



## **Ten Myths About Small Foundations and International Giving**

By Jennifer Astone, Ph.D.

The legal and practical aspects of making grants in other countries may seem burdensome. Let's correct a few misconceptions and provide examples of how ASF members fund legally and effectively around the world.

### **Myth 1. We cannot support international causes. Our foundation bylaws state that we can only give to U.S.-based tax-exempt 501(c)(3) organizations.**

Many small foundations partner with U.S.-based tax-exempt 501(c)(3) organizations as intermediaries for their international giving. In fact, in a recent survey of ASF members, more than 80% employ U.S.-based tax-exempt organizations for their international giving. This approach allows foundations to fund international work by giving to U.S. 501(c)(3)s, which often work closely with small foundations to meet their international giving needs.

#### Resources

- ASF Professional Directory of Foundation Advisors, [www.smallfoundations.org](http://www.smallfoundations.org). Find member-nominated intermediaries.
- InterAction, [www.interaction.org](http://www.interaction.org). By country, find intermediaries that run programs and grant internationally.
- United States International Grantmaking, [www.usig.org](http://www.usig.org). By mission and geographic focus, find intermediaries that regrant to local nongovernmental organizations.
- *Working With Intermediaries: Global Grantmaking Through Partner Organizations*, [www.grantcraft.org](http://www.grantcraft.org)

### **Myth 2. No other small foundations in my community make international grants.**

International giving is a growing trend at all levels of philanthropy as people recognize how interconnected the world has become. Many small foundations regularly make one or two grants to address important issues beyond U.S. borders. They may not publicize their grantmaking or share their stories, though, so few others know of their work. Some make a one-time grant in response to a major humanitarian crisis, such as the 2004 Indian Ocean tsunami, or to schools or health clinics in international locations they've visited.

## Resources

- ASF Member Directory and Discussion List, [www.smallfoundations.org](http://www.smallfoundations.org). Find fellow members who give internationally.
- Affinity groups, [www.cof.org](http://www.cof.org). Find other international funders in your community or interest area and get peer recommendations of knowledgeable attorneys, accountants, consultants, and other specialists.
- Grantmakers Without Borders, [www.internationaldonors.org](http://www.internationaldonors.org). A philanthropic network of 150 members dedicated to increasing funding for international social justice and environmental sustainability and improving the practice of international grantmaking

### **Myth 3. It is too risky, costly, and complex for our small foundation to give to organizations not based in the United States. Our lawyer agrees.**

Most attorneys are not trained in the specific tax laws guiding international grantmaking. Small foundations can and do make grants to organizations in foreign countries in legal and trusted ways. In fact, many ASF members have strong practices and procedures for giving grants internationally. Lawyers and accountants who are recognized experts in international giving have collaborated on guides and websites to help you navigate common issues.

## Resources

- “International Grantmaking: Opportunities for Small Foundations,” [www.smallfoundations.org](http://www.smallfoundations.org)
- *Beyond Our Borders: A Guide to Making Grants Outside the United States*, [www.cof.org](http://www.cof.org). A non-technical text with essential information on the legal issues of making cross-border grants as well as international grants to U.S.-based organizations

United States International Grantmaking, [www.usig.org](http://www.usig.org)

### **Myth 4. Our founders stated that the foundation would support the arts, education, and the disadvantaged in our community, preventing us from giving internationally.**

Many small foundations have missions with a general mandate to address a few issues in a geographic area. Given changing social and economic trends, some trustees have expanded their giving to include a broader geographic scope. They believe their founders would have recognized and responded to deepening international inequities and complex cross-border issues, such as immigration, by extending their giving beyond their local communities. Some foundations amend their bylaws; others simply add a program or strategy to their current giving.

## Resources

- *Living the Legacy: The Value of a Family's Philanthropy Across Generations*, [www.ncfp.org](http://www.ncfp.org)

### **Myth 5. Only large foundations can make grants that address international issues in a significant way.**

Small foundations enjoy several advantages over their larger peers. Similar to working in their local communities, small foundations can locate and fund groups doing the best work in communities around the world. They can fund programs that are innovative and fall outside the guidelines of larger donors. They can respond in days or hours to a humanitarian crisis. They can take more time to build relationships with grantees, understand the struggles of community-based organizations, and offer practical advice on organizational and management challenges.

In addition, many intermediaries welcome the chance to introduce small foundations to organizations ready for a direct grant. Small annual grants given over a sustained period can have significant impact on a community-based organization.

