



Investing in the Charity of Your Choice

The accountability of organizations to their constituents throughout North America has become one of the most important aspects of good governance in both the not-for-profit and for-profit sectors of our economy. In the charitable sector the importance of accountability has created a focus on the effectiveness of organizations and the efficiency of fundraising. The media has contributed to this focus through well intended reports informing the public, but their explanations about fundraising costs are often oversimplified and sensationalized. The *purpose of this position paper* is to provide a broad overview and perspective that donors and charities should take into consideration to evaluate their giving and fundraising effectiveness.

When you make a donation to a charity you are making an investment in that organization. Like any investor, you want your money to be used with care, and you expect positive results from your contribution. In the case of a charitable gift, your investment is in the mission of the organization, and its impact on society. Your opinion of the return on that investment is influenced by how well the organization's mission matches your own charitable priorities and its effectiveness in delivering the intended impact.

There are a number of ways you can determine whether you should invest in a particular charity:

- 1) **Become informed about the charity you want to support.** As with any investment, do your research. Ask the charity to send you a brochure or annual report with an overview of the organization's mission and programs. Offer to volunteer your time to promote the goals and objectives of the charity and to learn more about the organization. Review financial information to see whether the bottom line is positive and funds are being expended for stated purposes.
- 2) **Consider whether you feel the charity is successful in meeting its expressed goals.** The real measure of a charity's return on investment is the results it achieves over time rather than an arbitrary ratio applied to a particular year. The fact that one organization spends 80 percent of its money on program services and another spends only 60 percent is no assurance that one is achieving more benefit to its constituents or to society than the other. What matters most is how comfortable YOU are with the results they are achieving.
- 3) **Recognize that there are legitimate costs** associated with administration and fundraising, and no charity can escape these costs. Consider the following factors when evaluating an organization's administrative cost percentages and their return on investment in fundraising:
 - **The nature of the cause.** Some causes are more popular than others and thus find it easier to raise funds. A children's hospital may be able to raise funds more easily than a program for rehabilitation of offenders. As a result, the cost of fundraising will tend to be higher for less popular causes.

- **The ways in which a charity asks individuals for support.** Most organizations use a range of fundraising activities in order to reach the broadest possible audience for their cause. It is more costly to acquire new donors through a mail appeal than to obtain contributions from donors who have given in the past. A special campaign to seek donations for a new building is likely to generate larger average gifts than other types of campaigns. Special events may be more costly than other types of appeals, but they are an important way to create and maintain relationships with donors, prospective donors and volunteers.
- **Sources of fundraised income.** If a charity receives most of its money from wealthy individuals, companies, foundations and government sources that make large gifts and grants, the fundraising cost percentages are generally lower. However, many charities rely on donations from individual members of the public who make much smaller gifts. In these cases, the cost percentages tend to be higher. Advertising, mailing and database management require a large investment of resources. An organization located in an affluent region might receive larger gifts and a higher return on investment than one located in a less affluent area. Competition from other organizations in a community might lower the potential number and size of gifts. Land conservation organizations making large real estate transactions will have a smaller relative cost for their fundraising expenses.
- **Maturity of an organization and its development department.** A small organization beginning to fundraise for the first time, or a larger organization moving into new areas of fundraising, will take time to develop its track record. The experience level of development staff can also affect fundraising outcomes.
- **Size of organization.** Larger organizations may be able to operate more efficiently than smaller ones because they use a range of fundraising activities and can implement economies of scale that are not available to smaller organizations. One might expect a major national charity, for example, to have a higher return on investment than a regionally based hospice.
- **Use of volunteers.** Volunteer fundraising has proved to be very successful for almost every type and size of not-for-profit charitable organizations. Given that one definition of philanthropy is "*voluntary action for the common good,*" the Association of Fundraising Professionals advocates that volunteer involvement is crucial to the success of most not-for-profit charitable organizations. Successful charities usually have a history of using volunteers to fundraise. Although there are costs related to volunteer development, use of volunteers can often reduce overall fundraising costs.
- **Averaging costs.** Many organizations calculate fundraising costs using rolling averages over a period of three to five years. This reduces the impact of any one significant spike or dip in any given year.

- 4) **Know your rights!** The Association of Fundraising Professionals (AFP) and other organizations created *A Donor Bill of Rights* to inform donors about what they should expect from an organization when they contribute to it. *A Donor Bill of Rights* is included as an addendum to support this position paper.

Once you have decided to invest in a charity, always remember that more of your money is used for mission and programs when you make larger, repeat gifts. Fundraising for initial gifts from new donors can be very expensive, while fundraising for renewal gifts is inexpensive, allowing the charity to use more of your money for programs. Further, the costs of raising gifts are the same regardless of the size of your gift, so making larger gifts increases the portion of your gift that can be used for programs.

Ultimately, giving is a personal decision. If you believe in the charity's mission and have evidence that the organization is achieving results that you feel are important, then you should feel comfortable investing in that organization with your charitable dollars.

For more information on registered charities in Canada, go to the Canada Revenue Agency website at <http://www.cra-arc.gc.ca/tax/charities/menu-e.html>.

A Donor Bill of Rights

PHILANTHROPY is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

I.

To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.

II.

To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgement in its stewardship responsibilities.

III.

To have access to the organization's most recent financial statements.

IV.

To be assured their gifts will be used for the purposes for which they were given.

V.

To receive appropriate acknowledgement and recognition.

VI.

To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.

VII.

To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.

VIII.

To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.

IX.

To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.

X.

To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

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AMERICAN ASSOCIATION OF FUND RAISING COUNSEL (AAFRC)
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Please help us distribute this widely.

The Association of Fundraising Professionals (AFP) represents more than 27,000 members in more than 180 chapters throughout the world, working to advance philanthropy through advocacy, research, education and certification programs. The association fosters development and growth of fundraising professionals and promotes high ethical standards in the fundraising profession.