

# **Monitoring Charitable Organizations: Criteria and Assessment Methods**

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## **SUMMARY**

Non-governmental organizations (NGOs) have become an important social counterpart of the economic and political forces in society. Private donations are widely regarded an important factor in respect to the NGOs' independence. But donors have to be aware of the fact that as a rule they are not protected by the state from fraudulent fundraising appeals. That is why private or semi-official monitoring and advisory bodies have been set up in a number of countries. The International Committee on Fundraising Organizations (ICFO) provides a worldwide forum for these national monitoring agencies to meet and share experiences. There are several good reasons for fundraising NGOs to be accountable. Reliable fundraising NGOs should create "informed trust", also because more and more donors are no longer willing to practice "blind trust". Non-reliable NGOs fear accountability because it reveals their weak points. That's why "good" NGOs should be interested and should feel ethically obliged to be accountable to the public. The Members of ICFO are building "bridges of trust" between reliable NGOs and the donors. In respect to the standards on which the relevant monitoring processes are based, there are differences, but the main idea is more or less the same: to provide the donors with dependable, independent information concerning the reliability, the effectiveness and the efficiency of the respective charities. In many countries, the monitoring procedures do not only have external effects but also an internal dimension in the sense of being a controlling instrument. ICFO itself has developed a set of International Standards for those NGOs whose international activities, including fundraising subsidiaries in various countries, are coordinated by an international headquarters. ICFO has set up an appropriate monitoring scheme which has now been tested in two assessments of a large international charity.

## **1. The INTERNATIONAL COMMITTEE ON FUNDRAISING ORGANIZATIONS (ICFO)**

### **1.1 History and Background**

Since the end of world war II the number of non-governmental organizations has increased enormously, notably in the industrialized countries but also in many developing areas. NGOs have become an important social counterpart of the economic and political forces in society. In most industrialized countries they are only minimally regulated by state authorities. Often the only regulatory body involved are the tax authorities which have set up schemes to register NGOs in order to control their fulfilment of the requirements for tax exemption or other concessions.

Therefore donors have to be aware of the fact that as a rule they are not protected by the state from fraudulent fundraising appeals. But as public confidence in NGOs is vital to the success of fundraising, private or semi-official monitoring and advisory bodies have been set up in a number of countries. In 1958 a small group of monitoring agencies met in The Netherlands and decided to create the International Committee on Fundraising Control. The idea was that this would provide a forum for national monitoring agencies to meet and share experiences. In 1990 the name was changed to "International Committee on Fundraising Organizations" and ICFO was registered in Amsterdam as an association under Dutch law. Today ICFO has ten full members and one supporting member (see [Attachment A](#)).

## **1.2 ICFO's Mission**

The purpose of ICFO is to ensure that fundraising for charitable purposes is being organized and performed in a satisfactory manner and that the administration of the collected funds is adequate. ICFO and its Members look after the interests of donors. Most voluntary sector organizations are honest and reliable. There are, however, a few which misuse the donors' money by directing it to activities other than for which it was raised and which deny their donors access to information about their financial activities. Such dishonest activities are not acceptable. This is where ICFO and its national Members can be of help.

Fundraising organizations which are attached to one of the national ICFO Members are bound to follow the guidelines given in accordance with the respective national law and tradition. This may include ethical guidelines for fundraising, principles for accounting, transparency, annual reports, public access, etc. Being monitored and recommended by the national ICFO Member enhances a fundraising organization's potential by obtaining the additional trust which follows adherence to the respective standards.

## **1.3 Structure and Activities**

The various national ICFO Member organizations are independent entities which are not identically organized, but which operate for the same goal within differing national frameworks. Some are based upon fundraising organizations themselves, others upon representation from other institutions, such as consumer organizations etc. Some operate with the authority to give fundraising organizations an official seal of approval for public fundraising - and to take it away.

Within this framework ICFO's activities are as follows:

- sharing information and experience among national monitoring organizations;
- formulating standards for non-governmental charitable organizations working internationally;
- monitoring the international headquarters of those charities on a voluntary basis;
- helping in establishing new national monitoring agencies;
- providing information about the various national monitoring systems (ICFO Comparative Survey) and the activities of internationally working charitable organizations to businesses, foundations, governments, the media, and the general public.

## **2. The Accountability of Donation Soliciting NGOs**

### **2.1 Accountability - Why?**

Most NGOs have been granted tax exemption and therefore - of course - are subject to the fiscal authorities' oversight. Most NGOs are predominantly financed by public subsidies and therefore - of course - are monitored by the respective public administration. On average, NGOs are only slightly

financed by private donations, i.e. approx. 11% of their total income, following new data from the Johns Hopkins Comparative Nonprofit Sector Project<sup>1</sup>, and donations are more often motivated by emotions rather than by rational decisions. So, why should NGOs be accountable to donors?

