

REPORT BY AN EXPERT GROUP

**Giving More for  
Research in Europe:**

**The role of foundations and  
the non-profit sector in  
boosting R&D investment**

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# **Giving More for Research in Europe:** The role of foundations and the non-profit sector in boosting R&D investment

Report by an Expert Group on

Measures and actions to promote the role of foundations and the non-profit sector in boosting  
R&D investment

September 2005

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# Expert Group

## Chairman

Yves Mény, President of the European University Institute, Italy

## Rapporteur

George Papaconstantinou, Athens University of Economics and Business, Greece

## Members

Rosanne Beckers, SenterNovem, The Hague, The Netherlands

Alain Bravo-Hexis, Director General, Supelec, France

João Carança, Head of Science Department, Calouste Gulbenkian Foundation, Portugal

Emmanuelle Faure, Director European Union Affairs, European Foundation Centre, Belgium

Eleonor Boddington, Senior Solicitor, The Wellcome Trust, United Kingdom

Axel Horstmann, Head of the Humanities and Social Sciences Division, Volkswagen Foundation, Germany

Karol Litynski, Innovation Centre Foundation FIRE, Poland

Tore Li, Confederation of Norwegian Business and Industry, Norway

Brita Löfgren-Lewin, Ministry of Finance, Stockholm, Sweden

César Nombela, Special Chair in Genomics and Proteomics, University Complutense of Madrid, Spain

John Wyn Owen, Secretary, The Nuffield Trust, United Kingdom

László Toth, Director of the Institute for Logistics and Production Systems, Bay Zoltán Foundation  
for Applied Research, Hungary

Mats Rolén, Research Director, The Bank of Sweden Tercentenary Foundation, Sweden

Andreas Frijdal, Head of Academic Service, European University Institute, Italy

William Wakeham, Vice-Chancellor, University of Southampton, United Kingdom

## Expert Invited to Expert Group Meetings

Daniel Kevles, Professor, Yale University, United States

## European Commission

### Official responsible

José-Ramón Tíscar

Directorate-General for Research

DG RTD. M1

## Other European Commission staff contributing to the work of the Working Group

### Directorate-General for Research

Manuel Godinho de Matos

DG RTD.C6

Nikolaos Kastrinos

DG RTD. K1

### Directorate-General Enterprise and Industry

Apostolos Ioakimidis

Girma Anuskeviciute

DG ENTR.E3

### Directorate-General Market and Services

Mariano Fernandez Salas

Zsafia Kerecsen

### Directorate-General Justice, Freedom and Security

Dora Balazs

DG JLS.D2

### Directorate-General Taxation and Customs Union

Rolf Diemer

Katri Kosonen

DG Taxud.E1

# Preface

This report has been produced by an expert group, set up by the Directorate General Research of the European Commission (EC), in order to identify and define possible measures and actions at national and European level to promote the role of foundations and the non-profit sector in boosting public and private investment in R&D<sup>1</sup>.

The expert group was created as part of the overall implementation of the European Commission's Research Investment Action Plan<sup>2</sup> (the '3 % Action Plan'). It consisted of selected experts and stakeholder representatives in the field drawn from foundations, research bodies, the business sector and public authorities. Its mandate was to define and set out policy actions at national and European level to help foundations aimed at fostering research in Europe play their fullest possible role in the pursuit of knowledge.

This involved drafting a report identifying a number of public policy options to foster the creation, development and effectiveness of research foundations and improve the legal and fiscal framework environment in which they operate. These options would then constitute orientations for policy implementation at national and European Union (EU) level.

In order to achieve the task set out in its Terms of Reference, the expert group reviewed and assessed the current landscape for research foundations in Europe in a series of meetings, providing an overview of recent initiatives, current challenges and existing trends, as well as comparative analysis based on a selected number of national case studies and by comparing the foundation landscape in the EU with that in the US.

The current report is the result of the deliberations of the group.

<sup>1</sup> Terms of Reference for an expert group on measures and actions to promote the role of foundations and the non-profit sector in boosting R&D investment. European Commission, DG Research, December 2004.

<sup>2</sup> European Commission, Investing in Research: An Action Plan for Europe, COM [2003]226





# Executive summary

## FOUNDATIONS AND SUPPORTING RESEARCH

This report addresses the question of **how to increase giving for research through foundations in Europe**. Until now, relatively little attention has been paid by the EU institutions to the role played by foundations that fund research activities in boosting Europe's overall level of investment in R&D. These organisations however represent an important source of funding for some research activities, and could potentially be an important element in the EC strategy to create a European Research Area. In addition, research foundations have a qualitative impact on the direction and nature of research that is undertaken in Europe.

**Realising this latent potential involves engaging all actors involved:** national governments, EU institutions, foundations themselves, industry, universities and other research institutes, the public at large. It requires **a clear commitment on a political level to move things forward**. This is why this report formulates a set of clear and practical recommendations and addresses them to the different stakeholders.

### Foundations: a unique role in modern society

Foundations have a unique role in modern society. They are private entities serving public goals and their distinctive characteristics allow them to add value to European research activities and add dimension to research funding. Their role needs to be seen in a broader context of social and political change in Europe whereby in today's advanced civil society the state is no longer considered the only guardian of the public interest. This is why it is increasingly accepted that **foundations have a role in promoting public benefit research**.

**However, this potential is currently not being fully realised.** There are obstacles and disincentives which inhibit giving by individuals and corporations, and which hinder the flow of more funds from foundations and the non-profit sector to research, or hamper a more effective use of existing funds. Unleashing this potential calls for a mix of initiatives by foundations themselves, of national actions, and, where appropriate, of EC support.

### A heterogeneous landscape

The European foundation landscape is characterised by a high degree of heterogeneity, which is reflected in their organisation, governance, operating conditions, legal status, tax treatment and regulation. The term 'foundation', for the purposes of this report, covers any non-profit private entity serving public goals that is independent of government and industry, with its own governing board and source of income, whether or not it raises income exclusively from an endowment or from fundraising from the public. A foundation uses its resources for the support of public benefit purposes (scientific, health, educational, cultural, social or other) by supporting other organisations or individuals, or by operating its own programmes.

A broad sweep of the former 15 European Union (EU) Member States gives an approximate total of over 200 000 organisations that are labelled foundations. However, if referring to the concept as defined above, a different number will emerge.<sup>3</sup> A mapping exercise of the foundation sector in selected EU countries undertaken by the European Foundation Centre (EFC) Research Task Force in 2003/2004, estimated that there were some 62 000 foundations operating in the 'old' 15 EU Member States in 2001.

<sup>3</sup> Whilst a number of organisations may refer to themselves as 'foundation', they will not be a foundation as defined by this report because their activities will not be sufficiently for the public benefit. Equally, there are many thousands of organisations in the charity, voluntary and non-profit sector within the EU that do not describe themselves as foundations but, nevertheless, do fall within the definition of 'foundation' for the purposes of this report.

These have a **varied geographical distribution** and act both as grant making and operating foundations with assets and expenditures heavily concentrated in a number of large foundations. In recent years, there has been a new momentum for the foundation sector; it has grown rapidly over the last decade. Most foundations place themselves as national, rather than European or international actors. However, there is a growing trend towards cross-border activity, both within and outside the EU.

### **Foundations investing in research: a potential not being fully realised**

This report's focus is on foundations that fund R&D activities (research foundations) rather than on foundations in general. For the purposes of this report, 'research' covers not only scientific and technological research but also research in the humanities and social sciences. The term 'research' is intended to cover basic and applied research, innovation and development.

Foundations can help research efforts in a variety of ways. They can increase the volume of research funds for fundamental, blue-skies research, research in orphan areas and early-stage applied research not sufficiently developed to attract industry funding; they can help further European integration through supporting cross-border research projects. They can fund interdisciplinary projects; enhance researchers' mobility, exchange and collaboration; provide a structure to fund small projects and a strategy to fund research in a long-term and coherent framework complementary to industry and government. They have the flexibility to respond to the needs of the research community, and trigger research spending by bigger funders.

This potential however comes up against a harsh reality: with some notable exceptions, the **existing level of funds that are actually devoted by foundations to research in Europe remains low**, both relative to the contributions made to research from government and industry, as well as compared to funds devoted by foundations in the US. This is despite the existence of a few large research foundations in Europe and some new national initiatives in this area. The sparse existing data on research foundations suggest that the foundation sector as a whole accounts for a very small share of the overall R&D effort in most EU countries.

The impact of foundation funding on the European research system cannot however be reduced to the absolute figures for foundations' support of research. **Foundations not only bring with them money (quantity) but also competences and unique characteristics (quality) which contribute to the pluralism of R&D funding.** Their support tends to be concentrated in certain research areas, in particular biomedicine. Foundations' grant making is mostly to universities, where often foundations fund only the direct costs of research.

### **The need for more joint national and international efforts**

Foundations usually act independently but often, in partnership with other organisations, run or fund research projects, and stimulate national and international collaboration. A number of foundations increasingly focus on what goes on beyond their national boundaries, with partnerships and work programmes having both an international (global) and regional (EU) remit. At the European level, foundations have engaged in a series of common research initiatives. Such initiatives remain however exceptions rather than the norm; encouraging them is one of the principal aims of this report.

### **Improving the interplay of foundations with other actors in the research system**

The role of foundations in supporting research is conditioned by the relationship of foundations with the other actors in the research system. The **relationship of foundations with governments** involves issues of substitutability and complementarity, as well as various modes of cooperation. In addition to directly influencing the way in which foundations operate through the legal, fiscal and regulatory environment, governments in many countries increasingly attempt to steer, in a flexible and independent way, basic and applied research, and encourage significant private donations.

**Industry** finances the largest part of R&D expenditures in most EU countries. It is no surprise, therefore, that leveraging investment in R&D by foundations often involves discussion on **how to increase the business community's engagement with and giving to foundations**. This involves the operation of 'corporate' foundations in the name of a corporation's founder, and operating at arm's length from the company and the state, as well as more recently joint public-private initiatives between foundations and public and private sector partners, which focus on 'pre-competitive' research or aim at achieving economies of scale in R&D investments.

**Universities** are the principal recipients of foundation funding. They are extremely important institutions, being at the top of the education system and also often at the base of the R&D process, performing the roles of leading actors and prime subjects of societal transformations simultaneously. Thanks to the capacity of intervention inherent in independent foundations, universities carry the possibility of multiplying the positive effects of knowledge-induced change and institutional innovation.

Finally, another notable aspect of foundations is that their independence from government and industry gives them the **credibility to encourage the public's support for scientific and technological research**. Alongside technological breakthroughs and scientific discoveries, there has been an increase in public concern about the regulation of scientific and technological research. It is essential that the public is able to have confidence in the ethical and regulatory framework within which these advancements are being made, to ensure that the research community's work is not impeded by an 'anti-science' climate.

## RECOMMENDATIONS

The report outlines a number of specific policy recommendations that, if implemented, **could create incentives or eliminate obstacles that affect foundations, their donors and research institutes, and thereby help in boosting investment in R&D in Europe**.

The recommendations take a number of forms. Some relate to **increased giving to existing foundations** and some to the **creation of new foundations by individuals or by industry** (aimed for example at specific research needs, at innovation, etc.), including transnational bodies. They include recommendations relating to the legal, fiscal and institutional environment of foundations, as well as to the cultural and social factors, which affect giving.

Other policy recommendations are aimed at **improving the effectiveness of foundation funding**. This involves proposals aimed at increased effectiveness of funding, by addressing issues such as improved management of funds within existing foundations, improved governance and transparency of foundations, strengthening of public-private partnership in the field of R&D, and of pan-European collaborations between foundations investing in R&D.

In order for them to be useful and operational, **the recommendations are addressed to specific distinct groups: governments, EU institutions, foundations, industry, universities and the general public**. Each of these has a part to play in increasing the role and impact of foundations and the non-profit sector to European research, in particular in raising and channelling funds for research. Together, they can make a difference.

The recommendations result from the discussions in the expert group and also take into consideration work currently undertaken by outside experts in this area, as well as current reform initiatives in different EU countries. They are grouped into five broad categories/areas: improved visibility and information about foundations - their income, expenditure and activities; a more beneficial legal and fiscal environment for foundations; mechanisms for leveraging funds for research; more effective funding arrangements and regulation; and a more conducive EU-wide environment for the operation of foundations.

## A. Improve visibility and information about research foundations

There is currently a serious lack of awareness and understanding of the role played by research foundations. This is compounded by a lack of comprehensive data concerning the foundation sector across the EU. Closing this awareness and information gap is a prerequisite to other actions: it would improve the visibility of research foundations, and enable a more accurate understanding and assessment of their contribution overall to investment in R&D. It is therefore recommended to:

- **Improve information available on the role and importance of foundations in different EU countries, and in the EU as a whole.** Support the development of a comprehensive mapping of research foundations to document the overall financial contribution to the field, but also to identify and review best practice examples and facilitate cross-fertilisation and exchange of experience. Include questions relating to funding research by foundations in the R&D statistics collected by Member States and the EU.
- **Encourage the creation of a European Forum of Research Foundations.** Research foundations should be encouraged to set up a permanent mechanism at the European level to share experience, review best practices, and promote synergies and cooperation. This will provide a lasting collaboration mechanism among research foundations within the framework of organisations such as the European Foundation Centre. Activities of this affinity group or forum, such as periodic European conferences, should be open to interested stakeholders in this area.
- **Encourage giving to research through national and international donation campaigns.** Develop imaginative national campaigns, focusing on the importance of science in general and research in particular, and the resulting need for giving in this area. Review possibilities in EU countries to step up the distribution of lottery proceeds to public benefit research. Consider setting up a European-level charitable lottery in which at least part of the proceeds would go to fund research from a fund endowed by the lottery.

## B. Create a more beneficial fiscal and regulatory environment for foundations

While most EU Member States have fiscal arrangements intended to either facilitate giving by individuals and business or create favourable tax environments for foundations, there is scope for improvement on a number of fronts: the generosity of tax treatment of donations, the clarity of existing rules for foundations, as well as the linking of favourable tax status with funding obligations. There is similarly scope for improving the legal and regulatory environment within which foundations operate. In this context, it is recommended to:

- **Ensure that donations and charitable giving by individuals and corporations benefit from more generous tax credits or deductions.** The limits to be applied should be generous and governments should envisage increasing current limits. Donation schemes should be tax-effective as well as user-friendly to enable both large and smaller donations. Tax systems should encourage the various types of donations to foundations including cash, in-kind donations, real estate, shares, works of art, intellectual property rights, etc. Governments should eliminate gift and inheritance tax on donations to foundations. It is also recommended that a follow-up initiative to this report undertakes a more focused approach in order to conclude with specific proposals within the general framework outlined here, adapted to national and European circumstances.
- **Review the tax treatment of foundations' activities with a view to making tax benefit schemes broader, clearer, and more user-friendly.** All foundations engaging in public benefit research activities should be entitled to be relieved of various taxes, with clearly defined and user-friendly rules. There should be approaches to agree upon a common definition within the EU of public benefit purposes and a move towards the mutual recognition of 'public benefit' organisations, to facilitate cross-border activities. VAT rules and their application should take into account the public-benefit nature of foundations and their activities, and should in no case place foundations at a disadvantage.

- **Appraise foundation status and tax exemption of foundations according to public benefit action.** Foundations should spend a reasonable proportion of their income for the pursuit of public-benefit purposes, while being able to preserve their endowments necessary for long-term action. Disbursement policies (payout practices) and other similar methods adapted to different national conditions should be encouraged.
- **Simplify and improve the legal and regulatory environment for foundations.** Review, simplify and lighten existing legal and regulatory environments in order to make it easier to create new foundations. Ensure the independence of regulatory bodies for foundations and, in general, clarify regulatory oversight shifting the emphasis from ex-ante to ex-post. Review existing legal and regulatory arrangements to ensure that there are no obstacles to cooperation or, where foundations wish to do this, the merger of foundations.

### C. Improve mechanisms for leveraging funds for research

Increasing the investments in research undertaken by foundations involves leveraging more funds from the public, from national governments and the EU, and from the business community. To address this need it is recommended to:

- **Introduce a system of ‘matching funds’ for foundation-supported research projects at both national and EU level.** At national level, create a new model for private project financing of public benefit research whereby private donations over a certain limit will trigger a matching donation from the government up to a certain percentage of the donation. At EU level, establish a conditional matching grant system for a part of the resources allocated to research, for projects funded by foundations whose grant-funding systems comply with the EC criteria required in order to benefit from EC matching funds.
- **Foster the development of new research foundations by encouraging ‘philanthropic venture capital’.** Governments could use some form of public resources (money from privatisation or natural resources) to create a new breed of foundations or foundation activity by leveraging private funds and establishing Social Venture Foundations. At European level, the use of public resources should also be considered in order to create a new breed of foundations in line with goals under the Seventh Framework Programme activities, which are intended to strengthen the research potential of Europe’s regions by supporting the development of regional ‘research-driven clusters’ associating universities, research centres, enterprises and regional authorities.
- **Encourage the creation of ‘sector- or issue-specific’ foundations by the corporate sector.** Governments should encourage the creation of ‘sectoral’ or umbrella foundations endowed with funds from industry to overcome fragmentation of a sector or the issue of critical mass by providing the benefits of aggregation.

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

A number of weaknesses in research funding arrangements and mechanisms in Europe result in the potential of foundation investment in research activities not being fully realised. These relate to governance issues in foundations and universities, to limited cooperation amongst foundations as well as between foundations, government and other actors in the research system. In this respect, it is recommended to:

- **Promote good governance, transparency and accountability practices of foundations** with respect to the board, overseeing operations (regular turnover, selection, periodic review, etc.), professional asset management, disclosure of procedures, programmes and results. Use transparent rules such as clear information on funding restrictions, arms-length processes for calls for projects, selection with expert committee(s). Encourage disclosure, peer-review and self-regulation mechanisms and standards. Where this does not already exist, consider adopting a ‘label system’ for foundations so donors are assured that money donated to a foundation is applied to a public benefit purpose.

- **Improve networking and cooperation between foundations** at national and European level. Promote programmes and projects that substantiate and communicate the distinctive role of foundations as independent private institutions doing things differently than other institutions and provide additional value. While ensuring that each foundation is able to keep its own identity, smaller foundations could create a network or be supported by an umbrella foundation, for improved asset management and a better return on investment, a more efficient pooling of ideas, to exploit synergies and facilitate lobbying activities.
- **Explore possibilities for the creation of university foundations.** Universities should be encouraged to create their own foundations to generate funds for research or cooperate with an existing research foundation, in order to attract resources from alumni or from their local environment. Government and universities should also explore the desirability and consequent changes required to the legal and regulatory framework for universities to be able to operate as independent foundations. The creation of 'personal foundations' is another promising avenue for attracting funds for research within universities.
- **Universities and research institutes need to become more proactive in order to attract additional funds for research.** Development offices in universities should select high-potential research projects and 'sell' them (to foundations, alumni and others about financing). An increase on the emphasis of good governance and transparency of universities would encourage increased giving to research, as would a more personal treatment of alumni and donors, the selection and promotion of appealing projects, and attention to the personal satisfaction of giving.
- **Increase collaboration between foundations, governments and EU institutions by establishing respective roles and responsibilities.** Such principles (which could be set out in a charter) would establish that foundations focus on 'complementary' activities and not be expected to engage in substitutional funding. Governments could acknowledge their responsibility to maintain the strength and stability of the basic research infrastructure.

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

Foundations mostly operate at a local, regional or national level. While they are developing more transnational projects and partnerships, increasing the contribution of foundations to European research requires a genuine enabling environment. This can be helped by the removal of specific obstacles that currently impede cross-national activities of foundations. In this context, it is therefore important to:

- **Create a more conducive EU-wide regulatory and fiscal environment for the operation of foundations.** The European Commission should consider preparing a regulation to create a new legal vehicle, which could be used by a foundation based in the EU - a European Foundation (EF) Statute, for adoption by the Council and the European Parliament. This should follow a study to assess the feasibility of such an EF statute.
- **Improve conditions for cross-border giving and foundation activities extending beyond national borders.** Activities and assets of European foundations or foreign foundations should be taxed in the same way as the activities of national foundations. Individual and corporate donors should receive the same tax deduction or credit whether the donation is granted to a resident or a foreign foundation, including a European foundation (same gift taxes and inheritance taxes, and income tax deductibility). Grants or other benefits received by individuals or public benefit organisations from a foreign foundation established in any Member State should be treated as if given by a resident foundation.

## IMMEDIATE NEXT STEPS

For the momentum of this report not to be lost, a clear commitment is necessary, especially on a political level, to raise the impact of the issue of giving to research. The expert group encourages the various stakeholders (European Commission services, European Union Scientific and Technological Research Committee - CREST, foundations, competent national authorities, universities and business organisations, etc.) who have a role to play in this process to **review this report** (within a year), discuss its proposals and the appropriate means to address them, and set a timetable.

A **follow-up conference** in late 2005 or early 2006 is recommended, involving all stakeholders, under the auspices of the European Commission in collaboration with the European Foundation Centre. Its aim would be to discuss the findings of the report, increase the visibility of research foundation activities vis-à-vis public opinion and policy-makers, discuss issues of common interest at European level and conceive possible common projects.

It is also recommended to set up a **mechanism to monitor the implementation of the recommendations**. In this respect, the consistent documentation of data and the **establishment of a European Forum of Research Foundations by 2007** are of the utmost importance. **By 2010, the main recommendations should have been implemented**, which means that the necessary legal, fiscal and other changes have to be made by that time to allow a significant improvement in the amount of giving to research to be achieved throughout the EU as a whole. **A midterm review in 2008** is recommended.





