The Party's Over

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THE Red Cross has recently found itself the object of unwanted media scrutiny and negative publicity in relation to the $14.3 million raised for its Bali Appeal.

The reasons for this are understandable. When the story broke in the media, some $6.6 million, or 46 per cent of the funds raised, were either being spent on projects not related to the victims or held back with the potential to be spent on other projects. At that time, only 54 per cent, or $7.7 million, had gone directly to the victims of the Bali bombing.

In Red Cross's defence, it has to be said that most of the money diverted to 'other' projects was spent on worthy projects—such as research on 'spray-on skin' for burns victims. The funds were definitely not squandered on junkets, political activism, talk-fests, or the excessive fundraising which is so prevalent in the foreign aid industry.

Nevertheless, the reaction of donors, the media, the public and politicians was savage. There was a widespread belief that more should have gone directly to the victims. An inquiry into the affair was announced by the NSW Government; there has been a flurry of adverse media stories, and there are reports that fundraising is in decline for Red Cross and other charities.

This was predictable. The tragedy struck home personally to many Australians. The Red Cross's Bali Appeal appeared to offer an efficient means of doing something positive; a means of combating the sense of powerlessness that many Australians felt after the bombings.

The Red Cross's woes were increased tenfold by the way it handled the scrutiny. My own experience with Red Cross on this issue was one of stonewalling, obfuscation and half-truths. Many journalists experienced the same treatment, which only fuelled their desire for information and their skepticism about the organization and, indeed, the whole sector.

What went wrong? In short, the lack of transparency that masks the entire charity sector finally caught up with the Red Cross.

When foreign aid NGOs, such as the Red Cross, see a crisis or humanitarian disaster overseas, they use the imagery of suffering and misery as packaging for a fundraising appeal. Foreign aid NGOs are in the business of 'selling' disasters and crises.

Disasters and crises for appeals are the aid industry's most effective tools for raising money from the public. Disasters are also a great way to get extra cash out of the government, which sub-contracts these services to NGOs these days. Crises also give NGOs an opportunity to be portrayed in the media as 'doing good'.

The Bali Appeal differed crucially from appeals for Afghanistan, Iraq, Somalia, Ethiopia and countless others mounted by aid agencies. This time the victims and beneficiaries were not impoverished people in a far-off developing world nation; they were Australians who were aware of how much had been raised and how much they were getting. Most importantly, they had access to the media.

The point has to be made that if the Red Cross (which, by all measures, is one of the most open and best-governed charities in this country) has problems, the situation elsewhere in the industry is surely horrific.

The most striking part of the controversy was the absence from the debate of groups such as Caritas, Care, Plan, Christian Children's Fund, Save the Children, World Vision and Oxfam Community Aid Abroad. None of these organizations, or the prominent public figures associated with them, either defended or criticized the Red Cross's handling of the matter. Their silence was particularly striking because these are organizations that usually have an opinion on everything, because they feel they should, irrespective of their expertise and competence to speak.

The non-profit sector has a number of fundamental characteristics that make good governance more difficult.

First and foremost, non-profits lack shareholders and aggressive external stakeholders demanding transparency and efficiency. They do not have stockbrokers and analysts combing through their books with an expert eye.

Up until the Red Cross controversy, the media tended to look at the sector as a source for news, not a subject for scrutiny in itself. Charities are governed by non-profit disclosure and fundraising laws at a State level, but these are very general and usually not enforced. The task of setting standards of behaviour and disclosure are left up to organizational 'insiders'—the board, staff and active members. In short, no-one with a critical eye from the outside is looking, and that has bred laxity, poor standards and abuse. And those within the industry who know the problems say nothing.

Disclosure standards in the nonprofit sector are poor—particularly when compared with those applied to business and government. If, for example, businesses raise funds from the public, they must provide a prospectus which details purpose, performance targets and the proposed allocation of funds. Failure to comply with the prospectus will usually mean prosecution by the Australian Securities and Investment Commission.

They must also report to investors on a regular basis against the detail of the prospectus. Non-profits almost never do so; indeed, the Red Cross has provided more detail on their Bali Appeal, albeit belatedly, than any recent fundraising drive. And the salient information only started appearing on their Website after the media started asking questions. Most charities provide detail in advance but no follow-up detail on their fundraising activities. In fact, most charities only provide promotional material about themselves—none of which is objective or detailed.

Many charities do not even provide the basic data required by law. For example, a recent survey of 112 Victorian charities found that 57 per cent did not disclose the cost of fundraising, including administration and marketing costs—data that are required to be disclosed by the Victorian *Fundraising Appeal Act* 1982.

Surprisingly, people were upset by the Red Cross's expenditure of 3.4 per cent, or $400,000, on administrative costs. The truth is that this figure is exceptionally low. The Bali victims should be relieved that it wasn't Greenpeace raising money for them because Greenpeace has been known to spend as much 53 cents in every dollar raised on fundraising costs. And that does not include administration costs.

Another recent review of 22 not-for-profit (NFP) organizations undertaken by the Chartered Accountants found: limited reporting of organizational objectives; that the majority failed to explain their organizational structure and decision-making processes; inadequate disclosure of relationships with other organizations; limited use of statistical performance information; failure to disclose investment policies; inadequate disclosure of grant-making activities; and inadequate disclosure of risk-management approaches.

The organizations included in this survey were at the top end of the industry. They included Red Cross, Care, WWF, World Vision, MS Society and The Royal Flying Doctor. They had a combined income in excess of $550 million; fundraising income of nearly $250 million; the support of governments and access to the best advice. They certainly could not blame their poor standards of accountability on a lack of resources and knowledge.

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The poor standards of disclosure are not restricted to Australian-based operations. A recent study of the One World Trust assessed the accountability of a number of intergovernmental organizations, transnational corporations and international NGOs, including their international operations.

The study found that NGOs—including WWF, Care, Oxfam, and Amnesty International—ranked very low in terms of transparency and access to information. Indeed, they ranked below many of the organizations which NGOs have long criticized—including the World Trade Organisation, the World Bank and the Organization for Economic Co-operation and Development, and such multinationals as Rio Tinto, Glaxo, Shell and even Microsoft. WWF, arguably the most influential green NGO in the world, ranked low on all criteria of accountability and transparency. Interestingly, the Red Cross was unique amongst the NGOs in being ranked high in all categories.

The second reason why good governance is difficult in this sector is that the industry tends to hide behind its halo—as if 'doing good' means that they are above scrutiny. They don't hesitate to use their apparent good standing to intimidate people who ask them tough questions. The public tends to believe that all charities are lean volunteer organizations run efficiently and effectively by 'do-gooders'. This is because that is exactly how the charitable sector likes to see itself. And this is the image that it misleadingly projects to the public for fundraising purposes.

The reality is that the large not-for-profit organizations are like the Red Cross—they are large, complex, multinational organizations run by well-paid staff. Greenpeace, Amnesty, WWF, Friends of the Earth, Care, Plan, Caritas, Oxfam Community Aid Abroad, World Vision, Save the Children are branch offices or franchises of big multinational NGOs that resemble multinational businesses in many respects—except they are less accountable, less transparent and have much poorer governance.

Up until now, this sector has believed that it can operate as it sees fit. It's time that this industry realized that the party's over.

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