## 2.2 Six good Reasons for a Charity to be accountable

- I. Donating money for a good cause is mostly motivated by emotions, especially since donors are completely free to decide whether they want to donate or not. All charities, even those who misuse the funds they have raised, can easily appeal to the donor's compassion, using professional advertising techniques. But only honest and reliable NGOs are able to prove their efficiency and effectiveness by sound, transparent information. This is their "unique selling point", in comparison to the non-reliable competitors.
- II. Non-reliable NGOs fear accountability because it reveals their weak points. So, "good" NGOs should be interested and feel ethically obliged to be accountable to the public.
- III. Emotion-based fundraising can be quite successful - on the short run. But only the donor's trust can establish a longtime, stable and efficient relationship to the respective charity. Accountability creates trust.
- IV. In former times, donors have often practiced "blind trust" in respect "their" charity, especially when the donations were part of their religious conviction. Nowadays, donors are more and more flexible in respect to their selection of a charity, but increasingly want to feel as close as possible to "their" project. This growing tendency towards cause-restricted funds creates a very special need for accountability.
- V. Advertising and administrating cause-restricted funds is much more expensive than the handling of free donations. NGOs should make the donors aware of this fact and should try to attract as much free donations as possible - by practicing accountability in respect to their entire organization, and thus creating "informed trust".
- VI. Last but not least, there are of course numerous NGOs for which donations are a very important, if not the most important financial resource. For them, the five reasons mentioned above are the more vital and important.

## 3. Monitoring Charitable Organizations

### 3.1 Voluntary Monitoring and Accountability

Even when charities are perfectly accountable towards the public, many donors have difficulties to fully understand the often very detailed information and to compare the organizations they are interested in. That is why the assistance of private monitoring agencies is demanded by a still increasing number of donors as well as by the charities themselves. The Members of ICFO are building "bridges of trust" between reliable NGOs and the donors.

Although there is a shortage of thorough research on what motivates people to give, or prevents them from giving, there are surveys from Austria, Britain and Germany which indicate an important role of independent information and respective advice to donors: in a recent survey by ICM Research for the Media Trust (U.K.), 73% of respondents said they would be more likely to give to a

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<sup>1</sup> Salomon, Lester M.; Helmut K. Anheier et al.: Der Dritte Sektor. Aktuelle internationale Trends. The Johns Hopkins Comparative Nonprofit Sector Project, Phase II, page 24, Gütersloh/Germany 1999 (ISBN 3-89204-457-0)

charity if they had independent information about charity performance, and this figure was 90% amongst those who had never given to charities<sup>2</sup>. A German survey showed that the seal-of-approval issued by the Deutsches Zentralinstitut für soziale Fragen (DZI) is regarded six times more important by the donors than testimonials from VIPs.<sup>3</sup> And an Austrian survey indicated in 2000 that 58% of the respondents would prefer a charity which has been awarded a seal-of-approval, 25% are not interested in that information, and 17% answered "don't know".<sup>4</sup>

### 3.2 Systems, Methods and Criteria

The idea - some people in NGOs would say: the dreadful vision - of a common worldwide fundraising market has not yet become reality, except very few internationally operating and donation soliciting NGOs. Even in the European Union the national charity sectors are still separated from each other, primarily due to differing tax systems. So, it is not surprising that the national monitoring agencies which have joined ICFO also still show significant differences, although having a lot of characteristics in common already.<sup>5</sup>

One of the most differing points is the structure of the monitoring agencies themselves, i.e. their organizational structure, their financial sources and their target groups (see attachment B). The information concerning "target groups" gives evidence that in nearly all respective countries there are public benefit sectors which are not covered by a seal of approval. In most cases at least the following charity sectors are subject to donor-related monitoring: social/humanitarian affairs and environmental protection.

In respect to the criteria, i.e. the standards on which the relevant monitoring processes are based, there are also differences, but the main idea is more or less the same: to provide the donors with dependable, independent information concerning the reliability, the effectiveness and the efficiency of the respective charities. In general, the standards (see attachments C and D) refer to

- financial means,
- management and supervisory structures,
- communication and advertising.

In addition to the criteria described in attachment C, significant standards in common can be stated as follows:

- There are no conflicts of interests for the members of the board of the applying charities.
- Financial statements have to be audited by someone with a defined and specific qualification.
- So far, there is no obligation the reserves to be placed into ethical funds.
- The information to the public has to be accurate, not-misleading and it is forbidden to put any pressure on donors.
- Fundraising campaigns have to respect people's dignity.
- The public has to be given the opportunity to seek information about the management and accountability.

