



## **Cost of Fundraising Questions and Answers**

### **Is there an ideal figure for a charity's fundraising cost ratio?**

Establishing a fundraising cost ratio is helpful but imperfect because it only measures a charity's fundraising efficiency and cannot measure that charity's overall efficiency or effectiveness. There is no "one size fits all" answer as to what an organization's fundraising cost ratio should be.

### **Why do different charities have such different fundraising cost ratios?**

All organizations are different, and are to a lesser or greater extent affected by a number of factors that influence fundraising cost ratios. These factors include:

- Well-established organizations will likely have a greater return on investment than newer organizations.
- A mature, professionally run development program will be expected to produce better results than a newly formed department.
- Charities that rely heavily on small gifts from a large number of donors will have higher fundraising costs, though the value of engaging people through their donations will often in and of itself justify these higher costs.
- The economic and geographic profile of the charity's most likely supporters will have an effect. Some groups of people are more difficult and expensive to reach than others.
- Organizations located in more affluent areas may have an easier time fundraising, and thus, lower costs.
- The popularity and public awareness of a cause have an effect. Fundraising for a disease with low incidence, or for prisoner services, may be more difficult.
- Starting up a new fundraising initiative, such as a new donor drive, will involve up-front costs that skew a charity's fundraising cost ratio.
- Where charities carry out gaming or lottery activities, provincial laws require that a minimum amount of revenue be paid out in prizes. This means that, even though the net amount raised is significant, the fundraising ratio will appear to be high.

## **Are there certain types of fundraising that charities should be doing more of? Are there types of fundraising they should stop using?**

There is no simple answer to this. The type of fundraising a charity undertakes is influenced by a number of factors, and what works for one may not work for another. For example:

- A low expense capital campaign is generally an efficient way for a hospital foundation to generate funds given the ability of many hospitals to attract influential volunteers as solicitors and affluent donors. But, the same campaign could be a disastrous method of revenue generation for a local grassroots foodbank without those advantages.
- Conducting a large public lottery may make sense as a source of revenue for a large, well known health charity but would be more likely to fail if undertaken by a social agency that is less well-known or addresses issues that are less pervasive, and is thus less able to sell large numbers of tickets.
- Employee deduction giving is a very effective fundraising method for some large community support organizations but is not applicable as a technique to most grassroots fundraising organizations.

## **What impact do different activities have on a charity's fundraising ratio?**

Different methods used in the fundraising process will produce different returns. For example:

- A donor acquisition mailing will have a much lower return on investment than a donor renewal mailing.
- A capital campaign focusing on larger, one-time donations will produce a much higher return on investment than investing in programs to identify and secure smaller-scale gifts by mail.
- A newly established planned giving program may have zero return on investment for the first few years.
- The return on investment for a special event will be lower than that of a major gifts program.

## **I've heard that CRA considers a fundraising ratio above 35% to be unacceptable. As a donor, should I use the same rule of thumb?**

No you should not. The Canada Revenue Agency (CRA) is very clear about this. When it comes to assessing a charity's fundraising CRA does not rely solely upon a fundraising ratio. In its fundraising guidance, the CRA states, "[f]undraising ratios alone are not determinative in assessing whether a charity's fundraising complies with the requirements of the guidelines in [the fundraising] guidance." Other important factors taken into consideration by the CRA include use of commission-based compensation (a compensation regime that is prohibited in the AFP *Code of Ethical Principles and Standards*), the size of the charity, charitable causes with limited appeal and organizations' internal fundraising evaluation processes. Donors also need to take the full context into consideration. There may be very legitimate reasons for a charity to have what

appears to be a high fundraising ratio; conversely, an extremely low fundraising ratio may actually indicate erroneous or even fraudulent reporting of expenses.

With regard to the 35% figure, CRA is of the view that fundraising ratios below that level are generally not problematic. Where fundraising ratios are above 35%, CRA *may* have a closer look but will take into account the factors mentioned above. Importantly, because of the legitimate considerations previously listed, these ratios are intended to be based on an organization's overall fundraising costs and not applied on an individual program basis.

### **If the fundraising ratio isn't a good measure, what should donors be looking for when assessing fundraising costs?**

Although fundraising costs should play a role in giving decisions, they should not be the only factor. Donors receive requests for support from many worthy organizations, so they should consider the charity's mission and how strongly they support it, as well as whether they think the charity is having a real impact.

When looking at fundraising costs, donors should consider whether the charity follows the requirements of the AFP Donor Bill of Rights, which lists the ten expectations donors should have when they make a contribution.

Donors should also look at a charity's cost of fundraising, its overall budget, and whether or not it is running a deficit. Ideally, donors should look for signs of consistent management and stable costs over several years.

For example, does the charity allow access to its most recent financial statements? Does it let people know if its fundraisers are volunteers, staff members or hired solicitors? All of these should be factors in a donor's decision to give. In this manner, by taking their time and considering these issues, donors can feel assured that they are supporting a worthy organization.

### **Do charities have a position on percentage-based compensation for fundraisers?**

Yes. Both the Association of Fundraising Professionals (AFP) and Imagine Canada prohibit their members from accepting percentage-based (or commission-based) compensation in their respective Codes of Ethics and Standards.

Many of the problems reported in the media about financial irregularities at a charity involve "percentage-based" fundraising. Percentage-based compensation means that a fundraiser—whether an individual or an organization—takes a percentage of each gift, regardless of actual expenses. AFP and Imagine Canada both prohibit this type of compensation and instead require fundraisers to work for a salary or fixed fee. Fundraisers should be focusing on raising funds for a charity in an ethical and efficient fashion, not competing in a mad dash to raise as much money as they can in order to personally benefit.