



ADVISORY
BOARD
for the ARTS

Transforming Arts Organizations Worldwide

Fundraising in the U.S. for Non-US Organizations

SEPTEMBER 2021

The Research Process

The Question

With a growing interest in diversifying revenue streams, are non-US organizations suited to engage in a formal American fundraising scheme, like starting their own 501(c)(3) American Friends organization? What are the key elements to consider to determine an organization's position in pursuing this venture?

Initial Secondary Research

Preliminary scan of online articles and briefings around:

- Legal requirements behind starting a 501(c)(3) American Friends organization
- Alternative models to the 501(c)(3) classification
- Advantages and disadvantages in American Friends groups

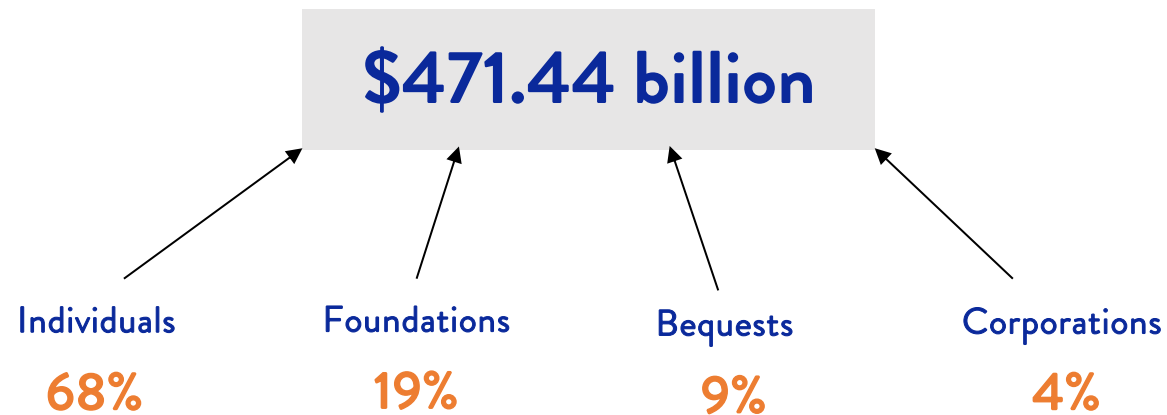
One-on-One Interviews (as of August 11, 2021)

<i>501(c)(3) American Friends Organizations</i>	<i>US Intermediaries (alternative model to a 501(c)(3))</i>	<i>Others (i.e., IC consultants, lawyers, cultural organizations)</i>
<ul style="list-style-type: none">• American Associates of the National Theatre• Royal Shakespeare Company America• American Friends of English National Opera• American Friends Musée D'Orsay• American Friends of the Louvre• Sir John Soane's Museum US Foundation• Serpentine Americas• The American Friends of Winchester College• American Friends Academy of St. Martin in the Fields	<ul style="list-style-type: none">• Chapel & York US Foundation• King Baudouin Foundation US• CAF American Donor Fund	<ul style="list-style-type: none">• Center of Italian Modern Art• Susan Mathisen, SAM Fundraising Solutions• Ken Hoffman, More Partnership

Example interview questions can be found [here](#).

A Fruitful US Philanthropic Market, That Comes with Challenges

According to Giving USA Foundation's 2020 annual report, as individual Americans, corporations, and foundations made contributions in response to the Covid-19 pandemic, charitable giving in the US reached a **record** of:



Two Main Challenges To Address

- X** The US market for philanthropic dollars is crowded and competitive, especially for non-American organizations

Friends organizations are...

- In direct competition with both local arts organizations and other Friends groups in the US
- Required to create a unique donor value proposition for the American market

- X** The culture of philanthropy in the US is fundamentally different from that of the home country

Friends organizations must...

