



Reference Guide
on
Best Practices for
Charitable Fund-raising
Activities

Social Welfare Department
October 2004

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I. Introduction

Background

1. To improve the transparency and accountability of charitable fund-raising activities, the Social Welfare Department (SWD) has conducted a public consultation exercise between 19 August and 30 September 2003 through a consultation paper on a proposed Reference Guide for Charities on Best Practices for Fund-raising Activities together with a Public Register system. Having carefully considered the feedback of the public and the Charities, and on the advice of the Legislative Council Panel on Welfare Services, the Social Welfare Advisory Committee (SWAC) and the Lotteries Fund Advisory Committee (LFAC), SWD decided to promulgate a Reference Guide on Best Practices for voluntary compliance of the Charities* as a first step. Charities may flexibly adopt the Guide fully, partly, or not at all. The public is encouraged to use the Guide as a reference against which the performance of a Charity in fund-raising can be measured. SWD would conduct a review in a year's time after promulgation to ascertain its progress.

*Note: Charities or charitable organisations are normally defined as those tax-exempted institutions covered under Section 88 of the Inland Revenue Ordinance. (List of charitable institutions and trusts of a public character, which are exempt from tax under section 88 of the Inland Revenue Ordinance can be accessed via the following website: http://www.ird.gov.hk/eng/tax/ach_index.htm)

Role of Lotteries Fund Advisory Committee (LFAC)

2. LFAC will advise the Director of Social Welfare (DSW) on charitable fund-raising issues, assist him to draw up and update the Reference Guide as and when necessary and to review the operation of the system.

The Reference Guide on Best Practices for Charitable Fund-raising Activities (Reference Guide)

3. Similar overseas codes of practices have been referred to in drawing up the Reference Guide which is finalized in consultation with, amongst others, the Charities, the Hong Kong Institute of Certified Public Accountants and the Corruption Prevention Department of the Independent Commission Against Corruption.
4. The Reference Guide will be uploaded onto SWD's website (http://www.swd.gov.hk/en/index/site_pubsvc/page_controlofc/sub_referenceg). It

will be refined and updated by SWD on the advice of LFAC with experiences gained.

5. The Guide is divided into three parts, covering the areas on donors' right, fund-raising practices and financial accountability.
6. These best practices do not purport to address suspected fraudulent activities which are governed by the Theft Ordinance (Cap. 210) and are subject to criminal investigation. On the other hand, responsible Charities may also have their own reasons for not adopting this Reference Guide (e.g. they are already adopting a separate but no less ethical code of practices).

The Mechanism

7. Charities that voluntarily adopt this Reference Guide commit to fund-raising practices that respect donors' right to truthful information and to privacy. They also commit to managing responsibly the funds that donors entrust to them, and to reporting their financial affairs accurately and completely.
8. Donors or prospective donors who have questions or concern about fund-raising activities should contact the Charity which organises the activities. Charities that adopt the Reference Guide are committed to dealing with such queries promptly and fairly.

Review of the System

9. Charities which voluntarily adopt the Guide (fully or partly) are invited to inform SWD, in written form, that they have done so to facilitate future review on the system and their practical experience on implementation of the Guide.
10. Charities, donors and general public are also invited to send their views and comments on this new arrangement to SWD by post/fax or e-mail.

