

# The Philanthropy Environment in Europe

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IN PARTNERSHIP WITH



**IUPUI**  
INDIANA UNIVERSITY  
Lilly Family School of Philanthropy

# INTRODUCTION

This joint Indiana University Lilly Family School of Philanthropy and Philea briefing provides information on the philanthropic landscape in Europe, putting the findings of the 2022 Global Philanthropy Environment Index<sup>1</sup> (published in March 2022 by IU Lilly Family School of Philanthropy) in context with Philea’s 2022 publication, “Comparative Highlights of Foundation Laws.”<sup>2</sup>

The Lilly Family School of Philanthropy research takes the approach of creating an index based on the scores of contributing experts across six factors for an enabling environment for philanthropy, including regulatory, political, economic, and socio-cultural considerations. The Philea publication offers a comparative perspective across 40 in-depth country profiles drafted by national-level legal experts, which describe the national legal and tax rules governing philanthropic organisations and outlines key trends across all countries. In addition to the 33 European countries covered by the Global Philanthropy Environment Index, the Philea publication contains information for Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta and Slovenia.

These complementary approaches offer timely and publicly accessible information about the environment in which philanthropy operates to different stakeholders: policymakers; philanthropic and non-profit leaders; and the business and research communities. These research efforts can help national and European philanthropic sectors to advocate for a more favourable operating environment, for example along the lines of the key recommendations from Philea’s European Philanthropy Manifesto.<sup>3</sup>

## The European Philanthropy Manifesto asks national and European policymakers to:



Recognise philanthropy and engage with it



Facilitate cross-border philanthropy



Enable and protect philanthropy



Co-grant and co-invest for public good and civil society

<sup>1</sup> Full report on IUPUI website: <https://bit.ly/3AKZ22Z>

<sup>2</sup> Full report on Philea website: <https://bit.ly/3pW6ZgP>

<sup>3</sup> Full Manifesto on Philea website: <https://bit.ly/3twRTPS>

# 2022 GLOBAL PHILANTHROPY ENVIRONMENT INDEX BY IU LILLY FAMILY SCHOOL OF PHILANTHROPY

This research, based on experts' rankings of six aspects of philanthropic operating environments, paints a detailed picture of the landscape for philanthropy in Europe.

## Ease of operating a philanthropic organisation

Philanthropy in all its forms continues to remain strong across Europe. While unregistered philanthropic organisations (POs) continue to operate, registration is required for organisations to enjoy tax benefits. However, as seen in Romania, this registration process can be drawn out due to systemic issues such as overloaded courts. Reporting requirements throughout the region remain well defined. However, both country- and EU-level requirements designed to address money laundering by expanding certain reporting requirements continue to create burdens for POs. In Bulgaria, all organisations with annual turnover above €10,000 must prepare a risk assessment on anti-money laundering. Albania introduced a similar measure in 2019 aimed at all "at-risk" organisations, which the entire non-profit sector falls under. Across the region, government discretion in shutting down a PO remains both well defined and limited by law.

## Tax incentives

Across Europe, countries provide a range of tax benefits to both donors and recipient organisations. In fact, Sweden re-introduced benefits for donors in 2019. However, these benefit structures vary widely between countries. While Montenegro provides a broad profit tax exemption for many types of donations to non-governmental organisations, most countries provide some type of deduction for individuals and corporations. In Romania and the Czech Republic, deductions exist but are limited due to the simplified registration system used. Other countries have certain restrictions on charitable deductions. In 2019, Albania approved a new 5% tax deduction on any monetary or property donation, but only if a national emergency is declared. In terms of

benefits for POs, Ireland allows organisations to claim a tax refund of €250 or more from an individual in a year. In the Netherlands, qualifying POs even receive a 50% discount on the energy tax on electricity and natural gas. However, taxes have also been used in Hungary to place a financial burden on POs which operate in unfavourable fields, in this case a 25% tax on activity supporting immigration.

