SAGANA

EUROPEAN FOUNDATIONS, THEIR INVESTMENTS IN SMALL AND GROWING BUSINESSES IN EMERGING MARKETS, AND THEIR PERSPECTIVE ON CATALYZING THIRD PARTY INVESTMENTS

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INTRODUCTION

This report is designed for those interested in understanding the landscape of European foundations, their engagement with small and growing businesses (SGBs) in emerging and developing economies (EMDEs), and their approach to deploying capital with a catalytic lens—with the goal of mobilizing additional third-party funding for SGBs in EMDEs.

Additionally, the report includes a dedicated section for public actors, offering a high-level assessment of how foundations currently interact—or may be willing to interact—with public institutions to support SGB investment in EMDEs.

The sheer number, diversity and individuality of European foundations make it challenging to draw broad conclusions or general findings. In this report, we aim to identify overarching trends while also highlighting key individual differences where relevant. To navigate the report effectively, we encourage you to refer to the Table of Contents and Executive Summary to locate the sections most relevant to your interests.

The following takeaways provide a snapshot of the breadth and depth of insights you will find in the report:

- Europe has a rich and diverse foundation landscape, but few invest in EMDEs, and even fewer in SGBs in EMDES: There are over 180,000 foundations in Europe, and they collectively spend ~EUR 54bn annually on their charitable purposes, representing over 1/3 of global philanthropic capital. European philanthropic flows to EMDEs are small compared to total spending, data is limited but estimates generally range between EUR 3-6bn. Very few European foundations invest in SGBs in EMDEs; our rough estimate is ~100.
- Less than 50% of foundations investing in SGBs in EMDEs intentionally catalyze third-party capital. Foundations wish to be recognized for the impact they bring to the world rather than being enablers of third-party capital.
- Although some foundations are founded to support SGBs in EMDEs, many transition to this relatively novel mode of philanthropic giving, mainly through to proactive change management and driven by the desire to enact systemic change.
- Given the risk, return, and liquidity restrictions, endowment capital is unlikely to become a large source of catalytic capital for SGB financing, but it could itself be catalyzed into the space.
- Many foundations have expressed an interest in deepening their collaboration with public actors, although they tend to see the public sector as fundamentally different because of their different sizes, return expectations, organization and processes.

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02 Objectives and methodology	This section describes the research methods and approaches used to gather data and insights for the report. It includes details on data sources, analytical frameworks, and any assumptions made during the research. This helps readers understand the basis and reliability of the findings presented, as well as the limitations of the study.	14
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06 Foundation endowment capital and its relative focus on impact	This section explores how foundations are managing their endowment capital with a focus on impact. It covers topics such as impact investing, the balance between financial returns and social/environmental impact, and how foundations are aligning their endowment strategies with their mission and goals. It also includes an analysis of the levers that may be most effective in shifting endowment capital towards impact.	54
07 Recommendations for the public sector	This section provides recommendations on what mechanisms public actors could use to support more European Foundations deploy catalytic capital for SGBs in EMDEs. It also provides some suggestions on how to prioritize and select mechanisms and target audience/foundation type.	60
08 Annex	This section provides two in-depth case studies on Argidius Foundation and "la Caixa" Foundation. It also provides an overview of what foundations do when they employ their capital catalytically in EMDEs by introducing three brief case studies on Westerwelle Foundation, DRK Foundation and Rabo Bank Foundation.	66

EXECUTIVE SUMMARY – FINDINGS (1/3)

Section	Main Findings
01 Context setting	› Small and growing businesses (SGBs) are the backbone of emerging markets and developing economies (EMDEs), but they face a trillion-dollar financing gap annually. › Catalytic capital will be required to close this financing gap. While the principles of catalytic capital are not new in development finance, recent initiatives have promoted the extensive use of catalytic capital within philanthropic communities.
03 Introduction to the European foundation landscape	› There are over 180,000 foundations in Europe, and they collectively spend ~EUR 54bn annually on their charitable purposes, representing over 1/3 of global philanthropic capital. › There are vast disparities in foundations across countries because each country has differing definitions, regulations, histories, and legal setup requirements. › Most foundations engage in what might be termed 'traditional grant-giving'[1], but some are looking to new trends of philanthropic giving; investing in SGBs is one.
04 European foundations and their interest in EMDEs	› European philanthropic flows to EMDEs are small compared to total spending. Data is limited but estimates generally range between EUR 3-6bn. › European foundations' focus on local causes often results from their legacy mission statements, a lack of familiarity with EMDEs, and regulatory complexities.

1. Traditional grant giving refers to the conventional approach that philanthropic organizations use to provide financial resources. It typically includes (i) non-repayable funds, (ii) funds tied to specific projects and timelines and (iii) limited engagement beyond funding itself

EXECUTIVE SUMMARY – FINDINGS (2/3)

Section	Main Findings
05 European foundations, SGBS and catalytic capital in EMDEs	› Foundations invest in SGBs in one of three ways: by increasing the robustness of SGBs through accelerators, incubators, and similar initiatives, by investing directly in companies through venture philanthropy, impact investing, and other programs, and by funding (financial) intermediaries that distribute capital to SGBs. › Very few European foundations invest in SGBs in EMDEs; Our rough estimate is ~100. › Less than 50% of the foundations that invest in SGBs intentionally seek to maximize the amount of third-party capital they catalyze. Those that do usually take a systemic view of their solutions. › Foundations often do not intentionally seek to be catalytic (in financial terms) because they want to be known for the impact they provide in their chosen theme. They do not consider enabling third-party (commercial) capital as their objective. › Foundations that invest in SGBs can broadly be split into two types: those set up with enterprise development at the core of their mission and those that gradually incorporate it › Foundations' ability to transition towards supporting SGBs and deploying catalytic capital depends both on intrinsic motivators, such as leadership-driven risk tolerance and experimentation, proactive change management, and the desire to enact systemic change and be outward-looking, and on external/structural factors, such as their founding history and funding sources and the regulations of their home country. › Few existing global and regional initiatives have both access to a broad range of European foundations and in-depth knowledge of impact investing and catalytic capital. Those that do are relatively small in scale and young and do not focus specifically on catalytic capital for SGBs in EMDEs but rather on awareness building and capacity building on impact investing more broadly.
06 Foundation endowment capital and its relative focus on impact	› The collective worth of foundations' endowments in Europe is EUR 647.5bn; the vast majority of this is capital invested with the objective of generating returns that fund the foundation's grant-making. › Given the risk, return, and liquidity restrictions, endowment capital is unlikely to become a large source of catalytic capital for SGB financing, but it could itself be catalyzed into the space.

EXECUTIVE SUMMARY – FINDINGS (3/3)

Section	Main Findings

07 Recommendations for the public sector	› Although many foundations tend to see the public sector as fundamentally different actors, many have expressed an interest in deepening their collaboration.
	› Foundations engage with entrepreneurial solutions to philanthropy driven by a desire to create sustainable impact, rather than a wish to build pipeline or catalyze third-party (commercial) capital.
	› There is a tradeoff between the scale of a recommended action (in terms of # of foundations targeted) and the time scale of results (how long it takes to achieve tangible results). It is important to recognize this trade-off when choosing an intervention.
	› There are three main recommendations given the different target audiences and the desired outcomes:
	   › Support foundations that are already present in EMDEs but do not invest in SGBs by building awareness of the benefits of investing in SGBs and clarifying relevant regulations.
	   › Help foundations investing in SGBs in EMDEs become catalytic by building knowledge and capacity on catalytic capital.
	   › Finance (pooled) catalytic capital opportunities with foundations that are already investing their capital catalytically in SGBs.

01

Context setting

SGBS (SMALL AND GROWING BUSINESSES)[1] ARE THE BACK-BONE OF EMDES, BUT THEY FACE A TRILLION-DOLLAR FINANCING GAP ANNUALLY

SGBs ARE THE BACKBONE OF EMDEs …

Economic contribution
SGBs represent about **90% of businesses and more than 50% of employment globally**. In emerging economies, formal MSMEs contribute up to 40% of national income (GDP).[2]

Job creation
SGBs generate income and create the majority of jobs—between **70 and 95 percent of new employment** opportunities—in emerging economies.[3]

Innovation and Market Growth
SGBs are noted for their agility and innovation, contributing significantly to innovation and market expansion in various sectors. This is particularly evident in their capacity to adapt rapidly to market changes and opportunities compared to larger firms.[4]

… YET RESTRICTED INVESTMENT IN SGBs IMPEDES ECONOMIC DEVELOPMENT IN EMDEs

In 2016 *(the last global market scan)* of a total of USD 8.9 trillion in potential demand for finance from formal SGBs in EMDEs, only USD 3.7 trillion was being supplied.[3]

Potential annual demand: **USD 8.9 trillion**[3]

Volume of lending (2016): **USD 3.7 trillion**[3]

Financing gap in EMDEs: **USD 5.2 trillion**[3]

The was equivalent to **19 percent of the GDP** of +120 countries covered in the analysis.[3]

In addition, there was an estimated **USD 2.9 trillion** potential demand for finance from informal enterprises in EMDEs.[3]

Whilst there have been some positive trends in impact investing since 2016, the lingering effects of the Covid pandemic are still felt and contribute to the SGB funding gap in EMDEs.

See annex A on the different segments of SGBs and which of these foundations are investing in.

1. SGBs are businesses with 5 to 250 employees, typically seeking between 20,000 to USD 2m in financing. 2. McKinsey, 2020, Helping SMES thrive 3. IFC, 2017, MSME finance gap, *note that these IFC figures are based on a definition of MSME as a company having less than 250 employees* . The last market scan was conducted in 2016. Although the data is outdated, anecdotal evidence suggests some progress has been made but not enough to made large dent in the trillion dollar financing gap.
4. Frontier Finance, 2018, Missing Middle

MULTIPLE BARRIERS DRIVE THE PERSISTENT SGB FINANCING GAP

Lack of a conducive enabling environment

The regulatory framework is often fragmented and not supportive of SGBs. Likewise, social norms (e.g. for women enterprises), infrastructure and access to markets are limiting factors.

SGBs limited internal capabilities

Many SGBs struggle with inadequate internal capabilities, including a lack of skilled personnel, robust business strategies, and effective management practices. These deficiencies restrict their ability to scale operations, attract investments, and compete in the market.

Mismatch between the supply and demand for capital

The financial products available in the market are not in line with the needs and risk profiles of SGBs in EMDEs.

All SGBs face critical financing gaps but those gaps vary greatly by segment and stage of business (see Frontier finance report[1]). Common features that contribute to the supply-demand mismatch include:

- The high actual and perceived risks of investing in unproven products and business models in emerging markets, whose volatility increases investment risks. The lack of historical data makes return assessment difficult and informal business practices reduce transparency, further deterring investors.
- The long-time horizons. SGBs in emerging markets often require longer payback periods due to extended market penetration times. Investors often prefer quicker returns, making long horizons less attractive.
- The high transaction costs of investing in small enterprises or reaching rural enterprises. Conducting thorough due diligence for small or rural enterprises can be costly relative to potential returns. Post-investment monitoring and support, navigating regulatory compliance, and logistical challenges in rural areas further add to the expense and complexity of these investments.
- The limited growth/size of target market. Many SGBs target niche markets with limited scale, restricting potential returns. Scalability issues due to infrastructure and cultural barriers are common and economic constraints in emerging markets can cap revenue potential.

1. Frontier Finance, 2020, Closing the Gaps: Finance pathways for serving the missing middle; Full report and Case studies

CATALYTIC CAPITAL (CC) WILL BE REQUIRED TO CLOSE THE FINANCING GAP FOR SGBS

The magnitude and complexity of SGB financing gap far exceeds the capacity of any single actor.

Global comparatives

Size of SGB financing gap: USD 5.2 - 8.1trn annually

Annual ODA:[1] USD 224bn

Annual private philanthropic capital spending (not all to EMDEs):[3] USD 184bn

Endowment foundation capital:[3] USD 1.8trn

Total estimated commercial capital globally: USD 255trn[4]

Public sector resources and private philanthropic capital alone are insufficient in scale to meet emerging needs.

- While Overseas Development Assistance (ODA) has reached record levels (USD 224bn in 2023[1]), it still falls short due to factors like global inflation and increasing demands from humanitarian and development challenges. Developing countries' available government revenue is expected to remain almost 20% below pre-pandemic projections into the foreseeable future.[2]
- Foundation assets globally exceed USD 1.8trn,[3] but only 10% (USD 180bn) is philanthropic capital per se.[3]

Catalytic capital, focused on attracting third-party commercial capital is essential to bridge the SGB financing gap.

1. ODA statistic 2023 from One Data & Analysis, 2. OECD, 2023, Global Outlook on Financing for Sustainable Development, 3. UBS, Global Philanthropy Report, published in 2017, and converted to 2023 USD 4. Market size estimated by combining size of private market assets under management (USD 13.1 trillion), global public equity market (USD109 trn) and global bond market (USD133 trillion).

THE PRINCIPLES OF CATALYTIC CAPITAL ARE NOT NEW IN DEVELOPMENT FINANCE, IT'S GAINING TRACTION IN PHILANTHROPIC COMMUNITIES

What is catalytic capital and what are its origins?

There is no single definition of catalytic capital, but for the purpose of this report we focus on capital that seeks to unlock further third-party returnable capital into a specific impact area/theme (see objectives and approach section). Catalytic capital has its roots at the intersection of two fields: impact investing and development finance. Since the early 2000s, the development finance sector, through initiatives like the Conference on Financing for Development (e.g. the Addis Ababa Action Agenda) has been advocating for the use of development finance to attract further private capital and local capital. In parallel to this, catalytic capital is influenced by impact investing, which emerged in the late 20th century as investors began seeking ways to generate both financial and positive social or environmental returns.

Common features of catalytic capital

01 Flexibility and Risk Tolerance

02 Intentionality

03 Leverage

04 Patient Capital

05 Innovative Financing Structures

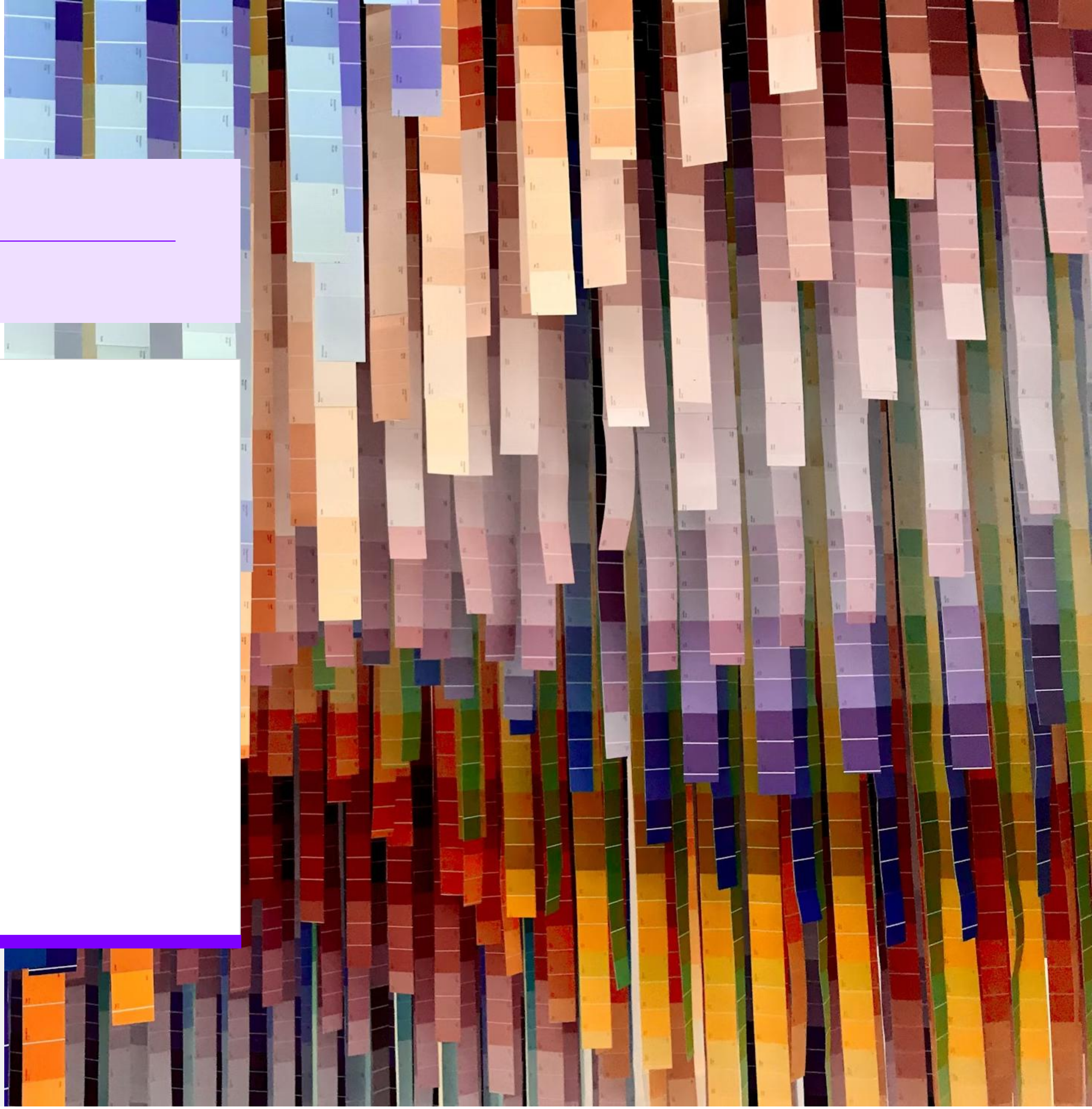
How do foundations relate to catalytic capital?

- **Foundations and philanthropic actors globally began discussing catalytic capital more prominently around 2019 when the catalytic capital consortium was created.**[1] This period marked a growing recognition of the need for more innovative and flexible financial approaches to address complex social and environmental challenges.
- **Much of the discussion and leadership on catalytic capital has been driven by American foundations.** Prominent U.S.-based foundations such as the MacArthur Foundation, the Rockefeller Foundation, and the Omidyar Network have been at the forefront of advocating for and implementing catalytic capital strategies. These organizations have played a significant role in defining the concept, demonstrating its potential, and influencing both the philanthropic and investment communities globally.
  - *MacArthur Foundation: How foundations are using catalytic capital to amplify their impact*
  - *Catalytic Capital Consortium: 5 myths preventing catalytic capital from going where it´s needed*
  - *Rockefeller Foundation launches RF Catalytic Capital Inc*
- While European foundations have also engaged with catalytic capital, the scale and visibility of their initiatives have generally been less prominent compared to their American counterparts.
- Overall, these discussions were part of a broader movement towards impact investing and blended finance, which sought to combine different types of capital to achieve greater impact.

