

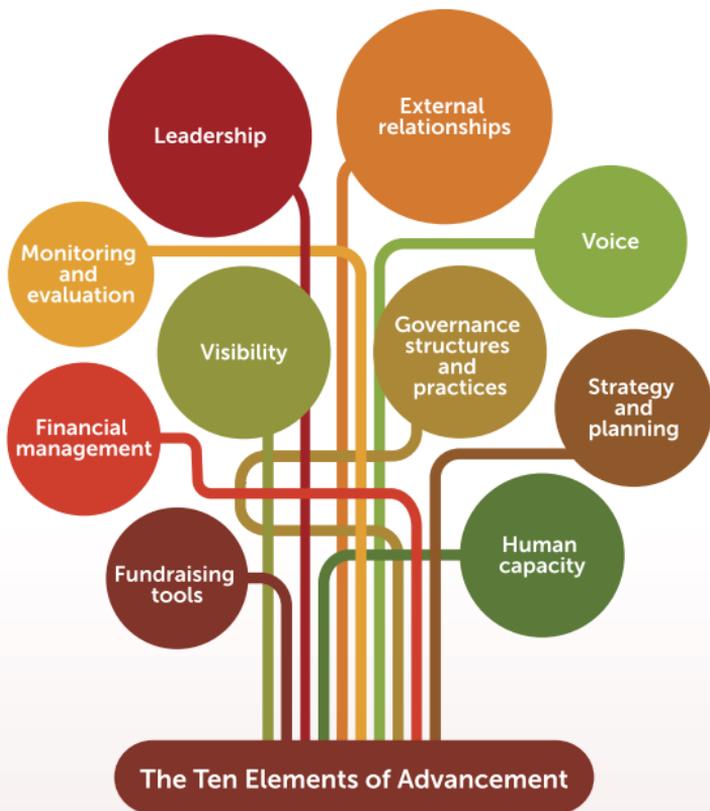


ASK Inyathelo Pocket Guide

Understanding the Donor World

by Shelagh Gastrow

Inyathelo's Advancement Framework



Inyathelo defines Advancement as a systematic and integrated approach to building and managing external relationships with key constituencies and stakeholders in order to attract support.

Introduction

The positive and important work that we do has immense social value and **offers donors an opportunity to do something that they could otherwise not achieve without such an organisation.**

For example, a donor who wishes to assist street children cannot do this nearly as effectively alone as it can with an organisation that works with street children in the field. The same applies to the erosion of human rights in a country. Human rights organisations take forward the prospective donor's concerns in a far more strategic and meaningful way.

The donor is an essential part of an organisation and cannot be viewed as someone separate with no ties to its activities.

It is critical that non-profit organisations think of themselves not as recipients of charity but as organisations that play a critical role in providing services, advocating change, contributing to policy and championing causes.

What do we mean by donors?

Donors are not anonymous structures but people who give funds to an organisation because they believe in its cause to such an extent that they are willing to put their own money into it.

Like people, donors differ from one another. They do not give funds to the same organisations or causes and have varying areas of interest depending on their own life experiences and concerns. For example, some people are passionate about education and others about the environment.



Who give funds to an organisation because they believe in its cause to such an extent that they are willing to put their own money into it

Types of donors

It is important to recognise that there are many different types of donors who fund organisations:

- Individuals
- Private foundations
- Corporate foundations and corporate social investment funds
- International aid agencies
- International foundations
- Religious organisations
- Quasi-government structures

Whether the donor is an individual or an international aid agency, it is always *people* who are interested in the organisation's work and who decide upon the area of work that they wish to invest in.

It is therefore imperative for organisations seeking funds to see donors not as anonymous structures but people who believe in a cause with whom a relationship needs to be built.

Who are individual donors?

There are millions of people who donate funds to causes in which they believe. Many organisations in South Africa raise considerable funds from such individuals. They build a relationship with these people through websites and newsletters, marketing campaigns and personal links, such as meetings and events.

It is important for individual donors to feel that they are part of the organisation which they assist; to meet the beneficiaries, to receive news, to be included in celebrations of the organisation's successes and to be thanked and recognised often for their contributions.

Individual giving has the greatest potential for growth. Individuals are more loyal to their causes than companies or foundations and, with the care and maintenance of such relationships, may even be willing to increase the amount which they give. Some people will even leave a bequest to the organisation in their will.

The more connected an individual donor is with an organisation, the stronger his or her commitment.

What makes an organisation attractive to an individual donor?

There are many factors that attract individual donors to particular organisations besides its actual cause or the work done.