## Cross-border flows

While limitations on cross-border donations in European countries are fairly low compared to other parts of the world, they continue to exist even within the EU Internal Market. The non-discrimination principle on philanthropic donations for the European Union (EU) and the European Economic Area (EEA) ensures that such donations are eligible for the same deductions and benefits as gifts given to domestic causes. However, a key stipulation is that organisations must establish comparability, which the numerous differing systems between countries can make difficult. In addition, although Hungary's Law on the Transparency of Foreign-Funded Organisations was repealed in 2021, this and other efforts to restrict the activities of large organisations with foreign funding continue, and it may persuade other like-minded political parties in other countries in Europe to emulate them. This has already been seen in political parties in the Czech Republic and Italy. For the Balkan countries, which are part of neither the EU nor EEA, very different rules apply. For example, in Kosovo, in-kind donations are eligible for value-added tax (VAT) exemption, and cross-border donations to organisations battling natural or humanitarian disasters are tax-deductible in North Macedonia.

## Political environment

The political landscape for philanthropy remained relatively stable throughout Europe between 2018 and 2020. However, there have been positive and negative developments. On the positive side, numerous European countries have been working to expand the involvement and role of POs within their societies. For example, Austria reintroduced efforts to increase government support for POs in 2020 after a new governing coalition took power. Similar efforts have been made in countries such as Romania and Kosovo to increase both institutional and financial support. Given that the institutional support in the Central Europe and Balkans regions has been weak in the past, such progress is valuable to the sector. Conversely, tensions between governments and POs have increased. Between 2018 and 2020, the Bulgarian government openly attacked organisations, accusing them of working against the country's best interest. Even in more politically supportive countries like Denmark, increasing radicalisation around immigration and integration has affected views on POs that work in these areas.

## Economic environment

The economic environment in the period from 2018-2020 was significantly affected by the Covid-19 pandemic and the responses of governments. While the pandemic created space for POs to provide valuable services to numerous social groups, many organisations struggled to provide these necessary services while simultaneously facing financial cuts. In cases where government support to POs was cut, affected organisations had to find ways to diversify their income. Especially in the Balkan countries and Central Europe, the pre-existing lack of support meant the pandemic affected the sector on a much broader scale. In Northern and Western Europe, philanthropic services were not as significantly interrupted. In addition, the earthquakes in Albania (2019) and Croatia (2020) had already weakened the economies of these countries prior to the onset of the Covid-19 pandemic in March 2020.

## Socio-cultural environment

Despite very different histories with philanthropy throughout Europe, the socio-cultural environment for philanthropy remained stable in 2018-2020. Many experts across the region note that the general desire to participate in philanthropy is well-established. However, the manner in which people prefer to donate or volunteer varies. In countries with more established philanthropic sectors such as Germany, trust in POs and their work is much higher. In others, experts note that a lack of history and understanding of institutional philanthropy leads to less involvement with these organisations. Montenegro is one example where this trend is beginning to shift. A public opinion poll showed that from 2012 to 2019, there was a notable increase in the people who believe POs appropriately use funds.

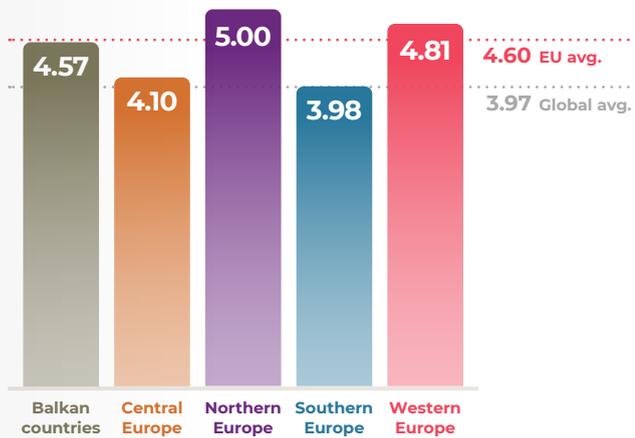
## Future of philanthropy

For the 2022 GPEI, experts were also asked to identify what important trends they see in philanthropy in the coming years. Across the European region, two trends appeared consistently: increased options for giving and funding vehicles, including expansion in online giving as well as funding options such as impact investing and social impact bonds; and increased cooperation and network building with the government, the business sector, and within the non-profit sector. Beyond these trends, experts also pointed to more donor involvement, transparency, and institutionalisation as trends to expect in the coming years.

