

DONOR Q&A

Helping donors make the most of their giving

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INTRODUCTION

Our belief that giving should be celebrated takes centre stage in *My Philanthropy*, a recently published collection of interviews with high-profile individuals. From John Snow to Jodie Kidd, we hope that by sharing their experiences we inspire more people to give and to be open about it. We're fortunate to see the rewards it can bring in our work with both experienced philanthropists and those thinking about giving for the first time—but we know that making a choice about which charity to support, and how, can sometimes be a bewildering prospect.

Donors confront a large and diverse sector: from big name charities to smaller specialist organisations, there are 180,000 to choose from. Latest research indicates that levels of giving have fallen over the past few years, and with changes to statutory funding, charities face tough competition for increasingly scarce funds. In this context, making sure your giving is informed and makes the greatest possible difference to the causes you care about is particularly important.

This booklet is designed to provide practical advice for first-time and experienced donors alike—from choosing a cause, to identifying charities operating in your area of interest and evaluating their success. We also help you to consider how long to fund a charity for, and ways to ease the transition when you decide to withdraw your support. The final section answers questions about becoming a charity trustee and setting up a charitable trust for those looking for more hands-on engagement.

We also seek to address some of the thornier issues such as administration costs and giving during a recession. Charity expenditure is perennially under the spotlight, with news stories about costs and chief executive salaries adding to a high level of public concern. And yet, the vast majority of charities do so much good work. By encouraging you to focus on the results a charity is achieving, we hope to dispel the myth that cheap necessarily equals effective. For us, the decision about whether or not to support a charity should be based above all on its impact. Our recent research, *Money for good UK*, showed that donors do care about the impact of the charities they support – 60% said this was very important to them. However, we also know that donors sometimes struggle to find the information they need to assess charities on this basis; only 2% choose between different charities based on information about their impact.

Giving enables us to support causes that reflect our passions and priorities, and for this reason it is extremely rewarding. We hope these Q&As help more people take the next step on their giving journey—but if you have questions that still need answering, please do not hesitate to get in touch.

Choosing the right one

Where can I get good information about which charity to support?

We're all acutely aware of growing social needs at home and abroad, and there is no shortage of organisations working to address those needs, but it's not always obvious which charities will have the greatest impact on the causes you care about, or where your money will make the biggest difference.

There are plenty of websites where you can search for charities to support, or find information about charities you already have in mind. The Charity Commission is the best place for detailed information on English and Welsh charities; using the advanced search you can narrow down a list of potential charities according to activity, beneficiary group, geography, and size.

The equivalent information for Scotland is available online from the Office of the Scottish Charity Regulator. Other suggestions for researching and donating online include Charities Aid Foundation, GuideStar UK and [Charity Choice](#) for UK registered charities; Local Giving which provides information on vetted local projects; and See The Difference and The Big Give for worldwide projects and charities.

Alongside all this online research, don't forget to talk to people. It may not seem very scientific, but asking which charities other people are passionate about is a brilliant way to discover charities you might otherwise miss. Try asking what causes your family, friends and colleagues support, or use requests for sponsorship (through websites like JustGiving and Virgin Money Giving) as an excuse to find out more.

If you are interested in a particular cause or issue area, it can be useful to look at membership bodies with a specialism in those issues; for example, for charities tackling homelessness, you might look at Homeless Link. NPC's sector reports can help you identify the appropriate membership bodies or specialist funders who often publish lists of the charities they support. To find projects in a particular area, the local council for voluntary service (CVS) may be able to put you in touch with local projects, or funders who know which charities are having a big impact in the area. Similarly, Community Foundations are geographically focused charities which can assess and shortlist potential local projects based on your interests. By linking with experts you can find not only effective charities to donate to, but also a wealth of information about the needs of the people they exist to support.

Once you've found all these great charities, the difficult part is choosing between them. We recommend narrowing down your list to a couple of charities on which you want to do further research—perhaps based on your interests or priorities, or their location or beneficiary group.

And when you've identified your final choices, it's worth taking a little time to look at how effective they are—NPC's little blue book is a good tool if you want to look at a charity in detail; it identifies six important areas for charity analysis, with key questions to ask under each heading. NPC runs training for anyone who wants an introduction to charity analysis—our ['Selecting Great Charities'](#) training—and we have a useful [blog post on how to analyse a charity in two hours](#). In this way, you can be sure your giving is informed, high impact, and making the biggest difference possible to the causes you care about.