1. News and Announcement from Rockefeller Foundation and MacArthur

02

Objectives and approach



THE DUTCH MFA SOUGHT TO UNDERSTAND OTHER ACTORS' ENGAGEMENT WITH SGB (CATALYTIC) FINANCING AND ASKED SAGANA TO RESEARCH ITS RELEVANCE TO EUROPEAN FOUNDATIONS

The primary objective of the report is to…

Deepen the Dutch MFA's and other public actors' knowledge of European Foundations interested in SGB (catalytic) financing and understand philanthropies' appetite to leverage synergies with the public sector

The report aims to reach the objective by…

- Providing an overview of the European foundation landscape
- Developing further insights on foundations supporting SGBs in EMDEs, including who they are, their motivations, and the ways they deploy their capital for SGBs
- Identifying success factors and barriers for foundations to deploy their funding catalytically to support and finance SGBs in EMDEs
- Providing recommendations on how the public sector can work more closely with foundations supporting SGBs in EMDEs

THE DUTCH MFA[1] IS WORKING ON VARIOUS INITIATIVES TO TACKLE THE SGB FINANCING GAP IN EMDES, SUCH AS 'INVESTING IN YOUNG BUSINESSES IN AFRICA' (IYBA)

Team Innovative Finance for Development (IFO)

- Thematic focus on mobilization of private capital at scale, MFA-wide mandate on this theme
- Examples of our work:
  - Cooperation with Netherlands Advisory Board on impact investing (Dutch GSG chapter)
  - Advocacy for publication of GEMS
  - Advocacy for increased mobilization through MDBs
- From this perspective, the team launched the study, acknowledging the SDG financing gap as a key driver for scaling up private investments in emerging markets.

Directorate for Sustainable Economic Development - Team Financial Sector

- Thematic focus on financial market development and access to finance, particularly for MSMEs
- Examples of work:
  - **DGGF2:** invests in funds for early-stage companies in EMs
  - **ACELI:** supports FIs in building agri-SME portfolios
  - **IFC Global SME Facility:** invests in SMEs in EMs
  - **FMO Massif:** provides access to finance for MSMEs
  - **FMO Ventures:** invests in early-stage fintech, agritech & energy companies

Team Europe Initiative – European Commision

- **Team Europe Initiative** – Investing in Young Businesses in Africa (IYBA) is a joint initiative of EU member states, led by the European Commission, with the goal of boosting entrepreneurship in Sub-Saharan Africa
- 11 member states and their development banks
- Platform for exchange on the theme of MSME financing in Africa, as well as sharing initiatives and launching joint programs
- Semi-annual management meeting attended by many ecosystem players, including foundations.

More on this initiative in annex E

1. The Dutch Ministry of Foreign Affairs

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CATALYTIC CAPITAL IS DEFINED IN DIFFERENT WAYS. WE WILL FOCUS ON ITS ABILITY TO MOBILIZE ADDITIONAL RETURNABLE CAPITAL TOWARDS SGBS IN EMDES

Some definitions of catalytic capital focus more on driving deeper impact outcomes, and others focus on leveraging more capital. With broad definitions of catalytic capital, it can be hard to differentiate it from other terms like innovative finance.[1]

MacArthur Foundation:
Catalytic capital is patient, risk-tolerant, concessionary, and flexible capital that supports impact-driven enterprises that cannot attract conventional investment.[2]

Prime Coalition:
Capital that is designed to overcome specific, well-defined financial risks or other barriers that prevent investors from directing conventional capital – with terms that are representative of the asset class – toward impactful projects or companies.[3]

Impact Europe:
Catalytic capital is a form of investment that intentionally fills gaps left by mainstream finance, aiming to achieve social and environmental impacts that otherwise would not be possible.[4]

For the purpose of this project, we focus on catalytic capital as **the intentional use of capital to leverage additional capital to support SGB development.** The implicit aim of this capital is to address the financing gap for SGBs in EMDEs and support the robustness of the SGB market.

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1. Innovative finance is often defined as a form of capital that either mobilizes additional finance for development and/or finances SDG progress in a more effective and efficient manner; 2. MacArthur Foundation definition; 3. Prime Coalition definition ; 4. Impact Europe definition.

OUR METHODOLOGY COMBINES A COMPREHENSIVE LITERATURE REVIEW WITH A SEMI STRUCTURED INTERVIEW PROCESS

Desk-based research

Objective

- Desk-based research helped build an understanding of the European foundation landscape and of ways philanthropies support SGBs in EMDES (including through catalytic capital)
- It also enabled a mapping of European foundations interested in SGBs and of existing European and global initiatives that support foundations using their capital to support SGBs (catalytically)

Process

- Identified and studied most recent research, key publications, and opinion pieces from organizations such as SSIR, C3, Impact Europe, Toniic, OECD, GSG…
- Scouted European organizations such as Philea and Impact Europe and used the Sagana network to identify key European foundations, particularly those focused on investing in SGBs in EMDEs.
- Used Sagana expert knowledge and input from Dutch MFA and the European Commission to identify key initiatives of interest to the study
- Built an excel of over 100 foundations and over 20 initiatives
- Downloaded annual reports to gain an in-depth view of foundations' key thematic interests and organizational structures and an initial sense of their available budgets.
- Carried out initial online research on initiatives websites to understand their main objectives and methodology, as well as any published success stories and opinion pieces

Semi-structured interviews

Objective

- Interviews helped with data collection and the refinement and testing of hypotheses developed during the desk-based research. They helped us understand the nuances that inform foundations' interest in SGB financing in EMDEs.

Process

- Built an interview wish list of 44 foundations and 24 initiatives/ industry associations. Of these, we were able to speak to 27 foundations and 20 initiatives/ industry associations for a total of 47 interviews. (list at the end of the presentation)
- We followed a semi-structured process focused on understanding the foundation's drivers to deploy their capital (catalytically) in support of SGBs and their appetite for collaboration with the public sector.

USING A FUNNEL APPROACH, WE BEGIN WITH A REVIEW OF EUROPEAN FOUNDATIONS, THEN FOCUS ON THOSE OPERATING IN EMDES AND/OR SUPPORTING SGBS (CATALYTICALLY)

Foundations operating in Europe

How many are there?

How much capital do they manage?

How are they generally structured?

What are recent trends in philanthropy in Europe?

European foundations with some activity in EMDEs

What interest do European foundations have on EMDEs, and how do they engage in these countries?

What is keeping them from engaging in EMDEs?

European foundations supporting SGBs in EMDEs

How many European foundations support SGBs in EMDEs?

What type of support do they offer and what motivates them to do so?

What success factors and challenges do they face?

European foundation deploying catalytic capital for SGBs in EMDEs

How many European foundations are deploying catalytic capital in EMDEs to support SGBs?

What success factors and challenges do they face?

THE REPORT PRIMARILY EXPLORES THE ROLE OF FOUNDATIONS AS (CATALYTIC) CAPITAL PROVIDERS FOR SGBS, BUT ALSO INCLUDES A BRIEF SECTION ON FOUNDATIONS´ ENDOWMENT CAPITAL AS POTENTIAL INVESTMENT CAPITAL TO BE "CATALYZED"

Conventionally, foundations treat endowment capital and programmatic funds as separate entities, differing in their objectives, approach, capabilities, and skills. The management of the endowment can even be externalized from the foundation itself and put in the hands of financial professionals.

This report mostly focuses on programmatic capital, which is the most likely to be invested as catalytic capital to support SGBs in EMDEs.

Programmatic Capital

Goal: The primary goal of programmatic teams is to design, implement, and manage the foundation's charitable initiatives and programs. They aim to create and support projects that align with the foundation's mission, addressing specific social, environmental, or cultural issues.

Section 3 | Section 4 | Section 5

Endowment Capital

Goal: The goal of endowment teams is to manage the foundation's financial assets to ensure long-term financial sustainability. They aim to generate sufficient returns on investments to support the foundation's grant-making and operational activities.

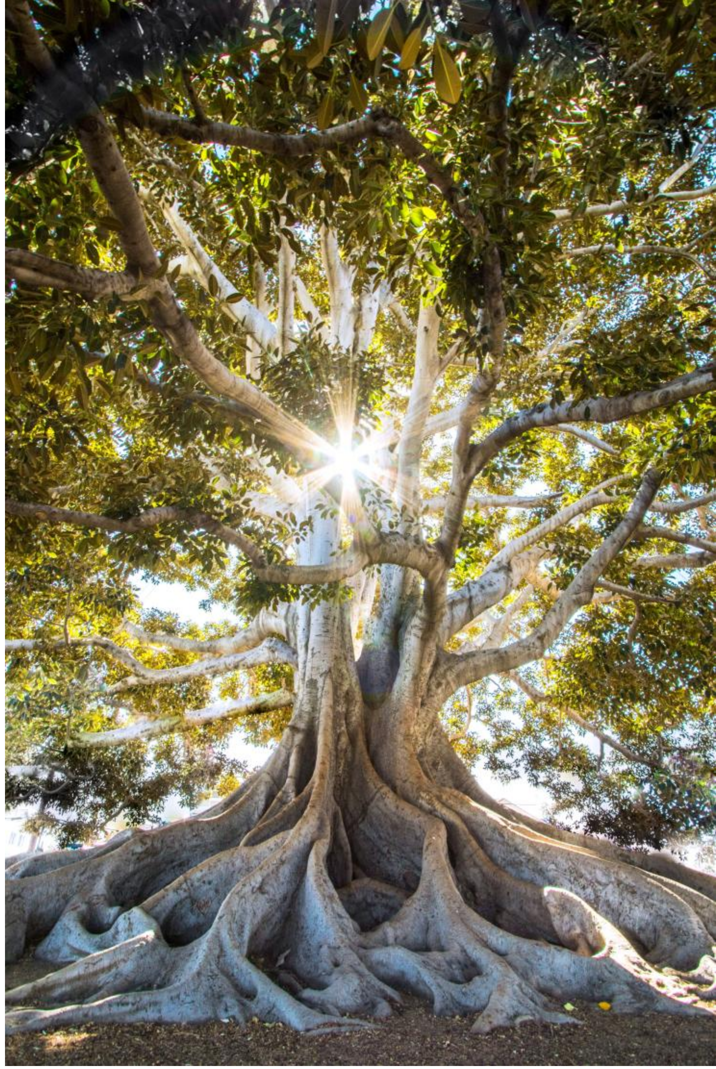
Section 6

Traditionally, the endowment is intended to sustain the foundation in the long term, while the programmatic team is responsible for spending to support a foundation's mission. Using endowment money for programmatic purposes can be seen as risking the foundation's future. This view has been at times rejected in recent years, with the rise, for example, of "spend-down" foundations that aim to use all their resources within a set timeframe.

1. The Dutch Ministry of Foreign Affairs

LIMITATIONS OF OUR STUDY

- **Data availability**: Information on the number of foundations in Europe, including their annual budgets and financial breakdowns, is scarce and incomplete. The major quantitative data sources used in this report are:
  - Philea: Public-Benefit Foundations in Europe, December 2023
    - Data was collected through Philea's annual survey conducted with its national association members across 26 European countries in 2023. However, the quality of the data is limited by a varying definition of "public-benefit foundation" across countries and diverse financial reporting standards, which can lead to inconsistencies in data collection. Likewise, the report relies on various sources, including state registries and self-reported data from national associations, which may not always be up-to-date or fully accurate.
  - OECD: Private Philanthropy for Sustainable Development, 2018-20, 2023
    - The report's data is derived from the OECD's statistics on development finance, which includes detailed information on grants and program-related investments (PRIs) from 45 of the largest and most influential foundations involved in sustainable development. The data only covers foundations that are already involved in regular reporting to the OECD. As a result, it underrepresents other foundations.
  - Indiana University Indianapolis: Global Philanthropy Indices
    - Last updated in 2022, the index provides data on 47 countries, covering 61% of the global population and 85% of global GDP in 2020. The data includes philanthropic outflows, official development assistance (ODA), individual remittances, and private capital investment. The report draws from multiple sources, including national databases and international financial institutions. Limitations include varying data availability across countries, potential underreporting, and differences in reporting standards that may affect data comparability.
  - UBS: Global Philanthropy Report, 2018
  - Foundations' annual reports, 2022 or 2023, depending on availability
  - 49 semi-structured interviews
- **Confidence in key findings**: While we are confident in the *order of magnitude* and *trends* identified in the report, precise data points should be interpreted cautiously as they are very high-level estimates based on expert interviews and anecdotal evidence. We prefer to suggest ranges.
- **Data extrapolation**: Our findings are based on extrapolations from a limited sample of 50+ foundations and opinions from experts in the field.



03

Introduction to the European Foundation Landscape

WHAT IS A EUROPEAN[1] FOUNDATION?

Setting the context

Across Europe[1], a harmonized legal definition for a 'foundation' or 'philanthropic entity' is lacking. For the purposes of this study, we will use Philea's definition of 'public benefit foundation':

Public-benefit foundations are independent, separately constituted non-profit bodies with their own established and reliable source of income, usually but not exclusively from an endowment, and their own governing board. They distribute their financial resources for public-benefit purposes, either by supporting associations, charities, and educational programs or by operating their own programs.

> *There is no such thing as a European Foundation. Because of differing regulations and socioeconomic contexts, each country ends up having very different types of foundations.*
> - Global Foundation

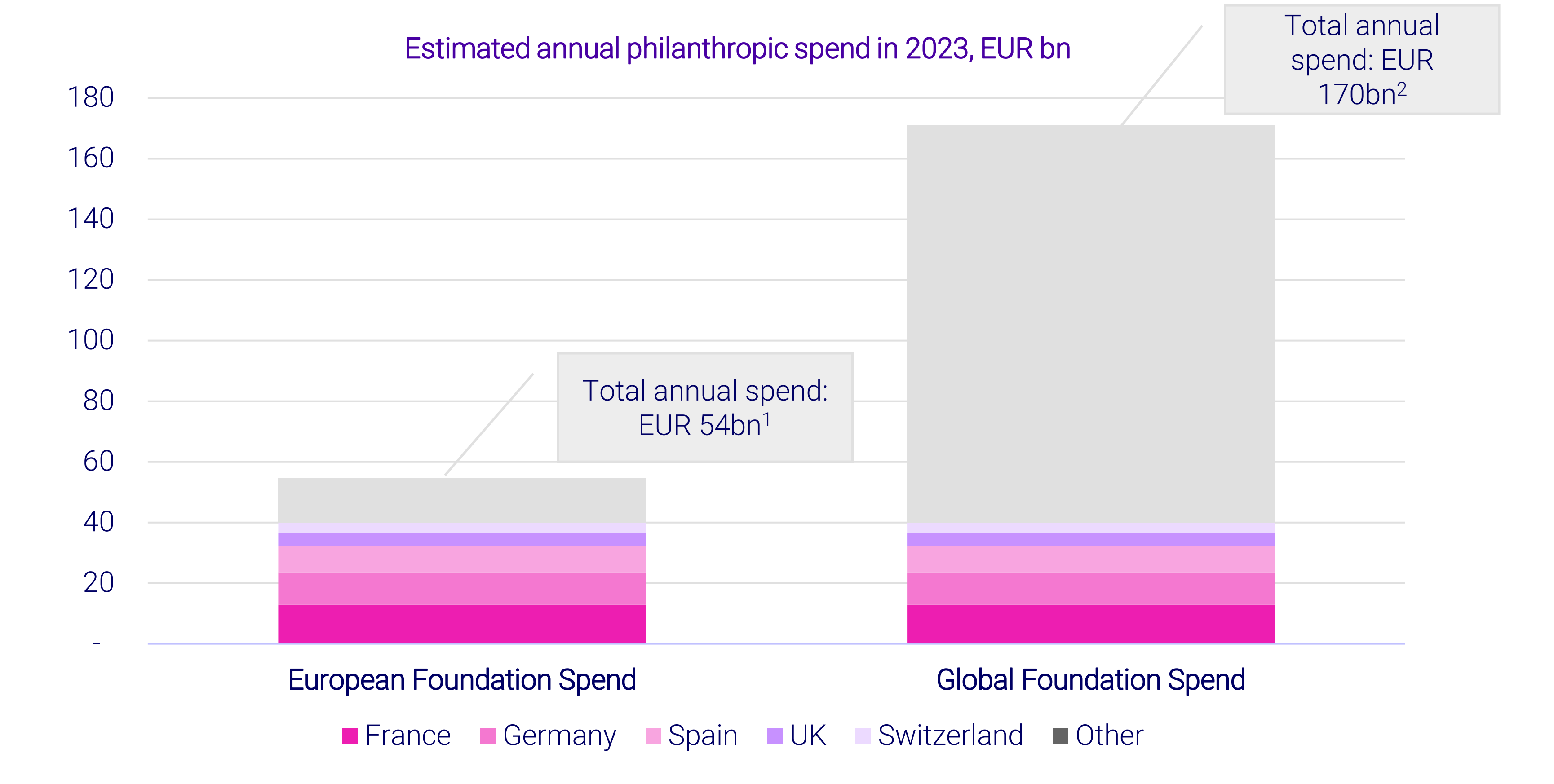
1. Europe includes data covering 26 European countries, including 19 EU Member States – Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Spain and Sweden. The 7 non-EU countries included in the dataset are Liechtenstein, Norway, Serbia, Switzerland, Turkey, the United Kingdom and Ukraine.Source: Philea, Comparative highlights of Foundation Laws, 2022

Data is a best estimate

THERE ARE OVER 180,000 FOUNDATIONS IN EUROPE THAT IN TOTAL SPENT EUR 54BN IN 2023, REPRESENTING ~30% OF GLOBAL PHILANTHROPIC CAPITAL

There are 186,079[1] foundations in Europe…

…These foundations **spend EUR ~54bn** annually, representing ~30% global philanthropic outflow (estimated at EUR 170bn[2])



1. Philea, 2023. Public-Benefit Foundations in Europe, 2.Deriived from UBS, 2017, Global Philanthropy Report. The number was published in 2017 and converted first to 2023 USD (USD 184 bn) and then to EUR using the 2023 average exchange rate (1.083),

MANY EUROPEAN FOUNDATIONS ARE RELATIVELY YOUNG, WITH OVER 40% BEING ESTABLISHED SINCE 2000

European foundations tend to be relatively young: over 40% are founded during this century (UBS Global Philanthropy Report[1])

Most experts tend to point to two main reasons for the establishment of new foundations in Europe

1. A rise in corporate giving: Corporate giving has been on the rise with more and more foundations being founded by corporations. This might be because of general pressures from the public (among other reasons, e.g. regulations).