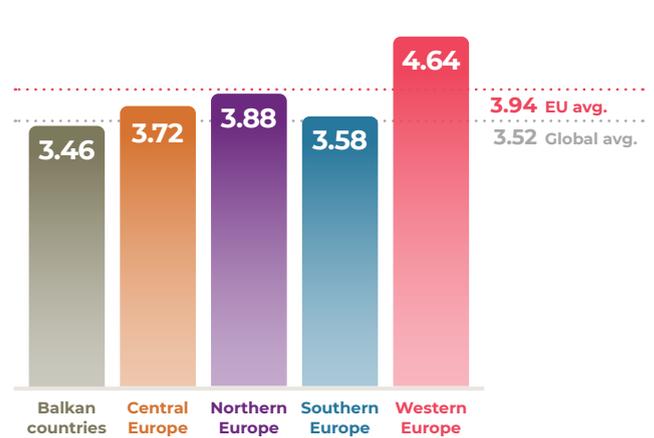
The contributing experts were also asked to provide recommendations for improving the environment for philanthropy. A key area of focus was improving the legal framework and infrastructure for philanthropy, particularly in countries where these still lag behind. Another focus was awareness and transparency, including what services POs provide, how they use their funds, and improving data availability. Lastly, experts recommended more emphasis on professionalisation and higher education in the philanthropic/non-profit sector to make organisations more effective in their work. This recommendation largely came from countries with more established philanthropic sectors.