Why should I support a charity that campaigns instead of helping people directly?

Many charities struggle to raise funds for 'behind-the-scenes' activities like campaigning. Donors rightly want to be sure that their money is making a difference. Often they prefer to fund activities that are making a tangible difference—from shelters for homeless people to reading support for children who can't read. In fact, behind-the-scenes activities like campaigning, if done well, can make a huge difference—potentially far greater than providing frontline services, which might offer only a sticking-plaster solution to a long-term problem.

Many charities are working away on campaigns to influence public opinion or to change government policies. Through this work, charities can potentially help many thousands of people to avoid the need for frontline services by tackling a problem at the root—or by trying to change the system.

To give just one example: **Hibiscus** provides advice and support to women in prison. It found that many of the women it was helping were foreign nationals who, because of their poverty, had been easily persuaded to act as drug mules. Hibiscus ran a campaign in Jamaica, using posters, films and comics to inform women and children of the dangers of carrying drugs abroad. Through this awareness-raising campaign, Hibiscus has contributed to a dramatic decline in arrests of Jamaican drug couriers in the UK from seven per day to one per month. Hibiscus' campaign tackles the issue at its root, rather than responding to the resulting problems.

Research and lobbying carried out by charities can also be extremely influential. The '**Make Poverty History**' campaign is one example of how charities can exert pressure on politicians at the highest level. Another is a project by the **Norah Fry Research Centre**, which assessed how well existing legislation protected the interests of disabled children at residential schools. Its findings prompted debates in both Houses of Parliament; as a result, the Department for Education and Skills (DfES) issued new guidelines, thus improving the lives of all disabled children living in residential schools.

If you are interested in a particular issue, consider how you can support behind-the-scenes campaigning and lobbying activities, so that your money can effect change at the highest levels.

If I support a large charity will I achieve less impact?

Donors sometimes think that a donation to a large charity makes less impact than giving money to a smaller charity. Yet size is not an indicator of a charity's effectiveness. It's true that some larger charities require more complex systems and processes, which cost more. But if you want to make an impact on a large number of people, bigger charities offer some advantages. For example, it takes a large scale organisation like **NSPCC** to run a network of family support centres across the UK.

Like any business, large charities can make good use of economies of scale, allowing them to serve users at a lower cost or provide a more comprehensive service for the same amount of money. For example, charities like **Cancer Research UK** can marshal large groups of scientific researchers and run many research projects concurrently.

Large charities can also use a greater breadth of activities to their advantage. **Barnardo's** frontline work with vulnerable children, for example, informs its research and lends credibility to their policy work. Larger charities usually have more stable income streams, allowing them to think more strategically about their work over the long term and to experiment more easily with new approaches.

Finally, the credibility and the public profile of large charities can make it easier to draw the attention of policy-makers or the public to an issue. For example, **Mind** has successfully campaigned against the reduction of benefits for long-term psychiatric patients.

Deciding a timeframe

Should I fund a charity for more than one year?

Yes, if you are confident in a charity's ability to deliver results, then committing to fund it for a number of years is a good thing to consider. The unpredictability resulting from short-term funding can cause problems for a charity and, more importantly, the people that it supports.

The most obvious problem arises if a charity runs out of money due to a lack of funding at the right time. Well & Wise—a charity that supported more than 3,000 older people in Camden, London—was forced to close because of a short-term

cash flow problem. Many of the people it helped were already isolated and vulnerable, so it was difficult news for them when the charity's doors closed at a month's notice.

A more common problem is what happens when a charity thinks it might run out of money. Like any organisation, charities operate most effectively when they have some stability. Continual funding crises are very disruptive, preventing proper planning and absorbing a lot of staff time.

Unpredictable funding also has a knock-on effect for beneficiaries. The people who work for a charity are crucial to its success. However, if funding looks like it could run out, they find new jobs. As well as representing a major setback for the long-term success of the charity, losing staff has an immediate impact on the beneficiaries the person works with. So in short: if you like a charity—and you've spent time identifying a good one—think about committing to it for a while. NPC's *Granting Success* is a more in-depth discussion about making grants of the right length and size for a charity. A commitment is a pledge, not a contract, but the certainty it gives will help the charity to deliver better and longer-lasting results.

