphasis on investing in initiatives instead of just donating. Here investing means that the money available for philanthropic spending (as opposed to investment of endowment/reserves, which will be covered in [Chapter 9](#)) does not leave the organisation only in the form of donations but also in the form of participating in social equity capital, providing loans or enabling a guarantee. This new reality is not only seen in private foundations such as the DRK Foundation (Netherlands), but also in public charities. The Dutch Kidney Foundation (Nierstichting) is a good example of a public charity that is taking a leap forward, together with the business sector, knowledge institutions, and other foundations, by embarking on initiatives in the field of social investments (such as the development of the artificial kidney). I believe this also provides a solid basis for giving fundraising a boost among the public. Particularly young people are interested in the combination of social meaning and an investment approach. This new dynamic means that public charities have more and different arguments to persuade donors to become engaged.

### **The continuum from donating to investing**

Unfortunately, I also observe that investing, rather than donating, is sometimes seen as the holy grail, an end rather than a means. In some cases this can lead to pushing for loans or guarantees when actually donating may be a more effective instrument. There are even many situations where donations are the only instrument to achieve societal goals. For example, if foundations initiate activities for refugee children, it is unlikely that anything other than donations could be used.

That being said, there may indeed be many situations where a loan could be a superior instrument. This is certainly the case in those situations where there is a revenue model, no matter how modest.

In my view, we can look at donating versus investing as a continuum, with donations on one end and investments on the other, and a large and interesting middle ground in between, which unfortunately is still seen as terra incognita by many foundations.

### **Examples of investment approaches**

On the investment side, we can identify various instruments, such as social impact bonds (SIBs). In 2016 the OECD published the paper “Understanding Social Impact Bonds” which presented a range of concrete applications in the fields of, among others, youth employment, homelessness and workforce development.<sup>51</sup> In the Netherlands, the first SIB was used in Rotterdam to get people at a distance to the labour market out of the social benefit system.<sup>52</sup> Under this SIB scheme, foundations lent money to an organisation that wanted to return young people with a social security benefit to the labour market. If successful, the loan was repaid to the foundations from the saved social benefits that would have been paid by the government. The essence of the SIB was that impact is rewarded and financed based on results.

In addition to SIBs, there are other instruments for foundations that want to explore investment approaches. An interesting example is the funding-for-success approach, where a foundation finances the work of a PBO based on achieved results.<sup>53</sup> It not only motivates people associated with the PBO but also may increase the quality of their work. When results are achieved, the foundation adds additional funding, and the PBO can use this to expand or deepen its activities.

### **It's not a matter of “either/or”, but “and/and”**

Foundations that only focus on donations do not consider the fact that some recipients want to, and can develop into, cultural or social entrepreneurs. For these recipients, donations represent “cash in” and “cash out”, followed by asking for more. A better alternative

is for these recipients to receive a loan or guarantee, which they can take to another organisation as collateral and leverage. With a loan, they learn to think in terms of a balance sheet with assets and liabilities. Furthermore, they learn to be critical of the dependency created by donations.

On the other hand, foundations that solely focus on investments do not consider the fact that recipients often need donation money to make their ideas investment ready. Donation money is sometimes necessary to make a proposition investable. Should foundations with an investment approach under those circumstances refer the grantee to other foundations that solely focus on donations? Should donations and investments be separated institutionally in this way? This seems rather inefficient and complicated to me. Wouldn't it be much better if foundations could donate and invest at the same time? Shouldn't foundations be aware of the life cycle of an initiative to be funded? In the initial phase, donation money is needed to make an initiative investment ready. In this vulnerable phase, an initiative must be protected against the pressure to deliver a financial return too quickly. This can be followed by a gradual transition to social investing. This gradual transition involves interesting instruments, such as recoverable grants and forgivable loans. Recoverable grants are donations made with the agreement that if the receiving organisation develops and generates revenue, the donation can be refunded. A forgivable loan is the opposite. A loan is provided that can be converted into a donation if the initiative fails to generate income. A next step in such a life cycle can be to provide social equity capital.

#### **Sheltersuit Foundation: Donating with an investment mindset and vice versa**

A good example of donating and investing in the life cycle of an initiative is the approach of the Sheltersuit Foundation. This is a social enterprise that aims to provide protection for homeless people with a combined winter coat/sleeping bag. The charismatic young fashion designer Bas Timmer started the production of these shelter suits in Enschede in the Netherlands. They are made of recycled

textiles by people at a distance to the labour market, including many Syrian refugees.

I was involved in the introduction of this initiative in the US to help Bas Timmer find foundations and families who could support him in entering the US market. Several foundations and individuals saw the potential. Mike Brady, an established name in the US in setting up and managing social enterprises (including Greyston Bakery Store), was linked to this initiative as co-director in this initial phase. He insightfully made the case that during the development phase of a product and the establishment of a sustainable business model, there is a need for donations ("angel money"). But gradually, as the product begins to generate income, a move from donations to social investment can be seen. In summary, the life cycle of an initiative is characterised by stages, and in each stage, there is a need for different financial tools. Gradually investment options will become more dominant and take over from the need for donations.

### **The recipient's interests should come first**

What are the reasons for foundations to replace donations with a combination of donations and investments? And why would recipients agree with or even aspire to engage in this? The most important reason for me is that it is in the interest of the ultimate recipient and thereby of society: full stop. Having the investment option in the financial toolbox of foundations demonstrates that they take recipients seriously and that they are prepared to take their interests into account when assessing proposals.

If foundations start to invest in PBOs, there is an escape from the previously mentioned captive cycle of cash in and cash out, and space opens up for PBOs to evolve into social entrepreneurs. In this way they may generate both social and financial returns. For the foundation that uses investment tools, there will seldom be a financial return, but that is not the prime reason to broaden the toolbox for a foundation. At best there can be a revolving fund, whereby grantees return the investment to the foundation. The prime motive for the foundation is to enhance its effectiveness vis-à-vis the development of PBOs.



### **Elevating the grantee-grantor relationship**

Acquiring investment funds from a foundation also means that a fairer and more open discussion arises because the grantee becomes a fully fledged contracting party. Through a loan or equity participation, a more permanent relationship develops between the foundation and the grantee. Thus, building an investment relationship with the grantee can be a breakthrough in the grantee-grantor relationship, because in making donations a certain inequality will always exist or will at least be perceived, despite all the good intentions of the grantor.

Furthermore, grantees that receive an investment commitment from a foundation can go to a bank or another financial organisation to use it as collateral to raise more resources. The foundation has thus facilitated this leverage for them. Whatever foundations do – donate or invest, or donate *and* invest – it must always be appropriate for the recipient. The discussion about this in the foundation world is extremely relevant because it allows foundations to develop a deeper understanding of the needs and strengths of grantees.

### **Why is investing instead of donating still complex?**

Despite growing interest, the investment-like approach to philanthropy has also met with complications. First, while there may be more interest, it does not necessarily mean that there is a pipeline of investment opportunities that have both financial return and social return characteristics. Often, foundations use the appropriate language of blended value but end up with initiatives that generate primarily social returns. Perhaps we must acknowledge that emphasising the creation of social return is still their primary interest. As a result, many such initiatives ultimately must be earmarked as regular donations, as foundations are not eager to frame these as “failed investments”.

The lack of a pipeline explains the emergence of independent organisations that act as brokers between foundations/private donors and social entrepreneurs. An example is the Wire Group, a very professional organisation in the Netherlands.<sup>54</sup> Such initiatives are not only important for the development from donating to investing on the

spending side, but also for foundations wanting to embark on impact investing with their endowment/reserves (see [Chapter 9](#)).

There are other reasons for the hesitation towards choosing an investment approach. The mindset of foundations, both at the board/supervisory level and at the staff level, can cause a problem: They can be more focused on granting away than “risking away” money. This is certainly related to the fact that the people on the payroll of foundations mainly come from the non-profit sector and less often from the for-profit world. In addition, making investments is considerably more complex than writing a cheque for a donation. For example, foundations will need to do additional due diligence on an investment, with all sorts of questions about social and financial returns. And concerning risks and valuation: How do foundations include such investments on their balance sheets – at cost price or fair value? And what is that fair value? How do you monitor such blended-value investments?

Another complicating factor is that in the event of failures, there is a different perception in the outside world: A failed donation from a foundation is more easily accepted than a failed investment. The latter brings higher reputational damage. Also, there will be pressure on the foundation not to write off the investment but to continue investing because it may otherwise cause staff layoffs at the social enterprise.

In addition, foundations would fear receiving claims and becoming involved in legal battles. This can even lead to a foundation deciding to make investments using a different legal structure: for example, one that is at a distance from the foundation but is still connected to it. In this way, foundations can better control liabilities arising from social investments.

### **Venture philanthropy and the financial toolbox**

Expanding the arsenal of financial instruments can provide foundations with advantages in achieving more targeted and effective social goals. The challenges of our contemporary time require it. An additional benefit is that the money invested can ultimately come back, creating a revolving fund where the same resources can be reused. However, managing expectations is necessary with a revolving fund

since foundations will often invest in early-stage initiatives and will not insist on receiving capital disbursements or dividends.

The trend of moving from donating to investing started in the US in the 1990s, with an important period of acceleration around 2005. The term “venture philanthropy” was coined in 1969 by John D. Rockefeller III to describe a resourceful and risky approach to philanthropy by foundations. Venture philanthropy received a new impulse in the 1990s from wealthy venture capitalist Mario Morino. A new generation of philanthropists, who called themselves “social investors”, emerged. They focused on using instruments other than just donations to achieve their goals. They wanted to apply their own expertise, often gained in the business world, to social causes. They also wanted to bring in their own networks and, above all, to be engaged in their philanthropic work.

Several organisations were relevant for this entrepreneurial approach to philanthropy. For example, the Foundation Strategy Group published “Compounding Impact” in 2007,<sup>55</sup> and Rockefeller Philanthropy Advisors published a book on mission-related investing by Steve Godeke and Doug Bauer in 2008.<sup>56</sup> The pioneering role of the Ford Foundation in project-related investing should also be mentioned. In the Netherlands, the Noaber Foundation and DOB Foundation were forerunners. However, the European Venture Philanthropy Association (EVPA) was the most important accelerator of this process in Europe. EVPA was founded in 2005 by pioneers including Michiel de Haan and Doug Miller. I had many conversations with the latter between 2003 and 2005.

The essence of venture philanthropy is to combine altruism and entrepreneurship. The worlds of non-profit and for-profit can learn a lot from each other without leading to a merger. Business instruments can be used to solve societal problems. In this context, seeing the grantee as a strategic partner is something that should be relevant in the foundation world. The same is true for dealing with failures, taking losses and developing the mindset that as a foundation, one is engaged in social investment. These elements are valuable dimensions of philanthropy.

Conversely, the business world could learn from philanthropy about building communities and integrating social value into business strategies.

The EVPA website mentions three essential features of venture philanthropy:

1. Tailored financing: not only donations but also loans, equity capital and other financial instruments.
2. Non-financial support, such as coaching and advising.
3. Impact measurement and impact management.

I must say that the term “venture philanthropy” sometimes resonates with “the emperor’s new clothes”. Years ago at the Bernard van Leer Foundation (Netherlands), we sometimes provided loans instead of donations; we were highly engaged with our project partners; we added value to our donations and investments; and we did not embark on too many projects at the same time. We saw all this as effective philanthropy then, but now we call it venture philanthropy. We were not aware that we were “venture philanthropists”: We were just going about what in our minds was the day-to-day business of philanthropy.

Nonetheless, I found the attention given to venture philanthropy very important when it emerged as a movement in the mid-1990s. Older generations in the foundation world were shaken awake: Many foundations had been stuck in a “business-as-usual” mode, and there was little transparency about the functioning of foundations. Venture philanthropy acted as a catalyst for change in that old world of philanthropy. The idea that you could do more than donate was thus accelerated. One can now rightfully question whether venture philanthropy is becoming such a regular part of philanthropy that it no longer needs a separate label.

### **A government that lags behind the needs of philanthropy**

The valuable tool of investing as a substitute for, or in combination with, donating is not only a complex instrument, it also often encounters a government that doesn’t understand it well and therefore puts

up barriers. I mentioned this in [Section 2.8](#) as well: Although this mindset is gradually changing, for the Dutch government, philanthropy is still the benign writing of cheques for charitable purposes and not the making of social investments. The government is terrified that the introduction of social investments by foundations will compete with the regular investments of the business world. It is quite bizarre that, as the world of foundations becomes more professionalised, the government is putting on the brakes because the reality is becoming too complex.

One criterion should be decisive for the government when allowing social investments by foundations: Will financial returns from the social investments be paid out as dividends to private shareholders, or will these returns be ploughed back into the amount available for spending by the foundations and thus be (re)used for the benefit of society? It is clear to me that the second situation is characteristic of philanthropy that wants to invest instead of to donate: This should be clear to governments as well.

## 8.2 Bigger picture: No shortage of projects... but then what?

The world is flooded with projects and initiatives that come and go. It is a world of stand-alones that are all well intentioned. And if judged on intentions alone, they would qualify for an award, and could count on appreciation. But how many of those hundreds of thousands of projects will be sustained or, more important, lead to societal change?

Perhaps I am exaggerating when I say that most projects start and then end after a few years without the foundations involved being able to clearly indicate what impact they have achieved. The foundations are then already busy with new short-term projects, and we may hope that other foundations have taken over the financing of the old projects in the meantime. This creates a plethora of projects, “projects for the sake of projects”, without a systematic approach and without leading to systems change. The problem is that while foundations advocate systems change, in practice they generally think in terms of short-term projects.

I must immediately qualify my criticism. It remains to be seen whether foundations should always strive for systemic change in order to be considered successful. As I indicated in [Section 5.2](#), it seems rather pretentious and an overblown ambition to expect foundations in general to be doing well only if they pursue systemic change. Moreover, they often do not have the means and experience to realise this ambition, and the timeline required for systems change most of the time is not in sync with the timeline used by foundations for their strategic planning. I therefore advise foundations not to embrace buzzwords such as “systems change” and “the theory of change” too quickly. Foundations can have strategic impact without changing the system; strategic changes can take place within existing systems. Realism and modesty would work to the credit of the foundation sector.

Of course, there are foundations that, with substantial resources, together with partners and especially with dedicated long-term attention, can bring about systems change. The Rockefeller Foundation, with its programme “Building Capacity for Innovation and Systems Change”, is a good example of this.<sup>57</sup> In the Netherlands, we can also mention the Adessium Foundation with its work in the field of the “Informed Society”. Or the Bernard van Leer Foundation with its activities focused on getting early childhood development and parental and community engagement on the political agenda of several countries. Systems change is also part of the new strategy of Porticus (see [Section 7.1](#)), and given the available financial resources and years of experience of this organisation, I am convinced that it can realise its aspirations.

My advice to foundations is to realise that systems change may not be a relevant strategy for all foundations, but they should at least consider breaking the cycle of “starting projects - stopping funding after three years - starting new projects”. This cycle, in my opinion, implies a waste of resources, a missed opportunity to operate strategically, and an attack on trust-based philanthropy. Essential for all foundations is that a donation or a societal investment is not an end product, but an instrument for a strategy. Foundations must explicitly think about

their strategy, about what they want to achieve. And that strategy can be diverse in content and approach, such as by:

- Including initiatives that are of short duration and require one-time support
- Demonstrating the effectiveness of a certain approach without requiring continuity
- Maintaining activities that are considered important and effective even though they cannot be seen as new
- Pursuing strategic impact without aiming to change the system
- Having systems change as the goal

In short, effective philanthropy allows for the preservation of what exists, achieving incremental change, and pursuing systems change.

### **Coherent programmes increase effectiveness**

The expectation of foundations is that initiating projects implies an improvement of the quality of our society. Unfortunately, this is not how it works most of the time. What I see is a large field of fragmented initiatives that do not provide a sufficient basis for valid conclusions about effective development. It is therefore good to have a discussion within the foundation world about whether programme funding should be more important than project funding.

A programme means that several projects are placed in a cluster, both conceptually and in terms of implementation strategy, and that the underlying processes become more important than the individual projects. This has several advantages: Projects can reinforce each other, and within a programme, they can be transformed into relevant processes that will drive eventual solutions. Thus, foundations can focus on integrated approaches rather than jumping to partial solutions derived from specific projects. Risks can also be better managed this way because if something goes wrong, it does not necessarily affect the integrity and effectiveness of the programme as a whole. The transition from project to programme often implies an interest in the larger and more complex topics of our society, such as migration, the

informed society and healthy aging. This also means a transition from traditional philanthropy to more strategic philanthropy. By thinking in terms of broader, coherent programmes and processes, foundations enable themselves to acquire broader knowledge based on relevant practical experience.

### **Did Covid-19 lead to more “emergency” philanthropy?**

Covid-19 may have stimulated programme funding because of the interconnected nature of the problems that manifested themselves due to the pandemic. However, there is another development to consider. The pandemic also encouraged foundations to focus more on concrete aid programmes and immediate needs. “Emergency budgets” were established. The question is whether the more strategic approach of foundations will once again dominate or whether foundations – faced with more crisis situations in the future – will shift more easily towards short- and medium-term policies. Emergency aid and structural support may merge. The division between foundations that are strategically focused and those that focus on emergency aid will become less rigid, in my opinion.