II. The Reference Guide

A. Donors' Right	
Reference Guide	Explanatory Notes
A1. All donors (including individuals, corporations, and foundations) are entitled to receive an official receipt for the amount of the donation. The Charity's governing board may establish a minimum amount for the automatic issuance of receipts, in which case smaller donations will be receipted only upon request. The level of this minimum amount should be made known to donors and prospective donors.	(i) Charitable organisations should establish clear policies regarding the issuance of official receipts. Particular attention should be given to situations where no receipt should be issued.
A2. All fund-raising solicitations by or on behalf of the Charity will disclose the Charity's name and the purpose for which funds are requested. Printed solicitations will also include its address or other contact information.	<p>(i) All communications with donors and prospective donors should include a statement of the purpose of the fund-raising appeal and sufficient contact information to facilitate further enquiries about or to the charitable organisation.</p> <p>(ii) Care should be taken not to mislead donors or prospective donors into believing that their contribution will be used for a specific project, if this is not the case. Where an appeal is made for funds for general use, it is a good practice to clearly identify any projects mentioned in fund-raising solicitations as examples of the Charity's work.</p> <p>(iii) It is preferable to provide the Charity's complete local address. Where this is not practical (e.g. the Charity does not have its own office) or reasonable given the nature of the charitable activity or the nature of the solicitation (e.g. by telephone), sufficient information should be included to enable donors or prospective donors to contact the organisation during regular business hours and communicate with an employee or volunteer who can respond to their questions.</p>
A3. Donors and prospective donors are entitled to the following (or an opportunity to examine the following) promptly upon request:	(i) Charitable organisations recognize that they are responsible and accountable to donors and should therefore disclose all information (e.g. financial statements, annual report) that will reasonably add

A. Donors' Right	
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<p>(a) the relevant part of the Charity's governing documents (e.g. Ordinance, Memorandum and Articles of Association) which details its objects and purposes;</p> <p>(b) the Charity's most recent annual report and audited financial statements as approved by the governing board;</p> <p>(c) the Charity's confirmation whether it is a tax-exempt Charity under Section 88 of the Inland Revenue Ordinance and, if so, the effective date of exemption and whether the status has been removed;</p> <p>(d) a list of the names of the members of the Charity's current governing board; and</p> <p>(e) a copy of the latest edition of this Reference Guide (which may be downloaded from SWD's website).</p> <p>The Charity should provide the above in Chinese or English.</p>	<p>to the public's understanding of, and confidence in, their operations, and in their methods and costs of fund-raising.</p> <p>(ii) Charitable organisations should reply promptly to all requests for information.</p> <p>(iii) Financial statements should provide enough information to serve as a basis for informed decision-making by donors, and shall accurately present the financial activities and overall financial position of the organisation and shall disclose, at minimum, the information set out in this Reference Guide.</p> <p>(iv) All financial summaries or extracts presented separately from an organisation's financial statement should be clearly related to and consistent with the information contained in the full financial statements including notes.</p> <p>(v) This Practice should be read in conjunction with Section C4 below.</p> <p>(vi) This provision would be considered to have been complied with if the enquirer is allowed to make an appointment with the Charity to examine the documents or the information has been uploaded in the Charity's website (or a direction to the relevant websites where appropriate).</p>
<p>A4. Donors and prospective donors are entitled to know, upon request, whether an individual soliciting funds on behalf of the Charity, is a volunteer, an employee, or a hired solicitor, etc.</p>	<p>(i) The "volunteer, employee and hired solicitor" are only some examples of the person who may solicit donations for a Charity since other people such as members of the governing board may also be involved in such activities.</p> <p>(ii) Training of fund-raisers, whether volunteer or paid, should include a briefing about the donor's right to know the fundraiser's status.</p>
<p>A5. Donors' requests to remain anonymous will be respected.</p>	<p>(i) Every donor has the right to confidentiality in their affairs and the right to require that their identity and/or the amount of their donation is not publicly disclosed.</p> <p>(ii) A donor's right to anonymity is limited only by legal requirements to disclose.</p>