> *There is an increasing expectation that companies should play a part in the solution of social problems, a view that is enshrined in the UN's Sustainable Development Goals (SDGs). In line with this, the number of corporate foundations and the amount of their giving seems to be increasing across the continent. [...] For example, in 2012, German corporate foundations had higher payout rates than other foundations in the country – 43% of corporate foundations spent more than €100,000, while the figure for other types was 37%. In the UK, according to the Association of Charitable Foundations, the top 50 corporate foundations gave grants worth £232.3m.*
> – The state of European Philanthropy, Andrew Milner, Alliance Magazine, 2015[3]

2. Changes in laws and regulations make it easier to establish foundations. For example, the minimum required to set up a foundation has been diminishing over time, leading to more and smaller foundations being established.

> *Overall, minimum starting capital rules seem to play a less important role today compared to 15 years ago. New forms of foundations and new forms of generating income have been introduced. It seems more important that the foundation has a reliable source of income to pursue a specific public-benefit purpose than to have a fixed amount of starting capital. While foundations have traditionally been thought of and still are generally regarded as property/asset-based organizations, more modern approaches suggest more flexibility around the capital requirement and use of the capital*
> – Comparative Highlights of Foundation Law, Philanthropy Europe Association (Philea), 2022[4]

1. UBS, 2017, Global Philanthropy Report; Observatoire de la Fondation de France, 2015, An overview of philanthropy in Europe; 3. Alliance Magazine, 2017, The State of European Philanthropy, Andrew Milner;; 4. Philanthropy Europe Association (Philea), 2022, Comparative Highlights of Foundation Law,

THE EUROPEAN REGULATORY ECOSYSTEM IS FRAGMENTED WITH DIFFERING DEFINITIONS, REGULATIONS AND REQUIREMENTS ACROSS EUROPEAN COUNTRIES

Addressing these disparities can help create a more balanced and effective foundation sector across Europe.

- **Diverse definitions and regulatory requirements**: Each European country has its own legal definitions and regulatory requirements for foundations, leading to inconsistencies. For example, what qualifies as a 'public-benefit' foundation in one country might not meet the criteria in another.
  - In Germany, foundations (Stiftungen) are legal entities that must have a permanent endowment, a defined purpose, and are subject to supervision by state authorities. They often enjoy significant tax benefits if they meet the public benefit requirements.
  - In Italy, foundations (fondazioni) can be classified into different types, such as banking foundations, private foundations, and public foundations. The legal requirements and tax treatments vary significantly depending on the type. For instance, banking foundations face stringent regulations and are required to focus on social and cultural initiatives, while private foundations might have more flexibility but fewer tax advantages.
  - Dutch foundations (stichtingen) are relatively easy to establish and do not require an endowment. They benefit from flexible legal frameworks but must comply with strict governance standards to maintain tax-exempt status.
  - French foundations (fondations) must receive approval from the Ministry of the Interior to be established and are required to have a substantial endowment (EUR 1.5m). They are subject to rigorous financial reporting and must demonstrate their public benefit.
  - In Spain, foundations (fundaciones) are regulated at both national and regional levels, leading to a variety of requirements. For example, foundations in Catalonia follow different registration and operational rules compared to those in Madrid. Spanish foundations must also demonstrate a public benefit purpose but might face different levels of scrutiny and reporting obligations depending on their location.
- **Varied tax exemptions**: All countries grant tax concessions for philanthropic foundations; and nearly all countries have tax incentives or similar subsidies to encourage donations by individual and corporate donors, but some differences influence what foundations can do:
  - Donations to public-benefit purpose foundations are, in general, exempt from corporate income tax for the foundation. In Denmark, however, public-benefit foundations do pay income tax on grants and donations unless given for the purpose of building up the foundation's endowment
  - Although most countries grant equivalent tax concessions to donors giving both domestically and within the EU, certain countries, such as Portugal and Spain, do not apply equal tax treatment to giving within the EU. Lithuania and Latvia also restrict tax credits to comparable EU-based philanthropic entities operating in their respective jurisdictions.

Philea publishes country profiles regarding the philanthropic regulatory landscape. The last iteration was in 2020 and the next one is in December 2024.

The operating environment for foundations/philanthropic organizations is constantly evolving.
Currently there are foundation law revisions in the pipeline for Germany and Portugal. Tax law is also under constant review. For example, new tax incentives related to the Covid pandemic in 2020 were introduced with the aim to stimulate more giving.

Source: Philanthropy Europe Association (Philea), 2022, Comparative Highlights of Foundation Law; Philea Country Profiles
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HISTORICAL, CULTURAL, AND SOCIAL CONDITIONS GIVE RISE TO VARIABILITY AMONG EUROPEAN FOUNDATIONS

The scale of the social sector[1] and its relationship with the government influences types of European philanthropies, leading some experts to group the latter into four different models.[2]

"The welfare state in Europe influences philanthropy differently compared to the US, where philanthropists often need to step in for the state."

Philanthropy Advisor

Welfare partnership model (Germany, Netherlands, Belgium, France, Italy and Spain)

The social sector is large, accounting for more than 5% of total employment, and composed mainly of organizations providing services. The sector is dominated and subsidized by the government, which spends a great deal of money on social welfare programs and accounts for over half of the social sector's funding. For historical reasons there is often a close and dependent relationship between the social sector and government. **Philanthropy has traditionally been quite weak in these countries, constituting less than 0.3% of GDP.**

Developmental model (Czech Republic, Poland, Slovakia, and Hungary)

The social sector is small, accounting for between close to 0 and 2% of total employment and relies much more than in other countries on private philanthropy for its funding. Although welfare spending is relatively high (a legacy in former Communist states), the government has not developed a close relationship with civil society and has tended to manage service delivery itself rather than partnering with the social sector. Nonprofit organizations have struggled to find an independent voice after years of suppression, although this situation is changing. **Philanthropy is important in nurturing and financing the growth of nonprofits, although there isn't a strong philanthropic tradition.**

Social democrat model (Sweden and other Nordic countries)

The social sector is small, accounting for less than 3% of total employment, and rooted in voluntarism, relying primarily on membership fees and charges for its funding rather than government money. The nature of the social sector derives from the fact that state-sponsored and -delivered social welfare programs are quite extensive, leaving little room for nonprofit organizations to provide services. The social sector is based primarily on an associational culture, with nonprofits functioning mostly as vehicles for people's political, social, and recreational interests. **The social sector is significantly independent of government control but is limited in size and influence by a relatively small philanthropic base.**

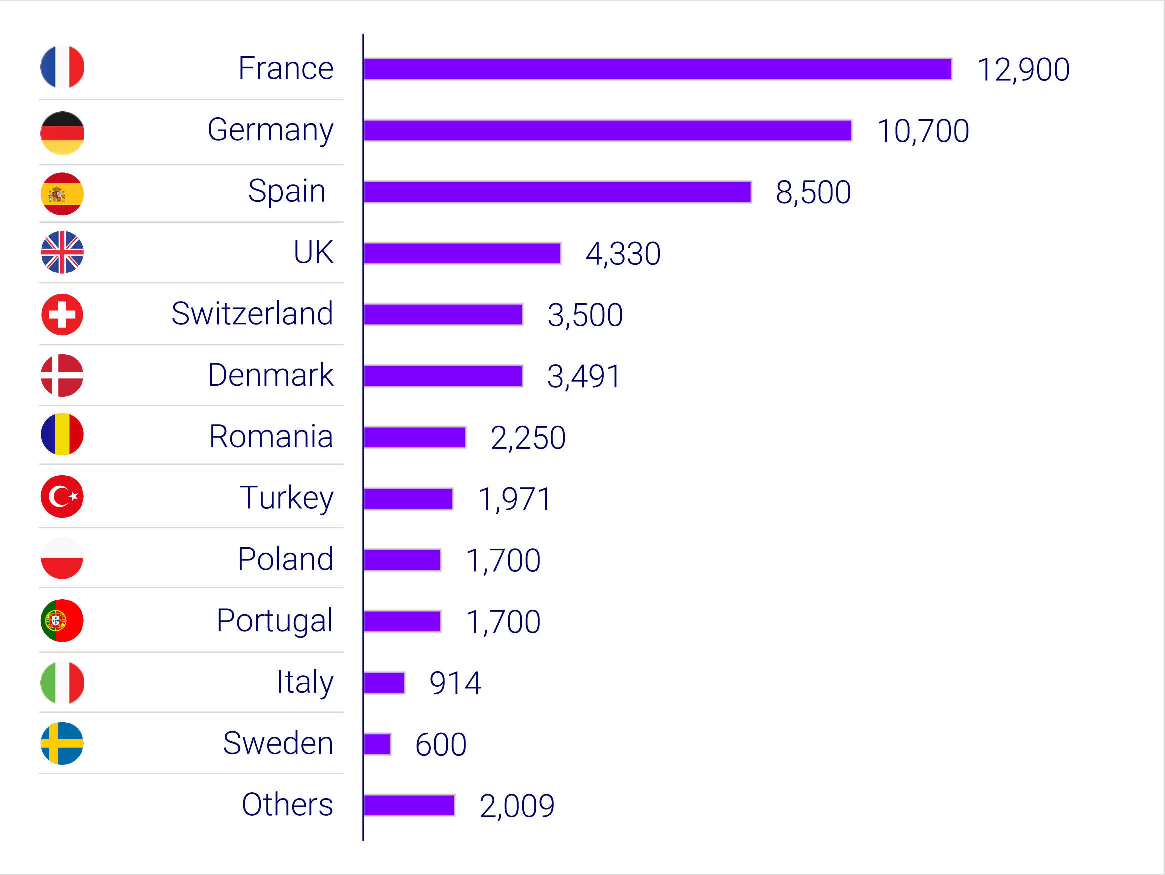
Liberal model (United Kingdom)

The social sector is relatively large, accounting for more than 5% of total employment, and focused mostly on providing services, particularly in education, health, and social welfare. Although the social sector receives about half its funding from government contracts, for historical reasons it is largely independent of government control. The social sector also receives a substantial amount of income from fees and charges. Only a small portion of funds comes from private donations and grantmaking foundations. **UK philanthropy has a strong and vibrant tradition, ranking number one in Europe as a percentage of GDP.**

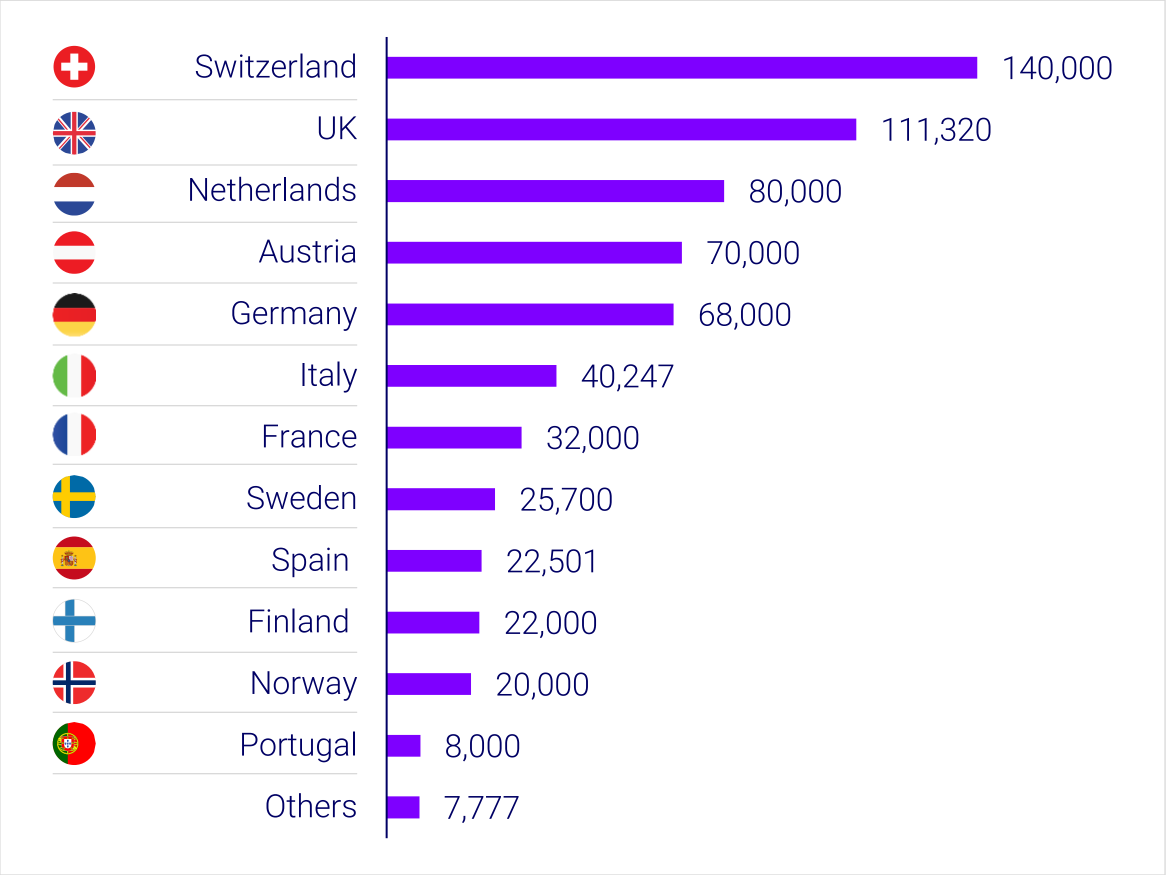
1. The social sector refers to organizations and initiatives that aim to address social issues and improve community well-being. It includes non-profits, NGOs, charities, and other similar groups. 2. SSIR, The Growth of Venture Philanthropy, 2013; The John Hopkins Comparative Non profit sector, Social origins of Civil Society, Explaining the Non profit Sector Cross-Nationally, 1998. ,

ALTHOUGH IT IS DIFFICULT TO COMPARE, FRANCE IS THE TOP EUROPEAN COUNTRY BY ANNUAL EXPENDITURE; AND SWITZERLAND BY SIZE OF ENDOWMENT

Top 12 European countries by foundation annual expenditure, EUR m, 2023



Top 12 European countries by foundation endowment size, EUR m, 2023



Source: Philea, 2023. Public-Benefit Foundations in Europe

HEALTH, CLIMATE, AND YOUTH EDUCATION ARE CONSISTENTLY TOP THEMES FOR EUROPEAN FOUNDATIONS

Health and Wellbeing

Improving public health and supporting mental health initiatives are important themes. Foundations often fund health-related projects that address the needs of vulnerable populations and improve overall community health.

Two of Europe's largest foundations focus solely on health: **Novo Nordisk (annual giving: approx. ~EUR 0.7bn[1]) and Wellcome Trust (annual giving: ~EUR 2bn[2]). Many other large foundations also focus their efforts on health, such as Bayer, Philips and Fondation S.**

Climate and Environment

Many foundations prioritize addressing climate change and promoting sustainability. They fund projects related to renewable energy, sustainable agriculture, and climate resilience. For example, the European Foundations for Sustainable Agriculture and Food (EFSAF) aims to transform food and farming systems to be more sustainable by 2030.

A study by Philea revealed European foundations gave EUR 1.6bn to environmental initiatives in 2021[3].

Youth and Education

European foundations dedicate a substantial amount of their funding to education. **In Spain, around 52% of foundation resources are directed towards education and research.**[4] This trend is consistent across many European countries where foundations prioritize educational projects.

Cultural and Scientific Activities

European foundations allocate a significant portion of their funds to cultural programs, supporting a variety of initiatives that promote cultural diversity, heritage, and artistic expression.

Two of Europe's large foundations focus on cultural and scientific **activities Calouste Gulbenkian (annual giving to education and science: ~ EUR 70m[6]) and "la Caixa" (annual giving to education and science: ~EUR 120m[7])**

Democracy and Civic Engagement

Supporting democratic institutions, civil society, and media is a significant focus. Initiatives aim to combat misinformation, protect civic space, and enhance political participation. One of three focus areas for Philea is Democracy. **Philea hosts a Democracy network with a steering committee of 10 foundations, chaired by the Adessium Foundation (annual giving in 2023: EUR 16m[8]).**

Health, climate, and youth education are consistently top themes for European foundations, although detailed data is lacking.

