

# How efficiently is your charitable donation spent?

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For the vast majority of Australians and people around the world, NGO transparency and accountability comes down to the basic issue about how well their charitable dollar is being spent.

This is where the IPA's NGO Project's advocacy has had salience for most people. This is where the rather nebulous topic of NGO transparency and accountability becomes tangible for the general public and much of the media.

While the NGO sector has 'talked up' the obligation of individuals and business to give money to charity, it has been largely silent about the sector's mutual obligation to repay this generosity with adequate levels of transparency and accountability about how this money is spent. Although there are some outstanding individual performers in the NGO sector, there are far too many in the sector that live by the motto: 'don't ask, don't tell.' In other words, they won't tell how they spend their money if nobody asks. This was pretty brutally exposed in a *BRW* cover story by Adele Ferguson this year.

Ferguson's findings simply confirmed a review of 22 not-for-profit organizations undertaken by the Institute of Chartered Accountants in 2003 which found: limited reporting of objectives; the majority failed to explain their organizational structure and decision-making processes; inadequate disclosure of relationships with other groups; limited use of statistical performance information; failure to disclose investment policies; inadequate disclosure of grant-making activities; and inadequate disclosure of risk-management approaches.

Organizations covered in this survey were at the top end of the industry and included Care, WWF, World Vision and the MS Society, with a combined annual income of more than \$550 million.

Further evidence of structural problems in the NGO sector as a whole were also borne out by a comparative study of institutions (NGOs, business and international organizations) by the British left-wing One World Trust which, in 2003, found that companies such as Rio Tinto and Glaxo SmithKline were more accountable than NGOs such as World Wildlife Fund, Oxfam and Care. Indeed, the World Trade Organisation, which has long been a target of the likes of Oxfam, rated far better in terms of accountability and transparency than its noisy critic.

All of this illustrates the fact that, while the sector loves getting cash, it is unaccustomed and even resentful of donors questioning them about priorities, salaries, perks and junkets. In this, NGOs ranging from World Vision to Greenpeace have far more in common with some corporate executives than they care to admit.

The sector is governed by a confusing mish-mash of laws at State and Federal levels which are vague and not enforced. Therefore, the task of setting standards of behaviour and disclosure is usually left up to organizational insiders—the board, staff and active members. In short, no-one is looking critically from the outside and the inevitable result is that this has bred laxity, poor standards and abuse within the sector.

The only politician in Australia who has been astute enough to realize the problems facing the charitable sec-

tor has been the Treasurer, Peter Costello, himself a firm believer in the importance of charity.

Shortly after the controversy surrounding the Red Cross and its Bali Appeal, which will be discussed shortly, Costello said in a speech to Anglicare:

Let me sound one other note of caution.

One of the reasons why the public has lost confidence in big government is that they regard it as inefficient. They think that by the time their money is collected and handled and administered and paid out and banked and credited, too little of it arrives with the genuinely needy. The handling costs compared to the end result are too high.

There have been recent concerns in Australia that some charities are suffering from the same problem. Charities are going to have to do better if they want to keep the public trust. Inefficiency is corrosive of trust. And trust is the currency of the charitable sector.

## RED CROSS AND ITS BALI APPEAL

Arguably, no recent controversy has focused the media spotlight and the public's attention than that which engulfed the venerable Red Cross and its handling of its Bali Appeal for victims of the terrorist bombings.

What Red Cross did was what every aid group does. It saw a crisis overseas, in this case surrounding the terrorist bombings in Bali, and it launched an appeal, raised a pile of money, but expected few questions to be

asked about how it was to be spent. Usually, no-one asks because those affected are out of sight and out of mind.

Unfortunately for the Red Cross, the victims were Australian. And when the victims of the Bali bombings started asking questions, the picture wasn't flattering for the Red Cross.

At the time the story broke in the media, of the \$14.3 million generously given by Australians for the victims of Bali, just 54 per cent (or \$7.7 million) had gone directly to the victims, with \$6.6 million or 46 per cent either being diverted to other projects not related to the Bali victims or held back for future use.

The public, the donors and the victims were deeply unhappy with the way the money had been spent.

What followed was a ferocious public reaction to one of Australia's best-loved charities. It is doubtful whether some other charities would have survived such a storm.

Though a number of subsequent enquiries 'cleared' the Red Cross and laid the blame at the feet of 'communications' issues, it was more fundamental than that. The controversy over the Red Cross and its handling of its Bali Appeal was due to the lack of connection between how charities spend their money and how the public thinks charities spend their money.

## THE RESPONSE TO THE TSUNAMI

On Boxing Day last year, Australians awoke to the news that large parts of Asia had been struck by a tsunami. As the death toll mounted and the enormity of the destruction was beamed into people's homes, Australians sought to combat their collective sense of despair and powerlessness by responding through the only means available to most of us—by giving money.

It really was the best of times and yet the worst of times for the foreign aid industry. The aid industry could hardly believe its luck as the cash rolled in. 'Tsunami' may be the Japanese word

for 'harbour wave', but in the lexicon of the charitable sector, 'tsunami' means a virtual licence to print money. So much so, that an AusAID memorandum acquired by *The Daily Telegraph* under Freedom of Information revealed that the aid agencies had collected too much money.

**The solution is transparency for the way that charitable monies are spent.**

When the IPA started asking questions about how the money was to be spent and arguing for transparency and accountability, the foreign aid industry (with the Bali Appeal still in their collective memory) moved swiftly to declare that it was transparent and accountable.

The heads of Oxfam, World Vision, Care and the acting head of Red Cross held a joint press conference committing themselves to transparency and accountability.

What has become apparent in follow-up media stories, however, particularly through a piece by Ewin Hannan that appeared in *The Age*, is that this newfound spirit of transparency and accountability in the foreign aid industry appears to, in some agencies, to be just lip-service, with aid agencies preferring to embed many costs that could be viewed as administrative overheads into the costs of their projects.

Though the jury is still out, the current level of transparency and the procedures to account for how the public's money is inadequate with administration costs still a murky area. Judging from the release of the Australian Council for International Development's *NGO Tsunami Accountability Report*

(26 Dec–31 March), while some NGOs like CARE and Red Cross have clearly gotten the message (their reports are excellent), others, like Oxfam and World Vision, are not. Also of concern is the absence of reporting done by some of the smaller aid groups. Unlike the Red Cross's controversy over its handling of the Bali Appeal, a scandal over the tsunami appeal would be ugly and there would be many casualties among the aid industry.

## THE WAY AHEAD

The solution is transparency for the way that charitable monies are spent. Cosmetic changes and the type of slick public relations strategies adopted so far will not work.

The sector needs to work proactively to push its members voluntarily in this direction rather than wait for government to legislate for it. Using my colleague Gary Johns's paper on *Informed Giving* would be a good start.

As the Federal Treasurer correctly observed, 'trust is the currency of the charitable sector' and if the sector wishes to protect the value of its currency, then it has to travel down the path of transparency and accountability aggressively, because increasingly the public and the media are demanding to know how their charitable dollar is being spent.

If they fail to do so, the sector risks the fate that has befallen other institutions in society—such as business and government—in terms of rising levels of cynicism. While this cynicism undoubtedly poses a challenge to both business and government, it is nothing compared with the problem that it poses the charitable sector.

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