

# Impact of Financial Transparency on Donor Confidence: A Comparative Study on Ngos

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## Abstract:

Financial transparency has become a critical determinant of donor confidence and organizational sustainability in the nonprofit sector. This research paper examines the relationship between financial transparency and donor trust through a comparative study of selected Indian NGOs. The study explores how the disclosure of audited financial statements, impact reports, and governance practices influences donor perceptions, retention, and funding continuity. Using both qualitative and quantitative methods, the analysis draws from annual reports, donor surveys, and transparency indices to evaluate differences across NGOs of varying scale and reputation. Findings reveal that NGOs demonstrating higher levels of financial disclosure and accountability enjoy stronger donor confidence and long-term engagement, whereas limited transparency correlates with reduced donor trust and funding volatility.

**Keywords:** Financial Transparency, Donor Trust, NGO Accountability, Donor Retention, Impact Reporting, Nonprofit Governance

## INTRODUCTION:

In an era of heightened public scrutiny, non-governmental organisations (NGOs) increasingly rely on financial transparency as a key mechanism to build and sustain external stakeholder trust. Studies indicate that when NGOs disclose detailed financial data and audit reports, they enhance organisational legitimacy and donor confidence (Burger & Owens, 2008). Transparent financial reporting enables donors to trace the flow of funds and assess programme impact, thereby reducing perceived risk associated with giving (FundsforNGOs, 2025). While transparency alone does not guarantee sustained giving, it interacts with accountability and governance practices to strengthen donor-NGO relationships (Kharel et al., 2019). Despite this, audits of NGO funding channels reveal that many organisations still struggle to meet minimum transparency standards, undermining donor trust and long-term support (European Court of Auditors, 2018). Therefore, understanding how financial transparency influences donor confidence is critical for NGOs seeking to maximise funding and deepen donor engagement. This paper presents a comparative study of multiple NGOs to assess the impact of their financial transparency practices on donor confidence, aiming to fill a gap in current research on donor behaviour in the nonprofit sector for which following 5 NGOs were chosen with similar objectives.

Goonj, founded in 1999 by Anshu Gupta, transforms urban surplus into rural development resources, promoting dignity over charity. Its flagship initiative, Cloth for Work, empowers communities to solve local issues in exchange for essential materials. Programs like Not Just a Piece of Cloth, Rahat, and School

to School maintain its sustainability. Recognized with the Ramon Magsaysay Award, it exemplifies innovation, accountability, and community-driven development.

The Akshaya Patra Foundation, founded in 2000 in Bangalore, provides nutritious midday meals to over 2 million schoolchildren daily across India. Its mission “no child should be deprived of education due to hunger” drives a large-scale, efficient kitchen network ensuring quality and hygiene, Akshaya Patra Foundation is globally recognized for its innovation in the field of social service.

CRY (Child Rights and You), founded in 1979 by Rippan Kapur, is a leading NGO advocating for children’s rights through systemic change rather than direct service delivery. It partners with grassroots organizations to combat issues like child labor, malnutrition, and educational deprivation. Over four decades, CRY has improved the lives of 3 million children across 19 states, setting a benchmark for rights-based, community-driven advocacy.

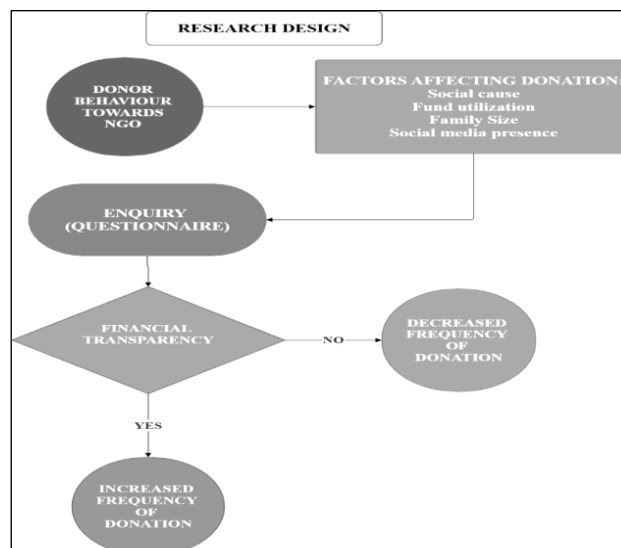
Smile Foundation, founded in 2002 and headquartered in New Delhi, works to empower underprivileged children, youth, and women through education, healthcare, and livelihood programs. Its flagship initiatives *Mission Education*, *Smile on Wheels*, *Swabhiman*, and *STeP* follow a lifecycle development approach for holistic impact. Having impacted over 1.5 million lives, Smile Foundation has brought significant social transformation.