1. Novo Nordisk Foundation, 2022, Annual Report; 2. Wellcome Foundation, 2023, Annual Report 3. Philea, 2021, Environmental philanthropy across Europe; 4. Alliance Magazine, 2017, The State of European Philanthropy, Alliance Magazine,; 5. Calouste Gulbenkian, 2022, Annual Report 6. "la Caixa" Foundation, 2022, Annual Report 7. Adessium Foundation, 2023, Annual Report

SEVERAL NEW TRENDS HAVE ARISEN IN RECENT YEARS AMONG EUROPEAN FOUNDATIONS SEEKING TO INCREASE THEIR IMPACT - INVESTING IN SGBS IS ONE OF THEM

Although most European foundations do important work by supporting local projects in their communities with 'traditional' grants, some new trends have arisen in recent years in the philanthropic community:

- **Flexible funding or Trust-based philanthropy:** This funding allows recipient organizations to use resources as needed without strict conditions. It supports adaptability and innovation by letting grantees allocate funds where they're most impactful. This model emphasizes equitable relationships between funders and grantees, offering unrestricted funding and reducing administrative burdens,
- **Power shifting or Participatory grantmaking:** Power shifting involves giving more decision-making authority to the communities or organizations receiving support, reducing traditional power imbalances in philanthropy.
- **Long-term grants:** Long-term grants provide multi-year funding, offering financial stability and allowing organizations to focus on long-term goals and sustainable impact.
- **Institutional support:** Institutional support funds organizations' core operations, covering essential expenses like salaries and infrastructure and enabling them to pursue their missions effectively.
- **Pooling capital:** Philanthropies are increasingly collaborating to amplify their impact. By pooling resources, they can undertake larger and more complex projects than they could individually. This collaboration allows them to leverage each other's expertise, networks, and financial contributions to address pressing social issues more effectively.
- **Support to SGBs:** This approach focuses on supporting impactful SGBs and/or supporting financial intermediaries that enable social enterprise development

Sources: Alliance Magazine, 2024, Uncovering Foundations Impact Investing Sphere; The Social Nest, 2024, Latest Trends in Philanthropy in the UK, 2025; Wings Web, 2024, Navigating the Shifting Tides of philanthropy: Insights and strategies for 2024; Philea 2022, The Philanthropy Environment in Europe; Philea 2023, Philea Survey Candid Blog, 2022, The emerging trends of European Philanthropy

04

European foundations and their interest in EMDEs

EUROPEAN PHILANTHROPIC FLOWS TO EMDES ARE SMALL COMPARED TO TOTAL SPEND - LIKELY CLOSE TO EUR 3-6BN

European foundations annual spend in EMDEs is small compared to total spend, likely around 3-6bn out of 54bn…

3-6BN

Likely estimate EUR

14.4BN

Maximum EUR

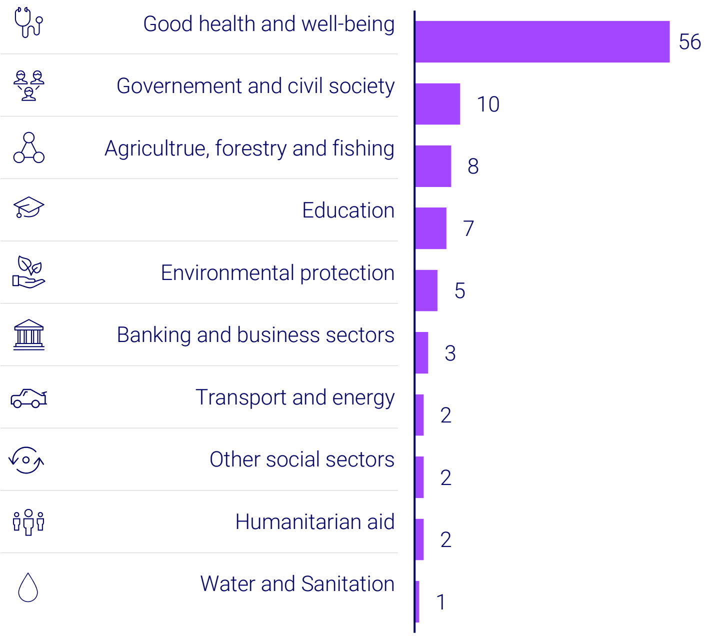
54.4BN

Out of EUR

- The exact amount of these philanthropic outflows directed towards EMDEs is unclear. The data indicates that European foundations are spending at most EUR 14bn in EMDEs[1], but the actual amount is likely much smaller; indeed, Interviews with stakeholders provided more conservative estimates, sometimes even **suggesting that only 5-10% of total European philanthropic spending goes to EMDEs.**
- According to the Global Philanthropy Tracker maintained by Indiana University Indianapolis, cross-border philanthropic outflows from the 21 European countries studied amounted to approximately USD 15bn in 2020[1]. This equates to about EUR 14.4bn in 2023 and represents ~25% of the total giving by European foundations, which is EUR 54bn.

…Good health and Civil Society are top charitable causes in EMDEs

Sectoral distribution of private philanthropy spend in EMDEs, 2018-2020 average, %[2],



1. https://globalindices.indianapolis.iu.edu/tracker/country-level-a.html 2. OECD, 2023, 'Private Philanthropy for Sustainable Development based on data from 2018-2020

SAGANA

EUROPEAN FOUNDATIONS ALLOCATE MOST CAPITAL LOCALLY DUE TO HISTORICAL MISSION ALIGNMENT, LACK OF FAMILIARITY WITH EMDES AND REGULATORY COMPLEXITIES

Mission alignment – Many European foundations are historically rooted in local communities and have engrained mission statements to support and develop them.[1,2] Foundations in some geographies, such as the Netherlands, Belgium, and Switzerland have historically been more focused on international and humanitarian aid (than other European counterparts)[1,2]

Familiarity, networks and capacity for impact – European philanthropies are more familiar with the social, cultural, and economic contexts within Europe. This familiarity makes it easier to identify needs, design effective interventions, and engage with local partners for implementation.

Regulatory red-tape - Foundations benefit from tax exemptions due to their "public benefit role". These exemptions are more straightforward when the foundation's activities are local and directly visible to the governing authorities. Rather than being prohibited per se, the processes to navigate exemptions in EMDEs can be more time-consuming and resource-intensive Some EMDEs, like India, also impose foreign funding restrictions which subject philanthropic inflows to tax or restrict entry.[3,4]

"As a corporate foundation, we generally align our capital allocation and work with the geographies in which the corporation also operates. Doing so allows us to maximise our impact, leverage existing resources and ensure a harmonious integration of our business and social responsibilities." - Foundation

"Some foundations have their mission statements and primary objectives documented into their Articles of Incorporation and their bylaws. Modifying these can take substantial time and effort." -Foundation

European philanthropies leverage their regional understanding and established networks to accurately identify local needs and design effective interventions. They often partner with local NGOs, government bodies, and community leaders, enhancing their initiatives' reach and effectiveness. Sharing resources, knowledge, and best practices amplifies their impact. However, in EMDEs, they may face barriers like unfamiliarity with local contexts and problematic, and trust-building challenges. These barriers necessitate tailored, flexible approaches and significant local collaboration.

"We have decided to only invest in EMDEs indirectly through other funds. As a fully Europe based team, we are deeply cognisant that we are not familiar with the local needs and players and therefore are likely to make suboptimal financial and impact decisions if we attempt to go into EMDEs independently." - Foundation

In 2024, Philea and Transnational Giving Europe (TGE), launched a report which highlights the significant barriers to cross-border philanthropy in Europe, these are amplified in EMDES[5]:

- Discriminatory tax treatment and complex procedures
- Difficulties in accessing banking services and transferring fund across borders
- Lack of legal recognition of foreign foundations
- Impossibility of cross-border merge of foundations
- Burdensome process to transfer seats or perform a conversion across borders
- Restrictions on foreign funding at destination

1. Sagana Interviews 2. Observatoire de la Fondation de France, 2015, An overview of philanthropy in Europe . 3. EFC and Dafne, 2021, Comparative Highlights of Foundation Laws; 4. OECD, 2020, Taxation and Philanthropy 5. Philea, 2024, Removing obstacles to cross-border philanthropy: the time is now

05

European foundations, SGBs and catalytic capital in EMDEs

SUMMARY OF FINDINGS

01

CONTEXT SETTING

What does the European Foundation landscape engaging in SGBs (and catalytic capital) in EMDEs look like? Who are the foundations supporting SGBs in EMDEs (with or without catalytic capital)?

- This section focuses on European foundations supporting SGBs and intentionally deploying catalytic capital in EMDEs
- European foundations engaging in catalytic capital in EMDEs are a small subsection of total philanthropies. We estimate that foundations supporting SGBs in EMDEs are in the 100s, while foundations intentionally focusing on catalyzing third-party capital are in the 50s.
- Foundations generally take one of three approaches when investing in EMDEs. these methods often attract third-party capital. However, only about 50% of foundations investing in SGBs that we spoke to intentionally catalyze third-party capital.
- Foundations claim they don't seek to be catalytic (in financial terms) because they want to be known for their impact in their chosen theme rather than for being third-party capital enablers.

02

SUCCESS FACTORS

What are the success factors leading European Foundations to support SGBs and catalytic capital in EMDEs?

- Foundations that invest in SGBs are broadly split in two types: those set up to support SGBs at the core of their mission and those that gradually incorporate enterprise development in their funding strategy
- We found two types of success factors for European foundations to begin engaging in catalytic capital in EMDEs
  - Intrinsic motivators, which include a higher risk tolerance enabled by leadership, the ability to adopt change within the organization, and the desire to enact systemic change and be outward-looking
  - External or structural factors, which include their foundational history, funding sources, and regulations conducive to using tools related to impact investing / catalytic capital in the foundations' home country

03

INITIATIVES

What is the current ecosystem of initiatives supporting European Foundations investing in SGBs (with or without catalytic capital) in EMDEs?

- There are numerous initiatives that support foundations in general and help them invest their capital in SGBs (catalytically).
- In Europe, few initiatives have both access to a broad number of foundations and in-depth knowledge of catalytic capital; those that exist are small in scale and relatively young

Data is a best estimate

1

WE FOUND 50-100 FOUNDATIONS INVOLVED IN CATALYZING THIRD PARTY CAPITAL FOR SGBS IN EMDES; A GREATER NUMBER SUPPORTS SGBS IN OTHER WAYS. THESE ARE A SMALL BUT VITAL PROPORTION OF THE GLOBAL FOUNDATION LANDSCAPE

Est. # of foundations[1]

180,000	60,000	100s	50s
All foundations operating in Europe	European foundations with some activity in EMDEs	European foundations supporting SGBs (in EMDEs)	European foundation deploying catalytic capital for SGBs (in EMDEs)

Description and examples

All foundations operating in Europe / European foundations with some activity in EMDEs

- Vastly disparate group, driven by the differing definitions, regulations, and histories of European countries
- Most engage in grant giving and are locally focused.
- Health, Youth and Education and Climate are consistently top themes

Bolton Hope Foundation | Oak Foundation | Novo Nordisk Foundation | Chanel Foundation | L'Occitane Foundation | SNF Foundation

European foundations supporting SGBs (in EMDEs)

Small to medium-sized foundations founded by an entrepreneur or venture capital fund manager (1-50m EUR spend)	Demeter Foundation; DRK Foundation
Medium-sized foundations (10-50m EUR spend) with a thematic position and beginning to explore investing in SGBs	Trafigura Foundation; Philips Foundation
Large foundations (>50m EUR spend) using a small portion of their funding to invest in SGBs	Stichting DOEN; "la Caixa" Foundation

European foundation deploying catalytic capital for SGBs (in EMDEs)

Foundations experienced in catalytic capital and eager to share their knowledge and success stories, and find partners for their efforts

Argidius By PORTICUS | Rabo Foundation | UBS Optimus Foundation

1. Market sizing was carried out through desk research, and 40+ interviews with experts in the field. It is a best estimate that is directionally correct. Our sources were: Philea, 2023, Public-Benefit Foundations in Europe; Indianapolis, 2023, Indianapolis Global Philanthropy Indices with data from 2022-2023; OECD, 2023, 'Private Philanthropy for Sustainable Development based on data from 2018-2020

1 WE HAVE FOUND THAT FOUNDATIONS GENERALLY TAKE ONE OF THREE APPROACHES WHEN INVESTING IN EMDES. THESE METHODS OFTEN ATTRACT THIRD-PARTY CAPITAL

European foundations generally take these three approaches when investing in SGBs in EMDEs:

	Approach	Description	Example
1	Increasing the robustness of impactful SGBs	Many SGBs in EMDEs require non-financial support to enable their growth and development. Foundations deliver such support (i) through incubators and accelerators (ii) through direct grants for technical assistance or (iii) in-kind support through mentorship and advisory services. By thus increasing the robustness of impactful SGBs, foundations give them the means to attract third-party capital.	**Westerwelle foundation** supports young entrepreneurs in EMDEs through various programs, including the Westerwelle Young Founders Program, which provides mentorship, networking opportunities, and business development support. More detail on this example in annex C.1
2	Directly financing SGBs	Some foundations provide direct financing to SGBs in EMDEs in the forms of loans, equity or grants. The financing aims to support SGBs that have high impact and would otherwise not have attracted external funding. Foundations that directly finance SGBs usually have a target for the type of growth and return expectations from their investments. These companies also invest with an eye on the potential exit strategy that usually involves a third-party funder.	**The Draper Richards Kaplan (DRK) Foundation** is a global venture philanthropy firm that supports early-stage, high-impact social enterprises. The foundation provides funding, strategic support, and hands-on operating support delivered through board service to entrepreneurs who are tackling critical social issues.. More detail on this example in annex C.2
3	Supporting financial intermediaries	Some foundations find they achieve greater impact by supporting financing institutions that can distribute financing to SGBs most in need. They might provide these institutions with direct concessional investments or might help them develop new products or services for new market segments. Foundations also might invest directly in funds with concessional financing or provide them with capital for set-up, pipeline building or technical assistance.	**Rabo Foundation** is actively involved in supporting financial inclusion and agricultural development through bank guarantees. These guarantees help local financial institutions extend credit to smallholder farmers, agricultural cooperatives, and rural enterprises that typically lack access to traditional financing. More detail on this example in annex C.3

Sources: Sagana analysis, interviews

1 HOWEVER, ONLY ABOUT 50% OF THE FOUNDATIONS WE SPOKE TO INTENTIONALLY MAXIMIZE THE AMOUNT OF THIRD-PARTY CAPITAL THEY CATALYZE

Foundations that **intentionally maximize** third-party capital

We have found that foundations that intentionally leverage third-party capital tend to be those that take a **systemic view** of their solutions.

Taking a systemic view means they focus on addressing root causes and creating long-term, sustainable change and support initiatives that aim to transform entire systems rather than just alleviating symptoms.

Sample foundations

- A foundation that emphasizes the importance of effective and sustainable business development services (BDS) and works to disseminate critical lessons to enhance the impact of such services globally
- A foundation that aims to provide funding to funds focused on climate adaptation for set-up and pipeline building so they can attract third-party capital and build markets in EMDEs

Few foundations who intentionally pursue the catalysis of third-party capital, however, actively measure their leverage

Foundations that **don't intentionally maximize** third-party capital

Typically, foundations that don't intentionally leverage third-party capital tend to be those focusing on **projects or single organizations** and providing targeted support to specific initiatives or entities.

These foundations prioritize funding for programs, services, or capital projects that address needs or challenges that can be immediate.

Sample foundations

- A foundation that invests in startups developing innovative technologies for low-carbon solutions, circular economy, and sustainable mobility through its fund.
- A foundation that supports small businesses and market-based organizations through returnable convertible grants aiming to make them self-sustainable.

"While we are not explicitly trying to mobilize more capital, this is a by-product of our efforts" - Foundation

Sources: Sagana analysis, interviews

1 MANY FOUNDATIONS DON'T PERCEIVE THEIR ROLE AS 'ENABLERS FOR THIRD-PARTY CAPITAL', BUT WANT TO BE KNOWN FOR THEIR IMPACT IN THEIR CHOSEN THEME

"Part of [the reason why not many foundations do it] is perception – the perception of not wanting to be seen as subsidizing private capital and associating with private investments"
- Foundation

"Foundations need to be seen as impactful, and a leverage metric can sound superficial. At the end of the day, they care about impact, not about leverage. Leverage is such a hard thing to measure and can quickly not actually reflect impact."
- Advisor to Foundations

"There is always a theme behind an investment instrument, this is what we care about"
- Foundation

"As a foundation we do not favor the idea of being catalytic to build a pipeline for other investors"
- Foundation

"We want to solve social issues; we don't want to test new financial tools"
- Foundation

Sources: Sagana analysis, interviews

2 FOUNDATIONS THAT INVEST IN SGBS ARE BROADLY SPLIT IN TWO TYPES: THOSE SET UP WITH ENTERPRISE DEVELOPMENT AT THE CORE OF THEIR MISSION AND THOSE THAT GRADUALLY INCORPORATE IT

Some foundations were set up to invest in SGBs …

- Most of these foundations are founded by entrepreneurs or professionals from venture capital / private equity who have experienced the power of businesses to enact change and impact
- Some of these foundations, inspired by their entrepreneurial origins take a 'venture philanthropy' approach and provide direct investments to SGBs

Fondation Botnar | Demeter

- Others, instead, invest in financial intermediaries or improve the robustness of SGBs

Argidius | Westerwelle Foundation | Rabo Foundation

… many are just beginning to invest in SGBs, and these investments are a small portion of their total funding

- Many (not all!) foundations investing in SGBs are corporate foundations that are interested in expanding their impact through new tools

BMW Foundation | Repsol Foundation | "La Caixa" Foundation

Fondation S. The Sanofi Collective | Trafigura Foundation | Philips Foundation

- These foundations typically start by carving out a small portion of their funds. They are cautious about potentially disrupting the impact of their existing practices and want to verify the impact of new tools before fully integrating them into the organization

"In general, at the beginning, you never allocate huge amounts in innovative financing, and you feel that you have to continue doing your usual grant making and supporting your mandate"
- Global Initiative

"We don't feel ready to put a large portion of our funds into these new tools, as we want the foundation to be able to keep supporting our impactful projects"
- Foundation

"We are putting a small portion of our funds into this new project, because we want to test it out and make sure it is impactful before committing to it"
- Foundation

Out of the foundations we landscaped for the project, ~40% were set up to invest in SGBs, and ~60% were just beginning to invest in SGBs in EMDEs

Sources: Sagana analysis, interviews

2 WE FOUND THAT FOUNDATIONS' ENGAGEMENT IN CATALYTIC CAPITAL IS CLOSELY LINKED TO BOTH INTRINSIC MOTIVATORS AND EXTERNAL / STRUCTURAL FACTORS

a Intrinsic motivators

Risk tolerance and experimentation, enabled by the leadership

- Leadership buy-in is essential for foundations to make the decision to pursue novel approaches at scale
- An organizational culture and governance model with an increased risk tolerance that makes room for experimentation and learning is indispensable to successfully pursue a new strategic vision and implement progressive changes over time. This organizational culture and governance model is enabled by the organization´s leaders.

Proactive change management, particularly for the incorporation of new skills and networks

- As foundations transition towards supporting SGBs (with or without catalytic capital), internally, there can be resistance to change because of mistrust of the private sector, lack of understanding and skills in investing in SGBs, and difficulty with monitoring, evaluating, and communicating impact
- A change management plan, with a strong emphasis on acquiring and building the necessary skills and knowledge, enables foundations to overcome these barriers

Foundations that have a systemic view to change and outward-view

- Foundations that tend to focus on systemic change rather than isolated projects, show a strong interest in experimenting with investment strategies to address broad and complex issues and are more interested in investing in SGBs.
- The foundations that exhibit an outward-looking and curious approach, eager to connect with peers and understand their strategies, are likely to invest in SGBs.

b External and Structural factors

Foundation's founding history and funding sources

- Foundation's founding history and mandate can influence how open foundations might be to investing in SGBs. For example, foundations founded by entrepreneurs tend to have a greater affinity to investing in SGBs.
- A foundation's funding sources might also influence willingness and ability to deploy capital towards SGBs, particularly in cases where a foundation is dependent on corporate giving that encourages a specific mandate.

Regulatory harmonization and clarity (especially in relation to tools linked to impact investing)

- Tools related to impact investing (specifically returnable instruments like debt or equity that are sometimes used by foundations investing in SGBs) tend to have confusing regulations that can therefore be difficult to employ by foundations
- Indeed, even if regulations are not forbidding impact investment instruments per se, they rarely enable or promote these types of investments for foundations.