How do I stop funding a charity?

Getting hooked into funding a charity is easy. Finding great projects making a real difference, meeting inspiring leaders and seeing the difference a service has made to its beneficiaries: starting relationships with charities is the fun bit of being a funder. But extracting yourself gracefully from funding a charity can be more difficult.

Stopping small donations is unlikely to make a direct impact on a charity's activities. However, if the charity relies on your donation to fund a particular project or parts of the organisation, more caution is needed. Withdrawing this funding might lead the charity to scale back or shut down some of its activities. In a situation like this, it is wise to plan in advance for your exit to minimise the effect it has on the charity.

If it plans to find replacement funding, early warning gives the charity time to get alternative arrangements in place. Whichever way the charity hopes to replace funding—whether through grant applications, attracting new donors, or running fundraising events—there is always a lag between initiating fundraising and receiving income. If the charity needs to scale back operations to remain solvent, it needs plenty of time to communicate these changes to beneficiaries and help them plan accordingly.

If you remain supportive of the charity, you could consider other ways to ease this transition. One method is to gradually reduce your support to the organisation over a specified time period, meaning that the charity does not need to replace your full donation at once. Another possibility is to help the charity to identify other funders with similar interests, perhaps by introducing them to other organisations or individuals from your own networks.

Early warning and additional support may help a charity adjust to loss of funding, but the best exit strategies are planned upfront with the involvement of your grantee. From the outset, it's best to think about how long you expect to support the charity for, and how it will continue its work after you are gone. Being open and honest with your grantee about these issues will allow them to plan accordingly. Even if you operate a rolling funding relationship, make time regularly to discuss the needs and expectations of both sides, and the results of the project. This way, you can evaluate on an ongoing basis whether and when the funding relationship might need to change.

It's also really valuable for donors to think about their grant in the context of the charity's size and overall income before committing to funding. Generally we advise funders not to provide more than 10-20% of the total funding needed for any project. This ensures that if you withdraw support, the charity still has a strong base from which to fundraise for the income they have lost.

Some funders want to help charities scale up their operations. This is great news for the charity, but should be done with some caution to avoid making the organisation and its beneficiaries unduly dependent on a single funder. It may be more appropriate to provide 'seed money' to help the organisation grow more sustainably, for example investing in the charity's capacity to fundraise and setting targets for the organisation to secure match funding. Seed money is intended to see the

organisation through a specific phase of its development and should leave it in a strong position when this funding ceases, rather than in a position of dependence.

Whatever length of funding you decide is appropriate, you may be so pleased with the impact your charity is making that you decide to continue your support. But being clear about your intentions from the outset will help you build a good relationship, avoid unexpected surprises and help you and the charity make the difference you both want.

If you want to read more about this subject, *The Effective Exit*, published by Grantcraft, is a guide to managing the end of a funding relationship.

Exploring other options

How can I meet other donors with the same interests as me?

Donors can feel isolated in their giving. While they may meet advisors or staff from charities, they can struggle to find opportunities to network with other donors facing the same questions and challenges as themselves.

Meeting others in a similar position can help donors feel more confident about their giving. Frederick Mulder, founder of [The Funding Network](#) (TFN) says *'I always thought that, if there were other givers around, I might have known the right questions to ask'*.

TFN sees members gather four times a year to hear pitches from projects, and then make pledges to those that interest them. As well as being fun, giving as a group makes members feel they can create more impact with their money.

While events run by charities are also a good opportunity to meet other donors, they are usually not the right environment for free and open discussions about giving. To talk more openly with other donors and share experiences, there are regional organisations like [London Funders](#) and [The Environmental Funders Network](#) which brings together individuals and grant-makers to discuss environment issues and funding. Many advisors and other intermediaries also run donor events, for example Coutts & Co runs round-table Philanthropy Forums for donors.

Is giving through an existing foundation a good option for donors?

Warren Buffet, the acclaimed investor and 'Sage of Omaha' certainly thinks so. In summer 2006, he made headlines worldwide by pledging his fortune to the [Bill and Melinda Gates Foundation](#). He backed up his decision by arguing that the foundation was addressing some of the most important issues of our time and had the best plans and people to do so. In his mind, supporting existing efforts rather than ploughing his own furrow was a 'no brainer'.

