The Beacon Collaborative

THE UK AS A CENTRE OF EXCELLENCE FOR INTERNATIONAL PHILANTHROPISTS AND SOCIAL INVESTORS

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Building a better working world

CONTENTS

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FOREWORD BY EY

The impact of the Covid-19 pandemic has highlighted the importance of global responses to global issues. Governments, the social sector, civil society and private corporations have all responded, and so too has philanthropy. In the UK, 360 Giving's Covid-19 Tracker indicates 101 funders have so far contributed £386 million to the Covid-19 relief effort [1],

Internationally, philanthropy has contributed USD239 million to the Covid-19 Solidarity Response Fund, and USD125 million to the Covid-19 Therapeutic Accelerator.

This report published by the Beacon Collaborative, supported by EY and the City Bridge Trust, the funding arm of The City of London Corporation's charity, Bridge House Estates, has been written against a backdrop of worldwide challenges and uncertainty, but these have also created the conditions for a reset.

The report provides an initial examination of the UK's current strengths and weaknesses as a strategic base for global philanthropy and expansion of social investment. It then considers what steps government, regulators, and civil society would need to take in order to strengthen the UK's position and raise its profile amongst policy makers.

The current opportunity for the UK is magnified by the fact that this year, 2021, the UK will host the G7 summit in June and the COP26 Climate Change Conference in November. The following year, 2022, sees the Festival of Britain which aims to showcase the best of our art, culture, heritage, design and technology sectors. These events are all opportunities to highlight and showcase the UK's position as a centre of excellence for philanthropy and social investment.

The Beacon Collaborative's goal for this report is to encourage government and policy makers to consider philanthropy and social investment as a key element of the UK's future international trade strategy.

The UK is a great place for philanthropy and social investment, but it can be even better. With changes to policy, regulation and mindset, the UK can become the undisputed global centre of excellence.

Keith MacDonald
UK Head of Wealth Management, EY

[1] COVID-19 Grants Tracker (threesixtygiving.org)

INTRODUCTION

Among the Sustainable Development Goals (SDGs), the framework for a sustainable future set out by the United Nations General Assembly in 2015, the 17th goal is identified as the most important, calling for international cooperation to achieve the other 16.

Many international philanthropists and social investors have responded to this call and are increasingly seeking to align their private capital with initiatives that aim to tackle systemic global challenges. Philanthropy is no longer about benevolence, it is about having an impact on the complex problems that face the next generation.

Global philanthropy is on the rise. 72% of the world's 260,000 foundations have been established in the last 25 years. Their combined assets are in excess of USD1.5 trillion and total annual expenditure has been estimated at USD150 billion [2]. Almost all are family or independent foundations.

In 2018, the OECD surveyed 147 of the world's leading private foundations and found they were transferring approximately USD8 billion per year to developing countries between 2013-2015, with an average annual increase of 19% [3].

The Council on Foundations and the Foundation Center in the United States reported in 2018 that private foundations in America gave USD10 billion a year to non-profit organisations outside the US between 2011-2015.

This growth reflects a global phenomenon among responsible individual wealth holders who are seeking to support wider civil society through philanthropy and social investment. In doing so, they are expressing their own, strongly held, social values. While most philanthropic giving is domestically focused, cross-border philanthropy and social investment are a growing proportion of the total.

Globally, experts estimate that USD10 billion – USD30 billion of annual global philanthropic giving flows through vehicles outside of the donor's home country. Money is first transferred to an international jurisdiction that can facilitate giving in a robust and well-regulated environment before it is gifted onward to non-profit organisations working in other countries [4].

International wealth owners typically establish their philanthropic structures and conduct their social investment activity from the same base as their wider wealth management.

[2] https://cpl.hks.harvard.edu/files/cpl/files/global_philanthropy_report_final_april_2018.pdf
[3] Private Philanthropy for Development, OECD 2018
[4] Interviews undertaken for this report.

INTRODUCTION

As one of the world's leading wealth management centres, the UK already attracts a significant portion of this kind of international philanthropy. Smoothing the path for global philanthropy would significantly increase the UK's ability to attract philanthropic capital.

The UK is currently the second largest wealth management centre in the world with international assets totalling USD1.79 trillion according to a Deloitte study in 2018. Switzerland takes the lead by a small margin [5].

The Charity Commission for England & Wales [6] identifies that 68,000 of the 168,000 charities on its register make grants to other organisations and 3,750, or 5.5% of the total, have programmes or grant giving activity outside the UK [7]. Therefore, the question tackled in this report is what needs to happen for the UK not just to be a centre for international philanthropy and social investment, but a centre of excellence, proactively attracting greater capital flows from individual wealth owners around the world for philanthropy and social investment purposes and with that, the potential of family wealth to follow. Responsible global citizens, whether resident or non-resident, are principally seeking a regime that welcomes their economic contribution in an environment that makes it easy to comply with all relevant tax and other laws.

Yet, no single jurisdiction can currently offer the essential combination of enabling regulation, cross-disciplinary infrastructure and innovation to support the social impact ambitions of this international community. This point was highlighted in the OECD's recent report *Taxation and Philanthropy*, which reviewed the taxation of philanthropic entities and philanthropic giving in 40 members states and concludes: "beyond the European Union, there is little tax support provided by countries for cross-border giving." [8]

The United States comes closest. The Internal Revenue Service (IRS) has developed rules requiring enhanced due diligence to ensure international grant-making by philanthropic entities is used by foreign non-profit organisations for appropriate charitable purposes. This regime, combined with the breadth and depth of services that support its sizeable domestic philanthropy and social investment market, enable approximately USD10 billion of philanthropic capital to flow to non-profit organisations outside of the United States each year.

[5] ch-fs-1800914_Deloitte-wealth-managemnet-Ranking-2018.pdfch-fs-1800914_Deloitte-wealth-managemnet-Ranking-2018.pdf.
[6] Unless otherwise stated, references to the Charity Commission in this report refer to the Charity Commission of England & Wales. This reflects the likelihood that international philanthropists and social investors will be drawn to London as the principal base for their social impact activities in the UK.
[7] https://register-of-charities.charitycommission.gov.uk/charity-search?p_p_id=uk_gov_ccew_portlet_CharitySearchPortlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&_uk_gov_ccew_portlet_CharitySearchPortlet_mvcRenderCommandName=%2Fadvanced-search.
[8] Executive Summary | Taxation and Philanthropy | OECD iLibrary (oecd-ilibrary.org)

INTRODUCTION

The robust nature of this regime is attractive for international philanthropists. However, to operate from the United States, international citizens would also need to submit to the American approach to worldwide taxation and organise their philanthropy according to the weighty rule books that govern domestic giving in the United States. These additional factors put off many international wealth holders.

There is therefore an opportunity, at this time, for the UK to further its standing to become the world's leading centre of excellence for philanthropy and social investment. To achieve this ambition, the UK should consider the following recommendations.

RECOMMENDATIONS

These recommendations are based on in-depth analysis of the UK regime for individuals engaged in international philanthropy and social investment compared with five other leading centres: the United States, Switzerland, Singapore, Jersey and the Netherlands. Supporting this research, a total of 40 interviews were conducted with international philanthropists, lawyers, accountants, wealth managers, family office professionals, philanthropy advisers, regulators and policy experts.

These interviews have pinpointed the practical challenges facing professional advisers who advise wealth holders, as well as providing a global perspective on how the UK is perceived by international philanthropists, social investors and their advisers.

ENABLE

1. Amend the Finance Act 2010 and implement a UK equivalency regime

I. The Finance Act 2010 currently, in principle, enables charitable organisations in many European jurisdictions to enjoy the same tax advantages as UK domestic charities, providing they meet specified criteria.

We propose the UK government should remove the jurisdictional limit in the Act and implement an equivalency regime that draws on the experience of the Internal Revenue Service in the United States. This regime would set out rules by which overseas organisations could be judged to be of equivalent status to UK charities and a system by which funds could be tracked to ensure they are used for purposes deemed appropriate.

This would allow UK residents and non-residents, who have a philanthropic vehicle in the UK, to give freely to overseas organisations from the UK, provided they meet the remaining tests in the Finance Act 2010 and enhanced tests for equivalency to UK registered charities.

This recommendation aligns with the conclusions of the recent OECD report, *Taxation and Philanthropy*, which states: "the increasingly global nature of many policy challenges – such as environmental and public health concerns (including the COVID-19 pandemic) – may require countries and institutions to cooperate across borders. In this context, there is merit in countries reassessing whether there may be some instances where equivalent tax treatment should be provided to domestic and cross-border philanthropy."

II. These tests could be based on the existing provisions of the UK Charities Acts, which establish the public benefit principles and HMRC's overseas payments regime.

RECOMMENDATIONS

2. UK Charities SORP (FRS102) [9] – Related Parties

I. The costs and challenges of complying with the related parties requirements of the UK Charities SORP (FRS102) are regarded as a significant disincentive for some international philanthropists to operate from the UK. There are circumstances in which the application of the rules, in the UK context, can be burdensome, especially where a philanthropic vehicle in the UK is capitalised with shares from for-profit entities overseas.

Professional bodies that oversee the accounting profession should develop best practice guidelines in this area in consultation with international philanthropists and their wealth advisers to ensure consistent and proportionate application of the UK's related party transaction rules in the case of philanthropic vehicles. The consultation should also consider the viability of recognising the non-UK audit of an international operating business in such cases.

II. If appropriate, measures identified through this review should inform future versions of the UK's financial reporting standards and statements of recommended practice.

3. Guidance from Charity Commission and HMRC

There are a number of areas where international philanthropists and social investors lack clear guidance from the Charity Commission and HMRC. Specifically:

I. There should be targeted guidance and examples for international philanthropists on the overseas payment regime and on the application of public benefit rules in an international context.

II. There should be clear guidance and consistent application of the rules governing whether family members and non-UK resident individuals can be appointed to the boards of trustees of charitable entities. There are currently no specific legal restrictions, yet application documents are being reviewed on the basis of these criteria resulting in protracted and costly negotiations at the point of set-up.

III. The Charity Commission's consultation on responsible investment should seek to develop a progressive framework that supports the intersection of philanthropy and social investment for individual philanthropists and social investors. International philanthropists and social investors will be drawn to a regime that enables social investment as an integral part of their social impact activity, especially where this activity is not supported or is under-developed in their home country.

[9] Charities SORP (FRS102) Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS102)

RECOMMENDATIONS

4. Tax opportunities

Together, Gift Aid and Social Investment Tax Relief (SITR) offer a unique regime for social impact activity for international philanthropists and social investors who have a UK tax liability. Yet, neither is widely understood or championed either in the domestic or international arena.

I. Gift Aid has raised £18 billion for UK charities since it was launched. It is a robust and principled system that could offer an attractive incentive for international philanthropists to establish their philanthropy in the UK. For these wealth holders, Gift Aid would benefit from more clearly drafted guidance from HMRC. This should be supported by a targeted campaign of education and promotion.

II. SITR is a world-leading and generous incentive designed to encourage social investment innovation. It offers the UK the unique opportunity to attract progressive international social investors to base their social impact activities in the UK. The views of international social investors should be sought as part of the current consultation on the future of this tax relief.

III. The government should consider if other tax incentives could be used to encourage international philanthropists and social investors to establish their social impact activities in the UK, alongside other business and investment activities. This analysis should be aligned with and guided by the principles identified by the Charities Aid Foundation report: *Donation States: an international comparison of the tax treatment of donations* [10] and the OECD report *Taxation and Philanthropy* [11] .

[10] https://www.cafonline.org/about-us/publications/2016-publications/donation-states-an-international-comparison-of-the-tax-treatment-of-donations
[11] https://www.oecd-ilibrary.org/sites/df434a77-en/index.html?itemId=/content/publication/df434a77-en&_csp_=5110e1aff1e78c9321ac5759cebc19c5&itemIGO=oecd&itemContentType=book#section-d1e18417

RECOMMENDATIONS

INVEST

5. Invest in regulation

Enabling these proposals requires an investment in the regulatory infrastructure currently supporting philanthropy and social investment in the UK.

I. Additional government investment should be considered for the Charity Commission to support the cost of enabling the proposals in this report. To enable the UK to develop as a global centre of excellence for philanthropy and social investment, the Charity Commission will need to be resourced effectively and connections with HMRC will need to be enhanced.

II. The HMRC Charity Helpline and the Charity Commission should establish dedicated units trained to respond consistently to international philanthropists, social investors and their advisers.

6. Digital Enablement for Philanthropy and Social Investment

As Danny Kruger MP noted in his 2020 report, *Levelling up our communities: proposal for a new social covenant* [12], that digital technology can create a step change in civil society.

It is essential that this digital enablement extends to include philanthropy and social investment organisations that can provide a backbone for future funding flows and to ensure innovation in critical areas such as impact measurement.

I. Government funding should be offered to develop technology that can support philanthropists and social investors to navigate their giving and investment choices. This could be offered via a government-backed grant or social investment programme managed through NESTA, Social Finance, or other social investment organisation with digital expertise.

II. Solutions that offer domestic and international functionality should be encouraged, including ensuring international user-groups are involved in the design of these platforms.

III. Technology or data standards developed for the UK market should be developed with compatibility with other global centres in mind. If necessary, the UK must provide leadership on this issue.

[12] https://www.dannykruger.org.uk/sites/www.dannykruger.org.uk/files/2020-09/Kruger%202.0%20Levelling%20Up%20Our%20Communities.pdf

RECOMMENDATIONS

PROMOTE

7. Whitehall architecture

There is an immediate opportunity to promote the UK's capabilities as a centre for international philanthropy and social investment on the international stage. Maximising this opportunity will require a greater level of coordination between the Department for Digital, Culture, Media and Sport (DCMS), which includes the Office for Civil Society (OCS), and the Department for International Trade (DIT) linked to existing initiatives designed to encourage inward flows of capital to the UK.

I. A coherent and joined up approach to develop and promote the UK as a centre of excellence for philanthropy and social investment will be best served by the appointment of a "Philanthropy Commissioner". This individual will have responsibility for overseeing the agenda of enablement, investment and promotion of the UK as a centre of excellence, recognising that philanthropic capital often sits alongside a wealth holder's other business, investment and personal assets.

II. The government should also consider giving responsibility for championing the UK as a centre of excellence for international philanthropy and social investment to a Minister within DIT complementing any programmes designed to encourage flows of wealth to the UK.

The efforts of DCMS and DIT should be coordinated and enabled by an International Philanthropy and Social Investment policy unit working within the OCS. This unit should also routinely brief Prime Ministerial trade envoys on the opportunities for international philanthropy and social investment in the UK.

III. The government should establish an International Philanthropy and Social Investment Council, comparable to the five Business Councils advising on post-Brexit business plans. This council should be co-organised by the DCMS and DIT and include an advisory panel of international philanthropists and social investors to provide input on policy proposals. These individuals should also be encouraged to play a role acting as Philanthropy and Social Investment Ambassadors for the UK supporting international trade missions from DIT.

RECOMMENDATIONS

8. Promotion, campaigns and activities

The government should step up its promotion of philanthropy and social investment internationally. Measures could include:

I. The GREAT Britain Campaign running “Philanthropy is Great” and “Social Investment is Great” to highlight the UK’s leadership in these fields.

II. Ensuring that the programme of the 2022 Festival of Britain recognises and celebrates the importance of philanthropy, especially in relation to the UK’s heritage of innovation and creativity.

III. Establishing an International Philanthropy Day similar to the National Philanthropy Day © in the US, Canada and Mexico.

IV. Running a global event for international philanthropists and social investors to convene and consider how they can support action on global issues.