### **Beyond programmes: Influencing public policymaking**

Many foundations even go beyond funding projects and initiating programmes: They engage in knowledge sharing and agenda setting using projects and programmes as platforms to influence the public discourse, and especially public policymaking. The work of the Bernard van Leer Foundation in Peru provides a good example. To influence public policymaking, foundations distil the lessons learned from projects and programmes through a wide variety of instruments, such as: evaluation (by grantees and outsiders); monitoring and consultation; field visits; tracer studies; and grantee perception reports. This implies good cooperation between grantor and grantee in a process that also allows knowledge institutions and other foundations to contribute via intervention. Capitalising on projects and programmes in this manner is important for the grantees as it creates wider support for their own activities. And for the grantor it is the basis for knowledge sharing and setting the agenda for the intended public and political discourse.



Thus, foundations and PBOs can profile themselves as learning organisations that collect and analyse information based on their practical experience. Universities or other knowledge institutions produce much theoretical knowledge on many of the subjects that foundations focus on. But just as valuable is the “experiential knowledge” that is built up at foundations and PBOs when they distil lessons from practical experience: namely, learning by doing. Sometimes foundations are not aware that they are sitting on a gold mine. Especially when they support different initiatives in the same policy field, simultaneously or sequentially, they are able to come to general conclusions about the effectiveness of certain interventions. All of this means that foundations can contribute to knowledge development and present themselves accordingly. This is also the basis for foundations to use their convening power to bring together other foundations and stakeholders that are considered relevant for solving a problem and play a signalling role. Knowledge development, knowledge sharing and the convening power of foundations have become increasingly important.

Foundations that have taken these steps may move on to play an advocacy role, which I raised in [Chapter 6](#). This means that they shape the public and political agenda on particular issues relevant for society. Examples of this are the Adessium Foundation, which was involved in the production of the Panama Papers; and the Bernard van Leer Foundation, which managed to put the problem of child abuse on the agenda in the Netherlands. A good example of this among public charities is the Plastic Soup Foundation (Netherlands), which reached almost 400 million people through the Plastic Health Summit in 2019 and has convinced 448 cosmetic brands to stop using harmful plastic microfibres.

Foundations can have an impact on the public discourse and even on public policymaking. This is characteristic of the shift from reactive, transactional philanthropy, where the cheque is written and the report is awaited, to strategic philanthropy with impact far beyond projects and programmes. Earlier, I mentioned that it is not the foundations but the grantees/PBOs who should be considered as the changemakers.

Foundations facilitate the actual work in the community/on the local level, which is where change manifests itself. However, if foundations can use the lessons learned from this field experience to influence the public and political debate, then foundations will develop from donors to influencers of society: They become the changemakers.

### **Feet on the ground, head in the clouds**

In the US, foundations are prohibited from exerting political influence through lobbying. Doing so implies that a foundation may lose its tax-exempt status. Obviously, there is a vague line between “lobbying” (policy influencing) and “advocacy” (agenda setting). Fortunately, this sensitivity does not exist in Europe, and foundations can use the results of their work with PBOs to influence political agendas. This trend of moving from funding initiatives to other activities, such as knowledge development, bringing together people and organisations, and influencing agendas, gives an additional dimension to the legitimacy of philanthropy. However, these activities can also be questioned if they become disconnected from grantmaking. Some foundations may decide that they want to focus solely on influencing the agendas of governments, political parties or international organisations. They stop making donations or funding projects and other field-based activities. It is my belief that for a foundation to play its advocacy role well, it must continue to support local initiatives. The influence of one’s voice to the outside world is deeply rooted in one’s own experience. You must have your feet on the ground and be involved in concrete activities/projects at the community level to play a convincing role in influencing the policy and practices of others. Therefore, my standpoint is: feet on the ground, head in the clouds.

## **8.3 The ambition to move to scale**

The fact that philanthropy has become more relevant is not only due to the steps that foundations are taking from project funding to programme development, knowledge sharing and agenda setting: There are other elements that contribute to the strengthening of its relevance, such as scaling up initiatives. Many foundations struggle with the same problem: If you have developed a successful initiative

for a small target audience or on a modest scale, how can you effectively expand it and scale it up?

I do, however, want to raise a red flag at this moment: Scaling up is often formulated too easily as an ultimate objective without much understanding of its dynamics and complexity, and even without much understanding of whether the rest of the world is waiting for the scaling up of a model developed elsewhere. “Don’t reinvent the wheel” is a well known slogan, but perhaps you need to reinvent the wheel to get a sense of ownership. Large international and multilateral organisations often preach the importance of scaling up, but sometimes I feel that this is typical of organisations that are understaffed and over-budgeted.

Despite this critical note, there are enough situations that lend themselves to scaling up and, if done in an organic way, this scaling up is relevant. Rockefeller Philanthropy Advisors in New York and London is not only a not-for-profit advisor in the world of philanthropy but is also a thought leader who regularly issues publications based on practical experiences gained over many years. In 2017, it published the booklet, “Scaling Solutions Towards Shifting Systems”, in which it interviewed both public charities and private foundations that had been involved in successfully scaling up projects.<sup>58</sup> The publication also provides practical recommendations in this respect.

The topic of scaling up can be illustrated using the work of the Rainbow Home Program in India supported by the GSRD Foundation (Netherlands).

### **Scaling up: Rainbow Home Program in India**

The mission of the GSRD Foundation is to strengthen the economic independence of people on the margins of society. The foundation works in India, with the Rainbow Home Program playing a central role. This programme offers girls who roam the streets a safe and protected environment, with attention to their health and well-being, including socio-emotional development. From this new safe environment, the girls (up to 18 years old) go to regular education. They are highly motivated to seize the opportunity offered to them.

~ The results are impressive in many ways: The girls develop into strong and confident young women.

The Rainbow Home Program is supported by the Partnership Foundation based in the Netherlands. The GSRD Foundation is one of the main funders of the Partnership Foundation for this programme, a commitment that began in 2009 and has a structural nature. There are 50 homes in 9 cities accommodating about 3,500 girls annually. A few years ago, the question arose: Should we and other foundations make an impact by realising more homes and seeking financial resources for them, or are there other strategies for scaling up? The latter option was explored. Thanks to the efforts of many stakeholders (especially the local partners), the Partnership Foundation has been able to persuade the local Indian government in some cities, such as Hyderabad and Bangalore, to embrace the Rainbow Home concept as a model to support.

### **Scaling up is not “more of the same” but “transformation”**

Private foundations and public charities face the same challenges when scaling up valuable initiatives. Does “moving to scale” mean that foundations are seeking only quantitative expansion? Will this lead to impact? If moving to scale is seen only in terms of quantity, then the organisation will quickly run into the limits of what is possible within its own scope. These are also the moments when customised formulas are considered as alternative ways to move to scale. In the case of social franchising, for instance, foundations turn to other service providers for the implementation of the same concept based on agreements reached between franchisor and franchisee.

This is certainly a viable possibility, and it has the advantage that franchisor and franchisee can capitalise on their respective strengths. The franchisor provides global knowledge, experience, training and guidance, while the franchisee brings knowledge of specific local markets. An example of social franchising is Buzz Women, a global movement by and for women working on the local level in India and Georgia, among other countries. This initiative gets women out of poverty through effective, locally based operations that provide training

on financial literacy and entrepreneurship. In Georgia, Buzz Women started an online operation with a social franchise approach. They partner with a micro-finance organisation, MFO Crystal, to reach women from all over the country.

There are of course challenges associated with social franchising. Foundations may realise how difficult it is to maintain the same level of quality in the process of scaling up. However, for me this means that foundations should realise that scaling up is bound to imply transformation. Foundations must get used to the notion that giving up ultimate control through social franchising leads to more variety in the interpretation of the original concept without necessarily an erosion of quality.

This begs the question: What is it exactly that you want to preserve in scaling up an initiative if this is not seen as a mere quantitative expansion – lock, stock and barrel? It is important to define the essence of the approach embedded in the initiative, and then protect this essence and let go of the rest. This allows other service providers to have different interpretations. Thus, transformation takes place.

In the sidebar in [Chapter 6](#), I mentioned how the approach of IMC Weekendschool landed in the regular school system and is now implemented in 37 public schools in the Netherlands. For a privately funded foundation such as IMC Weekendschool, it would be impossible to expand the number of public schools much further. If social franchising comes in whereby other independent service providers start offering the same service to other public schools, it would be essential for IMC Weekendschool to define what it considers the essence of its approach. For me it is the involvement of passionate outsiders that enter the school as volunteers to expose children to their profession instead of asking regular teachers to do this; combined with the fact that children cannot fail but can only explore and discover what their interests are.

Again, scaling up is preserving the essence while allowing for transformation. A process of certifying the other service providers could be a way to have more guarantees that the essence of the concept does not get diluted.

The notion of transformation is also relevant for foundations that see their role as an incubator and want to see the scaling up as a responsibility of the government. It is an illusion to think that foundations will finance a project, evaluate it, put a ribbon around it and then send it to the government with a request to scale it up with public funds. The reality is much more complex and requires more intelligent structures, such as those in which foundations remain partially involved while transforming their own role. Instead of a clear-cut transfer from private to public money, private and public resources should be dovetailed in a smart manner. It means that while the government comes in with some public funding, foundations only gradually decrease their private funding while combining it with elements such as training, showing examples and networking. This way implies a “warm” transfer of responsibilities.

In short, scaling up is much more than simply increasing the quantitative dimension of a project. It becomes interesting when it involves a transformation, where foundations formulate the essence of their approach to be preserved, and try to make themselves gradually dispensable in an organic process while maintaining a few essential responsibilities.

## 8.4 Different perspective on funding: Three interesting themes

Where does the need of foundations come from to constantly want to do new things in the form of a project with a beginning and an end? To constantly want to be the catalyst of things that often lead to nothing? Wouldn't it be much better to ensure that the organisation that is supported with project funding is ultimately stronger and more resilient than before? Are foundations that want their grantees to be strategic and have a long-term approach prepared to come in with the required funding? Should foundations that want to contribute to a strong and effective civil society not be much more open to contributing to the organisational costs of the grantee?

### Supporting organisations behind the projects

Contributing to the organisation behind the project is of strategic importance. At the US Council on Foundations conference in 2009, I was in a panel discussion on this topic. It was a year after the financial crisis of 2008, and the Foundation Center (now Candid) presented data during this discussion showing that the average cash position of PBOs supported by foundations had declined because of the financial crisis, from about eight months of coverage for operational costs to two months (!). The criticism then and now is that foundations want to finance “sexy” projects but have little regard for the operational costs of their grantees. Many foundations even explicitly exclude such costs. This is partly fuelled by the short-sighted notion that as much money as possible should go to projects and that the costs of the organisation itself are seen as “overhead”. In [Section 10.2](#), I will delve a bit deeper into this strange identification of the neutral concept of institutional costs with the negative notion of overhead that is perceived as waste and something to be avoided.

Fortunately, more foundations are willing to allow for an overhead allocation when granting project funding. They may decide as a standard practice to always pay a percentage of the requested project budget for institutional costs, even if it is not requested by the grantee. Some foundations are even willing to take larger steps and provide dedicated grants for organisational capacity building in addition to project funding. Thus, foundations are increasingly realising that the boring and less sexy parts of organisations also need to be financed.

All of this means a development towards more support for operational costs, something that the Covid-19 pandemic has promoted. At that time, foundations were faced with such requests from their grantees. In addition to project-related funding, grantees had convincing arguments to also request funding for the organisation behind the project. Grantees saw other forms of income decline because of the lockdown measures, and they saw their expenses increase because they had to protect themselves from the consequences of

the pandemic. Not providing institutional funding would have endangered the existence of grantees.

From the contacts I have in the foundation world, it appeared that many foundations fortunately reacted in a creative and agile manner during that time. Existing donations were sometimes stripped of too-detailed restrictions, and sometimes project donations were converted into institutional funding. There was better listening to and more trust in the grantee as a partner. Some foundations even realised that by providing institutional funding they could better contribute to the future impact of a PBO for society rather than by making donations earmarked for projects that are “new” or projects representing “growth”. They understood that the core organisation needed to be supported. For me that is smart thinking and smart grantmaking.

A good example of institutional funding is the BUILD initiative of the Ford Foundation, which has donated more than \$1 billion to strengthen the organisational capacity of grantees.<sup>59</sup> Akwasi Aidoo, Senior Fellow of Humanity United, spoke about this as a development that distances itself from so-called “projectitis”.<sup>60</sup>

### **Provision of unrestricted funding**

A second interesting theme regarding the funding of initiatives by foundations concerns the provision of unrestricted funding. This refers to money that can be spent in a discretionary manner both for programme costs and for operational costs. Hence there is a high degree of flexibility. Restricted versus unrestricted grantmaking is not, in my opinion, synonymous with bad and good philanthropy. Restricted grants can be very functional and effective. However, I do believe that there are too few unrestricted grants.

There are not many examples of truly unrestricted grants, but I want to point out the enormous amount of \$2.7 billion that was donated in 2021 by MacKenzie Scott to about 290 organisations in the US.<sup>61</sup> Scott was married to Jeff Bezos of Amazon and was awarded a substantial fortune after her divorce. She decided to donate this in large portions to civil society organisations, mainly in the US. For many organisations these donations appeared in their bank accounts as a complete surprise.



One of the most important foundations in the Netherlands that uses a strategy of unearmarked donations is the National Postcode Lottery (Nationale Postcode Loterij) and other affiliated lotteries. They are rightly praised for this, but these donations do not appear as a surprise in one's bank account. The National Postcode Lottery does request a proposal, and it is essential that the applicant not only demonstrates that it is a solid organisation, but also that it has a healthy ambition in terms of entrepreneurship, innovation and impact. It is an institutional test rather than a project-based test. The examples of MacKenzie Scott and the Dutch lottery should inspire other foundations to think about providing donations to grantees in a manner that is far more discretionary and flexible. Research by the Center for Effective Philanthropy (CEP) shows that, fortunately, during the pandemic more foundations issued unrestricted grants to their partners and that many of them wanted to continue with this after the pandemic.

Of course, it takes courage to do this because the question is raised: When and why would you terminate such a grantor-grantee relationship? Funding for specific project costs or institutional costs is reasonably straightforward, but that is not the case with unrestricted funding. Furthermore, unrestricted funding may create dependency in the grantor-grantee relationship unless PBOs are capable of using this funding strategically to make their organisations fit for the future.

However, the potential benefits of a so-called core grant are convincing:

- It enables grantees to develop a long-term vision, strategy and planning of activities.
- It provides opportunities for a substantial development of the organisation and its staff.
- An unrestricted grant can create leverage to attract money from other donors.
- It provides stability in times of uncertainty.
- It creates a more equal relationship between foundation and grantee.

- In most cases, it reduces the administrative paperwork associated with specific project or institutional funding.

Pamala Wiepking and Arjen de Wit of the Center for Grantmaking Research, part of the Center for Philanthropic Studies at the Free University of Amsterdam, are doing interesting research on unrestricted funding. Particularly a lecture by Pamala Wiepking, "The Societal Significance of Charity Lotteries", is a must-read.<sup>62</sup>

There are PBOs such as the Royal Netherlands Sea Rescue Institute (KNRM) that prefer earmarked donations from foundations. Their rationale is that they have a very strong funding base of unearmarked money formed by periodic donations from more than 130,000 private donors. Therefore, they can approach foundations for specific earmarked donations, such as for new lifeboats. The request for something tangible works to their advantage.

### **Grantees should build a financial cushion**

During the Covid-19 period, it quickly became clear that many PBOs – in the areas of culture, education, healthcare and social welfare – were in financial distress or on the verge of collapse. They had no cushion because governments would not allow them to build up reasonable cash reserves. In addition to this, there were negative perceptions among donors and the public about PBOs having financial reserves. As an advisor to a private foundation, I have seen several times that this argument was used when assessing a donation request: "This organisation does not need a donation because they have their own reserves that are not earmarked for future obligations." The idea was that unrestricted reserves make the PBO a "rich" player that should first use its reserves before turning to a foundation with a donation request. The pandemic exposed the weaknesses of this reasoning. It was precisely the PBOs with a reserve that could quickly shift gears to the future when they emerged from the storm.

Therefore, for me, the third interesting theme related to the financing of initiatives by foundations is that grantees need to be able to build a buffer for bad times. Foundations should reward, not punish,

PBOs that try to strengthen their financial rigour over the years by building up modest reserves. Foundations must realise that without reserves on the balance sheet of PBOs, they themselves run the risk of their financial donations becoming wasted if the recipient is in danger of collapsing. It seems reasonable to me that foundations should consider an amount between 0.5 and 1.5 times the average annual operating costs as a rolling average over the last three to five years as adequate for the size of such a reserve.