## 2022 Global Philanthropy Environment Index scores

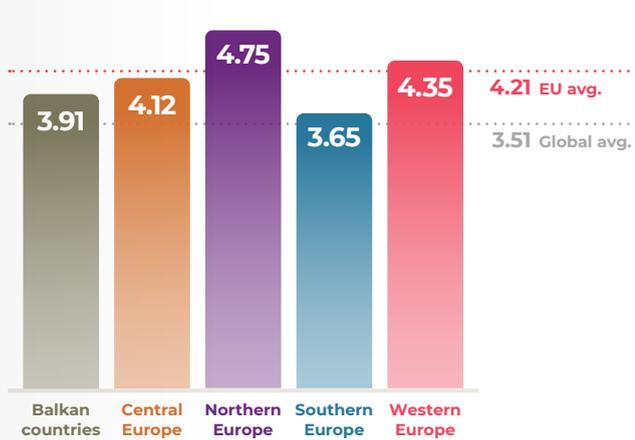
### Ease of operating



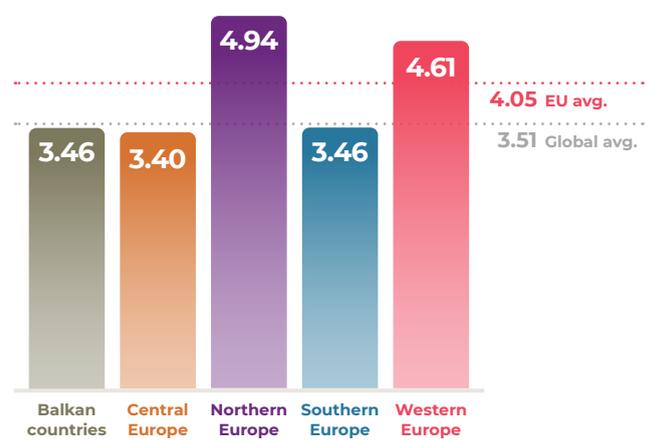
### Tax incentives



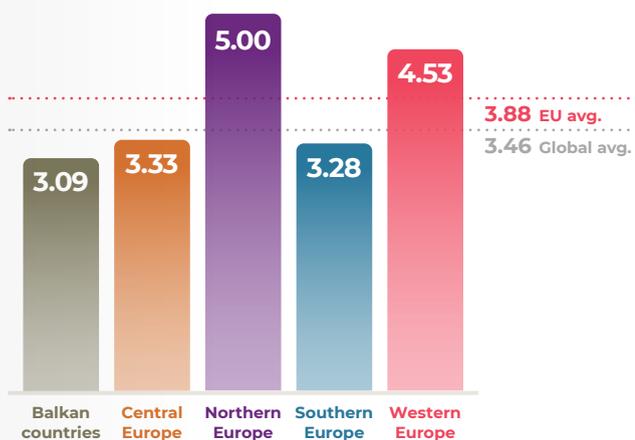
### Cross-border philanthropic flows



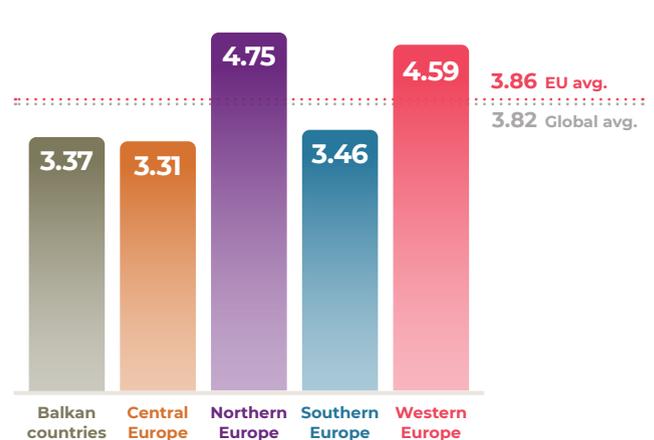
### Political environment



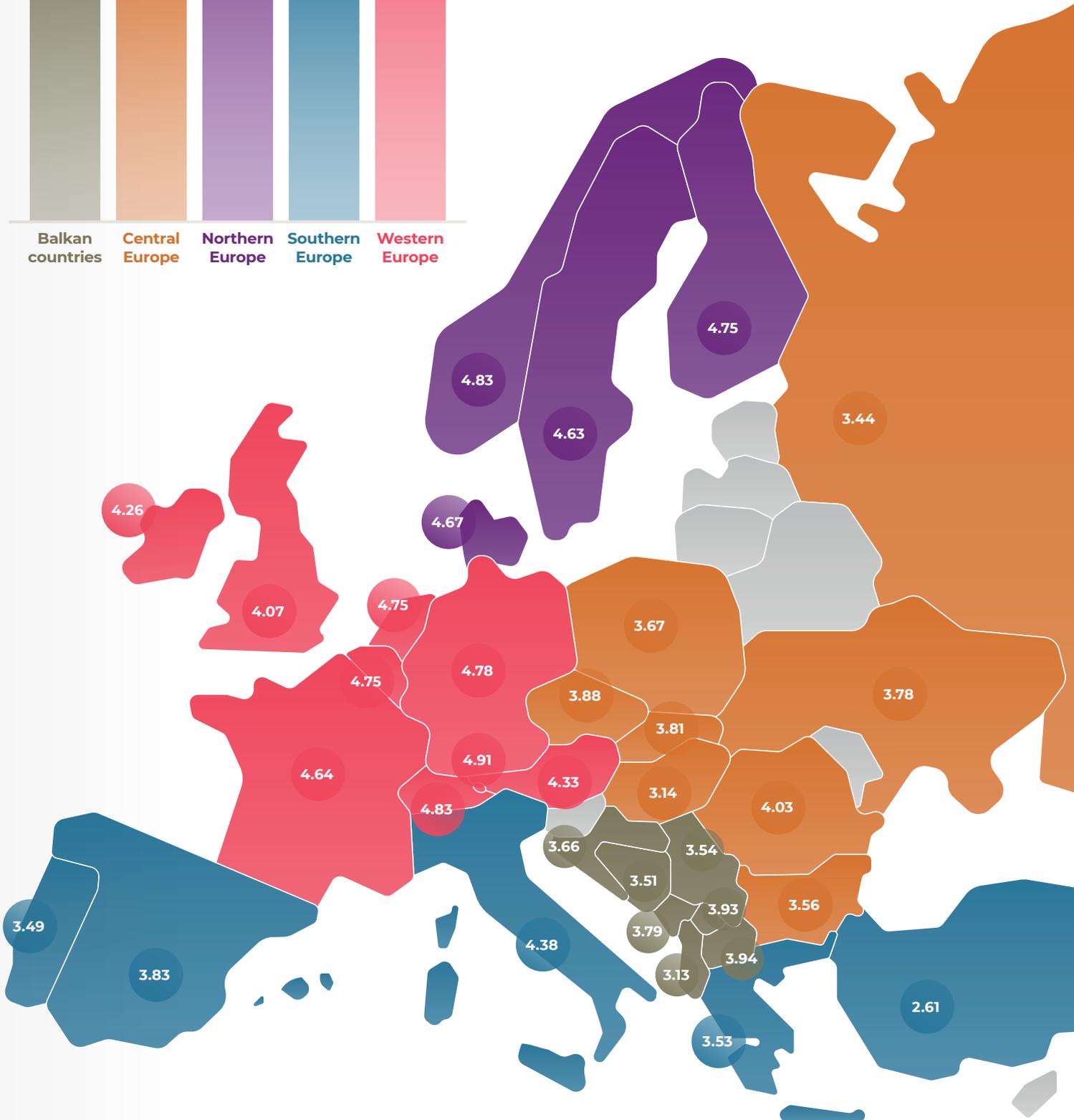
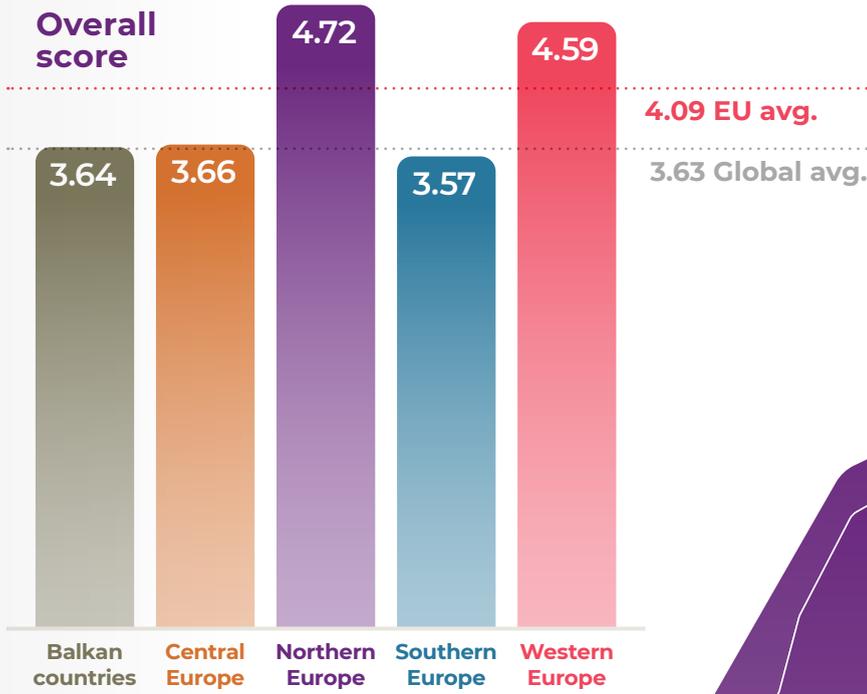
### Economic environment