Aadesh Charitable Foundation, a Delhi-based non-profit NGO, focuses on community-driven education, health, and livelihood initiatives for disadvantaged groups. It empowers local communities through educational workshops, health camps, and skill development programs. Operated by professionals, interns, and volunteers, it promotes youth participation and local engagement.

A structured quantitative method was adopted to collect and interpret data from individuals with past or intended donation experiences, providing actionable insights for NGOs to improve donor trust and engagement.

**RESEARCH DESIGN**

Survey based enquiry was conducted among donors from which primary respondent-level data was obtained. Specifically, structured questionnaire was created with multiple choice and Likert scale types. By using questionnaire, quantifiable information about donors were obtained. Also, the questionnaire provided insights into the expectations of the donors in terms of transparency, trust, and donation behaviour.



**RESEARCH HYPOTHESIS**

Null Hypothesis (H<sub>01</sub>)

Financial transparency does not have a significant impact on donor confidence.

Alternative Hypothesis (H<sub>11</sub>)

Financial transparency has a significant impact on donor confidence.

Null Hypothesis (H<sub>02</sub>)

Donor demographics have no significant influence on donation patterns.

Alternative Hypothesis (H<sub>12</sub>)

Donor demographics have significant influence on donation patterns.

**METHODOLOGY**

Primary data was gathered using an online structured questionnaire, which targeted donors’ trust, level of transparency perception and donation Frequency/Amount. The secondary data was collected by reports of NGOs, published researches and online authentic sources to substantiate the theory.

The participants represented from different demography that either planned to donate or had previously donated. A random sample of 120 people was selected to ensure the accuracy and representativeness of the findings including participants with prior experience or understanding of how NGOs operate in order to obtain meaningful data.

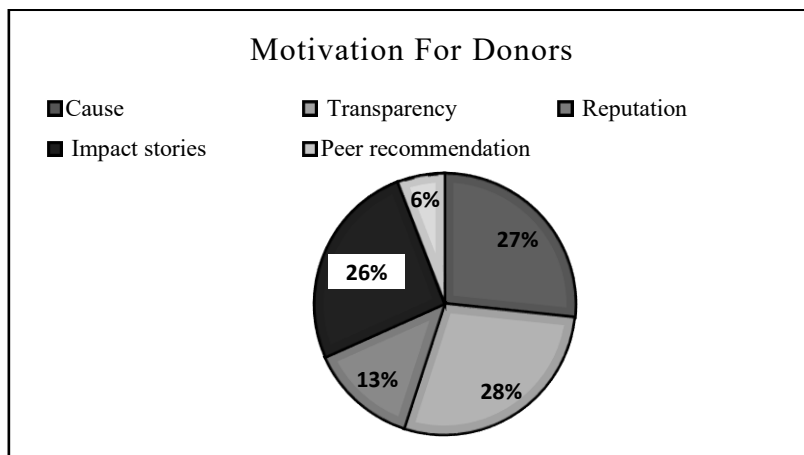
After grouping the data from this study, descriptive statistics (Chi- Square test) was used and the data was graphically represented using MS Excel.

**OBSERVATIONS**

Data collected from the structured questionnaire was subjected to appropriate statistical test and represented graphically.

