PRESS RELEASE, EMBARGOED UNTIL 00.01 2ND May 2013

Good charities spend *more* on administration than less good charities spend

The popular idea that money spent by charities on administration is 'wasted' is wrong.

Many people believe that charities waste money on 'administration', and hence that the best charities have low administration spend. This leads some charities – who should know better – to publicise their low admin costs, and to talk about the amount of their money which 'goes straight to the cause'.

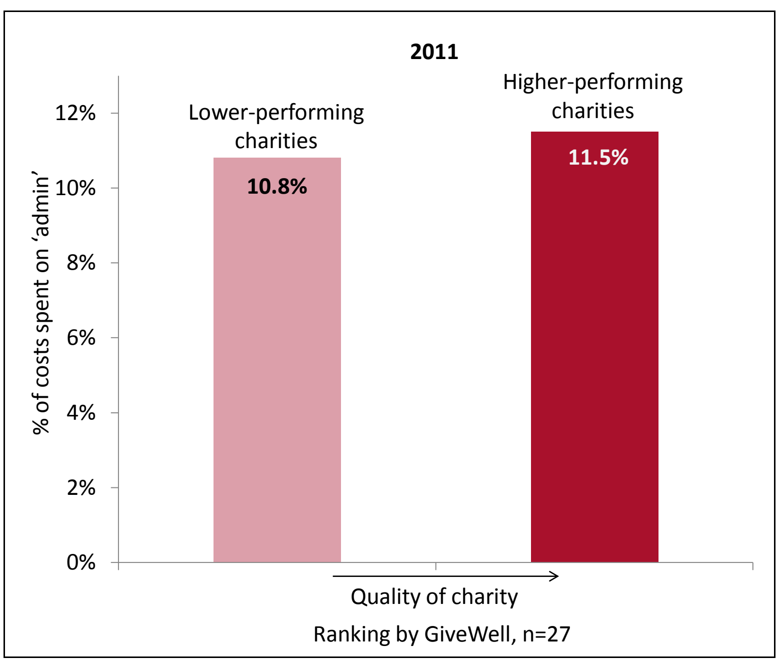
This is wrong, as analysis from Giving Evidence shows. We show – for the first time – that high-performing charities spend ***more*** on administration costs than weaker ones do. This analysis by Giving Evidence is the first empirical data to be published about what administration costs indicate about charities' performance.

The popular belief that high admin costs indicate poor performance is hence shown to be wrong. So it's unarguably wrong-headed of Parliament's Public Accounts Committee to be considering limiting charities' admin costs. It's unarguably wrong of donors such as Gina Millar to suggest that admin costs be capped. The data indicate that such caps would nudge donors towards choosing weaker charities, at untold cost to their beneficiaries. It's time for this to change.