- Play by US rules if they wish to garner support from this market
- Educate staff around US philanthropy, i.e., types of events to hold, donor behavior and habits, and the typical pipeline towards an ask for donation

Source: <https://store.givingusa.org/collections/home-page-2021/products/2021-infographic?variant=39324695068751>

Two Main Entities Used to Raise Tax-Exempt Money in the US

US INTERMEDIARY

As independent US public charities, US intermediaries can accept tax-deductible funds from donors, and then recommend those funds to support foreign charities.

Benefits:

- ✓ A streamlined grantmaking process with eliminated risk and full support on back-office administration, including tax receipts and donor support
- ✓ An expedited timeline towards collecting tax-exempt donations, often within weeks
- ✓ Little fear of an audit from the IRS

Drawbacks:

- ✗ The grant is made out to the intermediary which can make some donors uncomfortable
- ✗ The intermediary has its own board of directors; any board affiliated with the home organization only plays an advisory role with no discretion or control over given funds
- ✗ An annual fee to work with the intermediary, plus further retention rates on each gift

Best for: occasional US fundraising, fundraising with a few large individual donors, and a place to accept donations while setting up a 501(c)(3).

501(c)(3) ORGANIZATION

An independent US nonprofit 501(c)(3)'s primary purpose is to raise funds in the States to carry out overseas activities or make grants to a foreign organization.

Benefits:

- ✓ As the most common US nonprofit type, grant-makers are set up to donate to these
- ✓ The organization has a board of directors (at least 3 members) who are the primary mechanism in building additional donor relationships
- ✓ Has its own branding and donors make their gifts directly to the organization

Drawbacks:

- ✗ It takes at least one year to set up and requires further resources to maintain the organization
- ✗ Annual legal and tax documentation for independency, and may be subject to an audit from the IRS if it's seen as a conduit or subsidiary to the home organization
- ✗ Must demonstrate ongoing donor growth to pass the public support test

Best for: committed, ongoing fundraising in the US which can offer an independent value proposition to the American donor.

Your Fundraising Approach Depends on Desired Investment

Given the long time required to cultivate a meaningful base of US donors, organizations tend to fall into one of two strategic approaches depending on priority given to US fundraising:

STRATEGIC APPROACH	LEGAL STRUCTURE	LEVEL OF COMMITMENT	LIKELY DONOR POOLS	TYPICAL FUNDS RAISED FROM DONORS ^[1]	FINANCIAL INVESTMENT
<p>OPPORTUNISTIC U.S. FUNDRAISING</p>	<ul style="list-style-type: none"> Legal intermediary based in the US. Ex: Chapel & York, King Baudouin, CAF America Friends organization is typically managed from the home country 	<ul style="list-style-type: none"> One-off fundraising with known donors who have a relationship with the organization Tax benefits offered to expat Americans connected to home organization 	<ul style="list-style-type: none"> Expat Americans in the home country Known expats from the home country in America Potentially, connections through advisory board members 	<p>Dollars raised through an intermediary are typically less than what is possible through a 501(c)(3).</p> <p>For example, Chapel & York provides its services to around 200 foreign organizations — in various sectors like arts, culture, education, conservation, research, sports, and religion — and raises around \$7 million in total every year, or on average \$30K-\$35K per organization.</p>	<p>Up to \$3,500/year ^[2]</p> <ul style="list-style-type: none"> Annual membership Retention rate of 1%-5% Due diligence fees Additional services: dedicated staff, webpage set-up, donation reports <p><small>^[2]Varies depending on the US intermediary.</small></p>
<p>SUSTAINED INVESTMENT IN U.S. DONOR CULTIVATION</p>	<ul style="list-style-type: none"> 501(c)(3) Local staff of 1-5 people based in the US who focus on fundraising, administration and board management 	<ul style="list-style-type: none"> Sustained fundraising in the US with an independent value proposition for American donors Continuing interim events and cultivation in the US even when the home organization is not present in the States 	<p><i>In addition to the above:</i></p> <ul style="list-style-type: none"> Connections through known donors, partners, and board members High-net-worth individuals with a passion for the organization's unique US donor value proposition General Euro-American/Asian-American community, as relevant Foundations or other grantmaking organizations 	<p>Annual revenue from donations depends on the maturity of the 501(c)(3). There are 3 broad ranges:</p> <p>Low maturity: \$100K-\$500K</p> <p>Medium maturity: \$500K-\$800K</p> <p>High maturity: \$800K-\$3M+</p> <p><small>^[1] Pulled from various 2019 and 2020 IRS Form 990s Contributions and grants (Part VIII, line 1h)</small></p>	<p>\$65K-\$500K/year ^[3]</p> <ul style="list-style-type: none"> Annual audit costs Staff compensation: depends on number of staff and org budget State registrations and statutory agents Miscellaneous operating costs: PO box, office space, donor events Practical assets: subscriptions to media, QuickBooks, etc. <p><small>^[3] Excludes the startup costs (i.e., filing Form 1023, initial registration within a US jurisdiction, services of an attorney)</small></p>

