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News & Politics

Are Your Charitable Donations Ending Up in the Pockets of Professional Fundraisers?

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May 12, 2015, 11:11 AM GMT

60 COMMENTS

Imagine donating money to charity only to discover that the group ended up with just a few pennies of every dollar you gave or that it even lost money. It happens a lot, even with large, well-known charities.

Did most or all of your charitable donation go to a professional fundraiser?

Even large, well-known charities engage in fundraising campaigns that provide them with little, if any, of the donations made on their behalf. Some campaigns can even end up with loss. These five charities had at least one dismal fundraising campaign (shown below) in 2013 or 2014, based on the latest data available. Some of these charities had other fundraising campaigns that performed better than the ones below.

Charity	Amount raised	Amount fundraiser kept or was paid	Net amount charity kept
Amnesty International of the USA (2013)	$160,035	$978,098	-$818,063
Environmental Defense Fund (2013)	$73,522	$152,274	-$78,752
Greenpeace Inc (2013)	$358,890	$337,808	$21,082
Humane Society of the United States (2013)	$278,168	$484,367	-$206,199
National Audubon Society (2014)	$56,683	$134,830	-$78,147

Source: Federal form 900 on file at GuideStar

Often that voice you hear on the phone, asking you to support military veterans, local police officers or the environment isn't from the charity itself but a professional fundraiser who may be receiving most or even all of your donation. In some cases, the cost of the fundraising campaign can even exceed the amount raised, leaving the charity on the hook for thousands or even hundreds of thousands of dollars.

In its latest report on charity telemarketing (pdf), issued in March, the New York attorney general's office reported that of the more than $302 million donated to telemarketers registered to fundraise in the state in 2013, only 48 percent went to the charities. The rest went to for-profit fundraising companies in both local and national campaigns. Forty-eight percent actually is the highest amount charities have received from professional fundraisers over the last 12 years, says the attorney general's report. In 2012, the amount was just 37 percent.

But before you start applauding, consider that two major charity watchdogs, the BBB Wise Giving Alliance and CharityWatch, say that charities shouldn't spend more than 35 cents for every dollar they raise. Put another way, the charities should receive at least 65 percent of the take. While that applies to a charity's overall fundraising and not to individual fundraising campaigns, a group that relies primarily on professional fundraisers, as some do, likely would not meet the watchdogs' fundraising standard if it retained only 48 percent of the donated amount.

And in many fundraising campaigns, charities end up with far less than that.

Dismal Fundraising Results

The New York attorney general found that in 282 of the 573 campaigns, the charities ended up with less than 30 percent of the donated money. Of those, 101 campaigns actually lost money, with the expenses exceeding the total amount raised. Among them were campaigns for Amnesty International of the USA, the Environmental Defense Fund, Greenpeace and the National Audubon Society.

In effect, if you contributed to these groups through any one of these losing campaigns, your donation wouldn't have fostered international human rights, saved the whales, songbirds, the environment or anything else. Instead, it would have cost the charity money that otherwise could have been used for the group's charitable mission.

Here's why it happens and what measures you can take to increase the chances your donation is put to good use.

Risky Fundraising

Both small and large charities sometimes intentionally use fundraising methods they know are costly and typically result in a relatively few donations. Those methods, such as cold-call telemarketing, door-to-door canvassing and some direct mail campaigns, target people who haven't given before or even shown interest in supporting a charity's cause. They simply may live within a certain ZIP-code.

For some smaller groups, that often involves commission-based fundraising, in which the fundraiser pays the cost of the campaign. Because the fundraiser is taking on the risk that the donations may not even cover the expenses, it demands a high percent of the contributions. Many charity professionals, including the Virginia-based Association of Fundraising Professionals, consider this type of fundraising to be unethical.

Among the groups most likely to use it are police and fire organizations and veterans charities, which often depend on it for most of their donations. Because many of those groups don't have the resources to fundraise on their own, they conclude that getting something is better than nothing, especially if there's no risk of losing money.