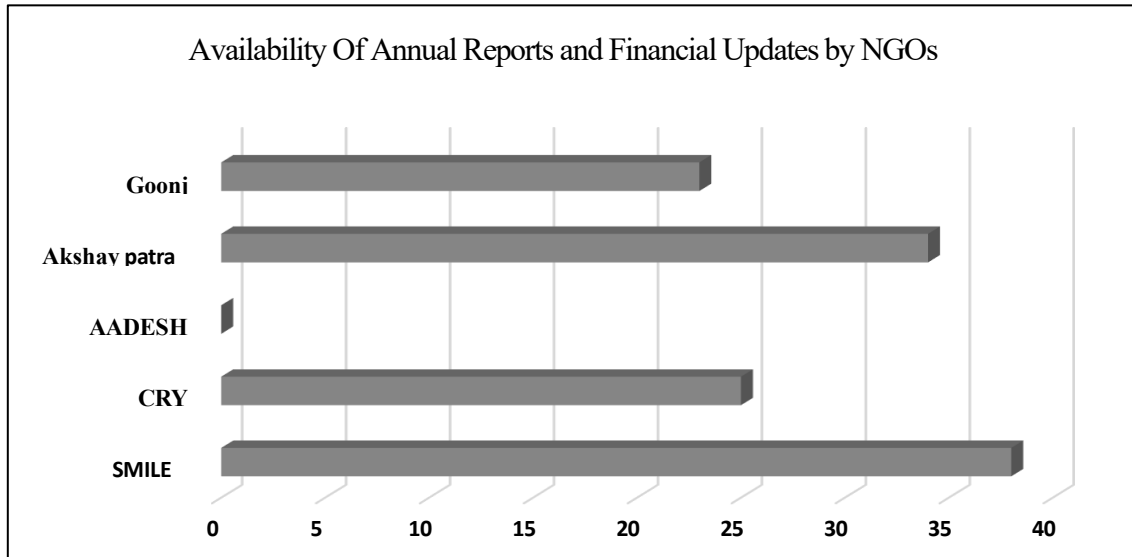
The study shows that donor behavior and financial openness are closely related. It is clear from a variety of metrics that funders place a high importance on NGOs being transparent, accountable, and open about how their funds are being used.

With 28% of donors ranking financial transparency above other factors like cause (27%) and impact stories (26%), it was shown to be the most important element driving donations. This suggests that NGOs that are transparent, accountable, and eager to disclose their financial practices are becoming more and more sought after by donors.



**Figure 1: Illustration donor motivation**

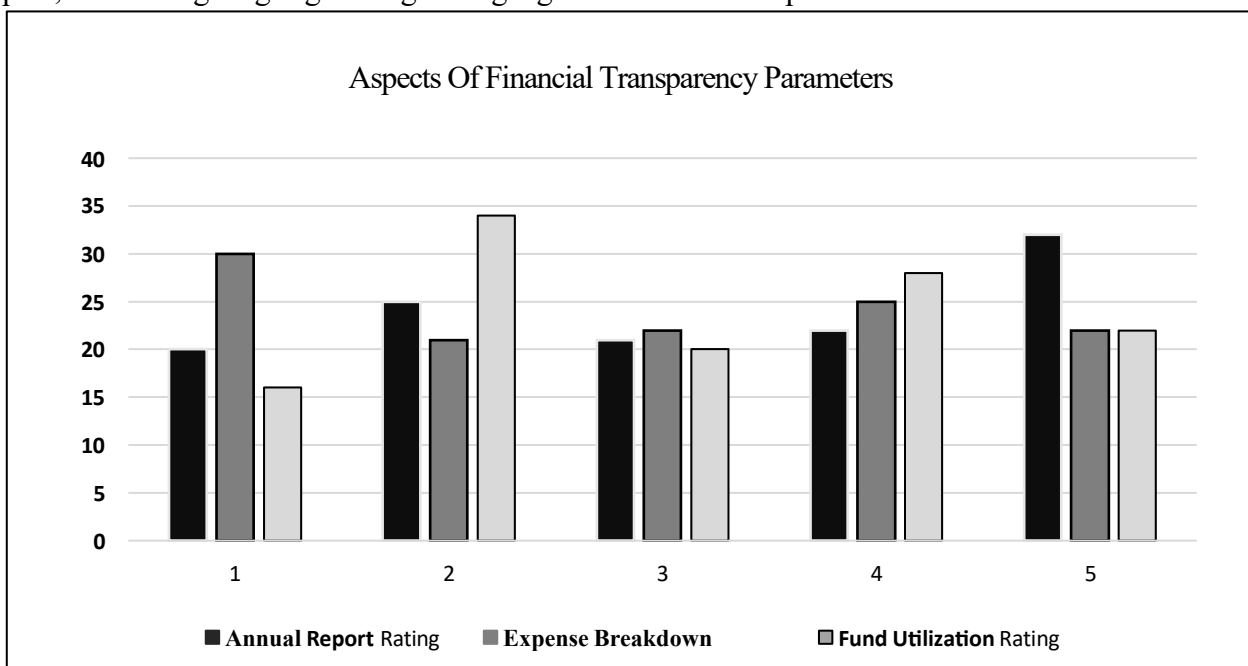
The comparative availability of financial reports, utilization certificates, fund allocation information, and other financial updates for the five NGOs in this study Goonj, Akshay Patra, AADESH, CRY, and SMILE is shown in the figure below.