# Foundations and investing in research

## 1.1. INVESTING IN RESEARCH IN EUROPE

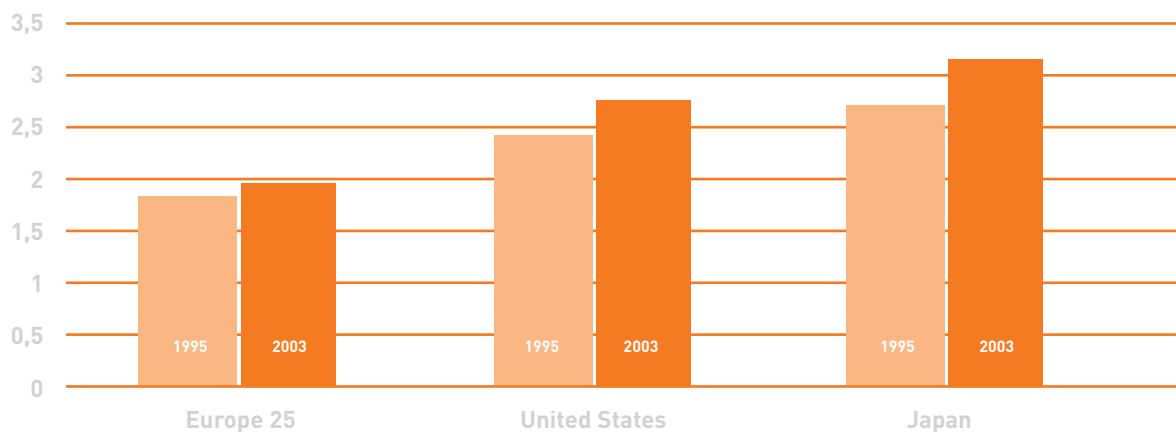
Five years ago, the European Union embarked on an ambitious project aimed at making Europe the most dynamic knowledge-based economy in the world by 2010. In that context, the Lisbon European Council, which endorsed the European Research Area Initiative<sup>4</sup>, recognised that much higher levels of investment in research in Europe are central to achieving this objective.

The volume of R&D investment in the EU is, however, less than that of its main competitors, notably the US and Japan. Furthermore, and despite the fact that there are some EU Member States which undertake an exceptional research effort, the EU as a whole is falling further behind the US and Japan in terms of its overall R&D effort. (See Graph 1.)

In addition, just over half of this R&D is funded by business in the EU, a sharp contrast with the two-thirds and three-quarters of the total R&D effort funded by business in the US and Japan respectively. In this context, businesses place particular emphasis on the fact that the climate and framework conditions for private research investment in Europe need to be drastically improved.

### Graph 1. Investment in research

Gross Expenditures in Research and Development (GERD) as a percentage of GDP



Addressing this situation in 2002, the Barcelona European Council concluded that overall spending on R&D in the EU should be increased with the aim of approaching 3 % of GDP by 2010. Two-thirds of this investment should come from the private sector.

The European Commission has been coordinating the implementation of an action plan for Europe to raise research investment in line with the 3 % objective since its adoption in April 2003. At national level, EU Member States are already making efforts to increase the level and effectiveness of their investment in research. However, current trends highlight that both the level of investment and its current growth rate are insufficient.

<sup>4</sup> European Commission, Towards a European Research Area, COM (2000) 6.

Relatively little attention has been paid by the EU institutions to the role played by foundations that fund research activities, which boost Europe's overall level of investment in R&D. (See Box 1.1 for a definition of 'research' for the purposes of the report.) These organisations represent a significant source of funding for a number of research activities in some countries, making a non-negligible contribution to the overall R&D funding available.

### Box 1.1. Defining research for the purposes of this report

The scope of the analysis and the recommendations made in this report depend on the approach taken towards two critical issues: defining the coverage of both the terms 'foundation' and 'research'. Section 1.2 below discusses the former.

Regarding the 'contours' of research for the purposes of this report, the expert group has accepted a broad definition, ranging from basic through to applied research, development and including innovation. The group has included within the term all research, not just scientific and technological research but also research into the social sciences and humanities.

This holistic approach is not without problems: at its edges lie areas (such as innovation) with a strong 'private good' element and therefore outside the traditional foundation focus. At the same time, covering all research areas has forced the report to take into account foundations of all sizes and modes of operation.

Nevertheless, and notwithstanding the rather narrow focus of many research foundations on health research, this broad approach seems to be more in line with the Lisbon agenda and the creation of the European Research Area.

The work of research foundations in generating income from their endowments or raising money from the general public and the private sector in order to support research is, therefore, of clear relevance to the implementation of the 3% Action Plan. In addition, these foundations have a qualitative impact on the direction, nature and quantity of research (through, for example, leveraging of funds from other funders) that is undertaken or supported in Europe.

In this context, it is important to identify factors that affect the establishment and development of new research foundations as well as the performance of existing ones. Recommendations can then be formulated on how public policies in this area could be adapted to maximise the impact and effectiveness of European research foundations in raising investment for R&D.

## 1.2. THE ROLE OF FOUNDATIONS

### A unique role in modern society

Foundations have a unique role in modern society. Their distinctive characteristics allow them to add value to European research activities and to leverage research funding.

One way of describing foundations would be as philanthropic venture capitalists. Their economic independence and autonomy of decision-making from political and commercial interests enables them to add distinctive value by taking risks with people and ideas, by fostering innovation and testing feasibility and implementing new concepts; not being bound by cumbersome administrative procedures, they can act freely and flexibly. Because governments are answerable to the electorate and for-profit businesses are answerable to their shareholders, they are often not as well placed as foundations in taking a long-term view or in supporting unfashionable or intractable research causes.

Foundations' independent thinking and pioneering spirit means that they can often try out projects that deserve to be tried and tested - including ideas that government or industry has thought about and rejected - and provide minor working capital. Foundations can facilitate change at various levels of policy-making, including civic society; they can promote diversity and differentiation in thought; search for solutions and action for a wide variety of issues - scientific, social and cultural; stimulate developments, create models for strategies and structures (for example, public-private finance) and foster international collaboration; provide working capital for ideas to be shaped for subsequent mainstream funding and the promotion of knowledge as a common or public good.

Removed from political pressures and the timelines of political cycles as well from the need to make a profit, foundations can explore new solutions, transcend disciplines and support orphan areas of research and development. Foundations can facilitate change in public policy-making through their ability to act as independent 'brokers' to convene meetings with non-traditional stakeholders, which can bring unique perspectives to issues of common concern. Furthermore, foundations that raise funds from the public are able to reflect the priorities of the public, rather than the priorities of the state.

The activities of independent foundations can decisively influence the nature of public investment. This may arise through a number of ways: best practice - the demonstration effect; social experimenting - the innovation effect, by creating a protected environment for novel ideas or by strengthening existing entities through partnerships; changing the system - the strategic effect, by supporting knowledge-induced change and the setting of roadmaps for institutional change.

Thus the scope and impact of foundation activity is very wide. To be understood, however, it needs to be seen in a broader context of social and political change in Europe and beyond, where the state is no longer seen as representing the only guarantor of the public interest. Other bodies or institutions of civic society also increasingly undertake this role. This is why it is increasingly accepted - even expected - that foundations have a role in promoting public benefit research.

Notwithstanding these distinctive characteristics that give them a unique place in supporting research and other public benefit purposes, foundations have their own limitations. Their constitution and mission puts limits on their actions and directs them in specific areas: for example, foundations created because of an endowment are usually bound by the will of their benefactor. In addition, foundations can share the kind of problems facing other institutions: a lack of transparency in decision-making procedures and governance, a reluctance to take risks and respond to changing societal needs, an agenda that can be self-fulfilling.

## The rising importance of governance

There is currently a strong demand (and an understanding on the part of foundations) for issues of governance to be addressed. If foundations are to complement credibly the mainstream of R&D funding, practices of good governance need to prevail. In this context, the ongoing debates regarding corporate governance in the private sector, as well as public governance in the public sector, hold important lessons for foundations.

Foundations, in common with other organisations, face the challenge of ensuring appropriate levels of management and governance, accountability, risk management, and responsiveness and engagement with external stakeholders.

The growing trend towards the contracting-out of public services by governments to foundations, as well as the more general societal shift giving greater space to non-governmental entities in providing for public goods, has also generated an increased demand for greater transparency and accountability within the non-profit sector. Improving transparency and accountability by improving a foundation's practices will maintain and improve the public's trust and understanding of foundations. This, in turn, should lead to increased financial and other public support for foundations and give them greater credibility to lobby for change.

To encourage increased transparency and accountability of foundations, codes of practice have been developed by trans-European bodies, such as the EFC. Best practice guidelines or regulations have also been introduced in individual Member States. For instance, in Spain, the Fundación Lealtad's principles for transparency and good practice represent one initiative that aims to demystify the activities of foundations in the eyes of the public, and a code of governance for the voluntary and community sector has just been launched in the UK.<sup>5</sup>

In certain Member States, foundations that do not raise funds from the public (and therefore do not have to follow such rigid rules on transparency) are sometimes perceived by the public as backward and secretive organisations. In other Member States, where good governance of foundations is common, the public has a high level of respect for foundations. For example, in England and Wales, the National Council for Voluntary Organisations (NCVO) conducted research into the public's perception of charities, which found that 90% of respondents agreed that there was a high level of respect for charities.

Foundations must apply robust business principles to the management of their assets and income streams. Whether they are investors of endowed assets or stewards of income raised from the public, foundations have a duty to maintain and increase the value of their assets by achieving the best possible returns on those assets so that they can maximise their expenditure on public benefit purposes and promote social entrepreneurship for the public and common good.

## A heterogeneous landscape

The European landscape of foundations is characterised by a high degree of heterogeneity, which is reflected in their organisation, governance, operating conditions, legal status, tax treatment and regulation. Finding the **contours** for the work of the expert group and for the focus of this report has therefore not been easy. (See Section 2 below.)

The approach taken has been to start from the goals set in the Terms of Reference for the expert group and work backwards, identifying foundations that serve the goal of adding to the total R&D effort made by other entities such as government (in the narrow sense) and industry. In that context, a number of key concepts have proved useful in defining what this report means by the term 'foundation'.

One keyword and important concept is that of **public purpose/public benefit/public interest**, and philanthropic venture capital. These are all concepts that help delineate the role of foundations (even corporate ones) from that of other entities with objectives to achieve private benefit.

<sup>5</sup> <http://www.governancehub.org.uk>

Another is **additionality of funding**. This is a sort of 'litmus test' to see whether a so-called foundation is simply a government agency by another name but with unchanged objectives, or whether the entity carries with it a different behaviour towards R&D. This does not mean that where a foundation funds an activity, which may have been funded by the state, that it is not acting 'additionally'. Many foundations are innovative in the way they work in partnership with state funding. The fact that the state may have funded the whole activity had it had sufficient resources does not necessarily detract from the fact that foundations bring additional qualities to a funding partnership.

A third is the issue of **complementarity**, particularly important in order to identify foundations that fund groups/projects/research areas with different demand patterns, given existing public budget constraints. Foundations often complement the work of governments in a number of ways, by acting where the state and industry do not and bridging gaps in areas that have been overlooked. At present, there is a clear advantage in exploring the synergies between the foundations' mode of operation and those of public actors, especially given the emergence of innovation systems based on science. This is mainly due to the diversity of institutions at work in innovation systems, involving both public and private sectors and expressing different depths of information exchange and knowledge communication.

A fourth keyword is **innovation**. This does not just relate to the funding effort by foundations reaching into the innovation process proper, but also to the approach that foundations are in a unique position to take, given their independence from profit and political drivers; for example, in supporting unfashionable, intractable or unprofitable causes, challenging the status quo and piloting ideas and approaches, as well as promoting innovation in social perceptions, values, relationships and ways of doing things.

Finally, the **pluralistic role** of foundations is key to their importance. Their autonomy makes them particularly amenable to a role of promoting experimentation and diversity, which other actors can build on to increase the overall investment in research.

### 1.3. AIM AND STRUCTURE OF THE REPORT

Identifying and defining measures and actions at national and European level, in order to promote the role of foundations and the non-profit sector in boosting public and private investment in R&D, involves, broadly speaking, looking at three aspects of the problem.

The first aspect relates to the **inflow of funds into foundations**. It relates to the conditions for giving and therefore to proposals aimed at increasing incentives for giving, either by the general public and wealthy individuals or by private firms.

The second aspect refers to the **efficiency of funding within existing foundations**. It relates to the funding priorities of foundations: to issues of administration, management and governance that influence funds received and invested; to issues of quality vs. quantity of funding; to questions relating to national vs. international efforts; and to the question of collaboration vs. competition between foundations. Proposals in this context are focused on measures to improve information about foundations, increase networking and collaboration between them, and increased emphasis on good governance, transparency and accountability.

In this context, particular attention is given to the question of creating conditions so that the traditional consideration of national interest pursued by most foundations is increasingly seen alongside the goal of strengthening Europe. This involves looking not only at the question of how to encourage cross-border foundation activities, but also how to balance the goals of cooperation between foundations' efforts aimed at economies of scale and scope with that of greater competition, which can also act as an incentive for excellence.

Finally, a third aspect relates to the question of how to **foster the creation of new foundations** focused on research. A number of recent initiatives in EU member countries have recognised the need for additional vehicles for foundations in order to mobilise new funding and help research efforts in new and non-traditional directions that are becoming important for society.

Against these considerations, the **structure** of the report is the following:

The **first introductory section** sets the stage for the report by relating the role of foundations to the broader EU policy objectives, in particular the Lisbon agenda, the European Research Area and the 3% target. It examines the 'contours' of research for the purposes of this report, and introduces the discussion on the role of foundations in modern society, focusing on their distinctive characteristics, which allow them to add value to the European research activities and to leverage research funding.

The **second section** of the report looks in depth into the diverse 'landscape' of foundations in Europe. It examines their overall numbers, size and importance and their typology (different structures, modes of operation, sources of funding, objectives and methodologies). It also looks at national differences (illustrated by individual examples from different EU25<sup>6</sup> countries) in terms of, for example, legal and regulatory requirements for foundations (need for state approval, requirement for starting capital, etc.) or tax treatment of donations and expenditures. The section also examines cross-border cooperation between foundations and concludes with a more general discussion of the various potential roles of foundations in the EU25 today.

The **third section** focuses upon the role of foundations for the promotion of research in Europe. It examines the quantitative evidence of the contribution made by foundations to the overall funding for European research activities, and complements this by qualitative evidence and analysis. It attempts to draw out the differences of the role of research foundations vis-à-vis governments or the private sector in promoting research, and thereby identifying the value-added of foundations (areas and ways in which their contribution is of critical importance). It also examines new trends and prospects to strengthen collaboration and funding between universities and foundations in research. The section finally reviews differences between research foundations in the US and in Europe, as well as the role of foundations in promoting collaborative and Europe-wide research.

The **fourth and final section** outlines the expert group recommendations for increasing the leverage of foundations for European research. This involves proposals aimed at increased donations to existing foundations (relating to taxation, the legal and institutional environment, to cultural and social factors which affect donating) as well as proposals for additional funding through the creation of new research foundations, including pan-European or transnational bodies. It also involves proposals aimed at increased effectiveness of funding, by addressing issues such as improved management of funds within existing foundations, improved governance and transparency of foundations, strengthening of public-private partnership in the field of R&D, and of pan-European collaborations between foundations investing in R&D.

<sup>6</sup> EU25 comprises Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

The resulting recommendations are addressed to the following groups:

- **European institutions.** Recommendations here relate to the 'Europeanisation' of foundations, collaboration with industry, a 'European label' for foundations, university and research bodies at European level, initiatives for changes in the institutional setup that should be promoted by European institutions.
- **Governments.** Recommendations are aimed at improving the policy environment for foundations, especially legal, fiscal, regulatory and institutional conditions, as well as facilitating the exchange of good practices.
- **Industry.** The aim of the recommendations is to increase the flow of funds from industry to foundations and tap onto a partly unexploited potential.
- **Universities.** Recommendations are aimed at exploring better ways of universities raising funds for research, cooperation between foundations and universities, as well as at addressing existing problems, such as the narrow focus of much of the foundation support or the types of costs covered.
- **Foundations.** Recommendations here relate to questions of rebalancing priorities and leveraging funds, issues of governance and accountability that will allow foundations to further strengthen the awareness and trust of potential donors, ensuring the most effective use of these funds, as well as to networking and international cooperation questions.
- **General public:** Finally, the report outlines recommendations aimed at increasing the public's perception of the role of foundations in promoting R&D and their involvement in supporting foundation activities.





# The landscape and challenges of foundations in Europe

The role and potential of foundations across Europe is becoming all the more important, in line with the increasing policy significance of the third sector in European countries. Any discussion on the role that foundations can play in increasing the European research effort needs to be based on a solid understanding of their nature, role and importance. However, little comprehensive data and analysis are available on the role played by European foundations and the extent of their impact in supporting R&D activities.

Even in individual Member States, there is a clear dichotomy between the lack of basic empirical knowledge about foundations on the one hand, and their policy relevance on the other. The landscape of foundations in Europe is characterised by a high degree of heterogeneity, which is reflected in their organisation, governance, operating conditions, legal status, tax treatment and regulation. Given the heterogeneity and the lack of overall information on the foundation sector, drawing a panorama of foundations in Europe presents a challenge.

Available statistical data does not comprehensively cover foundations, either at the level of national statistical agencies or Eurostat. Most of the information available derives from studies undertaken by individual researchers or by organisations from within the foundation sector (for example, the European Foundation Centre). Therefore, there is little comparative data on foundations in Europe in general and on research foundations in particular.

This section of the report attempts to go some way to addressing this issue, by drawing on the available data on the landscape of foundations in Europe. Its starting point is a review of the definition of a foundation for the purposes of this report. It examines the diversity of foundation profiles: different types and structures, modes of operation (sources of funding, objectives, and methodologies). It looks at national differences, illustrated by examples from different EU25 countries (Boxes 2.2 to 2.5), and the factors (cultural, legal, fiscal) accounting for these, as well as at evidence for cross-border cooperation between foundations.

## 2.1. WHAT IS A FOUNDATION?

In general, foundations follow a liberal tradition in Europe, which conveys the concept that the public good is not exclusively bestowed by the state. They are private entities serving public goals. Nevertheless, developing a generic definition of 'foundation' to be applied throughout Europe is hampered by the fact that no common legal definition of the term exists within the EU. This is due to the diverse languages, cultures and the different legal/fiscal environments across Europe. In fact, what is defined as a foundation in one country may not qualify as such in another (see Box 2.1 below for the results of a recent study on the roles of foundations in Europe).

**Box 2.1. Roles of foundations: results from a recent study<sup>7</sup>**

A Europe-wide project entitled Visions and Roles of Foundations in Europe has identified empirically a number of different roles for foundations.

**Complementarity and substitution.** Foundations complement the government in many ways: by being involved in 'doing what the state doesn't do' and filling gaps' in areas that have been overlooked; by providing financial resources for the provision of certain services, or by being engaged in providing services, such as running schools, hospitals, orphanages, etc. They also sometimes substitute for the state, a role they do not appreciate. However, avoiding such a role is becoming more and more difficult. Foundations in Europe seem to be concerned about the implications that changing roles and the responsibilities of governments for the provision of public services have for their autonomy and for their distinctive role in adding value.

**Preservation of traditions and cultures.** Preserving past lessons and achievements likely to be swamped by larger social, cultural and economic forces is often a role that foundations take. This role is mostly associated with foundations focused on arts and culture, but also evokes negative connotations of foundations being backward looking and not progressive.

**Redistribution.** The idea that the major role of foundations is to promote the redistribution of primarily economic resources from higher to lower income groups is rooted in early philanthropy. Today, most foundations prefer to treat redistribution as a de facto feature of foundation giving, rather than as a specific role.

**Social and policy change / pluralism.** Promoting structural change and a more just society, fostering recognition of new needs, and empowerment of the socially excluded is a role many foundations like to pursue. Whilst redistribution is associated with traditional notions of charity, the social and policy change role is linked with philanthropy; i.e., addressing the root causes of problems. The autonomy of foundations also makes them amenable to promoting social experimentation and diversity, as well as protecting dissent and civil liberties.

**Innovation.** Foundations are ideally placed to facilitate innovation, take potentially controversial risks and invest philanthropic venture capital, a role that is perhaps closest to the focus of this report. Innovation involves uncertainty and risk, and foundations seem to be well positioned to commit for the long term to projects that involve substantial economic risk. Supporting 'new' activities, particularly in the area of research, features amongst the examples of foundations acting innovatively. For instance, in Switzerland the Technopark Foundation plays a role in the Techopark Zurich, which provides support for market-orientated entrepreneurial activities: young entrepreneurs setting up businesses in the Technopark receive training, consultancy, contacts and expert support.

**Not all organisations labelled 'foundations' are in fact foundations.** For example, the German political foundations, such as the Friedrich-Ebert-Stiftung or the Konrad-Adenauer-Stiftung, are registered associations with no significant assets of their own; their operating budgets are largely covered by the German Government.

Definitions of foundations vary. There are legal definitions that reflect either common law traditions with an emphasis on trusteeship (the United States, the United Kingdom), or civil law traditions (for example, Switzerland and Germany), with the important distinction between legal personalities based on either membership or assets.<sup>8</sup> Other definitions focus on the type of founder (private or public), purpose (charitable or other), activities (grant making or operating), revenue structure (single or multiple funding sources), asset type (endowment or allocations), and degree of independence from the state, business or family interest.

