

Watchdog steps up pressure on non-transparent Hong Kong charities

Pressure is growing for greater transparency in the surprisingly murky world of charity finances, writes Nora Tong

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Nora Tong life@scmp.com



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If it feels as though you rarely venture out on weekends without being tapped for charitable donations by volunteers, you're probably right. Non-profit groups have mushroomed - more than 7,000 organisations are registered as charities with the Inland Revenue Department - and many hit the streets on flag-selling drives.

But with so many groups seeking funds, it can be tough figuring out which cause to give to. Are the organisations all they're cracked up to be and how much of the contribution really goes to people in need?

Bonita Wang Zejin found herself asking these questions a few years ago when a friend, whose birthday was approaching, urged their circle of friends to donate to a charity instead of spending on a gift.

"We had no clue where to donate to," Wang says. "I found it odd there wasn't a platform for the public to find out more about charities, when even for things like eating ice cream, you can go to [online listing] OpenRice for references."

That was how she came to set up the charity watchdog iDonate in December 2010. Wang quit her job as an auditor and manager of a private equity fund and recruited a full-time analyst and a part-time programmer for her iDonate team. Together, they evaluate the operational efficiency and transparency of NGOs based on available data. Information is usually drawn from annual reports, often downloaded from the charity's website, or from audited financial reports purchased from the companies registry information system.

Getting an accurate picture can be tough even for motivated teams like iDonate. There is no central authority that registers and monitors charities, and non-profits are not required to disclose donation amounts or financial information to the public.

Donors who wish to check a non-government group's financial status and whether contributions are spent in line with its objectives will find that such reports aren't uniformly presented. Some charities such as women's empowerment group HER Fund, present a full audited financial report on their website. Others make just a few pages available. Some indicate through graphs and charts how donations are distributed - without revealing absolute figures. And there are those that do not disclose anything at all.

Depending on how they are established, charities are overseen by different government departments. Statutory bodies such as the Tung Wah Group of Hospitals and orphan welfare group Po Leung Kuk must maintain audited accounts of all transactions and be open for inspection by their directors or any person appointed by the chief executive of Hong Kong.

Maintaining transparency entails a cost, but if you think it is something worth doing, you will do it
Linda To, executive director, HER fund

A charity set up as an incorporated company - Save the Children Hong Kong, for example - is required to file annual returns with the Companies Registry. The report covers basics such as its address, board of directors and, where appropriate, any mortgage it takes out.

But unincorporated groups do not have to account for their spending at all.

Groups that secure tax-exempt status with the Inland Revenue Department are subject to periodic review, during which they may be asked to submit accounts and annual reports. Under this review process, charities set up as incorporated companies must submit audited accounts to the IRD, usually every four years. But unincorporated organisations just have to present self-certified accounts.

As Wang sees it, there is unacceptable lack of oversight, arguing that charities are obliged to be transparent about how funds are applied.

"Charities are exempt from taxation and should be accountable to the public," she says. "Every member of the public should have free access to the audited account of a charitable group. Information on any related transaction - such as whether the charity is paying for the fundraising services provided by a company owned by a member of the charity's board - should also be disclosed."

That is why iDonate tries to evaluate the performances of the various charities. Adapting methods used by charity watchdogs in the United States, Wang's team works out measures such as fundraising efficiency, proportion of fundraising expense, programme expenditure (including project workers' pay), salaries (including general office staff) and administrative costs in relation to annual spending. The lower the proportion, the higher the score of a charity.

An NGO that devotes more than 85 per cent of its total expenditure on programmes will gain the full mark of 10 points, whereas one in which programme expenses make up only 49 per cent of the total will get 2.5 points.

In countries like the US, it is generally unacceptable for a charity to direct less than 60 per cent of its spending towards programmes, Wang says.

However, Christine Fang Meng-seng, chief executive of the Hong Kong Council of Social Service (HKCSS), finds that categorising different types of spending is not always clear cut. "Marketing expenditure is usually considered a type of administrative cost. But what if we're talking about a charity that fights human trafficking and needs to spend more on public communication? Should this come under programme expenses?"

"Some NGOs are reluctant to disclose financial information for fear it will be subject to simplistic comparisons and be misunderstood, since different people would interpret the information differently," Fang says.

HKCSS, an umbrella group representing more than 400 charities, also manages an initiative called WiseGiving, which aims to inform the public about the work of charities, while monitoring and educating these organisations.

Fang maintains that charities have always had a degree of transparency. Groups receiving government subsidy must account for how it is spent and abide by certain rules. They also have to be accountable to donors, from private foundations to organisations such as the Jockey Club.

But as public demand for transparency grows, NGOs need to work to build trust, Fang says. This includes disclosing the sources of their income and how the resources are used to carry out their mandate, as well as governance issues. Charities should also account for specific activities such as street fundraisers.

Faced with a swelling morass of charities, the government began consultations two years ago to draft a Charities Law, led by a subcommittee under the Law Reform Commission.

The consultation paper has proposed changes from how to define and register a charitable organisation to policies on monitoring and regulating charities more effectively. Suggestions include the mandatory submission of financial accounts, with auditing depending on income levels, and the setting up of a regulatory body to issue fundraising permits and to monitor how those funds are used.

Fang believes such requirements will not only improve NGO transparency but also help the public better understand their work.

Linda To Kit-lai, executive director of the HER Fund, says upholding accountability is particularly important for charities like hers. The group derives income from fundraisers and private donations.

"Our existence depends on the support from our donors, who have every right to know how we are spending their money," says To. "Maintaining transparency entails a cost, but if you think it is something worth doing, you will do it. We pay our auditor about HK\$4,000 a year, and we have no hesitation paying that fee."

However, a proposal to set up a commission as the sole regulatory body for charities is more controversial.

This commission would be empowered to investigate problematic charities; suspend or remove their trustees, directors and officers in cases of misconduct or mismanagement; and even deregister a charity when it fails to comply with legal obligations.

NGO leaders such as To worry about vesting too much power in one body. "There are no details with regards to the make-up of the commission. Will all members be pro-government? We need diverse voices," she says.

Church groups conducting underground activities in the mainland are concerned about government interference and the possible suppression of charities, says Bernard Chan, who chairs the sub-committee drafting law recommendations. Although countries such as Britain have instituted such a law, Chan reckons it will be a challenge to do the same in Hong Kong amid a politically polarised environment.

"There's a lack of trust in the government," he says. "But maintaining the status quo [on how charities are monitored] cannot be the solution either."

It may be a few years before there is a charity law in Hong Kong. In the meantime, Chan says civil society must hold charities to their mission. "[Pressure from] donors is an effective means to facilitate NGO transparency. I hope it won't take a big scandal or crisis before we can work on the monitoring and regulation of charities," he says.

life@scmp.com