## Resources

- “Disaster Grantmaking Strategies: Response and Prevention for Small Foundations,” [www.smallfoundations.org](http://www.smallfoundations.org)
- “Leveraging Your Assets with Loans and Other Program Related Investments (PRIs),” [www.smallfoundations.org](http://www.smallfoundations.org)
- “Disaster Grantmaking: A Practical Guide for Foundations and Corporations,” [www.cof.org](http://www.cof.org). Features principles and good practices for disaster grantmaking
- “Small Can Be Effective,” [www.cof.org](http://www.cof.org). This famous essay challenges small foundations to think big and includes an example of international giving.
- “The Tsunami Learning Project,” [www.internationaldonors.org](http://www.internationaldonors.org). A rich analysis of the response of funders and lessons learned about natural disasters

### **Myth 6. There are no peer networks of small foundations giving internationally.**

Small foundations, like large foundations, often find peer support in unlikely places. You may find ideas, inspiration, and opportunities while attending a Grantmakers Without Borders Annual Meeting, joining a conference call on international grantmaking issues, or reaching out to a colleague.

Many small foundations find a niche in affinity groups and make ties with program officers from larger foundations. Those relationships can lead to effective collaborations,

with large foundations and intermediaries sharing their knowledge in an effort to leverage their effectiveness and attract additional funding.

#### Resources

- ASF Member Directory and Discussion List, [www.smallfoundations.org](http://www.smallfoundations.org). Find fellow members who give internationally.
- Affinity groups, [www.cof.org](http://www.cof.org). Access monthly newsletters and listservs, find other international funders in your community or interest area, and get peer recommendations of knowledgeable attorneys, accountants, consultants, and other specialists.
- *Making a Difference in Africa: Advice From Experienced Grantmakers*, [www.cof.org](http://www.cof.org)

#### **Myth 7. International grantmaking creates higher administrative costs than domestic grantmaking.**

Although foundations that give directly to foreign-based organizations acknowledge that setting up systems requires an initial investment of time and money, most agree that their efforts were rewarded with high returns. Foundations working internationally note how much further grant dollars go in a developing country. The cost-effective nature of education programs and small business development, for example, can more than offset any front-end costs. For foundations funding exclusively through U.S.-based intermediaries, the costs of international grantmaking fall right in line with those of domestic grantmaking.

#### Resources

- “International Grantmaking: Opportunities for Small Foundations,” [www.smallfoundations.org](http://www.smallfoundations.org).

#### **Myth 8. Planning for international site visits and monitoring international grantees is beyond our abilities.**

Although travel costs may make international site visits expensive and time consuming, there are many ways to make due diligence and grant tracking affordable and effective. Peer foundations and intermediaries will often share their in-country contacts, and new technology has enhanced and lowered the cost of international communications. Online philanthropies also focus on providing donors with photos, videos, and written reports via the Web.

#### Resources

- “With Your Own Eyes: Using Site Visits to Make Better Grants and Fulfill Your Mission,” [www.smallfoundations.org](http://www.smallfoundations.org)

- “Principles of Accountability in International Philanthropy,” [www.cof.org](http://www.cof.org). Includes stewardship principles for international grantmaking from the Council on Foundations and the European Foundation Center
- Online philanthropies, such as Kiva ([www.kiva.org](http://www.kiva.org)), GlobalGiving ([www.globabgiving.com](http://www.globabgiving.com)), and JustGive ([www.justgive.org](http://www.justgive.org)). Many U.S.-based intermediaries are incorporating social media tools to make connections with grantees more immediate.

**Myth 9. We may unwittingly violate the Patriot Act by sending funds outside of the United States.**

In response to the terrorist attacks of September 11, 2001, the U.S. Treasury Department issued voluntary guidelines for U.S.-based charities granting outside of the United States. Since then, the philanthropic community, led by the Council on Foundations and Grantmakers Without Borders, has worked hard to educate themselves and develop alternative guidelines to respond to the U.S. government’s concerns.

As a result, foundations currently use well-defined processes to direct funds to overseas grantees without violating federal law. Foundations have clearly defined due diligence steps to verify international grant recipients, including screening of individuals and agencies through the government’s Specially Designated Nationals list. Statutes that prohibit the transfer of U.S. funds to specific entities are not intended to harm international philanthropic work; in fact, over the past decade, more foundations are giving more dollars internationally than ever before.

Resources

- “International Grantmaking: Opportunities for Small Foundations,” [www.smallfoundations.org](http://www.smallfoundations.org). Includes a discussion of checking the Specially Designated Nationals list
- “Seeking a Safe Harbor: Using Technology to Comply with Anti-Terrorism Measures,” [www.cof.org](http://www.cof.org)

**Myth 10. Equivalency determinations and expenditure responsibility are difficult to understand and often impossible to implement.**

Equivalency determination is one way to ensure that funds originating in the United States are appropriately spent and fully comply with IRS rules; expenditure responsibility is another. Several resources can help small foundations understand and implement these options step by step.