V. Highlight through the Honours system the achievements of international philanthropists and their contribution to civil society in the UK and internationally.

9. Match funding partnerships

Government has an opportunity to develop partnerships with international philanthropists and social investors through match funding schemes. Through genuine partnership, government may gain greater insight into on-the-ground activity internationally and these schemes could unlock significant funding flows for initiatives that are of mutual interest.

I. The government should consider how the experience and funding mechanisms of UK Aid Match [13] could be extended to partner with international philanthropists.

II. The government should consider match funding initiatives that tap into the interest of international wealth holders to give to UK educational and cultural institutions. The government ran a match funding scheme in 2008-11 to incentivise giving to universities and to encourage fundraising professionalism within institutions. The scheme triggered £580 million for higher education in England [14].

III. The government should consider acting as a cornerstone investor in social investment programmes on global issues, potentially using the Sustainable Development Goals as a framework for action.

[13] https://www.gov.uk/international-development-funding/uk-aid-match
[14] https://www.morepartnership.com/library/Review_of_Philanthropy_in_UK_Higher_Education.pdf

PART 1:

POTENTIAL FOR THE UK AS A GLOBAL CENTRE OF EXCELLENCE

THE UK'S STRATEGIC AND SOFT POWER

In the 21st century, philanthropy and social investment are emerging as twin disciplines that enable wealth holders to apply their private capital in pursuit of positive and transformative change to the world's most pressing social and environmental challenges.

These are the mechanisms by which responsible wealth owners can acknowledge that social and environmental problems are everyone's problem. And because their capital is less constrained than either public funding or corporate social responsibility budgets, they can support civil society in ways government and corporates cannot.

At its simplest, philanthropy and social investment are ways that individual wealth holders can do good in the world that go above and beyond paying their taxes. They are mechanisms through which wealth holders can engage in social outcomes with the goal of using their resources positively to engage with communities and strengthen social cohesion.

Therefore, by embracing global philanthropy and social investment, the UK can send a powerful signal to the world about the UK's commitment to responsible global leadership. More than that, by welcoming global citizens who are seeking positive social impact, the UK can enhance its position as a world-leading centre for progressive global finance and wealth management.

In short, building the UK's capacity as a global centre of excellence for philanthropy and social investment enhances both our strategic and our soft global power.

The UK already enjoys a prominent, popular and positive place in the world, through its historic, economic and soft power ties, along with its role in international relations. Its geographical positioning in Europe, ties to the United States and leading role in the Commonwealth make for an influential set of relationships. Surveys consistently show that the UK is popular among people all over the world. As an illustration, the British Council's 2017 survey From the Outside In shows that young people across the G20 have a positive perception of the UK [15]. The UK is generally seen as a positive and benign influence on the world stage. This positions it as an attractive place for wealth owners to live, work and invest, and practise philanthropy.

[15] https://www.britishcouncil.org/sites/default/files/from_the_outside_in.pdf

THE UK'S STRATEGIC AND SOFT POWER

The UK has carved out a role as a positive and responsible actor in global affairs. It is one of the five permanent members of the UN Security Council. It is also a member of other groups of significant influence, including the Commonwealth, NATO, the G20 and the G7. When the international community has mobilised to take action, the UK has often been a prime mover. This was demonstrated by the UK's leading role in Make Poverty History in 2005, the response to the global financial crisis in 2009 and its leadership on issues such as sexual violence in conflict and climate change. In 2021, the UK is due to host the G7 summit and the global climate change conference, COP26.

The decision by the UK to leave the European Union (EU) in June 2016 has brought legal and political uncertainty. As a group, wealth owners are repelled by uncertainty, although at least Brexit has been transparent for all to see. The UK's departure from the EU will have far reaching consequences, but whether they are damaging or beneficial in the long run, it will not negate many of the UK's strengths on the international stage.

The UK is seen as a leading strategic power and also as one with significant other benefits, which make it an attractive place for a philanthropist to set up a foundation or make donations. As well as a benign and broadly consistent political environment, it is seen as a place with a strong rule of law.

This is demonstrated by the fact that 50% of the world's commercial contracts are in English law. The English language and a time zone, which enables it to connect with Asia and the United States at different points of the day, are other natural advantages.

Through its strong civil society, notably its NGO and academic sectors, the UK has high "intellectual capital." Its organisations have global reach and the UK has a habit of punching above its weight in terms of commitment to global causes.

While our economic power is challenged by the rise of China, India and other countries, the UK remains a big player intellectually. As one interviewee put it, **"When global issues get tough, countries want to talk to the UK."**

In a similar vein, Boris Johnson remarked in a speech, in December 2016, when he was Foreign Secretary, **"We should never underestimate the catalytic power of our creativity and the sheer concentration of intellectual resources to be found on this island."**

Allied to these qualities is the fact that the UK is seen as a charitable country. Many of our charities have a global footprint. Campaigns which started in the UK, like Red Nose Day from Comic Relief, have gone global. The UK is invariably one of the leading countries to respond with support, in different forms, to natural disasters around the world.

THE UK'S STRATEGIC AND SOFT POWER

Indeed, in spite of the long-term economic impact that is anticipated from the Covid-19 crisis, the UK government has committed to restore the 0.7% of GDP on overseas aid in due course, while maintaining a current level of 0.5%. All this paints a picture of a generous-minded, outward-facing nation.

The UK is also a soft power "superpower". This makes it a desirable place for wealth owners to live, visit and work. One respondent working in government said, **"We have a premium brand."**

The UK is strong in particular areas. In education, for instance, the UK can boast some of the best schools and universities in the world. There are over 485,000 foreign students in higher education in the country, accounting for approximately 20% of the total student population [16]. We have some of the best universities in the world, attracting foreign students and donors.

Leading families from overseas often wish their children to be educated in the UK. It is estimated that one in seven of the world's leaders – whether Royalty, presidents or prime ministers – were educated in Britain [17].

Oxford University's Thinking campaign, which started in 2008, raised a total of £3.3 billion and Cambridge University raised over £1 billion for its 800th anniversary in 2009. Furthermore, the UK has a world-class arts sector.

Philanthropists are interested to support historic and prestigious arts centres and charities. In December 2020, Leonard Blavatnik donated £10 million to the Courtauld Institute of Art, following his £50 million donation to the Tate Modern's expansion and £5 million to the Victoria & Albert Museum. The UK's sports scene also acts as a magnet for people to come to the UK.

This is the backdrop that encourages wealth owners to spend time in the UK and generates warmth towards "Brand Britain".

Institutions such as the BBC, the monarchy and the British Council have global reach and recognition.
The UK's strong brand globally was reflected in the speech made by the actor Hugh Grant, in the film "Love Actually". Playing the role of Prime Minister, Grant's character said, **"We may be a small country but we're a great one, too. The country of Shakespeare, Churchill, the Beatles, Sean Connery, Harry Potter. David Beckham's right foot. David Beckham's left foot, come to that!"**

The UK's strengths have also been demonstrated in surveys on soft power. The Portland Soft Power 30 Index in 2019 showed the UK in second place, behind France, having come top in the previous year [18].

[16] https://www.relocatemagazine.com/articles/education-schools-uk-universities-enjoy-continued-growth-in-international-student-enrolment-0120.
[17] https://www.bbc.co.uk/news/education-29361704.
[18] https://softpower30.com/wp-content/uploads/2019/10/The-Soft-Power-30-Report-2019-1.pdf

THE UK'S STRATEGIC AND SOFT POWER

International wealth owners like to visit the UK. Many of them from areas like the Gulf have homes in London or elsewhere in the UK. Those who do not have homes enjoy visiting too. The UK can provide them with special experiences on a visit to our shores. As a respondent commented, **"capital goes where it's loved".** This is as true of philanthropic capital as it is of business capital.

The personal connection many people have with the UK, whether they or a family member have studied, lived or worked here, gives us a competitive advantage. An interviewee from the British Council observed, **"Joe Nye talks about the power of attraction; Professor Gary Rawnsley talks about the power of example; the British Council talks about the power of experience."**

The UK has long been seen as open to foreign ideas, people and investment. Some think this will be disrupted rather than fatally damaged by Brexit. Others think that Brexit is an opportunity to unleash a truly global outlook rather than one overly attached to the European continent. The current government has been using the phrase "Global Britain". Irrespective of current political debates, the UK has a global outlook along with an appreciation of different countries and cultures, which make people from overseas feel comfortable engaging with it.

London is one of the UK's key assets. The capital remains one of the most global and multi-cultural cities in the world. This is supported by an ecosystem of legal and professional services, which enables wealth owners to carry out their business and philanthropy in the UK. The combination of wealth, expertise and global reach can be matched by few, if any, cities in the world.

Indeed, it is this concentration of expertise in London that gives the UK an edge as a centre for global philanthropy and social investment. The transfer of knowledge and skills between the corporate, professional, financial, technological and non-profit sectors offers a platform for innovation that is unique.

Notwithstanding the uncertainty caused by Brexit and the current challenges of Covid-19, the UK is a world leader. It is regarded as a very internationally aware, open and pragmatic country. As one interviewee put it, **"The UK is trusted. We have integrity, experience and knowledge. Britain is an intellectually and emotionally trusted country. Therefore it's a good place from which to do your good business."**

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

Not only does the UK have a vibrant culture that attracts the wealth of the world and a world-class cluster of skills and knowledge supporting philanthropy and social investment, it also has a long history of bold policy action to support the flow of private wealth into social causes.

Since 1601, when the Charitable Uses Act was passed into law, the UK has encouraged private assets to be used for public good. The UK has an international track record as a pioneer in the field of philanthropy, social investment and social responsibility. Through this leadership, the UK has gained a reputation as a social impact hub.

- In 2003 and 2009, the UK established two new, dedicated charity regulators in Scotland and Northern Ireland.

- In 2010, the Ministry of Justice and the Big Lottery Fund launched the world's first social investment bond.

- In 2011, the Charities Act brought together previous charity legislation to create a single body of rules that created the current definition of a charity and the requirement to register with the Charity Commission.

- In 2012, dormant account funding was used to found Big Society Capital as a new type of financial institution to channel capital to the social sector more effectively.

- In 2013, government launched Charitable Incorporated Organisations as a legal form designed specifically for the charitable sector.

- In 2013, UK's presidency of the G8 saw the launch of the Social Impact Investment Task Force and the UK's National Advisory Board.

- In 2014, Social Investment Tax Relief was launched to encourage individuals to support social enterprises.

- In 2015, the Cabinet Office, Big Society Capital and the National Lottery Community Fund launched the Access Foundation to expand the reach of social investment. 2015 also saw the introduction of Charity Authorised Investment Funds.

- In 2016, the Charities (Protection and Social Investment) Act introduced the power for charities to make social investments.

- In 2016, government set up the Independent Advisory Group on Growing a Culture of Social Impact Investing in the UK.

- In 2019, launch of the Impact Investing Institute to help put savings and investments to work for the benefit of communities and society.

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

Growth in international philanthropy

In recent years, the centre of gravity in philanthropy and social investment has become increasingly global with two forms emerging on the international stage. The first group is made up of highly sophisticated global philanthropists who are increasingly working together transnationally on systemic challenges. Many have become household names for their philanthropic endeavours.

Their activities have been spurred by the recognition that the greatest social and environmental challenges are universal in nature and require the alignment of capital – private, public, corporate, investment – to achieve real, measurable, positive social impact. In this process, they are reinventing philanthropy formed around three critical components:

- **Driving social impact that can be measured;**
- **Forging collaborations that can impact whole systems on a national or international scale;**
- **Blending philanthropy and social investment to achieve sustainable change.**

For this group, the adoption of the 17 Sustainable Development Goals (SDGs) by United Nations (UN) member states in 2015 has provided a framework for international action. The SDGs have created a platform for those who give and invest in social change to work together across borders on innovative projects and programmes that seek to drive systemic solutions.

There are a multitude of global philanthropic collaborations underway that are being driven by this elite group, such as ClimateWorks Foundation, Co-Impact, The END Fund, Dubai Cares and the Maverick Collective. Similarly, at the close of the Global Climate Action Summit in San Francisco in September 2018, 29 United States based philanthropists and foundations committed USD4 billion over five years to tackle climate change [19].

[19] https://hewlett.org/newsroom/philanthropic-community-announces-4-billion-commitment-to-combat-climate-change/

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

The Covid-19 pandemic has further accelerated the desire for and urgency of global cooperation among international philanthropists and other funders. For example, The Bill & Melinda Gates Foundation, The Wellcome Trust and Mastercard committed USD125 million in seed funding to launch the Covid-19 Therapeutic Accelerator. Aligning with them, 12 private philanthropic funders committed more than USD1 million [20] each to the initiative. These included private wealth holders from the US, Australia, China, the Czech Republic, Hong Kong, Saudi Arabia, South Africa and Sweden.

A similar collaboration has emerged from the partnership between the United Nations Foundation and the Swiss Philanthropy Foundation. The Covid-19 Solidarity Response Fund has raised more than USD239 million [21].

In addition to this community of sophisticated global philanthropists and social investors, there has also been a rapid increase in family philanthropy worldwide.

These are wealth owners who have international interests and who are seeking to integrate social impact into their portfolio of business and wealth management activities. Their philanthropic and family capital go hand-in-hand.

Philanthropy and social investment are the glue that connects the family values of these wealth holders to their business interests, investments and wealth stewardship. Moreover, their international connections mean they would be as likely to give to the universities where their children were educated as they would to the school in their hometown – if only giving internationally were that simple.

