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## DONATE UNRESTRICTED

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The secret curse of the nonprofit world is restricted donations. If you haven't been involved with nonprofits, you may never have heard this phrase before. But if you have been, it probably made you wince.

Restricted donations mean donations where the donor limits what can be done with the money. This is common with big donations, perhaps the default. And yet it's usually a bad idea. Usually the way the donor wants the money spent is not the way the nonprofit would have chosen. Otherwise there would have been no need to restrict the donation. But who has a better understanding of where money needs to be spent, the nonprofit or the donor?

If a nonprofit doesn't understand better than its donors where money needs to be spent, then it's incompetent and you shouldn't be donating to it at all.

Which means a restricted donation is inherently suboptimal. It's either a donation to a bad nonprofit, or a donation for the wrong things.

There are a couple exceptions to this principle. One is when the nonprofit is an umbrella organization. It's reasonable to make a restricted donation to a university, for example, because a university is only nominally a single nonprofit. Another exception is when the donor actually does know as much as the nonprofit about where money needs to be spent. The Gates Foundation, for example, has specific goals and often makes restricted donations to individual nonprofits to accomplish them. But unless you're a domain expert yourself or donating to an umbrella organization, your donation would do more good if it were unrestricted.

If restricted donations do less good than unrestricted ones, why do donors so often make them? Partly because doing good isn't donors' only motive. They often have other motives as well — to make a mark, or to generate good publicity [1], or to comply with regulations or corporate policies. Many donors may simply never have considered the distinction between restricted and unrestricted donations. They may believe that donating money for some specific purpose is just how donation works. And to be fair, nonprofits don't try very hard to discourage such illusions. They can't afford to. People running nonprofits are almost always anxious about money. They can't afford to talk back to big donors.

You can't expect candor in a relationship so asymmetric. So I'll tell you what nonprofits wish they could tell you. If you want to

donate to a nonprofit, donate unrestricted. If you trust them to spend your money, trust them to decide how.

### **Note**

[1] Unfortunately restricted donations tend to generate more publicity than unrestricted ones. "X donates money to build a school in Africa" is not only more interesting than "X donates money to Y nonprofit to spend as Y chooses," but also focuses more attention on X.

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