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A6. It is imperative that the Charity complies with the requirements of the Personal Data (Privacy) Ordinance in relation to the collection, accuracy, retention, use, security, access and correction of personal data of its donors.	<p>(i) A charitable organisation ensures its own integrity and that of the sector through the proper use and management of all donors' or prospective donors' personal information in its possession. Every organisation should carefully safeguard the confidentiality of information which donors or prospective donors would reasonably expect to be private.</p> <p>(ii) The duty of confidentiality continues after the professional relationship with a donor or prospective donors has ended.</p>
A7. Donors and prospective donors will be treated with respect. Every reasonable effort will be made to honour their requests to : <p>(a) limit the frequency of solicitations; or (b) not be solicited by telephone or other technology.</p>	<p>(i) While recognizing the Charities' need of the flexibility in choosing the ways to approach donors, fund-raising activities should be conducted to preserve and enhance the public's confidence in the integrity of the individual Charity and the welfare sector as a whole. Disregard of donors' or prospective donors' expressed wishes regarding the manner or frequency of contact is contrary to good practice and reflects poorly on the entire sector.</p> <p>(ii) This Practice should be read in conjunction with Section B2 below.</p> <p>(iii) Section A7(a) may not be applicable in some circumstances e.g. it would seldom be possible for fund-raisers in the street to comply.</p>
A8. The Charity will respond promptly to a complaint by a donor or prospective donor about any matter that is addressed in this Reference Guide.	<p>(i) Complaints should be investigated and addressed thoroughly, professionally and without bias, and properly documented.</p> <p>(ii) The charitable organisation's governing board bears ultimate responsibility for the ethical conduct of all fund-raising activities and should make certain that fund-raising staff and volunteers are aware of and familiar with the requirements of this Reference Guide.</p> <p>(iii) This Practice should be read in conjunction with Section B6 below.</p>

B. Fund-raising Practices	
Reference Guide	Explanatory Notes
<p>B1. Fund-raising solicitations on behalf of the Charity will:</p> <ul style="list-style-type: none"> (a) be truthful; (b) accurately describe the Charity's activities and the intended use of donated funds; and (c) respect the dignity and privacy of those who benefit from the Charity's activities. 	<ul style="list-style-type: none"> (i) All marketing, advertising and public information materials prepared in connection with fund-raising campaigns must be forthright and truthful and should accurately describe the organisation's mission, programmes and use of solicited funds. (ii) Fund-raising communications should contain no material omission, exaggeration of fact, misleading photograph, nor any other information that would tend to create a false impression or misunderstanding. Solicitations should be constructed so that the public response is based on the reality of the situation and the organisation's actual capacity and not on deliberate misinformation or manipulation.
<p>B2. The Charity will ensure the volunteers, employees and hired solicitors who solicit or receive funds on behalf of the Charity shall:</p> <ul style="list-style-type: none"> (a) adhere to the provisions of this Reference Guide; (b) act with fairness, integrity, and in accordance with all applicable laws, permit/licence conditions, rules, regulations, guidelines, etc.; (c) adhere to the provisions of applicable professional codes of ethics, standard of practice, etc.; (d) cease immediately solicitation of a prospective donor who identifies the solicitation as harassment or undue pressure; (e) disclose immediately to the Charity any actual, potential or perceived conflict of interest; and 	<ul style="list-style-type: none"> (i) As elaborated under Section A4 above, the "volunteer, employee and hired solicitor" are only some examples of the person who may solicit donations for a Charity since other people such as members of the governing board may also be involved in such activities. (ii) Contracts between a Charity and a hired solicitor should specify that all fund-raising activities undertaken on behalf of the Charity will be conducted in a manner that is consistent with the provisions of this Reference Guide. (iii) Charitable organisations should exercise effective control over volunteers, employees and hired solicitors and take all reasonable steps to ensure that every person participating in a fund-raising programme is aware of and complies with this Reference Guide. (iv) Charitable organisations should inform volunteers, employees and hired solicitors about the provisions of all laws applicable to the organisation's fund-raising practices and take all reasonable steps to ensure that fund-raising activities are carried out in accordance with the law. (v) Fund-raising solicitations should encourage

