

What kind of impact would central fundraising of the Wikimedia Foundation from the USA have on German donors?

Client Wikimedia Germany

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Task

Within Wikimedia it is being considered whether the entire fundraising activities world-wide can be centralized in the USA. England, France and Germany, however, have their own strong fundraising activities with a visible amount of success. The German office in Berlin by now services 220,000 donors and in the autumn 2011 fundraising campaign it raised 3.8 million Euro, thus surpassing the previous year's results. The question is whether the good German result would change in a negative way if the USA took fundraising into its own hands. Spendwerk has been charged with the task of assessing what type of influence a central solution from the USA could have on the motivation to donate in Germany.

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Summary

Due to the great differences in the philanthropic cultures between the USA and Germany, Spendwerk advises against having central fundraising from the United States. Both in the manner of addressing people as well as in the technical implementation, this would be fraught with pitfalls. The present solution from Berlin corresponds in all respects to the high German standards and should not be abandoned lightly.

That the German market for donations with its importance and its particular nature is managed best by a regionally-based office is shown by the practice of other major international organizations. As far as we are aware, all large international non-profit organizations active in Germany run own German subsidiaries with the possibility to collect donations in Germany.

It is certain that a solution in which German donors no longer would receive donation receipts would lead to confusion and a loss of confidence. We thus advise maintaining the present solution of conducting local fundraising through the German chapter.

1. The special philanthropic culture in Germany

The philanthropic culture in the U.S. differs so fundamentally from that of Germany that it does not make sense for fundraising to be directly controlled from the USA. That successful American strategies cannot simply be transferred to Germany also applies in other areas, which, for instance, Wal-Mart had to painfully experience.¹ These cultural differences are the main reason why other major international non-profit organizations without exception create their own associations and regional offices in Germany.

1.1 Germany has an exceptional position

The three most important fundraising nations of the world are:²

- | | |
|------------|----------------------------|
| 1) USA | Anglo-American tradition |
| 2) UK | Anglo American tradition |
| 3) Germany | its own singular tradition |

Germany is considered the third largest fundraising nation but has an exceptional position in global fundraising:

Tax aspects

- The German tax law is unique and very complex
- The German tax office monitors and heavily regulates tax matters
- One aspect of this strong regulation is the donation receipt

Psychological aspects

- The German mentality is accustomed to rules and regulations.
- The Germans are unwilling to talk about their donations; they give "quietly."
- Often the donation receipt is the only desired recognition.
- German donors are very sensitive to what information they disclose on the Internet.
- That's the reason for the relatively high proportion of donations sent by bank transfers in Germany.

¹ Wal-Mart withdrew from Germany back in 2006, after attempting unsuccessfully for 8 years with high capital investments to simply copy into Germany the concept that had been very successful in the USA.

² Comparable figures USA / UK / Germany: <http://www.philanthropyuk.org/resources/us-philanthropy>

Technical aspects

- German addresses are difficult to manage in data systems (umlauts, etc).
- The German financial system is unique (direct debit).³
- Data privacy is very strict.

Media aspects

- Germany has very critical news coverage of fundraising.
- There are many donation guides that list the criteria for "serious" organizations.
- Even small errors can lead to big scandals (UNICEF scandal 2007 / 2008).

Advantages: an organization recognized by the German tax authorities is a very safe and stable structure. Disadvantages: it is almost impossible to do fundraising from abroad in Germany.

In the U.S. and UK, the charity culture is different:

- The manner of addressing people is different in both the USA and UK .
- All processes are less formal.
- The media and the public have a positive attitude towards fundraising.
- Fundraising is a public process in a group.
- Higher proportion of small donations and cash donations
- Other financial transfer systems.

All of this speaks in favor of having to adapt fundraising activities in Germany to German cultural practices. Although it can be argued that an online platform like Wikipedia creates its own cultural space, this hold true with money transfers and long-term donor commitments only up to a certain point.

Example of the IFAW (the International Fund for Animal Welfare)

This assessment of Spendwerk is confirmed by U.S. organizations which have been working for a long time in Germany. The IFAW is, for example, a U.S. organization, which had centrally operated fundraising activities in Germany for many years. All of this has changed since 2010. Here is the assessment from Thomas Martens, the supporter relations manager of IFAW Germany:

³ Direct debit authorization plays a major role in Germany and directly influences donor loyalty. An example: in regard to Greenpeace, the length of donor activity with direct debit authorization is about 9 years. If the donor has not authorized direct debit withdrawals, then the duration of donor activity is halved.