A reasonable financial buffer is not only meant for rainy days but also to enable an organisation to grasp new opportunities when they present themselves. If foundations want their partners to be alert and strategic and to be able to take some control of their future in bad times, they must allow them to build reserves in good times. Fortunately, I see that these discussions are not being avoided in foundation boardrooms. One could go a step further and ask whether it might be interesting for a foundation to create an endowment or contribute to one at the level of PBOs. Foundations have a great interest in protecting their own endowment or reserves, while they find it difficult to go beyond project financing in their relationship with grantees.

By the way, the same problem that PBOs have with respect to building up a financial cushion is experienced by public charities. Governments want to see that public charities minimise their financial reserves as much as possible. After all, the money is raised from the public and should be passed on as quickly as possible by the public charities to their eventual grantees. From this perspective the reserves of public charities are intended for short-term equalisation. During the Covid-19 period it became painfully clear how important it is for public charities to have reasonable buffers. It can make all the difference between survival or closing the door.

## 8.5 Long-term financing and flexible financing

Many times I have been critical of foundations that fund projects for a limited period of two to four years because this is seen as “normal”. These foundations might consider one extension, but then feel it is time to move on to another new and sexy project that is in the start-up phase. They hope that other foundations will continue funding the “completed” project. Even foundations that believe it is their policy to contribute to the sustainability of initiatives act in this way. In fact, however, they have passed on the challenge of sustainability to another foundation. This is how the project carousel develops, with the risk that the foundation asked to take over the project from its colleague will say: “No thanks. This project was not invented here.” While the previous discussion ([Section 8.2](#)) was about the straight funding of a project versus funding whereby the project serves a deeper strategy, this one is about having a short-term horizon in supporting initiatives versus a long-term horizon.

Why do PBOs feel compelled to constantly submit new initiatives to foundations or, worse, give existing initiatives a forced new “look”? I believe this is related to the fact that many foundations have a bureaucratic requirement to finance a project for only a few years. But what explains this attitude among foundations to constantly seek to support something that is new? What is the vision of these foundations with respect to the sustainability of the initiatives they support? Are they strategising to transfer these initiatives to the government or to another foundation, or do they simply have no strategy and instead simply do this out of habit? Is short-term involvement a bureaucratic Pavlovian response, or is it a reflection of a thoughtful vision?

During my tenure as chair of the association of private foundations in the Netherlands (FIN), we dedicated a special symposium in 2010 to this topic under the title “Long-term Financing of Social Initiatives”. The central questions were: Is the focus on short-term projects in supporting social initiatives effective? Or would it be better to switch from project financing to more substantive, long-term engagement with grantees? Despite the feeling among participants that foundations

ought to be more open-minded and apply more flexibility in supporting initiatives, the actual practice has only reluctantly changed in the last ten years.

We see the same phenomenon of a short time horizon in public charities, where fundraising often is done on a project basis. Both in public charities and in PBOs, raising funds and short-term financing for their own activities is a huge waste of time. By the time a grant is received, a follow-up proposal for funding must be written almost immediately. The result: A disproportionate amount of time is spent by these organisations writing proposals and otherwise meeting the need for information and “red tape”. Foundations and PBOs should be able to break down the rigid structure of the project carousel.

### **Motives for short- and long-term funding**

Let me use the analogy of the pharmaceutical industry in this discussion. You can't imagine a pharmaceutical company saying, “Let's put the new drug on the shelf and develop another new one!” after a new drug has been developed. You would want to capitalise on the success instead of letting your own investment erode, right?

The short time horizon for funding by foundations is almost never motivated by looking at the needs of the grantee. It is simply what the rules of the foundation look like that matters. Foundations are often not dissatisfied with the grantee – in fact, they often find the projects they support extremely valuable. But they just want to do “something new” again after a while. Of course, I know the arguments with which foundations defend this approach: They do not want to create dependence. A long time horizon can lead to inertia on the part of the grantee. There would not be enough incentives for grantees to look for alternative sources of funding. Foundations like to see themselves as “innovators”, as providers of social venture capital. They want to be the breeding ground of a dynamic society. Long-term funding does not fit in with this, many foundations believe. Some of the arguments in favour of short-term funding are correct, but the balance between short- and long-term funding is off, particularly if the needs of grantees would be considered.

Based on my own years of experience with grantees, the inertia argument used for short-term funding is not valid. It is my experience that PBOs do not become complacent because of the donations they receive. In fact, they pull out all the stops and go out of their way to show how they can connect their work with potential sources of funding.

Foundations, their applicants and their grantees are locked in a ritual dance perpetuated by the system. The applicants for philanthropic funds respond to a perverse incentive created – albeit sometimes unintentionally – by the foundations. Applicants know that to qualify for support, they must constantly present something new, and it must be a project with a beginning and an end. The foundation's strategy of constantly funding something new leads to applicants being encouraged to repackage the same initiative in a different way in the hope that it meets the expectations of foundations and that they will accept it as “innovative”. Foundations may see this system as a confirmation of their innovative role in society, but in fact it perpetuates an inefficient and ineffective system. It leads to short-term thinking, uncertainty and “window dressing”.

### **Prudent steps to long-term funding**

Fortunately, we are seeing a cautious shift towards long-term funding by foundations, and the benefits of this approach are being recognised. Of course, I understand that foundations must strike a balance between such long-term funding and promoting initiatives that are new and innovative. Not all initiatives require long-term involvement. Often a project is intended to demonstrate that a particular approach works, or it is an activity with a clear beginning and an end. Not all organisations need to exist in perpetuity. After all, organisations come and go, and that's healthy. An exception is perhaps the National Archives...

In summary, I notice modest steps towards multi-year funding. Some foundations even indicate in their policy plans that they allocate a certain percentage of their spending to these types of more long-term projects. What motivates those foundations to move in this direction?

- They realise that transferring a project to their peers after two or three years is not the right sustainability strategy. Their own project investment erodes rather than contributes to sustainability. Furthermore, “passing the buck” to another foundation sometimes even results in – assuming the same behaviour by other foundations – the applicant ultimately returning to the first foundation for a “new” donation. This is neither efficient nor effective.
- They realise that deviating from the rigid donation regime with grants for a very limited number of years does not necessarily mean that they must move to the other extreme of structural funding. It is rather a matter of longer-term funding with opportunities to evaluate whether the grantee is working in a professional manner and achieving its goals.
- The development towards multi-year funding fits foundations that want to support grantees in their future institutional development. Fonds 1818 (Netherlands) even used a term for this: “helping the organisation make the turn”. Supporting the organisation behind the project is the rationale for a longer funding relationship with the grantee, and that underscores the professional approach of the foundation. The foundation then believes that it is important for its grantee to be stronger and more robust at the end of the day than at the beginning. In this way, a foundation contributes to strengthening civil society.
- Finally, a very important consideration for foundations to choose multi-year funding is that funding may be meant for the same grantee, but this grantee has transformed itself. If an organisation can adapt to a new reality and is “in tune” with its environment, there is no reason to ignore multi-year support. A condition is of course that the activities of the grantee are still responding to an important demand in society: Such activities do not have to be seen as new and innovative! They are just “good, proven concepts”.

## Organising the exit

Even foundations with a long-term orientation may face situations where they need to withdraw from an organisation or a project/programme that they have supported. The negative feelings about stopping donations on the side of the grantee can sometimes be much greater than the enthusiasm with which the foundation was greeted when it began its support. This should teach foundations that the exit must be organised just as carefully as the start of a cooperation. The Bernard van Leer Foundation has had some good experiences with exits in a way that left the grantee overwhelmingly positive about the process. I can point to a few lessons from these and similar experiences about the endgame:

- Pay a lot of attention to strengthening the organisation behind the project/programme, and strengthen the organisation's ability to present itself professionally to the outside world.
- Contribute to the development of strong leadership, including having a strong second tier of management.
- Ensure that the governance is well arranged with people who see the financial sustainability of the organisation as a priority.
- Gradually reduce the funding of the grantee in a process of weaning. Be realistic: Standing on its own two feet is not a quick fix for a PBO but a complex, organic process.
- Gradually transform the grantee's financing from the foundation to more unearmarked donations. Especially towards the end of the exit process, this is an important incentive for a grantee to move towards independence.
- As a foundation, do not just give money but help the grantee with expertise, platforms and networks to be able to gain independence.
- Try to convey the following message to the grantee: The success of the grantee is evidenced by a foundation's ability to withdraw.
- Be clear about the importance for the foundation of leaving the scene; provide a clear timeline for this process.



- Do not start discussing an exit with the grantee five minutes before the end of the cooperation, but start discussing it at the beginning. Try to have the discussion about the exit as much as possible in consultation with the grantee and based on respect and equality. The mutual expectations about the duration of the involvement must be clear from the outset. Of course, there should be opportunities to adjust these expectations during the cooperation.

*Alliance* magazine's 2021 piece "The sunset is beckoning" by Lynda Mansson addressed how the Swiss Mava Foundation tried to bring its relationship with grantees to a successful end in a professional manner as it went through the process of winding down (the foundation closed its doors in June 2023).<sup>63</sup> Although in this case it was caused by the Mava Foundation's decision to close, there are still interesting lessons to be learned from the foundation's experience with project exits.

## 8.6 Focus and being proactive: Advantages and pitfalls

Many foundations realise that focus is necessary to add value to a donation and have impact. Adding value implies that a foundation builds knowledge and invests in gaining experience, including insights into the root causes of problems they want to address. Obviously, it is complicated to do this if you spread your philanthropic resources too thinly over a wide range of thematic areas. With focus you allow yourself as a foundation to invest in knowledge and experience.

Another advantage of making thematic choices and having focus, besides striving for impact, is that it allows a foundation to take a more holistic and strategic approach. This is not only something that foundations want themselves, but it is also expected by the outside world. It shows that philanthropy does not just nibble at the edges of society but stands for making a difference at the heart of society. Many foundations have gone through a strategic reorientation in recent years and have brought more focus to their activities. Instead of a broad programme with different thematic areas (I recently came across a

mission statement that included “human rights, culture, poverty and malaria”), foundations would do best to concentrate on a few thematic areas. I have often helped families and companies bring this focus to their foundations. It often means searching through the lives of the founders to see what has moved them.

Striving for impact and opting for a more strategic approach frequently leads to foundations becoming more proactive with their grantmaking policies. They delve into an issue through research and invite PBOs to submit proposals, or they organise a call for proposals that PBOs can respond to. “Don’t call us, we’ll call you” is their motto.

Although this trend towards more focus has its advantages and seems logical, there are also pitfalls. Foundations that take a proactive approach often want to demonstrate their own advanced knowledge in a particular policy area. They regard themselves as representing “progressive philanthropy”, but the pitfall is that they mostly do not allow for the unexpected, unsolicited proposal from the outside world. In my opinion, a foundation should always have space for unsolicited requests for support. The gems of a programme often will come from unexpected requests. By not being open to such requests, the danger of philanthropic myopia looms. The foundation supposedly knows better and ignores important signals from society. After Brexit, I had a discussion with foundations in England where the questions arose: What did we miss? Why didn’t foundations see this coming? Do we still have our finger on the pulse of society? In other words, if a foundation becomes more focused and proactive, it must avoid trying to define its programme in too much detail. It must be aware of the potential value of unsolicited proposals from outside.

A proactive attitude by foundations also leads to PBOs feeling that proposals that seemingly fit within a foundation’s mission are often nevertheless deemed to be outside the bounds of the foundation’s policy... unless these PBOs have direct contact with someone within the organisation. Foundations that define their effectiveness through being proactive are often perceived as “arrogant” by potential grantees. Foundations must be aware of this.

### **Discretionary margin in family foundations**

In practice, it is not always easy to bring more focus to family foundations. Families do realise that to have impact one needs focus. However, there can be so many diverse interests within a family foundation that it is difficult to bring them all together under one umbrella. Different priorities can be set by husbands and wives, siblings and different generations. The danger then is that different foundations will be set up to meet this diversity of opinions. However, in doing so, one misses the rationale of a family foundation: promoting cohesion within the family by discussing, working together and positioning themselves as a family.

One way out of this dilemma, which I have recommended several times with success, is to come to a common denominator of interests as the main theme of the foundation, and then combine it with a valuable new ingredient: an unlabelled space for grantmaking outside the focus of the identified common denominator. The unlabelled space of, for example, 20% of the available spending budget, can be used at the discretion of family members for charitable activities. Of course, it must be for activities that serve the common good, and family members must be transparent about this to each other, for example, by reporting afterwards. If a family foundation has an office/secretariat, an agreement can be made that requests for donations from the unlabelled space will only be evaluated by the office for the reliability of the applicant, but not for substantive criteria.

### **Why spending strategy belongs on your future agenda**

In this chapter, I have provided several areas of discussion around spending for an informed agenda for the foundation world. But more important is the effectiveness of a solid spending strategy. As a foundation, you want to make a significant impact on society. It is good to step away from the traditional approach of solely donating and instead explore the expanded toolbox of financial instruments that have emerged in recent years, including social investments. Venture philanthropy has become an integral part of philanthropy.

Effectiveness, once again, has to do with the relationship with your grantees, who struggle with the prevalent "projectitis" disease. This is the tendency for many foundations to finance mainly short-term and "sexy" projects. Unfortunately, the project carousel still turns, perpetuating a system that does not seem focused on sustainable impact. It is evident that long-term funding, which also covers the operational costs and contributes to reserves of grantees, boosts the effectiveness of your spending. This is a topic that should certainly be included in your internal debate (and conversations with your grantees...). A foundation that has put a lot of thinking into the instruments for effective philanthropy is Compagnia di San Paolo. In its Multi-year Planning Document 2021-2024 the foundation presents a fascinating chapter on "Beyond grant-making: A well-stocked toolkit": a source of inspiration for other foundations.<sup>64</sup>

## FOCUS ON Compliance versus performance

**Chapter 8** dealt with effective philanthropy and therefore with ways to improve the *performance* of philanthropy, such as investing instead of donating; institutional funding instead of project funding; long-term funding; and linking funding to agenda setting and knowledge sharing. Another question to be examined in the realm of effectiveness is to what extent a foundation compromises performance because of complying with rules (*compliance*) imposed by the government or self-imposed by the foundation sector.

### "Ticking the box" and complying with rules

Recent decades have seen an expanded set of rules by governments in Europe, often initiated by the European institutions, to regulate philanthropy. Misconduct or scandals in the foundation world trigger a Pavlovian response of more rules, which are supposed to avert that one incident that drew publicity and is in any case unlikely to happen again. More bureaucracy is being rolled

out for the foundation world, and as a consequence, foundations are constantly busy ticking off compliance requirements.

This development has severe and negative implications for the state of philanthropy. I may be exaggerating a little, but my fear is that foundations are sometimes more concerned with compliance than with performance! Performance touches upon the reason to exist for philanthropy: What problems do foundations want to solve, how do they do this, and do they achieve the intended results? The government holds foundations in a deadly embrace out of fear of risks and driven by distrust. The title of a 2008 report on red tape around grant applications and reporting, “Drowning in Paperwork: Distracted from Purpose”, could not reflect more my feelings about too much emphasis by foundations on compliance.<sup>65</sup>

The trend in recent years is that the government is increasingly focusing on legislation that is set up to prevent fraud, money laundering and terrorist financing. At the European level, there is an important role played by the Financial Action Task Force (FATF), which has developed proposals to combat such activities.<sup>66</sup> This is translated into legislation at the level of the European Parliament and individual European countries. Thus, the foundation world is forced into a straitjacket of general legal obligations, even though regulatory authorities know that it would be more effective to address any misconduct of foundations through targeted risk analysis. A targeted risk analysis could make it clear that only a handful of organisations would receive the label “non-compliant”, and these organisations are already known to the government.

## Response of the foundation world

All these developments require a response from both foundations and philanthropy associations, as the demand for foundations to meet an array of compliance requirements will only increase due to feelings of uncertainty and threat in our society. This should be the moment for philanthropy associations to enter a covenant with governments aimed at allowing foundations to function as

innovators and risk-takers, without being suffocated by excessive regulation. Philanthropy is too important to be left to politicians alone when it comes to regulation. The challenge is to find the right balance between functional government regulation and robust self-regulation. It is important that government and philanthropy have a serious dialogue about how they want to relate to each other, as both are there for the pursuit of the common good. Government regulation often approaches doing good in foundations from a negative standpoint of mistrust and preventing misconduct. Foundations could be more transparent about how they want to contribute to the common good.

This balance should also exist at the European level. If the European Commission wants to make a deal with the foundation world, for example because it realises that the European agenda under the EU Multiannual Financial Framework 2021-2027 can only be achieved with partners, this means that the Commission must first engage in a dialogue with the foundation world about appropriate regulation.<sup>67</sup>

Foundations themselves, and by extension their philanthropy associations, should also realise that compliance is not identical to good governance. This means that foundations and their philanthropy associations should not only convene with government to keep regulations proportionate and to protect their unique identity: This would seem like “damage control” and a defensive stance. On the contrary, foundations should take the initiative and also communicate their added value. The focus should be on the substance of what foundations do in the public domain with private money. Foundations should have courage and show entrepreneurship, demonstrating that you can do different things with private money than with government money, or do things differently altogether. Communication about the role of philanthropy for the outside world is essential.