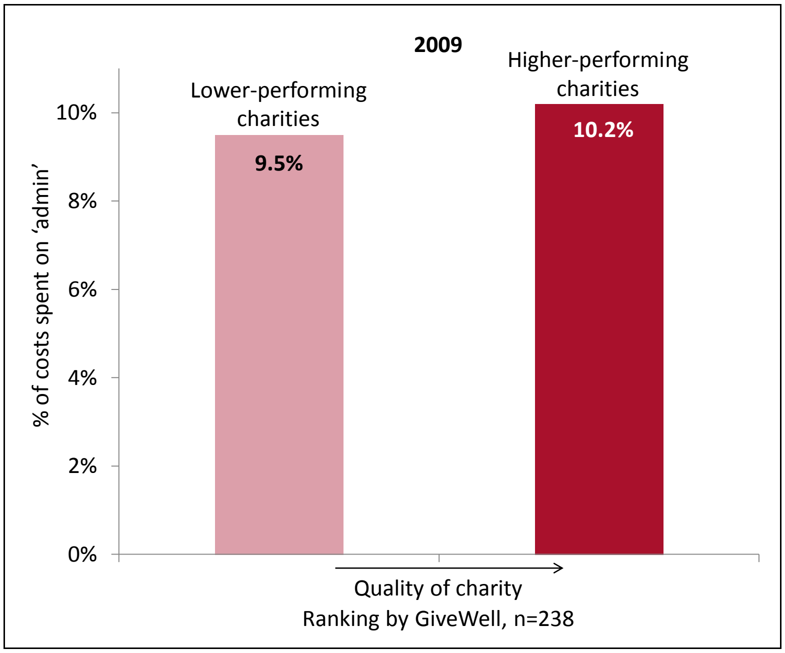
The analysis

Judging whether a charity is good is hard. Some of the most rigorous and detailed charity analysis on Earth is by GiveWell, a US non-profit run by former Wall Street analysts, whose analysis of the charities it reviews often runs to dozen of pages. GiveWell looks for various sensible indicators of quality, including: a strong documented track record of impact; highly cost-effective activities; a concrete need for more funds.

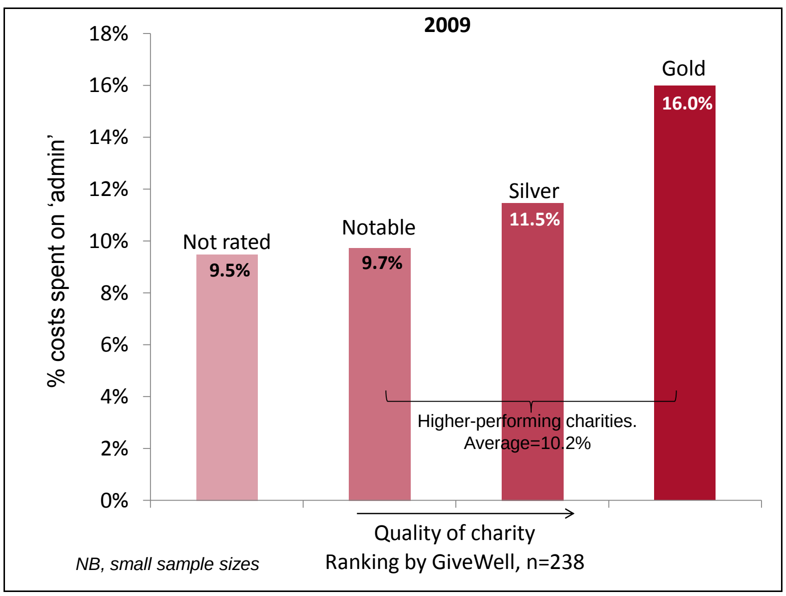
It turns out that charities which GiveWell reviewed in 2011 and recommended, spend 11.5% of their costs on administration, on average. Charities which GiveWell reviewed and didn't feel confident recommending spent less on administration, only 10.8% on average.



This is no freak result. The same pattern was true in 2009:



In 2009, GiveWell had four levels of ranking, and the pattern is even more pronounced if we use those:



The clear conclusion is that ***low admin costs do not signal that a charity is good. They signal the converse***.

Case studies

Imagine a water charity which operates in several less developed countries to improve irrigation. If it's run well, it will have a system for recording what works and what doesn't in particular circumstances, and for sharing that learning between its various country offices. Now, should the costs of that system count as 'administration'? On one hand, the system isn't directly helping people: it probably involves databases and conference calls, rather than pipes and water. As a result, it may well be classified as 'administration' in a charity's accounts. However, the system will reduce the charity's costs and increase its effectiveness, and therefore certainly isn't waste. Aha – in this case, money spent on administration increases performance.

Let's consider finance costs. Perhaps the Finance Director purchases a better invoice-handling system. Same thing. That system should reduce work for finance staff by reducing processing times and/or mistakes, which frees up their time (and/or frees up money) to improve the quality and quantity of service to beneficiaries.

Let's take a real example. Chance UK provides mentors for primary school children who are at risk of developing anti-social behaviour and possibly being permanently excluded from school (formerly called 'being expelled'). The charity spent some money evaluating its work. It found that male mentors were best suited to children with behavioural difficulties, whereas children with emotional problems responded best to female mentors.[i] Again, the money spent on that evaluation would normally count as 'admin', but for the children receiving support which has improved because of that insight, it was money well spent.