“A foreign organization cannot afford to be without an office in Germany. The main reason is the fundamentally different understanding of philanthropy in Germany. For Germans, an organization is only first considered "serious" if it is recognized by the German tax authorities. The proof of this is the deductibility of donations, that is, the ability to send out donation receipts. The IFAW didn't consider this important for a long period of time. The IFAW now sends donation receipts already starting from 20,01 € on its own initiative, although, according to German law, this is really only required starting from 100 €. We did this based on our experience that this is very important to Germans and it has been received positively. Our experience has also been that it is not possible to redirect donors to international telephone numbers. For donor support, an organization needs to be able to be reached by telephone in Germany. By 2010, the fundraising was heavily controlled from the United States even in regard to the specific wording of things. Since 2010, however, we have been acting more along the lines of the principle "think internationally, work locally." We also have been increasingly rewording our fundraising campaign texts and not just translating them. This is based on our experience that the fundraising campaigns are more authentic when they are revised in Germany.”⁴

1.2 The special situation of Wikipedia / Wikimedia: global reach – locally anchored

Wikimedia is in a special situation in Germany. The most visible project is Wikipedia, one of top five sites worldwide. It is unusual for German donors to donate to a website because most non-profit organizations in Germany are classical stationary organizations. For this reason, it is doubly important in the culturally specific area of Germany to be present for German donors.

A regional presence, a specifically German way of communication and a collection of donations in Germany we consider as being key elements for fundraising.

Creating trust

Because Wikipedia is a website, the local presence of Wikimedia Germany has a special role to play. German donors are rather skeptical about what information they can disclose to the Internet. Since Wikimedia is hardly known as an organization, the status of being a German non-profit represents a very important indicator of trust. People know that the charitable status is made by the tax office. This seal is widely accepted and, in general, is regarded as proof of legitimacy for receiving donations. An American Foundation, however, is difficult for Germans to assess.

Avoiding irritations

Only charitable organizations are able to issue donation receipts. If this capability were to be eliminated, it would cause many German donors to become irritated. It would raise the question of why cannot Wikimedia do this when all other German non-profit organizations can do this.

⁴ Telephone interview with Thomas Martens on 01.17.2012. Conducted by Ehrenfried Conta Gromberg

Given the fact that it requires an explanation in itself that a globally known website pursues non-profit goals, the loss of the official charitable status would be counterproductive. It would provoke the question as to whether Wikimedia "really" is a non-profit and endanger the development of trust.

As one of the largest US websites, it should not be easily criticized

If all donations from Germany were immediately and directly transferred to a U.S. account, this would be another target for suspicion and bad press. The fundraising scandals of recent years in Germany often had to do with "letterbox organizations" whose headquarters were difficult to reach. Wikimedia should not be an easy target to attack. In Germany, there is already a latent, cautious attitude towards the large American web companies such as Google and Facebook. If a differentiation to these commercial, skeptically viewed websites is to succeed and Wikipedia comes to be known as being a good cause, then it is psychologically valuable that Wikimedia also differentiates itself internationally when it comes to fundraising and especially sets itself up locally in Germany .

Especially in the months before Christmas 2011 in Germany, very critical news coverage of fundraising organizations was to be observed. Even the German Fundraising Association was forced - a unique event to date - in December 2011 to respond to all of this in a press statement.⁵ Wikimedia should thus avoid potential attacks of this sort.

Strengthen transparency also locally

In Germany, there is much emphasis placed on transparency. One principle of accountability is the direct accounting responsibility to the donors in the country in which the donation is made. It is considered good governance to disclose financial resources in a transparent manner and to put them to use directly as possible. PHINEO, one of the German organizations which sets the tone in the discussion put it this way: "The debate on the transparency of non-profit organizations is focused on the disclosure of finances and committee structures."⁶ This involves the risk that a shift in responsibility for all fundraising into the USA - and a cutting of the donation receipts – might give rise to the question as to whether through this measure the verifiability of the use of the German financial resources will be avoided. This perception will be strengthened by the fact that previously Wikimedia Germany could issue donation receipts. A change of organizations receiving donations, with a simultaneous removal of the capability of issuing donation receipts would have negative effects on donors' perception of transparency in Germany.

⁵ http://dfvr.de/index.php?id=46&backPID=30&tt_news=3046

⁶ Position paper of Phineo, the new Center of Excellence of the Bertelsmann-Stiftung. authors: Philipp Hoelscher, Ina Epkenhans, Sabine Arras, Position paper transparency. Published 11/2011, PHINEO gemeinnutzige AG, page 3.