These include:

- **The organisation's leadership.** The organisation's leader has a personal connection with the potential donor and is someone with whom the donor can speak and trust.
- **The organisation's reputation.** The organisation has an excellent reputation for delivery and its good use of funds.
- **The desire to give back to society.** The organisation's work provides an opportunity for the individual to give back to society.
- **There is a relationship.** Individual donors are more likely to give funds to an organisation which they know i.e. when they have a relationship with that organisation.

The organisation's leader has a personal connection with the potential donor and is someone with whom the donor can speak and trust.

How to find an individual donor

The decision of where to seek financial support is a strategic one. The fundraising process with individual donors usually involves more contact and connection (and this takes time).

The advantage of an individual donor is that it can bring in funds that are undesignated and directed to the organisation itself, rather than specific programmes. This means that the funds secured can be used to cover the organisation's core costs.

Every organisation has individual stakeholders. They can be its own beneficiaries, parents or family members; suppliers and service providers; clients or people who use the organisation's facilities; staff; board members and their connections; any individual who is passionate about the cause that the organisation is addressing. **The organisation can also make an effort to connect with targeted individuals** through one-on-one meetings; events such as open days; symposia about the work being done; by sending out newsletters; by establishing an advisory board of people interested in the work of the organisation and by establishing a group of volunteers who would be willing to open doors for the organisation. This should also be the role of board members.

Individual giving is based on the person's own experience and history and it is important to ensure that his or her experience with the organisation grows into one of **trust and commitment through the building of good relationships. A more costly, but sometimes effective way of raising funds from individuals is to establish an annual campaign** that can

include mailshots, email requests and ways to give through social media. This has to be planned carefully and often the initial costs are not recouped for a year or two. However, the benefits may become evident over time.

Costs would include the design of the campaign and the personnel needed to run it. For example, if an organisation received 1 000 donations, someone has to produce 1 000 thank you letters. **A useful and functioning database would also need to be developed** as a way of tracking the donors and their longer term relationship with the organisation.

An annual fund is a way of generating undesignated donations for the organisation and assists in identifying which individuals are attracted to its work. If mechanisms are put in place to maintain and strengthen relationships with these donors, they are likely to keep giving, to increase their donations, to bring other donors to the organisation and potentially leave a bequest. There are organisations in South Africa that run annual campaigns successfully, but many seem to overlook this option.



CONTACT CONNECTION

The fundraising process with individual donors usually involves more contact and connection (and this takes time).

How to find a corporate donor

Over the past 20 years there has been increased pressure on corporates to reconsider the role that their organisation plays in society. Concepts such as the triple-bottom-line (people, planet and profit in relation to sustainability) and good corporate citizenship have emerged in the lexicon of corporate life.

Previously the basic driver of business was to make a profit and this is still the key function. However, there is now a growing realisation that business and commerce impact upon people and the environment.

There are numerous examples of child labour, cheap labour, environmental degradation (such as the Shell oil spill off the coast of Florida), profiteering, corruption and the abuse of resources, particularly in developing countries. Society is now able to mobilise against poor business practices by corporates through the internet and social media.

Hence the growing acceptance by business of the concept “The triple bottom line” – people, planet and profit – in relation to sustainability.



All the above are intertwined in a new generation of corporate thinking.

Why do Corporates give money to non-profit organisations?

There are various forms of capital that companies invest in:

- **Human capital** (their staff and training);
- **Physical capital** (infrastructure, buildings, machinery);
- **Market capital** (developing markets, marketing, advertising);
- **Social capital** (external environment, reputation in the community and society);

Companies need to build social capital to enhance their reputation. Investing in social capital ensures a contented labour force and a stable society in which to do business. There are also tax benefits involved as well as inter-corporate competition for increased social reputation.

What is good corporate citizenship?

A company perceived as a good corporate citizen becomes a **preferred company** in terms of doing business and also in terms of stock purchases. **People want to invest in a company which has a good reputation; people want to work for a company which has a good reputation and people want to do business with it too.** Ethical practices on the part of a company includes its **human resources policies**; how it deals with suppliers; its carbon imprint; its reporting and auditing procedures. **In order to increase its social capital, a company must increasingly focus on its business ethics in a global context**; for example environmental and health issues, sustainable development, employee relations, pressure from civil society and governmental concerns.

However, there is also **pressure from company shareholders for greater transparency**, particularly in the light of big corporate scandals, such as Enron and Worldcom. This also impacts on the corporate's reputation.



GOOD REPUTATION

A company perceived as a good corporate citizen becomes a preferred company in terms of doing business

How does corporate social investment fit into good citizenship?