There are several reasons why donors keen on making a big impact might want to work through an existing foundation. As well as benefitting from foundations' expertise, many donors feel this approach gives them greater assurance that their donations will be used effectively. Giving through a foundation also means donors can avoid investing time and resources in researching issues themselves and building an infrastructure for making grants.

Donors who want to explore this option should be aware that only a subset of foundations would be happy to work with individuals in such a way. It can also be challenge for donors to find a foundation which shares their interests and motivation.

To see a list of foundations you could approach, a good starting point is to visit [the Association of Charitable Foundations'](#) website. Alternatively, NPC has relationships with a range of grant-makers and has experience of facilitating introductions between individuals philanthropists and foundations.

Avoiding pitfalls

Should I use administration costs as a way of assessing charities?

Donors often ask whether they should look at the amount a charity spends on administration when deciding which charity to fund. Clearly, you don't want your donation spent on first class flights or luxury offices. And admin costs are some of the only publicly available figures, so it can be all you have to go on.

But reported admin costs vary considerably, based on how accountants choose to allocate costs. For example, one charity may include a direct mail campaign in its admin expenditure, while another may account for this as part of its campaigning costs, which doesn't allow for fruitful comparisons to be made between charities.

Most importantly, solely looking at admin costs doesn't show you how effective a charity is. It doesn't tell you the impact the charity is having on the people it works with, or even how efficiently it is run. When NPC is analysing a charity it looks at what results the charity is achieving, and recommends that donors do the same, rather than being side-tracked by admin costs.

NPC has rarely come across a charity that it thought was spending too much on admin. In fact, the opposite is usually true. Many of our donors choose to help build the infrastructure of a charity, whether that be through funding a new IT system, or hiring an extra member of staff, as they see that this is a great way to increase the effectiveness of a charity. For example, one donor covered the salary of an advice worker for a charity that encourages older people to take up welfare benefits. This helped the charity treble the number of people it supported over a two-year period.

Reported admin costs are often a 'red herring' for donors and NPC advises against using them as a way of assessing charities. Instead, think about focusing on the results a charity is achieving.

What should I think about when giving in a recession?

As the recession takes hold, more and more people are losing their jobs and their homes—and are turning to charities for help. With major reforms to welfare provision, many charities supporting the most vulnerable people in society are seeing an increase in demand for their support.

Alongside increased levels of need, many charities are experiencing income reductions from a range of sources: cuts in government spending; fewer resources distributed from trusts and foundations while their endowment yields are low; and lower income from trading activity which subsidises operations. Although it might be daunting for individuals and corporates to carry on giving against a background of financial uncertainty, charities need the support of donors more than ever before.

NPC's advice to donors is: don't panic and don't cut funding to charities. Just because others might be withdrawing funds doesn't mean you have to. Most well-run charities are taking sensible measures to mitigate the effects of the recession and need committed donors to help them to continue their work. Some donors choose to smooth donation levels over a longer term, rather than tie expenditure to annual endowment yields. Others want to offer support where government cuts have been felt, which may require reversing an earlier decision not to fund areas of statutory responsibility.

Donors also need to be flexible with their funding. Unrestricted grants allow charities to focus money where it's most needed. This is particularly important now, when charities may be struggling to fund core costs or may need to the ability to transfer funding between projects.

Funding a charity over two to three years also offers stability in the face of uncertain funding from government and grant-making trusts. At a time when government attention is focused elsewhere, donors might also want to consider increasing the impact of their donations by supporting underfunded and overlooked charities that help people with multiple needs, such as prisoners or people with mental health problems.

Recession or not, donors need to be sure that the organisations they fund are achieving results.

Getting more involved

Should I consider becoming a charity trustee? What does the job involve?

Many donors feel hesitant about becoming a charity trustee. They are unsure about the time commitment and are put off by the prospect of dealing with jumbled charity accounts, complex regulations and the responsibility of being a trustee. Some also doubt that they can offer the right skills to improve a charity's governance.

Almost half of UK charities have vacancies on their trustee boards. And while boards do require a range of skills, charities are not primarily looking for senior accountants or solicitors. They are seeking people of all ages and backgrounds who are interested to learn, contribute and ask difficult questions.

Rising to such a challenge does take time. But engaged trustees are convinced that the rewards far exceed time spent. Donors seeking to become good trustees will get involved with a lot more than regulation. They will shape a charity's strategy, direction and results—and over time help a charity to make a real difference in people's lives.