## **9. Investment of endowment/reserves and the relationship to spending**

I believe that we are on the eve of a broad sustainability movement that is just as important for us today as the introduction of steel, cars and the internet were. Covid-19 has made manifest the relationships between what we focus on in philanthropy and the broader context of climate, environment, health and poverty. Fortunately, there is a sense of urgency in the philanthropy sector to examine this context in relation to mission, spending and the investment of endowments and reserves. Foundations must go back to the drawing board for this issue as well.

### **9.1 Fiduciary responsibility of foundations cannot be delegated**

Some important questions to ask when designing an investment policy are: Who are the key players? Who decides? Who supervises? And who advises?

The most important players are internal parties such as the board/supervisory board and management/senior staff; and external parties such as advisors, asset managers and fiduciary managers. External parties play an important role in shaping investment policies. This is because board members and members of investment committees often have limited knowledge of institutional investing.

Of course, there are intrinsic advantages to having external parties engaged in the investment policy of foundations, whether this is through fiduciary management or advice. This helps foundations gain access to the best managers for each individual asset class, which is difficult for a foundation to do on its own as foundations typically lack the knowledge and reputation to access the best managers.

Other advantages of fiduciary management or advice relate to the internal organisation of foundations. For example, boards consciously want to keep the investment department small, as the emphasis ought to be on the programme side. An argument that is also frequently

used is that a foundation, as an organisation in the not-for-profit world, is bound to certain salary scales. This is even more relevant for public charities, which work with public money, than for private foundations. These salary scales do not really go well with attracting professional investment experts who would have to manage a portfolio for a foundation.

Hence, most foundations do have an internal capacity in the form of a limited number of staff, an investment committee and/or an expert member of the board or the supervisory board. But these function more as a sounding board or countervailing power for a fiduciary advisor or manager. By using an external manager or advisor, a foundation not only has access to research; selection and monitoring of asset managers; and risk monitoring and reporting; but also has an expert point of contact to give substance to the fiduciary responsibility of a board or supervisory board.

However, no matter how well foundations arrange for the involvement of external parties in their investment policies, a board of directors or supervisory board ultimately remains responsible and liable. Some foundations wrongly assume that there is only fiduciary responsibility for the spending side of the foundation and that the investing side can be delegated to third parties with expertise. This is incorrect. After the financial crisis of 2008, it became painfully clear that investment expertise cannot be entrusted to a treasurer, former treasurer, former banker or “that reliable bank”. Boards sometimes even wrongly assume that with an endowment, annual income will be secured and will automatically show up in the foundation’s account.

## 9.2 Greater interest in ESG: Environmental, social and governance investing

We are increasingly seeing a growing interest in ESG-focused investing: Sustainable investing is no longer seen as a trade-off between returns and social impact, but as “smart economics”. A comparison of the MSCI stock index with the Dow Jones Sustainable index over a series of years shows that, contrary to popular belief, no concessions



must be made to financial returns if one embarks on sustainable investing. Financial returns can go hand in hand with sustainable investing and social impact.

The interest in sustainable investing among foundations is based on a range of arguments, from a pure conviction to going with the flow because it cannot be avoided. Foundations can also position themselves somewhere between these two extremes. They see it as an opportunity to invest in better companies with higher financial returns, or they are not entirely convinced but do not want to miss out on a trend that seems appealing and has received popular support in the foundation world. In short, there are many shades to the arguments for transitioning to ESG-focused investing. Aside from risk-return ratios, there are convincing substantive reasons that foundations should be interested in sustainable investments. Philanthropy and sustainable investing are natural allies with a common DNA. There are at least three reasons for this:

1. Foundations are there for the long haul: Investing is not about making quick money ("take your money and run"), but about striving for a proper return in the long term without damaging the source of investments (such as the earth and its people).
2. Foundations are supposed to serve the public interest, and sustainability is the epitome of striving for that interest.
3. Sustainable investments can take the form of impact investments, generating both financial and social returns. For foundations, this has the advantage that their positive social effects are realised both with the proceeds of the capital and with the way the capital itself is invested.

Covid-19 has undoubtedly contributed to the realisation that, no matter what foundations' missions are, the relationship with the natural environment and climate is essential. The pandemic has accelerated taking ESG investing seriously. The Bernard van Leer Foundation (Netherlands) has a mission to develop young children, looking at education, nutrition and health. If this foundation did not look at the

environment in which children grew up, it would essentially be rearranging deck chairs on the Titanic. Consistency in approach naturally leads to an ESG approach on the investment side.

Asset managers and banks in general have also discovered the market for sustainable investing – sometimes because they genuinely believe in it, and sometimes because it is seen as an interesting marketing proposition. The respected mega-bank UBS published a press release in September 2020: “UBS makes sustainable investments its preferred solution for clients of its USD 2.6 trillion global wealth management business”.<sup>68</sup> Of course, the increasing popularity of sustainable investments also raises concerns. Greenwashing is a risk. The concept of “sustainable investing” can be co-opted by parties who have no genuine interest in it but see the trend as a way to ally with something that is popular and politically correct.

Fortunately, corrective mechanisms are also at work here, such as specific laws and regulations. Since the beginning of 2021, the EU Sustainable Finance Disclosure Regulation (SFDR) has been in force.<sup>69</sup> This regulation requires the financial sector, especially investment managers, to report on sustainability according to a certain framework and rules. This enables foundations to compare managers and investment products based on their level of sustainability. Greenwashing can thus be reduced as investment managers and asset managers must explain what they mean by sustainability when promoting their “sustainable” products.

### **Negative screening**

When ESG-oriented investing is considered within foundations, most boards engage in discussions about companies to be excluded from investment mandates. This often involves the weapons industry, tobacco, gambling, fossil fuels, nuclear energy and other goods and services that, in the eyes of trustees with fiduciary responsibility, are not appropriate for investment mandates. While this negative screening approach is often the initial inclination, trustees soon realise how complex this is.

While this approach is not complex when it comes to things that are universally seen as bad for humanity (there will hardly be any discussion about excluding controversial weapons and tobacco in constructing an investment portfolio), when it comes to “ordinary” weapons or child labour, it becomes more difficult. Why exclude weapons when the police also use them and when we provide weapons to Ukraine to protect our democracies against Russian aggression? Why exclude child labour when sometimes it is the better alternative for the socialisation of children than the lousy school around the corner? Most people are probably strongly opposed to child exploitation but not necessarily to the fact that parents take their children to the fields to harvest crops.

In addition to the complexity of determining what to exclude, there is also the question of “whose ethics we are talking about”. Board members make decisions based on their own moral values, but after four or perhaps eight years, they are usually replaced by other people with probably a different set of values and norms. Some board members may want to exclude alcohol or fossil fuels, while their successors may believe that alcohol can be consumed moderately and that energy companies that are seriously involved in a transformation from fossil fuels to sustainable energy should not be excluded. As another example, the Finnish government is lobbying in Brussels for the acknowledgment of nuclear power as a sustainable source of energy. In this context, isn't it better to link exclusions to the mission of the foundation under examination? It would be strange, for example, if a foundation that supported cancer research had investments in the cigarette industry.

Taking all of this into account, it can be said that exclusion is obvious when it comes to products and services that are universally seen as bad, or something that is blatantly in conflict with a foundation's mission.

Public attention is focused more on the sustainable nature of investments by public charities than on those by private foundations. After all, the public donates to public charities and therefore feels a

kind of ownership, a “shareholder relationship”. This implies that public opinion can be vocal about controversial investments by public charities. In fact, many donors take it a step further and do not want “their” public charities to invest donation money in the stock market if reserves have been formed. Public charities are otherwise exposed to risk, and donors see this frequently as “gambling with donation money”.

### **Positive screening and best-in-class investing**

Complex questions regarding negative screening (such as “whose ethics are under discussion?”) cause foundations sometimes to forego this discussion and instead opt for a system of positive screening or best-in-class investing. With positive screening, companies that make a positive contribution to society and adhere to ESG principles are selected for investment (see sidebar). Best-in-class investing involves investing in companies that are considered leaders with respect to ESG within a particular economic sector, such as energy or banking. For example, a foundation may choose to invest in companies within the energy sector that are still identified with fossil fuels but are also committed to transitioning to alternative energy sources.

#### **How Equileap screens companies for sustainability**

The Netherlands-based Equileap is an example of screening by an organisation that focuses on diversity and gender policies as a proxy for sustainable development. Equileap analyses the more than 3,500 publicly traded companies in its database and ranks them based on 19 criteria related to equal treatment of men and women in the workplace. This ranking provides a valuable tool for foundations looking to invest in companies with a strong sustainability profile.

The hypothesis is that companies that score high on these criteria are better companies to invest in: better financial results, lower risks and greater resilience. In the preface of the EFC publication, “Championing Diversity”, I wrote that there are other reasons for organisations to take diversity seriously besides leading to better representation of society: “For me the single most important argument in favour of diversity is that heterogeneous groups are likely to deliver better results than homogeneous groups.”<sup>70</sup>

“Gender lens investing” is offered by various parties in the market, but we must be careful of “gender-washing”. Some products are based on very thin research data, such as the number of women in leadership positions. More robust figures and criteria should be considered, such as pay differences, maternity leave, work-life balance, training opportunities for women and so on. This is exactly where Equileap comes in. The organisation was founded in 2016 by Diana van Maasdijk and Jo Andrews. Their strategic contribution to the debate on positive screening is that they have transformed diversity and gender into an investment proposition for foundations. The important ranking of companies that has emerged from Equileap's work provides a wonderful opportunity to include companies with this sustainability profile in the investment portfolio of foundations.

In my view, best-in-class investing has an advantage over positive screening, and I will clarify this with an example. Recently I was asked to join a panel discussion about sustainable investing. One of the participants, a director of a private foundation, proudly shared with the audience that his foundation had made a radical decision with respect to investing its endowment: a switch to a 100% sustainable portfolio. Somewhat provoking him I reacted: “In that case you did not achieve much, because your foundation could have contributed to the transformation of companies in their process to become more sustainable.” By choosing a best-in-class strategy, you contribute as a foundation to the process of transforming companies from non-sustainable to sustainable, rather than simply investing in companies that are already considered sustainable. This demonstrates the power of shareholder engagement as yet another tool to achieve impact for foundations.

### **Different strategies**

There are different roads that lead to the Rome of ESG. I have already distinguished between negative screening on the one hand and positive screening/best-in-class on the other. Both approaches can be implemented through either active management (selecting securities or mandates as a foundation, making clear decisions regarding sustainability) or passive management (investing in a sustainable index or Exchange Traded Funds, also known as ETFs).

In addition to choosing negative or positive screening and active or passive management, foundations can also express their ambition to engage in ESG investing by choosing the route of engaged shareholding. In that case, foundations do not exclude or specifically include anything, but they may decide to invest in all companies and, if necessary, wield influence as a shareholder. Thus, instead of walking away, foundations raise their voices.

“Voice” is considered more effective than “exit”. In 2004, Rockefeller Philanthropy Advisors and the As You Sow Foundation released a publication on this subject called “Unlocking the Power of the Proxy”.<sup>71</sup> I believe that it is better to voice one's opinion as a shareholder rather than choosing not to invest in certain companies. However, it is mainly the complexity of proxy voting (for example, the shares must be owned and not included in a securities lending programme) that makes foundations more likely to choose negative or positive screening/best-in-class rather than shareholder engagement. Moreover, the investment policy is an instrument for a foundation and not a goal. This also explains why foundations are less likely to use shareholder engagement as an instrument.

This argument was also important for the Dutch tax authorities to be able to determine that a philanthropic foundation is not a professional investment institution that also makes a few donations. The spending side is the heart of the organisation, and investing is the means to this end. To be considered a tax-exempt organisation, it must be clear that the core activity of a foundation is philanthropy, not investment policy. Active shareholding, like active trading on the stock market, could lead to critical questions from the tax authorities about the identity of your foundation.

If I take a wider international perspective, I also see that there are many more foundations that “vote with their feet” and choose the exit option than foundations that engage in proxy voting and raise their voices to exert influence. An example of the exit option is Rockefeller Brothers Fund (US) with their campaign to divest from fossil fuels and invest in alternative energy.<sup>72</sup> If foundations do decide to engage

in shareholder activism, it is usually more effective to join forces with other foundations and PBOs and speak with one voice at a shareholder meeting. Foundations do not have to attend these meetings themselves; this can be left to specialised organisations such as VBDO in the Netherlands<sup>73</sup> and EOS (Federated Hermes) in the UK.<sup>74</sup>

Nevertheless, there are still enough examples of foundations that want to engage in ESG investing and that have done so through proxy voting. A major supporter is the Wellcome Trust (UK). In July 2021, Nick Moakes, who is responsible for the £29 billion endowment, announced that all of the Wellcome Trust's investments would be climate neutral by 2050. He stated that this would not be achieved by selling parts of the portfolio, but by active shareholder engagement. In an article in the *Financial Times* of 1 July 2021, Moakes says, "If we want to make a genuine difference then it is not about making a few headlines on selling off assets. We want to start to lead the engagement with private equity and hedge fund partners and move them to commit to a zero-carbon future."<sup>75</sup> The Wellcome Trust wants to put pressure on investment managers to follow the recommendations of the Task Force on Climate-related Financial Disclosures, an accepted universal standard in this field.<sup>76</sup>

More than 40 pension funds, private foundations, and other large investors with a combined asset value of \$6.6 trillion (!) have signed the UN's Net Zero Asset Owners Alliance, committing to transform their existing investments into climate-neutral investments by 2050.<sup>77</sup>

Another way to invest sustainably is through impact investing. I will come back to this in detail, but I would like to refer already to the very comprehensive publication of Rockefeller Philanthropy Advisors, "Impact Investing Handbook: An Implementation Guide for Practitioners".<sup>78</sup>

### **Big Tech: The new polluters**

Let's go back to screening. I notice that with negative screening – and therefore also with positive screening – the focus is mainly on issues such as the contribution to a better climate and a healthier lifestyle. But shouldn't we also pay attention to the quality of information

provision and public debate? To the role of social media with respect to the declining trust in government, media, science and philanthropy? And to freedom of speech and protecting our democracy?

In 2021, I published an article under the title “Big Tech giants are the new polluters”.<sup>79</sup> Of course, ESG policy focuses on advocating for the interests of the environment and climate. But if the news and information provision about this is influenced by fantasies and conspiracy theories spread through social media, how can we make well-considered decisions about the environment and climate that will be supported by the public? In that regard, concern about the environment and climate is closely related to a well-functioning democratic system of decision-making, careful information provision to the public, and investing in resilient citizens of the future.

This justifies a critical look from foundations interested in ESG at the role of Big Tech companies. Hearings in early 2021 by the US House of Representatives explicitly highlighted the dangers of these companies. This concerns the monopoly power of Apple, Meta (formerly Facebook), Alphabet (formerly Google), Amazon and Microsoft in the fields of social media, search engines and online sales. Regarding social media, these companies see themselves more as information conduits than as publishers with a filter.

Foundations that have invested in sustainable ESG trackers could look back on fantastic years for 2020 and 2021, even compared to broad market indices such as MSCI. But do the foundations that choose these ESG trackers know what companies are part of such a tracker and why the return was so positive in 2020 and 2021? An important factor is the underweighting for energy in the sustainable index, but even more important is the overweighting for information technology and especially for Big Tech stocks (the so-called growth equities), which have skyrocketed in the Covid-19 period. The size of the five Big Tech stocks in terms of market capitalisation was twice the total value of European blue chip stocks (shares of established and reliable companies with an attractive dividend yield) in Euro Stoxx 50 at the end of 2021. These Big Tech stocks performed very well on ESG criteria, at least on the criteria that were



being used at the time. After all, the environmental effects of the internet are relatively minor compared to other sectors: With more traditional stocks (the so-called value equities) in the energy or food sector, there are always questions and allegations about sustainability. The question that arises is: Should we be investing in ESG trackers that support companies that put our democratic decision-making to the test?

For foundations that do not use trackers but exclude certain companies from their portfolio, the question arises: Why not also exclude these Big Tech companies as they are the new polluters in a figurative sense?

### 9.3 Essence of impact investing

When it comes to the contrast between philanthropic transactions and profit-oriented transactions, we can visualise this with a continuum. At one extreme – let us say on the left side – there is pure philanthropy, where donations are given; and at the other extreme is a “straightforward” concentration on the market and making financial returns. If we start from philanthropy, the first step towards the other extreme on the continuum is venture philanthropy, which incorporates investment-like elements into philanthropy. Coming from the financial returns side (the right side) of the continuum, the first step towards the other extreme is socially responsible investing, where the greatest emphasis is placed on achieving financial returns but with a social dimension. Here we are dealing with negative and positive screening/best-in-class as expressions of socially responsible investing. However, as we move further towards the middle of the continuum, coming from the left or right, we enter the domain of donations with an investment component or investments with a donation component, also known as impact investing. Both financial and social returns can be identified. Sometimes, impact investing leans towards the market side (investing *with* impact/finance first), and sometimes towards the societal side (investing *for* impact/impact first).

