
Charity Rating Agencies

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Workshop on :Reporting on the difference we make

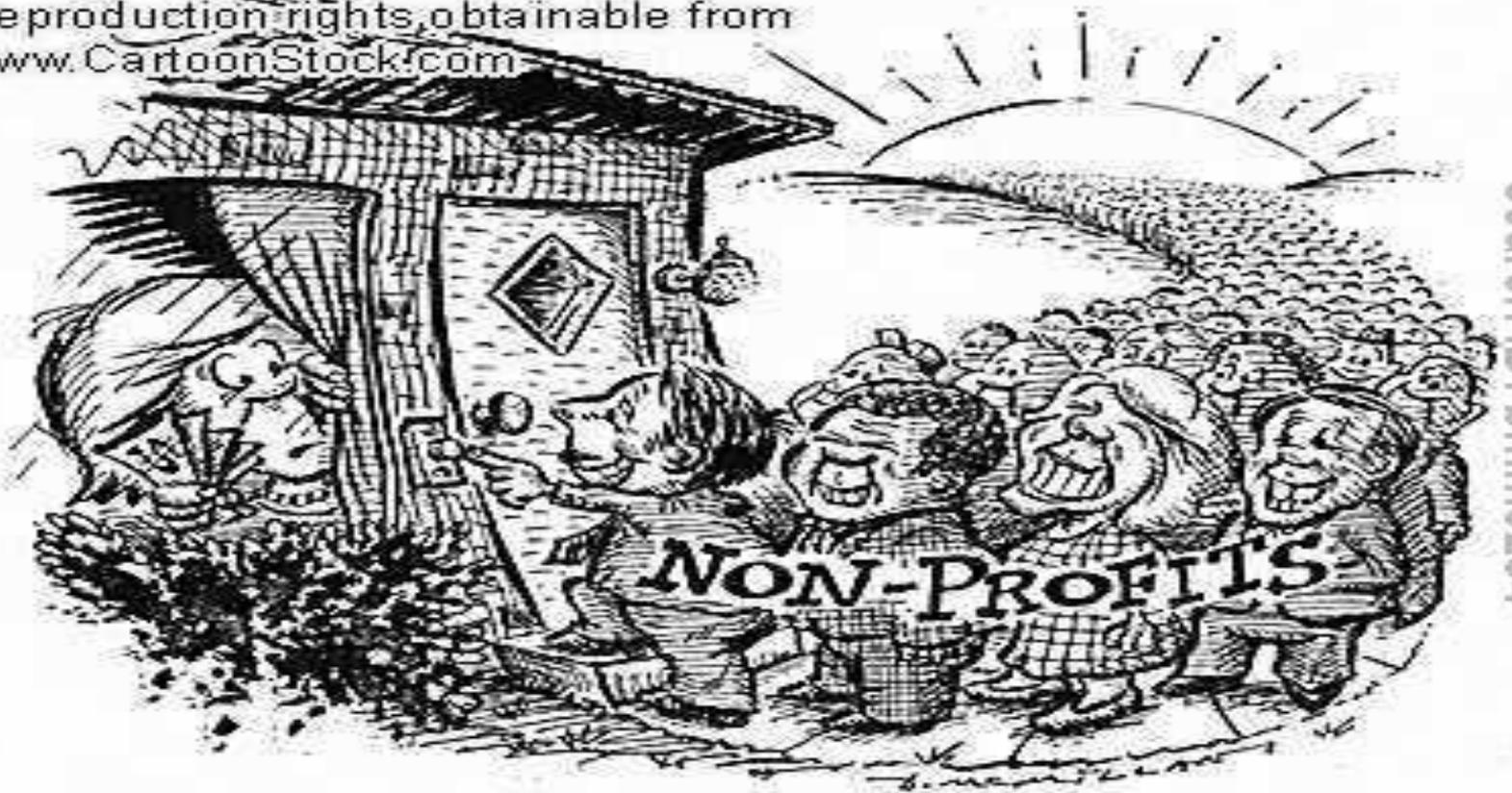
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Overview

1. Why is there a need for rating agencies?
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Why is there a need for rating agencies?

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Why is there a need for rating agencies?

- Most funders and donors don't have the resources needed to:
 - Conduct due diligence;
 - Establish specific performance criteria for funding; and
 - Monitoring post grant performance.
- In most cases giving comes from the heart, i.e. given hopefully, rather than invested wisely.

What do rating agencies do?

- Ratings agencies provide a forum for donors to access information that may help them in their decision as to which charity to donate to.
- Rating agencies obtain and interpret accounting data and other information about charities and report their analysis, in the form of ratings, to help donors select among the many organisations soliciting contributions.

Rating Agencies

Information Repository Organisation

- Guide Star: US & UK <http://www.guidestar.org.uk>

Rating Agencies

- Better Business Bureau (BBB) Wise Giving Alliance: US <http://www.bbb.org/us/charity/>
- Charity Navigator: US <http://charitynavigator.com>

GuideStar (UK & US)

- Focus on reporting basic information such as:
 - How the charity spends its money; and
 - The charity's activities and recent achievements.
- GuideStar is considered credible because:
 - All relevant information is sourced from the charities' annual reports.
 - Additionally, charities have the opportunity to update and amend their information.