In tough financial times, donors may not be able to give money to all of their favourite causes. Investing time and skills instead by becoming a charity trustee can be a very rewarding opportunity to continue to give and to meet like-minded people.

Interested donors should approach their favourite charity or cause to ask if help is needed. Websites such as [Charity Trustee Networks](#), [NCVO's Trustee Bank](#) and volunteering sources such as [Do-it](#) also provide plenty of vacancies.

To find out more about the responsibilities of a trustee, read the Charity Commission's useful publication, *The Essential Trustee*. You can also download NPC's report, *The benefits of trusteeship*.

Should I set up a charitable trust?

A charitable trust is a legal entity that donors can set up to donate funds to charitable causes. Funds are managed by trustees (which can include the donor), and distributed in line with the trust's charitable purposes.

Many donors choose to set up a charitable trust because of the tax advantages, such as exemptions from tax on investment income. Having a trust also ensures that your funds are managed, just like any other investment fund.

Many donors value the focus that a charitable trust can bring to their philanthropic giving. And donors who wish to remain anonymous like the fact that the trust can act as the 'public face' of their giving.

But a charitable trust is by no means necessary to be successful in philanthropy. And setting up and running a trust does require administrative effort and cost, including submitting annual reports to the Charity Commission, which are publicly available on the Charity Commission's website. Trusts are best suited for donors planning on giving strategically over the medium to long term. Donors interested in one-off or sporadic giving might prefer to set up a [Charities Aid Foundation \(CAF\)](#) charity account.

How should I involve my children in our family's giving?

Parents are powerful role models in all aspects of a child's life, and philanthropy is no different. Research suggests charitable behaviour when young is associated with altruistic behaviour as an adult. Many parents want to ensure their children develop an active social conscience early in life, by showing them how rewarding and enjoyable giving can be. Allowing them to learn first-hand about issues you care about, and the difference your time and money can make, is a great way to help them develop.

NPC's 2010 Family Office survey indicated 85% of families with children under 21 involve them in their giving, and a US study found a majority of people felt they have a responsibility to pass on a tradition of philanthropic giving to their

children. Even if children are too young to be responsible for major giving decisions, they can begin learning why philanthropy is important, what it can achieve and how much fun it can be.

At NPC we encourage families to introduce their children to the idea of giving from an early age—seven or eight. Often parents are surprised how interested their children are; we worked with one family who thought their 10-year-old wouldn't be interested in a charity working with terminally ill children, but took her along when they visited the charity because they couldn't find a baby-sitter. Three days later she was still talking about the charity non-stop.

Charitable activity brings families together, providing a focus and building traditions. Some foundations set family-focused objectives alongside issue-based ones, for example, to educate younger generations in philanthropy. Some use charitable giving as a way to introduce their children to money management. One philanthropist we work with asks his children to donate 25% of their monthly pocket money to charitable causes. Private banks running courses on assets and responsibility often include sessions on philanthropy, involving challenges, games, and charity visits to help young people engage with charitable projects.

Families take different approaches to involving their children in giving. Some divide funds into various pots with each family member allowed to fund as they like. Others choose a consensus-based approach, where all members choose causes and charities together. Some decide on overarching themes together, but different members build up specialist knowledge in particular areas, reporting back to the rest of the trustees on charities they propose to fund.

Whichever way you choose, a key element of good family giving is to let your children make their own choices about what to support with their time and money. In this way, they can develop an independent sense of philanthropy, identify issues they care about, and see the rewards giving can bring.

Sometimes this may also mean standing aside and allowing them to make choices you don't agree with. A client of ours gave his children pots of money to give away themselves. One of the children wanted to support an organisation that our client felt was not very effective. But he restrained himself from telling him not to donate to it, as he was keen he should learn on his own. When the client and his son visited the organisation a year later they saw that the money had been squandered. The client felt this provided a better lesson than if he had prevented his child from giving to the organisation based on his own suspicions.

There is no right or wrong way to involve your family in your giving. The key is to be clear from the outset which approach you take, and what role each family member plays. Most importantly, let the younger generation find their own causes and interests; in this way, their passion for giving will stay with them for the rest of their life, and be passed on in turn to their own children.

TRANSFORMING THE CHARITY SECTOR

NPC (New Philanthropy Capital) occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: Our mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact.

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