An Example: Working with an US Intermediary

Process Behind Getting Started with a US Intermediary

The Premise

Scottish Ballet has partnered with the Chapel & York US Foundation to accept tax-deductible donations from American donors.

This decision was made in response to the following criterion:

- Infrequent US tours based in different cities and venues, making it hard to build consistent relationships
- Large costs associated with operating a US 501(c)(3)
- Few robust pre-existing connections to patrons and stakeholders in the US

Phase 1:

Learn from peers and prepare application for the intermediary

- **Reach out to peer organizations.** The process of formally fundraising in the US is nuanced, so Scottish Ballet relied on chats with other arts orgs that have gone through the process before.
- **Expect due diligence from the US intermediary.** Intermediaries like Chapel & York will ask for an application to prove good intent. Necessary documents include: birth certificates, passport info, IDs, as well as the organization’s annual reports.

Phase 2:

Determine the catalyzing events in the US

- **Make offerings accessible to US patrons.** In December 2020, Scottish Ballet produced its first feature Christmas ballet film, a production that was marketed overseas so US members could also watch it. This was the golden opportunity to begin receiving US donations.
- **Establish a formal US presence.** To properly interact with US patrons, Scottish Ballet knew it would have to meet Americans where they are at. Thus, the ballet is planning ongoing events in the US, such as future American tours.

Phase 3:

Develop a cohesive fundraising strategy in the States

- **Create a unique hook for the US market.** Scottish Ballet sends regular emails to US members using language that is (1) very welcoming, and (2) sprinkled with Scottish idiosyncrasies. This further captivates US donors who have an affinity to Scotland.
- **Cultivate donors with a US philanthropic mindset.** Chapel & York returns donor information back to Scottish Ballet. This allows the ballet to perform wealth research on its US donors and know where donors are based — data that will help when contacting and messaging donors.

Key Tactical Elements of Fundraising in the US, no Matter the Approach

ACTIVITY	EXPLANATION
1 Find A “Hook” Within the US Market	The US – and particularly New York City – philanthropic market is very crowded. Successful fundraising in the US requires a unique angle to compel American donors to give.
2 Practice <i>American</i> Donor Cultivation & Stewardship	US donors have different expectations and practices around giving; organizations fundraising in the US must have guidance from American experts.
3 Identify Critical Early Board Members	Successful fundraising typically starts with the network and commitment of a small number of passionate individuals, either formally in a nascent ‘friends of’ organization or as an advisory group when working with a US intermediary.
4 Establish Local Partnerships & Collaborators	Without a physical space or existing donor list in the US, organizations must rely on partnerships with consulates, arts organizations, and corporations to provide lists and/or space to cultivate donors.
5 Hire Professional Staff & Maintain Close Relationship with the Home Organization	Fundraising in the US requires professional staff who understand American fundraising practices; information should be shared liberally between the US and home institution.
6 Adherence to Legal Independence & Addt’l. Resources	Collecting tax-deductible gifts requires donations to be granted by an independent board along with ongoing tax and legal filings at the federal and state levels. There are grey areas to the law that often require legal counsel, unless working with an intermediary.