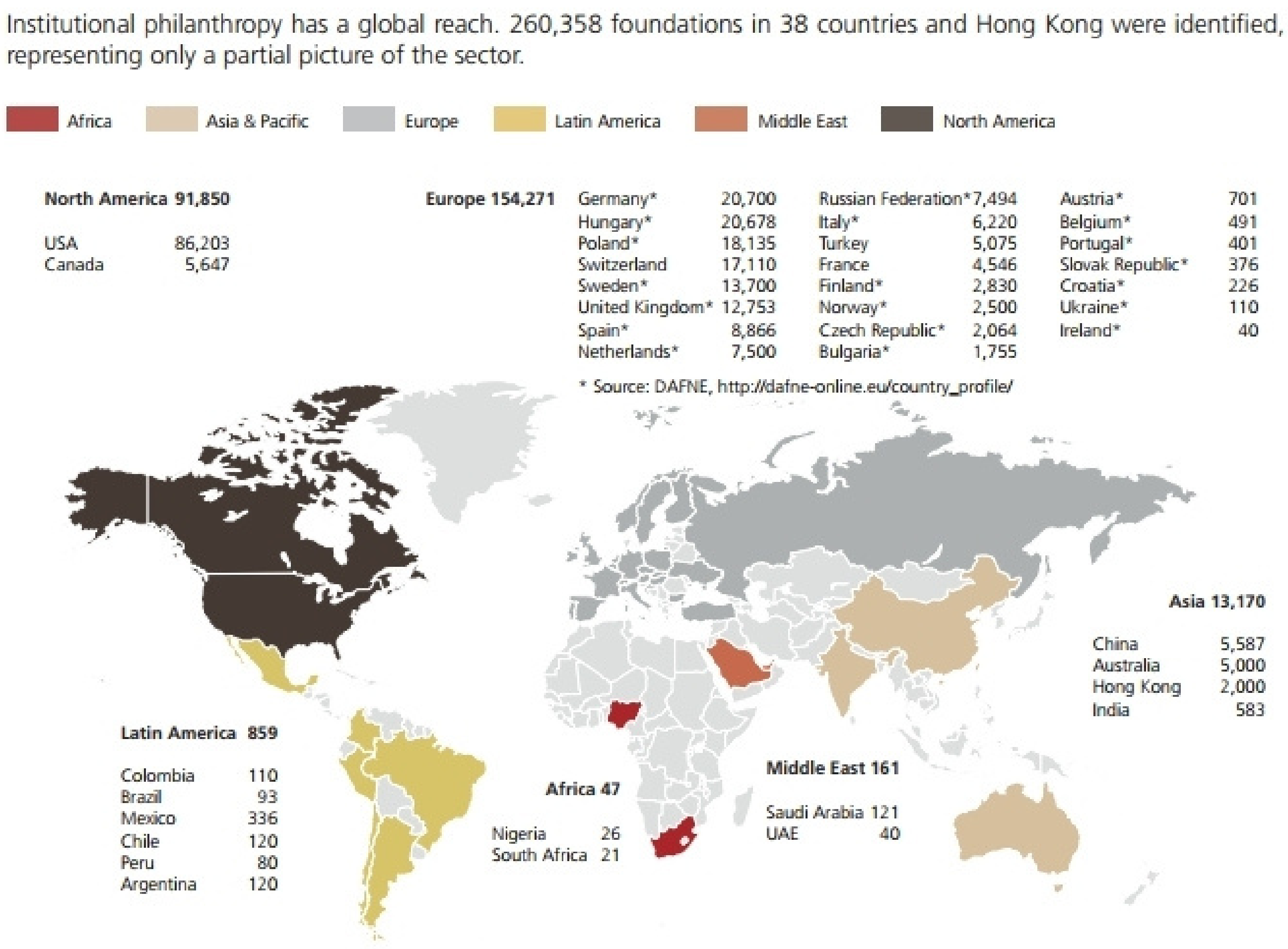
In 2018, in partnership with UBS, The Hauser Institute for Civil Society at Harvard Kennedy School published the first global study of philanthropy [22]. The report identified 260,000 foundations in 39 countries. Of this total, 72% had been established in the previous 25 years. 12,753 of these foundations are based in the UK, the seventh largest concentration in the world. The vast majority are independent and family foundations, meaning they are linked to individuals and not to corporates, religious organisations, community-based initiatives or government bodies.

The foundations identified in the Global Philanthropy Report 2018 had total assets of USD1.5 trillion, with the report's authors highlighting that the total global figure will be significantly greater.

[20] https://www.therapeuticsaccelerator.org/cta-donors/
[21] https://covid19responsefund.org/en/
[22] https://cpl.hks.harvard.edu/files/cpl/files/global_philanthropy_report_final_april_2018.pdf

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

Figure 1: Foundations around the World



Source: Global Philanthropy Report 2018, The Hauser Institute for Civil Society, UBS

The report further estimated global foundation expenditures, including operating expenditure, programmes and grants, were USD150 billion in 2018. This is based on data reported from 60% of the foundations identified in the research. We may extrapolate that global foundation expenditure may be as high as USD250 billion.

Global experts interviewed for this report suggest that 5% - 15% of global philanthropic giving operates through vehicles outside of the donor's home country. This would suggest annual flows of USD10 billion – USD30 billion in new global giving.

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

What attracts international philanthropists to jurisdictions

Sophisticated global philanthropists and social investors will seek out jurisdictions that support their global giving, where the infrastructure and innovation environment will enable them to go further. They will seek jurisdictions with a robust regulatory framework and with a depth of professional services to set up and administer giving vehicles, facilitate global cross-border giving, enable the seamless integration of philanthropy and social investment, and ensure the highest standards of governance.

Global philanthropists will look for an environment that enables collaboration, co-investment, alignment of business and social impact activity, global giving and global fundraising. They want a centre that offers a depth of expertise across philanthropy, social investment, impact investment and ESG [23] investment. And where professional bodies, advisers, educationalists and academics support best practice, enabling them to hone their activities in ways that are ethical and have impact.

Meanwhile, international wealth owners who practise philanthropy as part of the family's wider wealth management activity, will base their family trust or foundation alongside their other family business and wealth management vehicles. The factors that attract them to the UK for business, for education or for family and cultural reasons, will also resonate for their philanthropic and social investment activities.

Political and economic stability, strength and depth of financial and professional services, convenient travel, language, time zone and climate are all driving forces.

If they have business or family interests in the UK, families are more likely to be drawn to the UK as a base for their wealth management activities if their social impact goals can be integrated seamlessly as part of their overarching financial planning.

Alongside these factors, wealth holders prefer jurisdictions where compliance with tax and other regulations is straightforward; where the rules are welcoming, fair and easy to navigate; and, where they are supported to maximise both their economic activity and social contribution locally and internationally.

These factors have all historically contributed to the UK's position as a leading global centre for international wealth holders. By default, the UK is therefore already attracting a sizeable volume of the world's international philanthropy and social investment activity.

[23] Investments that monitor environmental, social and governance criteria.

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

In order to capitalise on this position and build the UK's reputation as a global centre of excellence for philanthropy and social investment, more needs to be done to minimise the friction for wealth owners to achieve their social impact goals from the UK. Regulation needs to be augmented with their interests in mind and the enabling infrastructure needs to be better supported and developed.

By re-examining how to enable philanthropic and social investment capital to flow more freely to and from the UK, the UK can offer an unrivalled mechanism to connect global capital to social and environmental challenges around the world. This free movement of philanthropic capital could be targeted in a number of ways, including in support of causes that are significant to the UK, or channelling it responsibly to those countries who have much to gain from philanthropic capital and the most to lose from the economic mobility of their citizens.

Taking the initiative globally on these issues presents the UK with four opportunities:

- It will strengthen the UK's position as a global wealth centre by enabling wealth holders to manage both philanthropic capital and family wealth from the UK;

- It will send a signal that the UK welcomes responsible wealth creators and wealth owners;

- It will extend the UK's base of soft power in the post-Brexit and post-Covid era; and

- It will build the skills we need to encourage domestic philanthropy and social investment in parallel with supporting global transformative change.

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

International flows from wealth holders in Asia, the Middle East and Russia

The measures proposed in this report are of particular significance to wealth owners from Asia, the Middle East and Russia who wish to advance their philanthropy and social investment.

A number of countries in the Middle East, and also in Asia, do not have the legal structure to establish a private charitable trust or foundation. Therefore, wealth owners are restricted in their home country either to giving through corporate entities, thereby aligning their giving with the corporate and social responsibilities of the business, or through faith organisations and government-sponsored programmes.

Those wealth owning families that want to give according to their personal priorities and values will therefore, inevitably seek an international jurisdiction. This activity is already underway and becoming increasingly sophisticated.

A recent report from Cass Business School entitled *Muslim Philanthropy in the UK Foundation Context* identified 30 larger foundations and other grantmaking charities in the UK giving to programmes in the Middle East. These organisations had combined grants of £161 million in 2018, more than double the levels in 2012 [24]. Their spending was £272 million, total funds stood at £383 million and they had social investments of at least £25 million. The report noted that Muslim foundations are a significant sub-sector of UK philanthropy, with a distinct infrastructure and high levels of collaboration among foundations working on similar themes.

Another significant group of international philanthropists operating from the UK are Russian wealth holders. Over the last two decades the Russian government has enacted laws that have encouraged domestic philanthropy. However, the Russian government has also strengthened its oversight of the work of Russian foundations and international NGOs. The Foreign Agent Law, in particular, requires any Russian organisation that engages in political activity and which receives funds from outside of Russia to register as a foreign agent. This limits the ability of Russian philanthropists to collaborate internationally and has resulted in a number of wealth holders establishing their giving vehicles outside of Russia.

For all of these groups, getting money to an international wealth management centre for philanthropic purposes is often challenging. There are tax restrictions and controls to navigate, as well as due diligence requirements in the recipient country. It often requires professionals with specialist knowledge to navigate these restrictions appropriately and may require money to be routed via more than one jurisdiction in the process. In this function, the Channel Islands have a supporting role to play.

[24] https://www.cass.city.ac.uk/__data/assets/pdf_file/0004/543721/Pharoah-Muslim-philanthropy-in-UK-context.pdf

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

Some countries are more welcoming than others. For example, the United States has a deeper infrastructure to support giving, but there are enhanced financial reporting requirements for Middle East wealth owners bringing assets to the United States that put off many families. The escalating tensions between the United States and China in recent years, have had a similar effect. Furthermore, the American system of worldwide taxation is also a factor as international wealth owners avoid creating an American tax footprint where possible.

Thus, in spite of the depth and sophistication of the United States, international philanthropists and social investors often turn to the UK, Switzerland and Singapore as alternative jurisdictions for their social impact activities.

Once the capital is in a giving vehicle in one of these countries, it is still not easy to give it back to causes in the home country or other territories on a cross-border basis. International gifts are subject to detailed due diligence in order to meet the public benefit requirements of the host jurisdiction. If there is no charitable status in the home jurisdiction, it can be particularly challenging to donate money.

As a consequence, even if it might be their preference to give to targeted interventions in their home jurisdiction, it is common for international philanthropic families to give to causes elsewhere. Prominently, many wealth owners give to educational establishments where family members are alumni, or to international research, arts or culture institutions, or to global health initiatives.

Those who do persevere to give to chosen causes in their home countries accept heavy costs for professional support. They often feel isolated, especially if political circumstances change where they are giving resulting in an escalation of risk. It is for these reasons that informal collaborations are emerging, for example among UK-based Muslim foundations. Given the nature of their international work, these foundations operate with enhanced risk, compliance and governance protocols. They are reliant on international links and actively share knowledge and connections through their networks to further their work.

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

Wealth holders and social investment

International philanthropists are also increasingly interested in social investment. Whether they are seeking mission-alignment for their wider asset base, or mechanisms to create sustainability and leverage for their philanthropic endeavours, wealth holders are interested in strategies where the social impact is explicit and can be directly measured. For many wealth holders, the intersection between philanthropy and social investment is more important than generic ESG or sustainability strategies.

The UK has a good track record in this field. Big Society Capital estimates more than 5,000 social investment transactions have been undertaken in the UK with a total value of £5.1 billion at the end of 2019, a six-fold increase since 2011 [25].

Setting the UK in a global context, in its 2020 survey, the Global Impact Investing Network estimates the total size of the impact investment market at USD715 billion [26]. The depth of expertise in these investments is found in North America and in Europe. The report states that 45% of social investment funds identified in the report are located in the United States and Canada and 26% across Western, Northern and Southern Europe.

By contrast, even though government policy is seeking to accelerate social investment in parts of Asia and the Middle East, just 10% of respondents were headquartered in South Asia, East Asia and Southeast Asia [27].

[25] https://bigsocietycapital.com/latest/uk-social-impact-investment-market-now-worth-more-than-5-billion/
[26] https://thegiin.org/research/publication/impinv-survey-2020
[27] https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

REQUIREMENTS OF A CENTRE OF EXCELLENCE

To support the social impact goals of international wealth holders, a centre of excellence in philanthropy and social investment needs to look to the future and be built on a bedrock of policy, regulation and fiscal treatment that is consistent, coordinated and developed with the express intention of enabling international flows of philanthropic and social investment rather than hindering it.

The future of philanthropy and social investment is blended, impact-oriented and collaborative. Therefore, the centre of excellence will be underpinned by a network of cross-disciplinary organisations working closely together to drive innovation in each of these fields. These organisations will have a common commitment to support international wealth holders to achieve their social impact goals holistically.

It will include professional services firms, financial services firms, philanthropy advisers, expert foundations, social investment providers, impact investment funds, technology providers, social stock exchanges, social impact consultancies, donor education, charitable banking services, donor advised funds, community foundations, academic specialists and professional bodies.

This community of experts will be supported by technology that enables philanthropists and social investors to target their investments with supporting data and recommendations, to transfer funds seamlessly to non-profit organisations or social enterprises worldwide, and to monitor and measure the direct social impact of their work.

The policy environment supporting this activity must offer regulation that is frictionless and guidance that is easy to navigate for international citizens.

Policy needs to be unambiguous; regulation needs to be targeted and clear; the infrastructure needs to be world-class and the environment must support innovation.

If the UK were able to achieve these goals, it would become the world's first global centre of excellence for philanthropy and social investment. In turn, it would also significantly enhance the UK's reputation as a financial hub adding to the list of existing attractions as a centre for business, trade, investment and wealth management.

REQUIREMENTS OF A CENTRE OF EXCELLENCE

Furthermore, the upgrade in skills deriving from offering a world-class infrastructure for international philanthropy and social investment will benefit the home market too. An increased focus on offering an enabling environment for philanthropy and social investment will lead to more and better giving in the UK.

Lastly offering the global diaspora of wealth owners a well-regulated and transparent mechanism for giving back to the communities and causes that mean most to them, will send an important signal that the UK recognises the importance of connecting responsible private capital (enabling the expression of family values through philanthropy) with international social and environmental challenges.

REQUIREMENTS OF A CENTRE OF EXCELLENCE

The UK in a global context

The UK has an opportunity to take this leadership stance. At present the UK is a default centre for philanthropy and social investment alongside the United States and Switzerland. Each of these jurisdictions offers a strong foundation of governance, transparency and accountability. All three centres have a concentration of experts within their advisory community that can support the more complex philanthropic activity of wealth holders and have established networks to do so.

However, each of these clusters is operating in a charitable regime that has been designed and regulated to prioritise domestic objectives. International philanthropy is shoehorned into these structures and then facilitated through networks of advisers and support organisations around the world.

In the United States, setting up a giving vehicle is relatively straightforward. It simply requires registration with the tax authorities. Yet, as a rules-based system, it is complex and prescriptive, especially for international philanthropists who need to get to grips with the application of rules at State and Federal level, as well as the cross-border regime. Where the United States has gained considerable momentum is through the expertise and innovation driven by the volume of giving and social investment in the domestic market.

In Switzerland, there has been a coordinated push to establish Geneva as a global centre for sustainable finance, which in part relies on the ease with which one can set up a philanthropic foundation in Switzerland. However, there are challenges for international wealth holders to take advantage of the flexibility offered by Swiss foundations, most notably the requirement for a Swiss resident board member, which is a non-starter for many international families.

In the UK, charitable giving entities have to be registered with the Charity Commission for England & Wales, or the Office of the Scottish Charity Regulator in Scotland or the Charity Commission for Northern Ireland. This is a lengthy process. However, once registered, the UK is regarded as well-regulated. The principles-based approach offers a good level of flexibility. However, setting up a giving vehicle is regarded as laborious and there is a lack of clarity and consistency in the guidance offered to international philanthropists that is unhelpful.

While both the UK and Switzerland have international expertise, lower levels of domestic giving and social investment activity means they lack critical mass for innovation. Growth is therefore driven through collaboration and alignment. Actions can be implemented faster, which in turn creates a climate supportive of change and innovation.

REQUIREMENTS OF A CENTRE OF EXCELLENCE

There are other emerging centres, notably Singapore, the Netherlands and Jersey which serve particular niches well. They also often serve as bridge locations for philanthropic or social investment capital. However, they are perceived to lack depth of expertise and infrastructure and may not be as broadly attractive. Nor do they offer the scale of engagement and opportunity found elsewhere.

Cross-border giving is complex from all of these jurisdictions as donors need to demonstrate the charitable purpose of the receiving organisation. If there are tax implications, these also require documentation.

Global networks are emerging to facilitate this level of due diligence. In the UK, the Global Alliance of the Charities Aid Foundation, in Belgium Transnational Giving Europe established by the King Baudouin Foundation, or TrustBridge in Switzerland are international networks of foundations that facilitate the flow of philanthropic capital between countries.