Refer: page 2 Handout: The Variety Club Children's Charity (UK)

vs.

page 3 Handout: Charity Commission's page on above charity

BBB Wise Giving Alliance (US)

- Does not rank charities but seeks to assist donors in making informed judgements about charities.
- Provides information on charities'; programmes, governance; fund raising; and financials. *(refer H/O pp 4-5)*
- Also evaluates charities based on twenty 'Standards for Charity Accountability'. *(refer H/O pp 6-7)*
 - Standards 6 & 7 relate to effectiveness

*Refer: page 4 Handout: Variety – The Children's Charity of US
Does not meet 2 standards*

- National Charity Seal programme:
 - Charities pay yearly fee to display seal on their website and other information if they have met the Standards.

Charity Navigator (US)

- Numbers based rating system (zero to 4 stars)
- The information used to calculate ratios is obtained from the Charities' IR990.
- Ratings on assessments of charities':
 - Organisational efficiency i.e. spending less than they raise and the financial health of charities.
 - Organisational capacity i.e. how long a charity can sustain its current programmes without generating new revenue.

Refer: pp. 8-9 Handout: Variety the Children's Charity of Sthn California

Problems with current ratings

- For rating agencies to be successful in comparing charities financial statements, they need a common conceptual reporting framework in which all charities operate.
- Up to now Agencies have focused on financial health in relation to outputs, i.e. efficiency, which can provide a narrow view of charities.
- Donors should investigate the charity's impact on the lives of their beneficiaries - which they are not doing.
- Problem with no outcomes data available from third parties (e.g. Charities Commission Annual Return) so need to get data from charity.

Example of Output focus problem

Avon Product Foundation's breast cancer walks.

- Did not meet the BBB Wise Giving Alliance guideline of spending no more than 35% of donations on fund raising.
- Avon cut back on fund raising expenses and in 2002 dismissed the organisation that ran the walks on its behalf. Avon then became an 'accredited BBB charity'
- However, charity donations from the walks fell from USD145 million in 2002 to USD27 million in 2003.
- If the rating agency had focused on outcomes rather than 'efficiency', potentially more beneficiaries' lives would have been changed with the USD145 million compared with the USD27 million.

Possible Solution – Social Investing

- Social investing seeks to create value for beneficiaries.
- *“In contrast to social investing, doing “charity” requires little work and provides great emotional rewards” (Hunter, D. E. K. & Butz, S. (2009) Guide to Effective Social Investing, p. 7)*
- Internationally legislation has been proposed that focuses on social value e.g.:
 - UK: Public Services (Social Enterprise and Social Value) Bill – proposes that all public sector contracts include provisions relating to social outcomes and social value.
 - US: Nonprofit Sector and Community Solutions Act s4(f)(1)(A) – proposes a study on how NFP & government can work together to achieve better community outcomes.

Possible Solution – ‘Standards’

New Zealand

- NZICA (2007) Service Performance Reporting. Technical Practice Aid No. 9

UK

- New Philanthropy Capital (2010) The little blue book:
 - Charity effectiveness grading grid

USA

- Hunter, D. E. K. & Butz, S. (2009) Guide to Effective Social Investing (available at www.alleffective.org):
 - Rating tool with 26 weighted questions

Possible Solution: Evaluation Organisations

- New Philanthropy Capital (UK) (www.philanthropycapital.org)
 - For a fee help charities decide what to measure, how to measure it and how to analyse and communicate the data.
- GuideStar Data Services: (UK) (<http://www.gs-ds.co.uk>)
 - For a fee provides market analyses and peer benchmarking for charities.
- Alliance for Effective Social Investing (www.alleffective.org/)
 - Aim is to drive more funds to high performing NFPs by helping donors adopt sound social investing by use of rating tool.
- Globalgiving (www.globalgiving.org)
 - Evaluate projects to ensure significant social impact
- The South African Social Investment Exchange (www.sasix.co.za)
 - Carefully select projects that provide a ‘social return’
- Social Impact Analysts Association: Being developed