In the previous chapter, I discussed impact investing on the spending side, while this chapter is about the investing side of a foundation

(the endowment or reserves). I must add a third category of impact investing here, namely foundations that do not distinguish that sharply between the investing side and the spending side. This is all merged into an available pool of funds (whether an endowment, reserves or other donations) and that pool is used for impact investing (both impact first and finance first) and for donations, very often related to impact investments.

In impact investing, the focus is not only on financial returns and risk, but a third component (social and environmental impact) is added in the search for an equilibrium among these three parameters. Impact investing to date is mainly focused on illiquid investments that are actively managed. A foundation either takes a direct stake in impact investing opportunities (it looks like private equity, but with a significant societal component), or what is more common, becomes a limited partner in a fund, i.e. a basket of impact investments. This way, risks can be spread.

Examples of foundations that have created space for impact investing in their endowments are the Esmée Fairbairn Foundation (UK), FB Heron Foundation (US) and KL Felicitas Foundation (US). Examples of impact investing funds in which foundations invest include Bridges Fund Management (UK),<sup>80</sup> Acumen Fund (US),<sup>81</sup> Catalyst Fund (an initiative sponsored by Rockefeller Philanthropy Advisors, US),<sup>82</sup> Pymwycim Healthy Ecosystems Impact Fund (Netherlands)<sup>83</sup> and Media Development Investment Fund (Switzerland).<sup>84</sup> The most important knowledge hub for impact investing in the world is in my opinion Global Impact Investing Network (GIIN).<sup>85</sup> There is no readily available index of impact investments, although there are some very interesting developments in that direction. An example is the Investment Impact Index being developed by Next Generation in South Africa.<sup>86</sup>

If a foundation decides to allocate funds for impact investing, it will usually be a modest percentage of the overall strategic asset allocation. Contrary to other institutional investors, foundations tend to lean towards the “investing for impact/impact first” mode of investing. They

find that this kind of impact investing is labour intensive, and there is still no large pipeline of such investment opportunities. This is different for the “investing with impact/finance first” form of impact investing, where there are ample opportunities. However, here also looms the danger of purpose-washing: the focus is on financial returns and the societal aspect is more “window dressing”.

Because impact investing (both impact first and finance first) is becoming more popular, it is relevant to be clear about what we mean by “impact-first” investments. All investments have an impact, but not all are “impact-first” investments. For instance, while solar energy can be seen as beneficial for society, it would be incorrect to classify investments in solar energy as “impact-first” investments if the goal is to optimise profit with a green label. In defining “impact-first” investments we should not just consider the nature of the product or service being provided but also the investor’s intention. In my opinion, a criterion for “impact-first” investing is that the investor has an explicit intention to achieve social returns, which entails a willingness to sacrifice financial returns to enhance social ones, and a commitment to monitoring and measuring that social impact.

### **Impact investing: Small but high quality**

Impact investing (particularly in the category “investing for impact”) may be a relatively small – although growing – component of a foundation’s strategic asset allocation, but that does not mean it is qualitatively insignificant. Impact investing can be of paramount importance because it can do precisely what the market and public sector cannot do alone, namely intelligently connecting financial and social returns. To put it more strongly, an adequate response to global challenges in our society requires such a blended value proposition. Impact investing allows foundations to grapple with the systemic risks of the global challenges of our society in a way that is not characterised by short-term returns but by long-term sustainable solutions balancing financial and social returns.

In an article in May 2023 by Jim Bildner of the Draper Richards Kaplan Foundation, “Impact Investing Can’t Deliver by Chasing Market Returns”,

he concludes: “The more aspirational the impact goal, the harder it is to achieve market returns.”<sup>87</sup> If the emphasis with respect to impact investing is on impact first (and the same applies to using investment tools on the spending side; see [Section 8.1](#)) there will seldom be a financial return. At best there can be a revolving fund with the principal coming back.

Impact investing by a foundation can be very broad, covering all possible sectors of society, or it can be in line with a foundation’s mission. In the latter case, we refer to it as mission-related investing (MRI). Fonds 1818 (Netherlands) is a good example of an organisation that has put MRI into practice. Fonds 1818’s objective is to serve the public interest of the municipality of The Hague and surrounding areas. When I was the chair of Fonds 1818’s Investment Committee, we decided to put 5% of the €500 million endowment in a revolving fund for mission-related investments. In a case like this, perhaps a foundation doesn’t get maximum financial returns, but there is also a social return that promotes the mission of the foundation. In that regard, one can say that a foundation (such as Fonds 1818) serves society both through the spending of the investment returns and through mobilising the investment assets themselves for impact. And that is much more effective than the situation where foundations rely solely on spending and do not pay attention to the nature of their investments.

Using the analogy of the left and right hand, to support the case for MRI, one could say that it is unwise to tie one hand behind your back when you can solve a problem much more effectively with two hands. A good example of MRI was a loan that Fonds 1818 provided to Stadsherstel (a social housing organisation) in The Hague with a fixed interest rate of 2.8%: There was a financial return, and Fonds 1818 contributed to social housing in the municipality of The Hague, thereby creating a societal return as well.<sup>88</sup> Another prominent European example is Compagnia di San Paolo which has started to create a fund of up to €400 million dedicated to MRI (in the areas of social housing and urban regeneration; research and innovation; and social

innovation, among others). In 2023, the MRI principle was even incorporated in the revision of the statutes of Compagnia di San Paolo.

The Nathan Cummings Foundation (US) has transformed its entire investment portfolio to MRI. Its philanthropic spending is 5% of the endowment (in the US, foundations are required to spend 5%), and it uses the remaining 95% of the corpus of its assets (the endowment) to leverage mission-related investments.

I would like to caution against a common mistake made by foundations when entering the domain of impact investing. They often start with the most complex form of impact investing, namely the equivalent of private equity/venture capital. However, I would like to consider impact investing as a dimension of almost every asset class: stocks, bonds, real estate and so on. Why should we start with the most complex asset class of stocks? Why don't foundations first think about adding an impact dimension to fixed-income securities as an asset class? The example of Fonds 1818 and the loan to Stadsherstel is a good illustration of this.

### **Legal framework for impact investing**

In [Section 8.1](#), I have already mentioned that the government, at least in the Netherlands, is lagging in understanding philanthropy where a foundation wants to invest instead of (only) donate. The government does not understand this as it does not fit with its image of philanthropy, and it is afraid of abuse and competition with the corporate sector. This position by the government becomes apparent when foundations use their spending budget to invest instead of to donate, but it also crops up when foundations use their endowment or reserves for impact investing. However, fortunately, things are changing.

Finally, in 2020, political space was created in the Netherlands to possibly come up with a separate legal form for social enterprises (in line with the "public-interest company" in the UK). This so-called Social BV is a proposal from the Social and Economic Council of the Netherlands to the Dutch government, but discussions about it were postponed due to Covid-19 and the 2021 parliamentary elections.<sup>89</sup>

When it comes to philanthropic organisations coming from abroad, the Netherlands has always offered a conducive environment. Even setting up a tax-exempt foundation in the Netherlands is relatively easy compared to procedures in other countries. You contact a notary, fill in a form with eight relatively simple questions, and you almost automatically get the tax-exempt status. Against this background, it is strange that the Netherlands presently is lagging when it comes to modern, new legal forms for impact investing and advanced philanthropy in general. Many other European countries have followed the example of the UK and some already have a special legal form for social enterprises or are working on it. Germany provides an interesting example, as the federal government has taken an initiative to make that country an attractive hub for impact investing initiatives.

#### 9.4 Perpetuity-thinking: To be there for eternity or...

Foundations are usually identified with the notion of perpetuity. In principle they are set up to be perpetual, or at least there is usually no date planned for a foundation to close its doors. If this is the starting point, then it logically follows that board members want to maintain the real purchasing power of the foundation's assets. In 50 or 80 years, foundations still want to be around and deliver the same financial value (adjusted for inflation) to society: Future generations supported by a foundation are just as important as current generations. Very often it is not even a conscious choice to be there for eternity, but it is seen as the only possibility for a foundation.

However, the question arises whether there are sufficient compelling arguments in practice to pursue perpetuity, in the sense of maintaining real purchasing power. Organisations come and go, so it would also be natural if a foundation would decide, explicitly, to pursue an end date instead of perpetuity. In [Section 8.5](#), I pointed to the Swiss Mava Foundation, which made a deliberate decision to close at a pre-determined moment. In my opinion, it should also be natural not to

want to maintain real purchasing power in perpetuity but to make a firm decision about the sunset of a foundation.

### **Options for foundations**

The question that arises is which considerations are relevant here. Let's take a brief look at the options: conscious accumulation of assets, setting a time horizon and maintaining real purchasing power.

#### **Accumulating assets on purpose**

Rather than maintaining the purchasing power of the endowment, an alternative approach that founders can take when setting up a foundation is to accumulate assets while no or limited grantmaking is made. This approach, whenever it occurs, is almost always taken by private foundations rather than public charities. The government, especially the tax authorities, will scrutinise this approach critically because the money has often been placed in a foundation in a tax-friendly manner, and the legitimate expectation may be that this capital should also lead to annual payouts. Otherwise, there is a risk of hoarding, and society has not granted a tax exemption to a foundation for that purpose.

Nevertheless, there may be good reasons to focus on growing the capital rather than maintaining the purchasing power. For example, a foundation may have an ambitious plan, such as building a museum, setting up a large-scale medical research programme, or developing a costly medicine for a rare disease, and expenditures will only begin once the endowment has reached a certain size. In the Netherlands, the position of the tax authorities is that if a foundation is hoarding, there must be a plan explaining why. Under these circumstances, hoarding, or growing the real purchasing power to a certain level, is allowed.

#### **Using a time horizon: A sunset scenario**

The opposite of growing a foundation's capital is the decision not to be there in perpetuity but instead to spend down. Under these circumstances foundations decide to go beyond spending the annual financial returns on the capital, thus gradually depleting the capital itself to boost spending.

What are the arguments for foundations to choose a time horizon, or a sunset scenario? This is the subject of a practical publication by Rockefeller Philanthropy Advisors and Campden Wealth titled “Global Trends and Strategic Time Horizons in Family Philanthropy”.<sup>90</sup> Over the years, I have encountered several arguments for this approach. Some founders of family foundations do not want to burden their children or grandchildren with the responsibility of managing the foundation. Related to this is the question of whether next generations would even have the same intention to return wealth to society, or whether they would want to focus on their own consumptive spending.

Another argument may be that founders are afraid of what is called mission drift. Founders have a clear idea of the foundation’s mission, but realise that after their death, future generations may interpret this differently and may want to give a different meaning to the original mission. To prevent this dilution or even a change in mission, the founders then set an end date for the foundation’s existence.

A more substantive argument often heard is that founders want to experience the impact of donating the entire endowment during their lifetime.

Yet another argument for a time horizon may be that the founder believes that a problem is so big and complex that it can only be solved with a “big bang” rather than by using only the annual returns on the capital. Urgency is required, and the capital itself must be used. This was the idea of George Soros when he decided to establish the Open Society Foundations, an institute to revive civil society in central and eastern Europe after the fall of the Berlin Wall. With the collapse of communism, people realised that a civil society hardly existed in these countries. Only with enormous efforts and amounts of money could something like a civil society emerge with citizens initiatives and grass-roots associations. Hence Soros’s desire to allocate large sums of money in the form of endowments to national foundations (such as the Stephan Batory Foundation in Poland) rather than just using the returns on invested capital.



The plan was to spend his capital over a limited number of years. However, George Soros eventually revised his opinion and opted for a perpetuity structure instead of a spend-down approach. I think he realised the complexity of the challenge and that reforming the social contract in central and eastern Europe is a long-term endeavour. One person who did stick to his decision to give his foundation a time horizon was Chuck Feeney of Atlantic Philanthropies, which was founded in 1982 and closed its doors in 2020.

A recent example of the urgency of problems as an argument to not adhere to perpetuity is Jeff Bezos's decision to donate \$10 billion to Bezos Earth Fund to combat the climate crisis.<sup>91</sup> This is not done with small, incremental gifts, but rather with large sums to make an impact. The intention is to spend this entire amount before 2030.

### **Explicit decision to maintain purchasing power**

There are, of course, also very good arguments to deliberately choose a perpetuity structure. At the Bernard van Leer Foundation, the argument was that there will always be children at the margins of society. The specific nature of the problems may change over the years, but the generic problem will always be with us. Therefore, it makes sense to maintain the real purchasing power of the endowment. In other words, there are problems that require long-term support without an explicit time limit instead of a one-time large financial injection.

For me, another convincing argument is that founders and families see their “eternal foundation” as an instrument to reinforce family cohesion. It stimulates family members to think about their values and norms and how to give them common meaning. New and valuable connections arise between family members, helping the family to determine its place in society. As previously indicated, this thinking about perpetuity also involves a long-term perspective on spending and an interest in sustainable investing of the endowment.

### **Perpetuity at what level?**

The fact that we are asking the perpetuity question arises from the urgency with which current needs are compared to future needs, but

also from the financial market situation in recent years. The situation on the stock market is complex for foundations to deal with. Although now rising again, interest rates were very low for some time and sometimes even negative, causing managers to switch from fixed-income securities to equities when investing their assets. However, foundations are nervous about market volatility, high price/earnings ratios, and declining expected returns for almost all asset classes. This means that the percentage of their assets that they want to spend annually on their mission is under pressure.

Downward pressure on spending comes at a time when there is certainly no decrease in the need for philanthropic money. On the contrary there is a wide-felt need for higher spending. It reminds me of the financial crisis in 2008 when many foundations saw their assets evaporate. The role they could play by spending only the income from their invested assets was greatly reduced, but the need for philanthropic money had not decreased. That was also the moment for many foundations to think about their own future: Should they decide to continue as independent institutions? There were discussions about mergers or continuing under the umbrella of a larger foundation, as a so-called donor-advised fund. But the situation also led to discussions about whether a foundation should exist in perpetuity or whether the assets should be depleted within a set period.

We see this same discussion arising again because of Covid-19. Not because the value of foundations' assets went down as in 2008. On the contrary, after an initial decline in March 2020 at the start of the Covid-19 pandemic, the markets rose and 2020 and 2021 were far from a financial disaster.

The pressure to have this discussion about perpetuity during and after the pandemic stems from something else: the need to spend more in times of crisis. Covid-19 has not put us into a financial crisis, contrary to expectations, but has instead sharpened the divide in society, especially between rich and poor. The pandemic has also intensified the contrast between countries and regions in the world, highlighting how vulnerable our society is. Does this mean that foundations should

convert their perpetual status into a time horizon? Not necessarily. Other answers are also emerging. Nuances are beginning to emerge in our perpetuity thinking.

An interesting view is to follow a countercyclical approach: Spend more in times of crisis and add to the endowment in times of financial prosperity. Perpetuity is then not questioned; it is rather a smart use of financial returns in sync with the needs of society.

The question of “perpetuity at what level?” was raised by the Ford Foundation, a foundation with assets of approximately \$13 billion and annual expenditures of \$600 million. This foundation decided at the end of 2020 to issue social justice bonds with a 0% coupon. The foundation raised over \$1 billion. By adding this to the endowment and making it part of the investment policy with an average return that is above the 5% obligatory payout, the Ford Foundation created a lever on its existing assets. Ultimately, this amount raised with bonds will have to be repaid, and one does not know what the economic circumstances will be at that time. The needs of society are apparently compelling enough to take this risk, even if it means a decrease in the size of the endowment. The Ford Foundation believes that there must be a strong focus on combatting inequality in society and sees inequality as the greatest threat to the survival of democracy. This is not about perpetuity or not. Instead it is about the level of perpetuity at which we are willing to let a foundation continue.

I served for many years on the board of the Dutch Jewish Humanitarian Fund in the Netherlands, which supports initiatives in central and eastern Europe. When our endowment lost part of its value in 2008, it became clear that we could no longer achieve the planned spending level of 4% with the existing asset allocation and expected returns: Yet we still decided to hold on to this spending rule and thereby accepted the risk of not being there in perpetuity. I saw this consciously chosen strategy emerge more often during the Covid-19 period: Spending is maintained or even expanded, and foundations accept the consequence that under the existing investment policy, the principal capital sum may be drawn down. With this approach,

spending needs – the needs of society – are leading, not perpetuity thinking.

### **Relevant organisational framework**

The perpetuity concept is also influenced by how a foundation has organised its asset management. This discussion is easier when asset management and philanthropic spending are organisationally close to each other. This is seen in situations where both functions fall under the CEO, and where the board or supervisory board feels a fiduciary responsibility for both the spending and investing sides. This naturally leads to discussions about trade-offs and the alignment of both responsibilities in terms of values and vision. Separation of the head (investments) and heart (spending) in two separate but related organisations sustains the attitude to hold on to perpetuity. There will then be fewer discussions about the interaction between maximising financial returns and making concessions to financial returns if investments could harm a foundation's mission. My clear preference is for organisations where investments and expenditures are mutually challenged to take each other into account.