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<p>(f) not accept donations for purposes that are inconsistent with the Charity's objects or mission.</p>	<p>voluntary giving and should not apply undue or unwarranted pressure.</p> <p>(vi) The obligation to disclose even a "perceived conflict of interest" requires the Charities and its agents to take into account public and donor perceptions when assessing whether a conflict of interest is present.</p> <p>(vii) This Practice requires individual fund-raisers to fully disclose all actual, potential or perceived conflicts of interest to the Charity. Full disclosure enables the Charity to make an informed decision regarding a fundraiser's suitability to continue to act on behalf of the organisation in spite of the conflict.</p> <p>(viii) Charitable organisations should be mindful of the need to ensure the disclosure of any conflict of interest that would be of material interest or relevance to a donor or prospective donor, or which may influence a decision to give.</p> <p>(ix) This Practice should be read together with Sections A4 and A7 above.</p> <p>(x) This Section should normally not be applicable to those events where the Charity is just the beneficiary but does not organise the events. Nevertheless, even under such circumstances, it would be good practice for the Charity to advise the organiser of these events to fulfill the requirement of this Section, where practicable.</p>
<p>B3. The Charity shall respond promptly to a donor's request to amend the donor's standing donation instruction.</p>	<p>(i) A Charity shall take all reasonable steps to assist to revise the donor's standing (e.g. monthly) donation instruction as and when it is being approached by the donor.</p>

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Reference Guide	Explanatory Notes
<p>B4. Paid fund-raisers, whether staff or consultants, should be compensated by a salary, retainer or fee, and not be paid finders' fees, commissions or other payments based on the number of donors secured, the amount (or number) of gifts received or the value of funds raised. Compensation policies for fund-raisers, including performance-based compensation practices (such as salary increases or bonuses) will be consistent with the Charity's policies and practices that apply to non-fund-raising personnel.</p>	<p>(i) This is a controversial provision since some Charities find that the commission system could reduce their risk in employing the service of professional fund-raising firms. Moreover, some others consider that Charities should be given the flexibility to determine their pay policies.</p> <p>(ii) The rationales for including this provision are as follows:</p> <ul style="list-style-type: none"> – A set salary, retainer or fee recognizes the value of professional fund-raising solicitors independently of the fund-raising outcome (which cannot be guaranteed). – There is an inherent conflict of interest in percentage-based compensation: fund-raisers negotiate donations that also benefit them personally. – Successful fund-raising programmes are built on the development of long-term relationships with donors. Percentage-based compensation of fund-raisers provides an incentive to maximize immediate revenue from the current campaign, and may undermine the long-term interests of the charitable organisation. – Percentage-based compensation undermines the donating public's confidence by diverting or appearing to divert donated funds into private pockets. Donors and potential donors may be alienated and may reconsider their decision to give if it is perceived to benefit the person making the donation request rather than the organisation or the causes it represents.

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	<p>– To charge a commission based on the amount of funds raised is generally viewed as unethical by fund-raising professionals. Some overseas leading non-profit sector professional fund-raising organisations (e.g. Association of Fund-raising Professionals, Canadian Association of Gift Planners) also prohibit their membership from accepting percentage-based or commission compensation structures.</p> <p>(iii) The provision does not preclude, amongst others, the use of a fund-raising target as one of the parameters to measure the performance of fund-raising staff. It however disagrees with the inclusion in salary / pay a percentage of the amount of fund raised for the Charity.</p> <p>(iv) The provision does not intend to cover occasions where a donation is pledged or secured on the basis of the sale of goods / services provided by another organisation / firm. Under these circumstances, it would be good practice to publicize the specific rate of the donation to be made to the Charities concerned e.g. 1% of the revenue or \$1 per item sold etc.</p>
B5. The Charity will not sell its donor list. If a list of the Charity's donors is exchanged, rented or otherwise shared with another organisation subject to the compliance of the provisions of the Personal Data (Privacy) Ordinance, such sharing will be for a specified period of time and a specified purpose.	<p>(i) The governing board of a charitable organisation should give formal approval to all policies regarding the use of donor lists.</p> <p>(ii) Donor lists are an income-producing asset of the charitable organisation. Relinquishing control of a donor list by selling it or diminishing its value by allowing others to have unlimited access may be detrimental to the long term development of the Charity.</p> <p>(iii) This Practice should be read together with Section A6 above.</p>

