

Percentage Fees: The Troll Under the Bridge

by Goodwin Deacon, Ph.D.

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Percentage fees, commissions and contingency fees are the troll under the bridge of the grantwriting profession. Not a week goes by without someone, somewhere asking,

- "Is it OK to write grants for a percentage of the amount raised?"
- "Can we write the grantwriter's fee into the grant?"
- "Is it all right to charge for grantwriting on a commission basis?"

These questions come up so often on national listservs such as Charity Channel's GRANTS and CONSULTANTS that you can almost hear a collective groan every time a "newbie" raises this issue on the list. Usually a kindly, more experienced member gently suggests that this is a "hot button" topic, and the new member should check the archives. But then someone can't resist jumping in and saying, "No, you can't, it's unethical!" Then someone else says, "Exactly why is it unethical?" and the race is on. The thread runs on for a few days, becoming increasingly heated, until everyone gets tired of it and the troll retreats again to its lair under the bridge, just waiting for the next time someone innocently asks, "Is it OK to write grants on commission?"

Why is this such a controversial topic, and why won't it go away? Part of the reason is that freelance grantwriters are so frequently approached by nonprofits wanting them to work on a contingency basis. This is no surprise. Grantwriting is a risky business: hours of time are expended on developing a proposal that has no guarantee of getting funded. The question is, who should bear the burden of risk -- the organization or the grantwriter? If the grantwriter is paid on an hourly basis or with a project fee, the organization bears the risk of the proposal being denied. On a percentage, contingency or commission basis (I am using these terms interchangeably), where the grantwriter is paid only if the grant is awarded, the grantwriter bears the risk. Naturally, the contingency approach is appealing to small, poorly funded nonprofits. Inexperienced grantwriters, unsure of the "industry standard" or without much of a track record, are often tempted to accept a percentage or contingency arrangement.

The major professional organizations in the fundraising field, such as the Association of Fundraising Professionals (AFP), have taken a clear stand: percentage fees and their kin are unethical. According to the AFP's code of ethics in the area of compensation:

- Members shall not accept compensation that is based on a percentage of charitable contributions; nor shall they accept finder's fees.
- Members shall not pay finder's fees, commissions or percentage compensation based on charitable contributions and shall take care to discourage their organizations from making such payments.

The American Association of Grant Professionals (AAGP) makes a similar statement in its code of ethics:

- Members shall work for a salary or fee. Members may accept performance-based compensation, such as bonuses, provided that such bonuses are in accord with the practices of their organization.

AFP justifies its standards on the following grounds:

1. Charitable giving is a voluntary action for the public benefit.
2. The seeking or acceptance of charitable gifts should not provide personal inurement to anyone.

AFP goes on to explain that fund raising professionals should be compensated for their expertise, while recognizing that charitable gifts are usually the result of the efforts of many people over a long period of time. Rewarding one person for the efforts of many is unfair. Another reason for AFP's stance is that commissions shift the focus away from the nonprofit organization's charitable purpose and onto the individual fundraiser. Commissions also undermine the relationship with the donor, who is usually not aware that the fundraiser is being paid on commission and would probably feel betrayed if he/she knew.

While AFP's code covers all areas of fund raising and seems aimed primarily at fundraising from individuals, it applies to the grants field as well. A grantwriter paid on commission may put her own self-interest ahead of the nonprofit's mission. She may promise the funder more than the organization can deliver, in order to get a larger grant and get paid more. She might inflate the budget to earn a larger commission. She may apply for huge grants that are too large for the nonprofit to manage. She may seek grants with a quick turn-around simply to get paid sooner, even if a longer-term grant would be of greater benefit. While percentage payment does not necessarily cause these problems, it certainly creates a temptation that would not exist for a grantwriter paid on an hourly or project basis. Commission grantwriting also undermines the relationship with the funder, because most grantmakers disapprove of it and will not fund an organization that pays its consultants on this basis.

The most obvious reason why percentage fees are unethical in the grantwriting field is that they usually involve falsifying the project budget in the proposal. Very few funders - - and no government agencies -- allow the grantwriter's fee to be "written into the grant" as a line item in the project budget. So organizations that do this frequently disguise the grantwriter's fee as something else -- a salary for the "Project Director" or "Evaluator." This is simple dishonesty, a practice that no code of ethics could support.

