

# Ethics in Fund-raising

by  
Richard Holloway

Nearly all NGOs raise funds in one way or another (mostly by writing proposals to northern donors), and, with a little help and practice, any NGO can learn a wider range of techniques of fund-raising – particularly how to raise funds within their own country.

The real issue in fund-raising by NGOs these days, however, is not techniques and how to acquire them – it is whether your NGO is responsible, trust worthy and accountable in seeking funds from others for the cause it is espousing, and whether it is conscious of its fiduciary responsibility in spending the money raised. In other words, fund-raising has an ethical component that is not discussed as often as are techniques.

Ethics in NGOs is very much involved with the identity of the NGO, the practices of the NGO, and the public information provided by the NGO – in other words, Who you are, What you do, and What you say you do.

## ***Moral High Ground....***

The large amount of money that has been offered by foreign donors to organisations that call themselves NGOs, or name themselves as part of civil society, has spawned a substantial number of NGOs which differ substantially from the characteristics that have been generally agreed as essential for an organisation calling itself an NGO. The NGO world is increasingly becoming populated by organisations who are not clear what kind of organisation they are (and what responsibilities are involved), and don't do anything particularly useful for the target people. Another block is represented by those who do know who they are, and what they are doing, but intentionally misrepresent this.

NGOs have historically been found on the Moral High Ground. They have been organisations founded by people with strong moral commitments to helping the poor or the powerless, of empowering people and developing communities, of changing unjust laws and oppressive behaviour. They have set themselves up as official structures proclaiming these missions, and are prepared to live by these precepts.

A quick survey of public opinion about NGOs in almost any country in the South, however, will reveal that all too many members of the public see NGOs as self-interested scams living off development money. Those who work in the development field are aware that many so-called "NGOs" do not know what the term means. They do not know what standards and ethics they are meant to live

up to. The onus is now on NGOs to prove their bona fides to suspicious donors from local development agencies, businesses and the public.

An NGO that is seeking to raise money locally is built, both morally and legally on Trust. By virtue of its articles of association it is in a situation of public trust - that it exists for humanitarian purposes, that it seeks funds in order to advance humanitarian purposes, and that it will indeed use the funds gathered for the purposes stated. Failure in any of these aspects renders the NGO, in theory, liable to legal action for “breach of trust” – although, as we all know, this is very rarely applied.

The first job in improving this messy situation is to get consensus among all those who call themselves NGOs as to what being an NGO means, and then for the NGO sector as a whole to “clean house” i.e. set standards for its members, and make sure that its members keep to those standards. Once it has done that, the NGO sector can address itself to government in its country and try to ensure a better legal and fiscal environment. It can also address itself more easily to the public and solicit support from them and from other possible giving agencies.

As an attempt to help the NGO sector in any country to start in on this task, this article will try to clarify the generally accepted characteristics of NGOs, and then suggest some of the shadow characteristics that are exhibited by “pretender NGOs”<sup>1</sup>. This, it is hoped, will help those NGOs that still occupy the moral high ground to clarify the standards that are needed to differentiate themselves from the opportunists that have “grown like mushrooms after the rains” (Mjaria Orlandina Alves, ETWAVE, East Timor)

With the help of work done by the Commonwealth Foundation and the Johns Hopkins Non-Profit Sector Project, we can suggest that the characteristics of Development and Welfare NGOs are :

- They are driven by values that reflect a desire to improve peoples lives
- They are voluntary (i.e. formed by choice, and involving voluntary contributions of time and money)
- They have private and independence governance
- They are not for profit (i.e. not distributing profit to staff or shareholders)
- They have a clearly stated and definable public purpose
- They respond to, and are accountable to, a constituency

---

<sup>1</sup> “Pretender NGOs” is the term created by Alan Fowler in his book “Striking a balance – a guide to enhancing the effectiveness of non-governmental organizations in international development” Earthscan, London 1997. Readers who want to pursue this topic further are urged to read Chapter 2.

- They are formally constituted in law

I would like to suggest that opportunist “pretender” NGOs often have shadow characteristics for each one of the accepted characteristics, as follows:

**Shadow NGO Characteristic 1:**

**"Driven by values that reflect a desire to improve peoples lives"**

In the south there is increasing educated unemployment often combined with retrenchment of government officials. Both of these factors are often a result of a Structural Adjustment Program agreed with the IMF and WB. In such situations, starting an NGO seems a pragmatic career move for an unemployed person, whether they have any commitment to development or not.

When this is combined with foreign funders offering (even urging) funds to anything that calls itself an NGO or a member of civil society, the temptation is very great. It is very easy to learn the right words, the attractive phrases and write proposals which are, in fact, vehicles for self-employment, much more than any zeal to help the poor and powerless.

Such “pretender” NGOs have no constituency behind them, except perhaps members of their immediate and extended family who would all like to become staff of the new NGO.

**Shadow NGO Characteristic 2:**

**“Voluntary (i.e. formed by choice, and involving voluntary contributions of time & money)”**

This is a vexed question, as NGO staff need to earn a salary, need to be paid for their work. An NGO, however, definitely needs some element of voluntary contribution to prove its bona fides. This is usually shown in two ways – by voluntary contributions of time from the target group who thus show that they believe in the program – or by voluntary contributions of time by a Board of Governors who advise and guide the organisation.

There are many NGOs, however, who have nothing but paid staff – they have no voluntary Board, and in which all endeavours of the NGO have a cash basis. All voluntary endeavours are commercialized, and allowances are demanded for all activities both by the staff of the NGOs, and by learned example, by all members of the target group.

**Shadow NGO Characteristic 3**

**“With private and independence governance”**

A variety of organizations misrepresent themselves and pretend to be independent, public benefit citizens' organisations, but turn out in practice to be something different.