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Reference Guide	Explanatory Notes
B6. The Charity's governing board will be informed at least annually of the number, type and disposition of complaints received from donors or prospective donors about matters that are addressed in this Reference Guide.	<p>(i) The governing board of a charitable organisation has a duty to be familiar with its fund-raising programmes, including the steps taken by the organisation to monitor compliance with this Reference Guide and to address complaints that have arisen as a result of an actual or alleged violation of this Reference Guide.</p> <p>(ii) Fund-raising activities affect the reputation of the Charity and the value of its name. Board of Directors have a duty to protect these intangible assets.</p> <p>(iii) This Practice should be read in conjunction with Section A8 above.</p>

C. Financial Accountability	
Reference Guide	Explanatory Notes
C1. The Charity's financial affairs will be conducted in a responsible manner, consistent with the applicable legal requirements and relevant ethical or professional obligations.	<p>(i) Charitable boards must act prudently in all matters concerning the financial management of the organisation. They are guardians of the Charity and its assets.</p> <p>(ii) Board of Directors must ensure that proper accounts are maintained and that all entries in the organisation's financial statements can be substantiated.</p>
C2. All donations will be used to support the Charity's objects, as detailed in its governing documents.	<p>(i) Charitable organisations should make their objects and mission clearly known.</p> <p>(ii) Charitable boards have a duty to ensure that the organisation remains true to its mission and objectives, and that its identity, programmes and activities are not distorted or subverted by external or internal self-interest.</p> <p>(iii) A charitable organisation may not give money or other resources to another organisation to carry out activities outside of or not in support of its own objects.</p>
C3. All restricted or designated donations will be used for the purposes for which they are given.	<p>(i) This Practice applies to restricted or designated donations that are subject to conditions or limitations imposed by the individual donor and to fund-raising appeals made to the public at large for the support of specific programmes or projects.</p> <p>(ii) Donors who make restricted or designated donations have a right to expect that their donations will be applied according to their specific directions.</p> <p>(iii) All statements made by a charitable organisation regarding the use of a contribution should be honoured.</p>

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	<p>(iv) If there are necessary programme or organisational changes, alternative uses will be discussed where possible with the donor or the donor's legal designate. If the donor is deceased or legally incompetent and the Charity is unable to contact a legal designate, the donation will be used in a manner that is as consistent as possible with the donors' original intent.</p> <p>(v) Charitable organisations should have a mechanism in place to deal with:</p> <ul style="list-style-type: none"> – funds that cannot be applied to a specific project; and, – surplus funds raised over and above the requirements of a given campaign. <p>These mechanisms should be clearly communicated in all fund-raising appeals.</p> <p>(vi) It is prudent to obtain legal advice before proceeding in this area. This Practice and its explanatory notes should not be interpreted as authorizing organisations to act independently of the legal requirements of their jurisdiction or outside of the terms of the original donation agreement.</p> <p>(vii) An accounting system that tracks designated donations should be developed.</p>

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<p>C4. Annual financial reports will be factual and accurate in all material respects and externally audited, disclosing:</p> <p>(a) the total amount of fund-raising revenues (received and non-receipted);</p> <p>(b) the total amount of fund-raising expenses (including salaries and overhead costs)</p> <p>(c) the total amount of expenditures on charitable activities (including gifts to other Charities);</p> <p>(d) government grants and contributions which will be identified separately from other donations;</p> <p>(e) that the statements are prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Institute of Certified Public Accountants, in all material respects; and</p> <p>(f) where applicable, the revenue generated from individual event/drive involving an appeal to the public.</p>	<p>(i) This Practice deals with the public reporting of the financial position of a charitable organisation. To ensure consistency and accuracy, financial statements should be prepared in accordance with the standards of Hong Kong Institute of Certified Public Accountants (HKICPA).</p> <p>(ii) The disclosures referred to in this Practice may appear in a note to the financial statement.</p> <p>(iii) The requirement in this Practice that financial statements be “factual and accurate in all material respects” is met where financial statements are demonstrably prepared in accordance with the standards of HKICPA.</p> <p>(iv) Charitable organisations have an obligation to ensure that their financial statements and annual reports are accessible, user-friendly, complete, understandable and truthful.</p> <p>(v) This Practice should be read in conjunction with Section A3 above.</p> <p>(vi) The proposal to present true and fair accounts by valuating also gifts in kind is appreciated and there is no objection for Charities to do so. There is however no intention to add this to the Reference Guide for the time being since the necessity of this proposed practice is still not generally recognized.</p>