Similar organisational questions arise in fundraising organisations. We often see that fundraising and the spending/implementing side are separated. The question that comes up then is which side is dominant and which is serving. For instance, it would be ineffective if fundraising generates money for growth and expansion of an organisation while the programmatic side needs funding to consolidate the organisation at its present size and to sustain it with a focus on impact for the future. In fundraising organisations, the challenge is to break down the silos in such a way that the mission and programmes aimed at impact are leading and are connected to the strategy and marketing of fundraising.

### Why investment strategy should be on your future agenda

In this chapter, I have presented some issues for an informed agenda to discuss your investment strategy. The discussion should also be about using the investment policy to increase the impact of your foundation. So, it is worth having a serious discussion about not only using the return on investments from the endowment for spending (which was discussed in the previous chapter), but also about the extent to which investments themselves could serve the mission. Foundations are expected to focus on sustainable investment as civil society organisations, but that trendy term sounds simpler than it is. The ESG pitfalls are numerous and cannot be avoided by leaving everything to that friendly advisor from your principal bank. Fiduciary responsibility cannot be delegated to a service provider. (Supervisory) board members are and remain responsible for this, which means that a structure with good checks and balances must be established for the organisation of investment management.

## **10. Operating systems and styles; and the importance of overhead and governance**

Operating systems and styles cannot be judged in isolation: They are derived from the choices foundations make with respect to the agenda items dealt with in previous chapters. If you want to embrace a systems approach with respect to furthering your mission, or if you want to align the values of your endowment management with those on the spending side of your foundation, there are consequences for the way you organise yourself. Frequently, wonderful ideas and plans fail because the implementation in terms of institutional consequences has not been well thought through.

### **10.1 How policy choices impact organisational structure and operations**

I could write a separate book on how foundations could organise themselves. What I want to do here is to use a few examples to show how the operating systems and styles of an organisation – as translated into structures and procedures – are influenced by the choices that foundations make regarding their substantive policies. Structure follows policy, but that does not mean that structure is secondary to policy. Operating systems and styles will determine whether a policy can be successfully implemented. Therefore, operating systems and styles ought to be on the future agenda of foundations.

An important question is how a foundation views its own role in society. Rockefeller Philanthropy Advisors dealt with this question in a publication where various “operating archetypes” of foundations were discussed.<sup>92</sup> For example, foundations may see it as their task to support as many projects as possible to benefit the target group they serve. However, other foundations may support a small number of projects or programmes, drawing lessons that they may want then to articulate in activities to influence public policies. It is quite clear

that the way a foundation organises itself is influenced by the role it wants to play. If one wants to draw lessons and influence policies, one must attract staff with specific advocacy competencies next to staff dealing with project assessment and monitoring.

Let me briefly mention other policy choices that lead to further choices regarding the organisation's structure and procedures.

### **Co-creating initiatives with partners in the field (PBOs)**

Some foundations give up the vertical relationship between the foundation and the grantee and instead partner with PBOs to develop joint initiatives. They create an agora where they meet with other foundations and PBOs to work together on the design and implementation of social initiatives. The agora becomes a learning community where financial resources, networks, knowledge and experience come together and reinforce each other. However, other foundations may have a strong view that distance from PBOs is more effective than proximity. These foundations want to play the role of a critical and constructive sounding board in the interest of the recipient partner. Obviously, this has organisational ramifications. If you co-create, you will need to organise yourself as a foundation that goes beyond providing financial resources: You move in the direction of becoming an operating foundation, bringing expertise, networks and reflection to the process of co-creation.

### **Choosing mission-related investment... or not**

Some foundations want to align their values in investing reserves or the endowment with those that drive the programme side of the foundation. Other foundations may believe that investing and spending require separate professional "skills", and therefore organise investing and spending as two distinct processes that should be optimised separately. This may lead to an operating system whereby head and heart are even institutionally segregated into two separate organisations, possibly with a partial or full union on the level of the board/supervisory board.

### **Are regional representatives or offices the right way to go?**

Foundations such as the Bernard van Leer Foundation (Netherlands) that engage in international grantmaking activities in other regions of the world must decide whether to have regional representatives or offices, or concentrate all activities at headquarters. Whatever the choice made, there will be institutional implications. With regional representatives or offices, there is always a danger that headquarters alienates itself from the grassroots and evolves into a more administrative mode while policy issues and content get decentralised. A concentration at headquarters means that it will be more difficult to have ears close to the ground unless there is frequent travel to the various regions. That said, these days having regional representatives does not necessarily have to be a significant drawback due to recent rapid advancements in, and adoption of, remote communications technologies and platforms. These new developments allow headquarters to be in intensive contact with the field, mitigating the impacts of geographical distance. Also, with climate issues more and more at the front of people's minds, concern around the impact of frequent travel to the field further encourages organisations to embrace these new remote communications tools.

### **How impact investments affect structure**

Gearing investment policy towards impact investments has consequences for the organisation. Often, this is treated rather lightly, but in fact it means that the board, management and staff suddenly must think about the mission and substantive activities of the foundation in investment terms. They will have to pay more attention to matters such as due diligence and dealing with financial deficits. While all of this means a change in organisational culture, it also impacts the question of staff competencies: Foundations will need to attract – or manage – people who can handle and evaluate social investments.



### **When fundraising takes a back seat to impact in public charities**

If public charities want to switch to seeing fundraising not as a core business but rather as a derivative of achieving social impact, this has organisational consequences. It has consequences for marketing, positioning, fundraising, the deployment of volunteers, and for bringing staff with varying expertise together in a team instead of using expertise more sequentially as when fundraising is in the driver's seat.

### **Integrating futures thinking**

Considering the uncertainties of today's world, more flexibility and creativity will be needed when it comes to strategic planning, a concept that needs to be looked at anew by foundations. Suppleness will need to be built into plans, with the ability to make choices as new circumstances arise. The chance that a strategic plan for five years will come to fruition is now more unlikely than ever. Clearly this impacts how a foundation operates (see [Chapter 11](#) for more on futures scenarios and impact on planning).

### **Moving from an executive to a supervisory board model**

Finally, I am increasingly seeing foundations wanting to transition from an executive board model to a supervisory board model, which places much greater responsibilities on management and gives them statutory responsibilities. While this structural change may seem to be only a technical change on paper, the reality is that this requires more responsibility, accountability and external engagement from management and staff. Such a cultural change requires guidance and focused support.

### **Underestimating complexity**

In short, it seems easy for a foundation to develop new policies, whether it is effective spending; socially responsible investing; addressing the root causes of problems before embarking on any form of grantmaking; or wanting to scale up activities. However, when decisions are made about these policies, foundations must also consider the consequences for implementation and deploy resources

accordingly. Often, the complexity of implementation is underestimated and becomes the stumbling block to achieving great visions and policies.

## 10.2 Overhead is not a burden, but adds value

In [Section 8.4](#), I have already discussed the functionality of overhead costs. The development, albeit slow, of not seeing operating costs of foundations as “waste” but as a sign of strength should be encouraged and supported. Operating costs/organisational expenses are a strategic instrument of adding value to philanthropic transactions, hence it is appropriate to delve a little deeper into this topic within the framework of this chapter on operating systems, and I will do this separately for public charities and private foundations.

I have often been surprised that administrative expenses of foundations in the Netherlands are perceived much more negatively than in other countries. There is a phrase in Dutch that is often used in this context: “aan de strijkstok blijven hangen”, which has no direct translation in English, but is close in meaning to the expression “pouring money down the drain”. The opinion is widespread that overhead is wasteful and should be minimised, and instead “all the money” should go to the target population and target activities.

### **Unjustified criticism of public charities “pouring money down the drain”**

Grantseeking organisations, the “public charities”, have been viewed for too long simply as conduits of charitable money. Money is raised from the public and then must be passed on as quickly as possible to the ultimate target groups. Anything spent on the public charities themselves should be minimised and is characterised as wasteful. Apparently, no one wonders whether the organisation behind the project can add value to such projects by monitoring and evaluating them, and by engaging in partnerships. Of course, this incurs expenses, but one might expect that this translates into effectiveness and impact. For me, the principle of incurring administrative costs and being transparent about them is of strategic importance for the effectiveness of

public charities, but what I see is a negative opinion with respect to overheads and administrative expenses.

It sometimes seems that this negative opinion is not just embraced by the public, politicians and the media but that even the public charities themselves comply with this stance in their own operations: The worry of being seen as wasteful has started to shape their own strategy and marketing, a cynical example of “Realpolitik”. Sometimes, you get the impression that public charities themselves do not consider their organisation as a means of adding value. Therefore, they tend to minimise and even avoid operational expenses, from rent to salaries. It has always been my opinion that the negative approach to overhead reflects a great deal of simplification. I believe strongly that donors are not foolish and will also understand, provided it is explained well, that effective philanthropy is inevitably accompanied by incurring costs.

#### **How governments and private foundations view overhead of public charities**

In the Netherlands, the policy of the government, and more specifically of the tax authorities, is decisive for how public charities are viewed, namely as conduits that should minimise their costs. Let me mention an example that reflects this attitude. Board members or members of a supervisory board of public charities are not allowed to receive remuneration except for a very modest attendance fee for meetings. The entire system of supervision is apparently seen as something that one can do pro bono, while the responsibility and liability that directors or supervisors have are not insignificant and have only increased in recent years. Why can't these people receive reasonable remuneration, if public charities can afford it and want to do so? There could even be an option for directors and supervisors to waive such remuneration.

The existing system often leads to boards of public charities being formed by pensioners who can afford it financially or by other people who have done well financially. What I have observed a few times is that people do not want to take on the responsibilities and liabilities that come with a role as a director or supervisor without compensation.

They prefer to opt for a position on an advisory board to still be able to express their social commitment. They can get paid in such positions and their liability is reduced.

The same thinking about overhead exists among private foundations when it comes to their relationship with the public charities that they support. Private foundations keep a close eye on the general costs of grantees under the motto “the lower, the better”. Shouldn't the position be: What added value does the organisation of the public charity bring to the effective use of funds? What tasks do public charities perform in monitoring projects, evaluating them and assessing reports, including financial reports? The follow-up question should then be: What is the price tag for this?

Private foundations should reconsider their strategy in this regard and accept the functionality of overhead. At this moment there exist perverse incentives because private foundations are critical of funding the institutional costs of public charities. Public charities try to cover their organisational costs through a single donor, and then go to foundations with the message that their grants will reach the ultimate beneficiaries without any reduction to cover overhead.

As an advisor, I know a foundation that works for street children in developing countries. This foundation was approached by a Dutch organisation that raises money from large donors and businesses for the same purpose, spends the raised money locally, and provides monitoring and reporting for the donors. This Dutch organisation approached our foundation asking if our contributions could flow to the field through them. Their position was: “Your money is fully spent on the target group because our costs are covered by a patron's contribution.” However, our position was: “We want to contribute to your organisational costs because you provide a clear added value, and we also want to have an insight into the costs of your organisation.” Fortunately, this perception (that donations go to the field without deducting organisational costs) is changing, and it is becoming more common for organisational costs to be regarded as having an added value for public charities.

Now the government needs to follow suit...

### **How do private foundations view their own overhead?**

As observed above, private foundations are also burdened with the same obsession of minimising their own overhead. This is sometimes determined by government regulations and the perception of the public and the media. However, private foundations' own views also play a role. Instead of justifying their organisational costs with a substantiated story about the added value they provide and the impact they make, they show an apologetic attitude about their organisational expenses. Fortunately, I am observing a gradual shift in thinking about this. Of course, overhead costs must be carefully assessed and must serve the public good. That said, overhead costs in most cases add value and therefore mean more impact.

## **10.3 The importance of good governance**

Good governance is certainly a topic that belongs on the future agenda of foundations. It is not only intrinsically important for the effectiveness of foundations, but also increasingly important for their image and license to operate. There is a growing interest in criteria for good governance, especially at a time when the trust in foundations and their founders is being questioned. Many of these discussions focus on the governance of the foundations established by wealthy families and corporates.

I would like to single out two issues relating to good governance in philanthropy. First, considering diversity, equity and inclusion (DEI) in governance systems is key. Beyond the obvious implications, this may also very well imply that people served by the foundation are represented on the board. Also, the involvement of the next generation in the governance of foundations should be considered (see [Section 10.4](#)).

The second issue is about maintaining the quality of governance. In the business world, persons with ultimate responsibilities can be removed by shareholders. That is hardly possible in foundations, where people on boards and supervisory boards are usually co-opted or have a seat until their term ends or a certain age is reached. There is

sometimes a board evaluation, and colleagues can then ask someone to step down, but this is a difficult process. That is precisely why it is so important to regulate governance in the foundation world and to ensure a system of checks and balances.

With respect to the discussion regarding good governance, below I single out one item that touches on the strategic choices that foundations must make: the size of a foundation.

### **Size matters: Effects on governance of large foundations**

Is there an optimal size of a foundation in terms of the size of its assets (especially its endowment) and thereby in terms of the scope of its influence? This is a governance issue, particularly when new foundations are created, and hence this should be on the agenda of philanthropy. There is certainly not a clear answer to the question about optimal size. There is a gliding scale, but being too big implies a set of risks, challenges and even dangers. Let me mention some of the issues up for discussion:

- The effects on risk-taking: Taking calculated risks is one of the essential characteristics of foundations. If a foundation becomes too big it becomes difficult to play the wild card and be the catalyst for new ideas. There is a danger of becoming a mainstream provider of services.
- The political pressure on big foundations from the national or local government: Formally foundations are independent, but if they become too big, they are seen as public institutions and may start to behave that way.
- The effects on the role big foundations can play in society: Rather than playing the role of the critical force in relation to government, a very large foundation may find itself in the role of stepping in to fill the lacunae left by government and supplementing public money.
- The freedom to manoeuvre in the impact investing domain: If a foundation has considerable financial resources, it will be complicated to invest in a direct manner in social enterprises. If

such investments go astray, there will be tremendous pressure on the foundation to hang on to them because of reputation risk (e.g. risk to the generalisation about the deep pockets of a foundation).

If foundations become too big, they start to resemble the government. They are almost a substitute for the government or are perceived as such, and this could erode their license to operate. Their ability to act quickly and to be agile may decrease while bureaucracy increases. In those situations, questions are naturally raised about the choices being made with respect to mission and strategy, the accountability being applied, and the adequacy of the governance structures.

The reality is that more very large foundations are being established. The foundations created by the founders of the giant Big Tech companies are just an example.

It is wise for foundations to ask themselves what they consider to be the optimal size, given their mission and strategy, to be able to play the role of risk-taker and innovator. Good governance implies such a debate on the level of the founder, the board and the supervisory board.

This discussion was held within the Bernard van Leer Foundation when we as a foundation brought the company to the stock exchange in 1996. Instead of receiving dividends from the company, we could build an endowment, the proceeds of which would greatly exceed the dividends in size. The questions under discussion were: What is the optimal size of the Bernard van Leer Foundation? If there is much more money available, would it not be wise to create a second parallel foundation? Although this did not happen in the case of Van Leer for appropriate reasons, it was good that the issue had been put on the agenda. There are indeed choices to be made by foundations, and it is worthwhile to put this topic on the future agenda.

## 10.4 Functional style

There are many topics related to the style of functioning that are relevant for the foundation world and deserve the attention of foundations. Here I mention some of the most important ones:

### **Involving a younger generation**

Covid-19 has shown in a more general sense that both private foundations and public charities can be creative, flexible and resilient in times of crisis. This will undoubtedly benefit the recognition and reputation of foundations. Another factor that contributes to the willingness and necessity of foundations to go back to the drawing board: The next generation is presenting itself.

The next generation has more affinity with the concept of “the learning organisation”. Being open to learning from one’s own experiences and open to the experiences of peers in the sector are fundamental conditions for constant improvement. This is even more valuable when the results of change processes are not kept in-house but are shared with other foundations. I often come across intervention groups in the foundation world of five to seven foundation staff members (not necessarily directors) who meet periodically to discuss a common problem or challenge and learn from each other. It is almost always younger people who initiate this.

When thinking about the role of philanthropy, young people often seriously consider the connections among the big questions of today around climate, environment, healthcare, migration and inequality. They also question their elders about their lack of action in solving the major issues regarding problems of the natural environment and climate. Members of a younger generation also feel fewer restrictions in positioning themselves towards the outside world; and are more forthcoming when it comes to transparency and working together with other foundations, and with integrating the values and norms of philanthropy into their own lives outside their work in foundations. Young people think less in silos and see philanthropy as connected to the way they live, invest and consume. In this context, a research project on “The Future of Philanthropy”. conducted in 2021 by Fidelity Charitable, a well-known American philanthropic organisation, concludes that for young people “charitable giving has become charitable living.”<sup>93</sup>



Private foundations and public charities would do well to seriously consider involving a younger generation in their work, both at the levels of staff and management, but also as “near peers” at the level of governance. This should be inherent to foundations’ style of functioning. We should be aware that younger generations may want to pursue a career in a different direction but still want to experience philanthropy. A suggestion may be for foundations to consider starting an advisory board for this purpose to give young people an opportunity to be exposed to this experience. It can be crucial for their future life and, for foundations at least, it is refreshing to open the windows to younger generations.