### Socio-cultural environment



	EASE OF OPERATING	TAX INCENTIVES	CROSS-BORDER FLOWS	POLITICAL ENVIRONMENT	ECONOMIC ENVIRONMENT	SOCIO-CULTURAL ENVIRONMENT	OVERALL SCORE
 Albania	3.60	2.40	3.00	3.25	3.00	3.50	3.13
 Austria	5.00	4.50	4.00	4.50	4.00	4.00	4.33
 Belgium	5.00	4.50	4.50	5.00	5.00	4.50	4.75
 Bosnia & Herzegovina	5.00	3.25	3.50	3.30	3.00	3.00	3.51
 Bulgaria	3.83	3.75	4.25	3.50	3.00	3.00	3.56
 Croatia	4.77	3.60	3.75	3.25	2.80	3.80	3.66
 Czech Republic	4.50	3.95	4.10	4.20	3.30	3.20	3.88
 Denmark	5.00	4.00	4.00	5.00	5.00	5.00	4.67
 Finland	5.00	3.50	5.00	5.00	5.00	5.00	4.75
 France	4.33	5.00	4.00	5.00	4.50	5.00	4.64
 Germany	4.67	5.00	4.00	5.00	5.00	5.00	4.78
 Greece	4.63	4.00	3.75	3.30	3.10	2.40	3.53
 Hungary	3.83	3.25	3.50	2.25	3.00	3.00	3.14
 Ireland	4.73	4.25	4.25	4.00	3.80	4.50	4.26
 Italy	4.77	4.50	4.20	4.50	3.80	4.50	4.38
 Kosovo	4.60	4.25	4.10	4.15	3.00	3.50	3.93
 Liechtenstein	4.93	4.90	4.90	4.90	5.00	4.80	4.91
 Montenegro	4.67	3.50	4.50	3.45	2.80	3.80	3.79
 Netherlands	5.00	4.75	5.00	4.75	4.50	4.50	4.75
 North Macedonia	4.67	3.50	5.00	3.50	4.00	3.00	3.94
 Norway	5.00	4.00	5.00	5.00	5.00	5.00	4.83
 Poland	4.00	4.00	4.50	2.50	4.00	3.00	3.67
 Portugal	4.00	3.65	3.30	4.00	3.00	3.00	3.49
 Romania	4.13	3.00	5.00	4.35	3.90	3.80	4.03
 Russia	3.33	3.65	3.50	3.15	3.50	3.50	3.44
 Serbia	4.67	3.75	3.50	3.30	3.00	3.00	3.54
 Slovakia	4.40	4.20	4.05	3.40	3.50	3.30	3.81
 Spain	4.33	3.75	4.00	3.50	4.00	3.40	3.83
 Sweden	5.00	4.00	5.00	4.75	5.00	4.00	4.63
 Switzerland	5.00	4.85	4.50	4.60	5.00	5.00	4.83
 Turkey	2.17	2.00	3.00	2.00	2.50	4.00	2.61
 Ukraine	4.73	3.95	4.05	3.85	2.40	3.70	3.78
 United Kingdom	4.67	4.00	4.00	3.75	4.00	4.00	4.07