Finding Your Unique Hook

Why should American donors give to a non-US organization? Unless the foreign organization is a global household name and can simply replicate the pitch used in the home country, there must be a separate appeal for the American market. From our research we found three common 'hook' types amongst Friends organizations:



Affinity Towards The Home Country

There are many Americans who have affiliations or deep interest towards non-US countries. These individuals are also likely to regularly travel back to the home country for visits. How can the organization represent its home country in the US?

Examples:

CIMA found that donors came to events because of a general love for Italy and the culture.

Musée D'Orsay relies on a romanticism around Paris.



Exclusive Access to Content And/or Talent

The bar to garner American attention above domestic competition is high. Can the Friends organization offer benefits unattainable elsewhere? Are there artists, curators, and artistic directors in the organization who are globally recognizable?

Examples:

National Theatre does year-round productions on Broadway that Americans love.

The Academy of St. Martin in the Fields holds a dinner party with music director Joshua Bell.



Shared Value*

This hook is aimed to enact donors to give more philanthropically rather than transactionally. Is there a higher value above the art form that the organization can stand for, that appeals to American audiences (e.g., human connection, empathy)?

Example:

The Soane Museum holds monthly discussions/lectures around the role of classical architecture in urban design, a hot topic in current politics.

**Read ABA's primer on [Shared Values](#) for more information*

Practicing American-Style Donor Cultivation & Stewardship

A foreign organization must tightly connect its value proposition to its unique ‘hook,’ offering events and benefits to American donors that only it can provide. Doing this will differentiate non-US organizations from domestic competitors and build loyalty to the organization.

Keys to US-Specific Fundraising

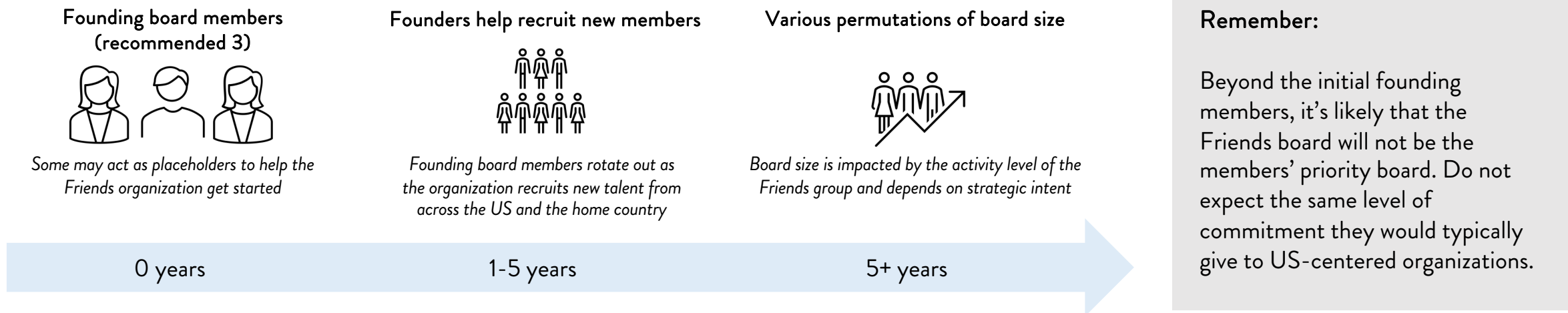
- 1 Build fundraising capability in-country and know expected donor pools first before entering the US**
 - Start with a list of known US supporters of the home organization and converse with them to understand the US culture of philanthropy
 - Collaborate with consulates and existing partners in the home city to expand this list
 - Use the networks and leverage of the organization’s board of directors, a critical asset in cultivating new relationships
- 2 Prioritize a consistent US presence of the home organization for easier growth and retention of support in the US**
 - The number of American donors to your organization directly correlates to the number and frequency of benefits and events that occur in the US
 - An established US office and staff can create ongoing events for donors that are more easily accessible to Americans than those in the home country, and will strengthen the organization’s domestic network
- 3 Anticipate American donors to be transactional givers, rather than mission-driven**
 - Offer one-of-a-kind events and benefits to appeal to individual donors who have many opportunities to spend their time and money
 - Take a few years to build a healthy donor base before creating Friends membership programs that the organization can comfortably support
 - Membership programs require dedicated commitment to in-country events in addition to overseas events, usually in the form of travel programs; if a membership program is not feasible, consider a fully personalized approach for each donor so that they don’t flee in quieter years