<sup>7</sup> The information is based on the results of a European-wide project entitled Visions and Roles of Foundations in Europe, by Anheier, H.K. and Daly, S., eds., taken from *The Politics of Foundations: Perspectives from Europe and Beyond*, published by Routledge, London, 2005.

<sup>8</sup> For an overview of the legal framework and taxation treatments of Foundations in European countries, see *Foundations in the European Union: Profiling Legal and Fiscal Environments*. Brussels, European Foundation Centre, 2002.

Nevertheless, there exists across Europe a generally understood and accepted concept<sup>9</sup> of what public benefit foundations are, which illustrates the key common features shared by foundations. The European Foundation Centre (EFC) defines a foundation as being an independent, separately constituted, non-profit body with its own governing board and with its own source of income, whether or not exclusively from an endowment.

Foundations use their resources for the performance and support of work for public benefit purposes (scientific, health, educational, cultural, social or other purpose) either by supporting other entities or individuals, etc., or by operating their own programmes. In most Member States, foundations have no members although some types of participatory structures may exist. Foundations may be established for a limited period, but assets given over to foundations for public benefit purposes may not revert to being used for private purposes.

In a recent project on European foundations by Anheier and Daly (2005)<sup>10</sup>, it is suggested that the following characteristics must be met for a foundation:

- **It must be an *asset-based entity, financial or otherwise*.** The foundation must rest on an original deed, typically a charter that gives the entity both intent of purpose and relative permanence as an organisation.
- **It must be a *non-governmental entity*.** Foundations are institutionally separate from government, and are non-governmental in the sense of being structurally separate from public agencies. Therefore, foundations do not exercise governmental authority and are outside direct majoritarian control.
- **It must be a *self-governing entity*.** Foundations are equipped to control their own activities. Some private foundations are tightly controlled by either governmental agencies or corporations, and function as parts of these other institutions, even though they are structurally separate.
- **It must be a *non-profit-distributing entity*.** Foundations are not to return profits generated by either use of assets or commercial activities to their owners, members, trustees or directors as income. In this sense, commercial goals neither principally nor primarily guide foundations.
- **It must serve a *public purpose*.** Foundations should do more than serve the needs of a narrowly defined social group or category, such as members of a family, or a closed circle of beneficiaries. Foundations are private assets that serve a public purpose.

The expert group has taken the same approach as the EFC and Anheier and Daly in defining 'foundation' for the purposes of this report.

## 2.2. A PANORAMA OF FOUNDATIONS IN EUROPE

### Overall numbers and importance

Over 200 000 organisations in the 15 'old' European Union (EU) Member States are labelled foundations. However, if referring to the definition of 'foundation' for the purposes of this report, the actual number will be different. Whilst a number of organisations may refer to themselves as a foundation, they will not be a 'foundation' as defined by this report because their activities will not be sufficiently for the public benefit. Equally, there are many organisations in the charity, voluntary and non-profit sector across the EU that may not describe themselves as foundations but which are in fact such for the purposes of this report (e.g. fundraising charities).

<sup>9</sup> This has been articulated by the European Foundation Centre (EFC) and its members. See [www.efc.be](http://www.efc.be)

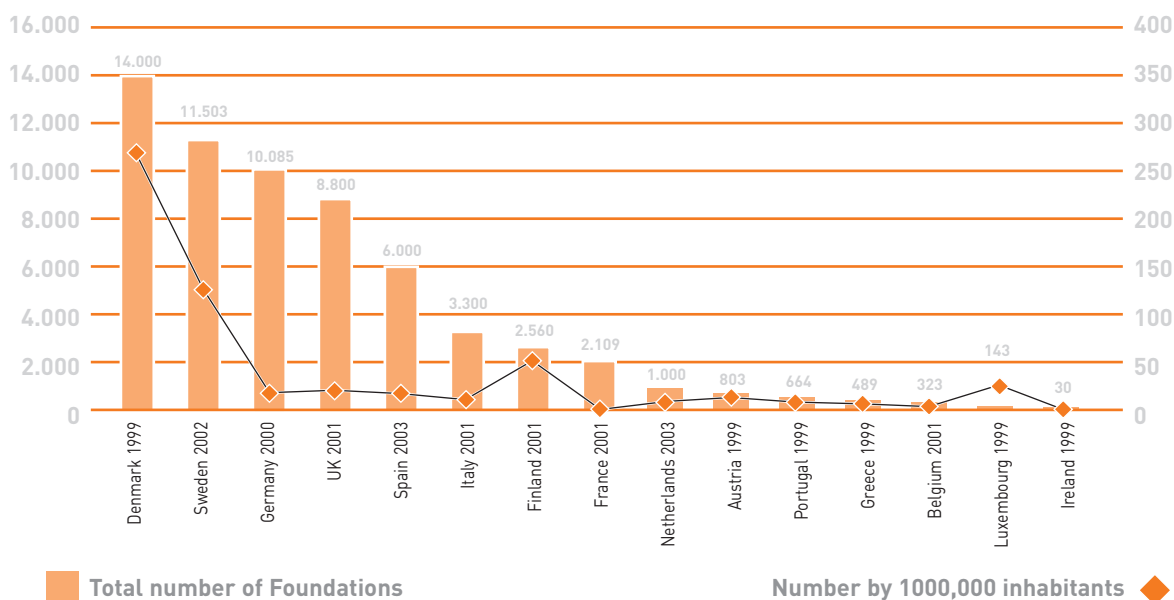
<sup>10</sup> Anheier, H.K. and Daly, S., eds. *The Politics of Foundations: Perspectives from Europe and Beyond*. Routledge, London, 2005.

The European Foundation Centre (EFC) Research Task Force undertook a mapping exercise on the foundation sector in selected EU countries, involving national researchers and foundation networks in 2003/2004.<sup>11</sup> This survey focused on foundations that refer to themselves as 'foundations' but did not include all organisations which fall under this report's definition of 'foundation'. The survey estimated that there were some 62 000 foundations operating in the 'old' 15 Member States in 2001 with a contrasted geographical distribution. While it was estimated that there were some 16 foundations per 100 000 inhabitants in the EU, data per country ranged from over 260 in Denmark to less than one foundation per 100 000 inhabitants in Ireland (Graph 2.1).

In recent years, there has been a new momentum for the foundation sector and it has grown rapidly over the last decade. Available figures suggest a high growth rate in the sector in some EU countries. In Italy, for example, 50% of foundations were created post-1999, and in Germany, over 40% of foundations were set up in the last decade. Over 28% of all foundations in Belgium, Finland and France were created during the period 1991-2001. A similar picture emerges for the new EU Member States.

Parallel to this expansion, the foundation sector has also restructured itself gradually over the last 20 years with the creation of umbrella organisations representing foundation interests. The last ten years, in particular, have witnessed the development of national associations of foundations or donor's fora in most EU Member States. In 1989, a number of foundations established the European Foundation Centre (EFC) and have since launched a series of interest groups under its aegis, which bring together foundations at EU level according to their fields of activity (e.g. education, youth, migration issues, etc.), and geographical regions of operation (e.g. central Europe, Africa, Asia, Latin America, Transatlantic relations, etc).

**Graph 2.1. Total number of public-benefit foundations in Europe and number per 100 000 inhabitants**



Source: European Foundation Centre, 2004.

Behind the differences between countries in the number of active foundations lie important national dissimilarities in attitudes to giving and private philanthropy. (See Table 2.1 below.) The importance of private philanthropy in some EU Member States compared to countries in other world regions is quite striking when we examine data available for both volunteering and private giving as a percentage of GDP in countries like the Netherlands, Sweden, France, and Finland. This is also true for Spain, which ranks high in terms of private giving.

<sup>11</sup> Survey 'Dimensions of the foundations sector in EU countries 2003-04' - an initiative of the EFC Research Task Force with the support of the King Baudouin Foundation.

Table 2.1. Private giving (volunteering and giving) as a percent of GDP

COUNTRY	VOLUNTEERING * AND GIVING ** AS A PERCENTAGE OF GDP	GIVING ONLY AS A PERCENTAGE OF GDP
Netherlands	4.49%	0.37%
Sweden	4.41%	0.40%
Norway	3.01%	0.26%
France	2.93%	0.28%
United Kingdom	2.57%	0.62%
United States	2.47%	1.01%
Finland	2.36%	0.28%
Spain	2.10%	0.87%
Germany	2.10%	0.13%
Belgium	1.97%	0.44%
Ireland	1.67%	0.55%
Italy	0.80%	0.09%

\* Does not include donations to religious congregations.

\*\* Giving includes cash or in-kind gifts by individuals, corporations, and foundations.

Adapted from Salamon L., Sokolowski S., and Associates, *Global Civil Society: Dimensions of the Nonprofit Sector*, Volume Two (Kumarian Press, 2004).

## Typology and operation

There are a number of ways to categorise foundations, reflecting the variety in modes of organisation in the field (see Table 2.2 below). Endowed foundations exist, as do community, fundraising, operating and corporate foundations. Some foundations benefit from the proceeds of lotteries. Other foundations may be considered collectors/distributors, collecting funds from various sources, including the public, to serve their operational or grant making programmes. Many foundations combine several of these elements. For example, a foundation may run its own direct activities as well as a grants programme and receive income from an endowment, lottery proceeds and by raising funds from the public on a continual basis.

The European Foundation Centre (EFC) has developed a typology of foundations in Europe, in collaboration with its members<sup>12</sup>. This typology is based on three elements of foundations: their financial resources; control of decision-making; and the way they distribute resources. On this basis, the EFC has arrived at four generic categories of foundations: independent foundations; corporate foundations; government-supported foundations; and community and other fundraising foundations.

**Independent foundations** comprise a significant proportion of foundations in Europe, with family-controlled and trustee-controlled foundations as the most common sub-types. The original endowment establishing the foundation usually comes from an individual or family donation, and it makes grants and operates programmes on the proceeds of this. Independent foundations also cover prize-giving foundations, such as the Nobel Foundation, and those that receive funding from lottery proceeds. In both cases, a board of trustees directs the foundation's activities.

**Corporate foundations** are defined by the EFC typology as separately constituted foundations established by a company, which depend primarily on annual support from that company for their programmes (i.e., where the foundation's investment portfolio includes a percentage of the voting shares in a company that exceeds 50% and this investment constitutes more than 50% of the capital with which the foundation fulfils its mission).

<sup>12</sup> See [www.efc.be/ftp/public/EU/EURweb/EFCtypology.pdf](http://www.efc.be/ftp/public/EU/EURweb/EFCtypology.pdf)

**Government-supported foundations** include national, intergovernmental and supranational governed foundations. The common factors for these are that the government body that established the foundation controls the key positions of the trustees. Funding generally comes directly from the government although other sources of income may be sought. Political foundations, another type of government-supported foundation, are not so common across Europe. They exist in Germany, and are also found in France.

**Community foundations or 'fundraising foundations'** are a recent trend in many Member States, although they have a long tradition in some Member States (for example the UK). These foundations serve as vehicles to mobilise and leverage resources from individuals, public and private donors of a particular community (region/town, etc.) They collect, manage and redistribute these resources with a view to furthering a wide variety of public benefit purposes (including improving the quality of life in their community, furthering research into specific diseases, addressing social, economic environmental and so on). The community or fundraising foundation sector is particularly strong in Germany and the United Kingdom, and is now developing apace in Central and Eastern Europe.

Looking at existing foundations across Europe, independent and community or fundraising foundations are the most common type, ranging from above 50% in Sweden to over 90% in Germany, Italy and the UK. Government-supported foundations can be found in most Member States, ranging from under 6% in France, Italy and Germany to 16-19% in Sweden and Belgium. Corporate foundations form the third most important category.

For the purposes of this report, it is important to focus also on the different modes of operations of foundations, irrespective of their type. In this context, we can distinguish those that are either grant-giving or prize-awarding (e.g. the Volkswagen Foundation in Germany and the Nobel Foundation in Sweden), or which operate their own projects and programmes (e.g. the Pasteur Foundation in France), or foundations of a mixed type which combine the two (e.g. the Fundación BBV in Spain, the Robert Bosch Stiftung in Germany, the Calouste Gulbenkian Foundation in Portugal and the Wellcome Trust in the UK).

**Grant making foundations** are usually endowed organisations that primarily engage in grant making for specified purposes. Examples in Europe include the Leverhulme Trust in the UK, the Volkswagen Foundation in Germany, the Bernard van Leer Foundation in the Netherlands, the Ramón Areces Foundation in Spain and the Carlsberg Foundation in Denmark. There are some notable grant making foundations that raise funds from the public however (for example, Cancer Research UK, one of the UK's largest charities, which funds biomedical research in universities - around £75 million in 2004 - as well as its own institutes raising most of its income from the public, not from an endowment). Whereas in the US, over 90% of existing foundations are grant making, the majority of foundations in Europe are either operating or pursue their objectives by combining grant making activities with running their own, direct activities.

**Operating foundations** are foundations that primarily operate their own programmes and projects. Examples include the Institut Pasteur in France. Historically, foundations were primarily operating institutions, e.g. hospitals, orphanages, schools and universities, although many did distribute money and contributions in kind. Historically, the distinction between grant making and operating foundations emerged much later, largely in the 19th and early 20th centuries. Of those operating foundations that support R&D, most combine their financial resources for R&D with resources of infrastructure and human capital.

**Table 2.2. Different types of foundations**

	TYPE OF FOUNDATION	FOUNDER		ACTIVITIES	PRINCIPAL FUNDING
Private foundation	Independent foundation	Private individuals or corporate	Individual donor(s)	<ul style="list-style-type: none"> <li>• Operating</li> <li>• Grant making</li> <li>• Prizes</li> <li>• Mixed</li> </ul>	<ul style="list-style-type: none"> <li>• Initial capital</li> <li>• Single/ infrequent gift</li> </ul>
	Family foundation	Private individuals	Family	<ul style="list-style-type: none"> <li>• Operating</li> <li>• Grant making</li> <li>• Prizes</li> <li>• Mixed</li> </ul>	<ul style="list-style-type: none"> <li>• Initial capital</li> </ul>
	Corporate foundation	Corporate		<ul style="list-style-type: none"> <li>• Operating</li> <li>• Grant making</li> <li>• Prizes</li> <li>• Mixed</li> </ul>	<ul style="list-style-type: none"> <li>• Annual company grants</li> </ul>
Public foundation	Government-related foundation	Public sector	<ul style="list-style-type: none"> <li>• Government</li> <li>• Public agencies</li> <li>• Political Party</li> </ul>	<ul style="list-style-type: none"> <li>• Operating</li> <li>• Grant making</li> <li>• Prizes</li> <li>• Mixed</li> </ul>	<ul style="list-style-type: none"> <li>• Initial govt. capital or periodic government grants</li> </ul>
Community foundation		Members of a community	Individuals, public sector, private sector	<ul style="list-style-type: none"> <li>• Grant making</li> </ul>	<ul style="list-style-type: none"> <li>• Fundraising</li> </ul>
Fundraising foundation		Individuals, families or public sector		<ul style="list-style-type: none"> <li>• Primarily grant making</li> </ul>	<ul style="list-style-type: none"> <li>• Annual fundraising</li> </ul>

Source: Based on European Foundation Centre work.

The EFC 1995 classification system<sup>13</sup> covers the numerous methods of support provided by foundations. These include awards and prize giving, capital support for buildings, renovation, equipment and IT, fellowships, and grants for operating costs and matching funds (awards that match an amount to be pledged or already pledged from other sources). The types of costs that foundations cover include support for programme development, conferences, seminars, curricula development, teachers' resources and training, chairs and research funds to cover basic through to applied research including, for example, clinical trials and demonstration and pilot projects.

Irrespective of their mode of operation, foundations are active in almost every field of citizens' lives. They are increasingly moving or being expected to move into areas that are, or were previously, the responsibility of public authorities, and are thus broadening the scope of their activities. In some cases, they see themselves more as catalysts for change. In moving into areas traditionally operated or otherwise supported by public authorities, the foundation sector potentially faces a challenge. It must ensure that it does not find itself substituting the role of government to the extent that the unique attributes of foundations, and the added benefits that they bring, get lost.

The survey carried out by the EFC Research Task Force in 2003/2004 shows that foundations active in Europe concentrate their action and/or the bulk of their resources in key sectors, namely social services, health, science, education and training, and arts and culture.

<sup>13</sup> Available at [http://www.efc.be/ftp/public/EU/EURweb/EFC\\_ClassificationSystem.pdf](http://www.efc.be/ftp/public/EU/EURweb/EFC_ClassificationSystem.pdf)

## Assets and expenditures

The assets that are held by foundations are an important indicator of the financial weight of the foundation sector. In a survey by the EFC Research Task Force in eight EU countries, over 26 000 foundations were found to have combined assets totalling some €172 billion - an average of over €6 million per foundation surveyed. The survey compiled assets based on their book value and not their market value. The latter would of course be significantly higher. Almost all foundations included in the survey's top ten in terms of assets support research activities in the field of science, health, social sciences or the environment.

The EFC Research Task Force data collection shows that in the European countries surveyed, some 26 000 foundations have a total expenditure (grants, funders-operated programmes, programme-related investments, etc.) of over €51 billion - an average of almost €2 million per foundation surveyed. Data available for Member States joining the EU in 2004 indicated that expenditure by 177 grant making foundations in the Czech Republic, Hungary, Poland and Slovakia amounted to \$71.8 million for civil society support in 2002.<sup>14</sup> Looking at the top ten foundations identified by the survey in terms of expenditure, one can recognise major research funders e.g. the Wellcome Trust and the Volkswagen Foundation. Both grant making and operating health and medical research foundations stand out (Table 2.3).

### 2.3. ACCOUNTING FOR NATIONAL DIFFERENCES

The diversity of foundations in Europe reflects not only differences in perceptions and attitudes towards giving, but also the diverse legal and regulatory environments within which foundations operate. Work by the EFC has shown that this variety of operating environments of foundations across Europe stretches from the legal requirements for establishing a foundation, to their tax and regulatory treatment (for a summary of these differences see Annex Tables 2.1 and 2.2).<sup>15</sup>

**Table 2.3. Top ten foundations according to assets and expenditure in 8 EU countries \***

TOP TEN FOUNDATIONS ACCORDING TO ASSETS			TOP TEN FOUNDATIONS ACCORDING TO EXPENDITURE		
1.	The Wellcome Trust	€17 800 m	1.	The Wellcome Trust	€613 m
2. <sup>16</sup>	Fondazione Cariplo	€5 580 m	2.	Community Fund	€555 m
3.	Fondazione Monte dei Paschi di Siena	€4 755 m	3.	Institut Pasteur	€225 m
4.	Compagnia di San Paolo	€4 614 m	4.	Fond. opérationnelle sociale	€178 m
5.	Garfield Weston	€3 613 m	5.	Fundación Jiménez Díaz	€141 m
6.	Robert Bosch Stiftung	€2 806 m	6.	Volkswagen Stiftung	€139 m
7.	Volkswagen Stiftung	€1 942 m	7.	Fondation opérationnelle santé	€133 m
8.	Fondazione Cassa di Risparmio Roma	€1 846 m	8.	Fondazione Cariplo	€132 m
9.	Leverhulme Trust	€1 708 m	9.	Institut Curie	€122 m
10.	Deutsche Bundesstiftung Umwelt	€1 599 m	10.	FondazioneMontedei Paschi di Siena	€111 m

Source: European Foundation Centre Research Task Force.

<sup>14</sup> Joerg Forbrig - Pavol Demes 'Discovering Indigenous Grantmakers in Central Europe' October 2004.

<sup>15</sup> European Foundation Centre: Foundations in the European Union - Legal and Tax Comparative Overview: Highlights, 2004.

<sup>16</sup> Most Italian foundations, and in particular the wealthiest ones, have been put in place in order to manage the assets of the Italian banks and to guarantee that, once privatised, the capital of the banks would remain safely controlled by Italian interests. They benefit from important resources derived from the profits made by the bank. According to the law instituting these foundations, they are obliged to use this profit for cultural/social initiatives, usually at the local/regional level where these banks are deeply rooted.



## State approval for establishing a foundation

The requirements for the establishment of a foundation vary. In most EU countries, some type of state approval, either from the state or from an independent regulator, is needed to set up a foundation. Only in Denmark, the Netherlands and Sweden, is a foundation established as soon as the legal requirements are fulfilled - without state approval or recognition. In many Central European Member States, court registration leads to legal personality (for example, in the Czech Republic, Hungary and Poland). In some Member States, approval from the foundation authority or regulator is also required to modify the purpose of, or to dissolve the foundation. In most EU countries, foundations are under the supervision of a state authority or an independent regulator established by the state. However, the nature of these supervisory authorities and their regulatory and/or advisory powers differs considerably.

## Starting capital

To establish a foundation, some Member States require a minimum capital (by law or in practice) while others require that the assets are sufficient to pursue the stated purpose of the foundation. For example, the minimum capital required for setting up a foundation goes from approximately €5 000 (200,000 SKK) in Slovakia, €16,000 (500,000 CSK) in the Czech Republic, €25,000 in Belgium and Finland, €30,000 in Spain, and currently up to around €750,000 in practice for 'public utility foundations' in France (although recent regulations may change the practice). Some countries like the Netherlands, Sweden, Portugal and England, Wales and Scotland do not require a minimum capital.

## Permitted purposes of a foundation

In terms of permitted purposes, foundations can be roughly divided into two groups. Most EU countries describe foundations as organisations that pursue public benefit purposes only. Some EU countries, like Sweden, Estonia, Denmark, the Netherlands, Germany and Greece, admit any legal purpose (in Finland, any useful purpose). In Austria and Belgium, private foundations can pursue public benefit purposes as well as private purposes. Greek law distinguishes between foundations with general purposes and those with public benefit purposes. Foundations pursuing private benefit purposes are not 'foundations' for this report.