In its 2013 federal tax filing, the New York State Association of PBAs reported that it retained less than $57,000, or 15 percent, of the more than $379,000 four professional fundraisers brought in on its behalf. The campaigns accounted for more than 60 percent of its income. The group, which raises money as the New York State Police Association, is a union organization, the donations to which are not even tax deductible.

Big Charities Face Losses

Large well-known charities also use cold-call telemarketing and other risky fundraising methods. But instead of being commission-based, these typically are fixed-cost campaigns, in which the charity pays a fundraiser a set amount to contact a certain number of potential donors. The amount isn't tied to how much the campaign raises (although the fundraising firms sometimes receive bonuses if they reach certain goals.) So in these cases, it's the charity, not the fundraiser, that's accepting the risk that the donations may not cover the fundraising costs.

In its 2013 federal tax return, Amnesty International of the USA reported that it lost money in eight of its top 10 fundraising campaigns, with losses totaling more than $1.1 million. In the worst of those campaigns, involving door-to-door canvassing, the fundraising firm raised $160,000 but was paid nearly $1 million. The other losing campaigns all involved telemarketing.

While it may stun donors, many charity professionals see high-risk fundraising as part of the cost of raising money effectively. They designate a small portion of their fundraising dollars to do cold-call soliciting, usually in hopes of obtaining donations from people who never thought about contributing before. The charities essentially are placing a bet that some of those donors will continue contributing, offsetting the high cost of acquiring them.

“People in the fundraising profession know if you hire a telemarketing company to do cold calls, you are going to have a very low rate of return on your fundraising, and expenses are going to be high,” says Bennett Weiner, who runs the BBB Wise Giving Alliance.

The groups don’t see this as a problem as long as they keep their overall fundraising costs low. Amnesty International points out that the more than $1.1 million lost in its eight high-risk campaigns was a small fraction of the nearly $13.3 million the group raised through professional fundraisers in 2013. Even after adding the cost of the successful campaigns, Amnesty had a net gain of $10.8 million, or 81 percent of the amount contributed. That’s far better than the average 48 percent return found by the New York attorney

general.

Danny McGregor, Amnesty’s deputy executive director for development, said Amnesty constantly is reevaluating its fundraising methods to see what works and what doesn’t. For example, after 2013, it stopped using an outside fundraising firm for its door-to-door canvassing, which now is done in-house. McGregor said he does not yet know 2014 fundraising results.

Donors Don’t Expect This

That may be little consolation to those who gave to one of Amnesty's losing fundraising campaigns only to discover their contributions left the charity with a loss.

Even if a campaign ends up making money, the gain can come at a huge cost. For instance, according to its 2013 tax filing, Greenpeace Inc. raised more than $628,000 from telemarketing and direct mail. Of that, nearly $549,000, or 87 cents of every dollar, went to the four professional fundraising companies, including the two whose campaigns lost money. Greenpeace ended up with less than $80,000.

Greenpeace said that fundraising campaigns account for just a small potion of its donations, most of which are raised in-house, but that it depends on contributions from individuals because it doesn't accept government and corporate donations. It said some of its campaigns focused on people who were monthly donors in the past. If they agreed to resume their donations, some of their contributions might not be recorded in the 2013 totals. It said one of its losing campaigns was a test and would not be repeated.

Donors assume that a large portion of their contribution will be used for a charity's charitable mission, and fundraising professionals don't go out of their way to disabuse them of that notion.

Fundraisers typically don't tell the would-be donors the percentage of each donation that will go to the charity unless they're asked. And even then, they may not know the amount, especially if it depends on how much is raised. They also don't disclose that a particular campaign is high risk. Instead, fundraisers are more likely to emphasize the good work the charity does and the importance of the would-be donor's contribution.

"The donor often is led to believe that a lot more of their contribution is benefiting the cause," says Daniel Borochoff, president of the watchdog group CharityWatch. "If donors knew more, they probably wouldn't participate in these campaigns."

Borochoff and Weiner agree that the more important consideration is the overall amount a group spends for every dollar it receives.