Sources: Sagana analysis, interviews

2a

A RISK TOLERANT AND EXPERIMENTATION-FRIENDLY CULTURE IS A PRE-REQUISITE FOR ADOPTING NEW APPROACHES TO PHILANTHROPY SUCH AS SUPPORTING SGBS OR USING CATALYTIC CAPITAL; LEADERSHIP BUY-IN IS KEY TO ADOPT THIS ORGANIZATIONAL CULTURE

“ The ability to take risks, innovate and experiment is recurrently emphasized as a key success factor by foundations.

- “We are so lucky because our board has really embraced the fact that this is an iterative journey. They are holding us accountable to our impact objectives and vision, whilst giving us the flexibility and time to try out a few different approaches. They are in this learning journey with us, trusting us whilst also not shying away from asking the hard questions.”
  Foundation
- “We have been innovators in the space for 10+ years, and a critical success factor is that we have been able to pivot along the way. We started by investing in a few funds directly, but then realized our capital was not as additional (in those specific funds). We have subsequently refined our selection criteria, so we focus more on building novel financial products and supporting local financial intermediaries who struggle accessing working capital.“
  Foundation
- “We are obsessed with learning and helping other learning. We invest heavily in monitoring, evaluation and learning and publish all our results online in an attempt to influence others.”
  Foundation

“ The board and leadership teams set the culture. Their actions reflect their relative expertise/backgrounds and their perception of their own role.

Leaders (i.e. board members) set the strategic vision for a foundation – usually defining the short and medium-term goals and evaluating what success looks like.

However, board members in European foundations:
- <u>May have limited experience of philanthropic innovations</u>– In corporate foundations, many board members used to hold senior positions within the company. Whilst in family foundations, the board is usually composed of individual family members and their close advisors who are often not professionals in this space. In addition to this, philanthropic board positions are often unpaid which can exclude good candidates or affect their level of commitment and accountability.
- <u>Usually perceive their role as guardians of tangible, quarterly impact rather than</u> experimentation: Some foundations have said “the philanthropic sector is the only arena in which you are not allowed to fail, you are always expected to generate impact”. Some participants in the research attribute this to a fear of losing their “public benefit role” if they are unable to articulate their impact.

Without an organizational culture that enables innovation, experimentation and learning, foundation leaders may be unaware or unwilling to drive a new strategic vision.

Sources: Sagana analysis, interviews

2a BUILDING LEADERSHIP BUY-IN OFTEN TAKES SEVERAL YEARS; SEVERAL STRATEGIES CAN HELP DRIVE CHANGE

Effective strategies to drive change

Redefine and explore the concept of impact	*"What is impact and what impact do you want to have? It is easy to take the answer to that question for granted. But the more you know about impact, the more complicated that question becomes. A lot of our work with foundation involves helping them take a long-term and systemic perspective, anchored in the unknown and in learning, rather than focusing on short-term, immediate and safe wins. I wish more foundations and regulators used long-term systemic impact as the benchmark for success and accountability."* Industry initiative
Clarify the need for change	*"When I took over as the CEO, I took my board on a weeklong trip to see some of our existing projects on the ground. Through that visit, it became apparent to them that (as an organization) we were not having the desired long-term and systemic impact we were looking for. Rather than building self-sufficiency we were creating dependencies. This visit was a crucial turning point for the organization."* Foundation
Use organizational incentives and internal champions	*"When we start working with foundations and their boards, we first try to engage deeply with their underlying motivations (as a group and as individuals). For family foundations, connecting with the next-gen family members is often key to success since their willingness to drive change often makes them ideal internal champions. Likewise, for corporate foundation, we always like to touch upon the commercial and reputational risk of looking outdated and losing their relevance as an organization. It is important to note, however, that although we ultimately make progress, the journey is long, and I have now been working with some organizations for over five years."* Industry initiative
Play within the existing organizational constraints, leverage low hanging fruit	*"The first step of the (capacity building) program is to ask foundations to carry out a realistic diagnostic of their existing situation. How aware and capacitated is the team on things related to impact investing and catalytic capital, how do these approaches align with their missions as outlined in their statutes, and what are the foreseeable barriers? Ultimately, some foundations have taken one year to just convince the board to take part in this innovation training program, and this does not even entail the allocation of capital per se."* Industry initiative
Inspire through examples from their peer group	*"Some foundations are trailblazers and will lead the way no matter what. However, most foundations look to their peers as a barometer of success. Historically, the philanthropic and the private sector acted in silos, with both parties making assumptions about the worthiness and impact of the other. But as more foundations communicate about their adoption of market-based approaches and their collaborations with SGBs and with financial intermediaries, the status quo is slowly changing."* Industry initiative

Sources: Sagana analysis, interviews

2a A CHANGE MANAGEMENT PLAN CAN HELP FOUNDATIONS OVERCOME BARRIERS TO PURSUING A MORE CATALYTIC APPROACH

Potential barriers to change

- Mistrust of the private sector: *"People may be concerned that partnering with the private sector might lead to conflicts of interest, as they perceive the private sectors' primary focus to be on profits rather than social impact. It is important for everyone to understand what the objectives are, why and what the accountability measures will be put in place to safeguard impact."* Foundation

- Organizational legacy : *"Some of the members of the team have been here for over 10 years. Understanding why the changes are being implemented and what the implications are for them and their jobs will be very important to ensure success."* Foundation

- Lack of clarity: *"Impact investing and market-based approaches sound promising, but there's still so much we don't understand about its mechanics and implementation. This lack of clarity makes it challenging for us to fully embrace the concept or know what the next steps are for successful implementation."* Foundation

- Difficulty with impact measurement: *"We need clear, reliable metrics to ensure that we are achieved our impact goals (e.g. number of lives improved), and we are unsure how to get these with a more systemic approach. So far, we have had to adapt and work with more anecdotal evidence as we learn about this new space. This is not necessarily wrong, but it is different to what we have done until now."* Foundation

Key components of a change management plan

- Clear Objectives and Goals: Define what the change aims to achieve, ensuring alignment with the organization's strategic goals.
- Stakeholder Engagement: Identify and involve all key stakeholders, addressing their concerns and gaining their support.
- Communication Plan: Develop a comprehensive communication strategy to keep everyone informed and engaged throughout the process.
- Training and Support: Provide necessary training and resources to help employees adapt to the change effectively.
- Monitoring and Evaluation: Establish clear yet flexible metrics to track progress and evaluate the success of the change, allowing for adjustments as needed.

Sources: Sagana analysis, interviews

2
a

THE CHANGE INVOLVES BUILDING OR ACCESSING THE EXPERTISE AND SKILLS REQUIRED TO UNDERSTAND NOVEL STAKEHOLDERS AND FINANCING APPROACHES. HOWEVER, TALENT WITH BOTH FINANCE AND IMPACT SKILLS IS HARD TO FIND

Catalytic capital and support of SGBs involves new competencies and networks

New skills needed in SGB due diligence and deal structuring, innovative finance structures, systems thinking, (multistakeholder) partnerships

New stakeholders involved including impact investors, financial intermediaries, SGBs and social entrepreneurs

"We have been able to launch this new catalytic capital approach because both me and the CEO have previous experience working with Development Finance Institutions (DFIs) and with impact investors. I was familiar with a team within SDC who shared the opportunity to invest in the Impact Linked Finance Fund. We were able to act quickly because the board trusted me, and I was familiar with how the financing structure worked."
Foundation

"The CEO was a key champion of the microfinance industry in the early 2000s, and he saw how the sector was built from scratch. He has brought many of those learnings and contacts to the work (on catalytic capital) at the foundation. In fact, our flagship program was born from a cold outreach to him a few years back."
Foundation

However, talent in the space can be hard to come by

"Unfortunately, we have found that our programmatic teams and the endowment teams have vastly different skills and sometimes even struggle to 'speak the same language'. This is probably an inheritance of our past model of keeping them as separate teams with limited interactions between them. Right now, we have very few people who have the skills and knowledge to work across both teams."
Foundation

"We have thought hard about the type of skills and expertise that our teams need, and how to access these. A traditional investment profile often does not know how to optimize for impact, which is what the foundation ultimately must do. Conversely, most of our existing staff are not familiar with how to analyze the financial sustainability of companies or funds, or how to engage with these new stakeholders"
Foundation

It is important to bear in mind that at a foundation level there are programmatic teams, and endowment teams, and they don't talk to each other. And in order for this to work, you need to bring together these two teams together and have them learn from each other. Most people don't know how to do both
Foundation

Sources: Sagana analysis, interviews

2a

FOUNDATIONS THAT BEGIN INVESTING IN THE PRIVATE SECTOR TEND TO HAVE A SYSTEMIC APPROACH TO IMPACT, LEADING THEM TO CONNECT WITH THEIR PEERS. MANY REVEAL THEY BEGIN THANKS TO INTERACTIONS WITH OTHER PHILANTHROPIC ACTORS

Broadly speaking there has been a trend towards greater collaboration in philanthropy which has opened the door for discussions around catalytic capital and investments in SGBs. Indeed, there is almost of virtuous cycle among European philanthropies investing in EMDEs that organically is leading many of them to explore the topic.

Foundations begin by investing directly into individual projects

→ Realizing the single project is not enough, they might begin looking at the organization supporting the project more broadly, and asking themselves how to support the long-term sustainability of such organization

→ Recognizing that organizations have systemic boundaries that hinder their long-term sustainability and scalability, they begin looking how to foster systemic impact. However, breaking these systemic boundaries is difficult and requires concerted effort

→ Foundations begin forging alliances and finding ways to collaborate, particularly through thematic alliances that advance their impact mandates (for example the Bayer Community of Practice on healthcare, or Jacobs Foundation and UBS Foundation on Education)

Foundations reveal that they begin adopting catalytic capital and/or investing in SGBs thanks to inspiration from their peers

Many of our peers were investing in social enterprises and achieving success, so we decided to try it out. **Foundation**

Thanks to interactions with other foundations through our local network we began hearing about entrepreneurial solutions to impact and catalytic capital, we decided to look more into it. **Foundation**

We connected to Impact Europe to understand what was happening around impact investments. By beginning to speak to other foundations, we became interested and are just starting to implement a strategy using market-based tools. **Foundation**

Sources: Sagana analysis, interviews

2b RISK TOLERANCE AND FLEXIBILITY WITH FUNDING AND INNOVATING CAN ALSO BE STRUCTURALLY INFLUENCED BY A FOUNDATION'S SOURCE OF INCOME AND FOUNDATIONAL HISTORY

A foundation's source of income can influence its strategy and flexibility with funding. Some common funding models are:

Corporate foundations that receive annual contributions

- Separately constituted foundations established by a company, which depend primarily on annual support from that company for its programs.
- These foundations usually have a specific mandate outlined by the corporation and in line with the business of the corporation
- Because of their strong ties with their donors, their ability to innovate will be led or approved by the corporation itself

Sample Foundations

Trafigura Foundation | Repsol Foundation | Bayer Foundation

Foundations with an independent endowment with a corporate interest

- These foundations have separately constituted endowments, which usually have the majority shares of a company and often carry the name of said company
- Like other corporate foundations, these organizations typically have specific mandates around the themes of interest to the donating company. Furthermore, bearing the name of the company carries reputational weight.
- They might also have limitations to how they can invest their endowment, having obligations to maintain control over the shares of the donating company

Sample Foundations

"La Caixa" Foundation | Novo Nordisk Foundation

Foundations with an endowment from a successful entrepreneur or family

- These foundations have been set up thanks to the donations of a wealthy individual or family.
- Usually, the individual or family will direct the mandate and theme of the foundation in line with its interests and legacy
- These foundations tend to have the most independence, and to have little or no legal obligations to the original founder
- Often, when these foundations have been set up by successful entrepreneurs, they integrate novel approaches to philanthropy, such as investing in SGBs.

Sample Foundations

Fondation Botnar | Calouste Gulbenkian Foundation | Demeter Foundation

Sources: Loosely adapted from EFC, 2003, Typology of Foundations in Europe

2b FOUNDATIONS CAN BE DETERRED FROM EMPLOYING TOOLS LIKE EQUITY AND DEBT WITH THEIR PROGRAMMATIC CAPITAL BECAUSE OF PERCEIVED REGULATORY RISKS

2022

Most European countries allow impact investment from the programmatic teams…

- 40 countries were analyzed on philanthropic impact investing by Philea for its 2022 *Comparative Highlights of Foundation Law*. They researched if foundations were allowed to allocate grant funds towards furthering their public-benefit purpose which (can) also generate income – impact investing? (recoverable grants; low interest loans; equities)
- **Results show that philanthropic impact investing is allowed in 34 out of 40 countries**[1]

…with notable exceptions and limitations

- Impact investing from programmatic teams is not allowed in Italy and Slovenia.
- In Spain, foundations can only allocate funds towards the aim of the foundation or complementary to it, and any profits generated have to be reinvested in the pursuit of the purposes of the organization.
- In France, foundation and endowment funds can only grant no-interest or very low interest loans
- In Sweden, impact investing is possible but it is not certain whether this would put the foundation's tax-exempt status at risk.
- A few countries do not have any legal provision regarding impact investing. (Austria, Cyprus and Germany)

2024

Some countries have incorporated changes to remove regulatory barriers for philanthropic impact investments

In 2024, the Dutch tax authorities have introduced a new framework allowing foundations to engage in impact investing more easily. This change follows years of lobbying and clarifying tax rules, enabling these foundations to invest in social and sustainable enterprises rather than just making traditional donations, without losing their status ANBI (as a public benefit organization).[2]

In 2024, the Cantons of Zurich and Vaud (in Switzerland) updated their tax exemption practices for charitable foundations. Zurich now allows for appropriate remuneration of board members, recognizes activities abroad, and allows foundations to directly support entrepreneurial impact investments.[3] These regulatory changes, however, are local and do not affect foundations registered in other Swiss Cantons (e.g. Zug).

However, perceived regulatory risks and barriers remain high

"It is not enough to think that I may be able to do it. [To implement changes] I want to have certainty that I can do what I want to do. I will not go as far as to say that the regulator has to tell me what to do and how. However, I do expect them to tell me what I definitely cannot do."
- Foundation

"Foundations do experience fear of losing their status as public benefit organizations, but this does not translate into deeper reflections around how to ensure they remain relevant and additional in an evolving world. In fact, this fear actually leads to paralysis whereby foundations are scared to change what they do and evolve with the times. It would be great if the existing accountability mechanisms led to progress and incremental impact"
- European initiative

Even if regulations are not per se barriers or forbidding impact investing, they don't actively enable it or clarify what is or is not possible.

1. Philea, 2022, Comparative Highlight of Foundation laws, 2022 2. Impact Investor, 2024, Dutch tax authorities open door to impact investing via foundations; 3. Lenzstaehelin, 2024, Changes in the practice of law and foundations in the Canton of Zurich.

2 b

AMERICAN REGULATION IS MORE CONDUCIVE TO PROGRAMMATIC-LED IMPACT INVESTING AND CATALYTIC CAPITAL, PROVIDING GREATER FLEXIBILITY, FAVORABLE TAX TREATMENTS, AND SUPPORTIVE REGULATORY GUIDANCE

What are PRIS (Program-Related Investments)?

Program-related investments (PRIs) were introduced as part of the U.S. Tax Reform Act of 1969. They are investments (e.g. loan, equity investment, or financial guaranty) made by a foundation to pursue its charitable mission rather than to generate income. The recipient can be a nonprofit organization or a for-profit enterprise.

To qualify as a PRI, the investment must meet three standards: (i) The primary purpose must be to advance the foundation's charitable objectives (ii) Income generation or appreciation of property cannot be a significant purpose of the investment (iii) The investment cannot be used directly or indirectly to lobby for political purposes.

A PRI is eligible to count against the 5% payout that foundations are required to make each year to retain their tax-exempt status, and they are exempted from the excess business holdings tax (generally imposed for investments that comprise more than a 20% interest in for-profit ventures) and the jeopardizing investment tax (generally imposed for investments that financially endanger the charitable work of the foundation).

The development and clarification of PRIs were significantly influenced by advocates who recognized the potential for these investments to generate both social impact and financial sustainability for foundations. Notably, in 2012, the Obama Administration proposed updates to PRI regulations to reflect contemporary practices and broaden the scope of qualifying investments. These changes were finalized in 2016, providing more detailed examples and clarifications to help foundations understand and utilize PRIs effectively.[2]

Ford Foundation –a PRI pioneer – has committed over USD 865m for PRIs and usually sets aside an average USD 25m annually for new investments.[3]
The Gates Foundation has allocated USD 1.5bn in PRIs.
The David and Lucile Packard Foundation has made over USD 750m in PRIs since 1980.[4]
America´s largest philanthropic players (either in terms of asset or staff size) have long been experimenting with the tool, while the broader philanthropy community has taken longer to adapt.

1. National Center for Family Philanthropy, 2018, Program-related investments: Why aren't more foundations using them?; 2. For Purpose Law Group, 2016, Guidance for Foundation's new PRIs; 3. Ford Foundation, 2024, Mission Investments; 4. Packard Foundation, 2015, Mission Investments at the Packard Foundation

3 OVER THE YEARS, A VARIETY OF INDUSTRY GROUPS AND ASSOCIATIONS HAVE EMERGED TO SUPPORT FOUNDATIONS AND THEIR MISSIONS

Global

The Worldwide Initiatives for Grantmaker Support (Wings) is the leading global network supporting philanthropies specifically. Although a number of other initiatives also target philanthropies globally, these are usually organized around specific themes (e.g. climate) or topics (e.g. systems change).

- WINGS Elevating Philanthropy
- Global Philanthropy Forum
- F20
- Climateworks FOUNDATION
- EDGE FUNDERS ALLIANCE
- WE ACT

European

Philea is the major pan-European network of foundations with over 300 members. It was born in 2021when Dafne and EFC – Donors and Foundations Networks in Europe and the European Foundation Centre – converged to form a strong, united voice for European philanthropy.

- PHILEA Philanthropy Europe Association

National

There are over 27 national foundation associations across Europe including Fin (Dutch Association), AEF (the Spanish Association), BDS (the German Association), Centre de Fond de Fondations (the French Association), Assifero and Acri (the Italian Associations)…

- AEF Asociación española de Fundaciones
- Global Philanthropy Forum
- Bundesverband Deutscher Stiftungen
- Assifero
- FIN

3

LIKEWISE, VARIOUS (MOSTLY) GLOBAL INITIATIVES HAVE BEEN LAUNCHED TO PROMOTE INVESTING FOR IMPACT ACROSS THE RETURN CONTINUUM, INCLUDING CATALYTIC CAPITAL

2004

EVPA (now Impact Europe) was founded in 2004 in Brussels to address the need for a structured approach to philanthropy that combines financial support with capacity-building for social enterprises. It quickly became a leading network for impact investors in Europe, offering tools, training, and events to enhance philanthropic effectiveness

2009

The GIIN (Global Impact Investing Network) was founded to increase the scale and effectiveness of impact investing globally.