Caroline Fiennes, Director of Giving Evidence and author of acclaimed book *It Ain't What You Give, It's The Way That You Give It* – which discusses admin costs in more detail – says: "If we look at what is included in the admin figure – such as systems for capturing learning, for improving, for reducing costs – we can understand the findings: it's spending on those things which enables good performance. Scrimping on them is often a false economy.

"Assessing a charity by its admin spend is like assessing a teacher on how much chalk they use, or assessing a doctor on how many drugs they prescribe: they're easy measures but don't relate to performance.

"This isn't to say that there isn't waste in charities. There is: masses, much of it avoidable, and good charities try to avoid it. But don't expect to find it clearly labelled in the financial statements."

Michael Green, co-author of *Philanthrocapitalism: How Giving Can Save The World* says: 'A bad charity with low administration costs is still a bad charity'.

Susan Hitch[ii], trustee of various organisations including the Sigrid Rausing Foundation says: 'I'm often worried if a charity claims very low admin costs. Either they're fudging it to try to please a funder, which doesn't promise much of a relationship; or their admin really is rock bottom, in which case they're unlikely to be well run. You can't run an effective organisation with barely any core. Grants are usually more effective if the charity is spending a realistic amount on its core costs.'

Albert Einstein[iii]: 'Not everything that counts can be counted. Not everything that can be counted counts.'

The clear implication is that donors shouldn't favour charities with low administration costs. The empirical evidence provided here shows that they're likely to be low performers.

____

Contact:

Caroline Fiennes, Director, Giving Evidence

www.giving-evidence.com

caroline.fiennes@giving-evidence.com, 07803 954512

____

Notes to editors

1. **Giving Evidence** is a consultancy and campaign, working to ensure that **giving** is based on **evidence.** Founded by Caroline Fiennes, author of acclaimed book *It Ain't What You Give* and award-winning charity CEO, we work with foundations, individuals, families and companies on using evidence to improve performance. We have worked with donors on four continents on a wide range of issues, and publish ground-breaking analysis.
2. The admin percentages are from Charity Navigator for US-registered charities; where not available, from Guidestar; where not available from the Charity Commission; or lastly the charities' own filings. Where we couldn't find data on admin spend, the charity is excluded from the analysis.
3. Why do the admin percentages in both recommended and non-recommended charities increase from 2009-11? We don't know. But we suspect that, as GiveWell has continued its search for the best charities, it's come across better and better charities: many which were recommended in 2009 have been superseded by organisations identified since then. This would be consistent with the finding from 2009 that good charities spend more on admin than do less good ones: the charities recommended now outperform those recommended in 2009, and their high performance is a result of spending on understanding the problem their trying to solve, and tracking and improving their performance, most of which would count as 'administration'.
4. How then *should* donors judge a charity's performance? Currently it's hard. In the UK, and most countries, there is no reliable 'ratings agency'. Charity Navigator in the US, the world's largest charity ratings agency, is moving towards a model which looks at many aspects of a charity's performance, including transparency and results. (Disclosure: Caroline Fiennes serves on its Advisory Board).
5. The data behind this analysis are published at www.giving-evidence.com The analysis draws on an approach developed by Professor Dean Karlan of Yale University, discussed on the Freakonomics blog. (Disclosure: Karlan and Fiennes collaborate, e.g., this piece in Stanford Social Innovation Review.)

ADVICE ON Giving Evidence BASED ON

[i] 'Chance UK': Brookes, M., 2009, *'Measuring impact, why it matters and why so many organisations need to sharpen up their performance'*, Speech at CharityComms seminar 'Measuring Impact, Communicating Results' www.philanthropycapital.org/downloads/pdf/CharityComms_why_measuring_impact_matters_FINAL.pdf
[ii] 'Susan Hitch': quoted in *It Ain't What You Give*, Chapter 2.
[iii] 'Not everything that counts': Cameron W.B., 1963, *Informal Sociology: A Casual Introduction to Sociological Thinking*, Random House.