**GONGOs:** These claim to be NGOs but are in fact Government Organised NGOs. They are part of the government, but try to show themselves as independent of it.

**BONGOs:** this refers to Business Owned NGOs, often started up to take advantage of tax laws.

**DONGOs:** here we are describing Donor Owned NGOs which means donors setting up shell NGOs in order to carry out their own programs without the complexity of having to identify and negotiate with indigenous NGOs. It is relatively simple for a donor to find a malleable and compliant NGO for hire which will do whatever the donor contracts the NGO to do. The whole basis of having public benefit citizens organisations is that citizens will, on their own, decide what they think needs doing to improve the present situation. When a foreign donor, in effect, buys an NGO to do what the donor wants to do, it is vitiating the point of citizens organisations, and, indeed a civil society.

#### **Shadow NGO Characteristic 4**

**“Not for profit (i.e. not distributing profit to staff or shareholders)”**

Good governance of NGOs assumes that the rates of pay are equivalent to comparable jobs in the government or the private sector and that NGOs do not use any of the corrupt practices that are so often part of the Government and Private sector way of working.

However NGOs which are more motivated by personal advantage than they are by commitment to the target group, can be found paying increasingly high salaries, and making sure that they get many perks of office (like cars, foreign trips etc).

There are also NGOs which use the same corrupt practices as others – over invoicing, paying bribes to officials in government in order to get chosen for development contracts, using their position to receive bribes from officials who want the NGO to work in their area etc.

#### **Shadow NGO Characteristic 5:**

**“For a clearly stated & definable public purpose”**

Here we would expect the NGO to clearly state what its mission is, and what motivates it to do the work that it does. However NGOs can be found which are, in effect, “guns for hire” – they will do any kind of job for which money is being

offered. Such organizations are not NGOs, but contractors. Note that there is nothing wrong with being a contractor, but that this should be clearly stated, and not confused with being a mission driven NGO.

Usually such organizations have no theory of development that they follow and have no constituency to which they relate.

**Shadow NGO Characteristic 6:  
Responding to, & accountable to a constituency**

Similarly to the characteristic above, a contractor is only accountable to the person with whom they sign the contract, not to the people who, it is intended, will receive the benefits of the development program or project. For-profit contractors do not need to have a constituency, and do not need to be guided by them, they simply do the work that they have been contracted to do.

It is unfortunate that the distinction between a for-profit contractor and a not for profit NGO is not more clearly enunciated by the donors who are usually the source of funding for both types of organization.

**Shadow NGO Characteristic 7:  
“Formally constituted in law”**

In theory, one of the advantages of being formally constituted in law for an NGO is that the organization can both sue and be sued – i.e. it is a legally responsible entity which can be arraigned in court for misdemeanors. Such a situation should, in theory, cause a pretender NGO to think twice, since it may be open to accusation of breach of trust or other crimes.

The fact is, however, that governments rarely concern themselves with such issues, being usually more interested in whether the NGO presents a security problem or not, and the donors are rarely interested in prosecuting. Surprisingly donors, in spite of their rhetoric about good governance, rarely decide to take crooked organizations to court, in spite of the salutary lesson that this would give others. The most they do is blacklist them from receiving further funds.

So, to return to the central problems of ethics in fund-raising, NGOs which are keen to raise money locally from domestic sources should go through a form of catechism somewhat like the following:

1. Do you fulfil the characteristics of a mission-driven developmental NGO stated above? Are you indeed what you say you are?
2. Are you doing ethical work?

3. Are you raising money for the purpose you are stating?
4. Will you spend the money raised for the purpose you have stated?

If a dispassionate review of the NGO sector in your country reveals that there are substantial numbers of “NGOs” who have to answer “no” to the questions above – and these substantial numbers are spoiling the public’s perception of NGOs such that the good NGOs are harmed, what can be done about it?

The answer seems to many for NGOs to go the route of professional associations (like doctors, engineers, accountants) and set up a certification process which allows only those NGOs which have received the “seal of approval” of a certification structure to call themselves NGOs<sup>2</sup>. Given the very varied and heterogenous nature of NGOs – ranging from social welfare to radical advocacy – this is quite difficult to set up. It needs:

- A professional association for NGOs
- A Code of Ethics which is agreed by this professional association, kept to, and for which there are sanctions if it is broken
- A certification process which is recognized by the government and by donors, foreign and domestic.
- More discipline, rigour, and professionalism by foreign donors in assessing organizations that apply to them for funds.

Those familiar with economics may know Gresham's Law – which is used in situations where a currency is infiltrated with fake or bogus notes. It states that : “Good money will drive out bad”. Holloway's Variant states that: “Good NGOs will drive out bad NGOs”, but it has the rider that this will only happen if Good NGOs decide that this task is important and put some collective effort into making sure that it happens.

Richard Holloway has been working in Third World Development for over 30 years, in Asia, Africa, the Caribbean, and the South Pacific, primarily with the civil society sector. He has been an associate of CIVICUS, The Prince of Wales Business Leaders Forum, INTRAC, and The Resource Alliance, and has published most recently “Towards Financial Self-Reliance – a Handbook on Resource Mobilisation for Civil Society Organisations in the South” (Eartscan 2001). Presently he lives in Indonesia and works as the Anti-Corruption and Civil Society Program Adviser to the Partnership for Governance Reform in Indonesia.  
[His email is richard.holloway@undp.org](mailto:richard.holloway@undp.org)

---

<sup>2</sup> Some very interesting pioneering work is being done by the NGO Certification Council in the Philippines. They have persuaded the government who normally do the job of certification in order for the NGO to be registered with the Securities and Exchange Commission in the Philippines (for tax relief purposes) to pass the job over to an organization agreed by the NGOs to be competent to carry out this work.