Board Member Considerations

A 501(c)(3) must have a board of directors. If using an intermediary, it is advised to form an advisory board to aid in fundraising efforts. Early board members should be:

- 1** **Passionate individuals with a broad network...**
 - Board members are the primary method for new Friends organizations to identify and cultivate donors
 - The board should not only contribute financially but also take on more operational responsibilities than they would in a US-centered organization
- 2** **...who represent the target fundraising cities...**
 - American board members understand the local scene and US donor culture when doing peer-to-peer engagement
 - Board members should include Americans from across the country if planning for regional expansion
 - Boards must have more American members than foreign members
- 3** **...and always have a strategic agenda.**
 - Because the typical staffing for Friends organizations is small, make sure that planned initiatives and partnerships have focus and are sustainable.

Typical Evolution of a Board of Directors



Key Partnerships & Collaborations

Although board members have great capacity in cultivating donors, new donor relationships can also be obtained from partnerships with domestic organizations. These partnerships can also provide crucial resources when holding events in the US. There are two common partnership/collaboration types among Friends organizations:



Joint Collaborations with US Arts Organizations

Peer support in the US can not only host the home organization when it visits the US but also serve as easy-to-access and interim membership perks in between US performances/exhibitions.

Examples:

Musée D'Orsay relies on curators from the mother organization who also presented shows at MoMA. As a part of the membership package, American members were taken on special curator-led tours at MoMA in between Musée D'Orsay-specific events.

Royal Shakespeare Center collaborated with the Brooklyn Academy of Music who helped host the RSC's 4–6-week residency Shakespeare program every other year.



Out-of-Industry Relationships

Partnerships should be strategic as well as creative. Not only should organizations seek after corporations with ties to the home country, but they should be broad-minded about non-arts partners whose assets can be tailored to various operational needs.

Examples:

Consulates

ENO will hold recitals at the British consulate in New York to premiere its upcoming Ring Cycle co-production with the Metropolitan Opera.

Corporations

The Louvre works extensively with the fashion industry and has licensing agreements with Louis Vuitton.

Admin Considerations & Relationship to Home Organization

For a Friends organization and home organization to remain strategically aligned in fundraising goals and direction, there must be a strong relationship between the staff of both entities. Communication is strongly advised to occur on a frequent cadence, even as much as daily.

Keys to a Successful Relationship

- 1 Friends organizations thrive when staff are based in the US and are educated in the culture of US philanthropy**
 - Local staff are more effective at consistent cultivation than when abroad
 - Avoid over-reliance on volunteers, especially regarding legal compliance and donor cultivation. Friends organizations do not operate successfully on a hobbyist approach
 - Ensure that staff are professional fundraisers with a deep understanding of the US culture of giving. What US donors want can be very different compared to your donor base at home. For example, Americans expect a direct ask which can be initially uncomfortable for non-US development teams
- 2 Carefully nurture the relationship between the mother organization and the Friends staff**
 - Local Friends staff often feel isolated in the US and can lack essential information unless given frequent updates
 - 501(c)(3)s and intermediaries are legally required to make independent fundraising decisions from the home organization; strong communication is necessary to ensure staff alignment and prevent mistrust

Legal Independence of Friends Organizations*

Under US tax law, 501(c)(3)s and US intermediaries must operate independently of the foreign organizations they support. The key in obtaining independent status is with whom control of the Friends organization lies — in the governing board of the 501(c)(3) or the intermediary — not where activities are carried out.

