Charity Monitoring Worldwide

Size of Charity Workforce

Online Giving is 12% of Total Fundraising

Tax-Exempt Status is Not an Endorsement
The Wise Giving Guide is published three times a year to help donors make more informed giving decisions. This guide includes a compilation of the latest evaluation conclusions completed by the BBB Wise Giving Alliance.

If you would like to see a particular topic discussed in this guide, please email suggestions to guide@give.org or write to us at the address below.

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One of our cover stories features the International Committee on Fundraising Organizations (ICFO), an association of national charity monitors. BBB Wise Giving Alliance has been an active ICFO member for many years, and I previously served on the organization’s board. This group provides an excellent forum for members to learn from each other and to advance transparency and integrity among charities worldwide.

When disasters strike, such as February’s earthquake in Turkey and Syria, donors around the globe are motivated to assist. In turn, monitors in many countries stand ready to help contributors find trustworthy disaster relief organizations to send their support. Information shared among ICFO members can also help spot potential problems.

As the war in Ukraine continues in its second year, many charities persist in their efforts to aid millions of Ukrainian refugees that have fled to other countries, and millions more who are internally displaced. I recently met with Kateryna Zhuk, a co-founder of Ukrainian ICFO member Charity Turner, while attending the ICFO annual meeting in Madrid, Spain. I invite you to hear her personal story by listening to the recent Heart of Giving Podcast. Visit the Give.org website for free access to our conversation.

In the coming months, Kateryna will author a series of blog posts on Give.org that will cover charity activities in Ukraine. We are proud to host this special feature and hope you will visit Give.org to learn from this first-hand account.

Thank you for your continuing interest and support of charity accountability.

H. Art Taylor, President & CEO
Charity Monitoring Worldwide

BBB Wise Giving Alliance is proud to be part of an international association of charity monitoring organizations, ICFO, which was founded in 1958 and has members representing 20 countries from Europe, Asia, Africa, and the Americas. While each country’s context is unique, they are united by their approach to charity monitoring. The member organizations have well-rounded charity standards that promote good governance, effectiveness, strong finances, integrity, and transparency.

Like BBB Wise Giving Alliance, charities that are monitored by ICFO members are evaluated against comprehensive charity standards that seek to verify charity trustworthiness. The results of these evaluations are shared with the donating public and often involve seals that help alert donors to those charities that meet standards.

On March 23, 2023, the Spanish charity monitor, Fundación Lealtad, hosted an international conference in Madrid, Spain, to raise awareness about the combined work strengthening the nonprofit sector and building public confidence in trustworthy charities. More than 700 people from 38 countries attended the conference either in-person or virtually. The event addressed a variety of topics including: the importance of charity monitoring, different charity evaluation models, and the state of trust in charities and other institutions. In addition, media, corporate, and foundation representatives were invited to speak about the criteria they use when selecting charities for potential collaboration.

The “Monitors around the World” panel featured participants from our peers in Germany, Mexico, Netherlands, and Switzerland. For example, Burkhard Wilke, Chief Executive Officer of DZI in Germany, shared that his organization has a legacy of 130 years in charity monitoring. He attributed the organization’s longevity to its structure, a partnership of five institutions representing welfare associations, business, the state, and the civil sector. Javier Garcia, Chief Executive Officer of Confinio, spoke about how the socio-political context in Mexico makes public disclosure of financial information harder to enforce, as charity officials can face legitimate security concerns. Still, each of these organizations are making strides to advance a trustworthy charitable sector in their country context.

Size of Charity Workforce

According to the latest available statistics from the IRS, in 2021 there were 1.9 million tax exempt organizations in the United States. The bulk of these, 1.4 million (72%), are tax-exempt as charities under section 501(c)(3) of the Internal Revenue Code. In fact, the actual total number of charities is higher since this IRS figure does not include houses of worship as well as small organizations (with gross revenues less than $5,000) which are both not required to apply for 501(c)(3) status in order to have charitable tax-exempt status.

These impressive totals do not provide the complete picture. As reported in the latest Independent Sector quarterly review, The Health of the U.S. Nonprofit Sector, “Historically, the nonprofit sector is the third-largest employer in the U.S. economy and grows jobs four times faster than for-profit organizations” and represents 6.6 percent of the overall workforce. This publication also reports that in the third quarter of 2022, nonprofits contributed $1.5 trillion to the economy.