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<p>C5. It is good practice to make the financial statements of individual events available to the public as far as practicable. Particularly for those high value and well-defined projects, Charities are encouraged to prepare separate externally audited (or reviewed) financial statements for individual events or drives which involve appeal to the public (carried out in public place, through broadcast, on the internet, on newspapers/magazines or other publications, etc.) within ninety days of the completion of the event/drive and annually (if that event/drive lasts for over one year). The statements should be factual and accurate in all material respects, disclosing, preferably-</p> <p>(a) the total amount of fund-raising revenue (received or non-receipted);</p> <p>(b) the total amount of fund-raising expenses (including salaries and overhead costs);</p> <p>(c) the whereto of the net proceeds, and when the whole or part of these proceeds would be transferred to the revenues of the Charity, they should be accounted for in its annual statements (see C4(f) above); and</p> <p>(d) that the accounts are prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Institute of Certified Public Accountants, in all material respects.</p>	<p>(i) The benefits of such audited statements for individual event as a transparency and accountability instrument have not been disputed but there are concerns on the financial and administrative implications if the requirement is applicable to each and every event. As such, while it is desirable to make the financial statements of individual events available to the public where circumstances permit, the practice is recommended as a good practice for the adoption of Charities particularly for those high value and well-defined projects which appeal to the public for donations.</p> <p>(ii) The whereto of the funds raised in such an event should be accounted for in this statement or in the annual audited statements if the funds raised in this event is transferred to the Charities for general application or to a specific account for a project.</p> <p>(iii) Other details could be referred to the explanatory notes for C4 above.</p>

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<p>C6. No more will be spent on administration and fund-raising than is required to ensure effective management and resource development. A Charity is encouraged to disclose a return on investment figure for the entire Charity's business for donors' reference. It would also be a good practice for a Charity to disclose the return and expenses figures for high value and well-defined projects.</p>	<p>(i) The purpose of this Practice is to ensure that fund-raising costs and administration costs are reasonable so that the greatest amount of the Charity's resources can be devoted to its charitable programmes. Appropriate fund-raising costs will vary according to the following : the organisation's size, age, popularity and reputation; access to donors; availability of volunteers; access to corporations; management expertise; financial success; and, the experience of its fund-raising professionals.</p> <p>(ii) Charitable boards have a responsibility to oversee the way in which the costs of fund-raising are determined and reported to donors and to the public. Governing boards should take an active role in approving and monitoring policies concerning:</p> <ul style="list-style-type: none"> – their organisation's fund-raising activities; and, – the disclosure of the nature and amount of fund-raising expenses.
<p>C7. The cost-effectiveness of the Charity's fund-raising programme will be reviewed regularly by the governing board.</p>	<p>(i) Charitable boards, as part of their governance activities, have an obligation to measure the costs and benefits of their organisation's fund-raising programme on a regular basis and to make any changes necessary to ensure that the maximum amount possible is being applied to charitable activities, consistent with the long-term interests of the Charity and its beneficiaries.</p> <p>(ii) The Board could determine how frequent it should conduct one such review. There should however be regular frequency to carry out such an important review.</p>

Enquiries and Suggestions

For enquiries and suggestions, please contact us at:

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