**Figure 2: Response on Availability of Financial Reports and Updates by NGOs**

Strong financial transparency practices are indicated by the data, which shows that SMILE received the highest acknowledgment from respondents. Following closely behind, Akshay Patra demonstrates a strong dedication to delivering yearly financial reports and updates. Although CRY and Goonj exhibit moderate levels of financial reporting, it is possible that they could do a better job of regularly providing stakeholders with thorough updates.

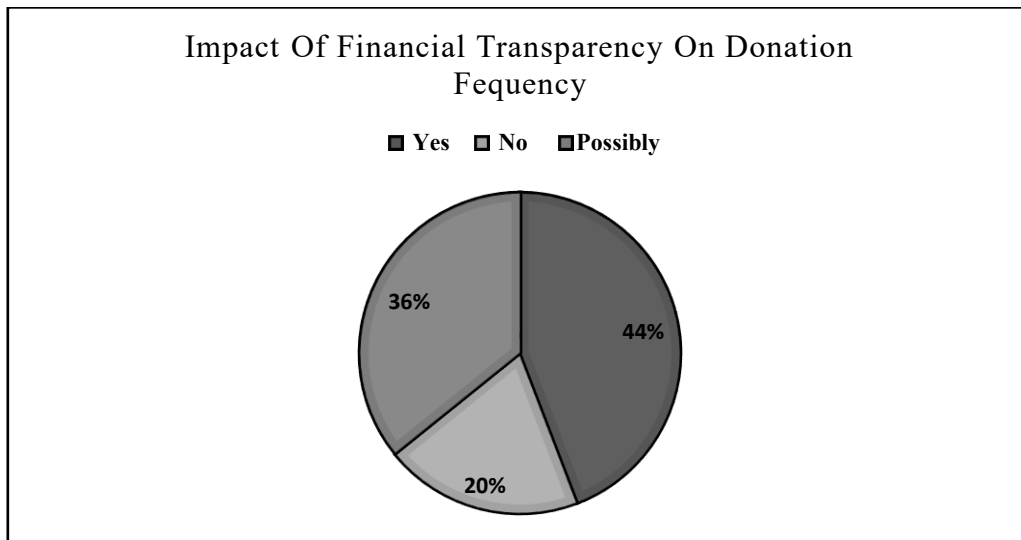
AADESH, on the other hand, was the least recognized in this area, which may be a sign of either a lack of donors' knowledge about the availability of such documents or a lack of communication of financial information. Because transparent financial practices have a direct impact on donor trust and long-term support, the findings highlight the growing significance of these practices for NGOs.



**Figure 3: Illustrating comparative aspects of financial transparency**

Above is the graphical representation of three key financial transparency metrics: the Fund Utilization, the Expense Breakdown, and the Annual Report.

The ratings on NGO annual report increased steadily, and the highest frequency (32%) is for transparency in annual report. Conversely, the Expense Breakdown shows lowest rating (30%). This suggests that there is still room for increased accountability and transparency.

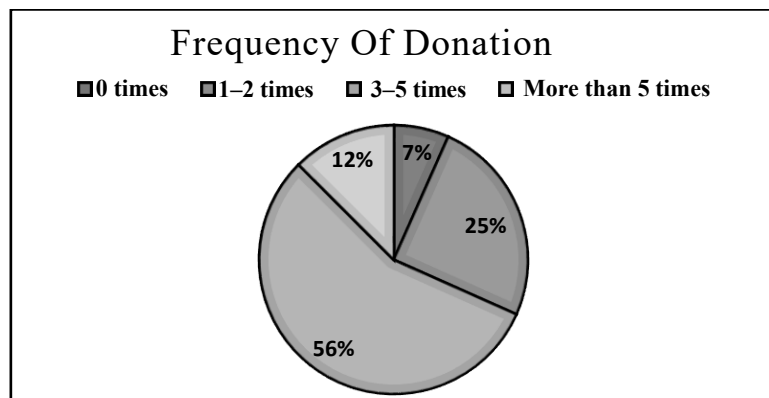


**Figure 4: Illustrating relationship between Financial Transparency and Donation frequency**

Donor motivation and financial transparency are strongly positively correlated. Most respondents stated that they would be greatly encouraged to either increase the frequency of their donations or make larger contributions if financial reporting was more transparent and included audited statements, thorough fund utilization statistics, and expense breakdowns.