There has been a shift in the way corporates support organisations. **The “old think” was in the charitable paradigm** – cheque hand-outs to needy organisations. **With the “new think”, relating to the triple bottom line and corporate citizenship, companies want to play a more active role in society and the concept of corporate social investment is much broader.**

Today’s corporate look at leadership, problem-solving, job creation, wealth production, environmental concerns, and how these impact on the value chain of the business in terms of its distribution and customers. Support for various causes also comes into corporate social investment, but it is no longer the only focus.

In South Africa, the requirements of **Black Economic Empowerment (BEE)** codes have increased the potential for funding non-profit organisations, but mainly for those organisations that deliver services with clear measurable outputs and deliverables. Experience is making it more apparent that funding via BEE codes is not likely to support work in policy development, research and advocacy.

What makes corporates choose a particular organisation to support?

Corporate social investment will link in some way with the business interests of the company. For example, an estate agency may want to support some housing initiatives; a pharmaceutical company may wish to support a health project while other companies may want to contribute to programmes that affect its workers' lives. However, **corporate grant-making is viewed as risky** because it means giving money to another organisation and its success is dependent on the effectiveness of that organisation.

The best partner is measured therefore in terms of social impact for each rand spent – in other words, what was the *financial input*? What was the *output* in terms of project *implementation* and marketing opportunities? What was the *impact* on the community **and the business** (improved reputation; generation of new business; brand recognition)?

In order to reduce risk and to ensure good outcomes, the company will assess the organisation's history, its governance, leadership, financial management and financial situation, human resources and most importantly its capacity to implement the proposed project.

CSI SOLUTION NEWS, 17 APRIL 2008

What is the difference between a corporate foundation and a private foundation?

A corporate foundation is established by a company as part of its corporate social investment plan, and there is a difference between how a corporate foundation is run and how a corporate social investment unit is run. **A foundation will be more independent of company regulations than a social investment unit** and report to a board rather than to company officials. It may even operate independently with its own guidelines, although it is aligned to the business.

Some corporate foundations are based on an endowment – a principal sum that has been donated by the business to the foundation (or a number of shares donated) – which is occasionally increased or topped up when the company makes a good profit. However, **other foundations are dependent on an annual contribution** by the company which is more unpredictable. **It is rare to find a totally independent corporate foundation.**

Private foundations are philanthropic entities that have been established to make donations for causes outlined in the founding constitutions of the foundation. They are also sometimes known as charitable trusts. Sometimes they are established by an individual with a passion for a specific cause and sometimes they are set up in terms of a person's will. A private foundation is a non-governmental organisation

and is a non-profit entity. **Generally it has endowments, a principal sum that is invested in the foundation by the founder. This amount continues to be profitably invested and a portion of the income is used to make grants to non-profit organisations.**

A private foundation is sometimes governed by the founding donor or members of his/her family, but is generally managed by trustees or directors and staff if the founder has passed away. **It is essentially established to support charitable, educational, religious and other activities that serve the public good.**

Why do people establish private foundations?

There are many reasons why people **want to give back to society**. Often wealthy people choose to **institutionalise their giving and offer their donations on a more formal basis**. Responding personally to every request for funding is time-consuming, tiring and emotional. The establishment of a private foundation can be an ideal way to do this. **Some people leave money in their will to establish a foundation**. Such people sometimes have no heirs and decide that their estate can be used to give back to society. This is usually linked to a desire to make the world a better place and also to leave a legacy of their lives.

Do these foundations exist in South Africa?

There are hundreds of private foundations/charitable trusts in South Africa although the exact number is unknown. Unfortunately many operate out of the public eye and are

therefore difficult for organisations to access. **They often require personal “door opening” and frequently do not respond to unsolicited (uninvited) requests** for support. However, increasing numbers of private foundations in South Africa are becoming more aware of their role in society and information can more easily be accessed on their websites. Examples of local foundations include the DG Murray Trust and the Fuchs Foundation.

A significant number of private foundations, especially those that were established in terms of a will, are managed by financial services companies.

It is important to check exactly what each private foundation funds because its mandate will be linked to its founding constitution and provides little discretion to divert funds away from its original aims and objectives.



Do international fund organisations fund organisations in South Africa?

Some of the world's largest foundations fund organisations and projects in South Africa and have offices in the country. Foundations based in the United States operate under very strict US Internal Revenue codes. They can only make donations to organisations that are classified as public charities and this is assessed through an "equivalency determination" to check whether the overseas charity/organisation qualifies as a public charity in terms of US law.