"But that's not how we do it!" says the Society for Good Intentions. "We pay the grantwriter out of our operating budget. We just determine how much to pay her on the

basis of how much she brings in. What's wrong with that? And why should we pay the grantwriter if we didn't get the grant?"

Proposals succeed or fail for a number of reasons, most of which are out of the grantwriter's control. Among these are:

- The strength of the project: its feasibility, whether it meets a clear community need, and whether it has a well-planned budget.
- How well the project fits the funder's interests.
- The non-profit's reputation, track record and financial history.
- Relationships: how well the funder knows and trusts the non-profit's board and staff.
- Competition: how many other requests the funder has received and from whom.
- Funds and timing: how much money the funder has available in this cycle.
- The state of the economy and the funder's finances: whether their assets are growing or shrinking.

Finally, a key element is the quality and persuasiveness of the proposal. This is the part the grantwriter controls, and it is important. But even the most beautifully written proposal will fail if other factors are not in its favor.

Grantwriters are skilled professionals who deserve to be paid for their time and expertise. They are an important part of the fundraising team, but it takes the work of the whole organization -- as well as favorable circumstances -- for a grant proposal to succeed. That is why the grantwriter's fee should not be tied to the success of the proposal.

"But we're a small organization, just starting out," says the Grassroots Community Association. "How are we supposed to pay a grantwriter if we don't have any money?"

The direct answer to this objection is: "If you don't have any money, you're not ready to apply for a grant." Grants are rarely an organization's first dollar, nor should they be. Most funders are wary of start-ups, and many require an organization to have its 501(c)(3) for two or three years before applying. Grants are not the bread-and-butter of nonprofit revenue; most unrestricted contributions come from individuals. The Giving USA chart of private (non-government) giving for 2002 shows that 84% of contributions come from individuals (including bequests), while only 11% comes from foundations and 5% from corporations. New nonprofits don't need a grantwriter who works on contingency; they need to develop a long-range organizational plan, including a plan for building their membership and raising funds from individuals. For their first dollar, they need to get support from their board.

According to Susan Howlett, a highly respected fundraising consultant from Seattle,

“Funders want nonprofits to write the cost of fundraising into their overall organizational budgets. It's a cost of doing business, and organizations need to plan for it, raise operating money for it, and

account for it. Grantmakers view themselves as funders of stand-alone projects or programs: initiators, not sustainers. Operating budgets, including the cost of raising money, need to be generated from individual donors, who can be appealed to year after year.”

Still, the issue of start-up funding strikes at the root of some of the best arguments in favor of percentage fees. After all, contingency fees have been called by the legal profession "the poor man's key to the courthouse door." They are used primarily in personal injury cases, and lawyers argue that many clients would never be able to get justice if they had to pay attorney's fees of \$250 an hour and up. Why doesn't the same logic apply to small, young grassroots nonprofits that don't have any money in the bank yet, but could do a lot of good for their community if they could just get a grant to get them started?

Penny Goforth, one of the staunchest advocates for percentage fees on the listservs, argues this point persuasively. She is the Senior Associate of the Grantwriting Specialists collaborative in La Mesa, CA, a team of 32 grantwriters and researchers. The collaborative charges most clients an hourly rate, but reserves five slots for carefully chosen contingency fee clients, who pay the grantwriters 15% for grants up to \$100,000 and 10% for anything over that amount. Clients are required to pay the fee out of operating income, not out of the grant. Along with grantwriting, the collaborative offers them extensive education and counseling in organizational development, book- and record-keeping, developing relationships with funders, and reporting on grants received. Penny says her team has been able to win grants for nearly all their contingency clients, and last year they actually earned more from contingencies than from their hourly clients, who make up the bulk of their business.

Penny argues that working on percentage is her group's way of contributing to the nonprofit community. From her description it certainly sounds as though they are doing an excellent job. Understandably, she bristles when she is attacked on the listservs for supporting percentage fees.

