Chapter – 1

INTRODUCTION

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Chapter - 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Non-Governmental Organizations (NGOs) embrace a wide array of agencies within and across different countries of the world. At their broadest NGOs are simply agencies or groups which are different from government agencies. However NGOs are distinctive in containing a voluntary component and because they do not operate for profit (Edwards, and Hulme, 1998). But even in parlance, the term NGO is used to encompass a whole range of organizations which differ in size, function and geographical location. Thus the term can be used to describe small, locally based and loosely established voluntary and largely grass-root types of associations, as well as large national and transnational voluntary associations with formal constitutions, employing hundreds of staff. They may be engaged in relief, emergency or longer term development work or a mixture of all three (Bennett, 1997).

The World Bank defines NGOs as "Private Organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development. NGOs include an array of groups and institutions that are entirely or largely independent of government, and characterized primarily by humanitarian or cooperative, rather than commercial objectives." (World Development Report, 2004).

The origin of some important NGOs can be dated as far back as in the nineteenth and early twentieth century. The British Anti Slavery Society was founded in 1823 and Save the Children Fund in 1919. Others were formed during and after World War II, initially with a focus on relief. OXFAM was founded in 1942, CARE (Cooperative Agency for Relief Everywhere) in 1945, War-on-Want in 1953, NOVIB in 1958, MISEREOR in 1958. In the 1960s there was a major expansion in the number of development focused NGOs. In the 1970s and on into the 1980s new
organizations were formed which had a more specific sectoral, technical or geographical focus (Riddell, 1995).

In most developing countries NGOs are central actors in anti-poverty policies and programmes. The social and educational background of many NGO staff enables them to interact easily with the staff of national institutions and they can help create bridges between these institutions, outside agencies and grass-root organizations. NGOs can also be very effective in delivering assistance to poor people (Bennett, 1997). Sometimes NGOs reflect the political system in which they thrive or local interests groups and thus may not serve the interest of the poor people. However, it is important that they should be accountable for their actions, especially to the poor groups that they seek to represent (Riddell, 1995).

In India voluntary actions by individuals, communities and organizations existed from ancient days. Ancient rulers of India developed a unique tradition of social work through the inbuilt mechanism of providing security to the common people through joint family system, kinship and other supporting social structures. Indian voluntary organizations had been influenced by the economic structures of Zamindari system and by the religious values of Karma and Dharma. During the British period some eminent political and social leaders set up a network of voluntary agencies mostly geared towards removing the social divisions and discrepancies and later on during the Gandhian era, these agencies become more active and powerful (Sengupta, 2006).

Indian NGOs generally exhibit a greater diversity of approach. Two main approaches prevail:

- small scale integrated rural development on the one hand and
- social action on the other.

The former is premised on support for specific programmes and projects organized sectorally and implemented through grass-root organizations. In contrast, social action groups concentrate on mobilizing the poor to demand better services from the government and work for improved working conditions, higher wages, tenurial reforms, etc. (Riddell, 1995).

The NGOs work at the cutting edge of development in a world where mere survival often involves a fight against the enemies of extreme poverty, fundamental injustice and glaring exploitation (World Development Report, 2004). They are now...
engaged in various types of activities like Health and Family Welfare, Welfare of Women and Children, Sanitation Programmes, Running of High Schools, Agricultural Activities, Environmental Programmes, Rural Development, Educational / Literacy Programmes and others all over the world and they receive huge amount from various funding agencies. Considering the huge amount at the disposal of the NGOs and importance of their activities towards the socio-economic development of a country like India, it is felt, there is a great need for developing a uniform accounting and reporting methodology for the NGOs. NGOs primarily prepare their accounts for submission to the various authorities like funding agencies, income tax authorities, and registrar of societies and to the Ministry of Home Affairs. However, in absence of any specific accounting regulations for NGOs, there is no uniform accounting and reporting practices. In this study, an attempt has been made to highlight the problems of the prevailing accounting and reporting practices of the NGOs and suggest some uniform accounting methodology for the NGOs.

1.2 REVIEW OF LITERATURE
Until recently, most of the studies at the various levels, e.g., Universities and Development Centres etc., examined the role and impact of NGOs in the development process. The essence of the important ones is mentioned below:


- Green, A. and Matthias, A. (1997) recognizes that NGOs have many external stakeholders to whom they may feel or need to be accountable but at the same time they expressed concern that, because of their multiple stake holding, NGOs may find themselves accountable to no one.

- Fowler, A. (1997) describes the objectives of sustainable people-centered development and the process required to achieve it. He also
provides a compelling and realistic picture of the more influential role NGOs could command in the future.

• Khan, S. R. (1999) analyses the role of NGOs in social sector delivery and their collective action in rural drinking water supply.

• Biggs, S and Neame, A. (1995) deals with the issues concerning NGO autonomy and accountability within the agenda of the "New World Order".