These networks operate on the principle that network members are all tax-exempt, non-profit entities in their home jurisdictions. They can accept payments from donors in the home country and transfer those donations across the network on the donor's instructions. Thus, a donor in one country can support charities in another country while benefiting from the tax benefits of charitable giving in their home jurisdiction.

In parallel, all jurisdictions are wrestling with the challenge of encouraging social investment at the same time as ensuring trusts and foundations operate with financial prudence.

The established test for financial prudence is that an investment strategy should maximise risk-adjusted return. No equivalent test exists for social impact. Regulators are striving to encourage innovation, but struggle to enact principles governing investment for social return, where these may be to the detriment of the financial security of the charitable entity. Another concern is that for-profit activity may end up being carried out within non-profit entities creating an unfair tax advantage.

To overcome these challenges, regulations typically place the onus on trustees to ensure any social investment activity aligns with the charitable purpose of the entity and to provide enhanced reporting. However, without appropriate education for trustees, this has been a significant barrier.

Advancing the UK's already successful social investment sector therefore requires a combination of a vibrant community of social enterprises, social investment fund managers and distributors to undertake the necessary market cultivation, policy support in the form of tax incentives or direct government backing *and* a proactive regulatory stance to enable and support trustees to meet the reporting requirements.

REQUIREMENTS OF A CENTRE OF EXCELLENCE

The Netherlands scores highly on its regulatory position. The ability of Dutch foundations to own social enterprises within a non-profit structure, with segregated governance and self-reporting, has provided a flexible vehicle for those who wish to innovate in the field of social investment.

By contrast, the UK has a dynamic social investment sector, but regulations are regarded as ambiguous and the reporting requirements are onerous. The Charity Commission formally launched a consultation on responsible investment to address these issues early in 2021.

This is an area where the UK could provide international leadership. Social Investment Tax Relief already provides the UK with a uniquely incentivised platform for the development of domestic social investment. Innovation in this field will attract international social investors seeking depth of expertise.

PART 2:

ENABLE, INVEST, PROMOTE

THE LANDSCAPE FOR PHILANTHROPY AND SOCIAL INVESTMENT IN THE UK

The uncertainty surrounding Brexit has given international wealth advisers pause for thought about the UK's stability as a jurisdiction for international wealth owners, this uncertainty extends to their philanthropy and social investment. Yet, the UK remains in a strong position due to its deeply-rooted rule of law and its legacy of innovation through the last decade.

Once a vehicle has been established the regime requires compliance with Charity Commission guidance from the relevant regulator in England & Wales, Scotland or Northern Ireland, annual reporting and an audit if the entity has income or assets over a certain threshold.

In practice, this regime already enables the UK to have a healthy presence in the international grantmaking arena. The Charity Commission for England & Wales identifies that 68,000 of the 168,000 charities on its register make grants to other organisations. Of this total, 3,750 of these, or 5.5%, are grantmaking organisations that have programmes or grant giving activity outside the UK [28].

In its *2019 Foundation Giving Trends* report, the Association of Charitable Foundations estimates the total amount of grantmaking activity by charitable foundations in the UK was £6.5 billion in 2017/2018 [29].

The same report estimates UK private giving at just short of 1% of GDP (0.95%) [30] in 2017/2018. In the same year, giving in the United States was just over 2% of GDP. While the percentage difference is relatively small, the size of the America means this amount equated to USD430 billion of giving by Americans, compared with £20.3 billion in the UK.

With this scale, the United States has forged ahead with an extensive and developed infrastructure to support philanthropic giving and social investment.

The UK's ecosystem is smaller, but, crucially, it is more closely networked with good national reach through umbrella organisations such as the UK Community Foundations, academic institutions and professional services firms.

[28] https://register-of-charities.charitycommission.gov.uk/charity-search?p_p_id=uk_gov_ccew_portlet_CharitySearchPortlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&_uk_gov_ccew_portlet_CharitySearchPortlet_mvcRenderCommandName=%2Fadvanced-search.
[29] https://www.acf.org.uk/downloads/publications/ACF_Foundation_Giving_Trends_2019.pdf
[30] https://www.statista.com/statistics/281744/gdp-of-the-united-kingdom-uk-since-2000/

THE LANDSCAPE FOR PHILANTHROPY AND SOCIAL INVESTMENT IN THE UK

Infrastructure

International philanthropists and social investors are drawn to the UK because of the concentration of skills and expertise in London across philanthropy, social investment, blended finance and other forms of for-profit responsible investment. London is a nexus for a multi-disciplinary approach to global social impact.

Principal actors supporting the growth of philanthropy and social investment include umbrella organisations such as Charities Aid Foundation, UK Community Foundations, the Association of Charitable Foundations, Big Society Capital and Philanthropy Impact. The Beacon Collaborative is a multi-stakeholder initiative to coordinate and accelerate growth across the sector.

Charities Aid Foundation has an international network of partner organisations across the United States, Australia, New Zealand, Bulgaria, Brazil, Canada, India, Russia, South Africa. It is also a founding partner of Transnational Giving Europe, the cross-border giving platform developed with support from the King Baudouin Foundation that spans 21 European countries. These partnerships work together to facilitate cross-border giving.

The UK Community Foundations network is a federation of 46 local community foundations who connect charities and donors across the UK. Meanwhile, the Association of Charitable Foundations estimates a quarter of its 390 members are private family foundations.

Philanthropy Impact represents the advisory community serving philanthropists and social investors, including professional advisers from the legal, accounting and wealth management sectors as well as specialist philanthropy consultants. Philanthropy Impact currently has around 200 members across the UK and internationally.

In the field of social investment, the UK has the Impact Investing Institute aimed at driving savings and investments into strategies that offer social and environment return alongside financial return. It aims to create the market conditions for big pools of capital, such as pension funds, to invest for positive impact. It works with investors, asset owners, wealth advisers, policy makers and regulators to create the conditions to connect capital with social investment.

The UK also has a vibrant range of fund managers offering social impact strategies. Good Finance, an initiative funded by Big Society Capital to provide a trusted source of information on social investment, lists 130 funds, specialist advisory firms and investors in its network. The UK has also become the first country in the world to offer a listed impact investment fund on the London Stock Exchange, a collaboration between Big Society Capital and Schroders.

THE LANDSCAPE FOR PHILANTHROPY AND SOCIAL INVESTMENT IN THE UK

Alongside product and service providers, academic institutions across the UK also provide in-depth knowledge and research on the practice of philanthropy and social investment. These include:

- The Marshall Institute at London School of Economics
- The Centre for Philanthropy at Kent University
- The Centre for Charitable Giving and Philanthropy at Cass Business School
- The Oxford Institute of Charity based at the University of Oxford
- The Centre for the Study of Philanthropy and Public Good at St Andrews University
- The Centre for Strategic Philanthropy at the University of Cambridge Judge Business School

There is also an active community of supporting service providers. Donor advised funds, for example, provide a tax-efficient administrative platform for individual donors. Acting as trustee, donor advised fund sponsors manage the process of making donations handling due diligence, financial transactions and reporting.

There is a growing group of funder networks emerging to support philanthropists and social investors. Global Dialogue was the first of these in the UK. Launched in 2007, Global Dialogue incubates funder networks such as Ariadne and the Thomas Paine Initiative.

Other funder networks have also emerged including the Environmental Funders Network with a network of 170 members, and New Philanthropy for Arts and Culture. American funder networks are also increasingly active in the UK, such as The Philanthropy Workshop, Nexus Global, the Science Philanthropy Alliance and Women Moving Millions.

A number of innovative technology providers are also emerging in London aiming to connect capital more efficiently with social impact opportunities. These include 360 Giving, Brevio, The Big Give, Funders Collaborative Hub, Maanch, Validaid, IG Advisors, Charitybase, BizGive and So Give.

Equally, the proximity of international business and financial expertise to the philanthropy and social investment sectors means London is rapidly developing best practice in impact measurement.

The cumulative impact of these initiatives demonstrates the UK's increasing strength as a dynamic innovator for social change, impact and investment.

Advantages of the UK regime

Underpinning this activity, it is the strong regulatory framework that provides a significant attraction for international philanthropists and social investors. The independence of the Charity Commission from HMRC and other government departments is seen as a benefit, especially compared to the United States, where charitable entities are regulated by the Internal Revenue Service. International wealth holders come directly under the purview of the American tax authorities when establishing a giving vehicle in the United States.

Charity Commission guidance is, in the main, comprehensive. The fact that there is no formal requirement for trustees to be resident in the UK, is a notable benefit for international families. Legislation and regulation also make provision for trustees to explore social investment, including programme-related investments and mixed motive investments.

The UK offers a well-balanced package of tax incentives for giving and social investment to tax residents, including Gift Aid, Social Investment Tax Relief (SITR), capital gains tax relief on land, property or investments, stamp duty land tax relief and inheritance tax relief.

The reliefs provide a good basis for charitable tax planning and are an incentive for international wealth owners who invest and do business here to establish their charitable base in the UK. Indeed, professional advisers believe there should be greater awareness and promotion of these reliefs to international wealth holders as a benefit when considering tax residence in the UK.

AREAS FOR IMPROVEMENT

These benefits already provide a strong framework for international philanthropy and social investment. However, they could be improved by considering the needs of international philanthropists and social investors alongside those of the domestic market.

There are a number of specific measures that could strengthen the existing regime to make it more appealing to international philanthropists and social investors, especially in the wake of Brexit. These fall broadly into three areas: enable, invest and promote.

Each of these areas is addressed in turn below.

ENABLE

Finance Act 2010

In a post-Brexit environment, the most transformative of these adjustments would consider the opportunity to allow foreign charitable organisations to enjoy the same tax advantages as UK charities. The Finance Act 2010 currently favours European jurisdictions, enabling foreign charitable organisations to enjoy the same tax advantages as UK domestic charities provided they are:

- Established for charitable purposes;
- Within the jurisdiction of an EU member state, Liechtenstein, Norway or Iceland;
- Registered with its local charity regulator (if required); and
- Managed by "fit and proper persons".

These provisions ensure robust tests govern the flows of philanthropic capital to combat potential financial abuse. In theory, they also laid the ground for passported tax advantages within the EU bloc; although in practice these advantages were rarely applicable.

Post-Brexit, the amendment or deletion of the second provision could open up international giving from the UK.

It would be possible, for example, to extend these provisions to new jurisdictions on a bilateral basis. However, given other priorities, this approach is likely to be complex and time consuming.

Therefore, we propose a more liberal alternative which could see the removal of the jurisdictional requirement from the Finance Act 2010 altogether, leaving no geographical limit on where overseas charitable organisations can be based. Providing they meet the remaining tests (that they are established for charitable purposes, that they are registered if required with a local charity regulator and are run by fit and proper persons) they could be considered eligible for reciprocal tax benefits.

AREAS FOR IMPROVEMENT

We would propose this approach is supported by the introduction of an equivalency regime that draws on the experience of the Internal Revenue Service in the United States. There are two methodologies used for equivalency qualification in the United States. One tracks the funds to ensure they are used for purposes that are deemed appropriate under United States requirements ("expenditure responsibility"); the other requires that the receiving organisation is of equivalent status ("equivalency determination").

Expenditure responsibility can be applied on a grant-by-grant basis. It requires an upfront questionnaire to ensure the grant purpose is acceptable and a post-grant report to ensure the funds were used according to the agreed purpose. Equivalency determination is used where the donor intends a long-term relationship with the receiving organisations, requiring detailed and certified due diligence. It operates on a trust-based system, whereby qualified professionals testify that a non-domestic charity has equivalent status and is enforced through an audit process.

A similar rules-based regime in the UK would offer the basis for international philanthropic capital to flow more freely from the UK.

Of note, this recommendation aligns with the recent OECD report, *Taxation and Philanthropy*, which states: "the increasingly global nature of many policy challenges – such as environmental and public health concerns (including the COVID-19 pandemic) – may require countries and institutions to cooperate across borders. In this context, there is merit in countries reassessing whether there may be some instances where equivalent tax treatment should be provided to domestic and cross-border philanthropy." [31].

The UK already has the underlying principles that could be used to develop a suitable equivalency regime in the public benefit tests and HMRC's overseas payments regime. This recommendation therefore represents a practical enhancement of the current approach.

To attract philanthropists and social investors to the UK a number of additional measures could be considered to reduce regulatory friction. These are covered in more detail overleaf.

[31] https://www.oecd-ilibrary.org/sites/df434a77-en/index.html?itemId=/content/publication/df434a77-en&_csp_=5110e1aff1e78c9321ac5759cebc19c5&itemIGO=oecd&itemContentType=book#section-d1e18417

AREAS FOR IMPROVEMENT

Public benefit tests

In the UK, the Charities Acts state that charities must provide a public benefit. While legislation does not include a statutory definition of public benefit, there are established tests set out in Charity Commission guidance. These state that:

- a charity's purpose must be beneficial in a way that is identifiable and capable of being proved by evidence where necessary;

- any detriment resulting from the purpose must not outweigh the benefit;

- a charity's purpose must benefit the public in general, or a sufficient section of the public, and must not give rise to more than incidental private benefit.

These principles already provide a robust but flexible operating framework for international philanthropists. International philanthropists using a UK charitable trust must be able to evidence that their international gifts meet these tests. However, their precise application is a matter of case law and precedents typically pertain to UK domestic cases. It can therefore be complex for international families to interpret the extent of the applicability in an international context.

Using these principles as the foundation for a rules-based UK equivalency regime would introduce greater clarity for international philanthropists operating from the UK.

In the United States, the combination of equivalency determination and expenditure responsibility empower international philanthropists to navigate the changing risk characteristics of international giving with greater certainty. The approach does not reduce the level of due diligence overall, but rather ensures it is scalable and can take into account the relative risk of each payment where circumstances are subject to change.

Overseas payments

Similarly, international philanthropists who make grants overseas currently need to demonstrate to HMRC that they have taken "reasonable" steps to ensure the payments were used for charitable purposes. This must include information about the size and frequency of payments, the relationship between the donor and grantee organisations, the location of the grantee and any risk factor associated with that jurisdiction, the financial controls exercised by the donor in making the payment and how well those processes were documented.

A UK version of an equivalency regime could be developed from these reporting requirements thus unifying the challenges of meeting both Charity Commission and HMRC tests.

AREAS FOR IMPROVEMENT

UK Charities SORP (FRS102) [32] – Related Parties

Combining the requirements of UK company law, charity law and the accounting standard FRS102, Charities SORP provides a comprehensive framework of recommended practice for charity accounting and reporting. In line with global norms, FRS102 and Charities SORP include rules on the disclosure of certain related party transactions between individuals and organisations that have a relationship with the charity.

However, the application of these rules in a UK context can be complex for international philanthropists to navigate without professional advice. At one end of the spectrum, the rules may simply result in disclosures in the accounts of the giving entity. However, if an international philanthropist sets up a giving vehicle in the UK with a donation of shares from an operating business, this can create a requirement for the international operating business to form part of the UK audit of the charitable entity – even if this operating business is overseas and audited according to accounting standards in that jurisdiction.

This duplication is both expensive and an administrative burden. In extreme cases, where the operating business is a holding company or investment company, each of the underlying holdings may also require a UK audit. In such cases, it would be highly unlikely that the UK would be selected as the preferred jurisdiction.

The rules are in line with international practice and aim to enhance transparency and trust in the UK charity sector but can have disproportionate cost implications for the philanthropic entities of international wealth owners. Moreover, the rules are subject to a degree of interpretation by practitioners, which can result in inconsistency of application and cost.