## Is economic activity allowed?

It is a common characteristic of European countries that economic activity is allowed when it is related to the public benefit purposes and the mission of the foundation. In some of the new Member States the rules are however more restrictive: in the Czech Republic, for example, a foundation is limited to renting property, organising cultural, educational, social and sports activity, lotteries and collections. In Lithuania, charities and sponsorship foundations may not engage directly in business and in Slovakia business activity is prohibited for foundations.

\* Assets and expenditure for the years 2001-2002 (1999 for Germany). The list includes only foundations in the countries covered by the EFC survey (Belgium, Finland, France, Italy, Germany, Spain, Sweden, the UK) and therefore excludes foundations such as the Gulbenkian Foundation in Portugal, which, in 2003, had assets of €2 215 million and would therefore rank in the top ten. It did not cover fundraising foundations, an important sector for the purpose of this report, and therefore excludes, for example, Cancer Research UK (whose expenditure was £213 million in 2004) and the British Heart Foundation (with an investment portfolio worth £169 million and expenditure of £67 million in 2003).

## Tax treatment of public benefit/purpose foundations

All EU Member States provide special tax treatment for foundations within their national boundary. However, there is no common approach across Member States to defining the public benefit criteria that could qualify for tax relief. What can qualify as public benefit in one Member State might not be considered as such in another. In addition, procedures for obtaining tax relief vary considerably; for example, some Member States require an application to the tax authority, while others require approval by their Ministry of Finance. Donations to foundations are generally exempt from personal and corporate income tax. A foundation's investment income is tax exempt in most Member States.

Foundations in most Member States are exempt from gift and inheritance tax, although they are subject to a reduced gift and inheritance tax in, for example, Austria, Belgium (donations hand to hand are fully exempt), Luxembourg and the Netherlands.

An important point is the tax treatment of the economic activity. Most Member States only make a tax exemption on income from trading activity that is related to a public benefit purpose. However, in Austria, Denmark, Luxembourg and Slovenia any trading income is taxed. In Hungary, trading activity, which furthers a public benefit purpose, is only taxed if it exceeds a certain threshold. In most Member States, trading income, which does not further a public benefit purpose, is taxed at the standard corporate income tax rate. A few Member States exempt income from non-public benefit purpose trading up to a certain threshold, for example Germany, the Netherlands, Spain and the UK.

### Box 2.2. Tax treatment of foundations in Sweden

Sweden represents a case apart in terms of the tax environment for foundations, as it has a very high rate of giving and yet low tax incentives.

**Background:** Foundations are very common in Sweden: There are between 30 000 and 45 000, of which 15 500 are registered; many promote scientific research, of which 2 700 are registered. They contribute to the high percentage of GDP spent on R&D in Sweden (4.3% of GDP, 1% of which comes from Government and 'wage-earner fund foundations' (see Box 2.4 below), with companies financing 78% of all R&D).

**Income tax legislation:** All entities in Sweden are fully taxable unless they fall within an exception. Exceptions fall under two categories: full tax exemption, and partial tax exemption (under general provisions or specific circumstances). Teaching and research fall under the general provision for partial tax exemption.

Foundations that **promote scientific research** are tax-exempt, whether operating or grant making, except if the research is close to a business activity. Operative foundations are tax exempt on their income as long as they do not have profit interests. To get a tax exemption it is necessary to use at least 80% of the yield for the foundation's purpose every year.

**No deduction for donors.** There is no tax deduction on individuals' income for gifts to foundations. Firms can deduct some donations as business expenditures if they are related to the business of the firm. Companies also have a tax deduction for their own R&D activities with no ceiling imposed.

## Tax treatment of donations

Private donations are important at the time of the creation of a foundation and, in the case of fundraising foundations, to support its activities. In the majority of EU Member States, both individual and corporate donors are entitled to claim tax relief, mostly in the form of a tax deduction, rather than a tax credit. However, in Finland, Sweden and Lithuania only corporate donors enjoy some tax incentives, while individual donors do not (see Box 2.2 for the Swedish case).

Furthermore, the rates and limits of the tax deduction or credit vary significantly from one Member State to the next. Most Member States limit the amount that can be deducted in some way, for example up to a certain percentage of the taxable income. Some Member States, for example Germany and Greece, allow tax relief to be spread over a number of years. The UK, Ireland and Cyprus are the only Member States where there is no limit on the amount of the deduction that can be claimed for cash donations.

### Box 2.3. Proposals for developing foundations in France

In a recent report, *the Institut Montaigne*<sup>17</sup> in France outlined a number of specific proposals in order to further develop foundations in that country. Its aim was to close the gap with other EU countries in terms of the role of the foundation and non-profit sector in supporting public benefit goals, including research. The most important of these recommendations were:

- Simplify and facilitate the process of creating foundations
- Facilitate the 'clustering' of smaller foundations and allow the grouping of foundations
- Encourage the creation of foundations by universities
- Give additional flexibility to foundations in terms of their rules of operation
- Ensure greater transparency as a counterpart to more freedom for foundations
- Develop transnational donations
- Support the creation of European networks of foundations
- Radically simplify rules for small donations
- Favour important donations in fiscal terms
- Encourage the creation of new foundations with fiscal incentives
- Favour the ceding of shares of companies to foundations
- Create a mechanism of fiscal incentives linked to succession rights
- Reform fiscal incentives for corporate giving to make them more attractive
- Support the development of corporate foundations
- Review and lighten the fiscal treatment of foundations

Since this report was published, the French government has undertaken a series of reforms to encourage foundation activity. (See Box 3.5 below.)

## Tax allocation schemes (percentage laws)

Percentage legislation, whereby taxpayers can designate a percentage of their paid income tax to public benefit organisations, is spreading in central Europe and the new Member States. A similar system can be found in some western European countries to finance the Church. Hungary introduced the so-called 1% rule in 1996, through which a taxpayer can designate 1% of its paid income tax to civil society organisations. Over the last years, some of the new Member States have introduced similar rules. In 2002, Slovakia introduced a 1% law and Lithuania a 2% scheme, but at the same time, Lithuania has abolished any type of tax incentives for individual donors. Poland initiated a 1% scheme in 2003. These tax allocation systems are not tax incentives schemes (as the donor receives no financial incentive for giving). They cannot be regarded as traditional philanthropy, as the taxpayer only decides where the tax is allocated, he/she does not make a donation.

<sup>17</sup> *Institut Montaigne*: 25 Propositions pour développer les fondations en France, 2002.

It is probably too early to assess whether these tax allocation schemes can represent an effective way to support foundations in the long term. There are mixed feelings about them, especially when the introduction of such schemes is coupled with the abolition of traditional tax incentives as has happened in Lithuania, because they may have a detrimental effect on private giving. Indeed taxpayers who designate a percentage of their income tax to foundations might feel they have already made their contribution to such organisations, even though they would have had to pay these taxes to the state in any event.

## 2.4. NETWORKING AND THE INTERNATIONAL DIMENSION

Many foundations place themselves and operate at local, regional or national level rather than at European or international levels. However, there is a growing trend towards cross-border activity both within and outside the EU. Recent research has shown that many foundations in Europe are both interested and engaged in developing a more European, and/or a more global role. This is evident in the Netherlands for example where 31% of Dutch foundations are active at the international level, or in Belgium where the destination of some 13% of the foundations' expenditures is abroad.

Foundations that are active beyond their national borders may face a number of legal and fiscal barriers. Establishing a European area that is meaningful to foundations and their donors requires tackling existing legal and fiscal barriers to cross-border giving and cross-border activities of foundations. Whereas most Member States allow the creation of a foundation that destines its fund abroad or conducts cross-border activities, this type of foundation and their donors are typically not able to benefit from tax relief outside their own Member State.

At present, tax-effective, charitable giving begins and ends at home. Almost all EU countries refuse income tax deductibility on donations made by individual and corporate donors to foreign foundations or on donations made by donors from other Member States. This is a significant barrier to cross-border giving. Only a few Members States have opened the door.

### Box 2.4. The landscape and tax treatment of Dutch foundations

In the Netherlands, about 30 000 public and private non-profit organisations have public benefit purposes (social welfare, education, youth, the arts and humanities, public health and science). Of these, 18 000 have a special label from the Ministry of Finance, certifying that they are active in the field of philanthropy.

A foundation that does not carry out business or conduct competitive commercial activities is exempt from income tax. Furthermore, the Ministry of Finance can grant tax exemption to other entities, which pursue general interest aims. Tax exemption for the foundation does not automatically allow the foundation to receive tax-deductible gifts. The foundation has to apply to the tax authority to qualify as a recipient for tax-deductible gifts and inheritances. Once the status has been received, gift and inheritance tax is reduced to 8% for donations to these foundations, instead of 41% or even 68%.

Individuals donating to a qualifying foundation can deduct up to 10% of their gross income. In addition, annual payments (minimum five years) are deductible. Corporations are allowed to deduct donations up to 6% of their annual income. Commercial gifts that are related to the interests of the business are fully deductible.

A domestic donor can receive a tax benefit when donating to foreign foundations, as long as the Ministry of Finance has recognised it as a public benefit organisation. A foreign donor with income in the Netherlands does not receive tax benefits when donating to a domestic foundation.

Dutch foundations mainly give to health (medical research), culture and social issues. About  $\approx$ 50 million (25% of foundations' annual spending) goes to medical research, other research and education. Individuals and companies give  $\approx$ 600 million to health organisations (for example the Cancer Foundation, and the Heart and Liver Disease Foundation). Another  $\approx$ 300 million goes to education and research. Some studies suggest that the private non-profit sector (PNP) finances around 5% of academic research in the Netherlands ( $\approx$ 100 million per year).

The Netherlands can grant tax exemption for donations made to foreign foundations recognised by the Ministry of Finance, if the activity has a universal character or is extended to the Netherlands. Austria grants exemption for development aid and upon condition of reciprocity; the latter is also true for Greece. Some national tax laws will recognise certain donations and gifts to foreign foundations but will apply a different tax treatment to that applied to donations to domestic foundations.

In recent years, some foundations have come together to rethink and promote a more favourable environment for their operations. At EU level, the EFC EU Committee has drawn up a Model Law for public-benefit foundations in Europe. This template is based on a comparative study of the different legal and tax systems for foundations in Europe. Some foundations in France, Spain and Portugal have used this template to facilitate the revision of their respective legal set-up and fiscal provisions.

### Box 2.5. Cooperation between foundations and the state: the experience of Sweden

**History:** There is a long history of the foundation sector in Sweden and its importance in society, but nearly 75% of all foundations existing in 2001 and more than 90% of their assets originate in the 20th century, with a great majority established during the period 1950-99.

Of the 11 500 foundations listed, over 2 000 are funding research and have total assets (book value) of SEK 66.3 billion ( $\approx$ 7.1 billion). The Wallenberg Foundations are the most important grant making private independent foundations. They are giving substantial grants to scientific research and infrastructure, but also to international exchange programmes and institutes. The biggest is the Knut and Alice Wallenberg Foundation (KAW), with assets of about SEK 22 billion at market value in 2002 ( $\approx$ 2.4 billion) and grants of a total amount of SEK 906 million ( $\approx$ 98 million) in 2002.

**Research foundations established by the Swedish government:** During the latter part of the 20th century, the government established a number of foundations, including new research foundations. The Bank of Sweden Tercentenary Foundation (initiated 1962 with an original endowment of about SEK 250 million or  $\approx$ 27 million), became an important player in the R&D system, and, in 2004, had assets of SEK 7.8 billion ( $\approx$ 800 million) and a research budget of SEK 300 million ( $\approx$ 32.4 million).

**From wage-earners funds to research foundations:** In 1992-93, the then Conservative government dissolved the so-called wage-earners funds (built up through taxes from employers) whose value was around SEK 10 billion in 1992 ( $\approx$ 1.1 billion) and created seven foundations focused on strategic research in medicine, technology, natural sciences and environmental research. Originally, they were given independence and full control over their resources but today the government selects the board of trustees.

Today, the research foundations based on the wage-earners funds are still important funders of research and have contributed to keeping up the level of the Swedish 'public' research funding. The biggest of them is the Foundation for Strategic Research. During 2002 and 2003, the seven foundations plus The Bank of Sweden Tercentenary Foundation provided Swedish researchers with approximately SEK 1.4 billion ( $\approx$ 150 million). The research budget for the Swedish Research Council during those years was approximately SEK 2.4 billion ( $\approx$ 260 million).

Creating a more favourable environment for European foundations in general, and for cross-border activities in particular, will involve initiatives at an EU, as well as national, level. EU proposals regarding foundations and their operating environment have been very limited. A communication from the European Commission issued in 1997 entitled 'Promoting the role of voluntary organisations and foundations in Europe'<sup>18</sup> refers to the foundation sector but places its emphasis on associations rather than on foundations.

Foundations have been touched upon in the proposal for reforming European company law. The EC stated in its 2003 Action Plan for Company Law in Europe<sup>19</sup> that it intends to launch a feasibility study on the development of a European Foundation Statute. In this framework, the EFC drew up a proposal for a European Foundation Statute in 2004.<sup>20</sup> A growing number of foundations work beyond their national borders and the existing legal regimes do not meet their needs. The EFC proposal for a European Foundation Statute is intended to be an additional and optional legal instrument to existing national instruments, and it is aimed at facilitating and enhancing foundations' cross-border activities.

<sup>18</sup> European Commission: Promoting The Role of Voluntary Organisations And Foundations in Europe, COM (597) 241 Final.

<sup>19</sup> COM (2003) 284 Final.

<sup>20</sup> The EFC proposal is available at [http://www.efc.be/projects/eu/legal/European\\_statute.htm](http://www.efc.be/projects/eu/legal/European_statute.htm)

# Foundations and their role in promoting investment in research

## 3.1. THE IMPORTANCE OF RESEARCH FOUNDATIONS

This report's focus is on foundations that carry out or fund research and development activities, rather than on foundations in general. We have defined a **research foundation** as a private entity serving public purposes, whose funding or activities are directed towards R&D (which includes basic, applied and clinical research in science and technology, the social sciences and the humanities), though not necessarily at the exclusion of other goals it may pursue. Such an entity is caught within the definition of 'research foundation' irrespective of whether the source of the foundation's income comes from donations by the public or investment income from an endowment from an individual or company.

Perhaps the best starting point for a discussion on the role of research foundations is the very basis of their existence: to advance and promote knowledge and education and, often, the health and wealth of humankind, for philanthropic purposes. Philanthropy can generate knowledge accumulation in several ways.<sup>21</sup> Philanthropic donations increase the amount of resources available for research. In addition, private donations are likely to fund a greater variety and even a greater portion of knowledge-creating activities. Government and other public authority grants criteria may be more risk-averse than those of foundations. Government grants can be restricted by regulations and public sector practice, with the result that their focus is often on mainstream, low-risk areas of research.

Research foundations add value to research efforts in a variety of ways. They can increase the volume of research funds for fundamental, blue-skies research and research in orphan areas or early-stage applied research, which is not sufficiently developed to attract industry funding. Foundations which raise funds from the public are particularly well placed to shape the research agenda on 'action-orientated research' or 'near patient research' by focusing on translating basic research into the clinic, which their donors expect.

Research foundations can help further European integration through their support of cross-border research projects that are not yet supported by existing mechanisms (Framework Programmes, national programmes, etc.); they can focus on specific research areas and have the flexibility to fund interdisciplinary research projects; they can enhance researchers' mobility, promote collaboration and finance researchers at all levels of the research career ladder; they can provide a structure to fund small projects and a strategy in a long-term and coherent framework to fund research independent of the drivers of industry and government. Foundations have the flexibility to respond quickly to the needs of the research community, to pilot projects and to trigger spending on research by other, bigger funders of research.

<sup>21</sup> See the discussion in Braunerhjelm and Acs, 2004.

**Box 3.1. German foundations investing in R&D**

About 12 000 foundations operate in Germany, half of which are grant making, one quarter operating, and the remaining of mixed type. Of these, about 1 400 fund R&D. Of the most important foundations in Germany, Gerda Henkel Stiftung, Schering-Stiftung, Stifterverband für die Deutsche Wissenschaft, Fritz Thyssen Stiftung, and VolkswagenStiftung fund exclusively scientific research; and Robert Bosch Stiftung, Gemeinnützige Hertie-Stiftung, Körber-Stiftung, Alfried Krupp von Bohlen und Halbach-Stiftung, Klaus Tschira-Stiftung, Deutsche Bundesstiftung Umwelt, Zeit-Stiftung Ebelin und Gerd Bucerius fund research in combination with other objectives.

Total funding for R&D in Germany was about €52 billion in 2002 or 2.5% of GDP, with the overwhelming share (€36 billion) coming from industry. Less than 1% of the overall R&D funding figure comes from private institutions, including foundations.

In terms of trends observed in the operation of research foundations, changes are occurring: there seems to be a movement from strictly grant making to (more) operative/strategic initiatives (such as operating research institutes, and funding new professorships, for example); from mostly isolated activities to intensified cooperation at the national and the international level; towards strengthening the relations between researchers and foundations; towards promoting public engagement with science; and towards more evaluation to improve accountability and transparency.

**Table 3.1. R&D expenditure by the private non-profit sector**

COUNTRY	MILLIONS EUROS	% GDP	DATA YEAR
Belgium	54.52	0.02	1999
Denmark	39.27	0.02	1999
Greece	2.43	<0.005	1999
Spain	50.4	0.01	1999
France	448.33	0.03	1999
Ireland	6.68	0.01	1997
Netherlands	62.63	0.02	1996
Austria	9.93	0.01	1999
Portugal	87.91	0.08	2000
Finland	21.4	0.02	1998
Sweden	9.88	<0.005	1999
United Kingdom	353.71	0.03	1999
United States	8375 (10468)	?	1999 (2000)
Japan	5684 (7108)	?	1999 (2000)

Source: Eurostat data.



**Box 3.2. Foundations and research funding in the UK: some facts**

The UK has more than 600 000 organisations in the charity, voluntary and non-profit sector of which around 166 000 are charities registered with the Charity Commission. The majority of these registered charities are fundraising charities, which do not apply the term 'foundation' to themselves but many would nevertheless be within the scope of this report (for example, Cancer Research UK). At least 8 000 of these fund research.

Foundations vary in size from the Wellcome Trust (with an asset base of £10.5 billion and expenditure of £378 million in 2004) to many smaller charities with annual incomes in the order of thousands of pounds. Foundations currently contribute funds covering about 17% of the costs of university research and are major funders of R&D in the UK with about 10% of their expenditure supporting R&D outside the UK. Biomedical research is the research area that receives the most funding from foundations.

Although UK research foundations may have specific requirements regarding the area of research they will fund, they do not usually seek out researchers to do specific projects or commission research directly. They mostly respond to requests for funding individuals employed by universities, research institutions and hospitals. This type of funding model is called 'response mode' and is the most common amongst biomedical foundations.

Foundations act in partnership with universities and the National Health Service (NHS), and expect these to provide the underpinning funding for any indirect costs associated with conducting research. They generally view the long-term provision of the core of the modern scientific research university (i.e. the running costs of the basic fabric and support services, as well as the indirect costs of running a research university, including buildings, equipment and technicians) as the responsibility of the UK Government.

Whilst most UK Government funding for university research is moving towards paying the full economic costs of research, UK research foundations focus their funding on the direct costs of specific research projects. However, from time to time, research foundations do fund infrastructure costs where this specifically supports their mission. For example, in 1998, the Wellcome Trust contributed £300 million to the Joint Infrastructure Fund (JIF) in partnership with the UK Government to provide scientific researchers in the UK with world-class facilities and equipment, followed by a further contribution of £225 million in 2000 towards the Science Research Investment Fund to support further infrastructure needs.

The fact that the majority of research foundations fund research in the biosciences, and do not generally fund the full economic costs of research, has been argued to distort the research agenda of universities and create disincentives for universities to receive funding from foundations. To move towards addressing this, the Higher Education Funding Council for England has recently announced that it will commit a guaranteed, ring-fenced element to its university funding stream (the Charity Support Fund) specifically to support the indirect costs of foundation-funded university research.

The potential of research foundations however comes up against a harsh reality: with some notable exceptions, the existing level of funds that are actually devoted by foundations to research remains low compared to the US. This is despite the existence of a few large foundations focusing on research in Europe, as well as some new initiatives in this area. (See the examples of Germany, the UK, Spain and Portugal in Boxes 3.1, 3.2, 3.3 and 3.4.)

It is difficult to quantify accurately the efforts made by foundations in Europe to support research. No specific data on this are available.<sup>22</sup> However, Eurostat data on the R&D expenditures made by the private non-profit sector in Europe (Table 3.1) provides a starting point. The Eurostat data represents an upper bound for the private foundations research activity, and covers many aspects of R&D expenditure including grants to researchers for mobility, publications, organisation of conferences, and funds for equipment, furniture, salaries, materials, overheads, etc.

These data need to be carefully interpreted. They suggest that the private non-profit sector as a whole accounts for a very small share of the overall R&D effort in most EU countries, and accounts for a fraction of a percent of overall GDP. The highest absolute figures are in France, the UK and Germany; it should be noted that the US outnumbers the figures for all EU countries combined several times over.<sup>23</sup>

### 3.2. THE QUALITATIVE CONTRIBUTION OF FOUNDATIONS TO RESEARCH ACTIVITIES

The impact of investment in R&D by foundations in Europe should not be assessed solely on the absolute figures for foundations' support of R&D. Foundations not only bring with them money (quantity) but also special competences and unique characteristics (quality) which contribute an important aspect in the pluralism of R&D funding. Foundation support tends to be concentrated in certain research areas (in particular biomedicine). Their grant making is mostly in universities, where funding is often focused only on the direct costs of a research.