2. What kind of role does the German donation receipt play in the fundraising of the Wikimedia Foundation?

In regard to donation receipts, it can be shown in an exemplified manner how important in Germany a specialized, local fundraising campaign with its own know-how is.

Donation receipts play an important role in Germany

With its donation receipt, Germany has a peculiarity that does not exist in the USA.⁷ Donations to recognized charitable organizations can be made tax deductible. The donation receipt is required for submitting the donation at the tax office. Of the estimated 4.7 billion Euro of donations in Germany in 2006, about 2/3 (€3.2 billion) were deducted pursuant to § 10b of the Income Tax Act. This means that only a small proportion of German donations are not deducted.⁸ The conclusion is that the majority of German donors use the donation receipt, if they can.

Without donation receipts, donors cannot deduct their donation and thus not save on taxes. This would have a major impact on the status of Wikimedia in Germany. In Germany, the ability to issue a donation receipt is a hallmark of a nonprofit organization itself. If no confirmation can be issued, this would lead to a questioning of the entire organization and thus to a general loss of confidence.

Where does the tax deductibility of the donation play an important role?

The answer distinguishes between four cases:

- | | |
|-------------------------------|------------------------------------|
| 1.1 –Major donors | here donation receipts play a role |
| 1.2 - Repeat donors (service) | here donation receipts play a role |
| 1.3 - Corporate donations | here donation receipts play a role |
| 1.4 - Reactive small donors | online the situation is different |

⁷ The USA and many other countries do not grant donation receipts as in Germany. For donors in the USA, the issue of tax deductibility is not nearly as important as it is in Germany. It plays virtually no role in the actual donation. In other countries, however, this is different. In England (UK), tax deductibility is important but it is regulated differently. In the UK, tax deductibility is regulated according to the Bottleneck principle. Donors there donate after tax. If the donors agree, the organization can receive additional money from the state (again 25%). The donor knows that if I donate € 100 donation, the organization receives € 125. In France, Australia and Germany, deducibility plays a significant role. With its donation receipt, which has to be issued by the organization, Germany has the most bureaucratic form.

⁸ German Federal Statistical Office released figures for 2006 published in 2010. That not all donations to the tax office are shown has two reasons: first of all, not everyone has to pay taxes. In this case, the submission of the donation receipt is useless, since it is, of course, meant to reduce the tax burden. The second reason is convenience for smaller donations. Time and effort are spared, especially if the donation was made through technical pay systems such as PayPal. In such cases, it takes time and effort to demonstrate the donation correctly to the authorities at the tax office.

Tax relief as an incentive

On the topic of "post-incentives" there are a sufficient amount of studies.⁹ Tax reductions are not a reason for normal small donors to increase their donation. Or, expressed differently, a state cannot arbitrarily increase the amount of donations through tax incentives. Donors give as much as they can and want to give.¹⁰ Nevertheless, deductibility does play an important role. The higher the donation, the more donors see if they can save on taxes. They did not donate because of the tax relief but they will take advantage of it if they can. This is especially true for Germany. The higher the donation, the more critical it is for the donor to see if it can be deducted for tax purposes.

2.1 Impact of deductibility on major donors

For major donors,¹¹ the elimination of the deductibility would lead to a major decrease in donations in Germany. This has been the experience of all fundraising organizations in Germany. For instance, in recent years virtually all German church organizations (Maltese, Knights Hospitallers etc.) have created their own major donor and estate departments, which especially assist this donor group and can competently answer tax questions.

Perspectively, Wikimedia can gain large donations in Germany. Wealthy Germans donate less in comparison to the wealthy in the U.S., UK, Holland and Switzerland. Both the size of the "largest known public donations" and the average volume is lower in Germany.¹² It can thus be concluded that in the major gifts area in Germany a significant potential still exists. Not being able to gain more of such donors would be a lost opportunity. For a successful major donor

⁹ See, among others, the research of the team around Charles Clotfelter. For example: Auten, Gerald, Holger Sieg, Charles T. Clotfelter. 2002 "Charitable Giving, Income and Taxes: An Analysis of Panel Data." *American Economic Review*, 92 (1): 371-82. Clotfelter, Charles T. 1985th Federal Tax Policy and Charitable Giving. Chicago: University of Chicago Press. Eckel, Catherine C. and Phillip J. Grossman 2003rd "Rebate versus Matching: Does How We Subsidize Charitable Contributions Matter" *Journal of Public Economics*, 87 (3-4): 681-701.