But Grantwriting Specialists are not simply writing grants on contingency -- they are providing extensive services to worthy start-up nonprofits. They are incubating the organizations so they will eventually become stable enough to pay for grantwriting by the hour or the project, as most of the collaborative's clients do. One could argue that Grantwriting Specialists could provide the same service to the community by charging new nonprofits a flat fee based on their budget. Still, the term "unethical" does not seem fairly applied to Penny's approach.

More often, however, one hears different stories about percentage fees. A correspondent in Idaho writes:

“... there are some in the community who are very good at niche grants, then a vast empty space with persons who don't really know what they

are doing trying to sell themselves as grant writers for a piece of the grant.

“I have been teaching grant writing classes here at the local college Community Education center. The first class I taught had three people in it who had no previous experience writing grants, but had surfed ‘grants’ on the internet, seen all the ads for ‘free money/grants’ and decided they wanted to write grants for organizations as a business, taking their cut from the grant.

“I met a college English Instructor this spring who has already gotten her business license to be a grant writer, and expects to charge 20% of each grant she writes. She has never written a grant or been involved with one, just surfed the internet and decided it was better than a real estate license.”

A more shocking story comes from an executive director of a nonprofit in another rural area (names and details have been deleted to protect both the innocent and the guilty):

“About five years ago I met with a person new to our region. She claimed to be an 'expert' grant writer and was interested in working on a substantial (over \$4 million) grant to benefit our agency. [For this funder] the huge amount is somewhat standard.

“The meeting went well until after about two hours I asked her what she wanted for all this work she was proposing to do. Her response, without hesitation, was: "Any grant writer is entitled to keep 25% of whatever they get, so payment is automatic." Having written about 40 successful grants and being intimately familiar with the process, this was an instant red flag. She then insisted this was standard practice nationwide! Meeting over.

“Further background investigation revealed that she had been trying this same trick for several years, including reportedly once running a 'technical assistance website'. As it turns out, she has no grant history, no formal training background and speaks with tremendous authority to those who will listen and are generally not knowledgeable. They, in turn, repeat the misleading information freely and . . .

“Now, five years later, most of the [nonprofits] in our region have little trouble finding 'grant writers' because they have all been told that paying 25% commission is standard practice. Never mind what the funder's regulations say or any ethical considerations might be. She has convinced them otherwise and sane voices are seldom heard. This has become the next great ‘Get Rich Quick’ scheme.”

It seems that, in these situations, both nonprofits and grantwriters are treating the grants process as a kind of lottery. "What the heck -- we have nothing to lose and we might win big!" The nonprofits are not investing any of their own money or resources in the process. The grantwriters are investing time, but since they have little experience and think there might be a big payoff, they are willing to gamble. Clearly, this attitude is dangerous to the reputation of the nonprofits and to the grantwriting field as a whole. If some "grantwriters" behave like carpetbaggers, then legitimate, experienced grantwriters will be tarred by the same brush.

On the other hand, the listserves are full of sad stories from percentage-fee grantwriters whose proposals were not funded through no fault of their own.

- "The organization missed the deadline."
- "After I'd done all the work, the Executive Director refused to submit the grant because he didn't think the organization could meet the reporting requirements."
- "The government agency approved the grant, but then Congress didn't fund the program after all."

Naturally, these grantwriters feel abused because they were not paid for their work. But that's the deal with contingency fees -- the grantwriter only gets paid if and when the money comes in.

Percentage fees, commissions and contingency fees may not be unethical in and of themselves, but they open the door to a host of abuses. They encourage predatory, self-dealing behavior in a field that is, by law, supposed to be dedicated to serving the public. They create a situation in which a grantwriter works for nothing if the proposal is not funded, and an organization may pay an excessive fee if it does receive the grant. These practices encourage deception of funders. It is hard to see what their advantages are, except for grantwriters who are willing to work primarily as volunteers and organizations that hope to get something for nothing.

"But what if ...?" someone will always ask. "What if both the nonprofit and the grantwriter freely agree to it? What if no one involved is a member of an organization that prohibits percentage fees? What if the funder knows about it and approves? What if everybody is behaving responsibly? Isn't it OK then?" If the world were populated by saints, it probably would be. There are no laws against these practices. But in the world we actually live in, the prohibition by AFP, AAGP and others against percentage fees, commissions and contingencies is sound. And we all wish the troll would get back under the bridge and stay there.