Presently there is no monitoring of the quality of the statutory activities themselves. The ICFO Members check the management structures and the performance of internal supervisory bodies,

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<sup>2</sup> Brearley, Chris: Confidence in Fund-Raising Charities. A submission to the PIU project on modernising the legal and regulatory framework of charities and the voluntary sector with some suggestions for raising confidence in fund-raising charities. November 2001 (available at the Consumers' Association, 2 Marylebone Road, London NW1 4DF, U.K.)

<sup>3</sup> Schneider, Willy: Die Akquisition von Spenden als eine Herausforderung für das Marketing, Berlin 1996, page 224-226.

<sup>4</sup> Österreichische Forschungsförderung für Entwicklungshilfe (Ö FSE): Spendenwesen in Österreich. Spendenmarkt und Spendenstudie 2000. Wien 2000, page 21.

<sup>5</sup> The British ICFO Member, Accrediting Bureau for Fundraising Organisations (ABFO), is presently reorganizing its entire structure and monitoring system. Therefore it is not included in the comparative information given in this paper.

because these elements are widely regarded to be decisive factors for competent planning and successful realization of the projects. CBF (The Netherlands) will shortly include requirements concerning quality control in their monitoring process.

The differences of the monitoring procedures (see attachment E) are primarily due to the various structures of the monitoring agencies. An important common point is that the first step, i.e. the application always comes from the respective charity itself. So, the monitoring process is completely voluntary. But sometimes there are third parties, besides the donors, which recommend the charities to apply for such independent monitoring. For example, the German Federal Ministry on Economic Cooperation and Development as well as the German Foreign Office have eased their own application procedures (concerning public subsidies) for those charities which have been awarded the DZI Seal-of-Approval. In many countries, the monitoring procedures do not only have external effects but also an internal dimension in the sense of being a controlling instrument, notably in those cases where the monitoring is documented most detailed and the subsequent confidential report is submitted to the charity. All the schemes comprise annual monitoring, but not always in a "full-size" manor.

### **3.3 Monitoring of Charities working internationally**

ICFO has developed a set of standards (ICFO International Standards, see [www.icfo.de](http://www.icfo.de)) for those NGOs whose international activities, including fund raising subsidiaries in various countries, are coordinated by an international headquarters. If the headquarters is a well-established organization in another country, an ICFO member may very well be monitoring it in that country and thus provide accountability for the funds raised.

The situation is different when there is no ICFO Member organization existing in the respective country or when the national accreditation scheme is not suitable for that headquarters. In response to this, ICFO has set up a monitoring process specifically for these international fundraising bodies. That scheme has now been tested in two assessments of a large international charity. In 1998 and in 2000 the Foster Parents Plan International Inc. was assessed by ICFO auditors and found to meet the ICFO International Standards. The next reassessment takes place in 2003.

Although the ICFO Standards are rather general and relatively unspecific, they have proven to be a sufficient basis for an intense and sound assessment process. ICFO has decided to put these standards into practice for a while before reviewing and maybe revising them based on the experiences of the assessments themselves. ICFO welcomes any comments and suggestions from interested parties on how to extend and improve the standards.

Attachments A - E  
(6 pages)