¹⁰ The question in these studies is: can the volume of donations be increased by having the deductibility of the donation serve as an incentive for the donor? The result is that the tax credit (deduction) has little effect on the amount of the donation. Small donors donate but not on account of deductibility. That the ability to deduct from one's tax does not, in general, increase the volume of donations is also supported by the observation that the non-governmental organizations registered in Germany have reported no significant increase in donations since 2007 (the year of the increase in the tax deductibility from 5% to 20%). Source: GfK Charity * Scope

¹¹ Major donors are donors who do not take their donation from their ongoing monthly funding (e.g. from their salary) but rather use up their fortune or take out from it (savings, property, inheritance).

¹² These are conclusions from McKinsey. PHINEO, the new Center of Excellence by the Bertelsmann Foundation (www.phineo.org) and Price Waterhouse Coopers (PWC) make similar points. McKinsey (2008), *Gesellschaftlichen Wandel gestalten (Creating Social Change.) Drei Ansätze für mehr Philanthropie in Deutschland (Three Approaches for more Philanthropy in Germany)*, a study by McKinsey & Company.

fundraising campaign, the donation receipt and the specifically German way of communicating are particularly important.

2.2 Impact of the deductibility for repeat donors and donor commitment

Another aspect underscores the importance of the donation receipt: the donor service. Generally, telephone service is very important for the German fundraising campaigns, especially when it comes to building long-term relationships. Evidence from other organizations shows that for regular donors in Germany it is important to obtain "their donation receipt." In various organizations, the following can be observed:¹³

- 1 - Requesting confirmation receipts by donors and a positive impact by immediately sending it out after receiving the donation.
- 2 - German donors check frequently on the phone as to whether the organization is a non-profit.
- 3 - Requesting a donation confirmation for a donation under 200 €.
- 4 - Increased volume of donations at the end of the year also on the grounds of wanting to deduct something more from one's taxes.

As previously described, 2/3 of the donations are deducted. These service requirements in addition demonstrate that the practice of the donation receipt is known to the Germans and is often gladly used.¹⁴ If Wikimedia does not issue donation receipts, Wikimedia would continue to receive service requests, since German donors are accustomed to this service. Presumably, the service costs would actually increase, since the problem would have to be explained precisely with every request. Omitting the donation receipt would thus lead in Germany in only a limited manner to a reduced workload.

More decisive, however, is the negative effect that would be expected in the longer-term commitment from donors. In addition to a high level of service requirements, the trustworthiness of an organization plays an important role. Both aspects would be greatly affected by the loss of the non-profit status. The chance to make one-time donors repeat donors decreases with the loss of the right to send out donation receipts. The same concerns can also be registered with potential major donors that check out organizations via smaller test donations before they decide on making a major donation.

¹³ This can be observed in classical church and charitable organizations.

¹⁴ German Federal Statistical Office released figures for 2006, published in 2010.

2.3 Impact of deductibility on corporate donations

At the end of the year, especially companies donate more frequently. Corporate donations are usually a little higher than private donations and, almost always, donation receipts are requested. Companies donate more frequently "regionally" and less internationally. Especially after the UNICEF scandal, this trend has been reinforced. Tax deductibility is thus a major incentive for corporate donations.

2.4 Impact of the deduction on small and online donations

For online donors, especially younger PayPal donors, it may be that in Germany the donation receipt plays a lesser role. Once online donation exceeds a certain level or the donor exceeds a certain age group, however, the issuing of a donation receipt will very likely become relevant again. Our experience of online donations on the occasion of the Pope's visit to Germany in 2011 confirms this.¹⁵ Betterplace.org, a large German platform for online donations, evaluates projects even with the quality criterion "tax deductible" and goes so far that, in regard to projects that are able to issue donation receipts, it dynamically indicates directly on the online donation button the message "donation receipt."

Conclusion for chapter 2

The capability of issuing a donation receipt is one of the criteria of a charitable organization. The disappearance of the donation receipt in Germany would have negative effects. Most of the Germans are aware of its tax deductibility and it is widely used. The higher the amount of the donation, the more important the tax structuring of the donation is. There is a large amount of evidence that for the majority of Germans obtaining a donation receipt is important just as being able to communicate with the organization while being serviced.

It cannot be estimated how large this group is for Wikimedia in Germany. If Wikimedia in Germany would in no way provide support a decline in donations would be expected because the expectations of the donors would not be met. It can be assumed that the meaning of "service factor" will become greater with the length of the donor's relationship to Wikimedia. It also raises the question of the lifetime value of the donor relationship. This would be expected to decrease if issuing donation receipts were discontinued.