We recommend that the opinion of international philanthropists and their advisers is proactively sought to develop best practice in this area by the professional bodies that oversee the accounting profession, considering:

- Guidance on the application of related party transaction rules in the case of philanthropic giving vehicles;

- Viability of recognising the non-UK audit of an international operating business in such cases.

If appropriate, measures identified through this review could inform future versions of the UK's financial reporting standards and statements of recommended practice.

[32] Charities SORP (FRS102) Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS102)

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Board composition

While there are no specific legal restrictions on appointing a charity trustee who is not resident in the UK, in practice the Charity Commission has indicated its preference for UK resident trustees on the board of giving structures, particularly for Charitable Incorporated Organisations. Similarly, there are no specific limitations on appointing family members to the boards of charitable family vehicles, although again the Charity Commission has a preference for at least two independent trustees.

For international wealth holders who are not tax resident in the UK, there are considerable advantages to the UK's legal stance on these matters. It enables them to operate their international giving in alignment with the UK's robust regulation and with high levels of family participation.

Family dynamics vary over time and it is not unusual for the centre of gravity for international families to move from one jurisdiction to another. In one recent case, the UK resident trustee of a family trust retired from that post. Other family board members had migrated to the United States over a period of years and the trust now faces significant costs to continue operating from the UK.

Clear guidance on these matters would be welcomed to enable advisers to advise international families accordingly. This would reduce the cost and the friction of protracted negotiations with the Charity Commission at the point of application to establish a giving structure or when the governance of philanthropic vehicles requires restructuring.

Charity Commission guidance on Charities and Investment Matters (CC14)

Alongside a targeted regime supporting international philanthropy, there is a parallel opportunity to support wealth holders to achieve their social investment ambitions. Mission-aligned investment means that wealth holders, as individual investors, and also their philanthropic vehicles must be able to invest directly for social impact. At present, Charity Commission guidance on charities and investment matters is a stumbling block.

While the Charities Act 2016 has provided the statutory power for charities to make social investments, the guidance is widely considered to be over-complicated, ambiguous and with an unhelpful level of constraint.

The guidance states that, in a legal sense, investments are made for a financial return and any other purpose is ancillary to that. Where a charity makes investment decisions on moral grounds, this should not be to the significant detriment of financial return. The duty of trustees is to maximise their financial returns within a prudent level of commercial risk.

The guidance indicates that "programme-related investments" and "mixed motive investments" are not investments within the legal definition and therefore are subject to a different test: whether they are an effective way to achieve the charity's purpose.

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In the case of programme-related investments, the guidance indicates that these must be wholly in furtherance of the charity's aims and there are restrictions on how and how much of a charity's permanent endowment can be used for programme-related investment.

In the case of mixed motive investments, the onus is on the charity's trustees to determine the balance made by the investment between the charity's aims and its financial needs. This has to be reported in a separate disclosure in the charity's annual report as FRS102 does not currently address these investments. In spite of provisos contained within the guidance that charity trustees can explore new ways of using programme-related investment, this stance has discouraged charity trustees from providing innovative capital into the wider social investment sphere. This is problematic for international philanthropists and social investors who are likely to be drawn to a regime that enables social investment as an integral part of their social impact activity, especially where this activity is not supported or under-developed in the home country. It would be helpful if the current consultation took into account the interests of international philanthropists and social investors and how the guidance might support this activity.

Gift Aid and Social Investment Tax Relief (SITR)

Together, Gift Aid and SITR offer a unique regime for social impact activity for those international individuals with a UK tax liability. Yet, neither is widely understood or championed either in the domestic or international arena.

Gift Aid

The main issue with the Gift Aid system is its complexity. Under the Gift Aid scheme, the charity receiving the donation can reclaim the basic rate of tax paid by the donor on their donation. Higher rate taxpayers can also make a claim based on the difference between the basic and higher rate of tax paid.

While the domestic tax credit is less generous than other jurisdictions (notably the United States and Singapore), the system has robust oversight from the Charity Commission and HMRC. This oversight and the principles that underpin this relief are attractive to international donors who have UK tax liabilities, especially those who come from countries that place limits around charitable giving for political reasons.

However, Gift Aid is not universally understood by wealth advisers in the UK and is not routinely promoted to private clients.

Yet since 1990, it has raised approximately £18 billion for charities. There are no figures available for the amount of Gift Aid that is unclaimed by individuals, but HMRC has estimated the level of unclaimed Gift Aid by eligible charities at £560 million.

For international philanthropists with UK tax status, Gift Aid would benefit from more clearly drafted guidance from HMRC. This should be supported by a targeted campaign of education and promotion for wealth advisers and international philanthropists.

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SITR

There are similar challenges in applying SITR. The relief was introduced in 2014 to make the UK the easiest place in the world to invest in social enterprise. It was established to provide an environment for market-driven innovation, similar to the benefits of the Enterprise Investment Scheme that drives mainstream entrepreneurship in the UK.

It remains a world-leading incentive and is widely regarded as a generous relief offering income tax relief at 30% and capital gains tax benefits. There are few regimes around the world that offer such a broad-based approach to incentivising social investment innovation. The United States, for example, offers tax credits against investment themes that align with public policy, such as green energy. Neither Switzerland nor Singapore offers an incentivised social investment regime.

SITR could therefore offer a unique opportunity to attract progressive philanthropists and social investors to base their international social impact activities from the UK, alongside other investment activities.

However, the relief is in need of reform. Based on the experience of the first six years, take up by social enterprises and charities has been much less than originally anticipated due to the narrowly drafted eligibility criteria. Various professional bodies have put forward proposals for reform to make it more accessible to social enterprises and charities and more practical for investors.

This consultation presents an opportunity to include views from international philanthropists and social investors to determine how SITR could be amended to encourage their investment in social investment opportunities originating from the UK.

Tax comparability

The recently published report, *Taxation and Philanthropy*, by the OECD focuses on the issues presented by the increasingly global nature of philanthropy highlighting that countries currently provide little tax support for cross-border giving. It urges simplified tax regimes, improved oversight and the establishment of simple equivalency regimes to encourage worldwide giving.

Domestic umbrella organisations, Charities Aid Foundation and NCVO, have argued that the UK should lead on these issues. In its 2016 report *Donation States: an international comparison of the tax treatment of donations*, the Charities Aid Foundation stated that advanced economies with strong histories and cultures of philanthropy, have a responsibility to play a proactive role in encouraging greater giving [33]. This responsibility should include greater international giving.

According to the Charities Aid Foundation report, in 2016 the UK ranked in the top five internationally for tax incentives on larger donations and its tax incentive system for charitable giving was characterised as advanced, pragmatic and egalitarian.

[33] https://www.cafonline.org/about-us/publications/2016-publications/donation-states-an-international-comparison-of-the-tax-treatment-of-donations

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It was further noted in NCVO's *Charity Tax Commission* in 2019 that UK charities should not be put at a disadvantage in seeking philanthropic funding from internationally-mobile philanthropists because greater incentives are offered by other jurisdictions [34].

These reports underscore the UK's opportunity to take a stance of global leadership on these issues. As well as promoting existing reliefs, the UK government should consider if tax incentives could be used to encourage international philanthropists and social investors to establish their social impact activities in the UK, alongside other business and investment activities.

The reports by the Charities Aid Foundation and NCVO further note, any future changes to the UK's tax treatment of philanthropy and social investment must align with and complement those of other jurisdictions. Analysis should therefore be undertaken to determine how the UK tax system compares to other countries and to identify specific amendments to the tax system aimed at attracting overseas philanthropy. This analysis should be aligned with and guided by the principles identified by the Charities Aid Foundation report:

- The UK government should develop a clear, evidenced and consistent rationale for the incentives which is both progressive and sustainable in the long term;

- These incentives should be justified on the basis that the UK government recognises the benefits of a vibrant and diverse civil society, irrespective of whether it aligns with its policy priorities;

- Policy priorities should be incentivised through match funding and not tax incentives;

- Incentives should be designed to elicit the maximum rates of responsiveness while prioritising fairness. Policy makers should aim for the optimum balance between the two;

- Where current or future tax incentives result in greater giving from international philanthropists using the UK as a base, these effects must be monitored to understand their impact, both in the UK and in the countries around the world that are losing or gaining flows of philanthropic capital.

Non-resident, non-domiciled regime

Within this review, government should also consider recent changes to the personal tax code for non-resident and non-domiciled individuals.

International wealth advisers note that these changes have sent a signal to international wealth holders that the UK is a less stable tax environment for such families than it has been in previous decades.

While it is out of the scope of this report to detail specific recommendations, it is this wider regime that will drive decisions about where families establish their base for wealth management.

[34] https://www.ncvo.org.uk/images/documents/policy_and_research/funding/CharityCommissionReport__ForWebTwoColumns.pdf

AREAS FOR IMPROVEMENT

INVEST

Invest in regulation

Enabling the proposals outlined in this report will require an investment into the regulatory infrastructure for philanthropy and social investment. Not only are we proposing a new regime for international giving, we also recommend that guidance is reviewed and enhanced to include information for international philanthropists and social investors.

To achieve the goals set out in this report, the Charity Commission will also need to be resourced effectively and connections with HMRC will need to be enhanced.

In recent years, the budget for the Charity Commission has been under pressure. For the year ending 2009, its annual income was £32.3 million. At year-end 2015, that figure had fallen to £21.5 million against a backdrop of increased charity registrations, prompting the Commission to propose a consultation on charging fees for its services to large charities. It has since received an increase in funding from government to £28.3 million for 2021-2022.

The Charity Commission has around 450 staff regulating 180,000 charities. The increase in funding has been targeted at improving service levels in the contact centre and digital services. The Commission has been able to respond to 97% of calls in recent months and 92% of applications are assessed within two days.

However, professional advisers who work with international philanthropists and social investors have noted that their applications still typically take longer and with less consistency in the advice they receive from support staff. They have also found that the links between the Charity Commission and HMRC are less coordinated than they have been historically. It can result in slower responses and a lack of clarity for philanthropists and social investors on how to apply the rules on tax relief to specific grants and investments.

On an ongoing basis, we would therefore propose that both the HMRC Charities Helpline and the Charity Commission should consider establishing a dedicated unit trained to respond to queries from international philanthropists, social investors and their advisers. Currently, helpline staff at both entities can offer multi-lingual support if needed, but neither language skills nor targeted training on international philanthropy and social investment are core competencies for the teams.

Of note, the Charities Aid Foundation has put forward alternative funding proposals for the Charity Commission favouring payment for services such as document pre-checking and advising on complex matters [35].

[35] https://www.cafonline.org/docs/default-source/about-us-publications/charity-commission-charging-report-final-output.pdf.

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These services are particularly pertinent to international philanthropists and social investors who are seeking to fund and to innovate in a frictionless regulatory environment, and who therefore might be more willing to pay for these advisory services.

The Charities Aid Foundation report further notes that policy priorities post-Brexit (and now post-Covid-19) might result in a reprioritisation of spending commitments to bring communities together. Along with enhanced support for the charity sector, this could prompt a commitment to greater funding for the charity regulator.

Supporting innovation

The UK has a good range of structures for charitable activity. The main structures are:

- Charitable trusts
- Charitable companies (limited by guarantee)
- Charitable incorporated organisations (CIOs)
- Unincorporated associations
- Donor-advised funds

International philanthropists who want to run their own programmes and have family members and other experts involved on the board, will typically use one of these structures.

Donor advised funds have also expanded significantly in the UK recently. Historically, donors have been able to open an account with the Charities Aid Foundation or their local Community Foundation to get the benefits of a donor advised fund.

Over the last decade, there has also been growth in the number of independent DAF providers. A selection of private banks have also established charitable structures to offer donor advised funds in-house to their clients.

Recent reports from the Charities Aid Foundation [36] and NPT UK [37] suggest charitable assets under management in donor advised funds have almost doubled in the last five years to around £1.5 billion. Current providers of DAFs in the UK include: Charities Aid Foundation, UK Community Foundations, Prism the Gift Fund, NPT UK, Stewardship, Shared Impact, UBS, C Hoare & Co.

Among these providers, Charities Aid Foundation, NPT UK and Shared Impact offer dual-qualified donor advised fund structures. The dual-qualified fund is recognised for tax purposes in both the UK and the United States. Claiming the relevant tax reliefs in both countries means international philanthropists who have links in both countries can maximise the amount of money in their account available to be given to good causes.

[36] https://www.cafonline.org/docs/default-source/personal-giving/daf_report_2020_a4_2873a_web_140420.pdf
[37] https://www.nptuk.org/reports/daf-report/

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The Charities Aid Foundation enables international cross-border giving through its Global Alliance network of offices and partners in nine locations around the world and Transnational Giving Europe, of which it is a founder member.

For social enterprise, the UK offers Community Interest Companies. For social investment, there are Charity Authorised Investment Funds. Additionally, the Certified B Corporation movement started in the UK in 2015, which encourages companies to amend their governing documents binding them to have a positive impact on wider stakeholders, society and the environment as well as the company members.

In addition to these structures, the UK has a growing network of specialist financial institutions and intermediaries that are developing a gamut of social investment strategies, including international impact investment strategies and funds. Blended finance is also gaining ground, where philanthropy is used to identify for-impact investment opportunities that can drive sustainable change.

The domestic and international innovation that is being spearheaded by these firms will benefit from inflows from international philanthropists and social investors. Compared to the United States, the UK has a much lower volume of activity to fuel innovation and growth in philanthropy and social investment.

Just as the financial markets in London are powered by international investment flows, the UK's philanthropy and social investment sectors also require international volume to reach critical mass.

Amendments in regulation to reduce the friction for international philanthropists and social investors to set up and operate from the UK, should be supported by direct efforts to support and enable cross-disciplinary innovation in the UK's philanthropy and social investment sectors. Where possible, there should be an international dimension to this development work.

Enabling Technology

Technology will be a critical component of this enablement and this is an area where the UK significantly lags behind the United States. The lean operating budgets of most non-profit organisations in the philanthropy and social investment sectors have hindered technology innovation. Where technology initiatives have emerged, they are often philanthropically-backed, but struggle to gain commercial traction in a non-profit marketplace.

As Danny Kruger MP noted in his 2020 report *Levelling up our communities: proposal for a new social covenant* [38], digital technology can create a step change in civil society. It is essential that this digital enablement extends to include philanthropy and social investment organisations that provide the backbone for new funding flows.

[38] https://www.dannykruger.org.uk/sites/www.dannykruger.org.uk/files/2020-09/Kruger%202.0%20Levelling%20Up%20Our%20Communities.pdf

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There is a need for specialist technology that can support philanthropists and social investors through their giving and investment choices:

- Providing research and information that can support their giving/investment choices;
- Identifying opportunities (locally, nationally and internationally and by cause area);
- Ensuring thorough and compliant due diligence on charities and social investments;
- Enabling frictionless transactions (domestically and cross-border);
- Supporting administration, and financial and tax reporting;
- Measuring impact.

To build the UK's reputation as an international centre of excellence, solutions that offer domestic and international functionality should be encouraged, including ensuring international user-groups are involved in the design of these platforms and the data standards underpinning these technologies are compatible with other leading global centres. If necessary, the UK must provide leadership in this issue.

Investment should also support innovation, particularly in the field of impact measurement, using technologies such as block chain.

This digital enablement work could be funded through a government-backed grant or social investment programme managed through NESTA, Social Finance, or other social investment organisations with digital expertise.