In a new initiative, the Council on Foundations has contracted with TechSoup to create an online repository of foreign organizations that have met the equivalency determination

requirements; it is expected to online in early 2010. The Council also expects the IRS to issue a private letter ruling on the project in late 2009 to recognize the work officially.

## Resources

- United States International Grantmaking, [www.usig.org](http://www.usig.org)
- “Equivalency or Expenditure Responsibility? A Guide in Plain English,” [www.usig.org](http://www.usig.org). This 4-page article lays out in clear language the circumstances under which a private foundation may use expenditure responsibility or equivalency to make a grant internationally.
- TechSoup Global Repository of Equivalency Determination Information on Non-U.S. Based NGOs, [www.techsoupglobal.org](http://www.techsoupglobal.org)

## Case Studies

**The Skees Family Foundation** (Santa Cruz, CA), founded in 2005, operates by the mission statement Suzanne Skees drafted with her three sons (now teens) around the kitchen table: Self-help for families and youth to end poverty worldwide. Following this theme, the foundation gives scholarships and microloans to equalize opportunity at home and abroad in education, industry, health, and financial services.

Given a small asset base and solely volunteer staff, the foundation keeps things simple by managing its mostly international grantmaking from a kitchen office, choosing to keep a low profile without a website, forming long-term partnerships with U.S.-based intermediaries that include both multiyear grants and pro-bono feature writing and event planning, and by adopting a "no unsolicited grants" policy that allows the foundation to research and choose grantees at leisure. For several years in a row, the foundation have funded Unitus, the V-Day Foundation, and Freedom From Hunger, all U.S.-based tax-exempt 501(c)(3) organizations.

This year, Suzanne and youngest son Jonah traveled to Kenya with longtime grantee Unitus Microfinance to meet entrepreneurs in some of the poorest slums in the world, Mathare Valley and Kibera in Nairobi, who launched their small businesses with loans from the foundation, regranted through U.S.-based 501(c)(3) Unitus to African-based NGO Jamii Bora. Traveling to Africa and talking with dauntless families working their way out of poverty was a dream come true for two generations of the Skees family. Mother and son both wrote blogs about their experience at [www.unitus.com](http://www.unitus.com).

**The Arthur B. Schultz Foundation** (Ketchum, Idaho) makes grants to foreign-based organizations with minimum paperwork and several part-time staff. The staff learned to determine whether an international organization is the equivalent of a U.S.-based tax-exempt 501(c)(3) or if the grant requires expenditure responsibility. Today, most of their international grants are made under the rubric of expenditure responsibility, which requires the donor and grantee to follow several specific steps. As Executive Director

Erik Schultz says, “We do the same amount of due diligence and documentation for our grants in Kenya and Vietnam as we do for those in Idaho and Montana. We find it is a straightforward process once you know the specific steps to follow.”

**The John F. and Mary A. Geisse Foundation** (Chagrin Falls, Ohio), established in 1969, focused locally on the poor and issues of hunger for more than 20 years. When the founders passed away, the next generation continued this work for several years. As they became more aware of global hunger and how globalization links the purchases of American consumers to the well-being of those around the world, they knew that their parents would have approved of giving to alleviate poverty globally.

Tim Geisse recalls one of the first international grants: “We received a request from Habitat for Humanity of Guatemala to build houses for \$2,000 each. At that time, our local Habitat for Humanity affiliate could build one house for \$50,000. So a \$100,000 grant could help two families locally or 50 families in Guatemala. We made the grant to Guatemala.” Now, while continuing to give to many domestic organizations, the trustees concentrate part of their funding on assisting rural farmers in Guatemala, Nicaragua, and Honduras to increase their income through improved farming techniques and better marketing.

**The DBL Foundation** (Greenwich, NY), with assets of \$2.2 million and a giving program focused on the community where the wealth was created, decided to become a guarantor for MicroCredit Enterprises, a U.S.-based 509(a)(1) public charity. By pledging \$1 million as a loan guarantee, DBL enabled MicroCredit Enterprises to loan \$500,000 that, in turn, enabled foreign microfinance institutions to make nearly 1,000 microcredit business loans to the poorest women in the world.

MicroCredit Enterprises makes loans to 29 microfinance institutions in 15 countries on four continents. For three years in a row, the loans have been repaid in full and DBL Foundation has decided to continue as a guarantor in the program. As one of its trustees notes, “Being a guarantor in MicroCredit Enterprises means that the DBL Foundation's assets can effectively multitask. Our investments stay where they are, the ongoing work of the foundation continues, and significant poverty alleviation is accomplished at the same time.” Without writing a check, DBL found a way to support foreign microfinance institutions and meet its annual payout requirements.

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*The information contained here is a general overview for informational purposes only. It should not be relied upon as legal advice for any specific situation.*