Independent Boards Mean That US Public Charities Are *Not* Conduits For Foreign Entities

The IRS has strict regulations as to how American organizations may provide funding for foreign entities. Essentially, this entails the board of the US organization maintaining...

1 Discretion over granted funds.

- Board members hold the final authority and oversight of fundraising and disbursements
- This means that the governing board may decide to provide funding for another organization or it may decide to run its own programs in the US**

2 Control over granted funds.

- The board of directors must receive pre-grant proposals outlining the purpose of the grant as well as submit post-grant progress reports demonstrating that funds were used in accordance with grant terms
- Detailed records and reports on expenditures must be communicated to the IRS before funds can be granted to the foreign institution

Solutions to Avoid Misalignment with the Friends Organization

- *Accept only unrestricted gifts*
- *Require the word “suggest” in every gift. Ex. “Here I’ve enclosed \$1,000 and suggest it be used for the new bursary endowment.”*
- *Clearly state the gift destination in the 501(c)(3)’s charitable purposes*
- *Interlock board membership between the 501(c)(3) and the home organization*
- *License intellectual property (i.e., logo) from the beneficiary to the 501(c)(3) organization*

*This is not intended to be formal legal advice. If pursuing a 501(c)(3) model, we recommend consulting an attorney

**US intermediaries will almost always grant a donor’s gift to the intended foreign institution. The risk of independence is typically much higher in a 501(c)(3).

Source: [eJewish Philanthropy](#)

Additional Legal Resources for a 501(c)(3)*

A US Intermediary will handle all legal requirements for the Friends organization. However, under a 501(c)(3) model, the Friends organization is responsible for all annual tax filings and audits at both the federal and state levels. 501(c)(3)s should seek professional legal counsel to ensure full compliance with US law.

Recommendations to Ensure the 501(c)(3) Group Maintains its US Tax-Exempt Status

- ✓ **State the legal responsibilities of all stakeholders in organizational documents**

 - Eliminate confusion over governing authority and flow of responsibilities
 - Satisfy federal and state laws concerning independence of US tax-exempt orgs
 - Clearly describe the preferred organizational structure and lines of corporate authority
- ✓ **Educate staff in both the 501(c)(3) and the home institution about the legal conditions**

 - Both parties should understand the role and responsibility of a US non-profit board of directors
 - Make known the extent of the legal relationship between the US Friends group and the home organization permitted under US tax law
 - Recognize the types of informal operating understandings that develop under this framework
- ✓ **Guarantee the 501(c)(3) has a diverse group of individual donors to pass the annual public support test**

 - As a publicly supported charity, every dollar of charitable income is categorized within the public support test based on the entity from which the gift came from: the target score to hit is 33 1/3%
 - If the score is between 10% and 33 1/3%, the organization must submit a facts and circumstances test of treasury regulations that proves charitable intent
 - If the public support test is failed two years in succession, the 501(c)(3) organization will be demoted to a private foundation which has higher regulations and less flexibility with funds raised – it takes 5 years to recover

Starting a 501c(3)

Technically, the process of creating a 501(c)(3) is not difficult. *There are 2 stages:*

1

The charity must be incorporated in at least one of the 50 states and by-laws must be agreed on, describing how the charity will conduct itself.

2

Submit an application to the US federal government through the IRS for recognition of tax-exempt status. The organization must provide a 3-year projection of expected activities, income and expenses.

*This is not intended to be formal legal advice. If pursuing a 501(c)(3) model, we recommend consulting an attorney

Source: [More Partnership](#)