2010

Toniic was founded as a global action community for impact investors. Its mission is to empower impact investors to deepen their practices

2011

AVPN aims to build a high-impact social investment ecosystem across Asia.

2015

The GSG (Global Steering Group) was launched to succeed the Social Impact Investment taskforce established during the G8 in 2013. It aims to catalyse a global impact investment movement.

2016

Convergence was established to facilitate blended finance by connecting public, private, and philanthropic investors. Its goal is to drive private sector investment into projects addressing development challenges.

2019

Catalytic Capital Consortium (C3) is a partnership between the MacArthur Foundation, Rockefeller Foundation, and Omidyar Network. It aims to expand the use of catalytic capital to bridge financing gaps and enable impact at scale.

2019/2020

Inspired by EVPA's and AVPN´s success, the African Venture Philanthropy Alliance (AVPA) and Latimpacto were established in 2019 and 2020, respectively.

2022

With the support of Catalytic Capital Consortium (C3),[1] the global family of Impact Europe, AVPN, AVPA and Latimpacto is joining forces to increase the use of Catalytic Capital to address the most pressing societal challenges worldwide.

2023

Impact Europe launched a report on the use of Catalytic Capital in Europe[1]

2023

HRI (Human Resilience Investing) by the WEF (Word Economic Forum)[3] is calling on donors and governments, DFIs, foundations, investors, investment facilitators, and corporates to join forces to mobilize USD 10bn in commercial and catalytic capital to enable 1,000 local and international businesses in frontier markets to scale by 2030.

1Impact Europe, 2022, Sparking Global Discussion on Catalytic Capital. 2. Impact Europe, 2023, Catalyzing Impact – Catalytic Capital in Europe Whitepaper 3.WEF, 2024, Human Resilience Investing by WEF

3 HOWEVER, FEW INITIATIVES HAVE ACCESS TO NUMEROUS EUROPEAN FOUNDATIONS AS WELL AS IN-DEPTH KNOWLEDGE OF INVESTING IN SGBS AND CATALYTIC CAPITAL

Foundation industry groups and associations

Access to broad range of foundations, the majority of which are very early in the journey towards financial innovation and catalytic capital

For example

PHILEA
Philanthropy Europe Association

For example

Catalytic
Capital Consortium

Initiatives promoting financial innovations for impact

Knowledge of impact investing and catalytic capital, and the ability to provide training and capacity building

Impact Europe

Impact Europe has access to European Foundations, primarily to those that already have some familiarity with impact investing. They are currently running a program together with Philea, to help a broader range of philanthropies explore impact investing as possible tool to achieve their goals.

Sources: Sagana analysis, interviews

3 IN EUROPE THERE ARE A FEW INITIATIVES WITH BOTH ACCESS AND KNOWLEDGE AIMED AT SUPPORTING FOUNDATIONS SPECIFICALLY WITH INVESTING IN SGBS. THESE ARE SMALL IN SCALE AND RELATIVELY YOUNG

Impact Europe & Philea Partnership

Since 2018, Philea and Impact Europe have been exploring how to bolster the impact investing capabilities of philanthropic organizations across Europe. In May 2024, Philea and Impact Europe launched a formal initiative to reinforce this.

This collaboration includes the launch of a joint paper and a two-year program designed to help philanthropic organizations explore and adopt impact investing strategies. This initiative responds to a growing interest among philanthropic organizations in using impact investing approaches to enhance their social impact through both their programmatic side and their endowments.

One of the key objectives of the initiative is to support the integration of the impact capabilities of the programmatic teams with the investing mindset of the endowment teams.

Fondo de Fundaciones de Impact

(Fund of Foundations)[1]

Born in 2020, the Fondo de Fundaciones de Impacto is an initiative aimed at stimulating Spanish foundations to allocate part of their capital or budgets to support high-impact projects through venture philanthropy and impact investing.

They offer:

- Training programs to **30+ Spanish foundations** on impact investing and venture philanthropy
- Co-investment opportunities (pooling of funding) into social entrepreneurs in Spain, particularly those run by vulnerable collectives

Sources: Sagana analysis, interviews

06

Foundation endowment capital and its relative focus on impact

THIS SECTION WILL FOCUS ON ENDOWMENT CAPITAL IN EUROPE, WHICH IS WORTH ABOUT EUR 647.5BN

Programmatic Capital

Goal: The primary goal of programmatic teams is to design, implement, and manage the foundation's charitable initiatives and programs. They aim to create and support projects that align with the foundation's mission, addressing specific social, environmental, or cultural issues.

Section 3	Section 4	Section 5

Endowment Capital

Goal: The goal of endowment teams is to manage the foundation's financial assets to ensure long-term financial sustainability. They aim to generate sufficient returns on investments to support the foundation's grant-making and operational activities.

How: Endowment teams achieve their goals by:

- Developing and implementing investment strategies that balance risk and return.
- Diversifying the investment portfolio across various asset classes such as equities, bonds, real estate, and alternative investments.
- Monitoring market trends and adjusting the portfolio to respond to economic changes.
- Ensuring compliance with legal and regulatory requirements.

Size: The collective worth of foundations in Europe is about EUR 647.5bn[1].

Organization : Usually, the endowment team is separated from the philanthropic team. For example, "la Caixa" foundation has an entirely separate entity that manages its endowment called CriteriaCaixa. It is also common for foundation endowments to be managed by external asset managers; this is particularly true for smaller foundations.

Section 6
(This section)

Note: 1. Annual expenditure typically includes both grants and operational expenses. From Philea, 2023. Public-Benefit Foundations in Europe

Data is a best estimate

THE AMOUNT OF CAPITAL ALLOCATED BY EUROPEAN FOUNDATIONS TOWARDS IMPACT INVESTMENTS REMAINS LOW, BUT SOME ENDOWMENTS ARE EXPERIMENTING WITH NOVEL ESG, IMPACT AND CLIMATE RELATED INVESTMENT PROGRAMS

Endowments´ impact investment allocation remain low..

A study of 65 primarily U.S based foundations indicated that the **median** foundation allocates just **5% of its investable assets to impact investments.**

The **average (mean) allocation** to impact investments as a percentage of their overall endowments was about **27%**. However, this is primarily due to a subset of foundations (with large endowments of up to USD 900m) that invest more than half of their assets into these investments. These foundations prove that sizable allocation to impact investments are achievable.

→Implications for Europe

Just as in the U.S., the European foundation landscape might show many foundations investing only a small percentage in impact (5% median), with a few large players heavily invested (increasing the mean/average).
Given that the American philanthropic ecosystem is considered a global leader in terms of innovation, it is reasonable to infer that both the median and the mean of European foundations will be lower than those of American ones.

..but some endowments are innovating with their investment programs

Another 2023 study of 115 endowments and foundations (E&F) world-wide found that[2]:

- 57% of respondents say ESG considerations are very important to their investment strategy and implementation.
- A quarter (26%) cite impact investment as the mechanism through which they align their portfolio with their organization's mission.
- At a global level, however, impact investing is not widespread across E&F portfolios; nearly two thirds (62% of organizations) do not have an allocation to impact strategies or projects.
- Of those that do impact investing, 38% are prepared to accept a lower financial return for an impact investment.
- Just 15% of organizations have set a science-based Net-Zero target across their portfolio.
- A fifth (21%) have implemented a DEI framework across their investment program.

1. Capricon Investment Group, 2023, Can Foundation Endowments Achieve Greater Impact?; 2.Mercer, 2023, Endowment and Foundation Investment Survey;

Data is a best estimate

ENDOWMENT CAPITAL IS UNLIKELY TO BECOME A LARGE SOURCE OF CATALYTIC CAPITAL FOR SGB FINANCING, BUT IT COULD ITSELF BE CATALYSED INTO THE SPACE

Endowment capital is unlikely to be a large source of catalytic capital for SGB financing in EMDEs…

The average absolute return objective of endowments is generally around 5-10%…[1]

…and endowment capital is considered highly risk-averse.

This risk aversion comes from the fact that the primary goal of an endowment is generally to:

- Preserve capital AND
- Generate returns sufficient to support the foundation's long-term mission and spending needs

On average, only about 20% of an endowment´s capital is allocated in the private markets, which is where the majority of SGB financing is taking place.

- 12% in private equity
- 4% in private credit
- 4% in other private markets (e.g. natural capital and infrastructure)[1]

…but it could itself be catalyzed into the space

- 62% of respondents to Mercer´s survey endowment and foundation investment practices, said that over the next 18 months they expected to increased their overall exposure to private markets[2]
- Impact investors´ self-reported performance results indicate that impact investing can be financially sound and social impactful[3]
- A survey of >300 investors by GIIN indicated 74% of impact investors target risk-adjusted market-rate returns[3]

1. Council on Foundations, 2021, Commonfund Study of Investment of Endowments for Private and Community Foundations; 2. Mercer, 2023, Endowment and Foundation Investment Survey; 3. GIIN, 2023, Insights series

IN EUROPE, A FEW FOUNDATIONS HAVE MADE PUBLIC COMMITMENTS TO ALIGN THEIR ENDOWMENTS WITH THEIR MISSION AND VALUES

Daniel and Nina Carasso Foundation

The Daniel and Nina Carasso Foundation foundation, with over EUR 460m in financial assets, primarily funds projects in sustainable food systems and citizen art across France and Spain.

The first step in aligning their endowment with their values was to create a charter. Investments in products like tobacco and fossil fuels were excluded from all investments. The foundation was a leader in the DivestInvest campaign.[1]

The next stage was to bring coherence to their impact strategy, so within their EUR 500m endowment, they ring-fenced EUR 75m purely for impact investing. This is also split into two pots for investing, one leaning towards their global mission focusing on climate and inclusion, and another invested in funds linked to their philanthropic program.[2]

In 2019, the foundation partnered with Quadia to launch its first impact investing mandate through the FDNC Sustainable Food Systems fund. It also launched Tinna, a "Transformation Impact through Investment in Agriculture and Food" fund.

Esmée Fairbairn Foundation

The Esmée Fairbairn Foundation, one of the UK's largest independent funders, has incorporated sustainable, social, and impact investments into its GBP 1.93bn endowment.

Managed by Cambridge Associates and an in-house team, their portfolio includes a range of investments from low-risk to higher-risk impact ventures. They have divided their portfolio into:[3]

- Grants: GBP 52m p.a. Impact first, no financial return
- Social Investment: GBP 45m Impact First, low financial returns to recycle and lead
- Impact Investment: GBP 10m Impact driven, market rate returns
- Enhanced sustainability: GBP 70m Targets leaders in ESG and sustainability, market rate returns
- Sustainable: GBP 1.3 bn. Focus on sustainability and minimising conflicts with charitable objectives, market rate returns

A notable initiative is their GBP 10m pilot impact investing allocation, targeting thematic areas such as sustainable food and community regeneration, ensuring both financial returns and measurable social and environmental benefits.

1. Philanthropy for Climate, 2020, Case study; 2. Alliance Magazine, 2024, Uncovering foundations´ impact investing sphere; 3. Impact Investing Institute, Case study

THERE ARE SIGNIFICANT CHALLENGES IN MOVING EUROPEAN PHILANTHROPIES TO INVEST THEIR ENDOWMENT RESOURCES TO IMPACT

A series of articles published on the Impact Europe website[1,2] and a recent report published by Philea[3] highlight the significant challenges faced in Europe in urging foundation's endowment managers towards adopting an impact investment approach:

Reluctance to innovate on asset management because of pressure on risk / return expectations

Foundations are typically required to manage their endowments prudently, ensuring that they achieve a sufficient return to sustain their operations and grants over the long term. This often means prioritizing investments that offer stable and predictable returns. Often impact investments are perceived as riskier, and less data is available on them. A survey conducted by Impact Europe indicated that 60-70% of foundations "feared not generating enough financial returns, affecting their capacity of giving grants"

Lack of impact expertise from the endowment side and external asset managers. Siloed working between both teams.

Practitioners emphasized the prevalent role of external asset managers in managing endowments – a hurdle for more impact. External asset managers often lack expertise in impact investing, so they struggle to effectively identify the differences between real and perceived risks associated with impact investments. Since these asset managers engage and report to the foundation's management, their misidentification of risks can mean impact investments fail to launch. Impact Europe´s survey indicated that 30-40% of foundations lacked know-how or understanding about how to invest their endowment in impact

Legal requirements associated to fiduciary duty

Some national laws (e.g. Germany) require the preservation of the value of the endowment. Mission-related investments or investments in impact enterprises do not always generate the required financial returns (or are considered too risky), or giving loans is not permitted. Beyond directly prohibiting the investment in impact-oriented financial products, these legislations also make foundations reluctant to start explore novel and perhaps more "risky" products.

Asset diversification remains a (perceived or real) challenge

Most foundations cite asset diversification as a challenge in impact investing, particularly in publicly listed assets. Diversifying assets whilst retaining an impact focus has proved easier, up to now, in private markets. Most endowed assets are invested in public equities, making achieving the scale of impact investing challenging. The larger investment ticket sizes traditionally required to access private market opportunities also act as a barrier to entry for smaller foundations.

1.Impact Europe, 2019, Foundations and impact investing: Why the heck is it taking so long? 2. Impact Europe, 2024, Three insights investing foundation endowments; 3 Philea, 2024,Philanthropic organizations using the entire toolbox

07

Recommendations for the public sector

FOUNDATIONS ARE GENERALLY INTERESTED IN COLLABORATING WITH THE PUBLIC SECTOR BUT HAVE RESERVATIONS THAT SHOULD BE ADDRESSED TO ENSURE SUCCESS

Many foundations are interested in increasing their engagement with public actors

However, they can feel alienated from public actors in EMDEs because of differences in:

We would like to **understand what they [public actors] do in EMDEs so we can work in the same direction**
- Foundation

Although we work at different 'levels' [referring to different ticket sizes], **we would like to know what interests them so we can help our investments attract their interest when they get to the stage where they can accept larger investments**
- Foundation

It would be great to understand if they (public actors) could be our 'exit strategy' if the project we are financing has enough traction. This worked once for our investments, I would like this to happen more in the future
- Foundation

Investment size	With much smaller budgets than public actors, foundations can feel overwhelmed by the size of latter and feel like they lose control of their funds.
Return expectations	Although DFIs operate with concessional investments, they still require higher returns than those foundations aim to provide.
Processes	Foundations have found that understanding the processes of public actors can be difficult. The differing processes also lead to different disbursement cycles.
Organization	Foundations are leaner organizations, with fewer key decision makers. Public actors have larger and more structured organizations. Foundations report feeling frustrated when they are interacting with public actors because they are often not sure who ultimately makes the decisions and how they are taken.

Sources: Sagana analysis, interviews

MORE SUSTAINABLE IMPACT MOTIVATES FOUNDATIONS TO TRANSITION TO SUPPORTING SGBS, RATHER THAN PIPELINE BUILDING OR CATALYZING THIRD-PARTY CAPITAL

Many foundations don't perceive their role as enablers for third-party capital, but want to be known for their impact in their chosen theme…

"Part of [the reason why not many foundations do it] is perception – **the perception of not wanting to be seen as subsidizing private capital** and associating with private investments"
- Foundation

"As a foundation **we do not favor the idea of being catalytic to build a pipeline for other investors"**
- Foundation

"We want **to solve social issues**; we don't want to test new financial tools"
- Foundation

"There is always a **theme behind an investment instrument, this is what we care about**"
- Foundation

"Foundations need to be seen as impactful, and a leverage metric can sound superficial. **At the end of the day, they care about impact, not about leverage.** Leverage is such a hard thing to measure and can quickly not actually reflect impact."
- Advisor to Foundations

…this has implications for how to approach and engage foundations moving forward

- Maintain an impact first narrative
- Develop a thematic focus
- Use relatable terminology (i.e. not necessarily catalytic capital)
- Understand foundation's need for independence and/or co-creation

Sources: Sagana analysis, interviews

SOME SIMPLE PRINCIPLES SHOULD BE USED WHEN BUILDING BUY-IN FROM FOUNDATIONS

Relatable terminology	Match the terminology used by foundations. For instance, many foundations refer to “venture philanthropy” and “impact investing” initiatives rather than talking about “catalytic capital”. Likewise, foundations are more amenable to language related to “market building” rather than “pipeline development”.
Impact first narrative	Lead with the impact narrative rather than financial argument. Financing for development is always a means to an end, rather than the end itself. Foundations will need to be bought into the impact narrative behind the importance of change: either innovating in their philanthropic approaches, focusing more on SGBs in EMDES and / or focusing more on how to catalyze third-party returnable capital.
Thematic or geographic focus	If there is a desire to promote a partnership or pooling of funding, it will be easier for the public and philanthropic sector to find common ground on a specific theme or geography. This will enable the creation of an initial pilot which can subsequently by expanded, as necessary.
Promote foundation leadership	Foundations are often inspired by the actions of their peers. Therefore, it would be beneficial to get the buy-in of 2 or 3 large and influential foundations to act as leaders for other “followers” in the field.
Close but not together	While foundations have shown a desire to increasingly coordinate their activities with the strategic priorities of the public sector, it is crucial to remember that they will want to retain an element of independent decision making over the allocation of their own capital. This can be nurtured through co-creation of the initiatives from the onset

Sources: Sagana analysis, interviews

WE OFFER HIGH-LEVEL RECOMMENDATIONS TO PUBLIC ACTORS OR ECOSYSTEM BUILDERS WHO WISH TO SUPPORT FOUNDATIONS INVESTING IN SGBS

Target Audience

1	2	3
~60,000	100s	50s
European foundations with some activity in EMDEs	European foundations supporting SGBs (in EMDEs)	European foundation deploying catalytic capital for SGBs (in EMDEs)

Desired Outcome

1
- Help foundations in EMDEs grow their impact by investing in SGBs or catalytic capital

2
- Collaborate with foundations investing in SGBs to leverage additional impact by investing catalytically

3
- Co-finance catalytic opportunities together with foundations already deploying capital catalytically for SGBs in EMDEs

High level recommendations for public actors and ecosystem builders

1
- Enhance **knowledge and networks** by enabling organizations or initiatives to build awareness around the benefits of **investing in SGBs**. Support through knowledge sharing or funding.
- Decrease **(perceived) regulatory red tape** by clarifying regulations around i) foundation activities in EMDES and ii) impact investing. Create regulatory guides.

2
- Enhance **knowledge and networks** by enabling organizations or initiatives to build awareness around the benefits of **investing catalytically**. Support through knowledge sharing or funding.