## ICFO Members

<b>Austria</b>	Österreichische Forschungsstiftung für Entwicklungshilfe (Ö FSE) Berggasse 7 A-1090 Wien (founded 1967)	Tel: +43 1 317 401-0 Fax +43 1 317 4015 <a href="mailto:office@oefse.at">office@oefse.at</a> <a href="http://www.oefse.at">www.oefse.at</a> Contact: Gerhard Bittner
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<b>France</b>	Comité de la Charte (CC) 133 rue Saint-Maur F-75541 Paris Cedex 11 (founded 1989)	Tel: +33 1 53 36 35 02 Fax +33 1 47 00 84 52 <a href="mailto:ccharte@comitecharte.org">ccharte@comitecharte.org</a> <a href="http://www.comitecharte.org">www.comitecharte.org</a> Contact: André de Montalembert
<b>Germany</b>	Deutsches Zentralinstitut für soziale Fragen (DZI) Bernadottestr. 94 D-14195 Berlin (founded 1893)	Tel: +49 30 839001-0 Fax +49 30 831 47 50 <a href="mailto:sozialinfo@dzi.de">sozialinfo@dzi.de</a> <a href="http://www.dzi.de">www.dzi.de</a> Contact: Burkhard Wilke
<b>The Netherlands</b>	Centraal Bureau Fondsenwerving (CBF) Anthony Fokkerweg 1 NL-1059 CM Amsterdam (founded 1925)	Tel: +31 20 4170 003 Fax +31 20 6140 791 <a href="mailto:mail@stichtingcbf.nl">mail@stichtingcbf.nl</a> <a href="http://www.cbf-keur.nl">www.cbf-keur.nl</a> Contact: Jos Zwartjes
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<b>Sweden</b>	Stiftelsen för Insamlingskontroll (SFI) Odengatan 65 Box 6417 S-11382 Stockholm (founded 1943)	Tel: +46 8 506 11270 Fax +46 8 506 11274 <a href="mailto:sfi@far.se">sfi@far.se</a> Contact: Kim Österberg
<b>Switzerland</b>	Stiftung ZEWO (ZEWO) Lägerstr. 27 CH-8042 Zürich (founded 1934)	Tel: +41 1 366 99 55 Fax +41 1 366 99 50 <a href="mailto:info@zewo.ch">info@zewo.ch</a> <a href="http://www.zewo.ch">www.zewo.ch</a> Contact: Ernst Zuest
<b>U.K.</b>	Accrediting Bureau for Fundraising Organisations (ABFO) c/o Andrew Reading 2 Marylebone Road London NW1 4DF (founded 1995)	Tel: +44 20 7770 7110 Fax +44 20 7770 7650 <a href="mailto:Andrew.Reading@which.co.uk">Andrew.Reading@which.co.uk</a> Contact: Andrew Reading
<b>U.S.A.</b>	Evangelical Council for Financial Accountability (ECFA) 440 W. Jubal Early Drive, Suite 130 Winchester, VA 22601 (founded 1979)	Tel: +1 540 535 0103 Fax +1 540 535 0533 <a href="mailto:info@ecfa.org">info@ecfa.org</a> <a href="http://www.ecfa.org">www.ecfa.org</a> Contact: Paul Nelson
<b>Supporting Member:</b>		
<b>U.K.</b>	Charities Aid Foundation (CAF) Kings Hill1 West Malling Kent ME194TA (founded 1924)	Tel: +44 17 32520 000 Fax +44 17 32520 001 <a href="mailto:enquiries@caf.charitynet.org">enquiries@caf.charitynet.org</a> <a href="http://www.charitynet.org">www.charitynet.org</a> Contact: Steven Ainger

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Table 1: Organizational Structure of ICFO Member Organizations

<b>Country</b>	<b>Agency</b>	<b>Structure and Mission</b>	<b>Finances</b>	<b>Target Charities</b>
<b>Austria</b>	Ö FSE	foundation, full-time staff, library and documentation center for development aid; Ö FSE has initiated and supported the establishment of the Austrian Seal-of-Approval and reviews its development	75% public subsidies 25% other subsidies	development aid
	(Austrian Seal-of-Approval)	(Austrian Seal was established as a cooperation of seven NGO umbrella organizations; issued by the Austrian Chamber of Auditors; based on the extended audit of the regular auditor of the respective charity, i.e. on direct behalf of the charity itself)	extended audit is paid by each charity itself	all public benefit
<b>Canada</b>	CCCC	association, primarily of evangelical charities; full-time staff and volunteers	100% fees	christian
<b>France</b>	CC	association, members are the audited charities; full-time staff and volunteers	100% fees	social, humanitarian
<b>Germany</b>	DZI	foundation; full-time staff; not only charity monitoring but also library, literature database and publishing department covering the whole sector of "social work"	65% public subsidies 35% own income (fees, interests)	social, humanitarian
<b>The Netherlands</b>	CBF	foundation; full-time staff	45% public subsidies 40% fees 15% other subsidies	social, humanitarian, environmental, health
<b>Norway</b>	IK	association, members are the audited charities; full-time staff and external auditors on behalf of IK	100% fees	all public benefit, but not political
<b>Sweden</b>	SFI	foundation, full-time staff and auditors on behalf of SFI	100% fees	all public benefit, but not predominantly political and not contrary to ethical standards
<b>Switzerland</b>	ZEWO	foundation, full-time staff	67% fees 27% interests 6% public and corporate subsidies	all public benefit, but not predominantly political, religious or ideological
<b>United Kingdom</b>	ABFO	association, staff by Consumers' Association	100% subsidies by Consumers' Association and CAF	all public benefit
<b>USA</b>	ECFA	association, members are the audited charities; full-time staff	100% fees	evangelical

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Table 2.1: Selected Standards of ICFO Member Organizations