A good example of this is Compagnia di San Paolo’s Young Advisory Board, which was created in 2021 under the leadership of Alberto Anfossi. The members of the board, who were selected via a public call, are a group of 16 diverse people aged under 25. The role of this board is to present ideas and discuss the foundation’s work, with the General Council of Compagnia di San Paolo as critical friends. The intergenerational dialogue principle was even incorporated in the foundation’s revised statutes in 2023.

Even if young people do not participate in the governance of a foundation, it is important to consider their interests and visions. In this regard, the concept of the empty board chair is relevant: That chair may not be filled with a younger person, but it reminds all other board members that they should take the interests of young people into account in their decision-making.

### **Having the courage to just start**

With private money for public purposes, you can take risks and you should do so. If philanthropy does not want to be quasi-government, then foundations must consciously be willing to play the wild card. This applies to the mission, the strategy and the implementation approach of foundations. In this context, I often mention the Bernard van Leer Foundation as an example, which years ago supported a programme in Morocco, together with the Mohammed V University in Rabat, to bring a secular dimension into the curriculum of Koranic schools. The

goal was to contribute to the multidimensional education of young children. The initiative and execution were taken on by a local organisation. The Dutch government could never have supported such an initiative: too risky, too politically sensitive. Foundations can use their funds as social venture capital.

However, this implies a style of functioning that requires courage, improvisation and shifting gears, while always keeping the ultimate objective in mind. There is no detailed manual available that can provide foundations guidance in this respect.

How many assurances does a foundation need from the implementing PBOs before money is committed? How many hoops must a PBO jump through before the directors or supervisors of a foundation are willing to commit resources? It seems that foundations want to be assured of the expected success of an initiative before they dare to commit themselves. They want to be in control of the entire process towards the goal posts before taking the first step. Shouldn't a foundation take a bit more risk, especially since it is claimed that this is precisely the comparative advantage of using private money? Shouldn't a foundation have a bit more trust in the judgement of PBOs on how they want to navigate towards their goal posts? Couldn't you just start with a well-developed idea, even if there are open ends? There should be room for intelligent navigation.

The same applies to the grantees. How many assurances do they need that the funding for a defined project period is fully covered in advance? Shouldn't recipients have the courage to start, even if this is not 100% certain? By showing what they are capable of and what they do, there is a good chance that they can secure the funds required during the implementation process. If this is the mindset, it also becomes easier to think in terms of "funding-for-success" ([Section 8.1](#)), whereby both parties (grantor and grantee) make agreements about follow-up decisions for funding, which are then made dependent on results and experiences gained. Open-ended funding and goal-free evaluation are concepts that deserve the attention of foundations, and thus of their directors and supervisors.

### **Failing means learning**

There are images that foundations like to maintain about themselves. One such image is that foundations can not only take risks and bring social venture capital to a society, but that they actually do so. I mentioned this in the previous paragraph. The analogy is made with the world of private equity investments, where it is considered normal that no more than two out of ten investments turn out to be a success. Even though foundations claim that they take risks with respect to their philanthropic spending, the ultimate question is indeed whether foundations effectively do so. In the world of foundations, as well as in the media and politics that surround them, there is a sense of discomfort when a project funded by a foundation fails. While it may be an exception, it is still seen as a form of “wasting money”. Foundations talk about taking risks, but often try to avoid them.

This mindset needs to change: Failure should be seen as a learning opportunity. A failed grant should be used as a learning moment for all parties involved, including the grantor and the grantee. This means analysing the reasons for the failure and possibly adjusting strategies and procedures.

Foundations can learn a lot from the business world in this regard, where taking risks and accepting losses are seen as more normal. It's not something to be apologetic about, but something to share with others as an important learning moment. This should be inherent in the way foundations operate.

## **10.5 Giving substance to leadership**

The previous topics, such as giving space to a younger generation, showing courage by starting activities without complete certainty about the outcome, and learning to deal with failures, all have to do with leadership. Leadership should not be rigid, but rather agile, which implies the ability to adapt. This means that foundations must have the courage to critically examine their own leadership and decision-making structures.

Leadership in the foundation world requires several characteristics. First, there must be a genuine commitment to work for the common good. This must be combined with vision, moral imagination and courage. It is also important to have the skills to implement decisions and the capacity to work with partners, including those who are sometimes seen as counterparts or even opponents. For example, governments are often viewed this way by foundations, but leadership means stepping beyond one's own ego.

Collaboration also means always seeking the truth, not only within oneself but also with others, and being open to another's perspective, even if it threatens what one believes to be "true". Similarly, leadership means keeping sight of what is desirable and possible, even in the face of setbacks. Listening to others is a leadership quality. This means being aware of cultural and contextual differences and being willing to share information with others.

We often associate leadership with the single, strong, visionary and charismatic director of a foundation or PBO. Supervisory boards of such organisations cherish this and give glowing performance reviews year after year. But the other side of this picture is that many charismatic leaders do not provide space for a second tier and are not open to arranging their own succession. I have seen this too often, both in the world of foundations and PBOs.

Leadership, finally, is not only relevant in relation to individual foundations but also to the collective of foundations, to the role philanthropy can and is willing to play in our society.

### **Why operating systems and styles should be on your future agenda**

In this chapter, I have presented several issues for an informed agenda for discussing the operating systems and styles in the foundation world. These issues are of vital importance for your discussion agenda. You can debate all the policy principles I have addressed in this book, but if the implementation of your decisions is stalled, it is not only frustrating for board members, but also for staff and grantees. A vision of the societal impact of your foundation cannot be without “Realpolitik”. Do you have the right people and competencies in your organisation? Do the organisational structure, procedures and governance meet the requirements to sustainably achieve your (re)formulated ambitions? One thing is for sure: It requires leadership that also allows for making mistakes. Philanthropy, like many things in life, is sometimes a process of “three steps forward, two steps back”.

## FOCUS ON European philanthropy

Over the last few decades Europe has become more important as a political and socio-economic force in the world. A wide range of policy issues are being dealt with on the European level with far-reaching consequences for the Member States of the European Union. Therefore, the European institutions (European Commission, Parliament, Council) also have become more important and more visible.

### New deal for Europe: Transitions, challenges, partnerships

As Europe wants to play an important role in the realisation of a sustainable and inclusive development model for its citizens, there are large and complex challenges to be dealt with. There is an awareness on the level of the European institutions that they cannot meet these challenges on their own. Partnerships must be created with other European stakeholders, and the foundation sector in Europe is a highly relevant one. European philanthropy can bring to bear its brainpower, experiential knowledge, networks, long-haul approach, propensity to take risks, and financial power to help materialise ambitions on the European level.

Challenges for Europe relate to its role as a geopolitical player on the global level, but also to the transitions and challenges that it must deal with inside its own borders. There is a climate transition (the so-called Green Deal<sup>94</sup>), an energy transition, a digital transition and an economic (including agricultural) transition, all at the same time. There is a challenge with respect to social cohesion and equality and with respect to strengthening democracy and governance. All these transitions and challenges are at the centre of a new deal for Europe.

Hence partnerships are required. The Multiannual Financial Framework 2021-2027 of the European Commission (EC) contains an important statement, namely that the challenges on

the European level are too big to be handled by the Commission alone.<sup>95</sup> It is an explicit invitation to the world of philanthropy to explore opportunities to collaborate with the European institutions. While in the past the EC sometimes looked at the foundation sector as an ATM, which meant that a partnership was considered an afterthought to cover a financial gap, important steps have been made in the direction of a more fruitful cooperation based on mutual respect. This means that foundations should be involved when the parameters of a programme or initiative of the European institutions are formulated and not five minutes to midnight at the end of decision-making processes regarding the European agenda.

## The European agenda and foundations

Can foundations live up to the expectations inherent in such a partnership? The ambition may be genuine, but what about the day-to-day practice? Most foundations in Europe have a domestic and even a local agenda instead of an international one. Of course, I could argue that even with a domestic agenda, philanthropy can contribute to the furtherance of the European agenda, but I do not believe that domestic initiatives of foundations are defined and monitored with a European agenda in mind. If foundations have an international agenda, they are more likely to focus on the Global South than on Europe. In that sense it would be important for organisations such as Philea and EVPA, which have been effective in positioning themselves as serious partners of the European institutions, to promote the importance of the European agenda to the foundation community and stimulate partnerships on that level.

For partnerships to be forged, there rests a responsibility on the shoulders of the European institutions as well to create a conducive legal and fiscal framework for foundations which should allow foundations to embark on cross-border philanthropy between European countries. However, foundations will still remember the failure in 2015 of the initiative – strongly supported

by the philanthropy associations in Europe – to have such an enabling environment for cross-border grantmaking: the European Foundation Statute.<sup>96</sup>

In May 2018 I chaired in Brussels the “Philanthropy Scrum: Co-creating a Single Market for Philanthropy”, organised by the EFC, Dafne and EVPA.<sup>97</sup> The agenda of this event was simple and straightforward: “Goods and services travel freely across Europe, yet philanthropic support cannot. If barriers to cross-border philanthropy could be removed, philanthropy could go much further in playing its key role, alongside other stakeholders, in helping to find and scale ways to meet the serious challenges that many European countries, regardless of national boundaries, are facing.” Many foundations participated in this “scrum” but there were also numerous representatives of the European Commission, Parliament and Council.

The outcome was positive, and the EC then made it explicit how important foundations were for the realisation of the objectives of the EU Multiannual Financial Framework. Since then, relations have further improved, and hopefully a revitalisation of the former European Foundation Statute or, more important, a revitalisation of the thinking behind the European Foundation Statute, could be a realistic opportunity to bring this partnership to the next level (in the next section, “Dimensions of European philanthropy”, I mention important recent developments in this area).

Foundations that are active in European countries other than their home country are often so because they have an international orientation, which allows for grantmaking inside and outside Europe. However, most of the time grantmaking in Europe lacks a vision framed from a European perspective.

This is different with respect to foundations that are truly focused on Europe and have, as no surprise, “Europe” in their name, such as the European Climate Foundation and the European Cultural Foundation (ECF). I want to zoom in on the work of the ECF, which has a European agenda: Europe is the spending purpose of the foundation, and this is of great relevance to the EC. The foundation



can support the effective implementation of the transitions mentioned above with respect to climate, energy, digitalisation and economy. At this moment the ECF, under the astute leadership of André Wilkens, is adamant about linking the Green Deal of the EC to the development of a “Cultural Deal” in Europe. The idea behind this is that the EC’s Green Deal gets easily skewed towards issues of energy sources, technology, legislation and financial arrangements without preparing European citizens for a new era. However, the success of a Green Deal depends on acceptance and internalisation by citizens, and that is where a Cultural Deal comes in to be developed in conjunction with the climate transition. It requires the imagination and creativity of people, and sharing of experiences and exchanges to prepare the new citizens of Europe for this transition. Engaging European citizens is not only important for the climate transition; it is also a prerequisite for the effective implementation of all the transitions the EC is facing. Culture is a catalyst to realising the internalisation and acceptance of these transitions by the future citizens of Europe. Culture is a binding factor between Europeans. Robert Schuman spoke of a European sentiment: “Europe needs to recover economically and socially, to organise itself politically, to strengthen its security and protect itself culturally. However, all our efforts will be in vain if Europe is not animated by a European sentiment.”<sup>98</sup>

Europe may have a common market, but common citizens are needed to achieve change, and culture can be the bridge to bring people together across borders.

## Dimensions of European philanthropy

Here I would like to dive into three important dimensions of European philanthropy when it comes to foundations:

1. European legal status for foundations.
2. Foundations that have Europe as a spending purpose.
3. Foundations that have European sources of funding.

Above I mentioned with respect to the European legal status for foundations the failure in 2015 to reach a consensus on a Foundation Statute. Hopefully alternative ways to foster cross-border grant-making in Europe will be presented before too long. On 13 June 2023 the EC announced recommendations to Member States to remove barriers to cross-border philanthropy and to work towards a more enabling environment for philanthropy in Europe. This is very good news, and Philea must be commended for advocating in such a professional manner for these issues in their European Philanthropy Manifesto: A call to policymakers in Europe to work towards a single market for philanthropy and to decrease the existing barriers philanthropy is faced with.<sup>99</sup> The recommendations of the EC to Member States are part of its Social Economy Action Plan.<sup>100</sup> In the news item on its website, Philea says that it will analyse the proposals of the Commission in more detail.<sup>101</sup> It seems to me that Philea, national philanthropy associations and members of the European Parliament need to exert pressure on Member States to embrace these recommendations.

A further important development is the proposal in September 2023 by the EC for a European Cross-Border Association, which complements the announcement in June. This organisational form would give a boost to European civil society and could serve as a framework for similar future proposals for foundations.<sup>102</sup>

When it comes to foundations that have Europe as a spending purpose and that can contribute to the implementation of the European agenda, the ECF is a perfect example. Although being European may mean having Europe as a spending purpose, it does not automatically imply that you have as a foundation access to the third dimension: European funding.

The funding of the ECF, like nearly all other foundations, has a national base in the country where it is officially registered, which for the ECF is the Netherlands, with funding coming from a structural contribution from the Dutch Charity Lotteries (Goede Doelen Loterijen) and the returns on a modest endowment. In addition

to these sources, the ECF is in a privileged position to get funding from a range of other foundations in Europe. A small part of its funding does have a European origin (namely from the EC) but this is project oriented. The conclusion is fair that, since it moved to Amsterdam from Geneva, for the last 60 years the ECF has been funded almost entirely by Dutch citizens. You could easily conclude that there is a mismatch between the European agenda of the ECF and its domestic funding base.

## European funding sources for philanthropy

This begs the question for foundations with a European spending ambition: What initiatives can they explore to get access to European funding sources? Let me mention seven preliminary suggestions that should be further explored – keep in mind that even though I use the ECF and culture as a specific example, these can and should be looked into by any foundation with a European dimension:

1. The ECF could create a European endowment, based on the contributions from a small number of the larger foundations in Europe that are committed to the European agenda, or rather, to working on behalf of the future citizens of Europe. On this basis the Commission should be asked to match the private contributions from foundations and together create assets in an endowment with an impact on the future of Europe.
2. Issue European cultural impact bonds that will be used by the ECF to facilitate the transitions the Commission is responsible for by adding a cultural dimension. The bonds have a duration of ten years, and if the ECF can demonstrate an added value to the European agenda, the Commission will pay the principal back to the bondholders (foundations, PBOs, institutional investors). The principal will be returned, but there is no financial return. However, there is a high social return: a contribution to a safe, prosperous and democratic Europe for its citizens. Bonds should be guaranteed by the Commission during their maturity.

3. Negotiate a position that says if violations of laws, regulations or contractual agreements on the European level lead to financial sanctions on iffy assets, these fines should not necessarily feed the treasury in Europe. They could at least partially be used to feed an endowment with a European purpose. The name of the game is to give a new purpose to illicit money that has harmed society, transforming it into a charitable purpose that instead benefits society.
4. Explore the possibilities of a European lottery that could feed the endowments of foundations such as ECF that have Europe as a spending purpose. Or, alternatively, negotiate with the national lotteries in the different European countries to join forces and create a fund (such as the DOEN Foundation in the Netherlands) with a European cultural purpose.
5. Explore the existence of dormant European Commission funds that have not been accessed for a period of time, for instance 15 years. A certain percentage of these dormant assets could flow into a fund with a European cultural purpose. An example of what I mean is the Reclaim Fund in the UK, which was set up to channel the unclaimed, dormant cash from banks and building societies to the philanthropy sector.<sup>103</sup>
6. Transform existing project funding the ECF receives from European institutions to institutional funding for periods of 7 years in parallel to the 7-year financial framework. This should be seen as the beginning of unrestricted institutional funding for a trusted partner in Europe. It should take the form of a rolling commitment to the ECF, whereby the next commitment for 7 years is discussed in year 5 of the first commitment.
7. Investigate what the possibilities are for the ECF to use a social-investment-driven approach to its spending instead of just working with donations. The ECF should explore opportunities at the European Investment Fund (EIF), a daughter organisation of the European Investment Bank.<sup>104</sup> An interesting concrete activity of the EIF that could inspire the ECF,

given its prominent historical role with respect to the Erasmus Programme, is the “Erasmus+ Master Loan Guarantee Facility”. This is a facility whereby the EIF provides guarantees to financial intermediaries that extend loans to students participating in the Erasmus+ Programme.

## The idea of a European Community Foundation

In [Chapter 5](#) I dealt with the emergence of community foundations in Europe, and I referred to it as a quiet revolution in philanthropy. Community foundations are identified with the local community, with citizens. However, in the Taskforce for Sustainable Finance of the ECF that I chaired three years ago until the end of my tenure as Vice-Chair of the ECF, we did discuss the concept of a European Community Foundation. This would be comparable to the very large “community” foundations such as the King Baudouin Foundation in Belgium and Fondation de France.

These foundations operate as community foundations do in that they are platforms for mobilising local resources to benefit local projects. Local people and companies can contribute to the in-house programmes of these community foundations, or they can establish a donor-advised fund. A European Community Foundation would take this one step further and underscore that European citizens and companies on the local level can, through the in-house programmes and donor-advised funds of a European Community Foundation, contribute to local initiatives in the cross-border community of Europe. It would give a new and very important meaning to the term “European Community”.