#### The focus of research foundations

The funding of research by foundations is by no means uniform across different research disciplines; support for research connected to biosciences (biomedicine in particular) is the most common discipline funded by research foundations. This to an extent follows what the public wants to give money to (either by endowing a foundation or by giving funds to a fundraising foundation) but also reflects the nature of foundations as public benefit entities, which favours support of research into areas that can be most easily demonstrated to fulfil this obligation. This test is an essential one for many countries under regulations in that it affects taxation and government support. It is far from self-evident that, for example, communications research could pass this same test. Research priorities as a result are often driven by the agendas of foundations.

<sup>22</sup> Audegond reports that 75 French foundations, 729 German foundations and 264 English legal entities are supporting research and higher education, 2002.

<sup>23</sup> The group is aware that the Eurostat data does not capture all 'foundation' expenditure on R&D (for example the Wellcome Trust's expenditure in 1999 alone was £354 million. The group has made specific recommendations to improve Eurostat's collection of data on foundations.

**Box 3.3. Foundations and Research in Spain**

Data provided by the National Statistics Institute show that total R&D in Spain in 2003 was just over €8 billion or 1.1% of GDP. Non-profit organisations contributed only €37 million, of which €5 million were spent in-house, €20 million awarded to universities, €5 million to other public research institutions and €7 million to companies.

Foundations are promoted by both the public administration and private entities. Public research foundations are an alternative way to manage public resources, but also aimed at mobilising private support (so far the results are poor in this regard). Examples are the National Centre for Cancer Research (CNIO), National Centre for Cardiovascular Research (CNIC), Fundación Genoma-España. Private foundations awarding research funds and/or prizes are promoted by private institutions (banks, large companies, non-governmental organisations and other charities with public and/or private support). The number of institutions of this type is substantial but the amount of resources is not high, so that the efforts are fragmented and have a limited impact. This contrasts with the much higher amount of expenditure by private foundations that is directed to cultural or education initiatives.

Almost every university has promoted (one or more) foundations, in most cases for research purposes. A flexible management of resources, avoiding bureaucratic complications, is one of the main objectives. In all cases, both public and private resources are managed through the corresponding foundations, which run offices of technology transfer (tasks include promotion of capacities of the academic sector and exchange contacts with industrial sectors, filing patent applications and licensing, etc.), managing human resources for research projects and providing funding for scientific or technical personnel (fellowships, contracts, etc.)

Overall, foundations are recognised as important players but in general terms the amount of resources and the impact that they have need to be expanded. The high number of foundations and the lack of focus in their activities are responsible for the limited impact. The main contribution is managing resources rather than raising them from alternative sources. They can be useful mechanisms to promote multiple (small) donations for scientific purposes that could be of interest for society. Foundations can be one of the most successful instruments to implement necessary R&D policies, among them knowledge management, building bridges between academic and industrial sectors, promoting technology companies, etc.

This concentration of research foundation support has obvious benefits in that it provides much needed funding for research in an area with an obvious social benefit. It has been argued, however, that the narrow focus of research foundations at the same time creates a distortion, which has tended to inhibit various other types of research funding, particularly that associated with other private sector input. It may act as a barrier to the setting up of foundations in support of research into a wider range of subjects, which may offer significant opportunities for technology transfer to the commercial sector, such as in communications and engineering, or social science research.

A number of recent initiatives, such as those in France (see Box 3.5) have recognised this focus and have tried to broaden the research disciplines supported by foundations through incentives for the creation of new foundations aimed at fresh priorities (sustainable development, security, energy, transport safety, etc.).

**Box 3.4. A new €500 million medical research foundation to be set up in Lisbon**

In comparison to the United States, Europe has relatively few large foundations that concentrate on medical science, with some notable exceptions. Biomedical researchers in Europe, whose funding has fallen behind that for US researchers, will receive a substantial competitive boost with the launching of a new foundation in Lisbon with a €500 million endowment to support research in fields ranging from stem cells to neuroscience. The new Champalimaud Foundation is named after António Champalimaud, a Portuguese industrialist who died in 2004 at the age of 86, bequeathing a quarter of his €2 billion estate to set up the new foundation.

The Champalimaud Foundation intends to set up its own research institute, possibly involving partners such as universities, hospitals and other foundations. It would be European in scope but open to financing research anywhere in the world. It is likely to work closely with the Gulbenkian Foundation (Portugal's largest foundation, which has a €2.4 billion asset base), which focuses mostly on art and education, applying around 12% of its funds to scientific research.

**Funding coverage**

In many cases, the funding of research by foundations does not cover all types of expenditures associated with research. This may be traced, in part, to the rules applying to charitable foundations and has a direct impact upon the volume and nature of research funding and its value to funding recipients such as universities.

The funds allocated to research by foundations come from different sources. For some R&D foundations, income is derived from investment income from a capital endowment originally donated by an individual or corporate benefactor. For example, in the UK, the endowment to the Wellcome Trust in 1936 came from an endowment from Sir Henry Wellcome of the entire share capital of a single pharmaceutical company. The Wellcome Trust's investment portfolio has since been diversified across a broad portfolio of investments, which are managed with complete independence from any company in which they are invested.

For other R&D foundations, income may be derived from many individual donations from the public directly through regular giving to the foundation, street collections, legacies, etc. Although such income may be invested, the extent of public giving does largely determine the amount of money available for distribution. In addition to income from endowments and fundraising, foundations in some Member States also raise income from trading activities.

**Box 3.5. New initiatives to promote the role of foundations in France**

At just over 1 100, the number of foundations in France is modest when compared with the number in other large EU countries. Within Europe, France lags behind with fewer than four foundations per 100 000 inhabitants. However, overall total expenditure by foundations in France is relatively high, close to that of the UK.

Three-quarters of existing foundations were created after 1980. Less than 10% of foundations account for almost 80% of the annual cumulative foundation expenditures. Two-thirds of the foundations are grant or prize-giving foundations, and just over 20% operating foundations. The largest independent foundations mainly support healthcare (Fondation de la Recherche Médicale, Pasteur, Curie, Mérieux, Edmond de Rothschild), and their expenditures represent over half the overall foundation expenditure.

Just over 10% of foundation expenditure is specifically science and education-orientated: defence, foresight-innovation, Institut des Hautes Etudes Scientifiques, Sophia-Antipolis, Supélec. In terms of contribution to R&D expenditures, foundations accounted in 2002 for about 0.04% of GDP, with a gross expenditure in R&D (GERD)/GDP ratio in France equal to 2.2%. Some fiscal incentives are in place.

A reform was initiated in 2004 in order to mobilise private funds, steer focus to key research disciplines, share financing and skills, promote public-private collaborative R&D, disseminate a culture of project-based management, and strengthen society's trust in science. The reform was aimed at the creation of a new breed of science foundations - general-purpose foundations for science - aimed at different priorities (sustainable development, security, energy, transport safety), benefiting from starter subsidies with a faster creation process, and thereby creating a new kind of foundation centred around a project, limited to the life of the project and consuming its equity along with it: 'Fondation à capital consommable'.

These new foundations benefit from a number of fiscal incentives: an equity instalment period of up to ten years; 66% donation credit on individual tax with a 20% earnings cap; 60% donation credit on income tax with a 5% company turnover cap; a five-year carry-forward mechanism of tax credit for donors; and no income tax or VAT on activities.

In terms of intellectual property, there is no emphasis on donor's ownership per se. Intellectual Property (IP) agreements are put in place when research is collaborative; there are provisions for results disclosure, free scientific communication by labs, no priority rights of competitive development to industrial donors. Contractor selection is subject to a fair competition process, led by the Foundation Scientific Committee, and open to donors' labs.

By early 2005, the first results of this approach were the approval of ten new science foundations, raising approximately €60m (for example, radio frequencies and health, aeronautics/space and environment, food research, industrial safety). Ten additional proposals are under way.

There is also a series of foundations that are established by individuals through legacies or lifetime gifts, and are often devoted to single disease-specific research. It is also common for academic or health service clinicians to establish R&D foundations to further their own research supported by donations from patients and their relatives and, on occasion, from the biotechnology or pharmaceutical sector.

Despite the variety in the sources of their income, R&D foundations tend to be regulated in the same way in most Member States. A number of Member States prohibit foundations from carrying out trading activities that do not further the foundation's public benefit purposes. In some Member States, foundations overcome this by establishing trading subsidiary companies of which the foundation is the shareholder.

Foundations, particularly those associated with health research funding, often consider that the indirect costs associated with conducting research (i.e. the running costs of support services, as well as the costs of buildings, equipment and technicians) as the responsibility of government. In addition, they sometimes argue that their charitable status inhibits them from supporting anything but the direct costs of the research they are funding.

Consequently, when foundations fund research in a university they often fund only what they define as legitimate direct costs, excluding any contribution to the infrastructure of the university in which the work is conducted. (See Box 3.2 and Box 3.6 on the cooperation between foundations and the National Health System in the UK.)

These arrangements have a number of consequences for universities. The concentration of foundation research funding in particular areas, coupled with the rules governing the operation of foundations, often results in the failure to fund the research completely, even with government help. Therefore, in order for it to be maintained, this kind of research will need to be implicitly subsidised by others.

In some Member States, foundations have placed restrictions on commercial use of research buildings funded by the foundation on the basis that foundation law prevents applying foundation funds that would result in a private benefit that is more than incidental to the public benefit to be achieved. This means that any significant use of the building by industrial partners may not be allowed. This can be an inhibition to the development of mutual collaboration between university and industry researchers. In the UK, where universities have charitable status, this issue can be overcome if the foundation is able to delegate responsibility for ensuring compliance with charity law to the university, so that the university can make the decision about whether too much private benefit might ensue as a result of an industrial partner using foundation-funded infrastructure.

The issue of closing the gap between the full cost of foundation-sponsored research and the funds currently available from universities and foundations is an important one. It entails both rebalancing the support from the foundations towards infrastructural elements, as well as increasing the public funding support for such research provided through government funding bodies.

### **Box 3.6. Foundations and health R&D in the UK: Cooperation between foundations and the NHS**

In 2002/2003, the British Department of Health committed itself to spending approximately £540 million on R&D. The funds spent on true research were far less; around £120 million in 2002/2003. The largest part of this budget provides 'support for science' whereby the Department of Health provides the service support costs of the research funded by other bodies (for example, research councils and foundations). A Department of Health announcement in March 2004 signalled an increase to the NHS R&D budget of £100 million per annum by 2008. It is also currently developing an R&D strategy. In addition to these funds, a number of large hospital endowments exists, which, when combined, play a central role in funding university research in the health arena.

Building on its investment in the NHS and the medical research capacities within the UK's academic and business sector, the British Government, alongside other public, foundation and commercial partners, is creating a stronger network to improve the health and wealth benefits from medical research in the UK. The creation of the UK Clinical Research Collaboration (UKCRC) brings together the Department of Health, the NHS, governmental regulatory agencies, the Medical Research Council, and foundations to transform the clinical research environment. It will take a strategic oversight of clinical research from the perspective of a broad variety of stakeholders to identify gaps and opportunities for action and promote partnerships to address them.

## Intellectual property rights

Another important aspect of the work of R&D grant making foundations is their approach to the ownership and exploitation of intellectual property arising from the research they fund, and how they share in the benefits arising from any commercial exploitation of such an intellectual property.

Research in areas where foundation activity tends to be focused (i.e. biomedical research) can be a long-term and expensive activity. The period between a discovery in basic research and the development and availability of new medical products and devices is a long and complex one. Large-scale financial investment and a broad range of expertise are needed to develop new medical therapeutics for each phase of the development process (basic, early-stage applied research, clinical research, clinical trials and regulatory approval). There are strict regulatory requirements to test new medical products and devices, and specialised knowledge of international investment and the global market is required in this environment.

For these reasons, the development of new medical products and devices is usually beyond the resources and expertise of R&D foundations. Therefore, if research is eventually to bring benefits to patients, the involvement of commercial partners in bringing new diagnostics and treatments to market is essential. Incentives for their involvement are therefore necessary, such as the guarantee of a sizeable market share, which a patent can provide.

Patents give incentives to their owners to make or attract substantial investment into the development of new medical products and devices. They are taken out by individuals and organisations (including foundations and government bodies) to claim and protect ownership of an invention and to attract the necessary investment to exploit the invention commercially. Foundations are concerned about ensuring that any valuable intellectual property (IP), which arises out of research that they have funded, is appropriately managed, protected and exploited to best achieve public benefit, and that any private benefit that arises remains no more than incidental to the public benefit achieved. Foundations should therefore ensure that their funding terms and conditions allow for this and make it clear where ownership of IP rests.

The issues regarding revenue sharing on commercially-exploited foundation-funded research are complex and include the treatment of direct exploitation and technology transfer costs as well as investor share and institutional funder shares, with this latter the area of most contention. In the UK for example, one proposed model accommodates the possibility that the charity rather than the research institute or university might be responsible for technology transfer. By setting out explicitly how these various costs will be met, the model framework should encourage the most appropriate body to take the lead.

The question of IP is particularly important in the case of research done in universities. Universities typically claim ownership in the first instance of publicly funded research results and not the individual academic member of staff. This has allowed many research-intensive universities to develop significant exploitation vehicles by appropriate combinations of IP and to generate significant amounts of value through the creation of spinout companies and through licensing agreements.

One important role of foundations is to provide funding that bridges the gap between fundamental research and commercial application. For example, in 1998 the Wellcome Trust in the UK contributed £18 million to the University Challenge Fund (UCF), a scheme totalling £45 million, which is in partnership with the Government's Office of Science and Technology and the Gatsby Charitable Foundation. UCF provided a much needed seed venture capital fund to successful university bidders to enable those universities to increase the number of research projects taken from the laboratory to the marketplace. (See Box 3.7 for modes of cooperation between the Wellcome Trust and the UK government.)

The Wellcome Trust also has two technology transfer funding schemes to help new discoveries and technologies arising in academic laboratories to realise their commercial potential. University Translation Awards are granted to universities to encourage university researchers and technology transfer professionals to work in partnership to develop early-stage innovations, and Strategic Translation Awards are awarded to achieve the commercial translation of targeted technologies in areas that the Wellcome Trust views as strategically important to its mission.

In general, foundation-funded research must be undertaken with the intention that the knowledge acquired from the research will be disseminated to those able to utilise or benefit from it and so advance the foundation's public benefit purposes. The obligation to disseminate and make publicly available the useful results of research may be met in a variety of ways. For example, by formal publication of papers in journals or, where the results of research produce IP rights, which are protected by registering a patent, the act of registering a patent may in itself in certain circumstances amount to adequate dissemination.

### **Box 3.7. Collaboration between government and foundations: the case of the Wellcome Trust in the UK**

Established in 1936, the Wellcome Trust is amongst the largest foundations in the world, with grants awarded in 2000-2003 amounting to £1.7 billion (and total charitable expenditure of £2.2 billion), and is the UK's largest non-governmental source of funds for public benefit biomedical research. Since 1998, the UK government and the Wellcome Trust have developed a productive partnership to deliver on shared goals of securing a strong UK science base to meet the country's needs in biomedical science.

The Wellcome Trust has invested over £600 million into major capital renewal of the UK's university research infrastructure and major scientific facilities, in partnership with the research councils and various government departments. It has also invested in partnership with the Department for Education and Skills (DfES) in science learning-centres to support the professional development of science teachers and joint research programmes with the government (for example in veterinary science).

In recognition of the new Charity Support Fund and the current and prospective quality of the UK science base (and assuming current levels of investment return), the Wellcome Trust expects to commit at least £1.5 billion over the coming five years, with the UK remaining a strong centre of gravity for its funding. The Wellcome Trust will continue to work with the government in securing stronger outcomes for health, through a series of partnerships including translating research into patient benefit through investment in clinical research as part of the UK clinical research collaboration.

Building on the Wellcome Trust's £50 million commitment to public health research and training over the past five years, the Trust will be developing partnership innovative schemes to support training and research in the public health sciences. Using UK research strengths, it will work with the Department for International Development (DfID) to combat malaria through research and expects to commit around £10 million over the next five years, matched by DfID investment.

The Wellcome Trust is also contributing £28 million to the UK Biobank project, which will follow the health of 500 000 volunteers aged 45-69 in the UK for up to 30 years to allow researchers to study interactions between genetic, environmental and lifestyle factors in the development of illnesses such as cancer, heart disease, diabetes and Alzheimer's disease. The project is funded in partnership with the Medical Research Council, the Department of Health and the Scottish Executive. It aims to provide one of the world's largest information resources for medical researchers to determine the risk of predicted disease among populations and thus determine the scope of disease prevention.

These examples demonstrate how, by engaging with multiple government departments and other agencies through a number of different mechanisms, a foundation is able to amplify the impact of its own research funding through partnership.

Alternatively, depending on the foundation's purposes, the application or exploitation of IP rights could constitute adequate public benefit in itself. The most appropriate method of dissemination to further public benefit will depend on the circumstances. Protecting and exploiting IP may be the best route if there is potential for a new medical product or device to be developed by industry, whereas it may be more appropriate to place research results yielding pre-competitive data into the public domain.



### 3.3. RESEARCH FOUNDATIONS IN THE US VS. EUROPE

#### Two different models

The US model is often invoked when discussing foundations, both in terms of the funds generated by foundations in the US in general as well as more specifically their ability to support the research system effectively. Historically, private philanthropy seems to have played an important role when and where the federal/state authorities have given small support to science.

The US is a fundraising - and a fund giving - society. Donations play an important role for many social purposes. In 2002, there were \$240 billion (2.3% of US GDP) in private donations. Seventy six per cent of this (\$184 billion) were donations from individuals, 11% (\$27 billion) from foundations, 8% were donations by bequests and 5% donations from companies.<sup>24</sup>

The non-profit sector plays a rather small role as a funding source and performer of R&D in the U.S. Its share is around 3-5% but it is on a growing trend in recent years. In 2003, the non-profit sector, which includes the foundations, funded \$8.2 billion, or 2.9%, of the total R&D effort. That was slightly larger than the universities and colleges' share and was more than double the share of the state governments. As a funding source, the non-profit sector had the largest growth compared to the other sectors from 2001 to 2003, growing by 21%, while the industry's share of R&D support declined by 3%.<sup>25</sup>

Non-profit institutions funded \$12.6 billion for R&D, or 4.5 % of the total share in 2003. As R&D performers, the non-profit institutions played a slightly larger role than as funding sources. This is because the federal government supported the non-profit sector with about \$5 billion. Most of the support comes from the federal medical research council - the National Institutes of Health (\$3.3 billion) and the Department of Defense (\$1 billion).

However, in addition to grant making foundations, the non-profit sector includes hospitals and research institutes. While not much data exist on how much the philanthropic foundations in the US grant to research and development, in 1998 it was estimated that the total grants from American philanthropic foundations were \$10 billion. Four hundred million dollars or about 4% of this went to science and technology. According to data from the US Foundation Center, foundation giving peaked in 2001, helped by a strong economy and a booming stock market.

Based on a sample of the 1 000 larger US foundations, about 10% of the grants totalling \$15 billion from private foundations are channelled to areas clearly defined as research and development.<sup>26</sup> Based on this, one might estimate that 10% of the total (\$30 billion) for all grant-making foundations was channelled into research in 2002, about \$2.7 billion. This estimate may be high however; on a national scale, the larger foundations donate more to research than the smaller ones, which focus more on local charities.

Which disciplines receive the grant dollars for research? One third is channelled to medical research. However, medical-related research seems to get a much higher share because most of the research under life sciences, which received 12% of the grant dollars in 2002, probably is related to medicine. Together, medicine and life sciences receive over 40% of the grant dollars. One fifth goes to social sciences. One quarter of the total grants from the foundations are channelled to the higher education sector. Eighty five per cent of this goes to universities and colleges, with Stanford and Harvard as the top beneficiaries.

Does private philanthropy support research in fields where federal support is low? Overall, one cannot claim that private philanthropy deliberately supports research in fields where the federal support is low. As stated above, research in medicine and life sciences gets over 40% of the grant dollars from the foundations, which is quite similar to these fields share of the federal non-defence support. Thus, most of the research money from the foundations is channelled in the same direction as the federal money, probably because support for medical research is easy to understand and sell among donors, voters and politicians.

<sup>24</sup> See Acs and Braunerhjelm (2004: 34).

<sup>25</sup> Source: National Science Foundation, Division of Science Resources Statistics. The complete data are available at <http://www.nsf.gov/sbe/srs/stats.htm>

<sup>26</sup> Source: The US Foundation Center: Foundation Giving Trends 2004.

Does private philanthropy support research where the scientific risk is high? On the other hand, is it mainly focused on popular areas with low risk? There is no clear answer as to whether philanthropy supports research where the scientific risk is high. However, private philanthropy plays an important role in funding research within the humanities and social sciences, mainly because of reluctant federal support. From time to time, there has been a strained relationship between the federal government and the research community within the humanities and social sciences. In this respect, support from private foundations has been crucial in politically sensitive research fields. Table 3.2 tries to sketch some of the differences and similarities between the non-profit sectors and foundations in the U.S. and Europe.