<b>Country/ Agency</b>	<b>Minimum Number of Board Members</b>	<b>Board Membership must be an unpaid activity</b>	<b>Ban on Family Links in the Board</b>	<b>Possibility of being Board Member and CEO</b>
<b>Austria</b> (Austrian Seal-of-Approval)	5	yes	yes	no
<b>Canada</b> CCCC	5	yes	no, but it should be seldom	no, unless without remuneration
<b>France</b> CC	3	yes, but president and treasurer must be unpaid	no	no
<b>Germany</b> DZI	no such number	no, but if anyone is being paid, an additional supervisory body is required	no, but if there are links, an additional supervisory body is required	yes
<b>The Netherlands</b> CBF	5	yes, except CEO who can be board member and can be paid as a staff member	yes	yes, a minimum of two persons, and a supervisory body of 3 persons minimum
<b>Norway</b> IK	3	no	yes	yes
<b>Sweden</b> SFI	3	no	no	yes, more or less common
<b>Switzerland</b> ZEWO	5 usually, but 7 if there are family links	yes	accepted between two members at most, but then the board must have 7 members	no
<b>USA</b> ECFA	5 (the law is 3)	yes, except CEO who can be board member and can be paid as a staff member	yes	yes, but it is not recommended

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Table 2.2: Selected Standards of ICFO Member Organizations

<b>Country/ Agency</b>	<b>public access to financial statements</b>	<b>Ceiling on overhead ex- penses</b>	<b>Revenues pre- sented separate- ly for each fund- raising activity</b>	<b>Ceiling on fun- draising costs</b>	<b>Commissions for the collected funds permitted?</b>
<b>Austria</b> (Austrian Seal- of-Approval)	yes	no	yes	no	yes
<b>Canada</b> CCCC	yes	20% of total income (including fundraising costs) required by Inco- me Tax Act	no	20% of total income (including admini- stration costs) requi- red by Income Tax Act	no
<b>France</b> CC	yes	no	yes, or for each country	no	no
<b>Germany</b> DZI	no	35% of total expenditure (in- cluding fundrai- sing costs)	no, but income and expenditure must be presented in sufficient detail	35% of total expen- diture (including administration costs)	yes, under severe conditions
<b>The Netherlands</b> CBF	yes	no	no	25% of fundraising income	yes
<b>Norway</b> IK	yes	"reasonable"	yes, for each cate- gory of activities	no	yes
<b>Sweden</b> SFI	yes	yes	no	yes	commissions are not used in Sweden
<b>Switzerland</b> ZEWO	yes		yes	no	yes
<b>USA</b> ECFA	yes	no	no	no	no

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Table 3: Monitoring Procedures

<b>Country/ Agency</b>	<b>Who conducts the monitoring?</b>	<b>Monitoring fees</b>	<b>on-site visits in headquarters</b>	<b>Documentation</b>	<b>Appeal against decision</b>
<b>Austria (Austrian Seal-of- Approval)</b>	the regular auditor of the charity, on direct behalf of the charity	additional audit costs are charged by the auditor	yes	included in the regular auditor's report	yes, Chamber of Auditors
<b>Canada CCCC</b>	staff members, assi- sted by volunteers		every five years, special investiga- tion when com- plaints	specific informati- on if applicati- on is rejected	no
<b>France CC</b>	volunteers, coordina- ted by staff members	annual mem- bership fee: EUR 1,525 - 12,000	yes	draft report sub- mitted for com- ments and final report submitted	no
<b>Germany DZI</b>	staff members	annual audit fee: EUR 500 - 5,000 initial fee: 1,000	not regularly, but special investiga- tion when com- plaints	extensive commu- nication to clarify open questions; final report sub- mitted	yes, appealing committee
<b>The Netherlands CBF</b>	staff members	annual audit fee: EUR 250 - 5,000 initial fee: 3,630	not as a rule	draft report sub- mitted for com- ments and final report submitted	yes, appealing committee
<b>Norway IK</b>	staff members, assi- sted by auditors or other professionals	annual mem- bership fee and compensation for additional audit costs	not regularly, but special investiga- tion when com- plaints	final report sub- mitted to the charity's auditor	no
<b>Sweden SFI</b>	auditors, on direct behalf of SFI	compensation for external audit costs	yes, if necessary	SFI is not obliged to explain decisi- ons	no
<b>Switzerland ZEWO</b>	staff members	initial fee: EUR 2,666 annual fee: 500 - 11,000 recertification (every 5 years): EUR 1,533	every five years, special investiga- tion when com- plaints	brief report	yes, appealing committee
<b>USA ECFA</b>		annual mem- bership fee: US-\$ 290 - 8,000	every five years, special investiga- tion when com- plaints	continuing dialo- gue	yes, ECFA Board of Directors

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