In the 2022 Indiana University Lilly Family School of Philanthropy Global Philanthropy Environment Index, Turkey and Russia are respectively considered as part of the Middle East & Northern Africa and Central Asia & South Caucasus. For the purposes of this briefing, Turkey and Russia have been included respectively in Southern Europe and Central Europe.

# PHILEA'S 2022 PUBLICATION, "COMPARATIVE HIGHLIGHTS OF FOUNDATION LAWS"

The Philea comparative study allowed us to identify some key trends around foundations and philanthropy, which are confirmed in the 2022 Global Philanthropy Environment Index published by the IU Lilly Family School of Philanthropy.

## **Laws are sometimes slow to respond to the sector's desire to enlarge the philanthropy toolbox**

We see that foundation laws provide for a great variety of philanthropic organisations – small/large, community-focused/international level, grantmaking/operational, and endowed/fundraising/hybrid. The role and use of a foundation's capital seems to be changing in some countries, and new forms of foundations and new forms of generating income have been introduced. In response to these changes, legal frameworks seem to indicate that governments find it more important that organisations have a reliable source of income to pursue a specific public-benefit purpose than to have a fixed amount of starting capital.

Foundations are constantly expanding their toolbox, including with new digital means, and some laws are responding to these new forms of operating. We see that (social) business behaviour is increasingly impacting the way foundations and philanthropy operate and that more flexibility is being tested in some countries with regard to the use of foundations' capital on the programme and asset allocation side. However, while some laws are responding, there are still many more instances of governments being slow to react.

Some legal frameworks allow only very secure asset allocation of the endowment, such as bonds or investments with a guaranteed return, which puts some limits on the asset allocation, and there are also limitations on what foundations can do on the programme side. However, a couple of governments do want to enable foundations to do more mission-related investments and/or sustainable investments and enable foundations to also support social businesses.

These governments have implemented more flexible rules in this regard. More regulation on new operational tools such as crowdfunding platforms is in the pipeline at national and EU levels.

## **Internal versus external governance and supervision**

Discussion of the operating environment of foundations and law revisions also concern the issue of governance (internal and external) of foundations in some countries. Foundation laws often contain basic rules on governance questions but leave freedom to design governance structures. Most laws put foundations under state supervision, but discussions are ongoing in some countries as to whether tools such as self-regulation, codes of conduct or labels could to some extent replace or loosen external state supervision.

## **Increased due diligence**

We see that more reporting requirements and stronger due diligence policies for foundations and philanthropy have been introduced over the past 20 years. Foundations are subject to new international and EU policies developed to fight money laundering and terrorism financing, as well as tax evasion. In some countries, we see overregulation happening in the name of the security agenda.