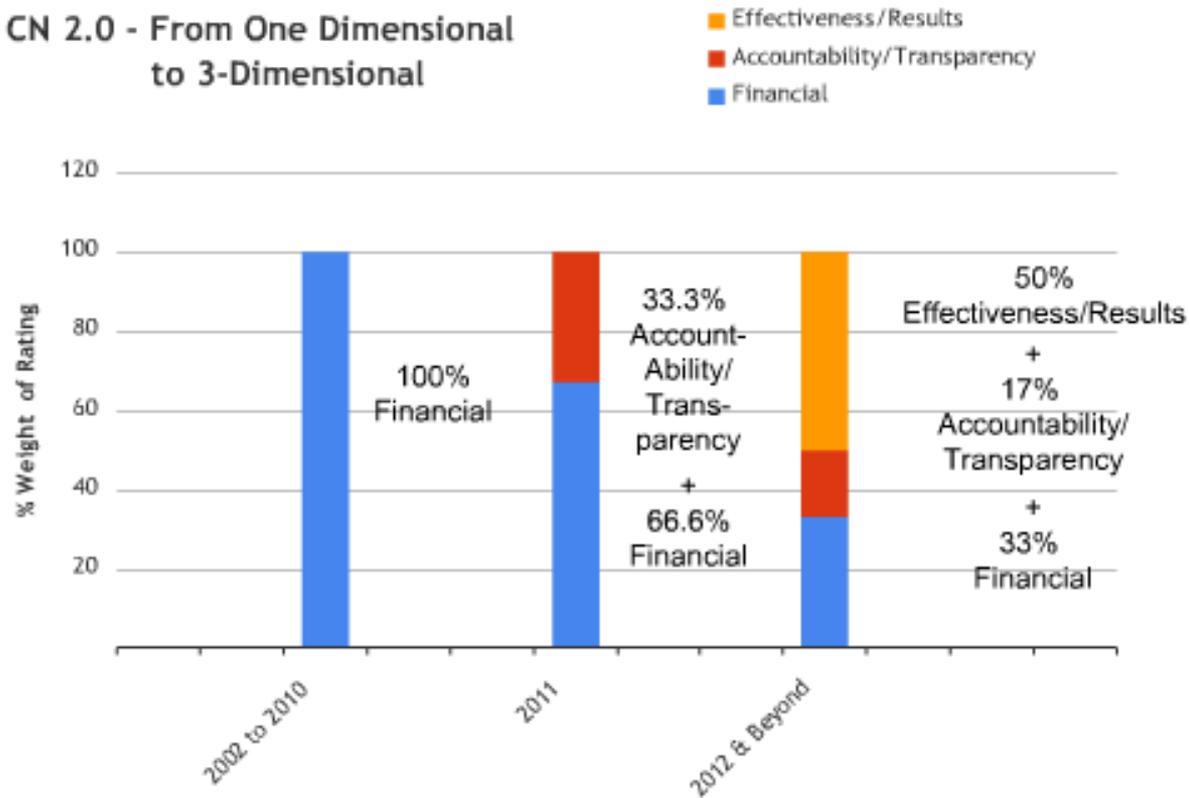
Possible solution – CN2.0

- Charity Navigator is looking at broadening their evaluation system beyond financial health to include *accountability* and *outcomes*”
- Charity Navigator’s future rating system considers that a social investor must:
 1. Determine whether the charity is financial healthy;
 2. Review the charity’s accountability and transparency practices; (pp. 10 & 12 H/O)
 3. Assess the charity’s ability to deliver social values i.e. change for the better their beneficiaries. (pp. 11 & 12 H/O)

CN 2.0



CN 2.0 - From One Dimensional to 3-Dimensional



CN 2.0

| CHARITY NAVIGATOR | | 2.0 FINANCIAL (33 Points) | | ACCOUNTABILITY/ TRANSPARENCY (17 Points) | EFFECTIVENESS/ RESULTS (50 Points) |
|-------------------|-------------------|---------------------------------------|------------------------------------|--|--|
| | | EFFICIENCY (10) | SUSTAINABILITY (23) | Web Site & 990s | Keystone/NPC 6 Questions & 3 rd Party Reviews |
| | | Overhead (3 yr. moving average) | •Working Capital •Current Ratio | | |
| ★★★★ | Low Risk | 27 – 33 | | 15 – 17 | 38 – 50 |
| ★★★★☆ | Moderate Risk | 22 – 26 | | 13 – 14 | 26 – 37 |
| ★★★☆☆ | Intermediate Risk | 18 – 21 | | 11 – 12 | 12 – 25 |
| ★★☆☆☆ | Significant Risk | 13 – 17 | | 9 – 10 | 8 – 11 |
| 0 Stars | High Risk | < 13 | | < 9 | < 8 |

Progress ?

United States:

- Johns Hopkins University 2010 survey of Nonprofits shows that 85% of participants measured programme effectiveness.

New Zealand:

- NZICA's 2009 & 2010 winner of 'Best Annual Not-For-Profit Report'
 - Agriculture ITO's report focused on outcomes reporting
- CAG (2008) The Auditor-General's observations on the quality of performance reporting
 - poor quality of non-financial performance reporting
- CAG (2010) Performance audits from 2008: Follow-up report: Satisfied with the responses to the findings of the 2008 report.

Progress (con-t)?

New Zealand (con-t)

- CAG (2010) Department of Internal Affairs: Administration of two grant schemes, Performance audit report, p. 30:
 - Lottery Grants scheme at first stages of implementing a new outcomes framework.
- OCVS (2010) Code of Funding Practice
 - Criterion 7.1 The funding agreement must identify the outcomes and expectations for the activities covered by the agreement.
- The Treasury (2010) Preparing the Statement of Intent: Guidance and Requirements for Crown Entities:
 - Impacts, outcomes and objectives (para 3.4) must be part of Statement of Intent.

Closing remark

“All charitable givers must use their heads and get the facts, so that their hearts are not broken in the process of trying to help others.”

Ken Berger, CEO Charity Navigator (2/11/09)

QUESTIONS?