
NON-AGENDA

With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be — Be quiet. . . Whatever measures, therefore, cannot be justified as exceptions to that rule, may be considered as *non-agenda* on the part of government.

—— Jeremy Bentham (c.1801)

Getting Value for Money from the Overseas Aid Community

Ross H. McLeod

CARE AUSTRALIA, a high-profile non-government organisation (NGO) delivering Australian aid to countries such as war-torn Rwanda and Bosnia, has recently been forced to defend itself against charges by former employees that it has deliberately misled the general public, the government, and even the United Nations, about its use of donor funds. These allegations bring to view a fundamental problem with the provision of overseas aid through NGOs.

The Underlying Problem

As donors, we are concerned about the plight of people in other countries who are suffering as a result of war, natural calamity, extreme poverty, or whatever. Strange as it may seem, it is no simple matter to give to people in such circumstances. In practical terms, we cannot do so acting individually: the mere cost of travelling to the countries in question to deliver our gifts would far outweigh their value in almost all cases.

Foreign-aid NGOs have emerged as a response to this gap between our desire to help and our practical inability to do so as individuals. They are able to exploit economies of scale in purchasing, transporting and distributing aid supplies, organising the provision of medical services, and so on. What is impractical for us as individual donors becomes practical when large numbers of us accept an NGO as our agent.

Our problem, however, is that it is extremely difficult for us to monitor the use of our donations. If we hire a removalist to shift our belongings from one city to another, we can see for ourselves how quickly the goods are packed, transported and unloaded, what goes missing, what is damaged — and how much it all costs. But if the ‘removalist’ is taking our money at one end, and delivering food and blankets at the other to individuals with whom we have no contact, how can we know if a good job is being done, and at a reasonable price? How many of the dollars we contribute are used up in administration, transport costs, bribes to corrupt officials and so on? How many dollars-worth of aid supplies are actually delivered to their intended recipients? And how appropriate is the particular form of aid chosen? Would medicines be more valuable than blankets? Would funds be better spent on doctors to deliver health services than truckies to deliver flour? The answers to these questions depend on the circumstances, of course, but donors on the other side of the world have little chance of knowing whether the best choices are being made.

A New Government Agency Would Be Counterproductive

In view of these considerations, it was predictable that one of the immediate reactions to the Care allegations was to propose that the government should act as a watchdog over Care and other NGOs which raise voluntary donations from the public (and which, in many cases, enjoy access to non-voluntary taxation revenues through the Australian Agency for International Development). Such calls belong to the ‘magic wand’ approach to problem solving. They ignore the costs involved, and blithely assume that the concerns raised in this case — but which are inherent to the work of all overseas aid NGOs — are capable of being dealt with effectively in this manner.

There are perhaps more than 130 extremely diverse Australian NGOs involved in overseas aid work, and the very fact that their operations are spread over scores of poor countries, often in isolated locations, ensures that adequate bureaucratic monitoring of their work would be monstrously expensive relative to the aid flows concerned. Moreover, it requires a giant leap of faith to imagine that it would succeed in its aims. The cost of such activity would almost certainly be met by drawing upon the aid budget. Limited administrative resources within the NGOs would be diverted to reporting to the bureaucracy and to ensuring compliance with the new operating guidelines that would inevitably be introduced. The net flow of assistance to the poor and desperate in other countries would be correspondingly reduced.

Private Sector Solutions

The problem is best dealt with by the NGO community itself. It has a strong incentive to act decisively, because if it fails to maintain public confidence the flow of donations and tax subventions to it will surely dry up. Notwithstanding their non-profit, altruistic motives, NGOs compete strongly among themselves for limited donor funds. It is this competition which, at least potentially, holds the greatest

promise that our interests as donors will be well served in the future, just as competition between removalists helps to ensure that we can obtain the most strongly desired combinations of service and price. Firms that fail to provide such combinations will eventually go out of business.