3
- Co-create **joint financing catalytic capital facilities,** or finance an existing pooled fund or funders alliances

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1. Market sizing was carried out through desk research, and 40+ interviews with experts in the field. It is a best estimate that is directionally correct. Our sources were: Philea, 2023, Public-Benefit Foundations in Europe; Indianapolis, 2023, Indianapolis Global Philanthropy Indices with data from 2022-2023; OECD, 2023, 'Private Philanthropy for Sustainable Development based on data from 2018-2020

OUR RECOMMENDATION SCORECARD REVEALS THERE IS A TRADEOFF TO CONSIDER BETWEEN THE CHOSEN SCOPE AND ITS ATTRIBUTABLE AND QUANTIFIABLE IMPACT

	Recommendation	# of target foundations	Attributable and quantifiable impact[1]	Potential for behavioral change[2]	Time scale of results	Feasibility for public actor	Our assessment
1	Help foundations in EMDEs grow their impact by investing in SGBs or catalytic capital	High	Low	High	Long-term	Depends on the actor	Although the recommendation has the potential to reach many foundations, the time frame for impact is very long, and the quantifiable and attributable impact is small. We recommend pursuing this only if it is easy.
2	Collaborate with foundations investing in SGBs in EMDEs to leverage additional impact by investing catalytically	Medium	Low	Medium	Medium-term		The recommendation has the potential to reach many foundations and create behavioral change in the medium term and quantitative impact in the long term. We recommend pursuing it for mid-term impact.
3	Co-create joint financing catalytic capital facilities, or finance an existing pooled fund or funders alliances	Low	High	Low	Short-term		The recommendation will only reach a small number of foundations, but it could create significant attributable and quantitative impact in the short term. It does not have a high potential of bringing new foundations to catalytic capital.

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1. By attributable and quantifiable impact, we mean impact that can be directly attributed to the initiative and therefore marketed as 'enabled' by the public actor/ Foundation partner. 2 Behavior change refers to the extent to which the intervention creates a shift in how foundations think about how they use their capital to drive change. This involves shifting norms, and knowledge and using the whole spectrum of capital to drive impact

08

Annex

ANNEX TABLE OF CONTENTS

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Annex A	Segmentation of SGBs
Annex B1 and B2	In depth case studies: • Argidius Foundation (B1) • "la Caixa" Foundation (B2)
Annex C1 – C3	Foundation examples • Westerwelle Foundation (C1) • DRK Foundation (C2) • Rabo Foundation (C3).
Annex D	Team Europe Initiative
Annex E	List of organizations interviewed

SGBS IN EMDES FALL UNDER FOUR DIFFERENT CATEGORIES

Definition of SGBs: Commercially viable businesses with 5 to 250 employees, typically seeking between USD 20,000 to USD 2m in financing.

	CATEGORIES OF SMALL AND GROWING ENTERPRISES	KEY FINANCING GAPS
High growth ventures	• SGBs that pursue disruptive business models and target large addressable markets. • High-growth Ventures innovate by leveraging digital technology but also by creating new hardware-based products and pursuing business model innovations • High-growth Ventures have outsized impact in driving innovation, spurring productivity, and creating new jobs.	• For High-growth Ventures that have clear pathways to scale and exit prospects, traditional venture capital and private equity provide the needed capital and growth finance. In frontier markets there is work to be done to build out traditional sources of finance. • However, there is a mismatch in applying traditional venture capital expectations to enterprises whose growth trajectories and pathways to scale are different from software-based tech companies
Niche ventures	• SGBs that target niche markets or customer segments and prioritize goals other than massive scale—such as solving a social or environmental problem, serving a customer segment or local community.	• Often need modest amounts of startup capital to test innovations and get the business off the ground but are unlikely to generate the scale and returns that yield a profitable exit for a venture capitalist—and the entrepreneurs behind these businesses don't want to exit.
Dynamic enterprises	• Operate in established "bread and butter"6 industries—such as trading, manufacturing, retail, and services—and deploy proven business models. • Many are well established and medium-sized, having steadily expanded over several years, such as multigenerational family businesses	• Dynamic enterprises face a critical mismatch between what they can offer and what most financial service providers seek on the risk-return continuum. They are too small and risky for commercial banks, too large for microfinance, and not sufficiently scalable or profitable for VCs. • There is a shortage of financial intermediaries or fund managers building the appropriate financial tools for these enterprises.
Livelihood-sustaining enterprises	• Small businesses selling traditional products and services, either formal or ready to formalize; they tend to operate on a small scale to serve local markets or value chains, often in sectors such as retail and services, and deploy well-established business models.	• Face a critical mismatch between their financial needs and financial service providers' transaction costs to serve them. Their expected risk-return profile is not attractive to most traditional commercial banks or NBFIs and the cost to serve these enterprises is too high for fund structures.

Source: Frontier Finance, 2018, Missing Middle

WITH SOME NOTABLE EXCEPTIONS, FOUNDATIONS MAINLY FOCUS ON SUPPORTING NICHE VENTURES, DYNAMIC AND LIVELIHOOD SUSTAINING ENTERPRISES, RATHER THAN HIGH GROWTH VENTURES

Although some foundations foster high growth ventures…

*We look for **business models that are scalable, with a preference for high-growth ventures:** companies that pursue disruptive business models and target large addressable markets.*
- Foundation

*We look for **early growth ventures** with the potential to reach at least USD 10m in revenue; we believe these companies will have the highest impact*
- Foundation

*We recognize the need for **healthy companies with double-digit revenue growth**, but we are facing difficulties in finding such companies.*
- Foundation

Foundations looking for high-growth ventures reveal that they struggle to identify opportunities for investments

…most are concerned with creating sustainable enterprises that can perpetuate impact over time and solve community problems

*Our sweet spot aren't African unicorns, which don't contribute significantly to sustainable job creation, but rather **helping talented young entrepreneurs build sustainable businesses that solve community problems**.*
- Foundation

*We focus on fostering enterprises that solve **problems within their communities***
- Foundation

*We want our solutions to support **individuals at the lowest income level. These will usually be small, local enterprises.** Even if they don't achieve high growth, their impact in their communities is significant.*
- Foundation

*Our long-term goal is for the enterprises we support to **achieve financial sustainability**.*
- Foundation

Out of 28 foundations interviewed that focus on SGBs, only 3 indicated they were interested in high-growth ventures

ARGIDIUS IS A FOUNDATION THAT SUPPORTS SMALL AND MEDIUM-SIZED BUSINESSES IN AFRICA AND CENTRAL AMERICA

Founded in 1956 and based in Zug, Argidius is a foundation that supports the growth of small and medium-sized businesses (5 to 250 employees) in Africa and Central America. It is part of Porticus, an organization that coordinates the philanthropic activities of the Brenninkmeijer family business owners. Its mission is to tackle poverty through quality job creation in emerging markets. Given small and medium-sized businesses' huge job creation potential, Argidius aims to support promising entrepreneurs by enhancing the quality and reach of business development support and access to finance. Argidius' key values are "the value of human life, working together for the common good, looking after the planet and treating others as you would like to be treated."

Funding sources and organizational structure

- Argidius is a part of Porticus, and as such, its funding comes from the Brenninkmeijer family business.
- Argidius' strategic and funding decisions are made by an investment committee composed of seven senior advisors, chaired by Bernard Brenninkmeijer.
- Nicholas Colloff, Argidius' Executive Director, develops and implements the foundation's strategy

History and key milestones

- Argidius has continuously experimented with and assessed different forms of interventions, to ensure its support is as effective as possible. The foundation became interested in enterprise solutions to poverty and has built an evidence base of what works. In the 1980s, it was an early proponent and supporter of microfinance; Since the 2000s, Argidius has focused on supporting the small and medium-sized business sector.
- As Argidius has now established an evidence base of what works well and less well, they are moving to a further removed model, where they are working with organizations operating at the systems level.

Programs and initiatives

Argidius' strategy involves **improving the capacity of small and medium-sized businesses** and **enhancing their access to finance** by **building necessary infrastructure**. The foundation works with **~50 partners** mainly by providing them with **grants** to test and scale models of financial and or non-financial support to entrepreneurs that enhance business growth and job creation. These partners implement both local, regional and global business support programs.
Argidius has four focus countries where initial testing takes place: Kenya, Uganda, Guatemala and Colombia.

Examples of Argidius' initiatives include:

- Providing **funds to new fund managers** to help them develop their funds. For example, it **supported the fund manager I&P** by granting capital for research, development and establishment costs. I&P is now at its 9th fund.
- Working with local banks to deploy capital in enterprises in emerging markets. For example, an Argidius grant **supported a bank in Kenya to develop a product** that became the bank's second most profitable product (KCB Bank), attracting further commercial investments, reaching a deployment of over $1billion, much of which to women owned businesses.
- Working with **Enterprise Support Organizations** to enhance their effectiveness . One such organization, Technoserve, had their Central American business accelerator Impulsa Tu Empresa ranked as the most cost effective intervention to tackle poverty. Argidius supported the development of the program and the scaling of the high impact approaches across Technoserve globally and to other ESOs

Source: Argidius website, Sagana interview

THE FOUNDATION SUPPORTS ON A MODEL THAT SUPPORTS THE DEVELOPMENT OF LOCAL INTERMEDIARIES

Evolution into catalytic capital

Building an evidence base of intervention effectiveness

- In the 2010s, Argidius was convinced that SMEs were an important key to addressing poverty, but it did not have access to an evidence base of what programs were most effective. Argidius therefore decided to tackle the following question: How are entrepreneurs/ SMEs best supported?
- Each of Argidius' grant partners was required to report on its performance over a period of 4 years, including three key indicators: **Revenue, jobs created, and finance mobilized,** enabling Argidius to start building a benchmarkable evidence base of what worked best.
- Argidius also funded academic research to provide answers to narrower questions that came up.

Working with intermediary organizations and networks

- Today, Argidius has **a portfolio of 50-60 active partners in Business Development Services** that each individually supports tens to thousands of businesses per year – e.g., accelerators, business networks, consultancies, incubators, etc. Argidius provides grants to these partners that are **key to making businesses investable**.
- On the finance side, it has also supported **funds** such as I&P (see next slide). Increasingly, Argidius' interest is at the network level. For example, Argidius supports the **Collaborative for Frontier Finance** initiative, a community of stakeholders aiming to increase access to capital for SMEs in emerging markets. The Collaborative's Early Stage Capital Provider Network counts over 100 funds, predominantly in Africa, and enables them to accelerate their growth.
- **Supporting banks** offers great impact potential, by helping them increase their SME lending, although these projects can be challenging.

Reflections on catalytic capital and what works best

- In the 2000s, Argidius did some direct investments into SMEs. However, one of the key lessons learned was that **good investment decisions need proximity**, and that Argidius was therefore not in the best position to invest directly into businesses. In their view, working with intermediaries is most effective.
- In terms of instruments, Argidius believes that **providing grants at the inception and design stage** enables them to **catalyze more capital** than, for example, a first-loss investment in a fund, because it increases success rates and enhances fund economics, . Providing grants, furthermore, allows them to avoid the perceived regulatory complexity related to investment instruments like debt and equity.
- Argidius has learned that **collaboration towards common goals** is key to addressing systemic challenges, one of the reasons behind the establishment of the **Growth Firms Alliance** with five other like-minded philanthropic funders.

"What Argidius is doing is catalytic capital: We want our grants to catalyze more money... It's important for blended finance players to understand that the blended needs to be sequential, with the goal of building more commercial propositions"

- Argidius Interview

Growth Firms Alliance: Members

Visa Foundation	Ikea Foundation
Vitol Foundation	The Lemelson Foundation
Argidius	Small Foundation

Source: Argidius website, Sagana interview

SPOTLIGHT ON TWO OF ARGIDIUS´ MOST IMPACTFUL PROJECTS

KCB Bank Kenya

- Overview of project, key partners and Argidius' role: Argidius supported **Women's World Banking** in a 3-year project to provide strategic technical assistance to **Kenya Commercial Bank (KCB)** to improve its offering to the country's SMEs, especially women-led SMEs.
- Instrument: Grant
- Intervention details:
  - **Market segmentation**: Through market research and an assessment of KCB, the intervention better segmented the SME market and opportunities for KCB
  - **Enhanced CRM**: The CRM was revamped to enable KCB to use their wealth of data and inform a new relationship management model to build and foster relationships with SMEs, with a focus on women
  - **New SME-centered financial product**: The intervention implemented a new, more accessible SME financing product through a new cash flow-based credit assessment methodology that does not require collateral
  - **Better business support service**: The intervention enabled KCB to provide non-financial business support services to SMEs.
- Results
  - Over **USD 1 billion was awarded as of 2024 in new finance** for women-led SMEs
  - Generated new knowledge on how to support banks to develop and implement effective SME strategies

By unlocking new market segments, this type of grant capital to banks can 1) increase the volume of loans available to SMEs, while 2) attracting further commercial investments. For such projects to be successful, it is key for them to align with the bank's strategic interests and be championed by leadership.

I&P

- Overview of project, key partners and Argidius' role: Over the last 10 years, Argidius has provided the French impact fund **Investisseurs & Partenaires (I&P)** with catalytic grant funding to seed seven funds in Africa, with three more in development.
- Instrument: Grant funding
- Intervention details:
  - Argidius' grants has funded research, development and establishment costs of I&P's funds.
  - Ultimately, these grants reduce set-up costs and enable the grantee to try-and-test what works and what doesn't work in a given market.
- Results
  - The funds seeded by I&P have raised over EUR 100m; They have made investments (equity and quasi equity) into over 55 SMEs and supported 80+ businesses in preparation for financing.
  - These funds are demonstrating that such funds can work and are inspiring the further development of local SME investment markets.

This type of grant capital reduces a fund's initial set-up costs, enabling the fund to focus on its business case. It can thus contribute to catalyzing private sector money to the SME sector.

Source: Argidius website, Argidius post, Sagana interview

SUMMARY OF KEY SUCCESS FACTORS AND LESSONS LEARNED THAT CAN BE APPLIED TO OTHER FOUNDATIONS

Key success factors & lessons learned

Organization level	• **High-level strategy-setting**: For Argidius, a key success factor is the fact that the foundation's strategy is set at a high-enough level that it can adapt it without redoing it, in case it needs to shift gears and/or evolve its programs differently. • **Embedding learning in the foundation's strategy**: Argidius embedded learning as one of its strategy's key pillars. To change the system, the system has to do things differently; Therefore, it is important to test different options and to measure outputs and outcomes, ideally over several years, to find out what works and what doesn't work, and then promote what works. Without a clear learning agenda, experimenting might be discouraged, which would prevent finding the most effective solutions. • **Having a risk-tolerant investment committee**: Because of the overall objective and the learning objective, it is important for the investment committee to be aware that some of the decisions might ultimately "fail" or not yield the expected results. • **Bringing the investment committee on the ground if needed**, to illustrate the strategy. This is something that Argidius has done with its investment committee members.
Program level	• **Impact measurement and monitoring:** Related to the learning strategy above, building an evidence base of intervention effectiveness enables the organization to make data-backed decisions, which can then also be used to show project effectiveness and bring in more funders. Funding is provided to partners to ensure they can generate and use high quality data • **Supporting SMEs indirectly, via partners, intermediaries and networks:** This enables Argidius' grants to have greater impact reach, given the number of businesses that each partner/ intermediary can support. As mentioned previously, Argidius found that they were not well placed to make direct investments. • **Focus on all SMEs rather than those within specific impact "themes":** Most foundations working with SMEs in EMDEs restrict their work to a specific subset that work on their impact themes (e.g. agriculture, climate). However, emerging evidence from Argidius´ work suggests these narrow impact themes can hinder market development efforts at a more systemic level (e.g. since banks and financial intermediaries do not distinguish across impact themes themselves).
Ecosystem level	• **Collaboration with different types of actors**, sharing best practices and ensuring alignment with like-minded philanthropic actors, as well as ensuring complementarity with larger more systemic actors, e.g., in the case of Argidius, development institutions such as USAID and FMO, the European Commission, etc. This is what Argidius is trying to do through its recently launched **Growth Firms Alliance**.

ARGIDIUS IS ONE OF THE FOUNDING MEMBERS OF THE GROWTH FIRMS ALLIANCE

North star

Increase formal job creation and economic transformation in EMDEs by collaborating towards greater opportunities for growth firms and contribute to the development of the SME sector

Reason for existing

- Lack of sufficient political support for growth firms (a type of SGB) at the global and national level
- Insufficient financing options through appropriate modalities
- Proven approaches to SGB business development services (BDS) are not being taken up

Objectives

- Build global and national buy-in on the importance of growth firms in driving inclusive economic development
- Support a wide array of capitalized financial products that meet the needs of growth firms across different stages
- Growth firms fully supported by array of talent, tools and BDS services which fit their needs to grow

Activities

1. **Advocacy:** Global and local agenda setting, ensuring support in budgets and regulatory regimes
2. **Support financial intermediaries:** Address roadblocks in global financial flows through development of appropriate financial products for SGBs
3. **Technical engagement and alignment:** Drive adoption and scale of best practice non-financial support to SGBs
4. **Develop a funders community of practice**

Existing members

VISA Foundation	IKEA Foundation	The Lemelson Foundation
Vitol Foundation	Argidius	Small Foundation

Insights on the Community of practice

- Part of the objectives of the Growth Firm Alliance is to share best practice and ensure coherence among philanthropic funders supporting SGBs in EMDEs
- Currently this workstream is more focused on working with existing likeminded foundations rather than those who i) do not yet support SGBs in EMDEs and/or ii) do so with a different focus to the alliance (e.g. do not have a field building interest)

Source: Argidius website, Sagana interview

"LA CAIXA" FOUNDATION IS THE PHILANTHROPIC ARM OF LA CAIXA, ONE OF SPAIN'S LARGEST FINANCIAL INSTITUTIONS

The mission of "la Caixa" Foundation is to build a better and fairer society, giving opportunities to those most in need whilst applying the values of trust, social commitment and responsibility. Established in 1904 by the Catalan lawyer Francesc Moragas Barret, "la Caixa" was initially created to prevent financial exclusion by encouraging saving and retirement planning. Community work has always been an integral part of the organization. "la Caixa" Foundation became a separate banking foundation in 2014 managing its business assets through its subsidiary, CriteriaCaixa to preserve and grow its resources in order to finance its work in society and ensure the continuation of the institution's own social, welfare, cultural, research and educational initiatives.