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PROMOTE

Whitehall architecture

Even without the measures outlined above, the UK is already one of the world's leading centres for international philanthropy and social investment. There is therefore an immediate opportunity to promote the UK's capabilities in this field on the international stage. Maximising this opportunity will require a greater level of coordination between the Department for Digital, Culture, Media and Sport (DCMS), which includes the Office for Civil Society (OCS), and the Department for International Trade (DIT).

At present, Baroness Barran MBE is the Minister for Civil Society and DCMS. The OCS oversees policy relating to charities, social enterprises, volunteers, public service mutuals and young people. OCS has a mission to drive growth and promote Britain's capabilities to the world in partnership with civil society, private business, investors and across government.

The Civil Society Strategy, which OCS seeks to implement, is largely domestic in focus; although it states the ambition to strengthen the UK's role in global philanthropy and for the UK to become the global centre for philanthropy practice [39].

To achieve this ambition, we believe that a coherent and joined up approach would best be served by the appointment of a "Philanthropy Commissioner", reporting jointly to ministers at DCMS and DIT.

This individual would have responsibility for overseeing the agenda of enablement, investment and promotion of the UK as a centre of excellence for international philanthropy and social investment, recognising that philanthropic capital often sits alongside a wealth holder's other business and personal assets.

Indeed, the development of the UK as a centre of excellence for philanthropy and social investment should encompass a broader ambition to increase the inward investment to the UK from international wealth holders, particularly into the UK's wealth management sector.

Joint accountability for this strategy across DCMS and DIT clearly recognises the cross-disciplinary nature of philanthropy and social investment, encompassing legal, accounting, financial services, professional services and technology sectors as well as civil society, charities and social enterprises.

[39] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732765/Civil_Society_Strategy_-_building_a_future_that_works_for_everyone.pdf

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In addition to appointing a "Philanthropy Commissioner", government should consider giving responsibility for championing the UK as a centre of excellence for international philanthropy and social investment to a Minister within DIT. The efforts of DCMS and DIT should be coordinated and enabled by an International Philanthropy and Social Investment policy unit working within the OCS. This unit should also routinely brief Prime Ministerial trade envoys on the opportunities for international philanthropy and social investment in the UK.

Philanthropy and Social Investment Council

Additionally, the government should set up an International Philanthropy and Social Investment Council, along parallel lines to the five Business Councils currently advising on the Prime Minister and senior cabinet ministers on post-Brexit business plans.

This council should be organised by DCMS and DIT, with support from City of London officials. It might be chaired by the managing partner or chief executive of an international law or accounting firm, or the Board Chair of one of the philanthropy and social investment sector organisations such as the Charities Aid Foundation or Big Society Capital.

It should include an advisory panel of international philanthropists and social investors, as well as representatives of the Corporation of the City of London, senior lawyers, accountants and wealth managers, and representatives from the infrastructure bodies of the charity and social investment sectors. It should provide input on policy proposals supporting the development of the UK as a centre of excellence for international philanthropy and social investment.

International ambassadors

Individuals from this council might also serve as Philanthropy and Social Investment Ambassadors, supporting international trade missions from DIT, working to promote the UK's excellence and highlighting global philanthropy and social investment opportunities.

Once underway, this programme should seek to engage a wide network of international philanthropists and social investors who use the UK as their global base.

As practising philanthropists and social investors, these individuals should be encouraged to act as ambassadors in their home markets to raise the profile of the UK as a centre of excellence. They can also assist to strengthen the ties between the UK and other countries around the world, potentially using the network of British Embassies and the British Council.

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Promotion, campaigns and activities

Supporting this work, the GREAT Britain Campaign could develop campaigns to highlight the UK's leadership in these fields such as "Philanthropy is Great" and "Social Investment is Great". Other upcoming national events could also be used to highlight the UK's philanthropic culture. For example, philanthropy and social investment could also be integrated into the programme of the 2022 Festival of Britain by recognising and celebrating the importance of philanthropy to the UK's heritage of innovation and creativity in science, technology, engineering, arts and mathematics.

Alternatively, or additionally, the UK could use its convening power to organise a separate global event encouraging international philanthropists and social investors who want to come together to consider how they can support action on global issues.

The UK could also establish an International Philanthropy Day along the lines of the National Philanthropy Day©, which is celebrated in the United States, Canada and Mexico.

Government may also wish to consider how the Honours system might be used to encourage international philanthropy in the UK. In 2020, of the 1,358 honours awarded, 10 explicitly referenced philanthropy. Of these, three were awarded to philanthropists born overseas. Highlighting their achievements and those of international philanthropists in future honours lists will send a signal that the UK recognises the contribution of international philanthropy to the UK and around the world.

Match funding partnerships

Danny Kruger's report also highlights the opportunity for allocating a portion of the international development budget for a match funding scheme to encourage international philanthropists to invest in opportunities aligned to the government's development strategy.

If such a strategy were developed on the basis of genuine partnership, it could be of considerable merit for international philanthropists. This would mean that government may promote opportunities that reflect its interests, and equally international philanthropists might present projects to government for match consideration under the scheme. In this way, government gains greater insight into on-the-ground activity internationally and the scheme could unlock significant funding flows for international development initiatives in areas of interest.

This mechanism responds to a challenge that international philanthropists identify when working across borders, which is the lack of support when circumstances change in those countries. When in-country risks change, they can be left isolated and exposed. The opportunity to align with a UK government-backed programme would mitigate some of these risks.

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There are precedents for aligning private capital with the government's development agenda. For example, UK Aid Match is a scheme that has offered the British public the opportunity to contribute alongside government to charities that are working on international development around the world. Since 2013, the programme has provided funding to 111 organisations working in 36 countries around the world.

The programme targets the 50 countries at the bottom of the UN Human Development Index, excluding Syria, as well as a further 12 countries deemed fragile by the UK government. Donated funds are matched on a 1:1 basis up to a government cap of £2 million. Projects are selected according to criteria that align with the Sustainable Development Goals [40]. The first phase of the programme, from 2013 – 2016 distributed £120 million. The second phase is due to conclude in 2023 [41].

Match funding programmes could also be aligned with domestic priorities, for example tapping into the interest of international wealth holders to give to educational and cultural institutions. Again, there is a precedent. Between 2008 – 2011, £200 million of match funding was made available via the Higher Education Funding Council for England. A separate programme offering £10 million of match funding was made available in Wales. The English scheme made match funding payments of £143 million triggered by £580 million of funding by donors [42].

Other match funding schemes or social investment programmes could be developed on global issues, potentially using the Sustainable Development Goals as a framework for action.

In November 2021, the UK will host the COP 26 Climate Change Conference which could be a platform for a match funding programme on environmental themes. The ongoing migration crisis could also be developed as a theme, enabling international philanthropists to support underprivileged members of their own community worldwide, including those living in the UK.

Social investment programmes could be similarly developed geographically or thematically, where government capital is used to encourage alignment of private capital. Acting as a cornerstone investor, government capital can ensure an acceptable risk profile for smaller investors.

Of note, a model for this might be the Canadian government's International Assistance Innovation Programme, which was set up in 2018 with a budget of CAD900 million to demonstrate that investing in support of the Sustainable Development Goals can bring both development and financial returns. One of the express goals of this social investment programme is to attract additional private capital to the programme by creating profitable investment opportunities with an acceptable risk-return profile [43].

[40] https://www.ukaidmatch.org/
[41] https://www.gov.uk/international-development-funding/uk-aid-match
[42] https://www.morepartnership.com/library/Review_of_Philanthropy_in_UK_Higher_Education.pdf
[43[https://www.international.gc.ca/world-monde/funding-financement/iaip-piai.aspx?lang=eng

CONCLUSIONS

In summary, there is an opportunity, presented in part by Brexit, for the UK to build on its position as a global leader in philanthropy and social investment. Through a programme of enabling, investing and promotion the UK could become the world's centre of excellence for social impact.

We have the opportunity to promote this activity as part of brand Britain offering an additional reason for international wealth holders to come to the UK for business, investment and family reasons. The UK is already a world-leading wealth management centre estimated at USD1.79 trillion of assets.

It is also one of the world's key centres for philanthropy, with 12,753 principally family foundations according to UBS and The Hauser Institute for Civil Society. Charity Commission data suggest that 3,750 charitable organisations have programmes or are grantmaking overseas, which will include a substantial number of international philanthropic foundations.

Embedding international philanthropy and social investment into the UK's responsible wealth management mix will give international wealth holders an additional reason to invest emotional capital in the UK, alongside their financial assets.

Furthermore, strengthening and deepening the expertise that supports international wealth holders will also enhance the operating environment for domestic philanthropy and social investment.

The goals should be to enable the free flow of philanthropic capital to and from the UK, as a well-regulated and stable jurisdiction for wealth holders around the world. Philanthropists should be well supported in the UK to achieve their social impact objectives through clear and frictionless regulation as well as through innovation that encompasses the ability to invest in ways that are mission-aligned.

The cumulative impact of strategic actions in the recommended areas would be to build Britain as a true centre of excellence for global philanthropists and social investors, attracting them to the UK by offering essential, visible support for the expression of their philanthropy.

PART 3:

INTERNATIONAL CONTEXT

LEADING JURISDICTIONS FOR PHILANTHROPY AND SOCIAL INVESTMENT

Many of those consulted during this study identified the UK, the United States, Switzerland and Singapore as the leading international centres for philanthropy and social investment. This reflects their positioning and global centres for wealth management as well as their environment and infrastructure for philanthropy and social investment. The Netherlands and Jersey feature among the leading centres for specialist reasons with targeted regulations that appeal to wealth owners who wish to conduct their philanthropy or social investment in particular ways.

With the exception of Jersey, each jurisdiction has developed its regulatory framework with its domestic charitable sector in mind and there are distinct differences between each regime. It is therefore not straightforward to compare jurisdictions directly from a regulatory point of view.

It is more relevant to consider the choices that international wealth holders have to make in their selection process. The attractiveness of the centre as a base for wealth management activities will be at the top of the list, including how attractive it is as a place to live and as a place to do business.

To enable their social impact goals, wealth holders will consider the ease, and therefore the cost, of navigating its regulatory environment. They will consider the range of service providers supporting the infrastructure of philanthropy and social investment and the extent to which these providers can provide innovative capabilities. This, in turn, will reflect the culture of philanthropy and social investment in the jurisdiction.

They may also consider the extent to which philanthropy and social investment are fields of study in universities, business schools, think tanks and other settings, as this provides a framework for best practice that will infuse the wider service offering.

United States

Key learnings:

- **American philanthropy is firmly rooted within local communities and supported by communities. Its prevalence means there is an established infrastructure across the nation.**
- **Contributing just over 2% of GDP makes philanthropy of significant political importance at both Federal and State level.**
- **Consequently, the primary focus of legislation, tax policy and regulation is based on the assumption that philanthropic activity will be domestically focused.**
- **The structures to support international philanthropy are less streamlined and more intrusive than those with domestic intent.**
- **Notably, the equivalency qualification regime ensures close scrutiny of international giving and compliance requirements are strictly enforced.**

Philanthropy and philanthropists in the United States sit in a unique position when compared to their peers around the world. With a deep culture of philanthropy, there is a common presumption that philanthropy is hugely beneficial to the community and is firmly rooted within it.

The growing contribution made to the economy of the United States and the support provided for social infrastructure make all aspects of non-profit activity of significant political importance at both federal and state levels. Americans gave nearly USD430 billion [44] to charitable causes in 2018, just over 2% of GDP. Charities also constitute one of the fastest growing areas of employment with non-profits accounting for one in 10 jobs in the private workforce or over 12 million employees in 2016 [45].

In 2016, 1.44 million charities contributed USD1.05 trillion to the American economy (5.6% of US GDP) [46]. Of total non-profit assets, 501(c)3 entities hold 75% or USD3.79 trillion. 25.1% of American adults volunteered in 2017, contributing an estimated 8.8 billion hours. 501(c)3 entities also account for over three quarters of all non-profit revenue and expenses - USD1.94 trillion and USD2.4 trillion respectively.

Non-profit activity on this scale is hard to comprehend outside the United States. But it vividly illustrates the level of the contribution made to society by non-profits and the degree to which non-profit action is embedded in its popular culture and economy.

[44] Giving USA 2019
[45] Center for Civil Society, John Hopkins University
[46] National Center on Charitable Statistics, Urban Institute, 2019

The other key aspect of American philanthropy is that the bulk of non-profit activity is focused at the State and local level. It is very much community based. There are many high-profile organisations operating at the national and international level, but they do not represent the centre of gravity for American philanthropy.

Philanthropists are understood to be key members of the communities they support and are recognised for it. Their overt presence has enabled a multitude of support networks to flourish from which philanthropists can learn, or, in turn, mentor.

Leading examples include the Wealth and Giving Forum, African Grantmakers Affinity Group, Exponent Philanthropy, the National Center for Family Philanthropy. These, in their turn, are supported by many of the major private foundations.

Whether they are active in Boca Raton, Wichita or Palo Alto, philanthropists will almost invariably reach out to their local networks for support, advice and peer-to-peer learning. Philanthropy is based in the community and is supported by the community.

Giving back is also infused into other networks where wealthy Americans convene, whether these are business, social, educational, religious or philanthropic networks. These are not seen as exclusive to the wealthy elite but are rather rooted in the communities they serve.

There is also a significant and long-established infrastructure supporting the non-profit sector and the philanthropy sector across the United States, both nationally and state-wide.

Bodies such as The Independent Sector and the Council on Foundations, act as conveners and champions for the sector at large. Meanwhile, a huge range of organisations such as Board Source, TechSoup and many others provide targeted, innovative support and resources to non-profits.

Thought leadership is a significant component of the work of many of these organisations – and is supported by private foundations, large and small across the country. Critics of American philanthropy have argued this practice perpetuates the base of privilege and power from which philanthropy derives. However, the experience of communities across America would indicate that the overall impact of philanthropy has been positive. This derives from a combination of shared good practice and the fact that decisions are made within multiple aspects of communities.

The emergence of social impact investing and a new class of social entrepreneur is also having a significant impact on models for engagement, particularly as commercial principles are applied to social actions.

The body of knowledge for non-profits is long-established and broad. Institutions such as the Center for Civil Society at Johns Hopkins University, Stanford PACS, The Lilly School of Philanthropy at IUPUI are at the forefront of aspects of the field. Indeed, nearly every credible academic institution in America offers some focus on aspects of philanthropy; degree programmes in nearly every facet of philanthropic activity are readily available at graduate and even undergraduate levels.

Within financial and legal services, philanthropic advice is seen as an integral part of the client offering. Planned Giving is a concept that is familiar to any American taxpayer claiming non-standard deductions and there are many popular vehicles allowing for charitable tax-planning. These include donor-advised funds, such as those offered by Fidelity, Charles Schwaab, the National Philanthropic Trust and Community Foundations across the United States, alongside charitable lead trusts and charitable remainder trust structures offered by every financial management company. These vehicles and the concept of planned giving are engrained in the consciousness of the American middle class, are widely used and need little explanation.

Vehicles for charitable activities can initially seem complex. However, as previously stated, the bulk of charitable activity is channelled through 501(c)3 organisations. Additional structures are available to address more specific needs such as those of professional bodies:

- Trusts
- Unincorporated associations (often professional bodies)
- Corporations
- Limited liability companies

Charitable status is determined at the federal level by the Internal Revenue Service and the fiscal treatment of charities is clearly mandated at federal level. All donations to registered charities are tax-deductible (subject to a ceiling).

However, charitable activities are regulated at the state level by States' Attorneys General. From registration to fundraising, the regulation of charitable activities can vary considerably from state to state. This produces a degree of inconsistency across the United States in the degree to which regulations are applied.