A recent report in the US<sup>27</sup> on fostering innovation focuses on three broad objectives: talents, investment and infrastructure. It provides some interesting ideas on the role of foundations when discussing initiatives related to investment with a clear relevance to the European situation. The report notes: "While many entrepreneurs complain about the 'lack of capital', the reality is that most regions do not lack investment capital. They do, however, lack risk capital...To address this need, angel networks and local charitable foundations should become part of every region's innovation strategy."

**Table 3.2. Foundations in the US and Europe: a comparison**

	US	EUROPE
<b>GENERAL FRAMEWORK CONDITIONS</b>		
Fundraising tradition	Strong fundraising tradition	More mixed fundraising traditions
Role of state	Less active state	More active states
National finance system of research	Pluralistic, also within the federal government (R&D priorities sector/agency driven, low coordination)	Fairly pluralistic, if we look at the whole of Europe, but may not be so pluralistic within many countries
Focus on R&D support from the state/federal level	Mainly mission-orientated (e.g. defence, health) R&D support from federal authorities, also when it comes to basic research	Stronger tradition for state support to so-called 'free' basic science. Less mission-orientated R&D support
<b>FOCUS OF FOUNDATIONS</b>		
General focus	Mission-orientated	Mission-orientated
Substitutes or complements government efforts?	Fills gaps where federal government does not take responsibility (humanities, social sciences)	More complementary than a substitute
<b>R&amp;D FOCUS OF FOUNDATIONS</b>		
Main focus: Research areas	Health, plus areas where federal/state authorities give low support: social sciences, humanities	Health, biosciences, social sciences, humanities
Coverage of indirect costs		Mainly no
Institutions that benefit most	Higher education institutions, especially universities and colleges	Higher education institutions? Research institutes?

<sup>27</sup> Innovate America. Council on Competitiveness, December 2004.

The report addresses two challenges to increasing foundation investment in the entrepreneurial economy. “First, federal tax code regulations are complex and somewhat vague on what kinds of investments are allowable. A clear statement of what is acceptable under the IRS [Internal Revenue Service - U.S. Tax Authority] jeopardy investment rules is needed.” To meet this challenge, the Council on Competitiveness suggests that “The federal government, through the Internal Revenue Service or Treasury Department, should establish clear guidelines in the Internal Revenue Code on the acceptability of investment of foundation assets in start-up ventures.”

The second challenge is “simply educating foundations about the potential triple benefit from these investments. With the investment of a small percentage of assets in regional start-ups, foundations can help a local firm, can play a leading role in creating more favourable regional attitudes toward risk investment, and can potentially increase the value of their asset base”. (The Council on Competitiveness 2004: 35-36).

The experience of the US reinforces the fact that foundations not only bring with them money (quantity) but also special competences (quality) which fill a gap by strengthening the pluralism of funding. In the United States, the president of the Russell Sage Foundation, Eric Wanner, has argued that the foundations bring with them flexible competence which is more rare among federal agencies. Although private philanthropy certainly can use more money on science, the foundations’ flexible and visionary competence is also a very important contribution to the funding system.<sup>28</sup>

Philanthropy increases the level of research funding to universities, adds to the level of diversity for which that funding can be used and impacts the culture of the institution. This increases the level of technological opportunities available in and around the university. The increased opportunities may be exploited by entrepreneurs, both domestic and internationally leading to increased economic growth. These observations resonate very well with the case of the US universities.

### Lessons for Europe

How does this carry over to the European situation? Drawing from the experience of all Swedish universities, a recent study (see Box 3.8) concludes that private funding will become an increasingly important source of revenue. Whereas firm commissioned research has remained at about the same level in the last decades, philanthropic and untied research funding has increased. There are reasons to believe that this trend will continue, particularly for high-tax societies such as Sweden, where traditional means of financing through taxes is under challenge because of structural factors and increased institutional competition. However, philanthropy is not likely to substitute public funding, but rather it will complement other means of financing academic research.

One important question concerns the effects of a higher share of philanthropic funding of academic research. Does this constitute a threat to free research? Alternatively, can we expect positive effects related to more diversity in research, increased resources and better links to the commercial sectors? Based on the comparison with US universities, the positive effects seem to likely outweigh potential negative effects. However, European universities must adopt strategies to manage and encourage philanthropy.

<sup>28</sup> Wanner, Eric (Russell Sage Foundation) 1998, *What Warren Weaver Knew: Foundation Support for Scientific Innovation*. Speech held at the AAAS Seminar on ‘Fueling “The Light of Science”: Private Philanthropy in American Science’, 16 February 1998, Philadelphia.

**Box 3.8. Foundations and R&D: Comparing Sweden and the US**

A recent paper<sup>29</sup> attempts to compare the structure, depth and objectives of Swedish and US philanthropy. Sweden hosts approximately 14 000 foundations with a total endowment of US\$24 billion (year 2000). Total donations amount to about \$500-700 million. In the US, 60 000 foundations exist, holding estimated assets of \$450 billion. These foundations donate about \$27 billion a year (2002). However, total donations are valued close to \$240 billion in the US. Most of the difference between total donations and foundations' contribution is made up by private individuals, who account for approximately 76% of donations in the US.

2001	SWEDEN	US
R&D as share of GDP	4.3	2.8
The private sector share of total R&D (1999)	72	68
Share of total university research financed by government	78	65
Donations as share of GDP	0.3	2.4
Share of private donations spent on research and education	approx 25	approx 30

Source: OECD, *Foundation Giving Trends*, calculations by Acs and Braunerhjelm (2004).

\*Refers to 1999.

This situation seems to characterise most European countries. In a comparison between universities in the Netherlands and the US, it is noted that the current situation at a typical Dutch university is that 80% of its income comes directly from the state, with donations by foundations accounting for around 1%. In contrast, at Harvard University, having a long tradition of alumni donations, this percentage is over 30% for 2004. In the Netherlands, universities and research institutions do not have a so-called philanthropic infrastructure; their internal organisation has not been structured and professionalised to raise and manage philanthropy funds. As a result, relatively few private people or foundations donate directly to universities. (See Box 3.9 for recent initiatives to encourage giving for knowledge in the Netherlands.)

Philanthropic financing is therefore relatively new for most European universities and the inherent awkwardness in handling this source of revenue may hamper a potentially important source of revenue. Much can be learned from the US: extended philanthropic activity does not suffice. Entrepreneurs and incumbents alike must formulate pertinent policies to encourage exploitation of university-based knowledge.

<sup>29</sup> Acs and Braunerhjelm, 2004.

**Box 3.9. Encouraging giving for knowledge in the Netherlands**

A recent report entitled 'Giving for Knowledge: The Fourth Channel', in the context of the new Dutch Innovation Platform, explores new financing methods for science, in addition to funding directly from the government, indirectly from the Netherlands Organisation for Scientific Research or contract-based funding. The report presents suggestions for exploring a 'fourth channel' using private gifts, philanthropic institutions, sponsoring and tax facilities for the benefit of the knowledge society. The recommendations can be summarised under three principal ideas:

**A change in culture.** This involves: developing a gift policy for scientific purposes together with universities, research institutions and other parties concerned in the scientific field; stimulating a change in culture among all parties involved (universities, government, private parties, business sector), to allow additional funds to be raised by research institutes, and in a more focused manner (for example, an alumni policy or university funds); preventing substitution between public funds and funds from the fourth channel (perhaps by way of an innovation agreement); enhancing public and private funding in the form of gifts by intensifying the cooperation with philanthropic partners, for example by developing a joint policy aimed at complementarity and setting up a bonus policy (perhaps by matching funds for research grants)

**Fund formation and activation.** This involves: setting up a Dutch Incentive Fund for science and research, to supplement and reinforce existing local initiatives; where possible, transferring existing private funds for promoting science to this national fund, while allowing them to retain their own identity (the national fund will then serve as an umbrella fund - Named Funds); in consultation with banks, exploring possibilities for tracing dormant funds with scientific objectives; setting up a 'Social Venture Fund' for 'scientific' investments, and launching a pilot as quickly as possible; where advisable and possible, integrating each university's existing (but often fragmented) university funds into a broad university fund, with professional high-return asset management.

**Focused government incentives/lottery and gambling organisations.** In terms of tax incentives this involves: expanding the exemption from paying inheritance tax on legacies and gifts to museums to include institutions for scientific research; making the percentile ceiling for deducting gifts not apply to donations for purposes of personal income tax and corporate income tax; adjusting tax regulations so as to ensure that the tax facilities not only stimulate fundraising for scientific purposes but are actually used for that purpose; expanding existing exemptions on capital income for cultural investments to include investments for scientific objectives; investigating the possibility of waiving VAT payments for staff exchanges between academic institutions, similar to the regulations for the social/cultural and healthcare sectors. In terms of games of chance, the report suggests arrangements with the lottery and gambling organisations to adapt the system of paying funds to charitable causes and open it up to high-quality knowledge and scientific projects, which can be offered from the Incentive Fund for science and research in the form of an assessed portfolio of options.

### 3.4. COLLABORATIVE AND EU-WIDE RESEARCH

Whilst foundations wish to retain their independence in decision-making to pursue their specific mission and objectives, they also seek to work with others where this achieves the greatest benefits to further their mission. They therefore play an important role in engaging in partnerships and collaborations at local, regional, national, European and international levels, with governments, other foundations and industry. For example, a number of foundations were involved in the creation and funding of the Medicines for Malaria Venture (MMV), which was itself established as a foundation in Switzerland in 1999. By combining the expertise of the pharmaceutical sector with the public benefit goals of the foundation and public sector, MMV's goal is to overcome the lack of global investment in R&D for medicines for malaria and to bring medicines to the market.

At national level, foundations with other partners have often jointly set up and further funded the activities of research institutes. A number of organisations focus strongly on what goes on beyond national boundaries, with partnerships and work programmes having both global and EU remits. There is in fact a great deal to be gained for cooperation amongst regional and international partners when tackling issues of common concern, such as our focus on the emerging European dimension for promoting the role of foundations and the non-profit sector in boosting research and development.

At the European level, foundations have engaged in a series of common initiatives about research, under the umbrella of the European Foundation Centre and the Network of European Foundations for Innovative Cooperation (NEF)<sup>30</sup> including:

- Foundations initiative to promote **health research to achieve the Millennium Development Goals**
- The **Science and Society** programme overcoming public distrust, alienation and lack of Interest in science supported by foundations from Sweden, Italy, Belgium and France.
- **European Foreign & Security Policy Studies** - a research training programme supported by foundations from Germany, Italy and Sweden.
- **Creative Europe**, a transnational comparative R&D project 1998-2002 on two artistic fields: theatre (including independent production) and the visual arts (including multimedia) resources by foundations from France, Netherlands and Sweden.

Such collaborative efforts should not detract from the fact that most foundation activity in Europe continues to be at a national, even local level. In this respect, it is important to look at some of the strengths of the US model: the extended academic market for capital and people moving freely and able to apply for funding across America. In Europe, there is an increased mobility of students and post-graduates between countries, but little real mobility of professors. The same kind of immobility exists for research capital. To create a European market for knowledge it is essential that obstacles be eliminated. Foundations could set an example.

An analysis of websites of a number of foundations gives an idea about grant making across borders and missions orientated towards funding research done in other countries. Openness towards international initiatives is judged based on the language of the website, the geographical limits, eligibility, and the existence of international projects. (See Table 3.3 for a classification of foundations based on the geography of their activities.)

<sup>30</sup> [www.nef-web.org/](http://www.nef-web.org/)

Table 3.3. Classification of foundations based on the geography of their activities

	LANGUAGE	MISSION	ELIGIBILITY	INTERNATIONAL PROJECTS
<b>UK</b>				
Nuffield Foundation	EN	mainly UK	mainly UK	European partners
Wellcome Trust	EN	UK/Int	UK/Int	Yes, but 85% in UK
Leverhulme Foundation	EN	UK	lead appl. UK	Yes
Colt Foundation	EN	UK	UK	No
<b>GERMANY</b>				
VW Stiftung	DE/EN	DE/Int	DE/Int	Yes
F.Thyssen Stiftung	DE/EN	DE	DE	Yes
Robert Bosch	DE/EN	DE/EN	German Partner	70% project Int.
Bertelsman	DE/EN	DE/Int		Yes
<b>ITALY</b>				
MPS	IT	Local	Local	No
Cariplo	IT	Local	Local	No
Compagnia di San Paolo	IT/EN	Loc/Int	Int	Yes
<b>OTHER</b>				
Riksbanken	SE/EN	SE	SE	Yes
Bodossaki	EL/EN	EL	EL/Appl in EL	No
Bernard Van Leer Stichting	NL/EN	Int	YES	Yes
Gulbenkian	PT/EN/FR	PT/Int	PT/Int	Yes
Vanden Ende Foundation	NL/EN	NL	NL	No
<b>USA</b>				
Ford Foundation	EN	Int	Int	Yes
Rockefeller Foundation	EN	Global	Int	Yes
Bill & M. Gates Foundation	EN	Int	Int	Yes

Foundations fall into at least one of four broad categories in terms of the geography of their activities: those only active on a national or even local basis (most foundations in Italy); those with a **national** focus but **ready to collaborate on an international scale**, which is typical for UK foundations; foundations with a national character but which do allow **non-nationals to apply** for their funding (the German foundations); and foundations with a **very international approach** and which may even describe themselves as acting on a global level (particularly some of the larger US and UK foundations).

The element of cooperation is important, but there should also be an increased possibility of competing for research grants beyond national boundaries in order to ensure that one gets a better allocation of research money than is currently the case due to the national boundaries within Europe. There is a balance to be struck between a healthy element of competition amongst the European nations and, at the same time, building a truly European capability in a global economy.

## Promoting cross-border activities and European cooperation

In order to establish a European research area, existing legal and fiscal barriers to cross-border giving and cross-border activities of foundations will need to be tackled. It is clear that there are currently a number of obstacles prohibiting - or at least not encouraging - foundations to work in an effective way across EU countries. Increased cross-border activity would be promoted by an enabling legal environment, for example, a European legal instrument for foundations - a European Foundation Statute - and the mutual recognition and equal tax-treatment of qualifying organisations from one EU country to the other.

It is important to give foundations an adequate framework to operate across the EU in the same conditions as if they were operating in the Member State where they are registered. Whereas most Member States allow the creation of a foundation that is active abroad as well as undertaking cross-border activities, such a foundation or a donor to it would not currently be able to qualify for tax privileges in a foreign Member State. Some national tax laws recognise foreign foundations but treat domestic and foreign foundations differently with regard to corporate income tax, and gift and inheritance tax.

It is important to allow foundations to be supported by resident and non-resident donors (individual- public and corporate) in an effective way and thereby increasing their potential. At present, tax-effective giving begins and ends at home. Almost all EU countries refuse tax deductibility for donations made by individual and corporate donors to foreign foundations. This is a significant barrier to cross-border giving. Only a few countries have opened the door.

Not much has happened at the level of national and European authorities to improve the situation for uniform tax treatment, although a series of complementary measures could be developed as follows:

- Possible **national-level measures**: National legislators could be encouraged to review their national laws and introduce public benefit status regarding tax privileges for both national and European organisations active in the country; to establish the same tax incentives for donors when donating to a foreign foundation; and to ensure equal treatment for both foreign and national foundations.
- National developments could be supported by **bilateral agreements**: So far, the effects of bilateral tax agreements have been disappointing. Very few treaties address the issue of cross-border giving and there are few double tax treaties, which provide tax relief for gifts or legacies across borders deal with inheritance and/or gift tax 'charity friendly' provisions.
- **European case law** may gradually change the situation and review some discriminatory tax situations detrimental to foundations. A case under review could bring some significant improvements. The German Federal Tax Court (Bundesfinanzhof) has published a decision in which it requested a preliminary ruling from the European Court of Justice regarding the compatibility of the taxation of foreign non-profit private law foundations with the basic freedoms contained in the EC Treaty. The case concerns an Italian public benefit foundation with income from German real estate assets.
- **Private agreements**: a mode of action already in practice today, which allows the identification of qualifying partners in other countries with whom one can work in order to facilitate cross-border giving. One good example is the Transnational Giving Europe Agreement set up originally between the Charities Aid Foundation, the Fondation de France, Oranje Fonds, and the King Baudouin Foundation covering five countries.
- Possible **EU-level measures**: At EU level, a European Statute for Foundations could potentially improve the situation of cross-border giving and provide a useful legal tool for cooperation among funders and foundations.



### 3.5. LEVERAGING RESEARCH: THE RELATIONSHIP OF FOUNDATIONS WITH OTHER ACTORS

Foundations interact with a number of other very important actors in the research and innovation system: government, business, universities and the public at large. Foundations' relationship with these actors shapes local, regional, national, European and global research efforts.

#### Foundations and governments

This report has already discussed some aspects of the relationship of foundations with governments - issues of substitutability and complementarity, modes and difficulties of cooperation, and best practices in certain EU countries. One particular issue that deserves attention relates to a recent trend towards actively using foundations as a new instrument of public policy. In many countries, governments are increasingly attempting to steer basic and applied research in a flexible and independent way and thus create a new breed of foundations.

This involves the creation of a new breed of foundation referred to as Social Venture Foundations (SVFs) which operate as follows. Central government funds, together with local government or regional development agency funds, university funds and industrial funding from either local and national sources, are collected into a single capital sum and used to create an endowment for a foundation. This thereafter operates as a combination of a research operation (largely conducted in the university by subcontract), a consultancy operation, and a contract problem-solving business.

Social Venture Foundations can be used by governments to lever significant private funds: the 'entrepreneurial wealthy' could be found willing to invest in high-risk, high-return research projects. Banks and financial advisers may be interested in such an initiative, advising their wealthy clients about investment in possible projects (in cooperation with universities and foundations) where there may be personal tax incentives.

Establishing SVFs to promote investments in research is also a useful way to bring universities into contact with entrepreneurs and foundations. On a European scale, the European Venture Philanthropy Association (EVPA), which is active in the field of venture philanthropy, could disseminate best practice in this area. It provides a forum for networking with different players to promote philanthropic giving throughout Europe and supports its members in their venture philanthropic activities.

The impact of activities that are possible in a SVF can be greater than that undertaken by one partner alone. The model would be for the activities of the SVF to be self-sustaining after the initial injection of cash and self-governing through a board of directors drawn from the initial funders. As they are intended as not-for-profit organisations, they are foundations for the purposes of this report, even though much of the initial capital may have come from the state.

The model could be replicated at a European level in order to help to meet the EC's R&D target. Its impact could be relatively rapid. Such foundations could be eligible for European funds when complying with the defined criteria. Furthermore, relevant areas could be in the scope of the technological objectives to be achieved under Framework Programmes: health; food, agriculture and biotechnology; information and communication technologies; nanosciences, nanotechnologies, materials and new production technologies; energy; environment; transport; socio-economic sciences and the humanities; security and space.

#### Foundations and business

Industry finances the largest part of R&D expenditures in most EU countries. It is no surprise, therefore, that leveraging investment in R&D through foundations often involves discussion on how to increase the business community's engagement with, and giving to, foundations.

A number of important US and European foundations bear the name of industrialists having been created from an endowment, the result of a fortune born out of a successful business career, though this occurs much less so today, at least in Europe. Thus, corporate foundations are most often simply foundations in the name of a corporation's founder. Their link is to the rich individual who created them and not to the company whose name they often bear.

This is not surprising. At the most basic level, there is no a priori reason why a publicly listed company interested in maximising shareholder value and accountable to its shareholders should not create a public benefit foundation or even give to charitable causes. Such donations and endowments from the business sector, where they exist, can be viewed at the first instance as an example of corporate social responsibility. They remain limited in scope as a corporate - as opposed to an individual - initiative (because of pressures to return maximum benefits to shareholders) and are encouraged by many Member States through favourable tax treatment.

The few cases where large corporate foundations exist and are not linked to an individual (as was the case with the Volkswagen Foundation, which was in fact established by the Federal Republic of Germany and the State of Lower Saxony) are the result of a specific - and not easily reproducible - historical event. The privatisation of a previously publicly-owned company gave the government the opportunity to set aside funding in order to create a foundation under private law, which now operates clearly at arm's length from the company and the state.

In general, when businesses want to undertake research, they usually prefer to do it directly or commission research for their own private interests rather than fund a foundation to do this. Nevertheless, there is evidence that business is positive to foundation support of R&D. However, rather than businesses setting up foundations, it is more a case of collaborating with foundations. For example, the SNP Consortium Ltd<sup>31</sup> is a collaborative venture, formed as a foundation in the US 1999, between 13 major pharmaceutical and technology companies, the Wellcome Trust and academic institutions, to provide genomic data to the public without intellectual property restrictions. The businesses involved collaborate with the foundation and public sector partners to speed up the production of data, which is 'pre-competitive'.

A foundation that wants to participate in such activity must offer some added value to businesses (for example, economies of scale, credibility with the public, infrastructure or contacts). Facilitating cooperation between business and research, offering services like preparing and negotiating an offer with scientific institutions or monitoring a research process, etc. should be a matter of interest to companies. Generous companies need institutions to help them donate money to the right research purposes in the right way: administrative help, networking help with the right research groups, while freeing them of administrative burden.

The main obstacle to companies' involvement with foundations with the aim of promoting research is that by their nature foundations are public purpose institutions whereas businesses have private purpose motives. There is thus little incentive to donate to research that is relevant to the company's core business when the results of the research will not be appropriated by the company and will instead be freely available (unless the research results will be pre-competitive as with the SNP Consortium above).

In the US, the use of trade associations gets around this 'free rider' problem of individual corporate foundations investing in research. In the case where research problems are larger, more risky or expensive for an individual company to address, foundations created out of trade associations can have a meaningful existence. Recent European initiatives (as in the case of France) also seem to be going in this direction.