The chances of donating to transparent NGOs was statistically significantly correlated with annual income  $\chi^2 (12, N = 120) = 49.69, p < .001$ . According to the study, 81 out of 120 respondents, or 67.5% of the sample, had ceased giving because they were unclear about the financial situation of NGOs or lacked accountability.

Data on the donation frequency of respondents to NGOs that provide audited financial reports over the past five years reveals that a majority of respondents (56%) have donated 3–5 times, indicating a consistent pattern of giving when financial transparency is maintained.



**Figure 5: Illustrating Frequency of Donations to NGOs**

This distribution suggests that financial transparency positively influences donation frequency, as the highest proportion of donors have contributed multiple times.

The survey also revealed that a significant proportion of respondents (81 out of 120, or 67.5%) have stopped donating to an NGO at some point due to insufficient financial clarity or accountability. The importance of financial accountability and transparency in preserving donor confidence and sustaining contributions is highlighted by this study.

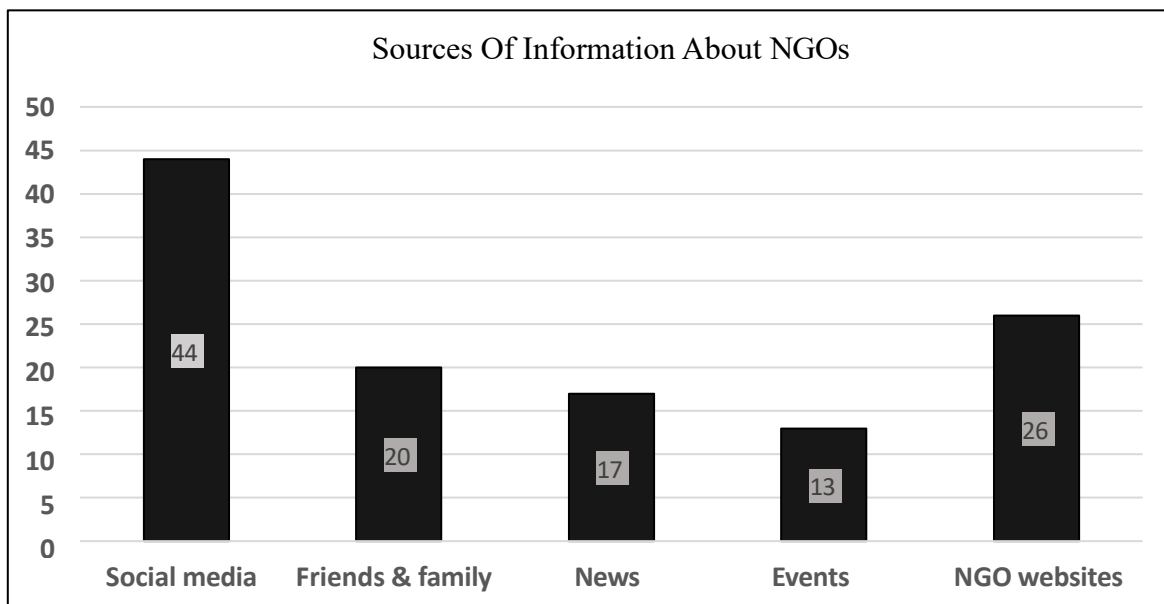
The size of the family has a big impact on the frequency of donation. Compared to smaller homes, larger families were shown to donate more frequently  $\chi^2 (6, N = 120) = 33.27, p < .001$ .

On the contrary, occupation (business vs. service) did not show a statistically significant effect on donation frequency,  $\chi^2 (3, N = 117) = 1.71, p = .63$ . This suggests that regardless of their profession, donors' frequency of giving is driven by other factors such as cause alignment and financial clarity.

No significant relationship was found between donor trust and age,  $\chi^2 (12, N = 120) = 7.20, p = .844$ . This suggests that trust in NGOs is a universal expectation across all age brackets.