The primary focus of legislation, tax structure and regulation is based on the assumption that philanthropic activity will be domestically focused. The regime is broadly enabling of this. That is not to say that it is not possible to build a platform for international philanthropy in the United States; far from it. However, it is fair to say that the structures to support that are less streamlined and more intrusive than those with domestic intent.

The payout rule is an example of this. Under this rule, private non-operating foundations are mandated to distribute 5% of the value of their net investment assets annually as grants or eligible administrative expenses. The rule is designed to ensure donors do not get the tax benefits of setting up a foundation without an obligation to give money away.

However, there are often complex analyses involved in meeting this requirement which is off-putting to international donors. In particular, the grantmaking of international philanthropists may not qualify for domestic tax credits that form part of the equation. Most importantly, funds designated for overseas giving are subject to close scrutiny under what is known as the equivalency qualification regime. Compliance requirements are strictly enforced. Charities must prove that funds will be given to equivalent organisations overseas and that the American funder has determination over the application of the funds. There are two methodologies:

- Certify the charity as equivalent to an American charity (Equivalency Determination)
- Track the use of funds to ensure they are equivalent to the acceptable use of funds in the United States (Expenditure Responsibility).

The position is less well-defined in other areas of social impact. While the more technical aspects of social investment are well supported by organisations such as US SIF (The US Forum for Sustainable and Responsible Investment), support for social entrepreneurship is harder to pin down. The United States can offer multiple examples of successful social entrepreneurs, from small scale, local initiatives to larger scale, globally-focused activities. However, there is little public understanding of this field and it has proved challenging to make the case for government to recognise it as a field of interest through, for example, tax incentivisation. Tax credits are available in certain areas that align with government policy (such as green energy), but these are not widely understood and are subject to changes in political outlook.

In part, this lack of awareness is because the supporting infrastructure, academic study and body of knowledge are all in their infancy. However, as institutions such as the Harvard Kennedy School focus on the nexus between social impact and philanthropy, this will change.

Social enterprise activities are regulated as business enterprises so data is challenging to disaggregate. Blended models of for-profit and non-profit activity present particular regulatory challenges to the Internal Revenue Service and the resources are not available to undertake an analysis of what is needed. This is not to say that the area is not recognised nor of interest to regulators. The field has been discussed by the Advisory Committee on Tax Exempt and Government Entities (ACT), a Treasury Committee appointed to advise the IRS since 2014. Organisations such as Arabella Advisors are helping to close gaps in knowledge and awareness of the field, but the concept of social impact investment is still regarded as niche rather than mainstream.

The face of social engagement in the United States is changing, as it is elsewhere. The culture of support for philanthropy, citizen and voluntary engagement is a powerful enabler of new thinking and new forms of social investment. The scale of the market also allows for experimentation and entrepreneurialism in a way that the smaller national markets of Europe find more challenging to support. Nevertheless, those opportunities are available in niche markets. Moreover, the absence of a defined focus on this area in American domestic policy might create space for innovation and investment structures that have yet to be considered within America.

Switzerland

Key learnings:

- Switzerland has a well-developed capability for international philanthropists and social investors.
- In recent years, there has also been a significant collective effort to advance Geneva as a global hub for sustainable finance. The close connections, partnerships and alignment between organisations that have a commitment to increasing philanthropy and social investment has created a unique ecosystem in Geneva.
- There are multiple initiatives underway to further strengthen Geneva's reputation, notably acting as the Secretariat for the International Network of Financial Centres for Sustainability and the proposal to launch a Swiss Social Stock Exchange.
- There are 13,000 – 17,000 Swiss foundations making it the largest European centre for philanthropy. Swiss foundations offer a flexible vehicle for international philanthropists and legislation has been proposed to further enhance the effectiveness of this vehicle (the Luginbühl Initiative).

As a global wealth management centre, Switzerland has a well-developed niche in the provision of services for international philanthropists and social investors. The country's largest private banks, UBS and Credit Suisse, have long-established and well-developed propositions for philanthropic clients supported by extensive ESG, responsible and social investment capabilities. The family-owned private banks also offer similar capabilities, often drawing on the family's own foundation practices.

The concentration of private banks, family offices, wealth management services providers, legal and accounting firms, and specialist fund managers in Zurich and Geneva means that philanthropy services are also focused in these cities.

In recent years, significant collective effort has been made to advance Geneva as a global hub for sustainable finance oriented around the Sustainable Development Goals. Philanthropy is seen as an element of this wider vision.
Geneva's reputation in this field has been forged through multiple partnerships under the aegis of Geneva's cantonal government. Such partnerships include Sustainable Finance Geneva, an alliance of financial institutions which came together in 2008 with the goal of making Geneva one of the world's top centres for sustainable finance. SDG Labs is a similar multi-stakeholder group based in Geneva supporting implementation of the Sustainable Development Goals.

Geneva also draws on its network of international non-governmental organisations and think tanks, such as the Red Cross, the World Health Organisation and the World Trade Organisation. In a recent example, the Covid-19 Solidarity Response Fund was launched by a collaboration between the United Nations Foundation and the Swiss Philanthropy Foundation. This global fund was able to secure international funding partners partly by offering Switzerland's neutrality from the complexities of global geo-politics.

The close connections, partnerships and alignment between the various organisations that have a commitment to increasing philanthropy and social investment has created a unique ecosystem around the shores of Lake Geneva.

The International Institute for Sustainable Development, a global think tank with a base in Geneva, first mapped this ecosystem in 2019 identifying 229 organisations working within the philanthropy and social investment sector encompassing financial institutions, non-profits in the philanthropy and social investment sector, service providers, academic institutions, international NGOs and the cantonal government. It is this level of collaboration that is driving momentum in Switzerland and enabling the strategic goal to position Geneva as a global centre for social impact.

Figure 2: Mapping of Geneva's sustainable finance sector, October 2019 [47]

Source: Sustainable Finance Geneva, SDG Lab, International Institute for Sustainable Development, Republique et Canton de Genève

[47] https://static1.squarespace.com/static/5d1db373a403f600014ce0a0/t/5d9e67e3e9e7db0e6cd623d0/1570662392454/mappin_geneva_oct2019_nospread.pdf

Making further strides onto the international stage, in 2019, the cantonal government of Geneva announced that Geneva will house the Secretariat of the International Network of Financial Centres for Sustainability. This is a global multi-stakeholder initiative to bring together the world's financial markets into a single network. The aim is to facilitate sharing of best practice and common principles towards developing sustainability in finance.

Proposals are also underway for the launch of a Swiss Social Stock Exchange as a junior market of the Swiss Stock Exchange to provide a regulated environment for international social enterprises that wish to raise debt or equity. The study estimates the global market at USD400 billion for these investments. The entity has been dubbed the "Nasdaq of Impact Investments" and would provide a liquid and tradeable market in social enterprise securities.

The rise of Geneva as an international centre for social impact and sustainability has been born from a collective effort toward a common mission and vision.

More widely, Switzerland has long been a home for international philanthropists. The Center for Philanthropy Studies at Basel University estimates there are 13,000 charitable foundations operating in Switzerland, of which 70% have been established in the last 30 years [48]. This is a lower figure than the 17,110 identified by UBS and The Hauser Institute for Civil Society, but still larger than the UK.

Total assets stand at around CHF100 billion, with annual grants in the region of CHF2 billion to CHF2.5 billion. This gives Switzerland the highest concentration of charitable foundations per capita.

Across Switzerland, philanthropy is supported by a number of academic institutions and think tanks, including:

- Geneva Centre for Philanthropy, University of Geneva
- Center for Philanthropy Studies, University of Basel and Swiss Foundations
- Center for Sustainable Finance and Private Wealth, University of Zurich
- Center for Foundations Law, University of Zurich
- Center for Leadership and Values in Society, University of St Gallen

The alignment of wealth management and philanthropy, with a concentration of expertise within the private banking industry, has led to strong growth in the social investment sector too. Swiss Social Finance, the umbrella body for the social investment sector, lists 161 investment managers, financial institutions and educational organisations supporting social investment across the whole spectrum of investment activities.

The giving vehicle at the core of the philanthropy and social investment industry in Switzerland is the Swiss foundation. Foundations are governed by their charter which states the purpose and the governance structure.

[48] https://ceps.unibas.ch/en/ceps-news/news/swiss-foundation-report-2020-a-sector-in-motion/

One of the greatest attractions of Swiss foundations is the ease with which they can be set up. It typically takes around three months to complete the foundation charter, register in the commercial registry of the canton and receive regulatory authorisation from the Supervisory Authority of Foundations at cantonal or federal level.

Switzerland also offers significant flexibility in terms of the charitable activities that can be undertaken within a Swiss foundation structure. In fact, Switzerland has no specific legislation that clearly defines charitable purpose; the legal stance is that all purposes that pursue a public interest are charitable.

For tax and regulatory purposes, there are examples given in the Swiss Civil Code and Swiss tax codes to provide guidance on what is and is not acceptable within a foundation charter. These examples cover developing countries, ecological, educational, scientific and cultural purposes. Therefore, while it is not possible to have a general charitable purpose, there is considerable latitude within the guidance.

Swiss foundations also offer a good level of flexibility when it comes to social investment. The voluntary Swiss Foundations Code was revised in 2015 to provide guidance on mission investing and sustainable investment, under the guiding principle that a charitable foundation has a social responsibility that also applies when it comes to asset management. However, this activity should be subject to prudent analysis of risk and return.

Swiss foundations must file an annual report and audited accounts to their regulator. As many Swiss foundations are regulated at cantonal level, there is a good level of communication between foundations and regulators when queries arise.

Of note, international foundations are supervised by the Federal Supervisory Authority of Foundations. They too must file an annual report and audited financial statements, which must comply with Swiss GAAP or the International Financial Reporting Standards.

Within the Federal Supervisory Authority of Foundations, the regulatory team is regarded as being relatively small, but highly experienced in supporting foundations to operate within the Swiss regime.

Currently, around 4,400 of the charitable foundations operating in Switzerland are under federal supervision. It is estimated that around half of the funds of Swiss foundations are used for charitable purposes abroad [49].

[49] Lenz & Staehelin

There is currently a proposal under review by the Swiss parliament to separate the Federal Supervisory Authority for Foundations from Foreign Department of Home Affairs. It is argued this would assist the regulator to manage its resources more effectively, ensuring it has sufficient headcount and expertise to support the growing number of foundations operating internationally from Switzerland.

A further body of proposals is currently going through national consultation ahead of a vote in the Swiss parliament in 2021 that would increase the attractiveness of Swiss foundations for international philanthropists.

Collectively known as the Luginbühl Initiative, after the Swiss Counsellor of State, Werner Luginbühl, the proposed reforms would, among other matters, enable variation to foundation deeds, limit the liability of board members and enable some compensation for board members.

This latter measure could provide a significant benefit for international philanthropists wishing to use a Swiss foundation as their vehicle for giving. One of the principal drawbacks of the vehicle currently is the requirement under Swiss law for a foundation's council to include at least one Swiss national, or a European national resident in Switzerland.

It is not possible to appoint a paid local representative because of a separate tax requirement which means board members cannot be remunerated. In order to qualify for tax exempt status Swiss foundations must to be able to demonstrate a lack of self-interest in its activities – the so-called altruism test. Paying board members would contravene this requirement.

Taken together, these requirements are barriers for international families to set up their international giving from Switzerland. They would need a branch of the family located in Switzerland and there are examples of Swiss foundations that have had to relocate from Switzerland when the resident family member has to move for personal or business reasons.

While the Luginbühl Initiative does not propose an end to the requirement for a resident board member, it may pave the way for limited compensation for local board members.

The initiative is also proposing measures to strengthen the regulatory oversight of philanthropic foundations and publishing a list of tax-exempt charitable entities. These measures are likely to appeal to international philanthropists who wish to operate from a transparent, well-regulated jurisdiction.

Locally, the tax position is favourable. Foundations that pursue a public interest are free from all direct federal taxes in Switzerland. Founders can deduct up to 20% of their federal taxable income when they set up the foundation. The same norm typically applies at cantonal level, although in some cantons additional tests apply.

Gifts to charitable entities established outside of Switzerland are not tax deductible. They are subject to gift and inheritance taxes unless a reciprocity agreement has been concluded with the country where the charity is registered. However, it is possible to apply for a partial exemption in Geneva of at least 25%, with the relevant rate determined on a case-by-case basis.

The launch of Transnational Giving Europe in July 2020 also provides an alternative mechanism for tax efficient giving within the network. The Swiss Philanthropy Foundation is one of the founding partners of Transnational Giving Europe. This move gives Swiss foundations access to a pan-European giving platform operating through a network of partner organisations in 21 European jurisdictions.

Switzerland's access to this network offers tax efficiency, cross-border due diligence and ease of administration for European philanthropists within the network of countries. It is therefore seen as a positive step forward for international giving from Switzerland.

Indeed, the picture overall in Switzerland is one of dynamic activity aimed at enhancing the country's position as a centre where international philanthropists and social investors can do business. Moves at federal level may ease some of the tighter and more challenging restrictions for Swiss foundations, however it is the activity and empowerment at cantonal level within Geneva that is driving the city-state onto the international stage as a centre for global sustainability.

Internationally, advisers will require some convincing that Geneva has what it takes to lead the world on sustainability and finance. While there is no doubt that Switzerland has the experience and service culture to meet the needs of wealthy international families, some question whether Geneva has the necessary depth of capabilities to support those seeking to drive global transformational change through their giving and social investment.

What is clear is that Geneva particularly has forged the cross-sector capabilities to build this infrastructure and has developed a momentum of targeted initiatives to keep the city-state on the global map.

Singapore

Key learnings:

- **Singapore's capabilities as a global centre for philanthropy and social investment are expected to rise as wealth and wealth management continue to grow in the region.**
- **Singapore is already seen as leading the way for the region in terms of how to establish and sustain a progressive environment in which the social sector and donors can thrive.**
- **The Singapore government has given sustained policy prioritisation to develop the infrastructure for the domestic charity sector. There are also efforts to accelerate the development of the City State's social investment capabilities.**
- **The regional growth in wealth levels and sustained collaboration between politicians, regulators, financial sector professionals, academics and the emerging charity sector leaders in Singapore suggest the Lion City will progressively become established as a jurisdiction for global philanthropy.**

Singapore's philanthropy credentials have been steadily rising over several decades both in a local and international context. In part, this has evolved on the back of the progressive development since the 1990s of the Lion City's role as a centre for wealth management. The strength in depth of its financial sector coupled with political and economic stability, and a robust regulatory framework, has attracted the fast growing regional wealthy clientele to choose the city for investment-related services supported by highly skilled locally-based professionals.

Regional market professionals believe the future for increased philanthropy activity in Singapore is a bright one, both within Singapore and as a centre for cross-jurisdictional giving activities.

According to various research reports, it is expected that, within a matter of years, at least a third of the population of the globe's billionaires will be based in the Asia Pacific region. Moreover, the total population of wealthy individuals and families will outnumber that of Europe, the Middle East and Africa [50]. As the core wealth management market place grows typically philanthropy follows.

Aside from strong figures for future demand for wealth management services, Singapore has established a reputation, in the regional context, for its commitment to social impact that is drawing attention from philanthropists both locally and internationally.