A German example is, to a certain extent, the Schering-Stiftung in Berlin, founded by the Schering AG in order to support biology, medicine and chemistry (but also arts and culture). Another example is the Klaus Tschira-Stiftung, established by Klaus Tschira, the founder of SAP, with special emphasis on computer science and mathematics, as well as public understanding of science, preservation of historic buildings and monuments.

More generally, the relationship with business poses a challenge for foundations. How far can they move in the direction of commercial exploitation and at the same time further research for the public good? This is an important boundary issue between business and foundations. Generally, foundations seek to act where business does not, or to work with business.

<sup>31</sup> See <http://snp.cshl.org/>

## Foundations and universities: the potential of universities as foundations

Universities are the principal recipients of foundation funding; their importance is vital. Being simultaneously at the top of the education system and often at the base of the R&D process, they perform the roles of leading actors and prime subjects of societal transformations simultaneously. With the limited capacity of intervention inherent in independent foundations, universities carry the possibility of multiplying the positive effects of knowledge-induced change and institutional innovation.

The previous sections of this report have examined some specific issues that arise in the collaboration of foundations and universities, such as those relating to the fact that foundations do not generally regard the funding of indirect research costs in universities as part of their responsibility. This section focuses instead on the potential of universities as foundations themselves: drawing on the US experience, the possibilities that exist for increasing the amount given to research undertaken in universities in the context of a more liberal institutional structure would allow universities to operate as foundations themselves.

In Europe, universities are provided with public money for which they are accountable but they can often also raise money from other sources that can be operated as endowments. Some of the endowments will be for specific purposes, often but not exclusively for research and others will be for the general use of the university. Until recently, the funds accumulated in endowments belonging to universities within the EU have tended to be relatively modest.

In the US, the situation has many similarities in structure but there are also differences. Private universities such as Harvard and Princeton are structured as non-profit organisations that enjoy beneficial financial treatment and are essentially foundations with independent boards. They have accumulated substantial endowments over the years. Many state universities in the US have more recently adopted the same model, as the tuition fees for education have failed to keep pace with increasing costs. These endowments enable a substantial expenditure on their selected activities, an important fraction of which is used to support faculty, research staff, research students, research equipment and research buildings.

It is evident that this form of endowment and investment provides a valuable source of research funding that is supplementary to that obtained from the state. In the US, the endowments have been established from private donations of some sort. At one time, these were corporate donations using business tax advantages gained from the support of research. More recently though, individual donations from alumni or other interested parties have tended to dominate the giving. In Europe, in contrast, there is not a long tradition of giving to universities. Rather, the same level of generosity as applies in the US is focused on donations to health-related charities from where some money (about 75%) finds its way to universities to fund research.

It would seem that charitable giving to university foundations can generate substantial sums of money, which can be focused on research within the university itself. The concept of a university also lends itself to a non-profit purpose and to a large measure of independence, which, as we have seen, are some of the important characteristics of a foundation. From the point of view of this report, it is important to note that universities mostly undertake the research that is the basic drive of our study. One thus has very close coupling between the research base and the foundation funding source.

In many European countries, universities are in varying degrees under direct and indirect state control. This often denies the establishment of a foundation related to a specific university because it cannot easily be independent of the state. It also follows that even when this can be achieved, individuals are often less likely to donate to an institution owned or operated by the state, and the same would apply to corporate giving. Thus, the very structure that generates the opportunity described above is denied to many countries in Europe. It follows that a pre-requisite for generating the same level of charitable giving into research via university foundations involves changes in the institutional structure of the university system giving it greater autonomy and independence.

In addition, it is clear that significant funding is directed to where there is an emotional attraction. In the US, this emotional linkage is exploited by very good professional structures within university foundations. For example, the University of Washington in Seattle employs 300 people in the activity of fundraising, while the smaller university of Oregon in Eugene, Oregon employs some 80 staff. The two universities raised \$300 million and \$80 million respectively so that the income most certainly justifies the investment. Very few, if any, universities in Europe have this kind of scale of professional staff. In order to encourage the growth of university foundations there would need to be an increase in the status and number of professional fundraisers, in addition to institutional change.

### **Foundations and the public: encouraging public engagement with science**

It is widely recognised that alongside technological breakthroughs and scientific discoveries, there has been an increase in public concern about the regulation of science and technology. In this era of rapid technological change, there is a need to inform and engage with the public about the issues that science raises for society. This need for the public diffusion of science, for enlarging the scientific culture of the citizens, is related to the fact that science directly influences everyday life through new technological processes and products that are consumed. It is necessary that the public understand the value and efforts that these innovations entail.

The public needs to have confidence in the ethical and regulatory framework within which these advancements are being made if they are to support the research community, and their support is needed if work is to continue. Foundations therefore have an important role to play in encouraging public confidence through engagement.

Meeting this challenge involves promoting the engagement of citizens, the science community and policy-makers in the dialogue necessary to establish and maintain public confidence in the decision-making about critical new areas of science and technology. It entails the government working closely with foundations, the private sector and a diverse range of stakeholders to promote coherence across a range of initiatives for public engagement with science and technology.

# Recommendations

## Recommendations

### 4.1. INTRODUCTION

This report has illustrated that foundations have an important role to play in developing a European Research Area and in helping to reach the goal that the EU has set for itself of achieving an investment in R&D that reaches 3% of its GDP. Within the 3% target is another goal: two-thirds of that figure should come from private investment, which includes investment in R&D by foundations.

As this report has demonstrated, the contribution of foundations is manifold and should be recognised, not just in terms of the quantity of funds that they commit in support of R&D but also in terms of the special qualities that foundations can contribute to the R&D field, discussed in the earlier sections of this report.

The potential of the R&D foundation sector is however not being maximised. There are a number of obstacles, disincentives and lack of incentives, which inhibit, or fail to promote, certain activities by foundations, and the giving to foundations by individuals and corporations. If these obstacles and disincentives were removed and incentives were created, existing foundations funds could be used more effectively and increased foundation income could be generated.

There are a number of specific policy actions that can create incentives or eliminate obstacles, which affect foundations, donors, and the institutions that carry out foundation-funded research. Accordingly, based on the analysis in the previous sections of the report, this concluding section outlines the recommendations for actions proposed by the expert group that are aimed at influencing the various parts of the process whereby the generosity of an individual or an entity is eventually translated into concrete research outcomes for the public good.

The main objective of the recommendations is to increase income to research foundations and to increase the scope and impact of foundations' activities in research. This would be achieved by:

- **Increased giving to existing or new foundations** by individuals or by corporations. This includes recommendations relating to taxation, the legal, institutional and regulatory environment, as well as to cultural and social factors, which affect giving (e.g. awareness, levels of state intervention and tax relief). In addition, recommendations aim at bringing forth additional funding through the creation of new research foundations (aimed, for example, at specific research needs, at innovation, etc.), including pan-European foundations or foundations that operate or fund cross-border activities. Recommendations also aim to increase professionalism in university fundraising for R&D and for generic funds to support the university.
- **Increased effectiveness of funding.** Additional funding is important, but so is the increased effectiveness of existing funding. Achieving this involves actions addressing issues such as: improved funding or operating strategies, improved management and investment of funds, being transparent to raise awareness of potential donors, networking and sharing best practice and assessing ways to maximise the foundation's impact, such as whether the foundation should work in partnership with others, and strengthening public-private partnerships and pan-European collaborations in the field of R&D.

For each recommendation, the group has set out the rationale behind the recommendation, which it is addressed to, the existing obstacles to research funding by foundations that it will address/resolve, as well as its expected benefits.

In order for them to be useful and operational, recommendations are addressed to one or more of six specific distinct groups (Table 4.1). Each of these has a role to play in increasing the role and impact of foundations' investment in R&D. Together they can make a difference.

The first of these groups is **national governments**, which, by virtue of the legal and fiscal conditions that they control, directly and indirectly influence both the overall level and direction of giving to foundations and the activities of foundations within and across Member States. Improving the legal, fiscal and regulatory framework conditions, harnessing the specific competencies of foundations, and acknowledging and valuing the independence of the foundation sector all fall under the remit of governments.

**European institutions** are the second group whose policies and practice can influence the foundation sector. Activities such as exchange of good practice, the move towards equal treatment of foundations within the EU, a common definition across Europe of what constitutes a foundation, initiatives for creating a legal vehicle for foundations in Europe and providing matching funds are all important issues that can be addressed. To develop a European research area, existing legal and fiscal disincentives to cross-border activities of foundations and their donors must be tackled where the EU institutions have competence, such as in relation to VAT.

**Foundations** themselves are the third target of the recommendations. In this respect, it is important to keep in mind the diversity of existing R&D foundations in Europe: traditional foundations (both endowed and fundraising) operating or funding selected research areas; university foundations; new science foundations that operate as passing-through foundations; foundations as intermediaries with small and medium-sized enterprises (SMEs) and geared to supporting innovation; and public/private research foundations. Assessing how best to maximise the foundation's impact, issues of governance and accountability, which will improve their effectiveness and strengthen the awareness and trust of potential donors, networking and collaborative working are all issues that need to be considered.

**Business** in EU countries accounts for the largest part of overall R&D funds and is also the main performer of R&D activities. However, corporations can also be involved in the foundation sector through the setting up of foundations, often focusing on research. Recommendations are aimed at both increasing the flow of funds from industry to foundations, as well as at promoting increased and more effective cooperation between foundations and industry.

In some Member States, **universities** are themselves foundations; more importantly, they tend to be the principal recipients of foundation funding for research. There are thus a number of recommendations addressed to universities and aimed at increasing the flow of funds from foundations to universities, making (better) use of research funding from foundations, their possibilities, initiatives, activities and experiences, as well as at exploring better ways of cooperation.

Finally, the recommendations are relevant to society and the public at large. Increasing the public's awareness and perception of the role, scope and importance of foundations in promoting R&D is needed because it will encourage increased public giving to foundations. Foundations also have an important role to play in encouraging public confidence in scientific research through engagement. The public's confidence in the ethical and regulatory framework within which scientific research is made is needed to enable the research community to continue its work with public support and input.

**Table 4.1. A mapping of actors involved and type of levers/actions to promote the role of foundations in boosting R&D investment**

ACTORS	POTENTIAL LEVERS/ACTIONS
National governments	Fiscal policies, legal and regulatory framework, mutual recognition of public benefit objectives, matching funds
EU institutions	Guidelines, voluntary legal frameworks, EU programmes and matching funds, promotion of exchange of experience and good practices, equal treatment of foundations across the EU, changes to VAT treatment
Foundations	Good governance, transparency and accountability, collaboration with other actors, networking and international collaboration
Universities	Collaboration with foundations, improved visibility and management of research funds, institutional changes
Business	Development of sector specific foundations and incentives to create, via foundations, public-private partnerships
Public	Charitable giving and engagement with science

## 4.2. THE RECOMMENDATIONS

The remainder of this section sets out the recommendations of the expert group. They are the result of the deliberations of the group and also take into consideration work undertaken by outside experts in this area and current reform initiatives in different EU countries. They are grouped into five broad categories/areas:

- A. Improved visibility and information about foundations
- B. A more beneficial fiscal environment for foundations
- C. More effective mechanisms for leveraging funds for research
- D. More effective funding and fundraising arrangements and mechanisms
- E. A more conducive EU-wide environment for the operation of foundations

## A. Improved visibility and information about foundations

The previous chapters of this report have made it very clear that there is currently a serious lack of comprehensive data concerning the foundation sector across the EU. Closing this information gap would improve the visibility of foundations and enable a more accurate assessment of their contribution overall to investment in R&D. The cause of charitable giving to research would also be greatly advanced through initiatives to bring together research foundations and increase the visibility of their joint actions.

### Recommendation 1.

#### **Improve information available on the role and importance of foundations across the EU**

This recommendation is addressed to foundations, national governments and European institutions. It relates to the current lack of quantitative and qualitative information publicly available on the role and importance of foundations. In sharp contrast to the situation in the US, there is little European comparative data on foundations in general and on R&D foundations in particular. Basic information on a comparative basis is lacking, for example how much foundation activity is directed towards R&D as compared to other objectives or the overall importance of foundation funding in R&D.

By developing such data, foundations and their donors would be more aware of the foundation landscape (increasing collaborative working and, possibly, giving), foundations' contribution to various sectors could be properly assessed and the information could inform policy-making in this area. It is in fact a prerequisite to other actions.

Possibilities for developing such data could be sought within the EU Research Framework programme, and more generally within EU institutions and notably Eurostat:

- To support the development of a comprehensive mapping of research foundations to document the overall financial contribution to the field, but also to review models of best practice for potential replication.
- To develop data and analytical tools jointly by foundations, national governments and Eurostat, in order to document the activities and financial resources of research foundations. Questions relating to the funding of research by foundations (as broadly defined by this report) should be included in the EU R&D statistics as well as on the questionnaire relating to the non-governmental organisations.

Once the data on the overall financial contribution of foundations to research in the EU Member States have become available, a quantitative goal needs to be set that is to be attained for the years to come through effective measures and a coordinated approach.



## Recommendation 2.

### **Encourage creating a European Forum of Research Foundations**

This recommendation is addressed to foundations and other stakeholders involved in advancing and supporting research including national governments, European institutions and the private sector. It suggests the need to increase visibility using effective actions to bring foundations together, while also stepping up exchanges with other funders, through:

- Encouraging research foundations to convene on a regular basis at the European level using existing frameworks of their organisations, such as the European Foundation Centre, to share experience in the field of research, review best practices, promote synergies and cooperation where appropriate.
- Supporting the organisation of a European Forum every two years where foundations, and public and other private donors in the field can review trends, needs and opportunities to support R&D and innovation.

These actions in which foundations and their networks would have the leading role would help document and promote the activities and best practices of foundations' investment in research, including partnerships, and support the exchange of information and practices with other stakeholders on a regular basis.

## Recommendation 3.

### **Encourage public giving to research through national and international donation campaigns and lotteries**

This recommendation is addressed to national governments and European institutions, universities and foundations. Its aim is twofold: to increase the funds available to research foundations, and to involve civil society more actively in understanding and helping develop scientific research.

Public awareness, psychological and cultural factors are key to increasing donations. It is much easier to attract public funds in support of victims in the case of a natural disaster than to attract support for research connected with health, and even more difficult to attract public funds for research on, for example, environmentally friendly technologies.

To increase donations from the public, foundations must raise the awareness of target groups of donors. To generate more private financing of research, a mentality change is needed in societies across the EU. Individuals and private organisations have to be made aware of the benefits to them and their communities of giving to research and science. In this context, it is recommended, with the involvement of all stakeholders:

- To develop imaginative national campaigns focusing on the importance of science in general and research in particular, and the resulting need for private giving in this area
- To review possibilities in EU countries in order to step up the distribution of lottery proceeds to public benefit purposes and in particular research
- To consider setting up a European level charitable lottery in which at least part of the proceeds went to fund public benefit research from a fund endowed by the lottery.

## B. A more beneficial fiscal and regulatory environment for foundations

Most EU Members States have some fiscal arrangements in order to facilitate private charitable giving by individuals and business, or to create a tax environment for foundations that facilitates their charitable activities. Nevertheless, there is scope for improvement on a number of fronts: the generosity of tax treatment of donations (recommendation 4), the clarity of fiscal rules in existence for the operation of foundations (recommendation 5), as well as the linking of favourable tax status with funding obligations (recommendation 6). There is similarly scope for improving the legal and regulatory environment within which foundations operate (recommendation 7).

### Recommendation 4.

#### **Donations and charitable giving by individuals and corporations should benefit from generous tax credits or deductions**

This recommendation is addressed to national governments. It suggests that:

- Both companies and individuals should be entitled to an income tax deduction or credit with respect to donations made to create new foundations and to existing research foundations.
- The limits to be applied should be generous and governments should envisage increasing current limits.
- Donation schemes should be tax-effective as well as user-friendly to enable both large and smaller donations
- Tax systems should encourage the various types of donations, including cash, in-kind gifts, real estate, shares, works of art and intellectual property rights to foundations

Given the variety of tax treatment in different EU countries, it is not possible to make more specific recommendations in this area at this point. In addition, governments cannot be expected to give up more than a certain proportion of tax receipts. It is an important question whether relief should be given by way of tax credits or by tax deductions. Credits are fairer in a progressive system, but deductions may persuade the wealthy to give more.

- It is therefore recommended that a follow-up initiative to this report undertakes a more focused approach in order to conclude with specific proposals within the general framework outlined here, adapted to national and European circumstances.

### Recommendation 5.

#### **Review the tax treatment of foundations with a view to making tax benefit schemes broader, clearer and more user-friendly**

This recommendation is addressed to national governments and EU institutions and involves action by fiscal authorities. The recommendation aims at increasing the funds available to foundations for the support of research activities by creating a fiscal environment whereby foundations activities with a public benefit purpose are clearly tax-exempt. It involves the following suggestions:

- The rules to apply for tax exemption of foundations should be clear and user-friendly. Tax relief schemes should be clearly defined in the law and should not be at the discretion of the competent authority.
- There should be a presumption that all foundations engaging in public benefit activities, including research activities, are entitled to be relieved of various taxes.

- There should be approaches to agree upon a common definition of public benefit purposes or a move towards the mutual recognition of 'public benefit/qualifying organisations' leading to tax benefit at the national level. This would also be an important step to facilitate cross-border giving.
- VAT rules and their application should take into account the public benefit nature of foundations and their activities, and should in no case disadvantage foundations, including those funding external, or managing their own, R&D projects and institutions. Where they are subject to VAT, activities, which are funded and managed by foundations, should be subject to the lowest possible VAT rates.
- Beneficiaries should be exempt from tax on donations received from public-benefit foundations across the EU up to a certain ceiling, defined by tax law. Non-profit organisations should be fully exempt from this tax.

### Recommendation 6.

#### **Appraise charitable status and tax exemption of foundations according to public benefit activity**

This recommendation is addressed to foundations, their regulators and national governments.

- Charitable status and tax exemption of foundations should be appraised in relation to their public benefit purposes. Foundations should spend a reasonable proportion of their income/assets for the pursuit of these purposes, while being able to preserve their endowments or reserves necessary for long-term action and sustainable results.

The recommendation suggests that in order for an endowed foundation to get a tax exemption it has to use a reasonable proportion of the yield achieved for the stated public-benefit purpose every year. Foundations and their regulators have developed different approaches to good practice in the field, including disbursement policies (payout practices), a method that should be encouraged. However, there is a number of alternative ways to achieve this goal, which avoid foundations being used as tax-planning vehicles to avoid paying taxes.

### Recommendation 7.

#### **Simplify and improve the legal and regulatory environment for foundations**

This recommendation is addressed to national governments. It suggests that aside from a favourable fiscal treatment, the creation of an 'enabling environment' for the operation of foundations also involves reviewing existing legal and regulatory arrangements. It is important that these do not put an unnecessary burden on foundations. In this context, it is recommended that governments do the following:

- Review, simplify and lighten existing legal and regulatory environments in order to make it easier to create new foundations.
- Ensure the independence of the regulatory body/ies for foundations and in general clarify regulatory oversight shifting the emphasis from ex-ante to ex-post.
- Review existing legal and regulatory arrangements to ensure that there are no obstacles to cooperation or, where foundations wish to do this, the merger of foundations.

## C. More effective mechanisms for leveraging funds for research

Increasing the investments in research undertaken by the foundation sector involves leveraging more funds. The recommendations below address this need by suggesting the introduction of a system of matching funds for public benefit research, initiatives aimed at fostering new foundations for research by encouraging philanthropic venture capital and the creation of sector- or issue-specific foundations by the corporate sector.

### Recommendation 8.

#### **Introduce a system of ‘matching funds’ for foundation-supported research projects at both national and EU level**

This recommendation is addressed to national governments and to European institutions and is aimed at increasing the leverage effect of the commitments by research foundations to R&D efforts by matching it with funds from public (either national or EU) sources. This would have to be in addition to existing public sources allocated for R&D.

At national level, the scheme would involve:

- Creating a new model for private project financing of public benefit research whereby private donations over a certain limit will trigger a matching donation from the government up to a certain percentage of the total private gift.

The scheme could apply to gifts from companies and private persons, and stipulate that the private donations go to specific institutions (universities, research councils, etc.) and/or to specific research areas, based on qualitative objectives. A scheme along these lines is being introduced in Norway.

At EU level, it would involve:

- Establishing a conditional matching grant system for a part of the resources allocated to research, for those projects funded by foundations whose grant funding systems comply with the criteria required by the EC in order to benefit from EC matching funds.

In this context, the EU Research Framework Programme could develop practical incentives for an improved form of cooperation with R&D grant making foundations in the funding of basic research, possibly through the European Research Council. Such measures could be a way to strengthen the funding of projects of scientific excellence.

The ‘matching grants’ schemes could be a way of making EU funding more effective and less bureaucratic if the EU were prepared to match the funding of public benefit projects, which have already been selected as scientifically excellent following open competition and independent peer review.

## Recommendation 9.

### **Foster the creation of new research foundations by encouraging 'philanthropic venture capital'**

Research foundations can be used as a new instrument of public policy. Governments could lead by example by earmarking one-off revenue from the sale of public property in order to give additional funds to public benefit research, steering basic and applied research in a flexible and independent way, and creating a new breed of foundations. It is therefore recommended that:

- Governments could use some form of public resources (money from privatisation or natural resources) and by leveraging private funds to create a new breed of foundation, referred to in some Member States as Social Venture Foundations.