Funding sources and organizational structure

- "la Caixa" Foundation has an annual budget of EUR 600 m.
- While 95% of the foundation's budget is allocated to Spain and Portugal, the foundation has a team leading international efforts, including in EMDEs.
- The initial driver behind allocating 5% of the budget to EMDEs was based on an employee request in the 90's which was in turn inspired by The 0.7 Initiative
- Criteria Caixa Holding, a wholly owned subsidiary of "la Caixa", is the holding company that manages "la Caixa" Foundation's assets, with the goal to generate the resources to finance social projects and preserve and grow the foundation's assets.

History and key milestones

- "la Caixa" Foundation's international activities evolved from funding a large quantity of initiatives to being more focused and more strategic in the types of initiatives they fund, as well as in the partners they choose.
- The foundation has developed a strong network of partners.
- Through its Work4Progress program, it is piloting an impact investing program, although this program is still in its early stages

Programs and initiatives

"la Caixa" Foundation has an international department, whose objective is to generate opportunities and address inequalities in low-income countries in Africa, Asia and Latin America

The foundation has four key action pillars that include:

- **Working through partnerships**, i.e., with international foundations and NGOs to create impact
- **Funding innovative solutions**, including new methodologies, digitization and new technologies
- **Including other philanthropy players** in their programs
- **Promoting transparency** via impact measurement and ongoing monitoring in all their projects.

Some of the key initiatives the foundation has funded include:

- **Work4Progress,** a program that promotes quality employment for women and youth through social innovation platforms (see next slides)
- **ProFuturo** to close children's education gap in 30+ countries in Latin America and the Caribbean, Africa and Asia, using digital solutions
- **Child survival programs**, e.g., programs supporting child vaccination and child survival, both in partnership with Gavi, the Vaccine Alliance, the Gates Foundation, Unicef, etc.
- **Humanitarian help** improving the nutritional conditions of children under 5 and their mothers at refugee camps in Ethiopia
- **Strengthening civil society organizations through training programs and call for proposals**, e.g., in collaboration with the Aga Khan Foundation or Gulbenkian Foundation.

"la Caixa" Foundation is also recognized for its commitment to **fostering innovation**. By supporting entrepreneurial initiatives, advancing educational practices, funding cutting-edge research, and driving social impact through innovative solutions, the foundation plays a crucial role in fostering a culture of innovation.

Source: "la Caixa" website, Sagana interview

THE FOUNDATION APPROACH REFLECTS A SERIES OF LESSONS LEARNED OVER TIME. THE EVOLUTION IS PROMPTED BY A DESIRE FOR DEEPER IMPACT

Evolution into strategic philanthropy

Strategy definition to become increasingly selective in the work they support

- "la Caixa" Foundation started by funding many isolated programs in different countries. It then transitioned to working with fewer programs, in fewer countries, with strategic partners, because it realized that that was a more effective way to create impact.
- During this period the foundation became closer to its partners in the field adding value to their work. As a foundation that stems from the private sector, "la Caixa" believes it can play a unique role in promoting innovation and experimentation and the generation of new ideas and concepts.

Increasing focus on developing the broader ecosystem and encouraging market building

- To accompany the strategic shift, the foundation moved to the provision of long-term core funding.
- It thereby started by identifying a few potential partnerships and networks that it wanted to develop further. This not only includes traditional NGOs, but also the government, microfinance institutions and the private sector in EMDEs. "la Caixa" Foundation believes that working through partnerships is most effective since they understand the local context and will ensure the long-term sustainability of the work.

It subsequently developed a unique methodology to work with local innovation platforms /networks composed of civil society, academia, private sector, microfinance institutions and public institutions. The methodology is based on a process of:

- <u>Listening:</u> Gaining a deep understanding of local social and economic dynamics through "deep listening" to the community, using both qualitative and quantitative tools. This process includes ethnographic interviews, direct observation, and gathering local data.
- <u>Co-creating:</u> Collaborative development of solutions (prototypes) in response to identified needs. Co-creation involves the active participation of the community and relevant local stakeholders.
- <u>Prototyping and scaling:</u> Implementation of small-scale prototypes to test their viability and scaling them based on their success. These prototypes can be businesses, technological, or systemic, and are designed to adapt to local needs.

Impact investing to support prototyping and scaling. In the process of developing these innovation platforms, the foundation realized that there is limited supply of capital available to support the prototyping and scaling of these solutions. In this context, the foundation has an impact investment strategy to provide the initial seed capital.

"When we first started, we worked with so many different initiatives that our impact was diluted. Now, we are more strategic, by focusing on programs with strong partners where we truly believe our funding adds value"

- "la Caixa" Foundation Interview

"A key turning point in our journey was when we identified the secret sauce that makes us additional. As a corporate foundation, we are uniquely positioned to promote innovation, experimentation and the testing of new ideas and concepts. Our aim is for other actors to adopt them once they have been proven to be successful."

- "la Caixa" Foundation Interview

Source: Sagana interview, material provided by "la Caixa" foundation

SPOTLIGHT ON WORK4PROGRESS

Objectives

- W4P aims to create sustainable employment opportunities for vulnerable populations, through innovative and collaborative approaches that address systemic issues in regions with high unemployment rates. This involves supporting SGBs in four countries: Colombia, Peru, Mozambique and India.

Activities: Support networks of organizations that are testing novel approaches and are most effective at promoting quality employment. Some examples:

- Safe Mobility Network for Women (India)
  - This initiative involves the creation of 100+ women-led electric rickshaw (e-rickshaw) businesses that provide safe transportation services for other women and girls in their communities.
- Circular Economy Projects with Banana By-products (Peru)
  - Support 470 banana produces turn second-grade bananas into flour and flakes and using banana plant residues to produce biofibers for crafts, plates, and bowls.
- Solar flow (Mozambique):
  - Support the development of portable, solar-powered irrigation systems (known as "solar donkeys") to support agriculture in areas without access to the electrical grid. These systems are designed to pump water for farming purposes.

Impact investing pilot project within Work4Progress:

- Many businesses that have benefited from Work4Progress incubation then struggle to access financing. "la Caixa" Foundation's impact investing pilot seeks to catalyze further capital from commercial investors into these businesses.
- **"la Caixa" Foundation instrument**: Repayable grants to NGOs or for profit socially-minded partners
- **Instrument used:** Simple debt instruments, guarantees and technical assistance, to help entrepreneurs finance their necessities and build credit history, which can then help them attract further capital.
- **Businesses targeted:** The strongest and most "investment-ready" companies coming out of Work4Progress' incubation program, and other companies in the ecosystem that can play a role in the growth of Work4Progress companies
- **Impact investing objective for "la Caixa" Foundation**: The Foundation does not seek to make a profit from this program, but it intends to recuperate its funds, to reinvest into the program.

2024 Work4Progress Figures

- Work4Progress has grown from 10 partners in 2017 to 52 main partners in 2024.
- One of the key metrics that the foundation looks at is the amount of capital that is leveraged from third parties.
- Since 2016, only 7% of total project costs were co-financed by other organizations and this has gone up to 69% in 2024.
- However, most of this co-financing capital is from other foundations and development organizations rather than private investors themselves.

Source: Sagana interview, material provided by "la Caixa" foundation

SUMMARY OF KEY SUCCESS FACTORS AND LESSONS LEARNED THAT CAN BE APPLIED TO OTHER FOUNDATIONS

Key success factors & lessons learned

Organization level

- **Organizational focus on innovation** has provided a conducive enabling environment to test new programmatic approaches through W4P
- There is **an internal champion, at the board level**, who is encouraging "la Caixa" to adopt novel market-based approaches
- W4P has set up an **external advisory board composed of geographic and sector experts**. Especially as it relates to impact investing, "la Caixa" is aware they will need continuous training of the team as the pilot evolves

Program level

- **Impact measurement and ongoing monitoring** has proven key in "la Caixa" foundation's Work4Progress program. Defining the right impact indicators and measuring them, rather than focusing solely on number of beneficiaries, is key to success. In particular, the organization has had combine innovation and ecosystem indicators, and direct end-level beneficiary data
- **Listening to local needs**, rather than applying the same approach to every program.
- **Leaving space for experimentation** in programs is key to determine what works and what doesn't. This is one of the advantages of private sector

WESTERWELLE FOUNDATION INCREASES THE ROBUSTNESS OF SGBS THROUGH A FLAGSHIP PROGRAM AND 4 LOCAL STARTUP HUBS

The Westerwelle Foundation is a non-profit organization based in Germany that focuses on the development of market economies. It defines impact as the growth and development of businesses that contribute to the SDGs, which in turn fuel the economy and drive positive development. Established in 2013 by Guido Westerwelle, the former German Foreign Minister, the foundation aims to support young leaders, entrepreneurs, and policymakers around the world. The foundation is particularly active in regions undergoing significant political and economic transitions, offering programs and initiatives designed to encourage sustainable and inclusive growth.

Overview of initiatives (non-exhaustive)

- **Young Founders program** This flagship initiative selects 25 outstanding young entrepreneurs from developing and emerging markets for a six-month fellowship. The program includes mentorship, networking opportunities, and workshops to help scale their businesses. The top 10 performers attend a fully-funded conference in Berlin
- **Startup Hubs** The foundation operates startup hubs in various locations, including Kigali, Arusha, and Tunis. These hubs provide co-working spaces, access to a network of entrepreneurs, and various support programs tailored to local needs such as:
  - **Back2Growth** focusing on empowering young social entrepreneurs in Tunisia
  - **Techmeetsfarming** in Rwanda to leverage technology for better farming efficiency
  - **The Westerwelle Entrepreneurship Programme East Africa** supports 30 digital and tech-enabled startups with high market potential in East Africa.

Key success factors and experience with catalytic capital in EMDEs

- **The challenge:** The private financing landscape in Africa remains limited, heavily concentrated in a few top markets, and dominated by a small elite. Westerwelle acknowledges that this situation is far from ideal, with insufficient capital availability and inefficient fund allocation. The organization addresses the challenges faced by enterprises struggling to secure investment, as well as investors who have difficulty finding quality deal flow. Additionally, it emphasizes the need for smaller ticket sizes and grant financing to provide meaningful support to entrepreneurs.
- **Localization:** Westerwelle has Westerwelle Houses in Africa, located in Tunis, Kigali, and Arusha (Northern Tanzania), and it is setting up a fourth startup house in Mombasa. Although it admits it is complicated to manage separate locations, it believes localization is a key success factor to supporting SGBs in EMDEs by enabling a concrete understanding of problems on the ground
- **Focus on sustainable impact SGBs vs. high-growth ventures:** Westerwelle supports startups with the idea that they need external investment and will scale up to 5/10x but not necessarily more. They have learned that with these terms, exit opportunities are more feasible in countries where large financing options are limited.
- **Importance of Partnerships:** Coordination and partnerships with operational partners are crucial to avoid keeping supporting the same SGBs that 'go from grant to grants and don't focus on customers as the end goal'. Because DFIs often avoid small ticket sizes, they create fragmentation by pushing money into many smaller intermediaries, which can sometimes pursue the same investments. It is important to create networks and exchange with all partners to counter the dangers of excessive public intervention with SGBs

Source: Westerwelle Foundation website, Westerwelle Foundation interview notes

DRK FOUNDATION PROVIDES EARLY-STAGE FUNDING AND ONGOING RIGOROUS OPERATIONAL SUPPORT TO SOCIAL ENTERPRISES

The Draper Richards Kaplan (DRK) Foundation is a global venture philanthropy firm that supports early-stage, high-impact social enterprises. Founded in 2002 by venture capitalists Bill Draper, Robin Richards Donohoe, and Robert Kaplan, the foundation leverages the principles and practices of venture capital investing to fund and support innovative, scalable solutions to social issues. The DRK Foundation focuses on empowering leaders, fostering innovation, and promoting sustainable solutions to improve the lives of people worldwide.

Overview of initiatives (non-exhaustive)

- DRK provides early-stage funding and ongoing support to social enterprises that address significant social and environmental challenges.
- It offers three years of unrestricted capital and rigorous operational support by joining the boards of these enterprises
- DRK has invested in over 255 social impact organizations, impacting more than 500 million lives globally. These organizations tackle a wide range of issues, from healthcare and education to environmental sustainability and economic development
- The foundation collaborates with major entities such as Google.org, which has contributed significant funding to DRK portfolio organizations and uses AI to solve global challenges

Key success factors and experience with catalytic capital in EMDEs

- **DRK's objective**: DRK clearly identifies its role as an impact organization to improve people's lives. From the annual report: *"People always ask us how we measure impact. It's actually the easiest question to answer. Because we measure through the only lens that matters — lives impacted with access to healthy meals, healthcare, employment opportunities, social justice, housing, clean water, and the list goes on and on."* It believes it can do this best by providing support to SGBs.
- **What it is trying to solve:** It recognize SGBs in EMDEs not only have limited access to finance, but don't have the social capital (family and/or friends) needed to enable successful enterprise. It helps founders build that capital through its investment and through its network of over 200 entrepreneurs
- **Value-add to SGBS:** DRK's main differentiator is the operational support it offers to the SGBs it invests in. The foundation not only offers unrestricted financial support of ~300,000 USD but also places a knowledgeable person on the company's board. DRK Foundation will not accept to invest in a company if it cannot add a person to the board. Both the funding and the operational support is aimed to last 3 years.
- **DRK's view on catalytic capital:** DRK doesn't see itself as a catalytic capital provider. However, it recognizes the catalytic role of its investments and tracks the third-party capital it attracts. It thinks about the potential sequential leverage it can attract

Source: DRK Foundation Website, DRKFoundation interview notes

RABO FOUNDATION SUPPORTS SMALL-HOLDER FARMERS MAINLY THROUGH FINANCIAL INTERMEDIARIES

The Rabo Foundation was established in 1974 as the social fund of Rabobank. It was created to reflect the cooperative principles and values of Rabobank, which has its roots in supporting the agricultural sector and rural communities. The foundation's mission has always been to provide opportunities for disadvantaged people to become self-reliant and improve their livelihoods. Over the years, the foundation has expanded its reach globally, focusing on creating sustainable economic, social, and ecological impacts through its various programs and initiatives

Overview of initiatives (non-exhaustive)

- **Supporting Smallholder Farmers:** The foundation empowers smallholder farmers in developing countries by offering access to finance, knowledge, and networks through financial intermediaries. This support helps them become more resilient and sustainable, enabling economic, social, and ecological progress. The foundation operates in 22 countries across Africa, Asia, Latin America, and Europe (the Netherlands)
- **Strengthening Social Enterprises:** In the Netherlands, the Rabo Foundation strengthens social enterprises that work towards inclusive employment and economic participation. This includes offering financial support, training programs like the mini-Master's in Social Entrepreneurship, and scholarships for accelerator programs. They also connect social entrepreneurs with a network of lenders, coaches, and corporate partners

Key success factors and experience with catalytic capital in EMDEs

- **Rabo Foundation's objective:** The foundation works on behalf of smallholder farmers, recognizing they often struggle with getting the support they need to grow, especially at the last mile.
- **Rabo Foundation's financial tools:** The foundation uses several different forms of financing to ensure that organizations get exactly what they need to grow and thrive:
  - 44% in loans: Rabo Foundation issues loans to organizations that offer microcredit to farmers or producer organizations to buy farmers' produce.
  - 26% in trade financing: Trade financing helps farmers' organizations bridge the period between buying a farmers' produce and selling it on the local or export market.
  - 17% in donations and technical assistance: These help organizations set up new activities. In addition to direct funding, the foundation offers technical assistance to help partners professionalize their activities.
  - 13% in bank guarantees: These help cooperatives obtain financing from local banks.
- **Rabo Foundation and partnerships:** Rabo Foundation recognizes that teaming up with other foundations and public partners enables them to achieve larger-scale support. They have worked with 20+ partners to strengthen the food value chain, such as Stichtung DOEN and the Gates Foundation.
- **Strategic focus:** Over the last 10 years, the foundation has maintained a consistent narrative and strategic focus both in the Netherlands and internationally, which has enabled its mission.

Source: Rabo Foundation Website, Rabo Foundation interview notes

TEAM EUROPE INITIATIVE – INVESTING IN YOUNG BUSINESSES IN AFRICA (IYBA)

Components

Three building blocks

Financial and technical support		Entrepreneurship ecosystem development
1 pre-seed MSMEs	2 seed and early-stage MSMEs	3 includes TEI IYBA ecosystem support program

Two target groups

Implementation

Governance
Full commitment of 11 EU Member States, plus EIB, EBRD, EDFI and more

TEI IYBA Chairmanship
January 2022 – June 2022
July 2022 – May 2023
June 2023 – May 2024
June 2024 – May 2025

Working groups
IYBA SEED
Pipeline Development,
Women's Economic Empowerment
Public Development Banks

In-country implementation
Already: Senegal, Nigeria, Togo, Kenya, Comoros, Cameroon, Uganda and Benin

Project database
Updated version for 2022-2024 ready soon

Innovative programmes

EFSD+ financial guarantees
Dedicated TEI IYBA Guarantees:
- Choose Africa. Proparco
- Global Investment Equity Fund. DEG

IYBA - SEED
€ 23 M programme to strengthen entrepreneurship ecosystems in 5 countries and implemented by a consortium of MS

IYBA - WE4A
€ 38 M programme to support women entrepreneurs in 8 countries and implemented by GIZ together with TEF

IYBA – Market Creation Platform
€ 24 M from EU and € 22 M from Ministry of Foreign Affairs Netherlands. Implemented by FMO

IYBA - Invest
€ 28 M blending programme currently being developed. Implemented by FMO and I&P.

LIST OF ORGANIZATIONS INTERVIEWED

African Venture Philanthropy Alliance	Fourfold Foundation	Philips Foundation
Argidius Foundation	Global Steering Group on Impact Investing	Rabo Foundation
Asian Venture Philanthropy Network	Impact Investing Institute	Repsol Foundation
Bayer Foundation	Jacobs Foundation	Rockefeller Philanthropy Advisors
Botnar Foundation	Julius Baer Foundation	Shell Foundation
Calouste Gulbenkian Foundation	"la Caixa" Foundation	SIFI (SDG Impact Financing Initiative)
Catalytic Capital Consortium	Latimpacto	Small Foundation
Convergence	Laudes Foundation	Spanish Foundation Network
Demeter Foundation	L'Occitane Foundation	Toniic
Dutch NAB	Netri Foundation	Trafigura Foundation
DRK Foundation	New Silk Roads	Triple Jump / DGGF
Impact Europe (EVPA)	Oak Foundation	UBS Optimus Foundation
FIN (Fondsen in Nederland)	OECD NetFwd	Westerwelle Foundation
Fondation Daniel and Nina Carasso	Open Value Foundation	Van Leer Foundation
Fondazione Ais	Philea	Wings Web

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