In principle, competition for donor support could encompass a willingness on the part of each NGO to argue that funds channelled through it are being used more effectively than by others — just as profit-oriented firms must try to convince potential customers that theirs is the tastiest hamburger, the whitest-washing soap powder, or whatever. But such is the fear of where this would lead that the Code of Ethics of members of the Australian Council for Overseas Aid (ACFOA) contains a requirement that members ‘promote [themselves] in ways that do not denigrate other Agencies’. Likewise, the ethics standards adopted by Interaction, a US organisation similar to ACFOA, require that member organisations ‘shall not undertake negative advertising or criticise other member organisations to benefit themselves’. But why should it be unethical for one NGO to inform us that its administrative expense level is lower than those of others doing similar work? Why should it not be allowed to explain to us why certain varieties of aid are inferior to its own? Why should it have to stay silent if it knows that another NGO is failing to do what it has promised its supporters?

Paradoxically, this well-mannered unwillingness to criticise other NGOs actually seems to have contributed to the concealment of the allegations concerning Care (even though Care is not a member of ACFOA). At least some of these allegations had been around for some years, and if NGOs had accepted the idea of honest public criticism of each other’s work as an aspect of legitimate competition for donor support, they would have been brought into the open long ago. If public criticism were an accepted part of the rules of the game, each organisation would have to think very carefully about how it handled its responsibilities to its supporters; and Australia’s overall contribution to the amelioration of human misery in other parts of the world could become significantly more effective.

An NGO Ratings Agency?

An alternative means by which NGOs could publicise their relative merits, but within the framework of the existing ACFOA Code of Ethics, would be to borrow a practice from the world of high finance: third-party evaluation of borrowing institutions by ratings agencies. These agencies, such as Standard and Poor’s and Moody’s Investor Service, perform a function analogous to what seems required in the NGO business. They evaluate the creditworthiness of organisations that seek to borrow funds from the public (or from large-scale investors), by closely studying their financial condition and by paying particular attention to the quality of their management, the external conditions they face, and so on.

Undertaking such investigations would be prohibitively expensive for individual investors, just as it would be prohibitively expensive for individual donors to investigate fully the activities of any given NGO. The results of a ratings agency investigation are made available to potential investors in the form of a ranking for the bor-

rower on a scale of ratings such as AAA, BB minus, and suchlike. Investors may then use this simple summary of all information considered relevant to the risk involved in lending to the institution in question as a basis for their investment decisions. By analogy, a ratings agency for NGOs would provide summary information on individual NGOs' efficiency and effectiveness as agents for individuals wanting to provide assistance to others in less fortunate circumstances.

An institution of this kind already exists in the US: the National Charities Information Bureau. The Bureau writes and issues detailed reports on charities, which evaluate the charities' performance relative to the Bureau's own standards (which themselves are also carefully explained). This work is funded by contributions from individuals, corporations, foundations and various other sources, but not by the charities being evaluated. By contrast, financial ratings agencies derive most of their income from fees paid by the institutions being rated themselves. The latter find it worthwhile to pay to be rated (as opposed to merely singing their own praises) in order to generate investor support. Those unwilling to pay this price risk being unable to raise the funds they need, or paying higher interest rates than necessary. Obviously, the ratings agencies can expect to survive only if they establish and maintain a reputation for accuracy and objectivity: if they were to provide unduly optimistic or pessimistic ratings for their customers, their opinions would soon count for nought and they would go out of business.

This then is the private-sector equivalent to what some observers have called upon the government to do in the wake of the Care allegations. There is no obvious reason why taxpayers in general should be called upon to bear the cost of monitoring and evaluating the work of NGOs, since not all taxpayers donate to causes supported by them. Nor are there grounds for believing that a taxpayer-funded government agency would do a better job of rating NGOs than an independent private agency that had to rely on the quality of its work for its continued existence: on the contrary.

If the problem of mismanagement of donor funds is truly significant, this will manifest itself in declining public support for the NGOs. It will then be up to those organisations to act to arrest that decline by whatever means they think appropriate. They will — and should — live or die by their own ability to persuade the public that they are doing a good job.

*Ross McLeod, an economist in the Research School of Pacific and Asian Studies at The Australian National University, is a joint author of **Doing Good: The Australian NGO Community** (Allen & Unwin, Sydney, 1991).*