Before approaching an international foundation, an organisation should check the foundation's website and read the guidelines thoroughly. The website will explain exactly what the foundation funds, in which countries it makes grants and how to make the initial contact (through email, telephone or submitting a brief concept paper).

In the event that an organisation gains the interest of an international foundation and is invited to submit a proposal, the foundation will undertake some form of *background investigation* to assess whether the organisation can deliver on its proposal; whether it is the equivalent of a US charity; to understand the local context in which it operates and check whether there is community support for its work and whether there is any duplication of its activities with other organisations. In addition, the foundation will check whether the organisation is well-managed and sustainable.

In the event that the foundation decides to make a grant available to the organisation, there will be a *funding agreement* that needs to be signed by the organisation. The agreement will state exactly what the funds are to be used for. Any changes the organisation wishes to make after signing the agreement will need to be agreed to by the foundation in writing. **The agreement will stipulate the duration of the grant and when payments will be made; what may be done with unused funds; the foundation's reporting and accounting requirements.**

It is important to build a relationship with the foundation's staff. If they visit the organisation, this means that they are interested in the work it is doing. If they ask difficult questions about the project, it is critical that proper answers are provided as they often try to pre-empt questions that will be asked by the foundation's board about the project/organisation.

Examples of international foundations in South Africa include The Ford Foundation, Elma Philanthropies, Bernard van Leer Foundation and the CS Mott Foundation.



Some of the world's largest foundations fund organisations and projects in South Africa and have offices in the country

Do international non-governmental organisations fund non-governmental organisations in South Africa?

International NGOs are global charities. Globalisation has not only impacted on the world of commerce and business, but also upon the non-profit sector. There are huge NGOs that operate across the world and raise money to support projects in the developing world as well as provide relief in emergency situations. However, these **international NGOs are increasingly running their own programmes, rather than making donations to other organisations. In some cases, they become competitors with local organisations for funding.**

Examples in South Africa include Oxfam and ActionAid. Among other things, they tend to focus on poverty, gender, economic justice and crisis situations.



INTERNATIONAL NGOS IN SOUTH AFRICA

International NGOs are running their own programmes, rather than making donations to other organisations.

Do international religious organisations fund South African NGOs?

International religious organisations make grants to the non-profit sector, but usually support religious communities or relief projects and poverty alleviation. In the past, international religious organisations gave generous donations to South Africa's anti-apartheid organisations, but **in recent years have reduced their funding**. This is because they have become more reliant on their own governments for funds, rather than the public, and such donations require more stringent accountability mechanisms to be in place.

Examples of International Religious Organisations include Norwegian Church Aid, Dan Church Aid and Cordaid.



INTERNATIONAL RELIGIOUS ORGANISATIONS

usually support religious communities or relief projects and poverty alleviation

Does government/quasi government donate funds?

There are various sources of funding for non-profit organisations from government or quasi-government sources. In South Africa applications can be made to the **National Lotteries and to the National Development Agency**, both of which support charities and development organisations. In addition, **local, provincial and national government departments often support non-profits to deliver specific services in health, education, social development and arts and culture.**



There are various sources of funding for non-profit organisations from government or quasi-government sources

Do official international development agencies donate funds?

Official International Development Agencies are often established by governments to provide support for developing countries.

It is important to understand that the guidelines to such grants are linked to those government's foreign policy priorities and are an extension of their political strategies.

This type of funding is not usually for general budgetary support for organisations and it is essential that there is synergy between the agency and the organisation it is supporting.

Examples of foreign policy issues that agencies deal with include:

- Global warming and climate change;
- HIV/AIDS and transmittable diseases;
- Sustainable development;
- Bilateral relations between countries;
- Economic relations (building business relationships);
- Democracy and human rights.

In addition to official development agencies, **there are also foreign political agencies that stand for specific political philosophies.** Examples include the German Foundations, each representing one of the German political parties. An organisation cannot therefore apply for support from two foundations as they have different values and policies which need to fit the organisation's goals.



DIVERSIFY **FUNDING STREAMS**

Organisations need to obtain support from different categories of donors so that they are not dependent on one sector.

Conclusion

The information outlined above helps to explain the donor world and the funds that may be available to non-profits in South Africa. It is sometimes called the “**gift market**”.

It is **important for organisations to diversify their funding streams and to obtain support from different categories of donors so that they are not dependent on one sector.** It is becoming increasingly important for South African organisations to ensure that they have **some local and international support** for their activities. **Reliance on a single donor is extremely risky** as they could withdraw support and the organisation will then experience a financial crisis. Research into the different categories of donors will assist organisations seeking to **identify potential sources of support and the next stage of fundraising has to begin: raising awareness and building relationships** with potential donors.

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