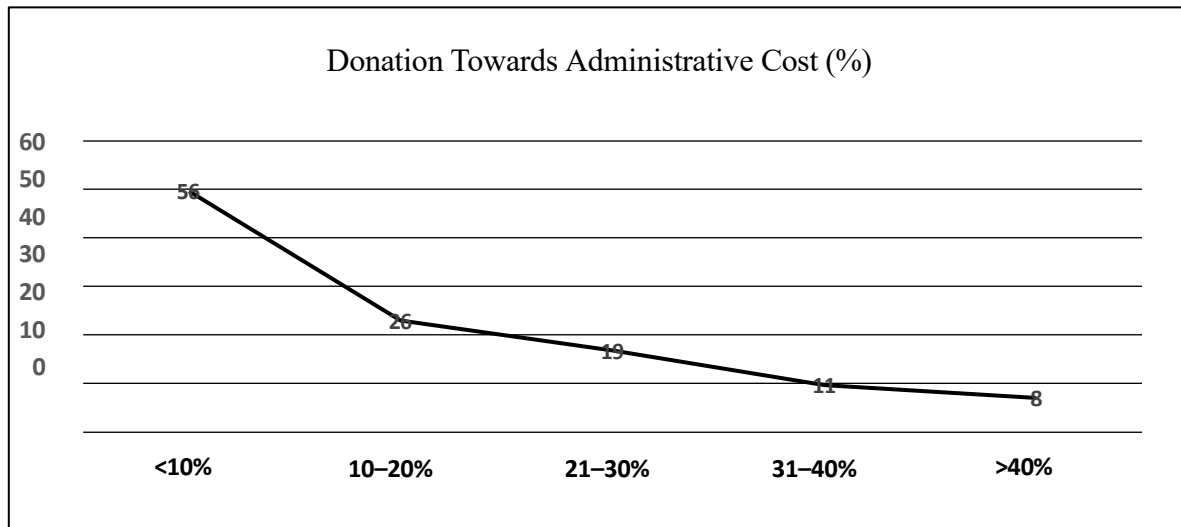
Of the total respondents, 68 respondents (56.7%) were aware of their NGO's annual reports or FCRA statements, while 52 respondents (43.3%) were not. This gap in awareness indicates that while NGOs publish financial disclosures, not all donors are aware of them, pointing to a communication gap between NGOs and stakeholders.

The majority of people (44%) found NGOs through social media, followed by NGO websites (26%) and referrals from friends and family (20%). This emphasizes how crucial it is for NGOs to have a digital presence. Such findings justify that Donor demographics have a significant influence on donation patterns.



**Figure 6: Illustrating sources of information about NGOs**

Donors clearly prefer that NGOs devote a smaller percentage of their donations to administrative expenses. For administrative costs, the majority of respondents (56 out of 120; 47%) believe that less than 10% is a fair share.



**Figure 7: Illustrating donation towards admin cost**

## CONCLUSION

The financial transparency of an NGO is one of the most important factors in creating trust and encouraging financial donations from donors. The clear financial disclosure of an NGO (audited financial statements and how funds are used) are far more important to donors than the actual cause itself, proving that donor confidence is primarily created through transparency. When comparing the financial transparency of multiple NGOs, there were marked differences amongst them, with SMILE being consistently strong and AADESH lacking based on them not being open and clear in their communication efforts. Through statistical analysis, it was established that the higher the transparency of the NGO, the greater the likelihood for repeated donations. In contrast, a lack of transparency has repelled the donors resulting into lowered frequency of donations. This research has also identified a gap between accessibility to financial information for the donors. Based upon the findings, the null hypotheses ( $H_{01}$  and  $H_{02}$ ) have been rejected and the alternate hypotheses ( $H_{11}$  and  $H_{12}$ ) are accepted; thereby establishing that financial transparency is a major influence on donor confidence and the patterns by which donations are made. The strengthening of transparency will be critical to enhancing trust, donor engagement, and securing long-term financial sustainability for NGOS.

## DISCUSSION

According to the results of this study, financial transparency is an important factor influencing donor trust and donation frequency to NGOs. Donors perceived the transparency of audited financial statements, knowledge of how their donations are being spent, and annual reports as the most motivating factors in making donations, even more so than being passionate about the cause. Through comparing the five NGOs used in this study, significant differences were found in the level of financial information provided to donors. That is, both SMILE and Akshay Patra were perceived to provide adequate levels of financial information compared to AADESH which was seen to provide little, if any, financial information. Donors would be more likely to donate again if they had the ability to view and comprehend the complete financial picture and the accountability of the NGO. Age and occupation played no role in how much trust a donor had towards an NGO or in how often a donor would donate; however, family size and income played a positive role in a donor's ability to give. An additional finding of this study is that most donors were

unaware of the financial reports that the NGOs published, showing a lack of communication on the part of the NGOs to their donors. Since the majority of donors obtained their information about NGOs through social media, this area will require improvement, specifically digital communication. Ultimately, the findings of this study provide definitive evidence that financial transparency influences donor trust and donation frequency.

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