## **Barriers to cross-border philanthropy remain**

In the context of operating internationally, the laws are still not yet up to speed when it comes to cross-border philanthropy and public-benefit foundations. Within the Single Market, companies may move a seat across borders or engage in cross-border mergers, but foundations and philanthropic organisations still may not. Not all countries recognise the legal personality of foreign-based public-benefit foundations. Several countries require a foreign foundation to register a branch in their country. There are no statutory limitations for a foundation to conduct (some or all) activities abroad, but in France, Germany and Belgium there are some limitations in tax law. We are also seeing discussions around foreign funding restrictions or foreign agent laws in a few European countries. Also, tax-effective cross-border philanthropy does not yet work in practice. Despite groundbreaking decisions of the European Court of Justice, which has introduced the non-discrimination principle, laws and practice remain complex, and in some cases, even discriminatory. And seeking recourse remains a costly and lengthy process.

## **Most governments are encouraging philanthropy**

Many countries already grant tax concessions for philanthropic foundations and provide for tax incentives to encourage donations by individual and corporate donors. On top of this, we have seen a number of governments introducing new incentives to stimulate more philanthropic action in the context of the Covid-19 pandemic. However, there are also countries reducing incentives for philanthropy or even putting restrictions in place.

The positive and negative developments show that a general positive attitude towards the sector cannot be taken for granted.

# CONCLUSIONS

## → Governments, for the most part, want to stimulate philanthropy

The political landscape for philanthropy remained relatively stable in Europe between 2018 and 2020. However, there have been developments, both positive and negative. The current relatively positive attitude towards the sector cannot be taken for granted since we have seen governments deliberately closing the space in some countries.

## → Laws are sometimes slow to respond to the desire to enlarge the toolbox

While the sector is testing out new digital and impact investing tools on the programme and asset allocation side, laws are sometimes too restrictive and slow to adapt.

## → More collaboration within philanthropy and across sectors

Societal challenges are increasing, and the sector is responding with more cooperation and network building within the philanthropy sector, but also across sectors with governments, the business sector, and within the wider non-profit sector.

## → Significant barriers continue to burden the operating of philanthropic organisations and donors

Both at Member State and EU level, additional reporting requirements designed to address money laundering and terrorism financing continue to create burdens for philanthropic actors. Foundations and donors also face barriers when operating across borders, including the difficulty in recognition of legal personality of foundations when they operate outside their jurisdictions; the absence of a regulation on transfer of seat and merging across borders; and the difficult implementation of the non-discrimination principle. A Single Market for philanthropy does not yet exist.

## → Economic and socio-cultural environment (2018-2020)

The economic environment from 2018 to 2020 was significantly affected by the Covid-19 pandemic and government responses to it. Despite very different histories with philanthropy across Europe, the socio-cultural environment for philanthropy remained stable in 2018-2020. The general desire to participate in philanthropy is generally well-established in Europe. It remains to be seen how the war in Ukraine and energy crisis will impact this.

In general, it appears that European philanthropy would need a more favourable operating environment to unleash its full potential. As stated in the European Philanthropy Manifesto, 4 policy actions would be crucial in achieving this: better recognising and engaging with philanthropy; facilitating cross-border philanthropy across the EU; enabling and protecting the sector; and stimulating co-granting and co-investment opportunities for public good and civil society.

## About

### Policy and Advocacy at Philea

Being the representative body of European philanthropy, we engage with policymakers at European level and, where relevant for the European philanthropy sector, at global level. We do this based on our **European Philanthropy Manifesto**, which seeks to enable cross-border philanthropy, strengthen dialogue with policymakers, protect philanthropy from undue restrictions, and enable more co-granting and co-investing opportunities for philanthropy with public institutions.

[www.philea.eu](http://www.philea.eu)

### Indiana University Lilly Family School of Philanthropy

The Indiana University Lilly Family School of Philanthropy is dedicated to improving philanthropy to improve the world by training and empowering students and professionals to be innovators and leaders who create positive and lasting change. The school offers a comprehensive approach to philanthropy through its academic, research, and international programs and through The Fund Raising School, Lake Institute on Faith & Giving, the Mays Family Institute on Diverse Philanthropy and the Women's Philanthropy Institute.

[www.philanthropy.iupui.edu](http://www.philanthropy.iupui.edu)

### Disclaimer

While all efforts have been made to ensure the correctness and accuracy of the information in this briefing, the Indiana University **Lilly Family School of Philanthropy** and **Philea** disclaim all liability for damages of any kind arising from the use of the information given in this paper.

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