Generally, the issue of trust that is associated with the donation receipt affects all groups of donors.

¹⁵ Spendwerk operated the online donation technology for the fundraising for the Pope's visit to Germany in 2011: www.benedikt-ostafrikafonds.de



3. How do other international organizations run their fundraising campaigns in Germany?

The proposed theories are supported by the practice of other organizations. All the major international organizations have an office in Germany and from there they conduct fundraising activities that have been adapted to German culture. For many organizations, Germany plays an important to central role when it comes to raising funds. Thus Greenpeace International and Plan International achieved the world's largest share of donations from Germany. For UNICEF, Germany is the third largest donor country (after USA and Japan).

There is no known major organization that operates in Germany without a German office. English, French and Dutch organizations set up first in Germany an association or a gGmbH in order to obtain donation deductibility.

The adaptation of fundraising campaigns in Germany

We do not know of any international organization that can run their fundraising campaigns in Germany without adapting them to German culture. As far as we know, they are always adapted in Germany. The IWAF had handled this for a long time otherwise but since 2010 it has changed its practice (See the interview on pages 3 and 4).

The collection of donations in Germany

All international organizations known to us collect donations in Germany through their own association or through another non-profit legal form.

The responsiveness of support in Germany

We do not know of any large international organization, which operates without a German office for donor support. On account of the many special provisions in Germany, outsourcing this to another country is not practicable. Even the IWAF has an office in Germany for support.

Conclusion for chapter 3

We see no evidence in the practice of other organizations of there being any benefits to completely controlling fundraising activities from the USA. On the contrary, all known major international organizations operate a German office and from there adjust their fundraising activities to the German philanthropic culture. In our eyes, this proves to us the importance of Germany and the German peculiarities in donating money. In no way, however, does this argue against an intensive exchange, a central competence center in the USA, policy guidelines with the making available of resources, training sessions and international exchanges.

Name der Organisation

	Gründungsland	Total income Spenden weltweit in Mio	Spenden Germany	Prozent	Währung	FR Büro in Deutschland	Deutschland im Länder-Ranking	Position Quelle
Organisationen mit Sitz in USA								
Unicef - national committee donors	UN / USA		105		USD	Ja	No 3	3. nach USA mit 128,75 und Japan mit 193,6 annual review 2011
Plan International	USA	591	100	17%	Euro	Ja	No 1	
World Vision	USA							
IFAW	USA							
Deutsche Organisationen								
SOS - Kinderdörfer	Germany	865	370	43%		Ja	No 1	annual report 2010/2011
Englische Organisationen								
Oxfam	UK					Ja		
Save the Childs	UK					Ja		
Salvation Army	UK					Ja		
Andere								
Greenpeace International	Kanada	231	48	21%	Euro	Ja	No 1	annual report 2010, Jahresrückblick 2010 annual review 2010, Jahresbericht 2009 (Internat. Hat ein anderes Finanzjahr, die Zahlen sind nicht komplett konsolidiert, D Zahlen von 2009 fließen in 2009/2010 ein)
WWF	UK / Schweiz	525	42	8%	Euro	Ja		
Ärzte ohne Grenzen	Frankreich					Ja		

Overview of international NPOs fundraising in Germany



4. Overall conclusion

For a variety of reasons, we speak in favor of having the Wikimedia Foundation continue to conduct fundraising activities from Germany. We estimate that the volume of donations in Germany would perhaps not immediately decrease with a shift into the USA but we do think that the potential for growth among German donors would not be fully exhausted.

The practice of other organizations and the cultural idiosyncrasies in Germany suggest that it is preferable to conduct fundraising activities in Germany through a German fundraising office. The donation receipt is a symptom of a completely different culture of philanthropy. It's all about the questions:

- What are German donors accustomed to?
- How would German donors like to be addressed?
- How can trust in Wikipedia and the Wikimedia Foundation be increased?
- How can Wikimedia avoid being an easy target for attacks in Germany?
- How can Wikimedia create a particularly high level of transparency and accountability?

These questions are best resolved in our eyes through a collection of donations in Germany via German fundraising activities. We consider the current solution of conducting fundraising through an office in Berlin to be correct and forward-looking.

Spendwerk

Spendwerk is one of the leading consulting firms for social marketing in Germany. Its clients are foundations, churches and charitable organizations. Among other organizations, Ehrenfried Conta Gromberg works for the Bertelsmann Foundation, the Catholic Church and pro familia and has been responsible for a number of online and normal fundraising campaigns in Germany.

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