Still, Borochoff says charities need to find better ways to acquire new donors than to employ fundraising methods that have a good chance of providing the charity with nothing or even a loss. "There has to be a better way to do it," he says. "It's not fair to donors."

What You Should Do

There are actions you can take to increase the chance that your donation does the most good.

Bypass the professional fundraiser. Not every fundraising campaign is a bad deal for the charity. In about six percent of the campaigns listed in the New York attorney general's report, the charities received from 70 percent to 100 percent of the donated amounts. The problem is that while you're standing there being solicited, you can't know how well that campaign will do.

You may be able to increase the amount that a charity gets by bypassing the fundraiser and donating directly. But even then, depending on how the fundraising contract is written, the charity might use your contribution to pay the fundraiser anyway.

But there are more reasons not to give through a telemarketer or someone going door to door.

One is that the person could be a scam artist posing as a legitimate fundraiser, warns Borochoff of CharityWatch. Another is that the person could be soliciting for a group that does little or nothing to support its charity cause. Or there might be a group in the same category that does a better job. So it's smart to wait and research to organization before handling over that check or credit card number.

"If you want to give with confidence, it's always best not to make an on-the-spot decision about a donation," says Weiner.

Check the charity watchdogs. One way to find out if a charity deserves your support is to check with the three major charity watchdogs: The BBB Wise Giving Alliance, Charity Navigator and CharityWatch.

The watchdogs evaluate many national charities and some local ones, examining, among other factors, how much an organization spends to acquire every donated dollar. They also look at the percentage of a group's spending that goes to its charitable program, as opposed to fundraising and administration.

If you give to a group that meets the watchdogs' standards, you can be fairly confident its fundraising costs are reasonable, even if your particular donation ends up in the pocket of a professional fundraiser.

The watchdogs, themselves nonprofit organizations, each use somewhat different standards; so it's a good idea to check all three. CharityWatch is the only one that requires a donation (minimum $50) for complete access to its evaluations. But you can see its list of top-rated charities for free.

Just because a group meets the watchdogs' standards doesn't necessarily mean it's doing effective work or that it's the best charity in its category. But watchdog evaluations are a good place to start. And a group that gets a bad report from all three watchdogs likely isn't worth considering.

Be your own watchdog. You can investigate a charity yourself by examining its annual report and the federal form 990 it must file annually with the IRS. That can be particularly useful if you want to check out a local group the watchdogs haven't evaluated. You might find these documents on the charity's website.

Form 990 also is available from GuideStar (free registration required). The form is not easy to read, but you can get a lot of information, including the amount it paid professional fundraising firms and how much those campaigns raised. The Nonprofit Coordinating Committee of New York has a guide on how to read the form. (See the chart at the bottom of this article)

Another option is to visit a group's facilities and ask questions. You might even consider volunteering to get a firsthand look. That's also another way to contribute without risking your money.

Support groups you know. Consider giving to charities that have proven themselves. Have you or someone you know been helped by a disaster relief group, such as the American Red Cross, or a women's shelter? Did you adopt a pet from an animal rescue organization or shelter? Maybe you benefited from a nonprofit hospital or college.

Restrict the money. One option is to send a letter with your donation, telling the charity that you want the money used only for its programs or a specific part of its mission. If the group accepts the donation, it should follow your wishes, says Weiner. But he doesn't recommend that approach because charities have legitimate non-program expenses they must pay to survive.

Give to a fundraising federation. Another way to give, especially for local charities, is through a fundraising federation, such as the nonprofit United Way, which evaluates groups before allowing them to participate in its fundraising activities. Like professional fundraisers, fundraising federations usually retain a portion of the donations to cover their expenses. But the amounts typically are much lower than those charged by professional fundraising firms. Local United Ways keep on average of 13.8 percent of every donation. Ask how much before donating.

Verify tax-exempt status. Not all charities qualify for tax deductible donations. So if you're counting on taking a deduction, find out whether your donation is eligible. You can ask the charity, or to be safe, check the IRS database of eligible organizations.