• Marsden, D. and Oakley, P. (1990) identified the difficulties in measuring NGOs' achievement. They stressed that the social and political objectives are involved as well as economic: there is no satisfactory way of objectively evaluating qualitative achievements.

• Bennett, J. (1997) looked at the performance of some NGOs that have been guilty of poor practice, wastage and a lack of professionalism which, to a large extent, throw a veil of secrecy over actions that would not stand up to public scrutiny.

• Rahman, M.A. (1990) is of the opinion that, a major problem with NGO evaluations which focus predominantly or exclusively on qualitative indicators is their susceptibility to subjective evaluator bias, since there are no clearly specified means of verifying the findings of such evaluations.

• Despite many positive trends and significant changes in international development and in the status of NGOs, the real impact of the NGO sector is not well documented, because of the weak performance assessment and accountability methods of NGOs. Edwards, M. and Hulme, D. (1995), take a hard and critical look at these issues, and describe how NGOs can improve the way they measure and account for their performance if any are to be truly effective.
• Tandon, R. (1995) analyses the meaning and significance of effective governance and its contribution to NGO performance and accountability, and he feels that the growing emphasis on NGO performance and accountability must include the challenge of making NGO governance more effective.

It appears from a scan of the above studies that there has not been any efforts to examine the accounting and reporting practices of the NGOs. This unexplored area having scope for research has motivated us to take up this research study.

1.3 OBJECTIVES
Proper accounting help reveal whether NGOs are efficiently using the funds received from different funding agencies and whether they are performing effectively towards achieving their objectives. A uniform accounting system will help compare the activities within the NGOs and among the NGOs over a period of time. Thus, the general objective of the study is examining the existing accounting and reporting practices of NGOs and suggesting a uniform accounting and reporting system. More specifically, it attempts to:

(i) review the activities and role of NGOs with particular reference to NGOs operating in West Bengal (chapter - 2);

(ii) give an overview of some basic features of the NGOs operating in developed countries as well as in developing countries like India, along with their funding mechanism (chapter - 2);

(iii) identify the problems associated with the evaluation of NGO projects (chapter - 3);

(iv) study different approaches to assessment being adopted by NGOs (chapter - 3);
evaluate the performance of NGOs in utilization of grants particularly for the underprivileged section of the society (chapter - 3);

identify the bodies / authorities to whom NGOs at present submit their accounts (chapter - 5);

ascertain the information need of different parties interested in the concerned NGOs (chapter - 5);

examine the accounting system followed by the NGOs in West Bengal (chapter - 5);

find out lapses of the present accounting system (chapter - 4 and chapter - 5); and

suggest a modified and improved accounting system of the NGOs (chapter - 7) based on the findings of the study (chapter - 6).

1.4 METHODOLOGY
The study is partly analytical and partly exploratory.
In order to develop the theoretical background of the study, brief history of NGOs, the major activities of NGOs in developed and developing countries like India with special reference to the State of West Bengal, performance and accountability of the NGOs in reaching the target groups, have been covered. For this purpose, secondary information available from various sources like Human Development Reports, World Development Reports, India Development Reports compiled by Indira Gandhi Institute of Development Research, Journals of Ministry of Information and Broadcasting, Government of India like Yojana, Kurukshetra, etc., other related books, journals and websites etc., have been consulted.
In order to get first-hand information on the accounting and reporting practices of NGOs in West Bengal and about their performance, a primary survey has been conducted on 186 NGOs selected on stratified random sampling basis
(Kothari, 1995), out of the listed 1214 NGOs in West Bengal (DAINET, 2000) administering structured questionnaire. Amongst 186 selected NGOs, questionnaires relating to 40 NGOs had to be cancelled due to disorganized or incomplete responses. Thus the final sample stood at 146.

Considering non-availability of annual reports in case of most of the NGOs as well as reluctance on the part of the staff members of NGOs in providing accounting information, a period of three years only (2000-2001 to 2002-2003) have been selected for the purpose of collecting relevant information through primary survey. The primary data have been collected during the period 2003-2004 and 2004-2005 administering the questionnaire among the selected NGOs. Thereafter the data so collected have been tabulated and analyzed using some statistical tools and inferences have been drawn accordingly (details in chapter 5, section 5.3, pp. 182 – 187).

1.5 PLAN OF WORK

To achieve the stated objectives, the instant research work has been divided into the following chapters:

Chapter 1. Introduction (Background of the Study, Objectives, Literature Review, Research Methodology and Plan of Work).
Chapter 2. NGOs and their activities with special reference to West Bengal.
Chapter 3. Performance and Accountability of the NGOs.
Chapter 4. Accounting System for the NGOs: A Conceptual Framework.
Chapter 5. Accounting and Reporting Practices of the selected NGOs: A Case Study.
Chapter 6. Issues arising out of the case study.
Chapter 7. Conclusion and Suggestions.
References