About 12 million people work in the nonprofit sector which is equivalent in size to the total
This paid nonprofit workforce is further assisted by the 60.7 million people who volunteered between September 2020 and 2021, comprising 23.2 percent of the U.S. population. As estimated by AmeriCorps, this represents 4.1 billion hours with an economic value of $122.9 billion. This total number of volunteers reflects a 7 percent drop from the previous year which, in part, is due to the impact of Covid-19.

While some might think of just soup kitchens and animal shelters when asked about charities, the actual size, scope, and diversity of missions are reflected in hundreds of thousands of organizations that work tirelessly each day to address society's needs.

About 12 million people work in the nonprofit sector which is equivalent in size to the total number of people employed in manufacturing.
Online Giving is 12% of Total Fundraising

As websites, social media and other online communications continue to take a growing part of our daily lives, many assume that charity fundraising is also dominated by online transactions. While it is likely that technology will eventually lead to that result, the current reality is far from it. The Blackbaud Institute, which is associated with a cloud software and services company that works with nonprofits, has been measuring online giving for over 20 years. An analysis of 4,535 organizations by this group showed that in 2021, online giving was only 12% of total fundraising.

This 12% statistic, however, incorporates a significant diversity of circumstances. For example, smaller organizations with less than $1 million had 17.8% of their funds raised online during 2021. In contrast, larger nonprofits of $10 million or more completed 11.1% of their fundraising online. There are also different experiences depending on the type of charity. Religious organizations raised 16.8% online while environmental groups raised 5.1% online during 2021.

Also, the prevalence of smart phones has impacted online giving as a growing part of online donations. Back in 2015, 14% of online donations were made on mobile devices. In 2021, 28% of these gifts were made on mobile.

For now, direct mail, fundraising events, and other fundraising methods, particularly for nationally soliciting charities, still dominate. While donors should not expect that to change overnight, the online giving trend will continue to pick up speed as younger generations of givers are more likely to make their transactions online. At the same time, charities might help encourage more growth if more charity websites were optimized for mobile devices to make it easier for donors to contribute using their phones.

There are other influences that could help grow online fundraising even faster. As reported in the NonProfit Times, new postal rate increases might loom due in part to the drop in U.S. mail volume.

No matter how one chooses to contribute, we encourage donors to make sure the chosen charity meets the 20 BBB Standards for Charity Accountability.
Tax-Exempt Status is Not an Endorsement

To apply for U.S. charitable tax-exempt status, from the Internal Revenue Service, an organization must complete the 23-page application known as IRS Form 1023. A shorter version of the application for tax-exempt status (3 pages) was initially introduced in 2014 and is used by smaller charities with annual incomes of $50,000 or less. While the initial intention for this EZ version was to lessen application challenges for smaller charities, reduce a backlog of cases by the IRS, and address political controversies, it also received early criticism that it might lead to potential additional abuse and fraud.

As noted in the IRS Compliance Guide for 501(c)(3) Public Charities, the focus is on explaining how charities can comply with federal tax law to maintain their tax-exempt status. Although some turn to the Internal Revenue Service when problems emerge with charitable organizations, this agency was never established to serve in this overarching regulatory role. Also, the fact that an organization has received charitable tax-exempt status does not mean that the IRS approves, endorses, or recommends the charity to potential donors. Rather, it demonstrates that they have filed the appropriate application and, when required, annual financial information, to be exempt from paying federal income tax on the revenue it receives. In turn, donors can receive a tax deduction for contributions made to the organization. In terms of potential abuse, the IRS does look into such issues as charity transactions with related parties, unreasonable compensation, and other excess benefit transactions.

For the most part, state charity regulators (such as state offices of the Attorneys General and the Secretaries of State) serve as the primary regulators of charities. The majority of states require charities to annually register and file financial information if they intend to solicit for charitable donations in that state. And they are most likely to take action against charities found violating the duties of obedience, loyalty and care in how they manage the assets of the organization. When identified, states also can act on misleading appeals and/or fundraising campaigns that are not properly administered. But states are also quick to point out that registration with a state agency does not constitute or imply endorsement, approval, or recommendation by that state.

As a standards-based charity evaluator, however, BBB Wise Giving Alliance looks beyond the legal requirements in completing its reports on charities. While some of these issues in the BBB Standards for Charity Accountability overlap with legal requirements, the specific recommendations included in these standards, in many instances, call for practices that stretch beyond what the law can address. The distinction between legal requirements and voluntary recommendations is also reflected in the language used to describe them. One complies with regulations because the law requires it, in contrast one meets a standard if one chooses to follow it. In some ways, BBB Wise Giving Alliance seeks to help fill the trust gap between what charities are required to do by law and what the public expects them to do as good stewards of their generosity.