Ethical Fundraising

Transparency inspires confidence. Beyond what the law requires, nonprofits can demonstrate their commitment to ethical practices by being transparent regarding financial information and fundraising practices.

- A fundamental financial transparency practice is to make it easy for visitors to a nonprofit's website to find information about the nonprofit's budget-size and its sources of revenue, as well as information about board composition, programs, outcomes/impact, staffing, and donors (protecting the identity of those who wish to remain anonymous).
- Remember that fundraising is regulated by state laws.
- There are certain documents that tax-exempt nonprofits MUST make available to the public. (Learn about the public disclosure requirement.) Among them is a notice that must be provided by organizations that are tax-exempt, but NOT a public charity, in connection with solicitations.
- Communications must be accurate and honest.
- Honesty in communications includes providing attributions for images and photographs/video. Only use images of people with prior permission, and never include information with images of minors such as names or addresses that could be considered personal identifying information.
- Avoid using exploitative images or stories in your fundraising materials about those your nonprofit serves, sometimes known as "poverty porn." Instead, learn

about strengths-based messaging and asset-framing (Prosper Strategies), describing people in the context of their aspirations and strengths rather than their deficits.
- If your nonprofit values diversity and inclusion, make sure the images you use reflect those values. This article on Representing Accessibility, Diversity and Inclusion (Change Catalyst) includes links to several sources of diverse stock photos.

What are other ethical fundraising practices, and what practices are NOT considered ethical? The Association of Fundraising Professionals (AFP) and the National Council of Nonprofits agree: compensating fundraisers by paying a commission on contributions is not ethical (see below). For similar reasons, placing undue pressure on prospective donors to donate does the entire charitable nonprofit community a disservice. Some reports (such as this one) express concern that high-pressure tactics employed by some outsourced fundraising services are creating a backlash against charitable giving.

Accountability to donors

Practices that demonstrate accountability and respect for donors include:

- Sending timely gift acknowledgments
- Honoring restrictions on donors' gifts
- Disclosing to the public what the law requires
- Providing timely reports to foundations and/or government funding sources, as applicable
- Recognizing donors according to their preferences

Anonymous donors

Some donors ask that their gift remain anonymous**.** Some are also concerned that the nonprofit will share their contact information with other nonprofits (increasing the chance that they will receive unwanted solicitations).

- To address these concerns, the Association of Fundraising Professionals (AFP) has developed a Donors' Bill of Rights that nonprofits are encouraged to adopt.

Acknowledging donations

Donors expect their charitable gifts to be acknowledged. It is not only ethical and good stewardship to inform donors about the receipt of their gifts, but it is also a legal requirement for certain gifts.

- Read the National Council of Nonprofits' Tip Sheet on Saying Thank You to Donors.
- IRS resources explain what a written gift acknowledgment should include and when one is required.
- Review IRS Publication 1771, Charitable Contributions, Substantiation and Disclosure Requirements.
- Read about the IRS requirements for acknowledging "quid pro quo contributions" (gifts of $75 or more when the donor receives something of value in return.)

Honoring donor intent

Honoring a donor's intent is an ethical issue and also a legal matter that starts with educating staff and board members about the importance of maintaining donor trust and the legal/fiduciary obligation to honor donor requests.

- A verbal agreement between a donor and a charity to use the gift in a certain way can be enforceable. When donors provide a contribution for a specific purpose this is referred to as a "**restricted gift**."
- Make sure all staff and board members understand the significance of restricted gifts and that saying "no" to restrictions (tactfully) can at times be the wiser response: Nonprofit gifts: When strings are attached (Nolo)
- Manage donors' expectations about what the nonprofit will or will not accept. Example: "We are grateful for in-kind contributions that will help us deliver services to seniors, however, we do not accept contributions of used computers."
- Using a written agreement can help define how a gift will be used, and manage potential donors' expectations about what gifts a charitable nonprofit will and will not accept.
    - Learn about using gift acceptance policies

“Can we pay our fundraiser a commission?”

It is NOT appropriate for a nonprofit to compensate a fundraising professional based on a percentage of the money raised.

- See Standard #21 of the AFP Code of Ethical Principles and Standards for professional fundraisers.
- **Example**: Code of Ethics/Fundraising. See Section V of the Pennsylvania Association of Nonprofit Organizations' (PANO) Ethics and Accountability Code for the Nonprofit Sector (pages 29-31), which is one standard contained in the Standards for Excellence for Pennsylvania nonprofits.

Transparency about fundraising costs

As a matter of being a sustainable organization, nonprofits should know what it costs to operate their programs and activities. Fundraising is an activity that has a cost, too. In fact, the annual return (IRS Form 990) asks tax-exempt organizations to put a dollar figure on the annual cost of fundraising activities. The IRS defines fundraising expenses as: **“...the expenses incurred in soliciting contributions, gifts, and grants.”**

- The IRS instructs nonprofits to: “Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns, and (b) soliciting bequests and grants from foundations or other organizations….” (Source: Instructions to Form 990, page 43, Part IX, Column D).
- Nonprofits should not be uncomfortable reporting these costs: we should understand our full costs and help those that support our mission understand what it costs to deliver that mission!

Examples of fundraising expenses include: postage and printing, telephone and internet charges, staff time spent writing grant proposals and other costs relating to applying for or renewing grants and reporting on grants received; maintaining relationships with funding sources; costs of special events that result in contributions; the development of fundraising materials and their distribution, such as annual reports; other costs incurred in collecting contributions; and all indirect costs of the above (especially salaries and benefits of related personnel).

Misstating a nonprofit's fundraising expenses is dishonest and contributes to the "overhead myth" and the "Nonprofit Starvation Cycle."

Additional Resources

- Frequently asked questions about fundraising ethics. (AFP)
- Code of Ethical Principles and Standards for professional fundraisers. (AFP)

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