

AccountAble™

130. Financial Accountability of NGOs-2

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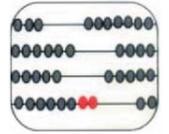
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The Purpose of Regulation

If we compare regulation of the corporate sector with that of the NPO sector, we see a big difference. The Companies Act 1956 regulates the behaviour of directors, sets the disclosure requirements, and also provides for good governance. This is done

mainly to protect shareholders, but also in some cases to ensure that public funds are not diverted or misused. In some ways, the Bombay Public Trust Act 1950 is close to the thinking behind Companies Act.

Donor Agencies

To some extent, a donor agency's attitude towards accountability depends on its own constitution. For example, non-religious agencies are more dependent on formal accountability systems. On the other hand, faith-based agencies focus more on word-of-mouth monitoring.

Similarly, an agency raising funds from individual members of the public tends to be more concerned about end-use accountability. A privately funded trust may not be as concerned about this, preferring rather to select good grantees to begin with. An agency supported by Government funds is likely to have a more bureaucratic idea of accountability, which may involve substantial paperwork.

A Variety of Systems

In general, most agencies focus on proper use of funds granted by them. As a result, their reviews tend to be limited in nature and extent. There is also a great variety in terms of approach to financial accountability.

Some agencies insist that photocopies of all vouchers and supports be submitted for verification. Others are content with a simple self-certified statement of expenses. Then again, some conduct annual financial reviews of all partners, other review selected partners. Some agencies also have complex, multi-layered monitoring systems.



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Individual Donors

In most cases, individual donors neither have the time nor the inclination to ask for financial accounting reports. Therefore, they tend to go with their instincts and judgment. Individual donors also tend to be more trusting with faith-based NPOs.

Individual donors may have a variety of systems to reassure themselves of proper spending when it comes to NGOs and other social organisations. However, these do not involve checking of accounts or asking for specific accounting reports.

Beneficiaries

Beneficiaries may be curious or concerned about how funds are raised or spent by the NGOs. This may also affect their attitudes about a particular NGO. However, in general, beneficiaries do not ask for accounting information or reports from the NGOs in their area.

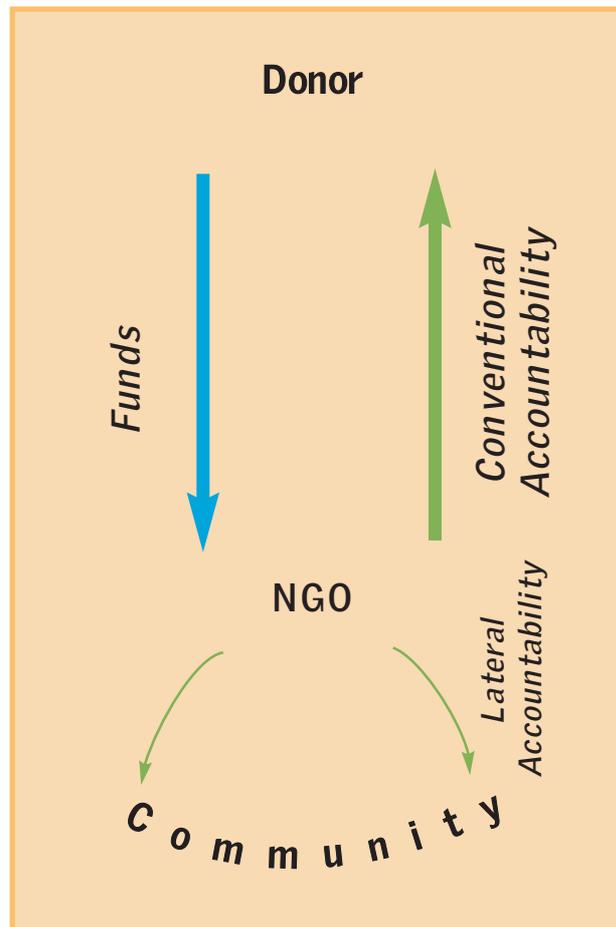
General Public

In the last decade or so, some NGOs have started inviting local community to look at their accounts. This may take the form of placing their books in front of the community on a particular day, or may involve printing or pasting their accounting statements so that local community can access these.

This symbolic initiative is important as it promotes lateral accountability. This goes beyond conventional views of accountability along the lines of financial flows. If such a model can be made to work effectively, it may prove to be extremely efficient.

NPOs are sometimes perceived very negatively by the large urban middle class. For instance, an online poll conducted by Economic Times¹ on 8-Jan-02 threw up some startling results: 93% of the voters wanted tax-exemption for charities to be withdrawn!

Negative perceptions apart, the general public does not have the time or the inclination to become engaged with accountability of NGOs. If you open your books to public, or publish your accounts in a newspaper, very few people are likely to pay any attention at all. However, lack of disclosure does reinforce negative perceptions, as people automatically assume the worst.



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¹ The Times of India, New Delhi, 9-Jan-02, p.15

NGOs

NGOs are quite comfortable with conventional views of accountability to the donors. They often go to great lengths to meet the donor requirements in this regard.

Some NGOs also accept that accountability expectations of the Government are legitimate. However, NGOs often come in conflict with local administration. This makes them worry whether the information that they submit could be misused or whether they may be harassed in order to make them toe the Government line.

Some NGOs also think that beneficiaries have a legitimate interest in this matter as NGOs raise funds in their name only.

However, most NGOs are not comfortable with the concept of open, multi-ended accountability, which may open them up to public scrutiny. This is seen as an invasion of the private relationship between the donor and the NGO.

There is also some discomfort arising from the perception among the media and some people that NGOs are financially irresponsible.

A section of the public also views the foreign financial support to NGOs with suspicion. This view, rooted in India's colonial experience, became stronger due to frequent references to 'foreign hand' in popular politics. The view is also support-

ed by regulations such as Foreign Contribution (Regulation) Act, 1976². Another contributing factor is the emergence of partisan political views among some NGOs, which tends to upset the left and the right from time to time.

External or Internal?

Accountability is usually imposed from outside. This is called external accountability. It is turned outwards. It necessarily requires two players: one person becomes accountable to other.

There is another form of accountability, which is not so well known. This accountability is usually to

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a set of values. These values may be religious, spiritual, social or cultural. In such a case, the person effectively becomes accountable to one's own self. This accountability is thus turned inwards. *Lekha-yog*³ is one example of such accountability. This form of accountability is not understood very well at present.

² This view finds its strongest legal expression in the new FCRA Bill 2006, which is aimed at regulating 'activities detrimental to national interest'.

³ See p.3 of AccountAble 115 for more on this.

Drivers of External Accountability

In practice, external accountability is the most common form. This is usually driven by one or more of the following:

1. Donor requirements
2. Government regulation
3. Peer pressure
4. Public expectations

Donors usually impose some form of accounting and reporting requirements. These may be explicit, in the form of an agreement. These may also be implicit, such as faced by fund-raising agencies from their individual donors.

Government regulation varies from one country to another. This normally comes along with a package of incentives, such as exemption from taxes, or

benefits to donors. While this is a very powerful driver of accountability, its effectiveness is usually lost in a labyrinth of formalities and paperwork.

In most countries, NPOs form a kind of sub-culture of their own. In India, different states and regions show different kinds of peer pressure, which may improve or even retard accountability. Peer pressure can be one of the most effective drivers. In some cases, it may crystallize into a self-regulatory body.

Public expectations form a kind of environment in which the first three drivers function. If nurtured carefully, these can become a fertile ground for more formal systems to flourish. However, public expectations are easily manipulated in this age of mass media and, therefore, tend to be fickle.

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