[50]UBS Billionaire's Report 2020; Cap Gemini World Wealth Report 2020

Dating back to the 1980s, the Singapore government's engagement with the charities sector – particularly in the domestic context – is evidenced by sustained policy prioritisation for charitable activities and the backing of efforts to increase the impact of the sector upon society. Beyond legislative actions, a key early drive to substantively increase the sector was the "Many Helping Hands" government-supported effort, before the turn of the century, aimed at increasing giving, volunteering and social initiatives. This was progressed by the partnership building efforts of the National Council of Social Service (NCSS), the National Volunteer and Philanthropy Centre (NVPC) and the Commissioner of Charities (CoC).

Further, in the field of promoting greater philanthropy the government also introduced a range of match funding programmes which provide for 100% matching of private donations with additional tax benefits for the donors. Two good examples are the Cultural Matching Fund and the Community Silver Trust [51].

Ultimately, the government has sought to put in place the framework, infrastructure, and incentive to develop the local charitable sector. It has been careful not to be overbearing in the process, giving just enough direction but encouraging the sector to take ownership overall. These efforts have led to Singapore topping the recent regional Doing Good Index (DGI) assessing 18 Asian economies, measuring their infrastructure and potential in the respective national social sectors including the charitable sector, the social investment sector and philanthropy [52].

This repeats the accolade secured in the inaugural assessment of 2018. By most, Singapore is seen as leading the way for the region in terms of how to establish and sustain a progressive environment in which the social sector and donors can thrive. From a structural perspective, Singapore is regionally celebrated for being clear and straightforward in terms of registration, conduct and the framework for donations. Operating under the Charities Act which was passed into law by the Singapore government in 1983 there are two types of non-profit entities within the sector: charities and Institutions of Public Character (IPC).

From a legal standpoint charities can be constituted in three forms: a public company limited by guarantee, a society, and a charitable trust. Each has differing conditions applied around its status, funding permissions, governance, and liability. Registered charities have automatic income tax exemption.

IPCs, of which there were 626 by the end of 2019, have a special characteristic in that they are permitted to issue tax-deductible receipts for qualifying donations [53]. Notably, donors receive a 250% tax deduction on personal income taxes for donations to IPCs. Unutilised deductions can be carried over for a period five years.

[51] Cultural Matching Fund https://www.mccy.gov.sg/sector/policies/cultural-matching-fund; Community Silver Trust (established in 2011) https://partners.aic.sg/funding-support/cst
[52] Centre for Asian Philanthropy and Society Doing Good Index 2020; The DGI is based on four sub-indexes of Regulations, Tax and Fiscal Policy, Ecosystem and Procurement drawing on survey input from 2,189
[53] Ibid

This fiscal concession is the highest of its kind anywhere in the world and was first introduced at this level in 2009 [54].

To achieve the IPC status, however, the charity must be dedicated to serving Singapore's community at large and they have enhanced governance conditions and greater supervision. Further, there is a condition that no more than 30% of their donations can be spent on fundraising and the tax incentive does not apply to donations or gifts for a foreign charitable purpose (such as an overseas relief fund) [55], a stumbling block for a donor wishing to operate from Singapore as a hub for cross-border philanthropy.

In terms of growth, Singapore has experienced steady growth in its charity sector. For a nation with a population of 5.6 million citizens, by the end of 2019 there were 2,281 registered charities which received SGD2.9 billion in donations. This sum was an 8% rise from the previous year, but notably there was only an increase of four new entities in terms of the number of registered charities [56].

Oversight of the charities sector is spearheaded by the Commissioner of Charities (CoC) which is part of the Ministry of Culture, Community and Youth. In its supervision role, CoC is supported by sector administrators covering four specific areas of religion, arts and heritage, environmental protection or improvement, animal welfare, and a fifth which covers any sector outside the core listed.

The CoC maintains the register of charities and has clear authority regarding the oversight and management of registered charities and can unilaterally conduct inquiries and issue sanctions at an individual, board and charity level.

In terms of conduct, the governance rules in place for charitable activities focus on a high level of public transparency with information on board members, conduct, business plans, accounts, funds and distributions all being made available to the public. Moreover, charities with an annual income or expenditure greater than SGD500,000 require an external audit by a public accountant with details again being made public.

While these structural conditions are on par with many other jurisdictions in relation to domestic activities, for some non-Singaporean philanthropists seeking a cross-border solution this is cited as a factor in choosing not to establish a philanthropy base in the city as they would prefer a higher level of anonymity and confidentiality surrounding their global giving activities. Thus, while the possibility of conducting global philanthropic activities from Singapore taking advantage of the prudent regulatory environment is present, to date the take up of this has been limited.

[54] In 2015, to recognise the 50th year since Singapore's independence, the government raised this incentive to 300%.
[55] https://www.iras.gov.sg/IRASHome/Individuals/Foreigners/Working-out-your-taxes/Deductions-for-Individuals/Donations/#:~:text=1%20January%202015%20to%2031,of%20donation%20made%20in%202015.
[56] Commissioner of Charities Annual Report 2019

Moreover, the idea of establishing a programme of strategic philanthropy among the regional wealth owners is still a relatively new concept. For instance, a study of global family offices identified that families in the Asia region on average annually allocated to philanthropic causes one-fifth of the sums allocated by their peers in Europe [57].

Much of the major international giving is still also centred on education and the preference is to support academic bodies in the United States and Europe, which often results in donors seeking to establish structures and operations in those regions as well. The interest levels for broader philanthropic aims, as well as wider sector and thematic focus, will rise but, according to professionals interviewed, it will simply take time.

Notwithstanding the emergent state of philanthropy as a practice for wealthy families, it is noteworthy that Singapore has a strong professionally-organised lobbying force promoting philanthropy both domestically and internationally. At the forefront of this, and committed to not just improving domestic conditions for giving but also the regional efforts, are organisations such as Asia Philanthropy Circle and the Asian Venture Philanthropy Network with proactive input from the Commissioner of Charities. Both have growing memberships and proactively support research and development in the future of philanthropy and the required conditions for it to thrive.

Singapore also has a growing cohort of domestic and regional philanthropists, as well as an expanding body of expert professionals drawn from the third sector, finance, trusts, academia, legal and tax planning. They work well together in promoting the topic and securing government support. These efforts are laying the groundwork for Singapore to establish itself as a regional centre of excellence for philanthropy in the future.

In addition, Singapore's academic sector is also supporting the drive with, for instance, the prestigious National University of Singapore Business School Asia Centre for Social Entrepreneurship and Philanthropy producing leading research on regional trends and requirements. Equally of note, the Singapore University of Social Sciences (SUSS) has a range of initiatives seeking to improve expertise in the governance and management of charities within the Lion City. In 2019, with the endorsement of the CoC, SUSS launched the Certificate in High Performing Charities [58].

[57] UBS Global Family Office Report 2019
[58] Commissioner of Charities Annual Report 2019

Meanwhile financial institutions including many major wealth managers such as, to name just a few, UBS, Credit Suisse, BNP, JP Morgan, LGT, DBS, Standard Chartered and Bank of Singapore are all committed participants in the sector with growing dedicated philanthropy teams based in Singapore serving regional clientele. These professionals increasingly work hand-in-hand with the financial advisers serving the regional and international wealth owners using the city as the centre of their wealth management solutions.

Alongside the private banking community, professional services providers in the legal and accountancy sectors, including the likes of EY and Withers, are also actively engaged in furthering the strength and depth of the philanthropy sector.

Overall, the view is that Singapore's not-for-profit sector is well structured, professionally managed and has clear regulatory guidelines within which to operate. The vehicles in place for philanthropic activities are in line with those available in other jurisdictions.

To date, however, the rules, oversight and incentives are heavily, if not totally, domestically oriented. This is a deliberate effort by the government to support domestic social needs and has been cited by some professionals as the main reason that Singapore is not yet as popular a jurisdiction for global philanthropists.

Put simply, while many of the components are in place to establish Singapore as a centre for global philanthropy, so far this has not been the primary focus of the regulators and politicians. However, the level of collaboration between the politicians, regulators, philanthropists, financial sector professionals and academics leave little doubt that, during the 2020s, Singapore will progressively further establish itself as a relevant jurisdiction for global philanthropy.

Netherlands

Key learnings:

- The Netherlands is favoured by international philanthropists with links to the EU or from civil law jurisdictions.
- For registration purposes it makes no distinction between domestic and foreign entities, they are entitled to register and claim tax deductions providing they meet the requirements of the tax law.
- The light-touch regulatory regime relies on transparency and self-regulation encourages innovation, particularly among those seeking to explore the opportunities of social investment and investment in social enterprises.
- There are calls for an additional social impact investment organisation that will further bolster the Netherland's reputation in this field.

Like many North European countries, the Netherlands has a long tradition of citizens investing in social causes. Even though the Dutch state has assumed much of the responsibility for the support and development of social welfare since the 1950s, social organisations have continued to assume responsibility in that field.

Charities represent a significant factor in the country's social infrastructure. 70% of the population donate to charity. Charitable donations amounted to EUR5.7 billion in 2016 and charities employ 14% (and growing) of the Netherlands workforce.

This reflects deliberate efforts by the Dutch state to cultivate the charitable sector. Regulation of charities is light touch with a strong emphasis on self-regulation. Charitable regulation is straightforward, with current regulations for foundations and associations dating from 1976.

In the context of cross-border philanthropy, the Netherlands is the only jurisdiction within Europe to apply, without limits, European Community law stating gifts to an entity in another member state should not be subject to discrimination. This law means simply that the fact that a charity is based in another European state is not sufficient reason to justify a different tax treatment from a domestic charity. In practice, most jurisdictions seek comparability when applying the law for tax purposes.

Following Brexit, the Netherlands is also the remaining jurisdiction within the EU with a recognised infrastructure for international philanthropy and social investment. International philanthropists benefit from the flexibility of the Dutch regime in allowing organisations to have head offices registered outside the Netherlands in EU member states (and certain former Dutch dependencies). They are able to support both domestic and international causes and have directors who do not hold Dutch citizenship.

This openness, combined with its status as a civil law jurisdiction, means that the Netherlands appeals to wealthy families from civil law jurisdictions and with a European axis.

The Netherlands also has a light-touch regulatory regime, relying on transparency and self-regulation, which encourages innovation, particularly among international philanthropists seeking to explore the opportunities of social investment and investment in social enterprises.

Reporting structures require organisations to put mandatory information on their websites. This, combined with the low level and straightforward nature of regulation, make for a high degree of transparency, a consequence of which is the relatively high level of trust by the public in charities and philanthropy.

The culture of the Netherlands has lent itself to the development of a model in which philanthropy is blended with social enterprise – and where charitable structures are also able to undertake risk-based investment for social profit.

The current infrastructure recognises three classes of charity:

- Public benefit organisations (for the general good)
- Organisations representing social interests (ORSI)
- Foundations supporting an ORSI (having a lifespan of no more than 1 year)

The basic regulation of these structures is contained in:

- State Taxes Act 1994
- Income Tax Act 2001
- Dutch Civil Code

The first two structures are able to undertake investment in social enterprises and related for-profit businesses. Of particular note, Dutch regulations also allow for the combination of non-profit and for-social-profit activity to operate within one structure.

A foundation can directly own shares in the underlying company and that company can have a separate governance structure. Rather than purely an investment, it can incubate companies rather like a private equity firm. The underlying company can pay taxes even if the foundation is tax exempt. Essentially, this allows for two legal entities, with different profit motives, to work together with appropriate governance.

These structures function well within the context of the Netherlands and they enable social investment outside Dutch borders. Adding to the innovation in social enterprise afforded by this structure, there is currently a significant push for an additional class of social impact investment organisation.

Supporting the development of philanthropy and social investment in the Netherlands, there are opportunities for professional education and networks of non-profit professionals. Social Enterprise NL, which was founded in 2013, now has 390 members active across a broad spectrum of social issues and causes. There are also academic programmes at post graduate level for philanthropy professionals that have helped to develop a professional body of knowledge, and for newly-qualified professionals there is also the Network of Young Philanthropic Professionals.

Of note, however, the relatively straightforward nature of the regulations and charitable structures means there is less need for, and therefore less provision of, qualified professional advice. Lacking the complexity of the environments of both the UK and the United States, there are not so many professionals working in this field.

Similarly, there are few networks offering support for philanthropists. While there are informal opportunities within communities, nothing approaches what is available for peers in North America, for instance.

However, the relative ease of establishing a charitable structure headquartered elsewhere in the EU means that a family with specific needs could house its social impact activities under a Dutch structure while maintaining residence elsewhere. It remains to be seen whether that hybrid opportunity will be available to UK residents, post-Brexit.

Jersey

Key learnings:

- **Jersey foundations offer complete foreign ownership, incur no taxes and offer privacy for the founder and beneficiaries.**
- **Jersey is attractive to international philanthropists who require a well-regulated, neutral or private environment from which their affairs can be managed, while living and operating from a base elsewhere.**
- **Jersey foundations also offer a flexible structure for global tax planning for international philanthropists.**

Jersey's charitable infrastructure is of relatively recent origin. There are two main pieces of regulation: the Jersey Foundation Law 2009 and the Jersey Charities Law 2014. It is the first of these that is of particular relevance to the international wealth holder looking to establish a base for philanthropy. Since 2009, 350 foundations have been established, of which one third are for philanthropic purposes.

The benefits of establishing a Jersey Foundation are that it allows complete foreign ownership, incurs no taxes, and offers privacy as the names of founder and beneficiary can remain out of the public domain, as can details of assets and their location. The founder may also retain powers, including limiting beneficiaries' rights.

The law allows for certain protections, as it requires the appointment of a qualified council member to ensure that the foundation's charter and regulations are followed, and the law is observed. A guardian must also be appointed to oversee the council and to protect the assets and the beneficiaries.

There are two principal regulators, the Jersey Financial Services Commission (JFSC) and the Jersey Charity Commissioner. The Charity Commissioner and charity regulation broadly follow UK models, while remaining a separate jurisdiction.

Everything filed with the registrar is publicly available, including the foundation's charter. However, the charter does not have to include the names of founder and beneficiaries and assets do not have to be endowed upon incorporation which can be left out of the charter as well to protect their identity and location. This can be of material benefit to those who wish to support issues that are not in alignment with existing social or political norms in their country of origin.

Governance of foundations (rather than charities) is seen as sitting in the context of wealth management. Offering a zero-tax environment, whether the purpose of a foundation is directly philanthropic, or estate planning and tax efficiency, Jersey foundations are seen as providing an effective and flexible platform from which international wealth holders can manage their family and business affairs.

Jersey is attractive to those who are looking for a zero-tax, neutral or private environment offering a regulated jurisdiction from which their affairs can be managed, while living and operating from a personal and corporate base elsewhere. Jersey foundations also offer a flexible structure for global tax planning for international philanthropists.

However, Jersey cannot, and does not set out to, provide a proactive and complex environment in which philanthropy can grow and thrive. There is no expectation that significant professional, academic or cultural resources in support of philanthropy or social investment will become available now, or in the future – as is the case in the United States, UK and Switzerland.

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Working Group

In developing the recommendations, we were supported by a working group of legal, accounting and wealth management experts. These individuals contributed their time and experience to identify issues and resources, and to provide technical guidance.

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40 interviewees provided their insights on the jurisdictions and changing global landscape for philanthropy and social investment. They include international philanthropists and social investors, international lawyers, accountants, family office professionals, philanthropy consultants, and policy experts. Interviewees were located in the UK, United States, Switzerland, Singapore, Hong Kong and the Middle East.

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Philanthropy Impact
Inspiring Philanthropy and Investing for Impact

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This report was prepared by the **Beacon Collaborative**, the UK-based collective impact movement that aims to encourage greater and better giving by wealth holders. The authors of this report are:

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