If the model were replicated at a European level, or within more European countries, it could help to meet the EC's R&D target. Its impact could be relatively rapid. It could be initiated at a European level with individual states participating if they wish and with relevant areas within the scope of the technological objectives to be achieved under Framework Programmes. It is therefore recommended at European level:

- To use public resources in order to create a new breed of Social Venture Foundations in line with goals under the Seventh Framework Programme (FP7) activities, intended to strengthen the research potential of European regions, by supporting the development of regional research-driven clusters, thus associating universities, research institutions, enterprises and regional authorities.

## Recommendation 10.

### **Encourage the creation of 'sector- or issue-specific' foundations by the corporate sector**

Wealthy entrepreneurs, worldwide, have often created foundations in the name of their company or family business. Corporations themselves are less likely to create their own foundations, as there may be a perceived contradiction between the public nature of research supported by the foundation and the for-profit, private objectives pursued by business. There are exceptions, such as the creation in the past of certain corporate foundations with the proceeds of the company's privatisation, as was the case in Germany.

An increased attention to corporate social responsibility has led to donations (often substantial ones) from corporations to charitable activities and to the establishment of donation-like organisations/institutions like the German Stifterverband. Encouraging their creation can help generous companies donate money for research purposes in the right way: administrative help, networking help with the right research groups, securing quality and freeing companies of administrative burden.

A potentially promising avenue for increasing funds available for research is the creation of sectoral or umbrella foundations (as have been established in France), which can overcome fragmentation of a sector or the issue of critical mass by providing the benefits of aggregation (in areas such as transport safety, environment, food research, etc.). This is already in use in the US through the Trade Associations. They differ from traditional foundations but are established on a foundation legal base (a sort of 'special purpose vehicle') and would fall within the definition of 'foundation' for the purposes of this report. Such foundations could be useful in supporting innovation. In this respect, it is therefore recommended that:

- Governments should encourage the creation of sectoral or umbrella foundations by offering fiscal and financial incentives provided that the purpose of the foundation remains non-profitable and for the public benefit.

## D. PROMOTE MORE EFFECTIVE FUNDING ARRANGEMENTS AND MECHANISMS

The report has argued that, in Europe, there are currently a number of weaknesses in funding arrangements and mechanisms, and, as a result, the potential of foundation investment in research activities is not fully realised. In this respect, it is recommended that foundations improve their governance with a view to increasing transparency and accountability. There is scope for improved networking and cooperation between foundations, as well as between foundations, governments and EU institutions by establishing clear mutual responsibilities and obligations. Universities and foundations need to become more proactive in order to attract additional funds for research.

### Recommendation 11.

#### **Promote good governance, transparency and accountability practices for foundations**

This recommendation is addressed to foundations, their regulator, if any, and national governments. The governance, regulation, transparency and accountability of foundations vary from one Member State to another. Good practice in these areas is well developed in some EU countries and is in its infancy in others. If foundations are well governed, transparent and accountable, they will be better understood and trusted by the public, and be more able to attract funds.

Foundations should therefore continue with the current efforts underway to improve their grant making/operating structures and their processes of decision-making. This includes quality management and evaluation, as well as adopting measures to enhance transparency. Foundations should demonstrate how they use best practices in this area to justify their legitimacy as important funders of public benefit R&D, alongside the state.

There are a number of specific actions that can be taken. They include:

- Promoting good governance practices in foundations with respect to the accountability of the board overseeing operations (selection, turnover, periodic review, etc.), professional asset management, disclosure of procedures, programmes and results, etc.
- Using transparent rules in funding operations, such as clear information on funding restrictions, intellectual property management outside the foundation, arm-length processes for call for projects, selection using peer review.
- Encouraging foundations to assess their internal procedures through, for example, the implementation of some common, recognised standards in the field, and any other appropriate means to promote effective practices, sharing results where relevant.
- Encouraging disclosure, peer-review and self-regulation mechanisms whereby foundations can inform and assure donors that donations are used to pursue the stated benefit, purposefully and effectively. The development of standards or adoption of a 'label system' for foundations should be considered so donors are assured that the money they have donated to a foundation will be applied to further a public-benefit purpose. Self-regulatory fundraising monitoring schemes and accrediting agencies are in operation in a number of EU member states (for example Sweden and the UK).

This will increase the public's confidence in foundations and attract funds. It could involve conditionality clauses: in order to benefit from tax incentives or matching funds, foundations would need to comply with a number of criteria fixed by national governments and by the European Union, and only those foundations adjusting their internal rules and procedures would benefit from financial incentives such as EU matching funds.

## Recommendation 12.

### **Improve networking and cooperation between foundations**

This recommendation is addressed to foundations. Contributing to increased European research efforts clearly involves improved networking and cooperation between foundations. In this direction, it is recommended that foundations:

- Intensify efforts to improve information sharing and networking, and exploit synergies at the most appropriate levels (local, regional, national, European or global).
- Maintain their usual focus of supporting activities, which substantiate and communicate the distinctive role of foundations, e.g. as forefront runners and providers of risk capital, underpinning their indispensability as independent private funders with public-benefit purposes, and doing things differently from or complementing state or public sector initiatives.
- While safeguarding their own identity, smaller foundations, in particular, could also pool investment funds for improved asset management and a better return on their investments. They could also create a network to exploit synergies, such as lobbying the government on specific issues.

## Recommendation 13.

### **Explore possibilities for the creation of university foundations**

National governments, as well as universities, should explore ways for European universities to be able to adopt a model of charitable giving and endowments (from foundations, individuals and corporations) to universities, similar to that used in the US. This would mean that the universities in Europe would be allowed to create their own foundations or, possibly, transform themselves into autonomous foundations.

Under these circumstances, individuals and foundations could contribute large sums to universities to support research, either directly or indirectly through buildings, infrastructure or faculty positions. Even in a modest state university in the US, it is possible to raise some \$80 million per year to support research. If this could be replicated across Europe, a large sum would be created and made available for research.

It is therefore recommended that:

- Universities should be encouraged to create their own foundations to generate funds for the direct and indirect costs of research, and/or cooperate with an existing foundation that stimulates research in order to attract resources from alumni or from their local environment.
- Government and universities should also explore the desirability and consequent changes that would be required to the legal and regulatory framework for universities in order for them to be able to operate as independent foundations, but at the same time recognising the responsibility of individual state's governments to maintain the basic science infrastructure for the nation.

University foundations would be geared to their own community or environment, but could be eligible for EC funds if they meet criteria on good governance and management and so on. The main goal would be to raise funds for R&D in a more flexible environment, which could be used in a flexible way (e.g. for indirect costs of research).

- The creation of 'personal foundations' is another promising avenue.

Personal foundations are a way of attracting funds for R&D within universities or their foundations since people increasingly want to donate money to specific projects. In a personal foundation, the donor can decide on the name and goal of his/her foundation, which would come under the umbrella of a university or an existing foundation that deals with the management and administration of the personal foundation. A good example is the Prins Bernard Foundation for Culture in the Netherlands, which finances ecological, cultural, and some scientific research projects and has some 160 personal foundations under its wing.

### Recommendation 14.

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

In addition to fundraising foundations, universities and research institutes are key players in the process of fundraising (as their researchers are people who need to convince individuals, foundations or corporations to fund research). Universities and other research institutes need to be more successful in fundraising by improving their profile or image, selecting high-potential projects and building effective networks. In this respect, there are a number of promising avenues:

- Development offices in universities should select high-potential research projects and 'sell' them (to foundations, alumni and others about financing). An increase in the evidence of good governance and transparency of the university would encourage increased giving to university research.
- There should be a more personal treatment of alumni and donors, along with the selection and promotion of appealing projects, and attention paid to the personal satisfaction of giving.

In contrast to the US, most EU countries have no strong culture to persuade alumni to donate to their university. Alumni's successes in business or elsewhere are an opportunity for receiving donations and such opportunities should be captured. A good relationship between universities and alumni will lead to more funds being available for the support of R&D.

### Recommendation 15.

#### **Increase collaboration between foundations, governments and EU institutions by establishing clear mutual responsibilities**

This recommendation is addressed to foundations, national governments and EU institutions. It builds on the existing evidence of extensive positive results in terms of the effectiveness of funding of research from existing collaborative agreements between foundations and national governments, as in the case of the UK.

Such collaborative frameworks in a national context bring multiple benefits: more intense contacts and working relations of governmental authorities with foundations stimulates longer-term horizon attitudes, and the need for improved selection and evaluation mechanisms, while increasing the amount of information available, and clarifying and developing possibilities of government follow-up activities to foundations' initiatives. Promoting more systematic partnerships with foundations would pave the way to a future research system in Europe that excels in inducing knowledge-intensive and institutional change.

Collaboration in the EU context would increase foundations' awareness of the European dimension and the benefits to be gained by the diffusion of scientific culture throughout the territories of the EU. Nevertheless, these benefits depend on the existence of clear roles and responsibilities. It is therefore recommended that:

- Foundations, governments and EU institutions establish some basic principles about their respective roles and responsibilities. Among other things, such principles (which could be set out in a charter) would recognise that foundations focus on 'complementary' activities and should not be expected to substitute for public funds. Governments could acknowledge their responsibility to maintain the strength and stability of the basic research infrastructure in their Member State, in recognition of foundations choosing to support activities there.



## E. FOSTER A MORE CONDUCTIVE EU-WIDE ENVIRONMENT FOR FOUNDATIONS

Foundations mostly operate at a local, regional or national level. Therefore, increasing the contribution of foundations in order to foster European research and create a European Research Area necessitates a culture change. This can be helped by the removal of specific obstacles that currently impede the cross-national activities of foundations. In this context, it is therefore important to create a more conducive EU-wide legal, fiscal and regulatory environment for the operation of foundations, as well as to improve conditions for cross-border giving (where the Netherlands is a best-practice example) and foundation activities that extend beyond national borders.

### Recommendation 16.

#### **Create a more conducive EU-wide regulatory and fiscal environment for the operation of foundations**

The recommendation is addressed to EU institutions (the EC, European Council and European Parliament). Its aim is to create a more conducive EU-wide environment for the operation of foundations by giving them the freedom of movement, establishment and the free movement of capital provided for by the EU treaties.

A suitable legal framework is very important for a donor when setting up a foundation because of the length of horizon involved. The need for a European legal instrument designed for foundations wishing to operate Europe-wide is even more important now in an enlarged Europe. The number of foundations and other actors that want to develop transnational cooperation or which have engaged in cross-border activity has grown over the last decade. An increasing number of individuals and other private funders have activities and assets in several EU Member States. A certain amount of standardisation would therefore be beneficial. In this context, it is proposed that<sup>32</sup>:

- The European Commission should consider preparing a regulation for a European Foundation (EF) Statute, for adoption by the European Council and the European Parliament. This should follow a study to assess the feasibility of such a statute as indicated in the May 2003 Commission Action Plan for company law and corporate governance (COM 2003 - 284 final).

A European Foundation Statute would be a new instrument to pool expertise and resources for European-level work, including those areas that require increased scaling-up of funds, such as R&D. It could facilitate cross-border giving and reduce the administration charges of having to register as a foundation in several separate jurisdictions.

The proposal for a European Foundation Statute based on recommendations developed by the European Foundation Centre (EFC) is meant to create a new European legal instrument as an optional tool, complementary to existing national legislation, which would be governed by European law and would only be applied to foundations pursuing a public benefit purpose.

<sup>32</sup> It should be noted that a report of the High Level Group of Company Law experts on 'A modern regulatory framework for company law in Europe' (November 2002) suggests that a European form of foundation should not be regarded as priority for the short and medium-term. The reasons for this position are outlined in point 7.3 (page 122) of the report.

## Recommendation 17.

### **Improve conditions for cross-border giving and foundation activities extending beyond national borders**

This recommendation is addressed to national governments and to European institutions, and its aim is to establish a more level-playing field, which encourages cross-border giving and foundation activities extending beyond national borders within the EU.

Agreeing upon a common definition of public-benefit purposes or a move towards the mutual recognition of public benefit/qualifying organisations leading to tax benefit at the national level, would be an important step to facilitate cross-border giving. Such an approach and example can be found in the EFC proposal for a European Foundation Statute, which also advocates a non-discriminatory approach to the tax treatment of such foundations and their donors and beneficiaries.

The principles that are applied to European foundations in a European Foundations Statute should be extended to non-national EU foundations, operating or having assets in an EU country other than the country where they have their registered office.

National developments could be supported by bilateral agreements. So far, the effects of bilateral tax agreements have been disappointing. Very few treaties address the issue of cross-border giving, and few double tax treaties, which provide tax relief for gifts or legacies across borders, deal with inheritance and/or gift tax 'charity friendly' provisions. EU Member States should be encouraged to review these issues.

A key role of EU institutions is to ensure that there is no discrimination in the EU for foundations' activities and their donors' in terms of gift taxes and inheritance taxes, and possibly income tax deductibility or in other terms, to review and ensure that:

- Activities and assets of European foundations or non-national EU foundations should be taxed in the same way as the activities of national foundations.
- Individual or corporate donors should receive the same tax deduction or tax credit irrespective of whether the donation is granted to a resident or a non-national EU foundation, including a European foundation (i.e. the same gift taxes, inheritance taxes and income tax deductibility).
- Grants or other benefits received by individuals or public benefit organisations from a European foundation or a non-national foundation shall be treated as if they were given by a resident foundation.

### 4.3. NEXT STEPS

The recommendations outlined above vary in nature and difficulty. Some are short-term and can be implemented immediately; others are more medium and long-term and require a period of preparation and consultation.

Nevertheless, for the momentum of this report not to be lost, it is important for all parties involved to engage in the process of enhancing the impact of giving for research through foundations in Europe. Some important steps need to be made:

- The **first** is to encourage the various stakeholders (European Commission services, European Union Scientific and Technological Research Committee - CREST, foundations, competent national authorities, universities and business organisations, etc.) who have a role to play in this process, to review this report within a year to discuss its proposals and the appropriate means to address them and set a timetable. Especially on a political level, a clear commitment is necessary to raise the impact of the issue of giving to research.
- The **second** is to organise a **follow-up conference** in the final quarter of 2005 or in early 2006, involving all stakeholders, under the auspices of the European Commission in collaboration with the European Foundation Centre. The aim of this conference would be to discuss the findings of the report and in the light of the report, increase the visibility of foundation activities vis-à-vis public opinion and policy-makers, discuss issues of common interest at European level and conceive possible common projects.
- The **third** is to set up a mechanism to oversee the implementation of the recommendations. In this respect, the consistent documentation of data and the establishment of a European affinity group/forum by 2007 are of the utmost importance. The main recommendations should have been implemented by 2010, which means that the necessary legal, fiscal and other changes have to be made by that time to allow a significant improvement in the amount of giving to research to be achieved throughout the EU as a whole. An official midterm review in 2008 is recommended.

**Table 2.1. Different national legal and regulatory environments**  
Summary of information provided by EFC (data as at January 2005)

	TYPES OF FOUNDATIONS	PURPOSES	MINIMUM CAPITAL	STATE APPROVAL	ECONOMIC ACTIVITY	SUPERVISION
Austria	Public benefit and private foundations	Public benefit (private: special act)	No	Yes	Yes, but purpose related	Foundation authority - auditors appointed by court
Belgium	Public utility and private foundations	Public benefit (private: special rules act)	In practice €25 000	Yes	Yes	Ministry of Justice and court, National Bank
Denmark	Non-commercial and commercial foundations	Any legal purpose	€34 000	No	Yes	Ministry of Justice, Ministry of Commerce
Finland	Independent foundations	Any legal purpose	€25 000	Yes	Yes, but purpose related	National Board of Patents
France	Public utility, corporate, non-autonomous foundations	Only public benefit purposes	Varies by type	Yes	Yes, if it supports a purpose	Ministry of Interior and the Préfect du Département
Germany	Independent foundations	Any legal purpose	In practice €50 000	Yes	Yes, but cannot be purpose related	Länder-specific supervision
Greece	Private, public benefit, public, non-autonomous	Any legal purpose	No	Yes	Yes, but purpose related	Ministry of Finance, Council of National Bequests
Ireland	Companies limited by guarantee or trusts	Public benefit only	Depends on legal form	Yes	Yes, if needed to pursue purpose.	Irish Revenue Commissioners
Italy	Private, civil code, other such as <i>fondazioni di origine bancaria</i>	Public benefit only	No	No	Yes, but purpose related.	<i>Prefettura</i> or regional administration
Luxembourg	Only non-profit or public benefit purposes foundations	Public benefit only	No	Yes	Yes, if not the primary activity.	Ministry of Justice/courts
Netherlands	Independent foundations	Any legal purpose	No	No	Yes, but purpose related	Prosecutor's Office/ Court
Portugal	Public foundations, private and public utility foundations	Public benefit only	No	Yes	Yes, but purpose related	Government
Spain	Independent foundations	Public benefit only	€30 000	Yes	Yes	Foundation <i>protectorados</i> in competent Ministries
Sweden	Ordinary, fundraising, collective, pension or personnel foundations	Any legal purpose	No	No	Yes	County government
UK	Independent foundations	Public benefit only	Depends on legal form	Yes	Yes, if needed to pursue purpose	Charity Commission

**Table 2.2. Tax treatment of public benefit foundations across the EU**  
Summary of information provided by EFC (data as at January 2005)

COUNTRY	TAX TREATMENT OF INDIVIDUAL DONORS	TAX TREATMENT OF CORPORATE DONORS	EXEMPTION FROM CORPORATE INCOME TAX	OTHER TAXES
Austria	Deduction up to 10% of taxable income for donations to specific institutions	Deduction up to 10% of business profits	No. Income from both related and unrelated economic activities is taxed	Cash donations exempt from gift and inheritance tax. Immovable property donations taxed at 6%. Other donations taxed with flat rate of 2.5%
Belgium	Deduction up to 10% of taxable income (max. €300,000)	Deduction up to a maximum of 5% of gross revenue (max. €500,000)	Yes. Income from related economic activities usually tax exempt but unrelated economic activities are taxed	Rates of inheritance tax are reduced to 7% if legacy is made to a foundation. 'Hand to hand' donations (gifts of movable property) not taxed
Denmark	Deduction for donations of over €70 up to €700 per year	Deduction for donations of over 70 up to 700 per year	Yes, up to €30 000. Income from both related and unrelated economic activities are taxed	Foundations subject to inheritance tax up to 36.25% but exemptions exist
Finland	No deduction	Cash donations exceeding 850 are fully deductible up to €25 000	Yes, except income from unrelated commercial activities	Not subject to gift and inheritance tax and national property tax, but subject to municipal real estate tax
France	Tax credit: deduction of 66% of contribution up to 20% of taxable income	Deduction of 60% of the contribution up to 0.5% of the donors turn-over	Yes, but unrelated commercial activity is taxed	Foundations of scientific, cultural and artistic character exempt from inheritance and gift tax. Cash and movable property donations exempt from gift/ inheritance tax
Germany	Deduction up to 5 or 10 %. Additional benefits for the setting up of foundations ranging from €20 450 to over €307 000	Deduction up to 5 or 10% of yearly taxable income (or 0.2 % of the sum of the turnover wages and salaries). Additional benefits for the setting up of foundations (€20 450)	Yes. Income from related economic activities is usually tax exempt but unrelated economic activities are taxed over €30 000	Exempt from gift and inheritance tax as well as real estate transfer tax
Greece	Deduction up to 10% of the taxable income for donations to specific institutions	Deduction up to 10% of the taxable income for donations to specific institutions	Interests exempt - rental income taxed at a reduced rate 10%	Non-profit foundations are exempt from inheritance and gift tax
Ireland	Fully deductible for donations over €250. No ceiling exists	Fully deductible for donations over €250. No ceiling exists	Organisations with 'charity numbers' exempt from tax on most income	Charities are generally exempt from stamp duty on real estate transfer. No gift and inheritance tax
Italy	19% of donation is deductible from income tax	Cash donations deductible from income tax up to 2% of the taxable income	ONLUS benefit from an exemption - for others income is taxed, investment/ real estate income is taxed at reduced rates	Gift and inheritance tax was abrogated in 2001
Luxembourg	Deduction for donations of over €120 up to 10% of taxable income (limit €500 000)	Donations of over €120 are fully deductible up to 10% of taxable income (upper limit €500 000)	Yes, but income from both related and unrelated economic activities are taxed	Foundations pay tax at reduced rate of 6% when receiving gifts or inheritances
Netherlands	Deduction of donations of over 1% of income or €60 up to 10% of gross income	Deduction of donations of over €227 up to 6% of annual income	Yes, with requirements. Cannot exceed €7 500 per year	Tax at a reduced rate of 8% for inheritance and gifts. Tax free allowance
Portugal	Deduction up to 25% of donation	Donations are business expenses or losses	Yes, income is exempt whatever activity (Ministry Finance defines scope)	Public utility/welfare organisations exempt from property sale and real estate tax, inheritance and gift tax
Spain	Tax credit up to 25% of donation (maximum of 10% of income)	Tax credit up to 35% of donation up to 10% of income or 0.1 % of turnover	Yes, income from related economic activities is usually tax exempt but unrelated economic activities are taxed beyond €20 000	Foundations are not subject to gift and inheritance tax
Sweden	No deduction	No deduction. Donations are business expenses	Yes but income from both related and unrelated economic activities are taxed	Tax-exempt foundations do not pay net worth tax. No gift and inheritance tax
UK	Deduction of donations to registered charities. No ceiling exists	Deduction of donations of any amount to registered charities. No ceiling exists	Yes, income from related economic activities is usually tax exempt but unrelated economic activities are taxed	Tax relief also covers donations, including starting endowments, inheritance tax, and stamp duty



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