## 11. Going forward in times of uncertainty

As I mentioned at the beginning of this book, it is starting to dawn on us that we will live with more uncertainties in the future and that the future is not a simple extrapolation of the past. Pandemics may follow each other more quickly; the effects of climate change may manifest themselves more often; and social unrest resulting from both national and international tensions may more easily disrupt society. Working in this environment of uncertainty is highly relevant for the functioning of foundations, not only for the choice of policy themes but also for the way in which foundations respond to these themes and the tools they use in that context.

### 11.1 From strategic planning to working more with future scenarios

In my view, the entire concept of “strategic planning” needs to be reconsidered. This does not necessarily mean that strategic planning will become meaningless, but dealing with uncertainties does affect the nature of the planning process. It is likely that we will work more with alternative, plausible scenarios or opt for an intelligent form of “muddling through”. After each step, the next one is considered on the trajectory to globally formulated goals. Making a classical five-year strategic plan is making less and less sense. There needs to be flexibility to change course and show creativity. Smart navigation and anticipation are virtues in times of uncertainty.

Foundations will increasingly need to be attentive and alert to changes in the contexts in which they operate. There is a need for a lookout function, a function to interpret developments in terms of relevance – to identify trends and think laterally. The latter is especially important in times of crisis and disruption. At such times, imagination, flexibility and creativity are important. This should not be left to chance but requires organisation. Yes, strangely enough, serendipity requires a certain degree of organisation. Philanthropy associations can play an important role in this (see [Section 2.9](#)). In the past, there

were sometimes doubts about the added value of philanthropy associations. Foundations would typically ask: What do I get in return for my membership fee? I expect that the function of philanthropy associations to signal new developments and translate them into practical applications will be increasingly appreciated by foundations.

Another way of dealing with uncertainties is for foundations to “let a thousand flowers bloom”. This means giving many small initiatives the benefit of the doubt to see what emerges naturally and sticks. There will still be uncertainties, but by consciously nurturing a variety of approaches to a particular problem and combining this with a serious analysis of effects, you may arrive at a good selection of promising approaches.

Grantees and PBOs that are the recipients of philanthropic money are the first organisations to be vigilant in responding to changes in their environment. They function on the frontline of change. It means that deviating from project goals agreed upon with foundations could be seen as a sign of strength rather than of weakness. It requires courage on the side of grantees and PBOs to discuss the need for reformulating objectives due to new realities. And foundations should not rigidly stick to approved goals but be receptive to the notion that agreements may have to be reformulated. They must be agile and act strategically.

Under conditions of uncertainty, there is less room for evidence-based philanthropy, a concept that I point to in [Chapter 1](#) as a key motivation for writing this book. Evidence from the past has suddenly become less relevant. We cannot look to the future through the rearview mirror. There must be more room for unconventional ideas and out-of-the-box approaches. If foundations and their grantees are not able to develop seemingly wild ideas, then they apparently have not been courageous enough to deviate from what they have done so far.

All the issues touched upon above require foundations to critically review what they are doing. It means going back to the drawing board. Furthermore, working in a volatile environment means that internal

reflection is not a one-off exercise but should be part of the culture of an organisation.

### **Futures Philanthropy initiative by Philea**

I have always been interested in the power of developing future scenarios, because it is obvious that there are multiple versions of the future. In the OECD, I was deeply involved in the development of alternative educational futures; and in the Scientific Council on Government Policy/WRR (Netherlands), I was part of a team developing policy-oriented surveys of the future. It always struck me that these approaches are particularly useful if you can disconnect from the past and unlock your imagination. It is unlikely that any one of the scenarios will unfold as described. However, it strengthens your capability to be agile and position yourself more swiftly towards new circumstances.

A notable and important step has been taken by Philea under the leadership of Delphine Moralis to launch the Futures Philanthropy initiative.<sup>105</sup> It responds to a need in the foundation world to cope with uncertainty. Let me quote Delphine on the importance of this initiative: "While we are busy responding to the problems of yesterday, we are confronted with new challenges coming our way tomorrow. Philanthropy of all sectors has a unique role in thinking longer term, in creating spaces to imagine a radically different tomorrow. Whatever we do, solutions will be richer, smarter and more sustainable if we conceive and craft them together, in multi-stakeholder and intergenerational approaches." It would be important if the voices of young people could be part of this process, for instance by creating a "New Generation Panel".<sup>106</sup>

## **11.2 An intrinsic desire for self-reflection**

As I have shown in this book, philanthropy has much to offer society. Philanthropy can handle uncertainties and crises constructively. Through experiments and narratives, it can contribute to shedding light on the future. Philanthropy believes in the possibility of shaping society, even if this often proves to be difficult.



The strength of philanthropy lies in the strategic degree of freedom that foundations have in making choices about what they do, how they do it, and why they do it. This freedom distinguishes philanthropy from governments and international and multilateral organisations when it comes to improving the quality of society. It can lead to creative solutions and holistic approaches.

But this freedom also has a downside, as it puts foundations in the “privileged” position of not being compelled to engage in self-reflection and to permanently reassess themselves. While more market-driven public charities must, of course, be attentive to their relationship with donors, philanthropic foundations are not really forced to be self-critical and innovate. This “compulsion” does not come from the government or market competition, nor from grantees, and only partially from their own philanthropy associations. Foundations undoubtedly pay a price for this. There must be internally motivated, intrinsic drivers for foundations to go back to the drawing board. I hope that this book will play a facilitating role in that process.

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## About the author

In 1988 Rien van Gendt joined the world of philanthropy as Executive Director of the Bernard van Leer Foundation in The Hague, a grantmaker and social investor in more than 40 countries worldwide. His previous work at the University of Amsterdam, the OECD in Paris, the Scientific Council on Government Policy (WRR), the Province of Limburg and the international company Wilma Real Estate, all came together in Van Leer: funding in a strategic, daring and impactful way.

After retiring from Van Leer in 2007 Rien started Van Gendt Philanthropy Services, offering his expertise to further the effectiveness of philanthropy, to support boards with their fiduciary responsibility to invest their endowments in a professional manner, and to align giving and investing in a smart way.

He is engaged in diverse fields of action, ranging from education, social justice, healthcare, international development and community philanthropy to culture, which is especially important to him due to his belief in the power of culture to foster social cohesion; to express oneself in a non-verbal, universal manner; and to unite beyond borders.

*"I grew up in a caring family with parents who were not affluent, but made sacrifices for their children to access higher education and use their potential. It influenced my life and explains why I take a genuine interest in people, particularly when they live in poverty or under vulnerable circumstances. I see the untapped potential of people: I am impressed by the resilience they show and want to contribute to this."*



Rien earned his Doctorate in Economic Sciences at the University of Amsterdam, and has been awarded Honorary Doctorates from Universidad del Norte in Columbia, and Newcastle University in Australia. In 2005 he received the Distinguished Grantmaker Award from the Council on Foundations in the US, and in 2013, he was awarded the European Philanthropy Compass Prize from the European Foundation Centre in Brussels.



[www.rienvangendt.com](http://www.rienvangendt.com)

## About the partner organisations



**Fondazione  
Compagnia  
di San Paolo**

A long-time member of Philea, the Turin-based **Compagnia di San Paolo** Foundation traces its roots back to a confraternity set up on 25 January 1563. The foundation

focuses primarily on northwestern Italy, with a marked European sensitivity. In line with its long history, Compagnia puts people, their potential, their rights, responsibilities and aspirations at the centre of everything it does. It embraces the values and principles of development, sustainability, interdependence, solidarity, equity and the equal dignity of all human beings, as declared by the United Nations, the European Union and the Republic of Italy. The UN SDGs are an important facet of Compagnia's activity, which has innovation at the heart of its approach.

**European  
Cultural  
Foundation**

The **European Cultural Foundation** was founded in 1954 to help construct a united Europe and foster a European sentiment. Since then, it has initiated and supported projects in culture, civil society, en-

vironment and education throughout Europe to promote this sense of belonging. In its nearly 70 years of existence, the foundation has supported thousands of Europeans and organisations with grants, exchanges and cooperation opportunities, and it has succeeded in putting culture on the European agenda. ECF is a founding member of Philea.

**Philea**

Philanthropy  
Europe  
Association

**Philea** nurtures a diverse and inclusive ecosystem of foundations, philanthropic organisations and networks in over

30 countries that work for the common good. With individual and national-level infrastructure organisations as members, it unites over 10,000 public-benefit foundations that seek to improve life for people and communities in Europe and around the world. Philea galvanises collective action and amplifies the voice of European philanthropy, and in all it does, it is committed to enhancing trust, collaboration, transparency, innovation, inclusion and diversity.

# Annexes



## Index of individuals

Aidoo, Akwasi ~~~~~	128	Maasdijk, Diana van ~~~~~	149
Andrews, Jo ~~~~~	149	Mansson, Lynda ~~~~~	92, 137
Ansossi, Alberto ~~~~~	13, 60, 177	Middelbaar, Luuk van ~~~~~	99
Bauer, Doug ~~~~~	115	Miller, Doug ~~~~~	115
Belleg, Benjamin ~~~~~	95	Moakes, Nick ~~~~~	151
Bezos, Jeff ~~~~~	128, 161	Moralis, Delphine ~~~~~	13, 95, 192
Bildner, Jim ~~~~~	155	Morino, Mario ~~~~~	115
Brady, Mike ~~~~~	112	Profumo, Francesco ~~~~~	60
Breeze, Beth ~~~~~	42	Reich, Rob ~~~~~	41
Bregman, Rutger ~~~~~	41	Rockefeller, John D. III ~~~~~	115
Broome, Julie ~~~~~	18	Salole, Gerry ~~~~~	100
Engelhorn, Marlene ~~~~~	42	Schumpeter, Joseph ~~~~~	16, 18
Enright, Kathleen ~~~~~	78, 79	Scott, MacKenzie ~~~~~	128, 129
Feeney, Chuck ~~~~~	161	Sievers, Bruce ~~~~~	23
Giridharadas, Anand ~~~~~	41	Soros, George ~~~~~	160, 161
Godeke, Steve ~~~~~	115	Symonds, Judith ~~~~~	23
Haan, Michiel de ~~~~~	115	Then, Volker ~~~~~	72
Heintz, Stephen ~~~~~	100	Timmer, Bas ~~~~~	111, 112
Hölz, Martin ~~~~~	72	Wiepking, Pamala ~~~~~	130
Knight, Barry ~~~~~	34	Wilkens, André ~~~~~	13, 185
Koele, Ineke ~~~~~	51	Wit, Arjen de ~~~~~	130
Lee, Vu ~~~~~	73	Ylvisaker, Paul ~~~~~	61
Maas Geesteranus, Melanie ~~~~~	94		

## Index of foundations, PBOs and social enterprises

5W Foundation,  
Netherlands  
96

Adessium Foundation,  
Netherlands  
53, 100, 118, 121

Animal Welfare Foundation  
(Stichting Dierenlot), Netherlands  
24

As You Sow Foundation, US  
150

Association of Cooperating Health  
Foundations (SGF), Netherlands  
86

Atlantic Philanthropies, US  
161

Benton Foundation, US  
98

Bernard van Leer Foundation  
(BVLF), Netherlands  
12, 26, 27, 28, 44, 53, 61, 63, 88, 116,  
118, 120, 121, 136, 145, 161, 168, 175, 177

Bertelsmann Foundation,  
Germany  
48, 49, 67

Bezos Earth Fund, US  
161

Buzz Women, Netherlands  
124, 125

Calouste Gulbenkian Foundation,  
Portugal  
12, 99

Cariplo Foundation, Italy  
67

Charity Lotteries (Goede  
Doelen Loterijen), Netherlands  
130, 186

Charles Stewart  
Mott Foundation, US  
67

Civitates, Europe  
86

Common Fund, US  
85

Commonland Foundation,  
Netherlands  
94

Community Foundation Northern  
Ireland  
27, 74

Community Foundations  
Netherlands (Stichting Lokale  
Fondsen Nederland)  
67

Compagnia di San Paolo  
Foundation, Italy  
13

Cooperating Foundations  
for the Elderly (Fondsen  
voor Ouderen), Netherlands  
86

[Cooperativa La Paranza](#), Italy  
68

[De Agostini Foundation](#), Italy  
27

[Diabetes Fund](#), Netherlands  
86

[DOB Foundation](#), Netherlands  
115

[DOEN Foundation](#)  
([Stichting DOEN](#)), Netherlands  
188

[Double Dividend](#), Netherlands  
61

[DRK \(Draper Richards Kaplan\)](#)  
[Foundation](#), Netherlands  
109

[Dutch Jewish Humanitarian Fund](#),  
Netherlands  
163

[Dutch Kidney Foundation](#)  
([Nierstichting](#)), Netherlands  
28, 31, 109

[Dutch Red Cross](#), Netherlands  
29

[Equileap](#), Netherlands  
148, 149

[Esmée Fairbairn Foundation](#), UK  
154

[European Climate Foundation](#),  
Europe  
184

[European Cultural Foundation](#),  
Netherlands  
8, 13, 30, 184

[FB Heron Foundation](#), US  
154

[Fondation de France](#)  
189

[Fonds 1818](#), Netherlands  
12, 28, 37, 53, 66, 135, 156, 157

[Ford Foundation](#), US  
115, 128, 163

[Fritt Ord](#), Norway  
100

[FundAction](#), Netherlands  
70

[Global Commons Alliance](#), US  
93

[Global Greengrants Fund](#), US  
75

[Goldschmeding Foundation](#),  
Netherlands  
55, 99

[Greyston Bakery Store](#), US  
112

[GSRD Foundation](#), Netherlands  
75, 95, 123, 124

[Healthy Generation](#), Netherlands  
86

[Humanity United](#), US  
128

[IMC Weekendschool Foundation](#)  
([Stichting IMC Weekendschool](#)),  
Netherlands  
12, 89

[Joseph Rowntree](#)  
[Charitable Trust](#), UK  
70

[King Baudouin Foundation](#),

Belgium

189

[KL Felicitas Foundation](#), US

154

[Listen4Good](#), US

50

[Luminate](#), US

100

[Maatschappelijke Alliantie](#),

Netherlands

38

[Maecenata Foundation](#), Germany

79

[Mava Foundation](#), Switzerland

92, 137, 158

[MFO Crystal](#), Georgia

125

[Mind Foundation](#), Netherlands

86

[Nathan Cummings](#)

[Foundation](#), US

157

[National Postcode Lottery](#)

[\(Nationale Postcode Loterij\)](#),

Netherlands

129

[National Trust](#), UK

29

[New York Federation of the Arts](#)

[\(NYFA\)](#), US

75

[Nippon Foundation](#), Japan

102

[Noaber Foundation](#), Netherlands

115

[Novo Nordisk Foundation](#),

Denmark

27

[Oak Foundation](#), Switzerland

27

[Open Society Foundations](#), US

160

[Oranje Fonds](#), Netherlands

25, 27, 31

[Partners in Health](#), US

12

[Partnership Foundation](#),

Netherlands

24

[Plastic Soup Foundation](#),

Netherlands

121

[Porticus](#), Netherlands

94, 118

[Prins Bernhard Cultuurfonds](#),

Netherlands

25

[Rabo Foundation](#), Netherlands

27

[Rainbow Home Program](#), India

123, 124

[Rockefeller Brothers Fund](#), US

75, 100, 150

[Royal National Lifeboat](#)

[Institution](#), UK

24

Royal Netherlands Sea Rescue

Institute (KNRM)

130

Save the Children, US

28

Sheltersuit Foundation,

Netherlands

111

Stadstuin Emma's Hof,

Netherlands

66

Stefan Batory Foundation, Poland

160

Tax me now, Germany

42

Terre des Hommes, Netherlands

28

Texelfonds, Netherlands

67

Van Leer Group Foundation

(VLGF), Netherlands

12, 30

Wallace Global Fund, US

94

Wellcome Trust, UK

151



## Philanthropy infrastructure/ support organisations

[Ariadne – European Funders for Social Change and Human Rights](#)

[BoardSource](#), US

[Candid](#), US

[Center for Effective Philanthropy](#), US

[COF – Council on Foundations](#), US

Dafne – Donors and Foundations Networks in Europe: *See Philea*

[ECFI – European Community Foundation Initiative](#)

[EDGE Funders Alliance](#)

EFC - European Foundation Centre: *See Philea*

[ERNOP – European Research Network on Philanthropy](#)

[EVPA – European Venture Philanthropy Association](#)

[FIN – Association of Foundations in the Netherlands](#)

[Foundation Strategy Group](#), US

[GFCF – Global Fund for Community Foundations](#)

[GrantCraft](#), US

[Participatory Grantmakers Community](#), global

[Philea – Philanthropy Europe Association](#)

[Rockefeller Philanthropy Advisors](#), US

[SBF – Cooperating Umbrella Associations Philanthropy](#), Netherlands

[United Philanthropy Forum](#), US

[WINGS](#), global







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